

Trends in external trade of the new member countries after three years of membership with special reference to their intra-trade

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The first three years of membership in the EU have had substantial impact on the trade of the new member countries (NMS) in general, and on that of Hungary, in particular. Trade creation, an obvious tendency from the early 1990s on, has stopped in NMS exports to the EU 15. Even more, EU 15 share started to diminish substantially, between 2.2 and over 20 percentage points. In turn, EU 15 share in total imports reveals a more controversial picture of trade creation and trade-diversion effects. By far the biggest change is represented by the dramatic increase of intra-NMS trade. Its volume more than doubled from less than EUR50 billion in 2003 to almost EUR 100 billion in 2006. Thus, intra-NMS trade flows did not only become the most dynamic factor of EU 25 trade but they played a fundamental role in replacing previous commodity flows to, and partly from, the EU 15. Hungary's exports and imports from the EU 25 grew slower than those of other NMS but much quicker than the EU 25 average. Two important new trends have to be highlighted. First, Hungary's intra-NMS-trade has been characterised by a strong increase of the share of NMS in total exports (from 7.5 to 13 percent in a four-year period). Second, and not less importantly, Hungary's traditional trade deficit with the NMS turned into a remarkable and sustainable surplus and contributed by EUR 1.7 billion to the improvement of the country's overall trade balance. This figure points to sustained competitiveness. It is the task of forthcoming studies to shed light on the main factors that had been driving exports and fostered competitiveness in intra-NMS-trade.

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For external-economy-dependent countries, foreign trade is one of the most evident macro-economic indicators of successful or failed adjustment, growing or decreasing competitiveness. In this context, all new member states (NMS) that joined the European Union in May 2004, belong to this category. Thus, their foreign trade performance in the EU 25 may provide important guidance in assessing their adjustment process in the last three years of membership.

Moreover, such a survey offers several challenging issues related to traditional theoretical hypotheses and approaches. First, establishment of or accession to a regional integration is expected to produce trade-creation and trade-diversion effects, particularly if the given integration is not only a free-trade area but a customs union as well. Second, what is the impact of accession on intra-NMS trade, particularly if it became fully liberalized just at the moment of accession to the EU? Third, free trade between differently developed countries used to produce high trade surplus for more developed and high trade deficit for less developed member countries of the given integration. Fourth, and in continuation of the previous line of thinking, the commodity pattern of trade relations between more and less developed member countries of the same integration is expected to represent bilateral commodity flows of high value-added and high technology-content of exports from more to less developed countries and, at the same time, low value added and low(er) technology-content exports from the less to the more developed member states.

To what extent, if at any, can the given – still deeply-rooted – theoretical assumptions (or, even more, stereotypes) be verified or refuted in the special context of “Eastern” enlargement characterised by

- rapidly expanding globalization,
- foreign trade and investment flows predominantly driven by global activities of transnational companies (with differently strong positions in the NMS),
- free trade in all industrial and most agricultural products several years before membership (in contrast to previous enlargements by less developed new members),
- a new pattern of strategic decision-making on the level of transnational companies from the traditional vertical towards a future-oriented horizontal structure of organization and international division of labour.

Based on this theoretical background and considering the changing framework conditions, the statistical analysis offered in this paper sheds light on some important

trends that can be observed as a result of a three-year membership in the EU.¹ The basic fields covered by statistical figures and own calculations include:

- the evidence of trade creation and trade diversion,
- the impact of membership on intra-NMS trade (as a priority area of this paper),
- development of competitiveness of the NMS mainly based on growing or declining shares on different markets,
- bilateral trade balances and finally,
- the commodity pattern of NMS exports.

The period covered by the survey includes the years from 2003 to 2006. The initial date represent the last year of pre-accession, while 2006 offers the most recent annual figures. For unbiased comparison, all statistical data are taken from different publications of Eurostat (“External and intra-European trade”), on which own calculations are also based. The analysis incorporates respective trade figures of all NMS that joined in 2004, excepting, for their negligible impact both on total and intra-NMS trade, Cyprus and Malta.²

The analysis of the growth of exports and imports, trade balance, individual country shares, as well as commodity pattern focuses not only on overall figures but tries to distinguish between intra- and extra-EU trade, with particular reference to intra-NMS trends of trade flows. As a last remark, the basic approach is focused on the performance of the NMS 8 group, however, in most cases, with special attention to Hungary, both as compared to overall EU trade developments and to the basic trends that could be identified in other NMS countries, as – at least – short-term competitors of Hungary.

The paper is divided into four major parts. First, overall trends of the NMS trade within the EU 25 will be elaborated on. Second, special attention will be paid to some characteristic features of intra-NMS trade between 2003 and 2006. Third, some basic elements of the commodity pattern of trade, with special emphasis on the structure of exports, will be highlighted. Finally, as a concluding section, important and at least partly surprising changes in the geographic distribution of NMS trade will be illustrated.

¹ Due to the obvious limitations of the paper, several background statistical tables and own calculations based on Eurostat figures could not be included into the printed form, even if reference has been made on selected relevant developments verified by statistics. The complete statistical material can be consulted on the internet Supplement of this article. Reference to each additional table can be found in the appropriate section of the paper.

² Therefore, a category of NMS 8 was created (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia). Bulgaria and Romania, although partly included in EU trade statistics retrospectively (EU 27), have not been considered, since in the period of the survey they had not yet been members of the EU.

1. The new member countries in the EU 25 trade developments

Following the full-fledged membership, trade of the NMS 8 kept on developing dynamically. Between 2003 and 2006, total exports grew from EUR 172 billion to EUR 298 billion, while imports increased from EUR 199 billion to EUR 325 billion. Both intra-EU and extra-EU trade experienced high growth rates. However, calculations based on Table 1 reveal some remarkable features that need further explanation.

Table 1

Development of NMS 8 trade
(EUR billion)

| Year | Total exports | Intra-EU 25 exports | Extra-EU ex-ports | Total imports | Intra-EU 25 imports | Extra-EU im-ports |
|-------|---------------|---------------------|-------------------|---------------|---------------------|-------------------|
| NMS 8 | | | | | | |
| 2003 | 171.97 | 139.57 | 32.40 | 199.39 | 136.83 | 62.56 |
| 2004 | 211.12 | 169.59 | 41.53 | 237.59 | 177.34 | 60.25 |
| 2005 | 246.29 | 193.43 | 52.86 | 269.18 | 200.99 | 68.19 |
| 2006 | 297.96 | 231.33 | 66.63 | 325.32 | 237.76 | 87.56 |
| EU 25 | | | | | | |
| 2003 | 2.761 | 1.878 | 883 | 2.729 | 1.788 | 941 |
| 2004 | 2.997 | 2.028 | 969 | 2.983 | 1.951 | 1.032 |
| 2005 | 3.236 | 2.164 | 1.072 | 3.276 | 2.092 | 1.184 |
| 2006 | 3.608 | 2.428 | 1.180 | 3.698 | 2.346 | 1.352 |

Note. For individual country data see Tables S1, S2, and S3.

Source: Eurostat. *External and intra-European Union trade*. Monthly Statistics, various issues.

1. Total exports and imports of the NMS 8 group indicate much stronger growth than the EU 25 average (of which, of course, this group is also part of). The difference in cumulative growth rates is particularly evident in exports that grew more than twice as quicker than the overall export growth of the EU 25 (73.3 vs. 30.7 percent).

2. Exports to extra-EU countries experienced a much higher growth than to the EU 25, which is an indicator of trade diversion instead of trade creation following accession. In turn, trade creation did take place to some extent in imports, where intra-EU imports grew much quicker than extra-EU imports.

3. The EU 25 indicated a cautious (much less dynamic) shift to external geographic orientation. This was much less accentuated in exports than in imports (4.3

percentage point difference between the growth rate of intra-EU and extra-EU exports, and 12.2 percentage point difference in the respective imports).

How can the discussed and partly surprising trends be explained? Evidently, one reasonable explication is that the NMS 8 group had implemented free trade covering almost 100 percent of the total exports several years before membership (in fact, as of 2001). Consequently, most trade-creation impacts had been working prior to membership, practically over a period of more than one decade (from the entering in force of the trade section of the association agreement between 1992 and the mid-1990s). Another argument can be linked to the low growth rate of the traditional EU markets as compared to other markets. This development may have been strengthened by the impact of globalization that opened up new market opportunities in rapidly growing non-EU countries, particularly in Asia but also in Eastern and South Eastern Europe. Moreover, to some extent EU support can also be taken into account, particularly in the context of agricultural exports, since the new member countries started to enjoy the export-subsidy mechanism of the EU. This may have had a positive impact on agricultural exports to neighbouring countries, particularly Russia (it is not by chance that Poland could accumulate the highest agricultural-export surplus among the NMS 8 in the last years). Nevertheless, the most plausible explanation seems to be that transnational companies rooted in the NMS (although with rather different macroeconomic weights and role in total exports) several years before institutional membership, started to make full use of the enlargement by having the legal, institutional and also political support derived automatically from the fact of accession.

In turn, statistical figures confirm trade creation in NMS 8 imports. This has been happening in contrast to EU 25 developments that indicate a higher dynamism of extra-EU imports than intra-EU imports. The latter can relatively easily be explained both by growing competition from China and other emerging economies as well as by higher energy prices. However, the particular case of the NMS 8, again, requires some elaboration. First, as already mentioned, the trade-related impacts of free trade had been working not only in exports but also in imports well before membership. In addition, the immediate harmonisation of national import duties to the level of the EU customs union could have resulted in higher extra-EU imports, since national customs duties used to be higher than the customs level of the Union. Moreover, the first years of membership were accompanied by rapidly increasing fuel prices. Since most NMS (excepting Slovenia) are heavily dependent on Russian deliveries, extra-EU imports should have experienced an increasing share in total imports, just because of the price factor. Lacking fundamental analysis, some speculations only can be made in order to explain trade creation in imports of the NMS 8. On the one hand, institutional membership seems to have created a qualitatively new status for the new members. Thus, legal certainty, EU-level transparency and institutional adequacy

may have fostered not only exports to the NMS 8 by large Western European trans-national companies but, increasingly, by small- and medium-sized firms, too. On the other hand, rapid and sustained economic growth (three to five times higher than the average growth rate in the EU 15) may have created additional demand for intra-EU exports. Finally, also rapidly growing intra-NMS trade has to be reckoned with (although, as it will be shown, this effect can be clearly identified in export developments as well). Detailed figures, including the performance of the individual new members have been summarized in Table 2.

Table 2

Dynamics of NMS 8 trade, 2003–2006
(Index: 2003 = 100.0)

| Country | Total exports | Total imports | Intra-EU 25 exports | Intra-EU 25 imports | Extra-EU 25 exports | Extra-EU 25 imports |
|----------------|---------------|---------------|---------------------|---------------------|---------------------|---------------------|
| Czech Republic | 175.9 | 162.3 | 171.2 | 182.9 | 205.9 | 111.9 |
| Estonia | 188.0 | 178.7 | 149.8 | 201.9 | 367.1 | 136.1 |
| Latvia | 189.8 | 195.0 | 172.4 | 196.6 | 256.6 | 190.4 |
| Lithuania | 182.5 | 180.3 | 184.4 | 201.7 | 179.2 | 153.3 |
| Hungary | 155.7 | 145.0 | 142.0 | 153.5 | 214.9 | 130.6 |
| Poland | 184.2 | 164.8 | 176.1 | 171.1 | 218.4 | 150.6 |
| Slovenia | 164.2 | 156.9 | 163.7 | 159.0 | 165.1 | 150.3 |
| Slovakia | 172.2 | 183.3 | 173.0 | 185.8 | 167.6 | 176.1 |
| NMS 8 | 173.3 | 163.2 | 165.7 | 173.8 | 205.6 | 140.0 |
| EU 25 total | 130.7 | 135.5 | 129.3 | 131.2 | 133.6 | 143.4 |

Source: Here and in Tables 3-6 the author's own calculations based on *Eurostat: External and intra-European Union trade*. Monthly Statistics, various issues.

A cross-country survey reveals that with a few and remarkable exceptions, all NMS 8 countries produced much higher growth rates in their total, intra- and extra-EU trade, respectively than overall EU 25 figures. The only exception is represented by three countries in extra-EU imports that are responsible for the lower NMS 8 average than the EU 25 total (Estonia, Hungary and, particularly, the Czech Republic). However, the trend of intra-EU import creation was a strong and common feature for all new members. (Differences in growth rates between intra-EU and extra-EU imports were particularly high in the Czech Republic, Estonia, Lithuania, Hungary and Poland). At the same time, cross-country comparison indicates a differentiated picture of the dynamics of intra- and extra-EU exports. In general terms, as already stated, the latter registered a much higher dynamism (trade diversion, or extra-EU

trade creation), however, it did not characterise all countries of the group. This outward tendency was very strong for the Czech Republic, Estonia, Latvia, Hungary and Poland, while intra- and extra-EU export dynamism was similar in the case of Slovenia. In contrast, Lithuania and Slovakia became more EU-oriented (here, the trade-creation effect worked).

It is interesting to analyse the differences between export and import growth rates. In total, the NMS 8 group achieved higher total export than total import growth, which can be considered not only a positive impact on trade balance (see later), but also as an indicator of growing competitiveness. However, the overall figure is the result of two contrasting developments. On the one hand, extra-EU exports grew much more dynamically than imports, while in the intra-EU framework, import growth proved to be higher than export growth. Still, country-specific figures largely differ. Higher growth of total exports vs. imports can be attributed to Poland (with a growth rate difference of 20 percent), the Czech Republic (13.6%), Hungary (10.7%), Estonia (9.3%), Slovenia (7.3%) and Lithuania (2.3%). In turn, total imports grew more dynamically than total exports for Slovakia (11.1%) and Latvia (5.2%). Concerning intra-EU trade, excepting Poland and Slovenia, all new member states experienced higher import than export growth. Finally, as far as extra-EU trade is considered, all new members show a much higher export than import growth, with the only exception of Slovakia.

Looking at the difference in dynamism of exports and imports of the individual countries, Hungary reveals the relatively lowest level of growth (although still clearly higher than the average of the EU 25). While total Hungarian exports grew by 56 percent in a four-year period, the main competitors of the region increased their exports by 72 (Slovakia), 76 (Czech Republic) and 84 percent (Poland). Even Slovenia could expand exports by 64 percent, let alone the Baltic states with almost doubling their certainly modest exports between 2003 and 2006. The basic picture is similar in imports; however, here the differences are not as much stressed. Due to the dominant share of the EU in total trade, the pattern holds for intra-EU trade as well, being Hungary the least dynamic new member country again (but still more dynamic than total EU 25 trade figures). This picture is substantially modified if we look at the extra-EU indicators. Extra-EU exports grew most dynamically for Hungary (excepting two small Baltic states), while imports revealed a relatively sluggish growth (but still higher than the Czech Republic and similar to Estonia).

These developments already predict changes in the share of the NMS 8 and of the individual countries in total, intra- and extra-EU trade of the EU 25. Three main trends have to be underlined.

1. Although from a low level, however, in all comparisons, the share of NMS 8 kept on further growing after accession. In total EU 25 exports the share increased

from 6.23 (2003) to 8.26 (2006) percent, or a more than 2 percentage points “market gain” in four years. In total imports, the 7.31 percent share experienced an increase to 8.80 percent.

2. The share of NMS 8 in intra-EU trade was substantially higher than in extra-EU trade. As a consequence of continuous dynamic increase, the share of the NMS 8 in intra-EU exports grew from 7.43 to 9.53 percent, while in imports it reached the 10 percent level (from 7.65 to 10.13 percent in a four-year period). In contrast, the NMS 8 is still underrepresented in extra-EU trade, even if shares were rapidly increasing in exports (from 3.67 to 5.65 percent), but not in imports (slight decline from 6.65 to 6.48 percent). In other words, and as a first and maybe superficial approach, the new countries have a relatively higher intra-EU orientation and seem to be less prepared to global competition. (For shares of individual countries see Tables S4., S5. and S6.)

3. Despite higher growth rates of exports than imports, NMS 8 participation in exports resulted still lower than in imports. However, the original (2003) “gap” could be substantially narrowed in total trade (from 1.08 percentage points to 0.54), and in extra-EU trade (from almost 3 percentage points to 0.87). In contrast, and due to the already mentioned “trade creation in intra-EU imports”; the share of the NMS 8 group in intra-EU exports grew slower than in imports (2.10 percentage points vs. 2.43 percentage points).

Turning attention to the individual countries, all of them participated in the higher export and import shares. Of course, there were some differences in dynamism, since the 2.03 percentage point share increase was mainly generated by Poland (0.71) and the Czech Republic (0.54). Hungary’s contribution was 0.26 percentage points, similar to half-sized Slovakia (0.22). Similar trends can be observed in total imports, with the difference that Slovakia’s share was more quickly increasing than that of Hungary.

A not less interesting approach compares export and import shares of the individual countries. In this context, the NMS 8 group shows rather diverging features. The Czech Republic is the only country that in 2006 showed a higher share in total EU exports than imports. The second group consists of the “balanced” countries, including Hungary, Slovenia and partly Slovakia. All others reveal a much higher share in imports than in exports, anticipating substantial trade deficits. In intra-EU trade Hungary joins the Czech Republic in having higher share in exports than in imports. All others (excepting “balanced” Slovakia) register higher import than export shares. In turn, extra-EU trade is characterised by much higher import than export shares (with the clear exception of Slovenia having its ex-Yugoslav “hinterland” and, to a much smaller extent, Estonia).

Detailed statistics on the share of the individual NMS in total, intra- and extra-EU trade have also been prepared. (See Tables S7, S8 and S9.) Some remarks only on Hungary should be made here. First, over the four-year period, Hungary has been the third largest trading country (following Poland and the Czech Republic). Second, its share has been constantly decreasing in total exports and imports of the NMS 8 (over a four-year period from 22.2 to 19.9 percent in exports and from 21.2 to 18.8 percent in imports). The relative position of the Czech Republic, with some annual fluctuations, remained constant, while Poland could increase its share (to about 30 percent of the group). Third, in contrast to the previously mentioned general trends, Hungary was the second largest country in extra-EU trade (after Poland but clearly ahead of the Czech Republic). More importantly, its relative share could be increased in exports (from 22.1 to 23.1 percent). In turn, its share in imports registered a decrease (similarly to the Czech Republic and in contrast with all other NMS).

Table 3

Trade balance of the NMS with the world

| Country | 2003 | 2004 | 2005 | 2006 | Cumulative 2003–2006 | Coverage export/import 2006 | Coverage export/import 2003–2006 |
|----------------|----------------|--------|--------|--------|-------------------------|-----------------------------------|--|
| | in EUR billion | | | | | | |
| Czech Republic | -2.67 | -1.02 | +1.28 | +1.54 | -0.87 | 102.1 | 99.6 |
| Estonia | -1.75 | -1.90 | -2.03 | -2.76 | -8.44 | 73.1 | 72.7 |
| Latvia | -2.07 | -2.49 | -2.85 | -4.17 | -11.58 | 53.8 | 56.1 |
| Lithuania | -2.37 | -2.48 | -3.01 | -4.14 | -12.00 | 73.1 | 74.1 |
| Hungary | -4.16 | -3.99 | -2.90 | -1.98 | -13.03 | 96.8 | 93.7 |
| Poland | -12.83 | -11.78 | -9.81 | -11.91 | -46.33 | 88.0 | 85.2 |
| Slovenia | -0.96 | -1.12 | -0.87 | -0.68 | -3.63 | 96.5 | 94.2 |
| Slovakia | -0.61 | -1.69 | -2.70 | -3.26 | -8.26 | 91.1 | 92.4 |
| NMS 8 | -27.42 | -26.47 | -22.89 | -27.36 | -104.14 | 91.6 | 89.9 |

Concerning competitiveness, an important indicator is the total, intra- and extra-EU-based trade balance as well as the export/import coverage ratio of the group, in general, and of the individual members, in particular. Tables 3, 4 and 5 contain annual and cumulative figures of the trade balance. Taking the four-year period, the NMS 8 has accumulated a trade deficit of more than EUR 100 billion, as a result of transformation costs, modernization efforts and higher energy prices (or deterioration of terms-of-trade). Almost half of it concentrates on Poland, while Hungary's cumulative deficit is similar to that of Latvia or Lithuania (much smaller economies but with a much larger imbalance between export performance and import needs). The

best performer is the Czech Republic that registered not only negligible cumulative deficit but resulted the only new member country that could change its trade balance from negative to positive in the first years of EU membership. Another encouraging development took place in Hungary, a country that could substantially reduce its original trade deficit year by year. Poland's deficit, on a very high level, remained constant, while that of the Baltic countries and especially that of Slovakia were rapidly growing. As far as trade balance can be considered a factor of competitiveness of the given economy, the Czech Republic, Hungary and Slovenia provide the best results. Similar conclusions can be drawn from the coverage ratios. On a four-year basis (2003 to 2006) the Czech Republic shows a practically balanced pattern (imports have been covered by exports to 99.6 percent). The next and adequately performing group consists of Slovenia, Hungary and Slovakia (with coverage ratios of 92 to 94 percent). They are followed by Poland and the Baltic states, having the latter very low coverage ratios.³

Table 4

Trade balance of the NMSs with the EU 25

| Country | 2003 | 2004 | 2005 | 2006 | Cumulative 2003–2006 | Coverage export/import 2006 | Coverage export/import 2003–2006 |
|----------------|----------------|-------|-------|-------|-------------------------|-----------------------------------|--|
| | in EUR billion | | | | | | |
| Czech Republic | +4.68 | +2.49 | +2.99 | +4.22 | +14.38 | 107.1 | 107.7 |
| Estonia | -0.43 | -1.07 | -1.45 | -2.58 | -5.53 | 65.6 | 75.3 |
| Latvia | -1.46 | -1.82 | -2.09 | -3.36 | -8.73 | 51.0 | 56.2 |
| Lithuania | -0.91 | -1.30 | -1.21 | -2.50 | -5.92 | 74.0 | 78.9 |
| Hungary | +4.28 | +2.89 | +2.46 | +3.01 | +12.64 | 107.4 | 109.3 |
| Poland | -3.32 | -6.21 | -5.60 | -3.76 | -18.89 | 94.7 | 91.7 |
| Slovenia | -1.71 | -2.92 | -2.50 | -2.36 | -9.49 | 84.0 | 80.4 |
| Slovakia | +1.61 | +0.19 | -0.19 | +0.90 | +2.51 | 103.3 | 103.1 |
| NMS 8 | +2.74 | -7.75 | -7.59 | -6.43 | -19.03 | 97.3 | 97.5 |

An analysis of the trade balance with the EU can be particularly interesting, since it reflects the result of free trade between differently developed countries. At least for some countries, both cumulative and annual figures contradict traditional theories. Namely, three countries: the Czech Republic, Hungary and Slovakia register surplus in their intra-EU trade over the whole period (excepting Slovakia in 2005). Moreover,

³ Naturally, high trade deficits can be financed by the exports of services or other incomes, including foreign capital, international loans, private remittances, etc. Still, the balance of trade in commodities used to be seen as a major indicator of international competitiveness of the given country.

Hungary reveals the highest (positive) coverage ratio, followed by the Czech Republic and Slovakia. At the other end of the scale, Latvia, a country with China-like growth rate, can cover a bit more than half of its imports by exports. Intra-EU trade balance and coverage ratios positively correlate with different levels of involvement in global trade and investment flows. Also, it supports the view that, in the era of globalization, different development levels do not automatically play a decisive role in the evolution of bilateral trade balances. Overall competitiveness and geographic orientation of large transnational companies located in the given country affects trade performance and balance more essentially than traditional factors, including national business cycles.⁴ In turn, the Baltic countries and Slovenia seem to be much less involved in the international network of manufacturing, with obvious impacts on their trade balance and global competitiveness (at least in the tradeable sector).

Table 5

Trade balance of NMSs with the extra-EU 25 region

| Country | 2003 | 2004 | 2005 | 2006 | Cumulative 2003–2006 | Coverage export/import 2006 | Coverage export/import 2003–2006 |
|----------------|----------------|--------|--------|--------|-------------------------|-----------------------------------|--|
| | in EUR billion | | | | | | |
| Czech Republic | -7.35 | -3.51 | -1.71 | -2.68 | -15.25 | 81.9 | 70.1 |
| Estonia | -1.32 | -0.83 | -0.58 | -0.18 | -2.91 | 93.5 | 65.7 |
| Latvia | -0.61 | -0.67 | -0.76 | -0.81 | -2.85 | 62.7 | 55.8 |
| Lithuania | -1.46 | -1.18 | -1.80 | -1.64 | -6.08 | 71.6 | 66.8 |
| Hungary | -8.44 | -6.88 | -5.36 | -4.99 | -25.67 | 75.5 | 63.0 |
| Poland | -9.51 | -5.57 | -4.21 | -8.15 | -27.44 | 70.9 | 67.9 |
| Slovenia | +0.75 | +1.80 | +1.63 | +1.68 | +5.86 | 137.5 | 142.8 |
| Slovakia | -2.22 | -1.88 | -2.54 | -4.16 | -10.80 | 54.4 | 58.1 |
| NMS – 8 | -30.16 | -18.72 | -15.33 | -20.93 | -85.14 | 76.1 | 69.4 |

Finally, in extra-EU trade all countries, with the evident exception of Slovenia, indicate huge imbalances and low level of coverage ratios (even if the latter was slightly improving during the observed period). High deficit in extra-EU trade can be the result of three – partly interconnected – developments. First, all countries are

⁴ For instance, Hungary's key trading partner is Germany. A decade ago, upswing or recession in the German economy was considered to be a key external factor of the growth rate of the Hungarian economy. Certainly, this correlation did not ceased to exist, however, it is much weaker than before. As a large part of Hungary's exports to Germany does not have its final destination on the German market, but represents a growing input into German production for exports, the most important external driving force is shifting from the growth of the respective national economy to the global competitiveness of (German or in Germany located international) companies.

substantial energy importers, and most of the imports come from extra-EU sources (predominantly from Russia). Second, increasing openness, as a consequence of implementing the customs union, may enhance global competition to which domestic economic actors are not prepared. Third, and in a more positive approach, high imports can also be the consequence of a qualitatively different level of becoming involved in the global network of transnational companies. While the first factor affects all NMS (excepting Slovenia), the last one can only be clearly identified in Hungary and the Czech Republic (and most recently in Slovakia, too). As compared to the size of the economy and total trade, the growing deficit of the other countries (mainly the Baltic states) can be explained by missing or “deficient” industrial competitiveness.

Finally, the exceptional case of Slovenia needs some remarks. The surplus is due to two factors, namely the different geographic orientation of energy imports on the one hand, and, more importantly, to having maintained traditional trade contacts with ex-Yugoslav republics, on the other. In the short and, perhaps, medium term this can be considered as an intelligent decision; its longer term impacts are much more ambiguous. In principle, there are two different extra-EU orientations in the exports of the NMS 8. One is based on global competitiveness, partly reinforced by successful market access to the huge internal market (in most cases in the framework of the exports of transnational companies located in several NMS). The other can be considered as exports to a “captive” market that, although it offers traditional opportunities and keeps production and allocation networks, is unable to create a competitive environment. In fact, most Western Balkan countries possess a large number of protectionist measures, inherited from the former Yugoslav Federation. It is not yet clear to what extent the Slovenian orientation to the ex-Yugoslav markets will be able to keep or (re)generate the international competitiveness of Slovenian firms heavily engaged in this area. Already anticipating the next part of the study, it has to be stressed that growing regional orientation of the new member countries is embedded into a different environment, since most countries in question have open markets and free trade with the EU. Thus, they have to conquer new markets in keen and healthy European (and increasingly global) competition.

2. The impact of membership on intra-NMS trade

One of the most predictable and positive consequences of the accession of the new member countries was the dramatic increase of intra-NMS trade. It was not difficult to anticipate this trend due to

- the high level of protectionism practiced by all acceding countries over several years, despite the existence of CEFTA,⁵
- the sustainable and rapid growth in the NMS 8 group,
- regional strategies of transnational companies, and
- a different quality of confidence-building towards new and more cautious market players (small- and medium-sized enterprises, non-European investors) as a result of accession.

Not less importantly, it was expected that the liberalisation of trade among the NMS 8 countries would create a high level of transparency concerning the regional (and partly European and global) competitiveness of the respective economies. Despite the generally justified expectations, some developments may have caused surprise (and mainly positive shocks).

1. Intra-NMS trade turnover more than doubled in four years (from EUR 45.5 billion to EUR 97.9 billion, or by 115 percent, see Table S10, as well as corresponding figures for overall intra-exports and intra-imports of individual countries for Table S11).⁶ Thus, it became by far the most dynamic factor not only of the trade development of the NMS, but also that of the EU 25. Although there is no quantitative assessment as of today, this development has definitely contributed to the strengthening of EU 25 competitiveness (accompanied by corresponding capital flows).

2. New member countries could make use of the opening-up of regional opportunities at various degrees. Above-average export growth was reported in all Baltic countries and in Hungary. The latter could increase its NMS-exports by 168 percent, the second largest increase after the small Latvia (231 per cent). In turn, other NMS countries registered lower than average, although higher than global and EU 25 growth rates. (See Table 6.)

3. A completely different picture developed in intra-NMS imports. The most dynamic increases happened in the Baltic countries and in Slovenia, while the Czech data remained about the average. In turn, Slovenian, Polish and Hungarian imports registered lower-than-average growth rates.

4. As a continuation of the previous paragraphs, the liberalisation of regional trade upon accession was used differently from country to country. Some of them could achieve much higher export than import growth rates (mainly Hungary and Latvia, but also Slovenia and Poland), while others reported higher import than ex-

⁵ In its name, CEFTA was a free-trade area among more or less similarly developed (or underdeveloped, in some cases more mis-developed) countries. In ideas, it looked much better than in practice. Bilateral trade barriers to a large number of commodities could never have been abolished. However, joining the EU on May 1, 2004, all obstacles were immediately lifted and the way for unrestricted free trade was cleared.

⁶ Bilateral (cross-country) export and import data are provided in Tables S12. and S13.

port growth (mainly Lithuania, but also Estonia, Slovakia and to a lesser extent also the Czech Republic). However, contrary to some other regional integrations (e.g. Mercosur – South American Common Market or ASEAN – Association of Southeast Asian Nations), different export and import growth rates do not necessarily lead to a classification of the NMS 8 into primarily exporters (“unilateral beneficiaries” of EU membership) and importers (“unilateral losers” of membership).

5. “Intra-NMS trade propensity” differs from country to country. This is due both to historical links, as represented by the surviving strong economic linkages between the Czech Republic and Slovakia, and to geographic proximity (Baltic countries⁷). Therefore, it is not surprising that the highest share of intra-NMS exports and imports (as measured in total trade) can be identified for Latvia, Lithuania and Slovakia, followed by a second group consisting of the Czech Republic and Estonia. In turn, the share of intra-NMS exports remains between 11 and 14 percent for Slovenia, Hungary and Poland. Similar pattern can be observed in imports.

6. The dynamics of intra-NMS trade does not necessarily correspond to the previous description. In fact, all NMS have increased the share of intra-NMS exports and imports in their total trade. In other words, within the enlarged EU, a definitive trade creation occurred among the NMS 8 group and, consequently, a trade diversion from other markets (whether EU 15 or extra-EU markets, see more details later in this section and Section 4.). The largest degree of orientation towards the NMS markets can be found in Latvia, a country that not only has the highest share of intra-NMS exports in total exports (above 30 percent), but increased the share of NMS-related exports from 17.3 to 30.2 percent in four years. In addition, high increase of NMS share in total exports characterises Lithuania, Hungary Estonia and Slovakia, while the Czech Republic, Poland and Slovenia reported lower, but still unanimous increase in the share of NMS in their respective total exports. In imports, by far the biggest increase was registered in Slovakia, most probably not independently of the (belated) high economic growth and foreign direct investments that are increasingly relying on inputs to be imported from the neighbouring EU countries.⁸

7. In a four-year period a clear export- and import-related pattern of intra-NMS trade had been evolving. The Czech Republic, Hungary, Poland and Slovenia first of all benefitted from intra-NMS trade on the export side, being the share of intra-NMS

⁷ Although the Baltic countries over almost half a century belonged to the ex-Soviet Union, central planning did not allow deeply-rooted regional (Baltic) cooperation, since each ex-Soviet republic was given a specialization pattern considering all-Soviet and not regional (Baltic) advantages and requirements.

⁸ In the last years, most politicians and economic-policy experts were focusing on how to acquire large-scale foreign direct investments. Much less attention was given to the foreign-trade-related consequences of such investments, particularly additional import requirements. It is an open question, whether it is better to attract a large-scale investment from abroad or to build a strategy on supplying this project with high-quality and high value-added inputs.

trade much higher in their exports than in their imports. On the other side, Slovakia registered a more import-related linkage to intra-trade (although also its export-related link was the second highest). Finally, the Baltic countries indicated a more balanced picture between intra-NMS export and import shares. (See Table 7.)

Table 6

Dynamics of intra-NMS 10 trade, 2003–2006
(Index: 2003 = 100.0)

| Country | Exports | Imports |
|----------------|---------|---------|
| Czech Republic | 196.4 | 212.9 |
| Estonia | 231.1 | 283.6 |
| Latvia | 331.1 | 252.0 |
| Lithuania | 236.3 | 320.2 |
| Hungary | 267.7 | 192.1 |
| Poland | 209.3 | 187.3 |
| Slovenia | 202.9 | 161.3 |
| Slovakia | 198.1 | 242.2 |
| NMS 8 average | 214.3 | 216.5 |

Table 7

*Intra-NMS 10 trade in total trade of the NMS 8 countries (including Malta and Cyprus)**
(percent)

| Country | Exports | | | | Imports | | | |
|----------------|---------|------|------|------|---------|------|------|------|
| | 2003 | 2004 | 2005 | 2006 | 2003 | 2004 | 2005 | 2006 |
| Czech Republic | 16.5 | 17.3 | 18.0 | 18.4 | 12.1 | 13.2 | 14.5 | 15.9 |
| Estonia | 14.1 | 17.8 | 17.5 | 17.4 | 11.3 | 15.2 | 16.9 | 17.9 |
| Latvia | 17.3 | 21.9 | 29.1 | 30.2 | 24.4 | 27.9 | 31.5 | 31.5 |
| Lithuania | 19.4 | 21.4 | 22.9 | 25.2 | 11.6 | 18.3 | 18.2 | 20.5 |
| Hungary | 7.5 | 8.7 | 11.0 | 13.0 | 8.1 | 9.1 | 10.0 | 10.7 |
| Poland | 12.0 | 11.8 | 12.2 | 13.6 | 8.0 | 9.2 | 9.4 | 9.1 |
| Slovenia | 8.5 | 8.8 | 9.3 | 10.5 | 8.3 | 8.9 | 8.9 | 8.6 |
| Slovakia | 23.9 | 25.2 | 27.7 | 27.5 | 22.4 | 27.5 | 29.4 | 29.6 |

* Total exports and total imports, respectively, 100

Source: Own calculations based on Eurostat [2007]: *External and intra-European Union trade*. Monthly Statistics. No. 4.

Another calculation based on the share of intra-NMS trade within the increment of total trade in the period between 2003 and 2006 provides further interesting data. In total, new intra-NMS exports generated in the first years of membership approached EUR 27 billion, of which about half was accounted for by the Czech Republic and Poland (for more detailed data see Table S14.). Further important “contributors” were Hungary (18%) and Slovakia (17%), while the share of the Baltic countries (despite the dramatic increase of intra-NMS trade) and Slovenia remained rather modest.

Looking at the most important bilateral flows within the intra-NMS trade, traditional economic relations, geographic proximity and the size of the respective economies (both as an exporter and importer) proved to be decisive. (For detailed figures on the share of the individual NMS in total intra-NMS exports, imports and turnover see Table S15. Cross-country trade flows have been summarized in Table S16.) As another and qualitatively new factor, the development of cross-country clusters mainly generated by transnational companies can be added. However, robust statistical evidence is still missing, even if some investment and trade flows are likely to support this assumption. According to the 2006 figures, there have been altogether 14 bilateral trade flows, both in exports and in imports that exceeded the volume of EUR 1 billion. (See Table 8.)

Table 8

*Most important bilateral trade flows among the new member countries, 2006**

| Exporting country | Importing country | Amount (million EUR) |
|-------------------|-------------------|----------------------|
| Czech Republic | Slovakia | 6.378 |
| Poland | Czech Republic | 4.759 |
| Slovakia | Czech Republic | 4.653 |
| Czech Republic | Poland | 4.310 |
| Poland | Hungary | 2.668 |
| Hungary | Poland | 2.366 |
| Hungary | Slovakia | 2.278 |
| Czech Republic | Hungary | 2.267 |
| Slovakia | Poland | 2.057 |
| Hungary | Czech Republic | 2.039 |
| Slovakia | Hungary | 1.913 |
| Poland | Slovakia | 1.812 |
| Poland | Lithuania | 1.292 |
| Lithuania | Latvia | 1.249 |

* Bilateral export/import items over EUR 1 billion.

Source: Eurostat [2007]: *External and intra-European Union trade*. Monthly Statistics. No. 4.

Excepting two channels (Poland–Lithuania and Lithuania–Latvia, and vice versa), all of them have been registered among the four Visegrád countries. In turn, Slovenia does not appear in any of these bilateral trade flows. Based on export and import figures, bilateral trade can be divided into four categories. The first is represented by close trade relations between the Czech Republic and Slovakia (with a turnover of EUR 11 billion). The second category is occupied by Czech–Polish trade relations (turnover above EUR 9 billion). All major bilateral trade relations of Hungary (as well as Polish–Slovak trade) belong to the third section with a turnover of EUR 4 to 5 billion with each of the Visegrád countries. Finally, the lowest category is represented by unilateral Polish exports to Lithuania and Lithuanian exports to Latvia (respective imports do not reach the limit of EUR 1 billion).

Generally, the most important bilateral relations indicate high growth rates between 2003 and 2006 as well. Thus, the initial position was in most cases further strengthened by EU membership. Still, some specific developments have to be highlighted. First, the four-year cumulative growth of bilateral trade between the Czech Republic and Slovakia (87%) lagged behind the overall growth rate of intra-NMS trade (115%). This can be explained by the initial high level of trade but also by the growing and successful competition by other NMS, mainly Poland and Hungary. This development is underlined by the fact that Hungarian exports to Slovakia more than trebled and also Polish exports to this country grew by 135 percent. Also, trade between the Czech Republic and Hungary has shown above-average growth rates both in exports and imports. Even more dynamic growth could be observed in Latvian exports both to Estonia and Lithuania, as well as Lithuanian exports to Poland. Interestingly, the growth rate of Slovenian trade remained relatively modest (it only exceeded the NMS average in exports to Hungary). (For details see Table S17.) Some bilateral relations, mainly characteristic of the smaller new member countries, remaining in the volume between EUR 500 million and EUR 1 billion have revealed partly even higher growth rates. (See Table S18.)

One of the most interesting trends of intra-NMS trade can be identified in the development of trade balance of the member countries. Although, by far, it does not cover the whole trade, trade surplus and deficit positions provide some indication concerning the structure of the given economy, and to a not lesser extent, its competitiveness. Since intra-NMS trade is an integral part of intra-EU trade, surplus and deficit positions in general, and relevant changes in these positions, in particular, can be considered as an indicator of changing competitiveness. Table 9 summarizes the most important figures.

Table 9

*Intra-NMS trade balance of NMS 8**
(EUR million)

| Country | 2003 | 2004 | 2005 | 2006 | Change 2003–2006 |
|----------------|-------|-------|-------|-------|------------------|
| Czech Republic | +1548 | +2123 | +2415 | +2125 | +577 |
| Estonia | –84 | –170 | –284 | –534 | –450 |
| Latvia | –686 | –890 | –994 | –1378 | –692 |
| Lithuania | +211 | –228 | –93 | –329 | –540 |
| Hungary | –537 | –550 | +190 | +1140 | +1677 |
| Poland | +861 | +506 | +1111 | +2869 | +2008 |
| Slovenia | –66 | –113 | –10 | +292 | +358 |
| Slovakia | +142 | –926 | –1232 | –688 | –830 |

* Including trade with Cyprus and Malta.

Source: See table 1 and the author's own calculations.

Several important conclusions can be drawn from the figures. First, from the very beginning, the Czech Republic and Poland could build up strong surplus positions. While it remained stable for the Czech Republic, Poland could substantially increase its trade surplus in the last years. Second, traditional deficit countries include the Baltic states that raises some dilemmas (and contradictions) between high economic growth and international (regional) competitiveness. In other terms, the obvious difference between nominal and real convergence to the EU can be identified, at least based on intra-NMS trade figures. Third, Slovakia has lost its initial (slight) surplus position and started to accumulate heavy deficits, most probably as a consequence of rapid growth on one hand, but ambiguous and “one-sided” modernization on the other. Fourth, two countries, Hungary and Slovenia could change their original deficit position into a surplus. This change was relatively smooth and small for Slovenia but remarkable for Hungary. Between 2003 and 2006 the Hungarian trade balance with the NMS improved by almost EUR 1.7 billion. It can hardly be questioned that this has been an important indicator of enhanced competitiveness. However, the factors of the improvement have not yet been analysed in detail. Therefore, one can only speculate whether the dramatic change was the result of trade liberalisation in the other new members so that previous protectionism affected Hungarian exports very adversely. Or we can see behind the positive trend, a well-designed and longer-term regional strategy of transnational companies functioning in Hungary. Another factor, mentioned by some company leaders is that Hungary is able to produce up-market products that find growing demand in neighbouring countries without equivalent quality of domestic production. Moreover, it is unknown to what extent Hungarian

and Hungary-located small- and medium-sized companies started to profit from EU membership of the Central and North Eastern European countries. Furthermore, the favourable impact on Hungarian exports of high growth rates in the neighbouring countries has not been quantified. Finally, the role of the exchange rate, i.e. the devaluation of the Hungarian currency against the Czech or Slovak crown or, to a smaller extent, the Polish zloty should also be taken into account.⁹

It is not less noticeable that Hungary's bilateral trade balance with most NMS countries indicated surplus in 2006, being the only exception Poland and Malta. Developments between 2003 and 2006 are illustrated in Table 10. (Additional coverage ratios are included in Table S19.)

Table 10

Hungary's trade balance with the new member countries
(EUR million)

| Country | 2003 | 2004 | 2005 | 2006 |
|----------------|------|------|------|--------|
| Czech Republic | -234 | -315 | +20 | +270 |
| Estonia | -8 | -5 | -46 | +9 |
| Latvia | +27 | +40 | +58 | +75 |
| Lithuania | +26 | +55 | +90 | +124 |
| Poland | -303 | -288 | -384 | -206 |
| Slovenia | +66 | +144 | +298 | +259 |
| Slovakia | -75 | -117 | +248 | +629 |
| NMS 7 | -501 | -486 | +284 | +1.160 |
| Malta | -47 | -77 | -130 | -58 |
| Cyprus | +12 | +13 | +36 | +38 |
| NMS 9 | -536 | -550 | +190 | +1.140 |
| Bulgaria | + 85 | +150 | +241 | +341 |
| Romania | +421 | +683 | +839 | +751 |

* Based on Hungarian statistics (partly available corresponding Eurostat data indicate much lower values).

Source: The author's own calculations based on *Eurostat*: External and intra-European Union trade, various issues and the Hungarian Central Statistical Office's Monthly Report. *KSH* [2004]: *A KSH jelenti*. No. 12. Budapest.

Figures for the first half year of 2007 seem to reconfirm both high growth rate and sustainability of Hungary's surplus position in trade with the NMS. Exports in

⁹ Figures of 2006 do not reflect the potential export-generating impact of the Hungarian stabilization package. Due to the (almost) stagnating domestic consumption, a higher share of production is expected to look for and hopefully find new markets, including those in the NMS.

the first half year of 2007 were almost EUR 1.5 billion higher than in the comparable period of 2006, while imports increased by more than EUR 1 billion. Trade surplus reached almost EUR 600 million with the nine countries that joined in 2004, and were more than doubled if Bulgaria and Romania, two new members as of January 2007 are taken into account (EUR 1411.5 million against EUR 989 million a year earlier). Moreover, exports to NMS 12 (including Bulgaria and Romania) grew quicker than imports as compared to the first half-year figures of 2006 (31 vs. 28 percent). Finally, exports in the first half of 2007 were 29 percent higher than imports (as compared to 26 percent in the first half year of 2006). (For detailed statistical information see Table S20.)

3. Commodity pattern of NMS 8 trade after membership

The commodity structure of the EU 25 reflects the theoretically supported characteristics of trade of an integration consisting mainly of highly developed countries (at least as compared to most of its trading partners). Machinery and transport equipment (generally covering the overwhelming part of high-tech goods) accounts for more than 40 percent of total exports (and 35 percent of total imports). It also corresponds to the theory that this difference disappears in intra-EU trade, being machinery exports and imports (SITC 7) practically on the same level (37%). At the same time, the different levels of development are clearly manifested in the fact that in extra-EU exports the share of machinery exports represent a much higher share of total exports than in imports (44 vs. 30 percent). In addition, mainly fuel (almost a quarter of total extra-EU imports), raw materials and labour-intensive consumer goods account for a higher share in imports than in exports.

At the first glance, exports by NMS 8 reveal the same commodity pattern. However, some interesting contradicting theoretical assumptions can also be identified. First of all it may surprise that the share of machinery and transport equipment in total, intra-EU and extra-EU exports have a higher share than both in EU 25 exports and in the exports of (much) more developed members of the integration (47 percent in total, 48 in intra- and 45 percent in extra-EU exports). Second, chemicals (SITC 5) amount to a lower share in case of NMS 8 as compared to EU 25. Third, and this seems to underline theoretical assumptions, the share of manufactured goods classified by material (SITC 6) and other consumer goods (SITC 8), predominantly containing material- and labour-intensive products slightly exceeds the figures of EU 25 (excepting the share of SITC 8 in extra-EU exports of the NMS 8).

Table 11

*Comparison of the commodity structure of exports by EU 25 and NMS 8
(in percent of total exports)**

| Commodity group | EU 25 | | | NMS 8 | | |
|-----------------|-------|-------|-------|-------|-------|-------|
| | Total | Intra | Extra | Total | Intra | Extra |
| SITC 0 | 5.8 | 6.5 | 3.4 | 5.6 | 5.4 | 6.0 |
| SITC 1 | 1.3 | 1.1 | 1.6 | 0.6 | 0.5 | 0.9 |
| SITC 2 | 2.6 | 2.7 | 2.2 | 2.8 | 3.0 | 2.1 |
| SITC 3 | 5.8 | 6.1 | 4.6 | 4.6 | 4.5 | 5.1 |
| SITC 4 | 0.3 | 0.4 | 0.2 | 0.1 | 0.1 | 0.1 |
| SITC 5 | 15.0 | 13.8 | 15.8 | 7.2 | 6.0 | 11.4 |
| SITC 6 | 16.0 | 16.7 | 14.4 | 19.5 | 19.6 | 19.2 |
| SITC 7 | 40.6 | 36.7 | 43.8 | 47.3 | 48.0 | 44.8 |
| SITC 8 | 10.8 | 10.6 | 11.3 | 11.6 | 12.1 | 9.7 |

* Deviations from 100 due to omission of SITC 9 and eventual roundings.

Source: Table 1 and the author's own calculations.

A comparison of the import structure of EU 25 and NMS 8 reflects the modernization efforts of the latter, since the share of machinery in total imports amounts to 40 percent (EU 25 35 percent). Similarly, manufactured products classified by material, a major input to industrial production and exports has a higher share (19 vs. 16 percent). In turn, the share of consumer goods, chemicals and energy are somewhat, but not significantly lower. Intra- and extra-EU trade pattern indicates features reflected in total trade pattern. Machinery exports of NMS 8 represent always a higher share than for EU 25. The higher share of SITC 6 in intra-EU imports of NMS 8 and the lower share of the same group in extra-EU imports of the group as compared to EU 25 means that the new members in their imports of manufactured goods overwhelmingly rely on intra-EU deliveries. Another smaller difference can be found in the underrepresentation of agricultural goods (SITC 0) in NMS 8 trade on each of the three levels (1. total, 2. intra, 3. extra). This is obviously the consequence of the Common Agricultural Policy, the main (exporting) beneficiaries of which are among the old member countries. Detailed figures have been collected in Tables 11 and 12. (Additional statistics in value terms have been attached on the overall commodity pattern of exports and imports of the EU 25 and the NMS 8 group in Tables S21., S22. and S23.)

Table 12

*Comparison of the commodity structure of imports by EU 25 and NMS 8
(in percent of total imports)**

| Commodity group | EU 25 | | | NMS 8 | | |
|-----------------|-------|-------|-------|-------|-------|-------|
| | Total | Intra | Extra | Total | Intra | Extra |
| SITC 0 | 6.1 | 7.0 | 4.5 | 4.7 | 5.3 | 2.9 |
| SITC 1 | 0.9 | 1.2 | 0.4 | 0.7 | 0.7 | 0.4 |
| SITC 2 | 3.5 | 3.1 | 4.2 | 2.9 | 2.2 | 4.8 |
| SITC 3 | 13.4 | 6.9 | 24.7 | 11.6 | 4.1 | 31.9 |
| SITC 4 | 0.4 | 0.4 | 0.4 | 0.2 | 0.3 | 0.2 |
| SITC 5 | 12.6 | 15.3 | 8.0 | 11.1 | 13.3 | 5.2 |
| SITC 6 | 14.7 | 16.2 | 12.0 | 18.8 | 21.8 | 10.6 |
| SITC 7 | 34.6 | 37.4 | 29.7 | 39.6 | 42.2 | 32.4 |
| SITC 8 | 11.3 | 9.7 | 13.9 | 9.3 | 9.6 | 8.4 |

* Deviations from 100 due to omission of SITC 9 and eventual roundings.

Source: Table 1 and the author's own calculations.

Overall figures, however, hide substantial differences among the individual countries. Similar to the old members, the new members also have different groups of countries once the survey goes more into country-specific details. The pattern of exports in general, but the rather different share of machinery in particular sheds light on different levels of development, different technology content and different types (stages) of involvement into the global division of labour driven by transnational companies. Taking total exports of the NMS 8, and based on the share of machinery in total exports, at least four groups can be identified. The first and most developed category is represented by Hungary, with machinery exports reaching 62 percent of total exports. The second group includes the Czech Republic (53%) and Slovakia (48.5%). To the third group belong Poland (40.2%) and Slovenia (38.0%), although with rather different "fine structures". Finally, the bottom line is represented by the Baltic countries (between 16.6 percent for Latvia and 30.9 percent for Estonia). Almost similar categorisation can be made in intra- and extra-exports.¹⁰ Table 13 provides basic information that will not be further elaborated here in detail. (For more information on overall and intra-NMS commodity structure of the new members consult Tables S24. and S25., as well as Tables S26. and S27., respectively.) Here, just some important differences will shortly be highlighted.

¹⁰ In intra-exports of machinery Estonia would rather belong to the third group, together with Poland and Slovenia, while in extra-EU exports of machinery the figure for the Czech Republic approaches the corresponding figure for Hungary.

Table 13

Commodity pattern of NMS exports
(percent, total exports = 100.0)*

| Country | SITC 0+1 | SITC 2+4 | SITC 3 | SITC 5 | SITC 6 | SITC 7 | SITC 8 |
|-----------------------|----------|----------|--------|--------|--------|--------|--------|
| Czech Republic | | | | | | | |
| intra | 3.5 | 2.7 | 3.4 | 5.3 | 20.4 | 53.0 | 11.2 |
| extra | 2.8 | 1.6 | 0.5 | 8.3 | 23.0 | 53.0 | 9.8 |
| total | 3.4 | 2.6 | 2.9 | 5.8 | 20.8 | 53.0 | 11.0 |
| Estonia | | | | | | | |
| intra | 6.4 | 9.9 | 4.5 | 5.0 | 18.5 | 36.8 | 18.6 |
| extra | 7.1 | 8.1 | 35.6 | 6.2 | 13.3 | 19.8 | 9.8 |
| total | 6.6 | 9.4 | 15.1 | 5.4 | 16.7 | 30.9 | 15.6 |
| Latvia | | | | | | | |
| intra | 10.9 | 23.5 | 4.6 | 6.5 | 27.1 | 13.7 | 13.6 |
| extra | 15.4 | 8.5 | 6.6 | 11.5 | 22.3 | 23.9 | 11.6 |
| total | 12.2 | 19.3 | 5.2 | 7.9 | 25.8 | 16.6 | 13.0 |
| Lithuania | | | | | | | |
| intra | 13.6 | 5.7 | 23.1 | 10.0 | 11.9 | 16.6 | 19.1 |
| extra | 13.1 | 3.5 | 25.0 | 8.0 | 9.3 | 31.5 | 9.5 |
| total | 13.4 | 4.9 | 23.8 | 9.2 | 10.9 | 22.1 | 15.6 |
| Hungary | | | | | | | |
| intra | 4.8 | 1.9 | 1.0 | 6.3 | 9.9 | 64.2 | 9.2 |
| extra | 6.6 | 1.0 | 3.9 | 13.4 | 10.3 | 56.2 | 6.4 |
| total | 5.3 | 1.7 | 1.8 | 8.1 | 10.0 | 62.1 | 8.5 |
| Poland | | | | | | | |
| intra | 9.1 | 2.7 | 4.9 | 6.0 | 22.7 | 40.5 | 14.2 |
| extra | 9.4 | 1.6 | 2.8 | 11.0 | 24.7 | 39.3 | 11.1 |
| total | 9.1 | 2.5 | 4.4 | 7.1 | 23.2 | 40.2 | 13.5 |
| Slovenia | | | | | | | |
| intra | 3.6 | 3.3 | 3.1 | 8.3 | 25.6 | 41.1 | 14.9 |
| extra | 3.9 | 3.7 | 1.9 | 21.8 | 22.6 | 32.0 | 14.1 |
| total | 3.8 | 3.4 | 2.7 | 12.8 | 24.6 | 38.0 | 14.6 |
| Slovakia | | | | | | | |
| intra | 3.9 | 2.6 | 7.3 | 5.3 | 23.8 | 46.9 | 9.5 |
| extra | 2.9 | 1.4 | 1.1 | 6.7 | 21.9 | 57.5 | 8.3 |
| total | 3.8 | 2.4 | 6.4 | 5.5 | 23.5 | 48.5 | 9.3 |

* Deviations from 100 due to the omission of SITC 9

Note. One-digit SITC classification.

Source: Author's own calculations based on Eurostat [2007]: *External and intra-European Union trade*. Monthly Bulletin. No. 4.

Firstly, agricultural exports occupy a substantial share of total, intra- and extra-EU exports in Latvia and Lithuania. Secondly, exports of raw materials seem to be important items mainly for Latvia (almost a quarter of total exports to the EU) and Estonia. Energy exports are the most important single item in the commodity pattern of Lithuania as well as in extra-EU exports of Estonia. Thirdly, exports of chemicals represent a stout share in extra-EU exports of Slovenia. Fourthly, Hungary (and Lithuania) indicate strong deviation from the general pattern of NMS 8 concerning the share of manufactured goods classified by materials. The much lower share seems to indicate much less material-intensive production and export structures. Fifthly, final manufactured goods (mainly labour-intensive products) have a similarly clear underrepresentation in Hungarian and Slovakian exports.

Furthermore, Table 13 provides interesting information on the differences in the commodity pattern of intra-EU and extra-EU exports. However, for a more detailed and unbiased analysis further statistical figures are required that can be found in the share of the EU in total exports of the respective commodity groups. (See Table 14.)

Table 14

Share of intra-EU and extra-EU exports by NMS 8, classified into one-digit SITC categories, 2006
(percent)

| Country | SITC 0 | SITC 1 | SITC 2 | SITC 3 | SITC 5 | SITC 6 | SITC 7 | SITC 8 | Total |
|----------------|--------|--------|--------|--------|--------|--------|--------|--------|-------|
| Czech Republic | | | | | | | | | |
| intra | 87.0 | 86.0 | 89.7 | 97.1 | 76.9 | 82.3 | 84.0 | 85.7 | 84.0 |
| extra | 13.0 | 14.0 | 10.3 | 2.9 | 23.1 | 17.7 | 16.0 | 14.3 | 16.0 |
| Estonia | | | | | | | | | |
| intra | 67.2 | 49.6 | 69.2 | 19.6 | 60.6 | 72.7 | 78.1 | 78.5 | 65.8 |
| extra | 32.8 | 50.4 | 30.8 | 80.4 | 39.4 | 27.3 | 21.9 | 21.5 | 34.2 |
| Latvia | | | | | | | | | |
| intra | 71.1 | 41.9 | 87.6 | 64.3 | 59.3 | 75.8 | 59.8 | 75.2 | 72.0 |
| extra | 28.9 | 58.1 | 12.4 | 35.7 | 40.7 | 24.2 | 40.2 | 24.8 | 28.0 |
| Lithuania | | | | | | | | | |
| intra | 64.9 | 59.2 | 72.6 | 61.3 | 68.2 | 68.5 | 47.4 | 77.4 | 63.1 |
| extra | 35.1 | 40.8 | 27.4 | 38.7 | 31.8 | 31.5 | 52.6 | 22.6 | 36.9 |
| Hungary | | | | | | | | | |
| intra | 67.1 | 75.2 | 86.0 | 43.5 | 57.3 | 73.4 | 76.5 | 80.5 | 74.0 |
| extra | 32.9 | 24.8 | 14.0 | 56.5 | 42.7 | 26.6 | 23.5 | 19.5 | 26.0 |
| Poland | | | | | | | | | |
| intra | 77.6 | 65.7 | 85.0 | 85.6 | 64.7 | 75.8 | 77.8 | 81.3 | 77.3 |
| extra | 22.4 | 34.3 | 15.0 | 14.4 | 35.3 | 24.2 | 22.2 | 18.7 | 22.7 |

(Continued on the next page.)

(Continuation.)

| Country | SITC 0 | SITC 1 | SITC 2 | SITC 3 | SITC 5 | SITC 6 | SITC 7 | SITC 8 | Total |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|-------|
| Slovenia | | | | | | | | | |
| intra | 69.0 | 21.2 | 65.2 | 76.4 | 43.3 | 69.4 | 72.1 | 67.9 | 66.7 |
| extra | 31.0 | 78.8 | 34.8 | 23.6 | 56.7 | 30.6 | 27.9 | 32.1 | 33.3 |
| Slovakia | | | | | | | | | |
| intra | 88.3 | 88.9 | 91.2 | 97.3 | 81.7 | 86.1 | 82.3 | 86.8 | 85.1 |
| extra | 11.7 | 11.1 | 8.8 | 2.7 | 18.3 | 13.9 | 17.7 | 13.2 | 14.9 |
| NMS 8 average | | | | | | | | | |
| intra | 76.0 | 64.3 | 83.5 | 75.1 | 64.6 | 78.0 | 78.8 | 81.3 | 77.6 |
| extra | 24.0 | 35.7 | 16.5 | 24.9 | 35.4 | 22.0 | 21.2 | 18.7 | 22.4 |

Source: Author's own calculations based on Eurostat [2007]: *External and intra-European Union trade*. Monthly Statistics. No. 4.

Similar to the EU-orientation of total exports, almost all one-digit commodity group exports indicate a strongly integration-focusing structure. Considering the most important product groups, only a few deviations from the general rule can be observed. More than half of Slovenia's chemical exports and Lithuania's machinery exports are directed towards extra-EU markets. Moreover, Estonian (and Hungarian) energy exports are extra-EU-focused. Taking NMS 8 average figures, exports have a particularly heavy concentration on EU markets in raw materials, final consumer goods, machinery and also other manufactured products (all of them reveal higher shares than the average intra-EU share of 77.6 percent). It may also be noted that Hungarian agricultural exports indicate a relatively strong extra-EU orientation (33 percent as compared to a 26 percent share of extra-EU exports in total exports). The fundamental task of this section and the tables included was to analyse differences and similarities in the export structure of NMS, because it calls attention not only to structural differences but also to the factors of competitiveness and, consequently, to the sustainability of current processes. Of course, import structures are also influencing this process but to a less intensive and manifest way. Therefore, corresponding import statistics have been included into the internet Supplement. (See Tables S28. and S29.). In the same way, a more detailed list of the main double-digit commodity groups in total, intra- and extra-EU exports by the individual new member countries in 2006 (based on a threshold of EUR 1 billion for each double-digit group) has been attached to the Supplement. (See Table S30.)

Statistical figures on under- and overrepresentation of the NMS 8 exports, as compared to the corresponding EU 25 shares in different one-digit commodity groups have been summarized in Table 15.

Table 15

*Share of NMS 8 in EU 25 exports by main one-digit commodity groups**

| Commodity group | In total EU 25 exports | In total intra-EU exports | In total extra-EU exports |
|--------------------------|------------------------|---------------------------|---------------------------|
| SITC 0 | 7.9 | 7.5 | 9.9 |
| SITC 3 | 6.6 | 6.6 | 6.4 |
| SITC 5 | 4.0 | 3.9 | 4.1 |
| SITC 6 | 10.1 | 11.2 | 7.5 |
| SITC 7 | 9.6 | 11.7 | 5.8 |
| SITC 8 | 8.8 | 11.0 | 4.8 |
| SITC 0–9 (total average) | 8.3 | 9.5 | 5.6 |

* Total exports being always 100.0.

Source: Table 1 and the author's own calculations.

The most important message of the figures is that the exports of the new member countries have a clear specialisation on manufactured goods. More importantly, they are clearly specialised on machinery exports in intra-EU exports (followed by specialisation on other manufactured goods as well). In contrast, they are underspecialised in agricultural exports. In contrast, extra-EU exports reveal the highest specialisation in agricultural products and in material-intensive manufactures. Machinery exports are only slightly “overrepresented”, while there is a “negative specialisation” on final consumer goods. (Country-specific details can be found in Table S31.)

Finally, the trade balance by major commodity groups deserves attention. (See Table 16.) Again, some countries strongly challenge the theoretical background, since the Czech Republic, Hungary and Slovakia have substantial surplus in their total and intra-EU trade of machinery and transport equipment. While, however, the Czech Republic and Slovakia show positive balance of machinery trade both in intra- and extra-EU relations, Hungary's large intra-EU surplus is accompanied by deficit in extra-EU machinery trade. This is not necessarily lacking competitiveness in extra-EU markets but a different micro-level structure of this sector in Hungary that underlines the intensity of global involvement of machinery-producing companies located in Hungary (and the consideration of locational advantages of Hungary not only in the European but in the global context). In contrast to Central European new members, high deficits in machinery trade characterise all Baltic countries. From the many interesting aspects the figures offer for deeper analysis, one more only has to be highlighted here. Looking at the agricultural trade of the new members, Poland, Hungary and Lithuania register surplus, while the other countries report deficit. This deficit is mainly or completely due to agricultural trade with EU countries and the

comparative advantage of the old members in this area, either due to the unilaterally beneficial impacts of the Common Agricultural Policy or to the different structures of agriculture (and the marketing organizations dealing with food products). In extra-EU agricultural trade all new members, excepting Slovenia, have a surplus (by far the highest surplus registered by Hungary). Hungarian figures refute the frequently expressed but mistaken view that following membership Hungary stopped to be a net agricultural exporter. Certainly, the traditional trade surplus with the EU countries had been declining in recent years (to EUR 152 million surplus in 2006), but surplus with extra-EU partners is substantial (and most probably enjoy the export-subsidy mechanism of the Common Agricultural Policy).

Table 16

Trade balance of total, intra-EU and extra-EU trade of NMS, 2006*
(EUR million)

| Country | SITC 0 | SITC 3 | SITC 5 | SITC 6 | SITC 7 | SITC 8 | Total SITC0-9 |
|----------------|--------|--------|--------|--------|--------|--------|---------------|
| Czech Republic | | | | | | | |
| total | -915 | -4.910 | -3.315 | +671 | +9.716 | +398 | +1.542 |
| intra | -971 | -280 | -3.618 | -631 | +8.553 | +742 | +4.225 |
| extra | +56 | -4.630 | +303 | +1.302 | +1.163 | -344 | -26.83 |
| Estonia | | | | | | | |
| total | -170 | -383 | -572 | -584 | -1.546 | +203 | -2.765 |
| intra | -235 | -174 | -614 | -524 | -1.385 | +99 | -2.583 |
| extra | +65 | -209 | +42 | -60 | -161 | +104 | -182 |
| Latvia | | | | | | | |
| total | -230 | -930 | -583 | -408 | -2.121 | -379 | -4.175 |
| intra | -282 | -280 | -560 | -257 | -2.127 | -354 | -3.364 |
| extra | +52 | -650 | -23 | -151 | +6 | -25 | -811 |
| Lithuania | | | | | | | |
| total | +252 | -799 | -726 | -1.134 | -2.324 | +633 | -4.131 |
| intra | +2 | +1.514 | -771 | -1.030 | -2.792 | +476 | -2.498 |
| extra | +250 | -2.313 | +45 | -104 | +468 | +157 | -1.633 |
| Hungary | | | | | | | |
| total | +873 | -5.691 | -1.024 | -2.968 | +5.879 | +379 | -1.979 |
| intra | +152 | -1.030 | -2.232 | -3.045 | +7.650 | +756 | +3.012 |
| extra | +721 | -4.661 | +1.208 | +77 | -1.771 | -377 | -4.991 |
| Poland | | | | | | | |
| total | +2.394 | -6.609 | -7.318 | -461 | -166 | +3.864 | -11.900 |
| intra | +1.932 | +1.062 | -7.795 | -2.022 | -408 | +3.549 | -3.757 |
| extra | +462 | -7.671 | +477 | +1.561 | +242 | +315 | -8.143 |

(Continued on the next page.)

(Continuation.)

| Country | SITC 0 | SITC 3 | SITC 5 | SITC 6 | SITC 7 | SITC 8 | Total SITC0-9 |
|-----------------|--------|--------|--------|--------|--------|--------|---------------|
| Slovenia | | | | | | | |
| total | -499 | -1.592 | +110 | +267 | +778 | +783 | -674 |
| intra | -335 | -923 | -851 | -289 | -19 | +446 | -2.356 |
| extra | -164 | -669 | +961 | +556 | +797 | +337 | +1.682 |
| Slovakia | | | | | | | |
| total | -377 | -3.021 | -1.394 | +1.600 | +1.970 | -570 | -3.253 |
| intra | -385 | +686 | -1.383 | +1.215 | +1.303 | -469 | +908 |
| extra | +8 | -3.707 | -11 | +385 | +667 | -101 | -4.161 |

* According to selected one-digit SITC commodity groups.

Note. For corresponding coverage ratios see Table S31.

Source: Author's own calculations based on Eurostat [2007]: *External and intra-European Union trade*. Monthly Statistics. No 4.

4. Trade diversion – trade creation. Summary figures and conclusions

Following the description and analysis of intra-NMS trade features as well as some structural characteristics of the commodity pattern of exports (and partly imports), in the last part I return to the “mainstream” issue. How did the geographic orientation of NMS trade change as a result of the three years of membership in the EU?

In order to consider major geographic proportions and, at the same time, to call attention to the changes occurred, figures have been placed in two tables. Table 17 summarizes the share of intra- and extra-trade (with special reference to trade among the NMS, as part of EU trade), while Table 18 offers a dynamic picture by illustrating the percentage changes in trade orientation between 2003 and 2006. (For more detailed figures see Tables S32. and S33.)

Contrary to trade creation theories of regional integrations, the share of NMS 8 exports to the EU 25 in total exports was falling between 2003 and 2006. The average fall by 3.6 percentage points does not truly reflect the rather heterogeneous developments in the respective new member countries. Namely, a very dramatic reorientation of exports to extra-EU markets took place in Estonia (16.8 percentage points), but also in Hungary (7.1 percentage points) and Latvia (7.3 percentage points). Much more modest export reorientation to non-EU markets characterised Poland, the Czech Republic and Slovenia. In turn, two countries, Lithuania and Slovakia slightly increased the share of EU 25 in their total exports.

Table 17

Main geographic areas of NMS trade, 2003–2006
(percent, being total exports and imports, respectively, 100.0)

| Country | Geographic area | Exports | | Imports | |
|----------------|-----------------|---------|------|---------|------|
| | | 2003 | 2006 | 2003 | 2006 |
| NMS 8 | Intra-EU | 81.2 | 77.6 | 68.6 | 73.1 |
| | EU 15 | 67.6 | 60.8 | 57.5 | 58.4 |
| | NMS 10 | 13.6 | 16.8 | 11.1 | 14.7 |
| | Extra-EU | 18.8 | 22.4 | 31.4 | 26.9 |
| Czech Republic | Intra-EU | 86.3 | 84.0 | 71.0 | 80.0 |
| | EU 15 | 69.8 | 65.6 | 58.9 | 64.1 |
| | NMS-10 | 16.5 | 18.4 | 12.1 | 15.9 |
| | Extra-EU | 13.7 | 16.0 | 29.0 | 20.0 |
| Estonia | Intra-EU | 82.5 | 65.7 | 64.8 | 73.2 |
| | EU 15 | 68.4 | 48.3 | 53.5 | 55.3 |
| | NMS 10 | 14.1 | 17.4 | 11.3 | 17.9 |
| | Extra-EU | 17.5 | 34.3 | 35.2 | 26.8 |
| Latvia | Intra-EU | 79.3 | 72.0 | 75.4 | 76.0 |
| | EU 15 | 62.0 | 41.8 | 51.0 | 44.5 |
| | NMS 10 | 17.3 | 30.2 | 24.4 | 31.5 |
| | Extra-EU | 20.7 | 28.0 | 24.4 | 24.0 |
| Lithuania | Intra-EU | 62.5 | 63.2 | 55.8 | 62.4 |
| | EU 15 | 43.1 | 38.0 | 44.2 | 41.9 |
| | NMS 10 | 19.4 | 25.2 | 11.6 | 20.5 |
| | Extra-EU | 37.5 | 36.8 | 44.2 | 37.6 |
| Hungary | Intra-EU | 81.2 | 74.1 | 63.1 | 66.7 |
| | EU 15 | 73.7 | 61.1 | 55.0 | 56.0 |
| | NMS 10 | 7.5 | 13.0 | 8.1 | 10.7 |
| | Extra-EU | 18.8 | 25.9 | 36.9 | 33.3 |
| Poland | Intra-EU | 80.8 | 77.3 | 69.1 | 71.8 |
| | EU 15 | 68.8 | 63.7 | 61.1 | 62.7 |
| | NMS 10 | 12.0 | 13.6 | 8.0 | 9.1 |
| | Extra-EU | 19.2 | 22.7 | 30.9 | 28.2 |
| Slovenia | Intra-EU | 66.9 | 66.7 | 75.7 | 76.7 |
| | EU 15 | 58.4 | 56.2 | 67.4 | 68.1 |
| | NMS-10 | 8.5 | 10.5 | 8.3 | 8.6 |
| | Extra-EU | 33.1 | 33.3 | 24.3 | 23.3 |
| Slovakia | Intra-EU | 84.7 | 85.1 | 74.0 | 75.0 |
| | EU 15 | 60.8 | 57.6 | 51.6 | 45.4 |
| | NMS 10 | 23.9 | 27.5 | 22.4 | 29.6 |
| | Extra-EU | 15.3 | 14.9 | 26.0 | 25.0 |

Note. Intra-EU is equivalent to EU 25, while extra-EU includes all countries outside EU 25 (in conformity with the number of EU members as of the end of 2006).

Source: Table 1 and the author's own calculations.

Table 18

Shifts in the trade orientation of NMS, 2003–2006
(changes in percentage points)

| Country | | Exports | Imports |
|----------------|-------------|---------|---------|
| NMS 8 | Intra-EU 25 | -3.6 | +4.5 |
| | EU 15 | -6.8 | +0.9 |
| | NMS 10 | +3.2 | +3.6 |
| | Extra-EU 25 | +3.6 | -4.5 |
| Czech Republic | Intra-EU 25 | -2.3 | +9.0 |
| | EU 15 | -4.2 | +5.2 |
| | NMS 10 | +1.9 | +3.8 |
| | Extra-EU 25 | +2.3 | -9.0 |
| Estonia | Intra-EU 25 | -16.8 | +8.4 |
| | EU 15 | -20.1 | +1.8 |
| | NMS 10 | +3.3 | +6.4 |
| | Extra-EU 25 | +16.8 | -8.4 |
| Latvia | Intra-EU 25 | -7.3 | +0.6 |
| | EU 15 | -20.2 | -6.5 |
| | NMS 10 | +12.9 | +7.1 |
| | Extra-EU 25 | +7.3 | -0.6 |
| Lithuania | Intra-EU 25 | +0.7 | +6.6 |
| | EU 15 | -5.1 | -2.3 |
| | NMS 10 | +5.8 | +8.9 |
| | Extra-EU 25 | -0.7 | -6.6 |
| Hungary | Intra-EU 25 | -7.1 | +3.6 |
| | EU 15 | -12.6 | +1.0 |
| | NMS 10 | +5.5 | +2.6 |
| | Extra-EU 25 | +7.1 | -3.6 |
| Poland | Intra-EU 25 | -3.5 | +2.7 |
| | EU 15 | -5.1 | +1.6 |
| | NMS 10 | +1.6 | +1.0 |
| | Extra-EU 25 | +3.5 | -2.7 |
| Slovenia | Intra-EU 25 | -0.2 | +1.0 |
| | EU 15 | -2.2 | +0.7 |
| | NMS 10 | +2.0 | +0.3 |
| | Extra-EU 25 | +0.2 | -1.0 |
| Slovakia | Intra-EU 25 | +0.4 | +1.0 |
| | EU 15 | -3.2 | -6.2 |
| | NMS 10 | +3.6 | +7.2 |
| | Extra-EU 25 | -0.4 | -1.0 |

Source: Table 1 and the author's own calculations.

Even more interesting is the composition of export-share changes if we take into account the old EU 15 and intra-NMS trade separately. Since intra-NMS exports increased their share in total exports in all NMS, logically, the share of exports to EU 15 had to experience an even sharper decline than the previously mentioned average figures. Intra-NMS exports produced a particularly important increase in Latvia (12.9 percentage points), but also in Lithuania (5.8 percentage points) and Hungary (5.5 percentage points). As a result, EU 15 shares dropped dramatically in two Baltic countries (Estonia and Latvia, both with a percentage decline of more than 20 per cent) and in Hungary (12.6%). The main beneficiaries of this structural reorientation of exports were both new member countries and extra-EU partners. In case of Estonia but evidently in Hungary too, the main driving force consisted in extra-EU orientation of exports (although in Hungary NMS exports also played an important role). In other countries, higher NMS shares of exports could only partly compensate for the loss of EU 15 shares (excepting Slovakia).

In this context, some key strategic questions emerge that affect both structural characteristics and the assessment of overall international competitiveness of the individual NMS. To be sure, the rapidly growing non-EU orientation is a clear sign of enhanced global competitiveness (particularly, and rejecting widespread negative views, in the case of Hungary). Excepting, of course, the case if export reorientation takes place towards less competitive, protected and, at the end of the day, captive markets (in this context, the Estonian case needs further analysis). Moreover, reorientation of exports towards NMS markets can mostly be explained by the immediate lifting of protectionist barriers as of May 01, 2004, as well as the regional strategies of leading transnational companies located in selected NMS countries.

In contrast to exports, trade-creation theory could be verified by the developments in the geographic orientation of imports after membership. In total NMS 8 imports the share of the EU 25 grew by 4.5 percentage points. Much higher intra-EU orientation (at the same time, lower level of global resource seeking) can be identified in the case of the Czech Republic but also in two Baltic countries (Estonia and Lithuania). However, there is a big difference even in this case since the Czech orientation towards the EU 25 was largely driven by the growing share of EU 15 imports, while the Baltic countries (including Latvia) have achieved higher EU 25 shares due to much stouter shares of intra-NMS imports exclusively (look at the similar and not less interesting figures for Slovakia). Since the three small Baltic countries' intra-NMS trade is heavily concentrated on this trilateral flow, and the presence of large transnational companies is limited as compared to Hungary or the Czech Republic, intra-Baltic trade may easily turn out to be focused on "captive" and small markets. At least, growing regional-market orientation cannot be linked to stronger EU 15 orientation as an indicator of European (or global) competitiveness. In the most developed, increasingly competitive and structurally diversified Central

European countries both EU 15 and NMS shares were growing during the observed period (strongly in the Czech Republic and moderately in Hungary, Poland and Slovenia).

This paper tried to look at one of the most evident areas of the accession of 2004. First consequences on the geographic orientation and structure of trade can already be detected. Although they do not tell the full story, but can and should be used as important indicators (proxies) to explain the pattern of economic growth (high growth rates in themselves do not throw light on structure and sustainability), mezo- and micro-structural developments and, last but not least, competitiveness of the individual countries. In this context, the Hungarian performance should be assessed not only because of a number of misleading and superficial views but, more importantly, because only such an objective basis can support medium- and longer-term economic-strategy decisions.