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COLLEGE OF FINANCE AND ACCOUNTANCY

Dr. Miklós Losoncz

Research Professor, Budapest Business School,
University of Applied Sciences
Leader of the Macroeconomic Sustainability Working Group
sponsored by the Hungarian Academy of Sciences

The sources of sustainable economic growth in the CEE region: the role of market integration

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H-1149 Budapest, Buzogány utca 10-12.
Phone: (+36-1) 469-6600
Fax: (+36-1) 469-6610
www.uni-bge.hu

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Objectives, definitions

- **Objective:** to identify and analyse
  - the sources,
  - the driving forces of sustainable economic growth,
  - their policy implications in the context of market integration based on the example of CE.
- **Market integration:** growing involvement of the countries surveyed in
  - the global economy,
  - the single market of the European Union,
  - the cohesion policy of the EU.

Objectives, definitions

- **Areas of market integration**: trade policy, trade and financial flows and other factors.
- **Geographical coverage:** Visegrad group (V4) of Central European countries:
  - Czech Republic,
  - Hungary,
  - Poland,
  - Slovakia.
- **Time horizon:** from the early 1990s to the present, emphasis on the past 10-15 years in line with the sequencing of the EU's multiannual financial framework (MFF).

Integration into the global market in trade policy

Late 1980s, early 1990s: **transition** to western type democracy and market economy in the V4:

- Liberalisation of foreign trade activity,
- Gradual abolition of quotas and NTBs,
- Introducing unified tariff rates and reducing them,
- Gradual liberalisation of the inflow of FDI,
- More flexible exchange rate regimes, later convertibility of the national currency,
- Joining multilateral international organisation on market principles (GATT/WTO, OECD).

Integration into the global market in trade policy

Major result:

- Increase of commercial policy and structural openness.
- Access to imported inputs of better quality.
- Dynamization of exports through the mobilisation of latent resources.
- Neutralising factor: switch to dollar settlement in intra CMEA (Council for Mutual Economic Assistance) trade and the demise of the CMEA.

Regional integration

Orientation of the Visegrad states toward the EU:

- 1988: non-preferential trade agreements between the EC and the individual CE countries.
- 1990: the EU extends the GSP to the Visegrad countries
- December, 1991: Europe Agreements, institutionalising the relations.
- Aim: industrial free trade, reduction of tariff rates and NTBs in agriculture trade, preparation for EU accession.
- Asymmetrical reciprocity.

2004: Accession to the EU.

The role of the EU in global integration

Integration into the global economy through the EU:

- **Prior to accession:** CEFTA (Central European Free Trade Agreement) and free trade agreement with EFTA.
- **After the accession:** through the system of the various preferential and non-preferential trade and other agreements of the EU.

Consequence: increasing commercial policy and structural openness.

Integration into the single European market

Main tools of integration into the single Euuropean market (SEM):

- The provisions of the Europe Agreements on legal harmonisation.
- The PHARE program: technical assistance.
- Adopting the industrial norms and standards of the EU by the V4.
- With accession, the abolition of customs procedures and control at the internal borders of the EU.

Integration into the single European market

Major result:

- The increase of the share of the EU in V4 foreign trade.
- Positive effects on the growth of exports, GDP and consumption.
- The economic effects of the integration into the single European market were more pronounced than those of establishing the customs union.
- The same trade policy measures by the EU had different impacts on the V4 countries (asymmetric shock).

Integration into the single European market

Probable future trends:

- Limited possibilities in trade policy depending on the further extension of the EU's trade agreement system.
- More chances in the extension and the deepening of the single European market depending on the political willingness of the EU member states.
- The cost of non-Europe is estimated at EUR1597 billion.

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Integration into the cohesion policy of the EU

- There is no clear theoretical background behind the EU's cohesion policy – difficult to evaluate it.
- Pre-accession instruments: SAPARD (Special Accession Programme for Agriculture and Rural Development), ISPA (Instrument for Structural Policies for Pre-Accession)
- EU membership opened the door before integration.
- 2004-2006: limited funds
- 2007-2015: full involvement of the V4 in the EU's cohesion policy.

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Integration into the cohesion policy of the EU

The share of total funds allocated to the Visegrad countries in the EU budget to ensure growth and cohesion between 2004 and 2006

	EUR million	**In per cent of cumulated GDP**
Czech Republic	2 621,1	0,83
Hungary	3 207,2	1,23
Poland	12 808,7	1,78
Slovakia	1 757,4	1,50

Source: Eurostat, European Commission (2004), Hallet, M. (2004).

Integration into the cohesion policy of the EU

Total EU financial sources per capita and in per cent of GDP disbursed to the Visegrad countries from 2007 to 2015

	Per capita	In per cent of GDP
Czech Republic	363	2.3
Hungary	437	4.0
Poland	332	2.9
Slovakia	350	2.4

Source: Calculations based on data from KPMG (2016) and Eurostat database

Integration into the cohesion policy of the EU

In the average of the 2007-2015 period, the share of EU funds meant for cohesion purposes in total **investments**

- nearly 15 per cent in Hungary,
- close to 10 per cent in Slovakia and Poland,
- 7 per cent in the Czech Republic.
- The share of EU financial sources for cohesion purposes in investments by the general government exceed 50 per cent in Hungary and Slovakia, 30-40 per cent in the Czech Republic and Poland.

Integration into the cohesion policy of the EU

According to the model calculations of the European Commission, investments accomplished in the framework of cohesion and rural development policy of the 2007-2015 period enhanced GDP in 2015 by

- over 5 per cent above the level it would have been in the absence of the funding in Hungary,
- 4-4 per cent in Poland and the Czech Republic,
- 3.5 per cent in Slovakia.

(Source. European Commission [2016a], [2016b], [2016c], [2016d]).

Integration into the cohesion policy of the EU

From 2007 to 2015, the actual cumulative increase of GDP was

- 37 per cent in Poland,
- 32 per cent in Slovakia,
- 14 per cent in the Czech Republic,
- 5 per cent in Hungary.

EU funds complemented the driving forces of sustainable economic growth in Poland and Slovakia, and substituted them in the Czech Republic and Hungary.

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Integration into the cohesion policy of the EU

Major results:

- Regional convergence was delivered in terms of approximation of per capita GDP to the EU average.
- Differences among V4 countries increased.

Envisaged EU funds in the 2014-2020 multiannual financial framework:

- Poland: EUR114.7 billion,
- Hungary: EUR35,5 billion,
- Czech Republic: EUR31.3 billion,
- Slovakia: EUR19.5 billion

Major challenge: question marks on the EU's cohesion policy after 2020.

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Other fields of market integration

FDI in per cent of GDP in the average of the 2007-2015 period:

- Czech Republic: 2.5 per cent,
- Hungary: 3.9 per cent,
- Slovakia: 3.5 per cent,
- Poland: 2.6 per cent.

➢ Due to statistical methodological problems, the figures are not comparable.

➢ Orders of magnitudes are similar to those of EU transfers.

Other fields of market integration

Access to the loans of the EIB, 2008-2015:

- Czech Republic: EUR64 per capita,
- Poland: EUR95 per capita,
- Hungary: EUR95 per capita,
- Slovakia: EUR82 per capita.

Employment abroad:

- Remittances are significant
- Precise comparable figures are not available

Summary and conclusions

External sources of global and regional integration:

- Trade policy,
- Integration into the single European market,
- Integration into the EU's cohesion policy,
- Inflow of foreign direct investments,
- Remittances of workers employed abroad.

➢ Benefits derived from them tend to decrease over the medium-term, particularly after 2020.

➢ New external and internal driving forces have to be identified and mobilised.

Summary and conclusions

Trade policy:

- In the early 1990, **global integration** of the V4 took place under specific circumstance with the transition to market economy.
- **Regional integration** of the V4 was promoted by the Europe Agreements of 1991 and EU accession in 2004.
- **Global integration** was accomplished through the integration into **the EU** (CEFTA, EFTA prior to EU enlargement, the adoption of the EU's trade agreements after the accession to the EU.

Summary and conclusions

Trade policy:

- Benefits from the establishment of the customs union were significant.
- At present possibilities are limited to gain from further global integration.
- Benefits depend on the extension of the trade agreements of the EU.
- Negotiations are going on slowly.
- Setbacks are possible.

Summary and conclusions

Integration into the single European market:

- Legal harmonisation enshrined in the European Agreement.
- PHARE.
- The adoption of the industrial norms and standards of the EU.
- The extension of EU law to the V4 after accession, including the abolition of customs procedures and control on the internal borders of the EU.

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Summary and conclusions

Integration into the single European market:

- The impact of integration into the single European market was greater than that of the establishment of the customs union.
- In the future, benefits may come from the deepening of the SEM and its extension to new fields (cost of non-Europe, digital market).
- Progress in the SEM depends to large extent from the political will of member states.

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Summary and conclusions

Integration into the EU's cohesion policy

- Prior to accession: SAPARD and ISPA
- 2004-2006: Limited financial sources
- 2007-2015: Significant contribution of EU transfers to sustainable growth in V4.
- EU funds complemented internal sources of GDP growth in Poland and Slovakia.
- EU funds substituted EU funds in the Czech Republic and Hungary.
- High degree of dependency from EU funds in investments.

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Summary and conclusions

Integration into the EU's cohesion policy

- The implementation of the 2014-2020 MFF is under way.
- Uncertainties over the EU's cohesion policy after 2020, new driving forces have to be identified.

Other elements:

- With the weakening of traditional comparative advantages, the potential to attract FDI is diminishing.
- Brexit: uncertainties over employment in the UK.

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