Hungarian economic relations with the Arab world

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The study gives an overview of Hungary's trade relations with the Arab countries. It presents the characteristics of trading in the region and the relationship between the European Union and the Arab countries, which became determinant for Hungary after gaining full membership in the EU. The second part of the study analyses the features of Hungarian trade with the region, by giving an overall and a country-by-country profile. This area is one of the most important surplus-producing relation for Hungary. The opportunity to develop Hungarian-Arab economic and trade relations still exists, however, it needs more intense attention in Hungary towards the Arab world.

KEYWORDS: Trade and service statistics.
International analyses, comparisons.

The Arab world became an important trading partner of Hungary in the 1970s. By the late 1980s, and especially after the political transition in Hungary, trade relations were falling back substantially. The Arab region, however, remained a surplus-generating relation for Hungarian foreign trade, and during the last five years (2002–2007), with the revival of Arab trade relations, the amount of this surplus increased to USD 1.4 billion.

This study presents an overview of trade relations with the Arab countries, by *1.* presenting the features of trade in the region first, then by *2.* characterising the special relations between the European Union and the Arab countries, which became determinant for Hungary after gaining full membership in the Union with the emerging new possibilities and, at last, by *3.* giving a country-by-country profile of relations.

1. Arab countries in the world economy

The Arab countries are developing economies and derive their revenues mainly from exporting oil and gas or from the sale of other raw materials and minerals. In the early 1970s a "Golden Age" had begun for the region. In 1973 the great Western oil conglomerates suddenly faced the Organization of Petroleum Exporting Countries (OPEC), a unified bloc of producers. In consequence of the war against Israel, the Arab world imposed an oil embargo against the Western countries, and all OPEC members agreed to use their leverage over the world-price-setting mechanism of oil in order to raise world oil prices. The market price of oil rose substantially.

The earnings of oil nations were enormous. The extra income spurred them into a buying spree never seen before in these countries. Especially weapons were purchased, but they undertook major economic development programmes as well. Even countries without huge oil revenues, like Egypt, Lebanon or Jordan, benefited indirectly from the oil-money. They sent manpower to oil producers (workers in oil industry, teachers, doctors, etc.), and hosted Arab capital as well.

The Golden Age has not lasted forever. Higher prices resulted in increased exploration and production outside of OPEC. The organization had to face the lower demand and higher supply on the world market. From 1982 to 1985, OPEC strove after setting production quotas appropriately low to stabilize prices. These efforts met with repeated failure as various members of OPEC produced beyond their quotas. During most of this period Saudi Arabia repeatedly cut its production in an attempt to stem

the free fall in prices. In 1986, being tired of this role, the Saudis increased production from 2 million to 5 million barrels per day. Crude-oil prices fell below USD 10 per barrel by mid-1986. Despite the decline, Saudi revenue remained about the same with higher volumes compensating for lower prices. For other oil producers, however, the drop in prices represented a serious problem; with the vanishing abundance, expenses had to be pared down.

The price of crude oil spiked in 1990 with the lower production and the uncertainty associated with the Iraqi invasion of Kuwait and the ensuing Gulf War, but after the liberation of Kuwait crude-oil prices returned to the period of steady decline. The economic growth in the region, particularly in the oil-exporting countries suffered during the 1990s when real oil prices plummeted to pre-1973 levels. Recent years, however, have seen significant economic growth in the Arab world, due largely to a new increase in oil and gas prices, which tripled between 2001 and 2006, and also because of the efforts by some states to diversify their economic bases.

The major export products of the Arab world are still crude petroleum and petroleum products. There are some other export items, but these are mostly primary products, too. Qatar exports gas, Jordan fertilizers, Syria cotton and Morocco vegetables. Their dependence on a restricted number of export products makes them more vulnerable to price fluctuations. Some countries have gradually shifted to manufactures with greater technological input. Bahrain exports aluminium, the United Arab Emirates (UAE) aluminium and garments, Egypt and Tunisia textiles and garments. Some countries, particularly some in the Gulf, are diversifying their exports by way of re-exports. This has allowed them to move away from primary exports and has reduced the risks of price fluctuations. However, at the same time competition among the Gulf countries for the regional re-export markets has been rising.

Countries that export to a small number of countries are more vulnerable to changes in demand than others, whose export markets are diversified. Overall, MENA (– Middle East and North Africa)[1] countries' export markets are not diverse. Over half the region's exports flow to industrial countries, mainly to Europe. In case of many MENA countries, this reflects historical and political ties. For example, Morocco and Tunisia tend to export to France, Egypt to the United States. Syria until the mid-1980s had exported to Eastern Europe, but by the mid-1990s turned to Italy, France and neighbouring Turkey.

The high concentration of MENA's exports to a few markets is mainly due to its abundance of oil, most of which being directed to the industrialized countries. When oil is excluded, Algeria's and Egypt's exports still flow mainly to developed countries. However, the big oil-producing countries send most of their non-oil exports to

[1] I.e. the Arab countries plus Israel and Iran.

other countries within the region, especially those of the Gulf, which generally export to one another. Syria's non-oil exports are directed to Lebanon and Saudi Arabia, while Yemen's are aimed at Saudi Arabia and Bahrain.

1.1. The Maghreb

The Maghreb region consists of four North African states, Morocco, Algeria, Tunisia and Libya.[2] Maghreb trade structures share similarities, particularly those of Morocco and Tunisia. The two countries without substantial oil extraction have similar factor intensities of exports (mostly labour-intensive), while Algeria's and Libya's exports are mostly natural-resource intensive. Algeria and Libya are net oil-exporters, the former with a relatively big population and economy. In Algeria, import substitution was focused on heavy industry, especially steel and petrochemicals, while in Morocco and Tunisia the emphasis was set on light industry, producing essentially consumer goods, and on the food and agriculture sector.

Despite recent export performance, Maghreb countries remain poorly integrated into the global economy. Over the last few years, these countries lowered both trade and non-trade barriers and increased their trade integration. In spite of these efforts the share of non-oil exports in their GDP remained less significant than in any other region of the Arab world. The contribution of non-oil exports to GDP fluctuates around 15 percent.

The agriculture and food, and the consumer-goods sectors continue to be protected; primary exports (energy, minerals and agricultural products) will remain essential tools of maintaining foreign-trade balance; light manufactured goods that enjoy comparative export advantages (basically garments and to a lesser extent electric components) face keen competition from Asian countries and suffer a sluggish growth in international trade.

In Algeria, the hydrocarbons sector is the backbone of the economy, accounting for roughly 60 percent of budget revenues, 30 percent of GDP, and over 95 percent of export earnings. Algeria has the eighth largest reserves of natural gas in the world and is the fourth largest gas exporter.

The Libyan economy depends primarily upon revenues from the oil sector, which constitute practically all export earnings and about a quarter of GDP. These oil revenues and its small population give Libya one of the highest per capita GDP in Africa. The non-oil manufacturing and construction sectors, which account for about 20 percent of GDP, have expanded from processing mostly agricultural products to include the production of petrochemicals, iron, steel and aluminium. As climatic conditions

[2] Mauritania used to be considered a part of the region.

and poor soils severely limit agricultural output, Libya imports about 75 percent of its food supplies.

The Maghreb's foreign trade is highly concentrated on the EU which, on average, accounted for 64 percent of the region's imports and more than 70 percent of its exports in 2005. Morocco and Tunisia show structural trade deficits, while Libya and Algeria post up surpluses (the latter in years when oil prices are high). The Moroccan and Tunisian trade deficits pass on to the current-account deficits whenever there are contractions of income from tourism and remittances, and, in some years, foreign investment. Foreign-trade imbalances have improved, despite the high trade deficit outside the energy sector. Tunisia consistently posts up current-account deficits, while Morocco has modest surpluses. Algeria and Libya have high current-account surpluses due to the high price of crude oil.

1.2. The Mashreq

In the Mashreq region Syria and Iraq have substantial reserves of oil. Egypt also produces oil, but its importance in the country's exports is less significant. Lebanon and Jordan are net oil importers. In Egypt and Jordan the liberalisation of economy and trade was taking place over the last decade. In Syria, the reform process unfolds much more slowly, partly because oil revenues made the postponement of major structural reforms possible. Strict currency policy was eased by the government and the activity of private banks was allowed. Further liberalisation in the economy, however, may induce tensions in society and interfere with the interests of the strong state sector.

Syrian exports rose to USD 10.1 billion in 2006, with an annual increase of 19 percent. Crude oil continues to represent the single most important export item; exports of crude oil and other minerals reached 40 percent of total. Textile and footwear, which comprises raw cotton, yarns and garments ranks second with a total of 19 percent and is followed by live animals and vegetable products, chemicals and food. Meanwhile, imports of refined oil ranked first among import goods with a 30 percent stake of total. Italy was Syria's main export market and bought alone 20 percent of all the country's exports. Italy far surpasses Syria's second most important partner, France, which is followed by Saudi Arabia and Iraq.

Iraq's economy is also dominated by the oil sector, which has traditionally provided about 95 percent of foreign-exchange earnings. Rising oil prices during the 1970s created increases in export revenues. Then the economy was severely damaged by financial problems caused by the massive expenditures during the eight-year war with Iran, which also diminished oil-export facilities. The drop in world oil prices and Iraq's exporting problems due to international sanctions essentially put an end to the glut in the

country. The UN imposed trade restrictions on non-oil exports as well; Iraq was traditionally the world's largest exporter of dates. After the fall of *Saddam Hussein*, the new Iraqi government tries to rebuild the economy and oil exporting capacities especially, but persistent political chaos in the country poses serious difficulties.

Egypt's economy depends mainly on agriculture, media and entertainment, and tourism, while petroleum exports have a minor role; there are more than three million Egyptians working abroad, mainly in Saudi Arabia, the Persian Gulf and Europe, whose remittances are also the most important item on the balance of payments. Economic conditions have started to improve considerably after a period of stagnation as the result of the adoption of more liberal economic policies by the government, the increasing revenues from tourism and a booming stock market. The devaluation of the local currency improved the competitiveness of manufacturing industries, but to maintain the pace of growth even broader reforms would have to be implemented.

Jordan is a small country with limited natural resources. Since 2000, exports of light manufactured products have been driving economic growth, principally textiles and garments manufactured in industrial zones that enter the United States tariff and quota free under the bilateral US–Jordan Free Trade Agreement. Similar growth in exports to the European Union under the bilateral Association Agreement and to countries in the region holds a considerable promise to divert Jordan's economy away from its traditional reliance on exports of phosphates and potash, overseas remittances and foreign aid. The government boosts the information-technology and tourism sectors as further promising growth sectors. The low-tax and low-regulation Aqaba Special Economic Zone is considered the model of a government-provided framework for private-sector-led economic growth. Tourism is a very important sector of the Jordanian economy, contributing 10-12 percent to the country's GNP in 2006. Major imports of the country are crude oil (from Iraq), machinery, transport equipment, food, live animals and manufactured goods.

Lebanon was traditionally the centre of different service activities (finance, editing, etc.) in the region. As a consequence of the long civil war Lebanon lost this position. The country's economy has always been more open than the economies of other Arab countries. The costs of reconstruction after the civil war were enormous, and the country permanently balanced on the verge of bankruptcy. Then after several years of consolidation the Israeli attack in 2006 caused devastation in the infrastructures again, set back tourism, and spoilt nearly all achievements in the economy.

1.3. The Gulf

The revenues gained from the exportation of crude oil over the last 30 years have made the rapid modernisation of GCC (–Cooperation Council for the Arab States of

the Gulf)[3] economies and infrastructures possible. The GCC holds 45 percent of the world's oil reserves and supplies 20 percent of global crude production. Apart from Bahrain and Oman, all GCC states are members of OPEC.

Until 1999 a period of oil-price consolidation was witnessed by the Gulf states forcing them to search for alternative sources of revenue. It created a need to diversify their economies, including the privatisation of public enterprises. Since 2000 a second oil boom has been generating budget surpluses at the value of tens of billions and creating a financial base for diversification.

The GCC countries share many economic characteristics. Oil contributes about one third to total GDP and three fourths to annual government revenues and exports. There are, however, important differences among the GCC countries. Per capita income ranges from less than USD 8000 in Oman to USD 28,400 in Qatar

The structures of GCC economies and the composition of their exports are also changing. The weight of the manufacturing sector has been growing very rapidly in Saudi Arabia, as has re-export and related activities in the United Arab Emirates, while the banking and insurance sector is by far the single most important sector in Bahrain. In Qatar natural gas is well on the road to bypassing oil as the key sector of the economy, and in Oman the growth strategy centred on developing natural-gas resources and tourism has just begun to bear fruit. To strengthen their cooperation, in 2003 the Gulf countries agreed a free-trade pact and plan to establish a common market in 2007. By 2010 the GCC even expects to have a common currency.

2. The European Union and the Arab countries

Hungary, by joining the European Union, adopted its common trade policy. Consequently, Hungary's economic relations with the Arab world cannot be assessed without the introduction of EU–Arab relations. The Mediterranean has always received much attention from Europe (and the European Community – EC) due to its geographic proximity and former colonial ties. However, probably as a result of clashing interests, there was no such conception governing the relations with the Mediterranean as, for instance, the Lomé Convention, which provides guidance to Africa for Europe. Toward the Mediterranean, the Community showed a reactive, rather than a proactive policy, i.e. it mostly followed the events and did not shape them. Although, several agreements have been concluded with the countries of the

[3] The GCC is a regional organisation created in May 1981 by Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

region, they all have only been bilateral agreements owing to the lack of multicultural institutionalism.

After the 1973 crisis the chances to achieve a general agreement decreased. The EC protected its agriculture with one-sided actions, if needed, and the development of the light industry was hampered by the restrictions imposed on textile exports. The partnership agreements provided more advantages than a free-trade agreement in theory, although they offered few consultation rights and did not mention the prospect of full membership at all. As a result of protests from the US, the Mediterranean countries were unable to provide the EC a preferential treatment themselves.

By the 1990s the stance of the EC on the Mediterranean changed. With the disappearance of the confrontation of the two (capitalist and socialist) systems, the dangers threatening the Union seemed to have moved from the eastern part of Europe to the South, therefore the member states of the Community introduced a new Mediterranean policy. Maastricht and the peace settlement in the Middle East made it possible to give new dimensions to the relations.

The approach speeded up within the frames of the Euro-Mediterranean Partnership (EMP) from 1995. The Euro-Mediterranean Partnership agreements, upon which the free-trade zone could be formed, replaced the former agreements made with Arab countries. The new, global Euro-Mediterranean Partnership consists of three separate but complementary "pillars":

1. the pillar of politics and security, aiming to define the frames of a region of peace and political stability;

2. the economic and financial pillar, providing the establishment of a flourishing area; and

3. the social, cultural and humanitarian pillar which fosters the development of human resources and the understanding between the various cultures while also helps build relations between the non-governmental organizations of both sides.

The realisation of the process started with concluding bilateral agreements between the EU and certain countries in the region. Most of the Mediterranean countries have already signed Euro-Med contracts (Tunisia, Morocco, Israel, the Palestine Authority, Egypt, Jordan, Algeria and Lebanon). With Syria, the negotiations have been closed, but the agreement has not been signed yet.

Although the contracts already signed are not identical in all details, their structure and the main points are. Besides the free flow of goods, they include specifications on the flow of capital, the rules of economic competition and the protection of investments. In addition to financial and economic cooperation, the improvement of political dialogue and social and cultural cooperation are also included in the agree-

ments. In 2004, the EMP became a part of the European Neighbourhood Policy (ENP), which means the EMP expanded by the Eastern neighbours (i.e. the former Soviet Republics). In the framework of ENP, the EU donates financial support to the participating countries in the implementation of their reforms.

From the Arab world, three Maghreb countries (Morocco, Algeria and Tunisia) have the closest relations with Europe, mainly due to former French colonial rule. Morocco even asked for accession to the EC in 1987, but the European Council refused the request on the grounds of Paragraph 237 of the Rome treaty, as Morocco is not a European country. Morocco and Tunisia were the first to sign the Euro-Med agreements and leave no stone unturned to take advantage of the opportunities that the agreements offer. With Algeria, there were several problem areas, like the tense, almost war-like political climate and the not prepared state of the economy, i.e. the one-sided structure of exports and the isolated market from the outer world. However, Algeria's natural resources are indispensable for the EU. Similar was the case with Libya, but in the mid 1990s the country opted out of the partnership. Later it became an observant, and, in these days, both sides try to warm up relations.

The five countries in the Eastern part of the Mediterranean and the Palestine Authority are also subjects of the EU's new Mediterranean policy. The co-operation between the Mashreq and the EU countries is rather dependant on the peace talks. Israel has an edge over the others in the region as concerns its economy and is an equal partner of the EU. At the beginning of the partnership process, there was some hope for economic cooperation between Israel and the neighbouring Arab countries. Unfortunately, expectations have not come true, and the tension between the Israelis and the Arabs persists. In the long run Iraq could be an important partner as well with its traditionally strong ties to the European countries, but under the current circumstances the question cannot be put on the agenda.

The European Union maintains strong economic links with the Gulf Cooperation Council. The parties signed an economic cooperation agreement in 1988 which laid the foundations for a future expansion into a bilateral free-trade agreement. The negotiations of this contract have been prolonged for 16 years due to legal and human-rights-related issues. Nevertheless, one of the EU's objectives in 2007 is to finally sign the agreement with the GCC.[4]

The GCC is currently the EU's fifth largest export market and the EU is the GCC's first trading partner. GCC countries benefit from the preferential access to the EU market under the Union's Generalised System of Preferences (GSP) and exported 36.4 billion euros worth of crude oil, petrochemicals and aluminium products to the EU in 2006. The EU valued its exports to GCC countries in 2006 at 54 billion

[4] Mandelson calls for EU-GCC FTA deal to boost Gulf Economies, http://trade.ec.europa.eu/doclib/docs/2007/february/tradoc_133369.pdf

euros and that makes the Gulf the fifth most important market of the Union.[5] Major exports include power stations, petrochemical plants, aircrafts and cars. Currently, GCC countries receive one third of their imports from the EU.

3. Hungary's foreign trade

As a member of the Soviet block, Hungary was to maintain economic relations primarily with "friendly" countries within the "socialist camp" and among developing countries. Trade relations were driven by ideological and not by economic reasons. Hungarian foreign trade contacts with the Arab world soared in the 1970s. The growing purchasing power of oil-exporting Arab countries, the launch of ambitious developing programmes created an enormous demand for goods, know-how and services. The annual average growth rate of Hungarian exports reached 16 percent in these years, the bulk of which flowed to Algeria, Syria, Iraq and Libya, the major destinations. The dynamic pace of trade relations slowed down in the early 1980s, and then from the mid-1980s the fall of oil prices caused a sharp decline in the import and investment activities of the Arab countries. In the same period, the competitiveness of Hungarian goods on international markets declined substantially.

The transition period of Hungary in the 1990s was marked by a radical change of economic partners, and the orientation of Hungary's exports shifted from ex-socialist to developed countries. In case of developing countries, the change was not so evident as in the first years of the transformation their share in Hungary's exports even increased. After 1993, however, Hungarian deliveries to developing countries began to decrease in absolute terms as well, while imports from these countries continued increasing dynamically. As a direct consequence of these tendencies, the traditionally active Hungarian trade balance toward developing countries gradually turned negative, and since 1998 more than half of the deficit have stemmed from the trade with developing countries. The importance of several traditional relations, like those with India and the Arab countries have faded and the newly industrialised Southeast Asian countries and China replaced them. The main reasons behind the fallback of economic relations with the Arab countries are the following.

– In the 1970s and 1980s the trade relations of Hungary were featured by active state involvement, often based on intra-state agree-

[5] European Commission, External Trade, GCC trade statistics, http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113482.pdf

ments. The almost complete withdrawal of the state from this field has produced serious consequences.

– The liberalisation of foreign trade and the fundamental changes in the structure of economy afflicted a great number of small- and medium-sized enterprises with poor capitalisation (lack of expertise and language knowledge, high transport costs, etc.)

– The lack of instruments to promote trade in developing regions (e.g. missing state guaranty or export credits for enterprises willing to export).

– The output of once major products Hungary exported to the Arab region (steel and aluminium goods, chemicals, agricultural products) decreased significantly.

– The first democratically-elected governments in the early 1990s planned to give priority to alternative (i.e. non-Soviet) crude-oil sources which should have been strengthening the relations with oil-exporting Arab countries. The closedown of the Adrian oil pipeline by the collapse of Yugoslavia made the strategy of diversification almost impossible.

– The establishment of diplomatic contacts with Israel and the growing economic relations thereafter made relations with some Arab countries tense.

3.1. Current trends in relations

Between 1999 and 2006 Hungarian exports increased nearly threefold, from USD 25 billion to USD 74 billion.[6] Among developing countries (4.8fold increase), the fastest growing regions were Sub-Saharan Africa (17fold increase) and the Arab countries (9fold increase), while in Asia (4.6fold increase overall) the growth of exports to China was one of the fastest (10.7fold increase). (See Table 1.)

Table 1

Hungarian exports by regions, 1999–2006
(USD million)

Region	1999	2000	2001	2002	2003	2004	2005	2006
Total exports	25 012	28 092	30 498	34 337	43 008	55 469	62 272	74 055
Developed countries	20 969	23 463	25 121	28 148	34 531	42 945	45 293	50 621

(Continued on the next page.)

[6] If otherwise not indicated, all data are from Hungarian Central Statisctical Office's database. www.ksh.hu

(Continuation.)

Region	1999	2000	2001	2002	2003	2004	2005	2006
Central and Eastern Europe	3 103	3 627	4 280	4 794	6 740	10 015	13 550	18 911
Developing countries	941	1001	1 097	1 395	1 736	2 508	3 429	4 523
Asia*	587	625	673	805	615	1 030	1 384	2 109
China	71	41	113	155	178	391	401	762
Arab world	167	168	203	363	792	1 033	1 333	1 447
Africa**	35	39	41	100	170	282	406	598
America***	151	159	167	187	171	263	307	346

* Asia without Israel, Japan and the Arab countries.
** Africa without Arab countries, i.e. Sub-Saharan Africa.
*** America without Canada and the USA.
Source: Here and in the following tables KSH (Hungarian Central Statistical Office – HCSO). www.ksh.hu.

When analysing development in trade relations, imports have to be considered as well. With China, not only exports increased dynamically, but imports as well (6 times), which resulted in a trade deficit, growing from USD 539 million to USD 3.1 billion in the same period. In case of Sub-Saharan Africa and the Arab countries, however, the role of imports was still negligible, so the growth of exports made the trade surplus increase. (See Table 2.)

Table 2

Hungarian trade balance, 1999–2006
(USD million)

Region	1999	2000	2001	2002	2003	2004	2005	2006
Total	–2 996	–3 987	–3 184	–3 275	–4 667	–4 780	–3 648	–2 924
Developed	+65	+1 002	+1 755	+3 017	–875	+761	+2 102	+1 684
Central and Eastern Europe	–904	–1 845	–1 319	–1 459	–1 766	–972	–65	+915
Developing	–2 156	–3 144	–3 620	–4 832	–2 026	–4 569	–5 686	–5 523
Asia*	–1 940	–2 970	–3 464	–4 837	–2 883	–5 760	–7 378	–7 881
China	–539	–898	–1 321	–1 930	–858	–2 483	–3 187	–3 097
Arab World	+136	+124	+162	+315	+778	+1 011	+1 310	+1 397
Africa**	–65	–49	–95	+2	+134	+248	+364	+564
America***	–297	–265	–242	–258	–54	+22	+11	+142

* Asia without Israel, Japan and the Arab countries.
** Africa without Arab countries, i.e. Sub-Saharan Africa.
*** America without Canada and the USA.

Taking a glance on the trade figures with Arab countries (Table 3), one can immediately realize that the main factor behind the explosive growth in exports was product group 76 (SITC), i.e. telecommunication equipments. In case of Hungary it means mobile phones. The multinational company Nokia has three European plants, located in Finland, Germany and Hungary (Komárom). Beside Europe, these factories supply the Middle East and Africa as well. In Komárom 300 million phones were produced in 7 years (until the end of 2006) (www.nokia.hu), and mobile phones have been among the most important export products of Hungary recently. Total exports of Hungary in SITC 76 increased from USD 1984 million (1999) to USD 12 776 million (2006).

Hungarian exports to the Arab world were growing at a rapid pace in the last six years with an annual average of 44 percent. The exports of Nokia from Hungary to the region totalled up to USD 1030 million in 2006. Without the mobiles, "traditional" exports were growing from USD 167 in 2000 to USD 416 million in 2006, i.e. with an annual average growth rate of 17 percent. Among the "traditional" export items other machineries reached USD 210 million in 2006, agricultural products USD 101 million, and manufactured products (mainly chemicals) USD 100 million. In case of agricultural products, the results in 2006 were by far the best (in the previous years they were between USD 30 and USD 60 million). By manufactured goods, the year 2005 was the peak with USD 195 million, and then 2006 meant a fallback. Non-telecom machinery grew from around USD 50 million to USD 210 million.

Table 3

Trade relations between Hungary and the Arab world, 1999–2006
(USD million)

Denomination	1999	2000	2001	2002	2003	2004	2005	2006
Exports	167	168	203	363	792	1 033	1 333	1 447
Food*	50	38	37	33	31	56	61	101
Manufactured**	25	56	66	77	99	109	195	100
Machinery***	54	68	96	253	670	854	1 080	1 241
Mobile phone****	1,2	1,4	32	183	568	717	915	1 030
Imports	31	44	41	48	14	22	23	50
Trade balance	+136	+124	+162	+315	+778	+1 011	+1 310	+1 397

* SITC 0, 1.
** SITC 5, 6, 8, 9.
*** SITC 7.
**** SITC 76.

While analysing the trade statistics with Arab countries (and with many other developing countries as well), one can see that Hungarian imports declined signifi-

cantly in 2003. It should be known that there are methodological reasons behind this phenomenon; until 2002 the import data were presented by the country of origin; since 2003 it is presented by the country of consignment. In consequence, many goods (especially agricultural products and raw materials) coming from developing countries to Hungary are being indicated as Dutch (Rotterdam) or German (Hamburg).

4. Country-by-country analysis

Currently two Gulf countries (the UAE and Saudi Arabia) are the major export partners of Hungary in the region, due partly to their re-export activity, partly to their increasing demand in the period of high oil prices. They are followed by three Mashreq countries (Egypt, Jordan, and Iraq) and three Maghreb countries (Algeria, Morocco and Tunisia). (See Table 4.)

Table 4

Arab countries ranked by the value of exports, 2006
(USD million)

Country	1999	2000	2001	2002	2003	2004	2005	2006
1. UAE	13.0	10.0	32.8	131.8	462.2	590.0	557.7	452.1
2. Saudi Arabia	23.0	28.2	39.7	83.8	99.5	109.1	190.1	234.1
3. Egypt	28.7	28.7	26.9	23.6	40.6	61.5	112.6	186.9
4. Jordan	4.8	4.3	6.3	11.6	18.7	47.2	55.8	87.0
5. Iraq	1.1	1.9	3.5	2.6	6.5	14.7	114.5	74.9
6. Algeria	16.2	6.9	11.0	15.5	24.7	21.7	49.0	71.9
7. Morocco	15.8	6.6	9.9	13.5	16.5	16.1	46.0	60.1
8. Tunisia	10.2	14.8	9.1	14.5	25.9	22.9	34.4	54.9
9. Kuwait	11.7	21.4	17.7	9.1	26.1	47.2	30.8	49.1
10. Syria	14.7	17.3	19.2	20.1	24.1	21.3	58.4	47.1
11. Libya	5.8	4.7	4.9	3.0	5.1	3.0	19.3	38.1
12. Bahrain	0.8	0.6	1.2	3.0	6.6	11.3	14.4	31.0
13. Lebanon	15.0	17.5	15.5	17.7	19.2	46.9	33.7	20.6
14. Yemen	4.9	2.8	2.3	3.7	6.8	4.6	2.7	16.0
15. Qatar	0.7	0.9	1.0	5.1	2.8	9.0	6.1	15.8
16. Oman	0.7	1.3	1.8	4.5	6.8	6.0	7.6	6.9

The *United Arab Emirates* has been Hungary's most important partner in the Arab world for years with an export volume of over USD 450 million. Hungarian exports increased explosively between 2000 and 2004, almost exclusively in consequence of selling a vast amount of mobile phones, and reached a peak in 2004 with USD 590 million. The Arab Emirates re-exported the mobile phones to other countries in the region. In the last to years, however, with the direct exports to other countries, the trade with the UAE decreased slightly. Beside mobile phones (85 percent), the export of chemicals, lamps, vehicle components and some manufactured goods increased as well, from around USD 10 million before 2001 to USD 65 million in 2006. The imports from the UAE to Hungary is far the "bulkiest" among the Arab states with USD 23 million (Egypt is second with USD 8 million), but they witnessed a rapid increase in the last two years. The imports consist of petrochemical and steel products.

Saudi Arabia is the largest and maybe the most lucrative market in the region. It creates fierce competition where business positions can be reserved only by good-quality products. Hungary's exports to Saudi Arabia have been growing dynamically in the last five years, reaching USD 230 million in 2006. The most important products are mobile phones (66 percent in 2006), steelwork, lamps, automobile components, dairy and pharmaceutical products, deep-frozen vegetables, poultry, glassware and cosmetics. Saudi Arabia is the second largest market for Hungarian agricultural products in the region, with USD 19.8 million in 2006. Imports are almost negligible, consisting of some petrochemical products.

Egypt, as the most populous Arab country, is a traditional market for Hungarian products. In the 1990s, Egypt was the main export destination of Hungarian foreign trade in the region, although the volume of exports (around USD 25 million) was much lower than in 2006. The fast increase of exports to Egypt was generated from 2003 on by mobile phones, constituting 72 percent of total exports in 2006. Other major export products are vehicle components, cables, lamps and agricultural machinery. Egypt's demand for food grows rapidly and offers an excellent market for Hungarian products. Although Hungarian products (wheat, dairy, chicken) are well known in the country, Hungarian agricultural export reaches only USD 1.8 million. On the import side, Hungary buys textile products, vegetables and some row materials from Egypt, worth a modest USD 8 million.

Jordan has never been an important trading partner for Hungary before. In the last seven years, however, the exports to Jordan grew 20fold, due to mobile phones providing 88 percent of all exports in 2006. Other export products are meat, frozen vegetables and machines. From the CEE region, the trade with Hungary increased the most rapidly. Since 2000, more than 120 thousand tourists visited Jordan (*Eximbank*) which made the current account between the two countries, despite the huge trade deficit, more balanced.

Iraq was one of Hungary's most important trading partners in the developing world in the 1970s and early 1980s. Several Hungarian firms took part as main contractors in investment projects there. The war against Iran, however, raised difficulties in payments, and from the mid-1980s most of the firms wound up business in Iraq. After the fall of the Saddam regime Hungary was ready to take part in the reconstruction of the country. ITD Hungary established the Coordination Office for Iraqi Reconstruction to help Hungarian firms interested in business opportunities in Iraq. Iraq is one of the major recipients of Hungarian Aid Policy as well, via humanitarian aid and training. Exports racketed in 2005 reaching USD 114.5 million, and then in 2006 they were falling back to USD 75 million, 90 percent of which was made up by mobile phones.

In the 1980s *Algeria* was one of the most important partner in trade, and not only among Arab countries. In 1984 mutual trade reached USD 200 million, of which more than 80 percent was exports.[7] The main export goods were agricultural products (mainly maize, chicken, eggs) and such other well-known Hungarian export products like buses, lamps, electronic fittings and equipments. The Algerian civil war and the political transition in Hungary adversely affected relations.

Hungarian exports grew from USD 7 million in 2000 to over USD 70 million in 2006, with mobile phones (75%) as the major export products and an increasing amount of agricultural products (16%). Imports are still negligible.

Being a mainly western-allied country in the cold war period, relations were insignificant between *Morocco* and Hungary. The contractual base of trade and economic relations was established only in the late 1980s. Until 2003 Hungary had a more or less balanced trade, around USD 20-30 million, with slightly growing imports and fluctuating exports. The main Hungarian export products were wheat, electronic goods and ceresin, while imports constituted of electronic products, clothes and agricultural products (mainly sardine). Since 2004 Hungarian exports multiplied, and reached USD 60 million in 2006.[8] More than 90 percent of exports were machinery (66 percent of whole exports were mobile phones in 2006), the rest were manufactured goods (7%), while the share of agricultural products decreased. The EU-financed programmes may offer new opportunities for Hungarian firms to participate in Moroccan projects.

The majority of import products from Morocco are agricultural goods (80%), while machinery and manufactured goods have a minor share. Following 2003, an ever growing number of Hungarian tourists visit Morocco.

[7] In 1999 Hungarian total trade with the Arab countries were lower than that.

[8] There is a significant difference between Hungarian official statistics and Moroccan trade statistics. According to Moroccan data, Hungarian exports to Morocco were much higher (USD 63 million instead of USD 46 million in 2005) (*Eximbank*).

The relations with *Tunisia* were sluggish before 1990. Until 2002 Hungary used to have a slight deficit in trade turnover. Today it has a robust surplus, with USD 55 million of exports and USD 4 million of imports. Hungarian exports consist of mobile phones (over 60 percent), wheat, maize, pharmaceuticals, lamps and electronic components. The service sector is of special importance in bilateral relations. Hungary is active in oil-research and water-well drilling, and 40-50 thousand Hungarian tourists visit Tunisia each year (*Eximbank*). The imports from Tunisia declined mainly because of the methodological reasons mentioned previously. The main products imported from Tunisia are wires, printed circuits, transformators, inductors, textile products and dates.

In case of *Kuwait*, mobile phones consist around 60 percent of Hungarian exports, besides lamps, computer fittings, automobile components, and food products like cheese and deep-frozen peas. In 2004, there was a minor drop in exports, the reasons of which were selling of fewer mobiles and steelworks, and the growing competition in the cheese market. The proportion of agricultural products in exports has been decreasing; at present it is just over 2 percent. Hungary is the most important exporter from the Central and Eastern European (CEE) region. The imports from Kuwait are marginal.

Syria was also among the traditional partners of Hungary in the region; however, its share in Hungarian exports was steadily shrinking over the 1990s. The mobile-phone-generated Hungarian export boom reached Syria in 2005, and in recent years exports soared from USD 15-20 million to USD 50-60 million. Nonetheless, it is interesting that mobile phones (35%) have an important but not overwhelming role in the exports to Syria. Manufactured goods still have a significant share with USD 19 million (over 40 percent of total), which are mainly chemicals worth USD 15.4 million, but lamps and port cranes are exported as well. Major projects in electric industry may increase the volume of trade. Hungarian imports are modest, and confine mainly to textile products.

With the liberalisation of the Syrian economy, a set of opportunities will emerge for Hungarian firms, not only in traditional trade, but in development projects as well. The services export is not negligible; Hungarian firms are active as subcontractors of the local oil company (USD 20 million in 2003). Syria gives priority to projects in water management, electricity supply and agricultural development. Hungarian firms intend to participate in such projects, and Syria welcomes Hungarian participation, but a lack of appropriate financial instruments set back implementation. Syria has not been satisfied with Hungarian credit facilities; it expects aid-like financing instead of credits, as it works in case of many other EU countries (*Eximbank*). There is still strong governmental influence in the economy, so good relations with the administration – on Hungarian governmental level as well – are essential.

Libya was once an important partner for Hungary in the region, however, the UN embargo against Libya and the political transition in Hungary set trade relations back. From 2005 a rapid increase can be witnessed in Hungarian exports. Not only owing to mobile phones (they make up 23 percent of exports), but mainly because of a boom in food exports. The USD 26 million worth food exports in 2006 (i.e. 70 percent of total exports) represent the highest value in the region.

Bahrain is a new trading partner for Hungary. Before 2000, Hungarian–Bahraini trade relations were marginal, based mainly on the exports of some Hungarian food products. Regrettably, in the last two years agricultural trade could not be registered. In 2005 Ganz Transelektro Electric Co. Ltd (since 2006 owned in 100 percent by Indian Crompton Greaves, a member of Thapar Group) won a bid of USD 18 million to export electric transformators (*Eximbank*). However, in 2006, mobiles still had an overwhelming share (90%) in Hungarian exports.

In case of *Lebanon*, agricultural products have an important role in bilateral trade relations. The exports of agricultural products were between USD 10 and USD 14 million during the whole period. In 2004, mobile-phone exports rose to USD 26 million, then they were falling back to USD 1.5 million, and food represented 65 percent of Hungarian exports in 2006.

In Hungarian exports to *Yemen* agricultural products (dairy, frozen vegetables, meat) have the highest stake (85%). Yemen is the only Arab country to which Hungary did not export any mobile phones (at least not directly).

Qatar is one of the most dynamically developing countries in the region with great opportunities for trade and services activities. The trade volume between the two countries is still low, with a growing share of mobiles (55%) and some other traditional manufactured export goods as lamps. Food exports are concentrated on cheese and other dairies. Qatar intends to increase its liquid-gas exports to Europe but, despite its diversification efforts, Hungary can hardly receive any.

Hungarian trade with *Oman* is relatively insignificant, although with the selling of mobile phones (65 percent of total in 2006), exports increased in recent years. Beside mobiles, Hungary mainly exports other machineries to Oman.

5. Concluding remarks

The increase of Hungarian exports to the countries of the Arab world was astonishing: in the last six years the annual average growth rate reached 44 percent. The rapid pace was mainly due to the export activity of the mobile giant Nokia, which delivered mobile phones made in Hungary to the countries of the region worth USD

1030 million in 2006. Traditional exports were growing dynamically as well, although at a much lower pace.

The opportunity to develop Hungarian–Arab economic and trade relations further still exists. Doors are definitely wide open for Hungarian firms to go into business in the region, and they are welcome in most of the countries. However, local circumstances and business tradition require more time and energy to do a successful deal. Unlike multinationals with global marketing structures, Hungarian small- and medium-sized enterprises need to rely on the help of professional organisations such as Eximbank, ITD Hungary (Investment and Trade Development Agency), and various industrial and trade chambers. The partnership of the European Union and some Arab countries open up new prospects in the diverse developing projects of the region. The participation in these projects, however, needs more intense attention in Hungary toward the Arab world.

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