

Judit Villányi, Zsuzsanna Naár-Tóth

Szent Istvan University in Gödöllő, Hungary

VISEGRAD GROUP – ECONOMIC PROCESSES AND TENDENCIES IN THE LAST YEARS

GRUPA WYSOGRADZKA – PROCESY EKONOMICZNE I TENDENCJE ROZWOJOWE W OSTATNICH LATACH

Key words: integration, agriculture, trade, economy, changes

Słowa kluczowe: rolnictwo, handel, ekonomia, zmiany

Abstract. Taking a look back to the last 15-20 years and making a comparison between the transition processes of the region, more or less it can be stated that the transition of the so-called Visegrád countries was successful. These countries were hit hard by the crisis created new challenges for them.

Introduction

Globalisation, a strengthening and developing regionalisation process, is one of the most important processes of our present times which makes it undoubtedly necessary for smaller countries to join a larger regional block. If smaller countries fail to achieve that, they will have to face unpredictable economic, social and political consequences. The idea of the states along the bank of the Danube to form some kind of alliance was already implemented in 1335. A meeting was held in the town of Visegrád in that year attended by Charles Robert, King of Hungary, Casimir III., King of Poland and John of Luxembourg, King of Bohemia to sign the Visegrád Treaty. That treaty put special emphasis on regulating the trade on the Northern trade lines and designated a new line through Bohemia to Germany in order to avoid the staple right of Vienna. It is clear that our country has several historical and economic relations to several countries in Central and Eastern Europe.

What is the definition for region?

The definition of country group is still a much debated question in literature in our days. Iván Berend [1987] in his monography called the group „Central-Eastern Europe” which originally included Russia as well, therefore it actually meant Central and Eastern Europe. Enyedi [1978] in his famous economic-geographical study defines Central-Eastern-Europe as it includes every European socialist country except the Soviet Union. [Probáld 2002]. Western European countries have the opinion that Hungary lies in Central Europe. Szűcs [1973] called Central and Eastern Europe the territory reaching from the Adriatic Sea to the Baltic Sea including the territory of our country. Ankerl [2000] says that the historical traditions and the cultural and civilization status of Hungary entitles the country to call itself Central European. The difference in theories clearly show that there is no plain definition for Central Eastern European countries. This article uses the opinion of Ankerl as a basis, which says that...the alliance of the Visegrád countries in Central Eastern Europe is a good example of an effort against a simple and prejudiced grouping of these countries into Central Europe...” The expected changes in the situation of agriculture was always one of the main issues of the accession negotiations. Although the accession took place only a few years ago, this short period of time has already proved the opinions to be right that predicted the „sunset” of agricultural production for the new Member States. It is obvious that the EU enlarged by countries in which the share of agriculture in the economy is high, cannot fully apply the Common Agricultural Policy. Since the new countries in the EU have to accept the point of view of the EU, this situation raises the question of the necessity of a cooperation between regional markets. With the differentiation of consumer demand, increasing quality requirements and the

multinational commercial chains gaining ground – i.e. the accession itself – posed a great challenge for food industry companies [Molnár 2002]. In our opinion the globalization in food consumption and the dividing „techniques” of hypermarket and supermarket chains make it essential to bring the structure of raw material producing agriculture of the countries in line with each other to re-evaluate their national policies.

2000-2005: Review

Agricultural economists put special emphasis on agricultural price gap analysis because the changes in the price of inputs and outputs has a significant effect on the income situation of agricultural producers, and as a result the demand for investments and a competitive position on the market. The analysis using the year 2000 as a basis proves that the situation of agriculture in terms of price changes has significantly worsened for 10 years in Europe as a whole. Although the period between the mid-nineties until the turn of the century generally experienced an industrial price gap – meaning that the prices of outputs increased in a more rapid place than the prices of inputs – then this tendency turned around by 2005 and – the data say – that the agricultural price gap was continuously increasing. The changes in prices have made an extremely unfavourable effect on the situation of the Visegrád countries. While the difference in the change in the price level was less than 10% in the EU on average, it was 18,8% in Hungary, 12,7% in Poland, 12% in Slovakia and 11,8% in the Czech Republic. Hungary has to put special emphasis on this tendency because the other three Visegrád countries have rather become the competitors of our country. This negative tendency has to be changed otherwise the competitiveness of Hungary on markets will further fall. The negative effects of the opening agricultural price gap are strengthened or even doubled by the effects of the difference in the level of subsidies between the new countries and their competitors in the European Union. This fact will be true when the difference between the level of subsidies will be less (Fig. 1).

The statements that might be true in general and say that the future of agricultural production is „from field to the table” can only be considered as reasonable if the actual processes also reflect that tendency, so the „own agriculture” of the country operates as a stable supplier of its „own food industry”. Thus it is necessary to put emphasis on the analysis of the changes in the value (in EUR) of processed and unprocessed products while analysing agricultural foreign trade. The volume of the foreign trade of the Czech Republic clearly showed the effort of the country to increase its export to EU destinations. This is also reflected in the related data which shows that its export doubled during the 6 year period. The share of processed and unprocessed products of total export also changed in that period. While in 1999 the share of unprocessed products was almost 70% of the total agricultural export, in 2004 the same figure was just higher than 60%. This effort of the Czech Republic could be considered as positive, because it was a general fact that the export of processed products was a more efficient form of gaining revenue in foreign currencies than that of raw products.

Taking a look at the use of pre accession funds (SAPARD) the tendency seems to be more emphasised, since one fifth of the sources were used for the development of food processing and marketing. On the other hand the tendency of imports – taking into account the current situation of the accessing countries – showed a dramatic increase in agricultural import (Fig. 2).

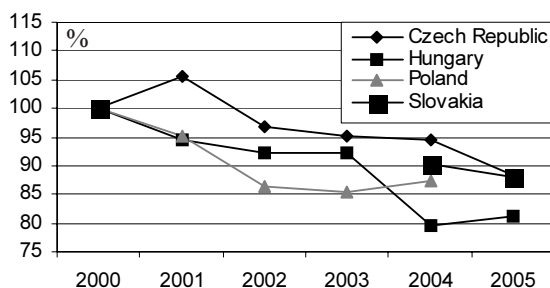


Figure 1. Agricultural Price Gap (2000=100%)
Source: own study and Eurostat, COMEXT 2000-2005.

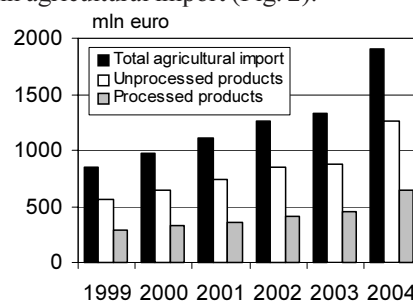


Figure 2. Czech Republic – import from the EU-15
Source: see fig. 1.

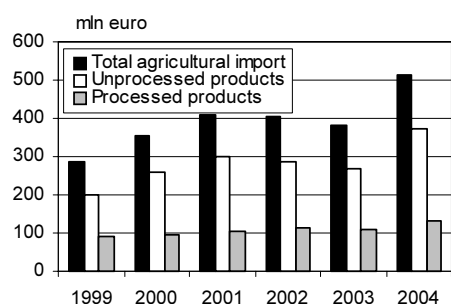


Figure 3. Slovakia – import from the EU-15
Source: see fig. 1

The agricultural foreign trade of Slovakia showed a similar pattern than that of the Czech Republic. The export of the country also increased at a rapid pace but in this case the base year (1999) also showed a very high agricultural foreign trade deficit. The tendency for the agricultural sector appeared to be very negative. It was found that the globalisation of the European food markets, the unexpected development of a demand-pull market and the rapid growth of retail chains mean a very high competition for domestic agricultural producers. In the case of Slovakia it means that there was a very high import pressure on both the markets of processed and unprocessed agricultural products. The gap has opened further despite the fact that export rose at a higher pace (Fig. 3).

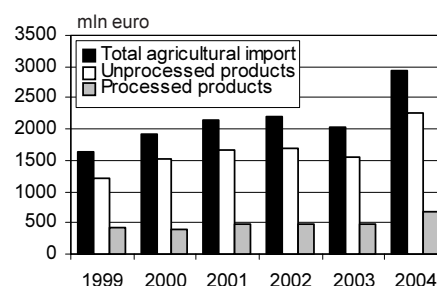


Figure 4. Poland – import from the EU-15
Source: see fig. 1

The agriculture of Poland – partly due to its traditions – has a different tendency in foreign trade activity than the other smaller Visegrád countries. The country put special emphasis on trying to achieve a surplus in foreign trade balance. Exports rose from just more than 1-2.7 billion euros in these years with the export of processed agricultural products growing at a very dynamic pace. However the pressure from external markets was very high in the case of Poland as well. While efforts were made to increase exports, imports doubled as well. Although the gap tightened – since the deficit was reduced – the balance does not yet show a surplus in 2004. Market competition was expected to rise after the accession (Fig. 4).

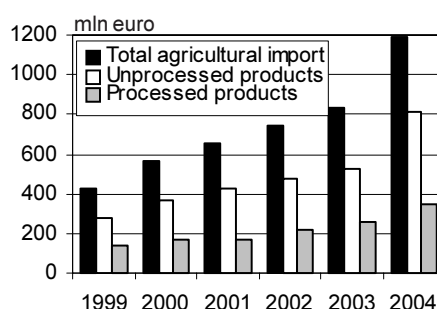


Figure 5. Hungary – import from the EU-15
Source: see fig. 1

Hungary was the only country – out of the Visegrád countries – that managed to achieve a stable surplus in foreign trade. However trade processes did not paint a favourable picture for the pre-accession period. The 600 million euro surplus in foreign trade recorded in 1999 fell below 500 million euros which means import competition occurred in Hungary also on the domestic markets. The import of unprocessed products already amounted to 817 million euros which represented a very high competition for domestic producers on the market of the processing industry. It is a very significant fact that while the export of processed products was higher than their import in 1999, the situation turned around in 2000 and the import of processed products exceeded their export by 2004. If Hungarian consumers with their demand tend to accept a higher level of profit in the price of imported food products, then they will do the same with good quality Hungarian products as well. Thus market participants will have to compete on the food supplier markets rather than on raw material markets. Current market tendencies are very important from this aspect because they show a strengthening market competition (Fig. 5).

Challenges in the V4

The agriculture in the V4 plays diverse role. In Hungary and Poland the share of agriculture in the national economy, external trade and in the employed civilian working population is higher than in Czech Republic and Slovakia. The structure of the holdings is also different in these

countries. While in Czech Republic and Slovakia the bigger corporate and private farms prevail, till then in Hungary and Poland the most of the farms are private farms with smaller size. Beside this structure of the production is important also. Inside of agriculture the share of the plant production and the animal husbandry is determinative. The accession could change the function of the plant production and the animal husbandry primarily because of the direct payments and in the second place because of the high animal welfare and environmental protection rules [Osztrogonacz et al. 2007].

As a result of the comparison between country reports – that include the changes and the processes of a country – it was found that the share of animal husbandry within the agricultural sector fell rapidly, which is a very important fact from an agricultural economic point of view because it shows a tendency towards an extensive structural change. It was found that the structures of agriculture of the countries investigated were strengthened towards the direction of agricultural raw material production as an effect of the same pressure from the world economy. The countries did not develop a cooperation and even developed a very sharp competition – which will be much stronger in the future – making an extremely unfavourable effect on the own supply markets of Hungarian agriculture. Thus the globalisation of food trade makes it essential to bring the structure of the raw material producing agriculture of the countries in line with each other and to re-consider their national policies. The examinations of this research prove that positive expectations do not have a basis. These tendencies will strengthen in the next planning period because the national policies suffer from a loss of identity.

It was also found that the Hungarian agricultural policy – despite the general opinion of experts of this field – does not have strategic aims for the long term. The agricultural policy, which is largely affected by political concerns and therefore only follows the processes of the country – while focusing on obtaining the sources from the EU – significantly weakened and mainly reacts to political effects and does not prefer a structural change that would make it able to react to forecasted market changes. Therefore the sector largely depends on subsidies and does not put enough emphasis on the utilization of external opportunities of land use.

The turn of the century brought a decisive turn in the life of Central and Eastern European Countries. The processes in the world policy and economy brought new challenges for the countries most concerned in the changes. It was inevitable to ask the question: how should it go on? It was plain that the old methods had to be changed because the countries have to react to the challenges of the globalization process of the world especially in the field of agricultural economy.

The last 15-20 years of the Visegrad countries first saw a period in which they tried to find the way out of their old systems and then a period of the accession to the European Union, both periods accompanied by crisis in agriculture and efforts to achieve a higher pace of development. The Soviet Union with its enormous agricultural market theoretically broke up, its market significantly narrowed and its former suppliers – especially the agricultural sector of Hungary – started to suffer from overproduction crisis. The domestic markets for the surplus production in the EU where the requirements are much higher. The Visegrad countries realized the importance of cooperation and tried to form an integration (CEFTA) by which they intended to solve the problems of agricultural production and trade. The CEFTA fulfilled its duty – to stop foreign trade from tightening by a free trade zone – since the trade between the countries themselves expanded and the alliance managed to reduce the one-sided dependence from the East.

The investigations clearly prove that the agricultural trade of the region is more and more integrated into both world and European trade therefore the establishment of the CETA was an important step to give the countries an opportunity to form a regional cooperation. Of course, this cooperation – which was not always without problems because of the regular opposite interests of the participating countries – could not replace the participation in the European integration but it was very important as a looser form of integration which provided a basis for the accession process to the European integration.

The decision of the European Union to enlarge its integration by 10 countries including the Visegrad countries to add to the existing Member States brought several new perspectives for the countries involved. In addition to that it resulted in very significant changes in the agricultural economy of the countries since the pre-accession negotiations and development programmes created a new situation which aims to promote the integration of the agricultural sectors to the EU markets and to the system of the Common Agricultural Policy (CAP).

The circumstances of the accession were not really favourable for the implementation of the enlargement. Taking a look at the processes in the world economy, position of the EU worsened, the economic growth of the USA decreased (2002-2003) and in Germany – which is the most important economic power of the EU – the internal problems in its economy also strengthened (after the euphoria of the accession of East Germany unexpected economic problems occurred). The accession took place in a period when the EU itself also had to face competition problems. The important demand of production increased, specific energy consumption rose, increasing labor costs caused more and more problems and the costs of social achievements were also a lot higher.

Prior to the accession the Member States did not fully support the idea of EU enlargement largely because they doubted that the accession should take place in a recession period. Agricultural trade developed very dynamically over the last years. Consequently, the trade impact of enlargement can be considered to have already started before 2004. It can reasonably be expected that, after accession, the flows of agricultural products will further intensify between the EU-15 and the new Member States. This may be especially the case for agricultural products which were subject to relatively more trade restrictions before accession. Over the last decade, the economies of the new Member States expanded at about double the rate than the economies in the old Member States. This has had positive effects for the agri-food sectors, in particular in the area of consumer demand for meat and dairy products. However, the rural economies benefited less from the high economic growth which took predominantly place in the urban centres and high rural unemployment persisted. The duality of agriculture between market-oriented and subsistence farmers is an important phenomenon in a number of countries. The small farms in the new Member States contribute significantly to employment in agriculture (actually subsistence farms – a category widely used in professional literature – in our opinion mean farms that do not operate according to the rules of the competitive economy. However their activity is very important in terms of processing and gaining alternative income sources).

Subsistence farmers obtain little alternative income from social security systems and from employment outside agriculture. They basically produce for their own consumption and, to a lesser extent, for direct sales. Alongside the market-oriented agriculture, subsistence farmers contribute significantly to the production and the use of resources in the milk, pig, poultry and egg production sectors. In this context, the social insurance element of agriculture has to be taken as an important regional dimension to the multifunctionality of European agriculture. Restructuring of the subsistence sector depends on the revival of rural economies and responds only marginally to agricultural policy measures directed to markets and income. The main elements which would trigger structural change among subsistence farms are alternative employment in rural areas and the introduction of a sustainable level of social security coverage. With EU accession, funds have become available to contribute to the revival of rural economies. This could lead, if well managed and targeted, to accelerating rural growth in the new Member States.

Conclusions

The analysis of the markets in the new Member States shows a wide diversity of agriculture and conditions under which agriculture had operated. The alignment of policies and the market integration prior to enlargement led to a significant integration, in particular among the old and the new Member States. Despite the increasing integration over time, markets in the new Member States appeared to be limited as regards the ability to absorb and stabilise a volatile agricultural production. This had a particular effect on Hungary as the largest exporter and on Poland as the largest producer of agricultural commodities of the new Member States. The main impact of enlargement on agriculture is certainly the full access to the single market and the integration of trade among the new Member States themselves. The additional gains for the market-oriented part of agriculture resulting from the implementation of the CAP appear also significant. Further effective integration into the single market should depend partly on the development of production and marketing infrastructure and partly on the compliance of production with EU standards in a cost efficient manner. This would create in turn substantial additional benefits in the longer term.

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Streszczenie

W pracy przedstawiono analizę procesów ekonomicznych mających miejsce w ostatnich dwóch dekadach w krajach Grupy Wyszogrodzkiej. Zwrócono uwagę na pozytywne wyniki zmian i szanse na dalszy rozwój w przyszłości.

Corresponding address:

dr Judit Villányi, dr Zsuzsanna Naár-Tóth
SZIE Faculty of Economic and Social Sciences
Institute of Economic and Methodology
Páter K. str. 1. Gödöllő 2103, Hungary
e-mail: Toth.Zsuzsanna@gtk.szie.hu