

## **CROSS-BORDER CO-OPERATION IN THE EXPANSION OF EUROPEAN INTEGRATION**

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The endeavours for creating economic co-operations have been strengthened since the end of World War II. Following the integration process, partially launched within international organisations and initiated in Western Europe in the 1950s, there have been several plans drafted with the intention to co-ordinate and harmonise internationally operated economic and trade systems on a regional basis.

### **1. Sub-regional co-operation in Europe**

The growth period of mass production-based monopolist type accumulation in the industrially developed countries in the 1970s has been replaced by decentralised economic development, which was based on the increasing role of the differentiated market. The previously dominant branches, such as the industry with high raw material consumption, have gradually lost their importance while the territorially more mobile service sector became the real driving force of economic development, which brought about new installation requirements. The newly forming economic structure has elevated regions into the forefront of economic development different from the leading districts of former industrialisation.

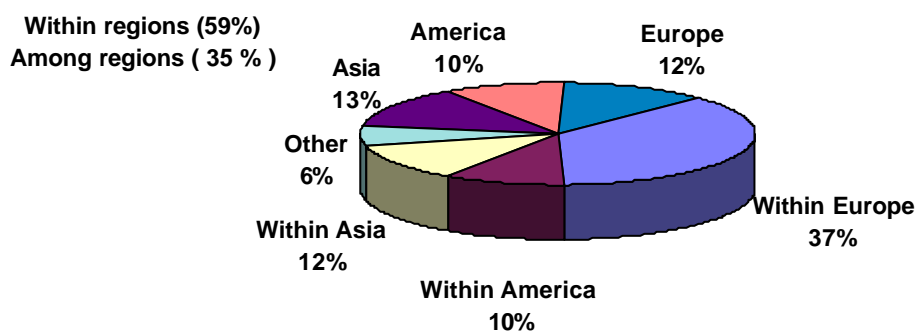


Figure 1: Trade of the world within and among regions (1993)

Source: World Bank, *Global Economic Prospects and the Developing Countries*, 1993 - Figyelo on December 2, 1993

The several-century-old centres of capitalist industry started to decline, while totally unknown areas made steps ahead on the development list of European regions. On the list of regions according to GDP/head in 1950, the region of Southeast-England was fourth, Belgian Flanders was sixth and French Lorraine was ninth. By 1980 these areas had fallen back to places 35, 40 and 28, respectively. Other areas came forward to a significant extent: West-Berlin changed from place 48 to place 5, Baden Württemberg from place 50 to place 8 and Emilio-Romagna (Central Italy) from place 60 to place 40. When analysing this development, we can conclude that the focal point of the European economy will have moved from the Northern France-Benelux-Western Germany triangle towards East, - favourably for Hungary - to the Southern Germany-Northern Italy regions by the millennium. The traditional sources for growth in the North-western European economic cluster, which is based on metropolitan conurbation, are becoming impoverished. At the same time, there are new factors of economic expansion in the Alpine regions, and the introduction of up-to-date systems is not hindered by the inertia effects of traditionally built sectoral, constitutional and regional structures. These two regional structures show insignificant differences in their economic efficiency now, however, certain advantages of the historical centre are indicated (Table 1).

Item	The Alpine regional system (1)	The North-West European regional system (2)	(1)/(2) %
Population (million head)	70.33	72.71	96.72
Added value per head (Th. USD)	13.81	13.78	100.26
Added value (Th. million USD)	972.19	1001.70	97.05
Added value in agriculture (Th. Million USD)	31.76	19.46	163.21
Added value in industry (Th. Million USD)	388.31	349.30	111.17
Added value in service (Th. Million USD)	552.10	632.94	87.23
Number of employed (million head)	27.86	23.04	120.92
Rate of employed in agriculture (%)	7.64	3.30	280.61*
Rate of employed in industry (%)	39.50	39.30	121.85*
Rate of employed in service (%)	52.86	57.40	111.23*
Productivity in agriculture (Th. USD)	15.00	25.66	58.46
Productivity in industry (Th. USD)	35.27	38.66	91.23
Productivity in service (Th. USD)	37.47	47.78	78.42
Density of population (head/sq. km)	165.00	405.00	40.74

Table 1: General Data of the Two European Regional Clusters in 1985, \* according to the number of employed, Source: R. Cappellin (1990) complemented by Gy. Horváth (1991)

It is not accidental then that the Alpine regions started building up their new integration with great intensity. Within the traditional European regional clusters there were no multi-lateral sub-regional co-operations. The intention to cooperate with the sub-regions is determined by the similarity of their respective economic structures, the efforts for structural transition as well as their geographical vicinity and frontier positions. Hungary's chances for being integrated into Europe are enhanced through the newly forming European economic centre close to the country's western borders.

According to the above, it seems obvious that, apart from the European nation states as constitutional units, the roles of regions all around Europe will be appraised.

Cross-border regional associations have been created in Europe for better utilisation of the sources available in regions with mixed nationalities but sharing a common history. 'Euroregion Basiliensis' was formed in 1971 through the co-operation of the Upper-Alsace county in France, Basel and its canton in Switzerland, and the Southern Baden district in Germany. The one-time French-German opposition has been replaced by a harmonised economic co-operation in this area. The three regions are now closely linked as a result of the jointly implemented introduction of up-to-date industrial sectors, and co-ordinated infra-structure investments such as airports, fast transit systems, common use of public transport, jointly organised education at university faculties. The Institute of East-West Security Studies (IEWSS) held its 11<sup>th</sup> annual conference in Basel in 1992 with the aim of drawing the attention of the Central Eastern European countries to the Basel sub-regional co-operation, and offer it as an example to follow. (They recommended that the governments of Central Eastern European countries should create the Carpathian Euroregion, which was established in Debrecen, Hungary, in 1993.)

The International Bodensee Conference was launched in 1972 (with six Austrian, German and Swiss provinces as members), and, at the same time, eleven Austrian, Swiss and Italian provinces organised the Alps Working Community. Then in 1978 the Alps-Adriatic Working Community was formed, and the Working Community of Provinces in Countries by the Danube was created in 1990.

In Western Europe a whole range of economic co-operations have been formed since the early 1970s from simple bilateral or trilateral ones to the multi-lateral integrated clusters. The Council of European Regions was established in 1985 following the initiative of five regional clusters: West Alpine Working Community – COTRAO, Middle Alpine Working Community – ARGE-ALP, the Alps-Adriatic Working Community, the Pyrenees Working Community and the Jura Working Community; and five regional associations organised according to their territory types: Association of Cross-Border Regions, the Conference of Peripheral Coastal Regions, Association of Traditional Industrial Regions and the Union of the Regions of National Capitals.

The Council of Europe plays a crucial role both in the elimination of objections to the international co-operation of regions and in the decentralisation of power. The Madrid Agreement of 21 May 1980 on the decentralisation of cross-border links has affected national legal regulations, and, as a result, the regional communities of the countries ratifying the agreement were given some additional scope of authority. The cross-border regions are allowed to enter autonomously into political or economic co-operations with the adjacent provinces following their regional interests and own ideas. The international aspect in the regional policy serves the development of political and economic democracy through the decentralisation of power and the economy. Participation of the regions in various international co-operations has become legitimate.

Among the European regional co-operations the analysis of the Alps-Adriatic Working Community is relevant to our point, as five Hungarian counties are involved in its work so that directly adaptable experience is available.

The Alps-Adriatic Working Community was officially founded on 20 November 1978 at the regional conference of premiers held in Venice, Italy. The Working Community was created with the participation of Friuli-Venezia-Giulia and Veneto, Italy; Carinthia, Upper-Austria and Steiermark provinces, Austria; Croatia and Slovenia. Bavaria and Salzburg have joined as observers.

The deed of foundation has no international legal status, but was drawn up upon the political consensus of the parties involved and declared the Community to be open. As a result, the number of actively operating regions has reached 18; in addition to the founders, there are new provinces: Trentino-Alto Adige and Lombardy (Italy); Burgenland (Austria); Bavaria (Germany). Ticino/Tessin (Switzerland) became an observer and there are five new members from Hungary as well: Győr-Ménfőcsanak-Sopron, Vas, Somogy, Zala and Baranya counties. The structural formation of the organisation has been finished; the Working Community represents 38.5 million inhabitants living in an area of 284,400 sq. km of land.

The German and Italian regions play a dominant role as 40% of the population is in Italy while 29% is in Germany. The population of the areas involved in Hungary represents 4.5% of the whole (Table 2).

No.	Member provinces	Land Area (thousand Sq. km)	Population (thousand head)	GDP/head in 1986 (thousand USD)
1.	Bavaria	70.553	11.043	14.7
2.	Lombardy	23.856	8.886	11.8
3.	Trentino-Alto-Adige	13.620	882	9.9
4.	Friuli-Venezia-Giulia	7.847	1.210	13.9
5.	Veneto	18.364	4.375	10.1
6.	Upper-Austria	11.980	1.270	14.8
7.	Burgenland	3.965	270	8.5
8.	Steiermark	16.387	1.187	11.4
9.	Salzburg	7.145	442	16.3
10.	Carinthia	9.534	536	11.8
11.	Croatia	56.538	4.672	2.5*
12.	Slovenia	20.251	1.937	4.4*
13.	Győr-Ménfőcsanak-Sopron	3.837	426	5.2*
14.	Vas	3.337	227	5.6*
15.	Zala	3.784	311	6.2*
16.	Somogy	6.036	349	3.8*
17.	Baranya	4.487	432	5.0*
	Total	281.530	38.445	10.7

Table 2: General Data of the Alps-Adriatic Working Community in 1988, \* estimated data, Source: R. Cappellin (1990) complemented with calculations of Gy. Horváth (1991)

There are significant differences between the economic efficiency and sectoral structures of the member provinces. The eastern peripheral provinces can be regarded as relatively well-developed in Hungary and in the former Yugoslavia, where the gross regional production

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per head is half or third of the average 11 thousand USD in the Working Community (based on an estimate by Gy. Horváth).

The competitiveness and comparative characteristics of the regional economic structures show significant differences. As far as the sectoral construction of the member provinces is concerned, they represent mostly post-industrialised structures (i.e., the tertiary sectors yield close to 50% or more of the regional production), while this figure in the provinces to be modernised remains under 40%. The share of agricultural production is high in the peripheral areas.

There were crucial transition processes in the industrial structures of the central provinces during the 1980s. The traditional branches of industry declined and gave way to microelectronics, biotechnology and information technology. The traditional mass production in the garment and food industries was replaced by the manufacture of high quality goods demanded by the diversified market needs.

The structural transition in the areas of the Working Community was accompanied by innovative constitutional changes. The driving force of economic development is now the small and medium-sized company sector.

The deed of foundation determines the framework of co-operation as follows: transportation including railway links, power generation and electricity networks, agriculture, forestry, water management, tourist industry, environment protection, nature conservation, developing cultural and resort zones, regional development, culture and relationships between educational institutions.

The structure and operational regulations are controlled by two basic documents: the 'Common Declaration' drawn up in Venice, Italy, on 20 November 1978, which regulates the governmental level contacts of the participating member provinces; and the 'Proceedings', accepted by the plenary session in Linz, Austria on 20 September 1991. It was accepted as a general principle that the costs of operation incurred in the respective countries should be met by the members themselves. Similarly, the costs of the meetings should be covered by the organiser host member. Finally, it is stated that the regulations of the 'Common Declaration' apply to the committees and working teams as well.

The main body of the Working Community is the Plenary Session of the premiers of the regions, with the chairman nominated by the members for a period of two years in alphabetical order. The professional work of the Plenary Session is assisted by the Committee of Senior Officials and other professional committees and project groups. There are seven committees, which are responsible for the following areas of co-operation: running the co-operation, culture, youth, sports, science; economy and tourism; agriculture; forestry; animal breeding and mountain farming; sanitation and hygiene; social affairs.

The meeting of the chairmen of the chambers of commerce held in Győr and Pécs, Hungary, in 1990 was an important event in the life of the Transdanubian counties: they agreed to establish a common information databank, to set up research centres and working

groups. The problems arising through the creation of the single European market were also discussed. They concluded that the Working Community could play a linking role between the European Union and the former socialist countries.

There was a two-day regional conference held in Nagykanizsa, Hungary, on 8-9 November 1991. The patron of the event was Árpád Göncz, President of Hungary; the chairman was Géza Jeszenszky, Minister of Foreign Affairs, who held a lecture under the title 'Future of the Co-operation of Hungary and the Alps-Adriatic Working Community'. There were various issues discussed in workshops and lectures on the economic, commercial, cultural, transportation and investment policies in the regions. The commercial and economic questions of the small and medium-sized businesses in the region were also discussed. The program of co-operation is now focusing on the establishment of two new institutions: a regional development fund for the strengthening of backward areas, and a joint financial institution.

Having looked at the above examples of more advanced co-operations that are free of all nationality prejudices, let us have a closer look at our own region, North-eastern Hungary, to see whether there is a basis in economic history for creating interregional economic contacts.

## **2. Economic historical background**

The liberal theory of the integration is based on the propositions of classic 'laissez faire' economics as well as on the revival of the traditional doctrine of free trade and the declaration of unlimited free competition. According to the above, integration can be created in the areas where the free flows of goods and services, and the factors of production are realised. Using the definitions by Kindleberger and Palánkai, integration is defined as the tendency of equalisation of the prices of ordinary goods.

Analysing the preferential customs zone as one of the various forms of integration we can state that the countries within the grant each other mutual customs and other trade policy allowances.

This kind of preferential customs system operated in the Hapsburg Empire, and was the first step in creating economic integration during Charles VI (1711-1740) based on a consistent mercantilist policy. Before that, all the kingdoms and provinces had formed their respective self-supporting economic units, but now they made steps for the flow of goods within the Hapsburg empire to be customs-free. The subsequent monarchs continued with this policy and in the end, all the Czech and Austrian provinces were involved in the customs union with the exception of Tyrol in 1775. The countries within the empire gradually developed into a common market. Hungary remained a strictly closed area up to the middle of the 19. century, for the opposition of the nobility enabled them to gain financial advantages through the customs on Hungarian wheat and cattle.

During the two decades prior to 1848, the Hungarian liberal opposition demanded the establishment of a customs union, while right before the revolution it was replaced by the claim for total economic independence. Therefore, after the defeat of the revolution, in

1850 the Austrian-Hungarian customs union was formed as a means of getting rid of the particular tendencies.

As free trade became firmly established within the Monarchy, it made it possible for regions, differing in their natural resources, culture and economic development levels, to trade with each other on the basis of mutual comparative advantages.

At the same time, on the borders of this market of 50 million customers, the import duty reaching one third of the value of the products and strict import limitation quotas blocked the way of foreign competition, thus helping in the development of the domestic industry and agriculture.

The gradually developing economic integration served as a framework for transition of the growth impetuses from the developing western provinces towards the backward eastern ones. This process was so strong that the gap in development between the western and eastern provinces, deepening up to the middle of the 19. century, started to close up in the second half of the century. The reduction of regional differences was more perceptible in the backward areas than in others, but it was effective within the entire Monarchy.

The infrastructure background for trade was extremely good in the empire. The up-to-date transport system and the railway construction, were supported by granting concession rights and a state guarantee on interests. The Monarchy stood in the third place after the Russian Empire and Germany with its railroads in Europe in 1919.

The huge markets of the empire created advantageous economic possibilities for all its parts. There were opportunities for various regions to invest their funds in the most favourable sectors. The problem of foreign exchange was totally unknown within the empire, which promoted its economic growth.

There were few places in the world, with the exception of the United States, England and its colonies, where the economic co-operation between the regions reached so high a level as in the Austro-Hungarian Monarchy. There were strong cartels formed in many of the industries (e.g. iron and sugar), and the division of labour operated perfectly on the basis of comparative preferences.

When analysing the Austro-Hungarian Monarchy and coming to the above rather favourable judgement on the operation of free trade, the focus is on the free flow of goods and services as well as on those of capital and labour force. It was beyond the scope of this paper to analyse the political aspects and the colonialist endeavours of the more developed regions towards the under-developed ones.

In the 15<sup>th</sup> and 16<sup>th</sup> centuries with certain temporary fluctuations, 20-30% of Hungary's foreign trade transactions was realised with the Czech-Moravian provinces and Silesia, and 7-15% with Poland. The decisive item in the imports was broad-cloth, coming from Czech-Moravian territories and Silesia; 60% of the wine, the main export product went to Poland. In addition, considering the trade contacts between the present territory of Slovakia and

Hungary, to the south, lead to the conclusion that up to the end of World War I, half the trade of the present territory of Hungary had been realised with the present Poland, Czech Republic and Slovakia.

In 1918 the Austro-Hungarian customs union fell apart into seven different states, and the parts that had been backing each other became hostile towards each other. All of them lost some of their economic efficiency, thus the break-up of the customs union caused damage to the peoples inhabiting the area. Agriculture and certain branches of industry were cut off from their natural markets and from their sources of raw materials: e.g. the Ironworks of Rimamurány lost its mines in Gömör as well as the Ironworks in Vitkovici lost the iron ore from Rudabánya. The previously existing regional contacts were replaced by political and economic discrimination. On the other hand, the statistics prove that the tradesmen found a way of realising their turnover through compensation transactions. In 1922 Hungary realised as much as 66.8% of its total foreign trade turnover with the neighbouring countries. This high percentage decreased only in the period of the world economic crisis of 1929-33 as a result of strengthening protectionism (it was 43.5% in 1933), then went on decreasing due to the German influence.

Country	1922	1924	1929	1933	1935	1940	1942
Austria	32.4	27.8	21.7	23.9	19.1	-	-
Czechoslovakia	20.5	23.8	19.0	8.6	4.7	6.6	6.8
Romania	8.8	6.0	6.8	5.2	9.2	3.0	0.8
Yugoslavia	5.1	5.7	5.5	5.8	4.2	5.0	0.9
Share of neighbours from the total turnover	66.8	63.3	53.0	43.5	37.2	14.6	8.5

Table 3.

Source: Book of International Statistics

The territorial revisions following the Vienna Treaty led to a partial restoration of the economic co-operations between the adjacent parts of the countries. In our area it meant that the iron metallurgy in the triangle of the rivers Rima, Murány and Hernád regained its normal economic status, moreover, the agricultural products from North-eastern Hungary could be sold to the citizens and food-processing plants of the re-annexed territories.

After World War II the structures of production, consumption and distribution of our region were totally destroyed, which was followed by the establishment of the COMECON. That was a special economic organisation, where the main trading partner for the newly created states was the Soviet Union.

The Soviet Union remained the main foreign trade partner for the countries that belonged to the eastern block until the termination of COMECON in 1991. The share of 23-25% of the Soviet Union in the foreign trade turnover resulted in a one-sided relation or dependence at the macro-economic level.

The Soviet-type centralised economy, the introduction of state control over foreign trade and the monopoly of foreign exchange as well as the intention of autarchy hindered the realisation of the customs union, which was broken up in 1918, and also presented



obstacles in the realisation of natural foreign trade contacts. Certain trade opportunities were available through the so-called local border transactions implementing a wider selection of goods available, whereas the management of the actual transactions was decided in the ministries of the respective capitals, ignoring the direct players in the market, and they were realised through specialised foreign trade companies.

We have to turn to economic history when defining what we call now Central Eastern Europe. In his book *Summary of Three Historical Regions in Europe* Jenő Szucs refers to historical Hungary and the regions northward from it: Bohemia, Prussia, (the Baltic area), Poland along with their adjacent provinces as a relatively united historical region showing similarities in their structures. This area is situated between Western and Eastern Europe, and has certain 'hybrid' features as well.

In the 10<sup>th</sup> century Hungary belonged to Eastern Europe, when the Kiev Empire, lying between the Baltic and the Black Sea territories, and being an economic focus of that period, with contacts in the Arabic world, was one of the main target areas for Hungarian foreign trade. Prague in the north belonged to this circle as well, while the southern boundaries went down as far as Perejaslavce at the Black Sea and Byzantium. In the middle of the 12th century we can find the same commercial-geographical system in this area, and the contacts to the western economies – through the mediation of Regensburg – were merely of secondary importance.

The regional power relations were changed in the 13<sup>th</sup> century because the dynamism of the 'second period' of western feudalism turned into expansion, that is, it moved beyond the rivers Elbe-Saale to the river Lajta, and attracted Hungary's attention. As a result, Hungary turned towards economic centres like Venice or Brugge while moving along the Vienna-Regensburg axis, leaving behind the Kiev and Byzantium regions. The essence of the change was that Hungary and the adjacent regions could provide ground for the establishment of western type forms of feudalism. On the other hand, it did not mean that Hungary or the surrounding regions became automatically 'westernised', as, while the western forms of feudalism started to take roots, they underwent certain modifications in almost every field.

This led to its peripheral position in direct proportion to the way the new structures with distortions and weaknesses had been built in the originally Eastern European infrastructure and circumstances. (Péter Hanák divides Central Europe into two main parts: a western one and an eastern one. Central Eastern Europe is drawn as it is depicted by Jenő Szucs, but he includes Switzerland as well in the western part.)

### **3. Foreign trade cooperation in the Carpathian region**

Hungary had to face for the third time the loss of its foreign markets in the 20<sup>th</sup> century. The first shock hit with the decomposition of the Austro-Hungarian Monarchy, which was accompanied by losing territory. As it was indicated in the lines of Table 3 in the previous section, the way out was an increase in the exports to Germany starting in the 1930s, but it was what led to the second shock after World War II, namely, this market also closed down

for Hungary. At that time the Soviet Union, and later the COMECON, represented a fixed point. The third shock for Hungary's economy was the termination of the co-operation within the COMECON on 31 December 1990.

The changes in the market, which were emphasised in the period of restructuring, turned Hungary's attention to the European Union and the Association of European Free Trade.

As it was analysed and stated in Section 1, there is no real alternative for Hungary other than becoming an integral part in the world economy and of the European integration. At the same time, the foreign trade co-operation with the direct neighbours can contribute to the preparation for appearing in the more demanding Western European market as well as to solving certain regional problems.

The quiet revolution of the recent past resulted in the fact that Hungary, after introducing market economy institutions and conditions, restarted the previously perfectly operating system of foreign trade co-operations in the Carpathian region after a seven decade long dormant period, based on the traditional trading cities and towns.

Taking a map of Central Eastern Europe, and drawing a circle with a 250 km radius around Sárospatak, Hungary, - one of the towns of historical importance in the region - we can see several towns and cities with traditionally prosperous trade within the circle: Mukachevo, Ushgorod, Lvov, Ivano Frankovsk (Ukraine); Rzeszow, Krakow, Przemysl, Krosno (Poland); Kosice, Presov, Banska Bistrica (Slovakia); Arad, Oradea, Cluj-Napoca, Satu Mare, Baia Mare (Romania). All of them represent potential markets and infrastructure backgrounds for the foreign trade co-operation, along with the process of political and economic stabilisation.

With the achievement of free crossing of borders and liberalisation of commerce, they provide the markets for the products and consumers of the Carpathian region directly, with exclusion of unnecessary steps.

We have to take a closer look at the experiments for creating an institutional framework for external political and economic co-operation in the Central Eastern region and in the immediate sub-region, with special attention to the implemented ones. In this analysis the various forms of co-operation will be shown starting at macro, through intermediate, ending up with micro levels.

### *3.1. Central European Initiative (CEI)*

The Central European Initiative is the widest and somewhat loose framework of political and, to some extent, economic co-operation in Central Europe. It was founded by the premiers at their meeting in Vienna on 18 July 1992, following the proposal announced at the Klagenfurt Conference of foreign secretaries of the region. It started under the name 'Pentagonale' (1990), then became 'Hexagonale' with Poland joining in 1991. This 'loose co-operation agreement' was initiated by Gianni de Michelis, then foreign secretary of Italy (EBRD Annual Economic Review 1992), with the aim of a regional expansion for Italian capital. When launching this new regional co-operation in the vacuum of power politics

(the Soviet and German interests were otherwise engaged), he proposed the creation of new types of co-operations that could contribute to economic stability for the co-operating countries in the region through provision of additional resources.

Being better developed, Italy and Austria thought that they could strengthen their positions and influence through the new co-operation opportunities and could develop their conditions for working capital. Another element of the initiative covered the possibility to improve the acceptability for working capital if they effectively contested the assistance of international financial institutions within the framework of regional co-operation.

All these concepts appeared as objectives to be implemented in late 1993, since all that had been outlined within the framework of CEI meant the mere presence of ambitions; the contacts between small countries may have perspectives that can contribute to the process of integration into the European Union.

There were nine member countries in the CEI in 1993: Austria, the Czech Republic, Croatia, Poland, Macedonia, Italy, Hungary, Slovakia and Slovenia. (Bosnia-Herzegovina was accepted as a member at the Vienna conference of 1992, but suspended its membership.) At the same time, Belarus, the Ukraine, Bulgaria and Romania approached CEI officials with their requests for membership.

Thirteen working groups have been established within the CEI in order to co-ordinate the activities. These are responsible for the following fields: environment protection, flow of information, statistics, tourism, communication, cultural affairs, education and student exchange, energy, migration, small- and medium-sized businesses, shipment, science and technology, prevention of catastrophes, agriculture. The European Bank of Reconstruction and Development (EBRD) and the CEI operate a secretariat within the EBRD to financially support conduction of all the feasibility and technical studies and to mobilise the necessary financial funds.

The co-ordinator of the working group of small and medium-sized businesses is the Hungarian Ministry of Industry and Trade. The main objective of the program is to establish a computerised information system, compiling data on the economic environment of the member countries' enterprises, and on the institutions assisting private businesses, and to mediate the search for partners. It seems to be rather problematic to harmonise the guidelines for setting up the network as the member countries show differences in their states of development and regulations. The first bilateral agreement for the exchange of information systems has been concluded between Slovakia and Hungary.

### *3.2. The Visegrád Group Co-operation (VGC)*

The termination of the Warsaw Treaty and the COMECON led to the end of the political and economic bloc in Central Eastern Europe. After their last meeting in 1991, the leaders of the three countries, Czechoslovakia, Poland and Hungary, which are the front runners in European integration, had talks in Visegrád, Hungary in 1991. One of the main issues of the meeting was to outline the possibilities for free trade co-operation between them. They, however, refused to form an integrated bloc with a fear of generating aversion in Western

Europe. They even declared that the co-operation served also their will to ensure complying with the rules and co-ordination in the race towards Europe.

The fact that the rate of foreign trade with the neighbouring countries reached its lowest point in 1990 (Hungary realised 4.1% of its total foreign trade turnover with Czechoslovakia and 1.8% with Poland) indicated that 'natural' co-operation had disappeared. This can be traced back to the unilateral dependence existing in the Soviet bloc.

Apart from the intention to develop trade relations with each other, it could be essential for the participating countries that in the predicted 10-15 years required for full membership in the EU, the difficulties of the transition to market economy can be reduced through this co-operation. On the other hand, their chances for integration into Western Europe may also be enhanced. Agreeing with the experts of the field, the author anticipates that the Visegrád co-operation process will help the countries in their integration into the global economy.

The territory and population of the three countries represent a market similar to that of re-united Germany (Table 4), although its economic potentials reach only a fraction (about 1/7). The very low level of the three countries' foreign trade can be regarded as an indicator of the reserves of transactions missed so far in the mutually advantageous co-operation. That means that the market potential represented by the three (today four) neighbouring countries, which are in the same stage of transition to market economy and nearly in the same state of economic development, should not be undervalued. Especially, if we consider that one of the main reasons for economic recession is the loss of markets. In terms of the inflow of working capital, the current foreign trade co-operation exerts a great attraction, and the possibilities for the free flow of goods and production elements within a market of 64 million are greater than what is achieved currently.

The committee responsible for transport has outlined several huge projects, e.g. the construction of the Trieste-Budapest-Kiev motorway, and the Prague-Budapest-Rijeka motorway and railroad.

At the meetings of the foreign secretaries and premiers of the CEI members in March and July 1993 the political and economic objectives of the organisation were confirmed and as it was emphasised 'the CEI represents a special type of regional co-operation that contributes to the European stabilisation and co-operation'. (Declaration, CEI. 23 March 1993 Budapest, Hungary)

The prospects of the foreign trade co-operation within the CEI co-operation can be determined on the basis of the improvement of the regional conditions. They can develop economic programs, having the financial sources secured on a business basis, but they do not deal with direct development of commerce. The further operation of the CEI can be envisioned only if the member states are able to focus on the fields and economic programs that can be useful for their majority.

The main economic issue of the CEI, the development of regional infrastructure, is very much on the agenda and can contribute to the implementation of the main objective of integration with Western Europe. After the COMECON came to an end causing disintegration in Central Eastern Europe, the CEI as a political framework established at high level encourages the enterprises, professionals and experts to find their potential partners in their respective regions. With Italy and Germany among its members, CEI may contribute to the establishment of common interests between the West and the East.

	Population million heads	Land area Sq. Km	GDP billion USD	GDP/head
Hungary	10.6	93,030	32	3000
Czechoslovakia	15.5	127,870	54	3500
Poland	37.9	311,700	76	2000
Total:	64.0	532,600	162	2565

Table 4: Population, Territory and GDP of Hungary, Czechoslovakia and Poland (1988),  
Source: East Europe Databook CSFB Economics and National Statistics, (quoted by I. Illés-Mizsei-Szegvári 1991)

The successful implementation of the co-operation is supported by western politicians and professionals, for the West is interested in the stabilisation of the entire region instead of the stabilisation of individual countries in Central Eastern Europe. The co-operation within the Visegrád Group can also reduce the threat of the migration of masses to the West and contributes to the broadening of their markets in Central Eastern Europe. Furthermore, it reduces the burden of the adjustment to the fast increase in Central Eastern European exports and, finally, it can lessen the incidence of nationalism in the Central Eastern European regions.

The potential fields of co-operation with the four countries – in agreement with Iván Illés - are concentrated on four different issues. The first thing is effective joint action in the field of foreign relations. The countries were successful in acting jointly towards the European Union, although the EU regarded the countries involved as one.

The second package of co-operation recommendations covered the financial co-ordination (Central European Payment Union CEPU), which was also initiated by the West, based on the former institution of EPU, although it was not received positively.

The third circle of proposals within the co-operation aimed at the elimination or at least, the moderation of commercial barriers, with the specific objective of establishing a free trade agreement between the countries involved. The termination of the COMECON resulted in a rather strange situation: the VGC countries entered contracts of association with the EU and the European Free Trade Agreement, thus giving rise to a whole range of asymmetrical interim agreements, while the neighbouring countries treated each other according to the policy of greatest benefits. The interest and willingness of the EU to assist in this issue can also be perceived, as it was necessary to establish the VGC free trade agreement for the adoption of the cumulative regulations. The Central European Free Trade Agreement (CEFTA) was signed in Krakow, Poland on 21 December 1992, and it came into force on 1

March 1993. Thus practically, the Central Eastern Countries, which are situated on the peripheries of the Western European integration centre, were opening up mutually their markets to each other after they had signed a number of contracts of association and free trade agreements with the 'centre'. They open up their markets gradually and at some speed for the benefit of the contractors of the 'centre' countries.

This means that, as a result of the different agreements signed with countries in the European Economic Territory and the Central Eastern European regions, the (not wholly) free trade will be the basic form of the mutual economic contacts.

The fourth issue in the VGC countries' co-operation is the flows of capital and workers between the countries involved. In close correlation with increasing unemployment, the flow of workers seems to have lessened in the past couple of years. In this field, however, it is necessary to build up the legal institution system, which would be responsible for controlling the conditions of employment. The regulation of the flow of capital would be useful not primarily in the flow between each other, but in drawing the great capital exporters' attention to the region.

Within the VGC, especially after the Czech Republic became independent, it is repeated again and again that the Group is no longer an organisation with the aim of assisting and promoting integration. On the other hand, we can say that the Czech unwillingness did not really threaten the free trade agreement, which was the most tangible result of the co-operation. In addition, urging joint action and the intention of co-ordinating the integration process are not included in primary objectives of the VGC countries' foreign trade policies.

We can conclude that the rising period of the Visegrád co-operation has ended and in the remaining fields without concrete programs the countries involved seek new types of forums (e.g. one similar to the CEI co-operation) to strengthen their relations with each other. This type of outcome would not diminish the results that have been reached in trade liberalisation.

### *3.3. Forms of Intermediate-Level Co-operation in the Carpathian Region*

For the geographical determination of the North-eastern Hungarian cross-border, interregional economic relations the most useful point of reference is the eastern border of the one-time Austro-Hungarian Monarchy.

The determination we use runs along a well-defined cultural, religious and economic fracture line. However, some people think about the revival of the common past within the monarchy.

The above determination of the Carpathian region includes the following: six districts in South-eastern Poland (Krakow, Tarnow, Nowy Sacz, Rzeszow, Krosno, Przemysl); in East Slovakia the territories eastward from the Roznava-Poprad line (Bardejov, Spišská Nová Ves, Presov, Humenne, Michalovce, Trebisov and the Kosice area); in the Ukraine the territories of Lvov, Tiernopol, Ivano Frankovsk and Chernovtsy; in Romania seven counties

(Satu Mare, Maramures, Bihor, Salaj, Bistrita-Nasaud, Cluj and Suveava; and in Hungary the counties Borsod-Abaúj-Zemplén, Szabolcs-Szatmár-Bereg and Hajdú-Bihar.

The area determined above makes up a territory about 200 thousand square km with a population of 17-18 million. Considering its size, this region may attract international capital, offering investment possibilities and a huge market, especially when thinking of the inner parts of the countries involved that can be reached through the parts within the circle.

Apart from the geographical position, there are some other aspects that connect the territories within the Carpathian sub-region:

- a. The historical past, as all of them used to belong to the Austro-Hungarian Monarchy. When they were parts of the same country, up-to-date infrastructure and transport system were established. However, they are now disused as they were broken into parts, but could be used again if integrated and would serve as the driving force for development (railroads between Sátoraljaújhely-Lvov, Debrecen-Chernovtsy)
- b. Cultural and religious heritage. This has three main elements: the roots of the national cultures of the majority of people living in the region are in the sub-region. Secondly, the Byzantine type (Greek) catholic religion was native in the North-eastern parts of the Monarchy and has spread and is alive today in this area mostly. Thirdly, Galitsia, Bukovina, Sub-Carpathia, Northern Transylvania, the Nyírség and Zemplén used to be territories in Europe with a significant Jewish population. (In 1910 the number of Jews was about one million, which meant about 40% of the total Jewish population in the Monarchy.)
- c. There is another common feature of the areas involved, which is that they are all have peripheral positions in their own countries, which justifies their turning towards each other. When examining the negative points of the co-operation, we can mention a lack of the necessary capital and experience for the development in the region; the relations of the regions are burdened with nationalism, sometimes even at the level of state politics.

There were certain forms of cross-border economic co-operation realised under the socialist regime. Naturally, these were limited initiatives, such as the local cross-border trade, provision of agricultural machinery, assistance in harvesting etc. However, the idea of creating institutional co-operation with a broader scope was initiated only after the transition.

The intermediate level sub-regional co-operation was first outlined and launched in Poland in 1991. It was initiated by the Polish Ministry of Foreign Affairs along with the easternmost district, Krosno. They sought contacts with Sub-Carpathia and six districts in Slovakia, which form what is called the Carpathian Region (Varanno, Humenne, Michalovce, Trebisov and Bardejov), and in Hungary with offices of the County Representative of the Republic in Heves and Borsod-Abaúj-Zemplén counties.

The initiative was so well-managed that the Czechoslovakian president, Mr. Havel, and the prime minister, Mr. Calfa, took part in the founding conference in 1991, which was held in Michalovce, Slovakia, with the aim of establishing sub-regional co-operation. It was

expressed in the declaration that the state leaders of the countries in the region would assist in establishing the co-operation between the administrative bodies, the local governments. They would also foster sub-regional external economic relations through co-operation in market-based development and the mutually advantageous trade in goods and services. There was also a decision on connecting the information networks of the participating countries in the sub-region. They considered the initiation of establishing free-trade zones and customs-free areas through the national government offices to be a crucial task.

After the conference in Michalovce, Slovakia, there were meetings held in Ushgorod, Ukraine, and in Miskolc, Hungary, ending with the one in Jaslo, Poland, on 15 February 1992 with the title 'Possibilities and Perspectives of the Sub-regional Co-operation between Poland, the Czech Republic, Slovakia, Hungary and Ukraine'.

The final document issued by the conference emphasised that the parties disclosed their willingness to foster the cross-border co-operation of the neighbouring territories in the economy and culture. They agreed that the trade and economy-related activities should be given priority within sub-regional co-operation. They also agreed to compile their respective domestic regulations and laws on foreign trade and on setting up joint ventures; to give assistance in organising border-region trade fairs and exhibitions through co-ordinating their dates. The participants also discussed the establishment of an investment credit bank in the Carpathian Sub-region, and accepted that special attention should be given to the technical development of infrastructure along the borders, focusing on transportation and communications, as well as on the improvement of customs services and border crossing.

In the framework of the co-operation the first conference on regional economic development in North-Hungary and East-Slovakia was organised in Michalovce, Slovakia, on 10-12 June 1992. There were presentations on the conditions for establishing joint ventures with foreign partnership and on the possibilities of the Slovak-Hungarian economic co-operation and payment relations. There were 30 Hungarian companies present at the exhibition organised in the framework of the conference.

This co-operation formed the basis of the organisation work aimed at establishing the 'Carpathian Euroregion' in 1992. The Institution for East West Security Studies (IEWSS) held its 11<sup>th</sup> annual conference in Basel, and the issue for discussion was regional and sub-regional co-operation. The aim was to draw the Central Eastern European countries' attention to the Basel sub-regional co-operation and to recommend it as a model to follow. A similar concept of co-operation for the regions of the countries in the Carpathian territory was worked out by the European Studies Centre of the IEWSS, which operates in Stritini, near Prague. This was aimed at the development of co-operation in economy, politics and cultural life. In the meantime the IEWSS was reformed under the name Institute for East West Studies (IEWS), chaired by John Edwin Mroz, who founded the original IEWSS in 1981 in New York. The organisation is a non-profit, non-governmental organisation with the involvement of American, Japanese and European partners, controlled by an international board under the leadership of Hans Dietrich Genscher.



The Deed of Foundation of the Carpathian Euroregion was signed in Debrecen, Hungary, on 14 February 1993 by the representatives of the state administration and local governments of Sub-Carpathia. The signatories included representatives of the Krosno and Przemysl districts (Poland), of Heves, Borsod-Abaúj-Zemplén, Szabolcs-Szatmár-Bereg and Hajdú-Bihar counties (Hungary) in the presence of Catherine Lalumiere, the Secretary General of the Council of Europe, and the Ukrainian, Polish and Hungarian ministers of foreign affairs, Anatoli Zlenko, Krystof Skubisewski and Géza Jeszenszky,

The representatives of the Romanian territories and the mayors of Kosice and Presov, Slovakia, attended as observers. The circle of founders of the Carpathian Euroregion was completed with Przemysl, Poland, and Szabolcs-Szatmár-Bereg and Hajdú-Bihar counties, Hungary. Slovakia was represented by Igor Kosire, head of the foreign department.

The 'Declaration of Foreign Secretaries on the Co-operation of Peoples in the Carpathian Euroregion' (Debrecen, 14 February 1993) emphasises that the meeting was aimed at strengthening sub-regional co-operation in the cross-border areas according to European political and cultural values on the basis of market economy principles and practices.

It was expressed that the Carpathian Euroregion would be established by the local governments and the local representatives of state administration in the territory of the Carpathian mountains and the river Tisza with the participation of Hungary, Poland, Slovakia and the Ukraine to create their long lasting co-operation.

The signatories also confirmed that the organisation was open towards the local communities and authorities of Romania. They accepted that the participating countries would work out the organisational structure and principles of operation on the basis of their respective laws and regulations but with respect to their free discretion.

Similarly to the Alps-Adriatic Working Community, it is accepted in the Rules and Regulations that the Euroregion does not represent an organisation above the states, but all members are considered to be equal, regardless of size or population.

Among the objectives of the co-operation priority is given to the development of economic co-operation, along with creating better conditions for it as well as to co-ordination of development planning. Apart from this, the participants seek the possibilities for improving their relations in the fields of environment (waters, air and soil), culture, entertainment and sport, health care, tourism and local border traffic, co-operation in trade, exchange of information and communication.

The structure of the Euroregion is as follows: the Council, Secretary General and Working Committees (economic, cultural and control). The organisation forms a general opinion and works towards a reconciliation of views, but does not take legal responsibility. The operational costs of the Council and secretariat are met by the participating countries proportionally, but the program costs are to be covered by the organising party. The first Secretary General was Adam Peziol, head of Krosno district, in 1993 and Pál Virág, County Representative of the Republic in Debrecen, was elected secretary general in 1994.

At the regular meeting of the Council of the Euroregion in Vozdrec, Krosno district, on 28-29 December 1993, the Romanian counties Satu Mare and Maramures joined as members, county Salaj attended as an observer. Ukraine suggested that the territories Lvov, Chernovtsy and Ivano-Frankovsk should be involved in the co-operation. They were accepted together with Kosice and Presov (Slovakia) and county Jász-Nagykun-Szolnok (Hungary). Thus, in the first year, the organisational structure was established and some project planning and implementation started.

There are also certain contradictions around the establishment of the Euroregion.

- a. The interests of the national governments in the regional integration are different. Ukraine is mostly interested in joining Europe through this co-operation and in toning down the Sub-Carpathian ambitions for autonomy. Hungary also has two justifiable concerns, one is economic development, and the other maintaining relations with the Hungarian nationalities beyond the borders. Poland seeks for ways to strengthen its position as a medium-sized power. Slovakia may play a central role in the co-operation having theoretically great interests. Romania is mostly interested in Moldavia, and although the referendum in March 1994 expressed opinions on ambitions for sovereignty, there were no practical foundations.
- b. There are sources of conflicts between the national governments and the regions in the participating countries. This kind of conflicts can be found in the co-operation of Western European regions as well: the leaders of the regions and provinces demand an increasing scope of economic and external political competence while, at the same time, the centres try to hinder the international activities from becoming too independent.
- c. The third type of conflict is generated between the regions and local governments within the respective countries, and is rooted in the competition for prestige.

#### *3.4. Micro-level Initiatives for Co-operation*

The Carpathian-Tisza Foundation was registered at the Court of Registration in Nyíregyháza, Hungary on 15 October 1990 as a foundation of the County Council of Szabolcs-Szatmár-Bereg, the Hungarian Credit Bank and two private individuals. In addition to the banking and entrepreneurial sphere, they were able to attract support from some leaders of the Hungarian National Bank, the Ministry of Finance and the Ministry of Foreign Affairs. (Géza Jeszenszky, minister of foreign affairs supported the idea of the Carpathian-Tisza Working Community in his speech at the Pentagonale summit meeting in Venice on 31 July 1990.)

According to the founders' conception, it was necessary to establish an organisation in North-eastern Hungary following the model of the Alps-Adriatic Working Community in the west, which provides the framework for many-sided co-operation of the region with the neighbouring cross-border territories.

The Letter of Intent was signed in December 1991 by representatives of Poland (Przemysl), Ukraine (Sub-Carpathia), Romania (Satu Mare) and Hungary (Borsod-Abaúj-Zemplén, Hajdú-Bihar and Szabolcs-Szatmár-Bereg). The aim of the co-operation was – as declared – to re-establish the real interests and values of the earlier relations between the regional local

governments, entrepreneurs, companies and citizens. Apart from the historical traditions, the conception is built on all the experience that was gained in the past 30 years of the cross-border regional and sub-regional co-operations, which led to the creation of the current Western European co-operations.

Foreign trade co-operation includes the establishment of direct relations between the various enterprises, manufacturing and service companies in the fields of production and distribution. The Working Community has to create a suitable institutional framework for co-operation in order to build and improve economic relations; to jointly improve the conditions for mutual investments and those from a third country; to set up joint ventures and create preferential conditions of operation for them. It must not be forgotten that the participating regions are relatively backward areas within their countries, thus their positions can be improved more effectively through the implementation of joint projects that relieve strained relations. The Working Community can assist in the establishment of small and medium-sized businesses and co-operatives. For this purpose, it is advisable to set up a common information system. (Declaration on the establishment of the Carpathian-Tisza Working Community 18 December 1991, Nyíregyháza, Hungary)

The Deed of Foundation of the Carpathian-Tisza Working Community was initialled in Nyíregyháza on 20 March 1992 after negotiations with governmental institutions. However, it was not signed, for as the IEWS outlined the concept of the Carpathian Euroregion at a conference held by the Carpathian-Tisza Foundation in May 1992, they took the initiative to widen the organisation to include Romania and other north-eastern Hungarian territories.

The first activity of the Carpathian-Tisza Foundation was to assist a joint research project conducted in Debrecen and Kiev. The project aimed at creating a relation between agricultural production in Szabolcs and the Sub-Carpathian region and at developing it through integration, along with the prospects of a clearing-house as a beginning for future financial institutions.

The Carpathian-Tisza Entrepreneur Club was founded with the help of PRIMOM Enterprise Foundation in July 1991, and it prepared the installation of several terminals of a business information system in the neighbouring cross-border counties (Ushgorod, Beregovo and Satu Mare).

The Foundation is aimed at economic co-operation and was launched with a business approach supporting sub-regional foreign trade co-operation in the Carpathian-Tisza region, especially in the micro sphere. Thus, it contributes to the success of the Carpathian Euroregion as well.

Another form of implementing sub-regional co-operation at micro level is through the relations between regional chambers. Its contractual framework, the Co-operation of Carpathian Chambers was founded in Lillafüred, Hungary, on 20 April 1993. It is free of politics and stands very close to entrepreneurial interests. The heads of the Ushgorod, Lvov, Kosice, Michalovce, Rzeszow, Rijeka, Oradea and the North-Hungarian regional chambers of industry and commerce were co-signatories. They expressed their willingness to improve

economic relations between the regions they represent; to promote direct trade relations between the enterprises through an exchange of information on foreign trade, customs, legal and price-control issues; to provide market analysis data on a regular basis and to assist their members to establish mutually advantageous forms of co-operation.

Moreover, the eight chambers in the six countries, having similar problems, deemed it necessary to take a pro-active role in the regular exchange of information and experience, and to put proposals for the elimination of hindering elements in sub-regional foreign trade towards the competent regional or national authorities.

The third form of co-operation at micro level is cross-border relation between individual local governments. This can obviously generate direct economic advantages only for the range of enterprises in the areas involved; nevertheless, it should not be undervalued. This kind of co-operation can be found on both sides of the borders, and its importance is seen in general development, improvement of employment and increase in revenue in the given town or village.

The macro-, intermediate and micro-level forms of sub-regional co-operation detailed above all contribute to the development of foreign trade relations, but based on the author's personal experience, the most successful development can be found in the micro-level relations of companies, enterprises and institutions.

The complementary economic relations, first established in the Austro-Hungarian Monarchy in the second half of the 19<sup>th</sup> century, can be re-established after an interval of eight decades at the level of co-operations between local governments, institutions and enterprises, provided legal framework of the free market is available.

To summarise, it can be pointed out that the pre-conditions for the co-operation of peoples living in the Carpathian Euroregion are developing rather favourably both at macro- and regional levels.

#### **4. Summary**

The paper interprets the definition of cross-border co-operation, presents the European practice of sub-regional co-operation, and gives a historical and economic summary of the former regional economic relations of Hungary.

The author analyses the macro-, intermediate, and micro-level frameworks of the foreign trade co-operations in the Carpathian Region.

The final conclusion is that it is possible to reconstruct the relations between the complementary economies, which were first established in the Austro-Hungarian Monarchy in the second half of the 19<sup>th</sup> century, after eight decades at the level of local governments, institutions and enterprises, within the framework of the internal market in the European Union.

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To summarise all this: the conditions of macro- and regional level co-operation of the people living in the Carpathian Euroregion are developing in a favourable way.

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