

International economic cooperation in the Carpathian region

by

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Introduction

We are going to look into the past and future of the potentialities of economics cooperation in the region, named after the Carpathian mountains. This region is made up of regions of five countries - the Czech and Slovakian Federal Republic, Poland, Hungary Rumania and Ukraine - in Middle-East Europe that will be defined later at the definition of this region. This paper is trying to set an example of regional, upward building, mutually beneficial economic cooperation development after the ceasing of the East-European military and political block in 1990-91. In order to avoid misunderstanding it must be declared that the regional cooperation's not thought to be an alternative to the European integration, but a step towards becoming a European country, in which cooperation we can prepare for a more extensive cooperation.

However, is must also be emphasised that, because of the depressed economic situation and unsettled market conditions of these subregions, country regions, they can give less economic impulse to each other as it might be given by developed countries in a new "Marshal Plan". This paper presents the potentials and the initial results of cooperation, because it wants to draw the attention of those potential investors, who want to establish business with direct capital investment in the bordering region of these five countries, to the region's natural and economic advantages.

The Carpathian region is a historical and geographical continuation of the "Euroregion Baseliensis", which was established by the French-German cooperation, the Alps-Adriatic Partnership and the Adriatic-Danube (Pentagonale) Partnership. It is believed that Europe's former economic centres - due to the excessive industrialisation, environmental pollution, urbanisation - from the developed British and Middle-European regions will move to the above mentioned natural region, where - mainly through small and middle sized business - the establishment of new European economic centre of power can be observed.

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Hungary as a member of Alps-Adriatic and Adriatic-Danube regional cooperation can play as a bridge between East and West with the extension of the idea of regional cooperation towards the East.

A further remark: it is believed that a really good and successful international cooperation may develop out of such regional cooperations with mosaic-like build-up referring here to the European Community's expansion and association policies.

In the following the historical background of cooperation in the Carpathian region will be described.

Overview of the economic history

The integration's liberal theory is based on the theories of classical civil economics, on the assumptions of the traditional freetrade doctrine and on the promotion of perfect competition. According to this theory, integration is possible where the free movements of goods, services and factors of production are realised. "I define the economic integration as the levelling off of the cost of production factors in other words the levelling off of salaries, interest and profit". [1]

By looking at the preferential custom zone within different forms of integration it is clear that countries in this area provide custom and trade political advantages to each other (e.g.: the British preferential customs system, created in 1932 [2]).

As an economic integration the Hapsburg-Empire had such a preferential customs system. Under the ruling of Károly VI. (Charles) (1771-1740) - the third as a Hungarian king - this system's development started in the Hapsburg-Monarchy, in the spirit of consistent mercantile policy. Up to that time each kingdom and province were an independent economic entity, but he introduced transit, i.e. he took steps so that the goods produced in one Hapsburg country could be transported to other country duty-free. Following rulers also followed this policy and in 1775 the Czech and Austrian provinces (except Tyrol) became part of an integral custom union. Slowly all the countries of the empire became part of a unified market. A division of labour was developing between the provinces. Wool and glass were produced in Bohemia, textiles in Moravia, iron in Upper-Austria and luxury goods in Vienna for the whole Monarchy.

Only Hungary remained economically strictly delimited until the middle of the 19th century. This situation wasn't brought about by the Hungarian chauvinism, but the nobility's narrow-minded policies. By referring to their ancestral feudal privileges they refused to pay taxes and so it was only possible to get financial contribution from them through customs on Hungarian wheat and cattle, etc.

The main demand of the Hungarian liberal opposition in the preceding two decades of the revolution in 1848 was the customs union, but just before the revolution the total economic independence's slogan came to the front. This very effort was the main reason for that after the fall of the revolution in 1850 the Austro-Hungarian customs union was created as an instrument to exclude the particularist tendencies. [3]

Freetrade in the Monarchy made it possible for the regions with different natural resources, culture and level of economic development to develop mutually advantageous trade among themselves on the basis of comparative advantage. At the same time the international competition was stopped at the borders of the market of 50 million customers by import duties, which were one third of the value of the goods and by strict import controlling quotas to promote the development of industry and agriculture.

The economic integration was developing and served as a compass to the spreading of impulses of growth from the developing western regions to the less developed eastern regions. This process of spreading was so powerful that the development gap, which had been growing till the middle of the 19th century between the West and East, started narrowing in the second half of the century. The lessening of difference was more the characteristic of

certain, less developed regions than of others, but it could be felt throughout the Monarchy. [4]

In the Empire the infrastructural background of trade was taking shape favourably. The development of modern transport system was aided by concessions handed out for railway constructions and by interest guaranties accepted by the state.

In 1919, after the peace talks near Paris, which meant the conclusion of World War I, the Austro-Hungarian customs union was broken up into 7 parts. The complementary areas of the country, which up to that time were helping each other, changed into self-sufficient, perhaps even hostile states and each of these have lost part of their economic efficiency, so the end of the customs union was harmful for people living in this region.

The agriculture and some of the industrial sectors were left without ready market and were cut off the resources of raw materials. For example the Ironworks of Rimamurány lost its iron ore mines at Gömör and at the same time the Ironworks of Vitkovic lost its iron ore resources at Rudabánya. Discrimination, political and economic oppositions have taken the place of the former regional economic connections inside the Monarchy. The statistical figures however show that tradesmen have found the way to realise - mainly in the form of compensation transactions - their turnover.

Territorial settlements following the Vienna Decisions (reannexation of Upper Hungary, North-Transylvania and the Vajdaság) have temporarily, though only partly, restored the economic cooperation among the neighbouring areas of the country. In our region for example the iron and metal industries between Rima, Murány and Hernád rivers came again to normal economic connection, or North-Hungarian agricultural products found customers among citizens and food industries of the reannexed territories.

After World War II the region's structure of production, consumption and distribution that developed during centuries, disintegrated totally. In its place the COMECON's peculiar international economic organization has been formed and the Soviet Union became the main trading partner for each of the small successor states.

Carpathian Region

The peaceful revolutions of the recent past brought about the recognition that with the introduction of market economy, why can't we revive the earlier smoothly running regional foreign trade cooperations in our region - that are in the seventh decade of their Sleeping Beauty sleep - starting from towns having long economic history.

If we draw a circle with a radius of 250 km around Sárospatak - one, out of the several towns that has a long history - as its centre on a map, several towns can be found in the circle with long economic history like from Ukraine: Munkachevo, Ungvar, Lvov (Lemberg), from Poland: Rzeszow, Cracow, from Slovakia: Kosice, Banska Bystrica, from Rumania: Arad, Oradea, Cluj, Satu-Mare. This offers opportunities of potential cooperation in the fields of infrastructure and market with political and economical stabilisation and with the liberation of border passing and economy, which means that the products and consumers of our region will be able to reach this market not indirectly, but directly. [5]

According to the line of thought the geographical definition of the region by the Regional Research Centre of the Hungarian Academy of Sciences can be introduced. This Centre proposes that the borders of the Carpathian region should coincide with the eastern borders of the former Austro-Hungarian Monarchy, because the last 70 years were not enough to make the former economic and cultural unity's remains totally disappear.

Another fact that supports the argument is: in the eastern parts of the Monarchy the religion of Byzantine ritual was spread and, which symbolises a bridge between East and West by observing Orthodox and Greek features and at the same time by joining Rome. The Carpathian region comprises nearly 200 thousand km² and about 20 million people, which

means such a great market - especially if we also take into account the transmissional role of the different areas of a country in the country -, which makes it possible to arouse the attention of international direct investments.

The region is formed by the following geographical-administrative units: in South-Poland: Cracow, Nowy Sacz, Tarnow, Rzeszow, Krosno, Przemysl voivodeships. In Czechoslovakia the Middle- and East-Slovakian area. In Hungary: Borsod-Abaúj-Zemplén, Szabolcs-Szatmár-Bereg, Hajdú-Bihar counties. In Rumania: Bihar, Satu Mare, Salaj, Cluj, Maramures, Bistrita-Nasaud, Suceava counties. In Ukraine: Lvov, Zakarpatye, Ivano-Frankovsk, Ternopol, Csenovci areas.

The prime-ministers and head of states of Czech and Slovakian Republic, Hungary and Poland, who have areas in the Carpathian region and who is a leader in developing market economy, have met again after 1335 in 1991 in Visegrad. One of the targets of the meeting was to outline the free trade cooperation among the three countries. They rejected the idea of fording an integration or a block and "they develop their economic cooperation, based on the market, and the mutually advantageous trade of products and services to promote the free movement of capital and workforce, and further more they are trying to make favourable conditions for direct cooperations between companies and for the international capital investment to increase the efficiency of the economy". Besides others the signed Cooperation Statement contained this paragraph.

Beside the real difficulties of economic cooperation an equally important problem is the formerly suppressed nationalism, which in this region is growing from the level of people's nationalism to the level of state nationalism. Because of the lack of middle-classes in this region's changing societies this dangerous situation could be solved by the pacification and development of entrepreneurial thinking of workers of large factories, and by the development of the middle-classes.

Carpathian-Tisza Regional Partnership

The previously demonstrated economic and social difficulties conceal certain contradiction in future possibilities of the regional cooperation. In June of 1991 my theory seemed somewhat Utopian, but for me it is becoming increasingly realistic - and the following details also reinforce it - that there would form and develop a cooperation in the Carpathian region similar to the Alps-Adriatic partnership. [6]

Among the regional cooperations, until today, the agreement between the "Visegradian Threes", formed at the Visegrad Meeting, deserves attention. The three concerned counties declared in Prague in the spring of 1992 that in the summer of the same year they declare a Central-European Free Trade Area (CEFTA). But similarly to the partnership agreement with the European Community the contacts on the macro level only mean a framework for the contacts between companies, institutions.

From the second half of the 19th century complementary economies were formed in the Austro-Hungarian Monarchy. Finding each other and organising themselves again after 70 years may start at a micro level in these economies.

Another line of building cooperation in the region is the development of economic relationships between North-Hungary and East-Slovakia. Which was earlier unthinkable in this region is becoming reality: on the other side of the Hungarian border a branching off is built towards Hungary on the gas line the borders, because the gas can be bought from the neighbouring countries. Similarly it is a positive achievement of the cooperation that several new border crossing station are to be established in the region.

In order to establish regional cooperation, the Carpathian-Tisza Regional Partnership was formed on the 20th of March 1992 from the former foundational organization. Unfortunately the declaration was only signed by the administrative authorities of Poland,

Hungary and Ukraine, but the mutual cooperation is open to all the areas of the region and an active effort show itself to extend the organization of cooperation.

The legislation of the countries concerned in the Carpathian region made it possible for foreigners to setup joint ventures even with foreign majority.

In Czechoslovakia the Federal Ministry of Finance's authorisation is necessary to setup a joint venture. A written application has to be handed in to the court of competent jurisdiction for the registration of the firm at the Court of Registration, which must contain the partnership contract and the firm's fundamental rule attested by the notary. It is also necessary to have a minimum of 100-thousand-Crown starting capital and a minimum of 20-thousand-Crown foreign ownership. The joint venture will be granted with two years of exemption from taxes and with two years of tax allowance.

In Poland to start an Ltd. a minimum of 10-million-Zloty and in the case of a share company 250-million-Zloty is necessary as nominal capital. The venture's foundation documents must be registered at the notary and then comes the registration of the firm at the Court of Registration, at the Statistical Office and at the tax office. Additional permissions may also be required in connection with the planned activity of the firm.

In Rumania an investment permission has to be obtained from the privatisation agency in Bucharest. This permission and the planned foundation documents and the planned partnership contract have to be attested by the notary and than have to be submitted to the competent committee, which hands out the licence to practise. Following this process a request must be submitted to the county Court of Registration to register the firm. Than the confirmation of the registration together with all the documents must be handed in to the Directorate of Finance, which also hands out a licence of practice. At the foundation of an Ltd. a minimum of 100-thousand-Ley of the nominal capital must be in cash.

In Ukraine the Company Law is applicable to the joint ventures that are founded by foreigners. The minimal nominal capital has to be 100-thousand-Roubles (share company) and 50-thousand-Roubles (Ltd.). Besides the foundation documents the registration's another condition is to present the rules of activity at the local government and at the local offices of the Ministry of Finance. Joint ventures, having a minimum of 100-thousand-URSD foreign participation, are exempted from taxation after their profit for five years, 50% of their export is tax-free, they can export without special permission and they can import equipment and materials necessary for the production from their foreign currency allocation in the budget without any restriction.

The three concerned countries in the region are establishing a free trade area (CEFTA) based on mutuality and graduality - similar to EFTA - from the 1st of January 1993 in Middle-East Europe. The objectives in this area are to demolish customs and customs-like trade barriers, to establish a 70-million market and to move the economies of the concerned countries closer to the EEC-EFTA relationships.

It can be seen from the previous parts that the regional cooperation in the Carpathian region also getting closer to realisation. The governments of the concerned countries are contributing to the achievement of these objectives by controlling the demolition of trade barriers on the level of laws, by deepening the relationships with the neighbouring countries and by handing over the licences for regional cooperation to regional agencies. The real realisation depends on the people, on the ventures, on the local governments and on the institutions living and working in this area. I would like to contribute to this goal by recommending and realising foreign economic technical means and real projects.

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