

Aspects of Cooperation within the Visegrad Group

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Abstract

The collapse of the socio-economic system and with it of this system's rules of international cooperation, based on the COMECON formula caused a breakdown of trade between the former socialist countries. The establishment of the Central European Free Trade Area may stand a chance of becoming a turning point in the development of relations between the countries of this region. This article claims that it is hard to expect a immediate breakthrough in mutual economic relations within the Visegrad Group since all of them are struggling with similar problems and have similar export profiles which make for mutual competition rather than complementariness. An important role could play gradual normalization on a new footing. Especially in accelerating the process of socio-economic change and attainment of compatibility of systems. The deepening of mutual economic ties could become an important asset strengthening the bargaining and negotiating position of the Visegrad Group countries in their relations with the European Community. Finally, the Visegrad Group can perform the important function of an organization piloting the development of cooperation between the countries of Western and Eastern Europe.

Περίληψη

Η πτώση του κοινωνικο-οικονομικού συστήματος και η ταυτόχρονη κατάρρευση του εμπορίου της συνεργασίας στα πλαίσια της COMECON συνέβαλε στην αποδιοργάνωση του εμπορίου μεταξύ των πρώην σοσιαλιστικών χωρών. Η δημιουργία Χώρου Ελεύθερου Εμπορίου στην Κεντρική Ευρώπη CEFTA μπορεί να αποτε-

λέσει κρίσιμο σημείο στην ανάπτυξη των σχέσεων μεταξύ των χωρών αυτής της περιοχής. Στο παρακάτω άρθρο υποστηρίζεται ότι είναι δύσκολο να προσδοκάται άμεση ανάκαμψη των αμοιβαίων σχέσεων της ομάδας των χωρών του Βίξεγκραντ. Όλες αυτές οι χώρες αντιμετωπίζουν παρόμοια προβλήματα και έχουν το ίδιο εξαγωγικό προφίλ γεγονός που ευνοεί περισσότερο τον αμοιβαίο ανταγωνισμό απ' ό,τι τη συμπληρωματικότητα. Η βαθμιαία ομαλοποίηση της κατάστασης σ' αυτές τις χώρες, ιδιαίτερα όμως, η επιτάχυνση της διαδικασίας των κοινωνικο-οικονομικών μεταβολών μπορεί να διαδραματίσει σημαντικό ρόλο. Στο άρθρο διατυπώνεται η άποψη ότι η εμβάθυνση των αμοιβαίων οικονομικών δεσμών μπορεί να καταστεί παράγοντας ενδυνάμωσης της διαπραγματευτικής θέσης της ομάδας των χωρών του Βίξεγκραντ με την Ευρωπαϊκή Ένωση. Ταυτόχρονα, η Ομάδα Βίξεγκραντ ενδέχεται να διαδραματίσει στο μέλλον ρόλο οργάνωσης που προωθεί την ανάπτυξη της συνεργασίας μεταξύ των χωρών της Ανατολικής και Δυτικής Ευρώπης.

Introduction

The conclusion on 21 December 1992 in Cracow in Poland of an agreement on establishment of Central European Free Trade Area stands a chance of becoming a turning point in the development of relations between the countries of this region. Any attempt to analyze this problem needs to be preceded by an evaluation of the expectation from development of the subregional cooperation in Central Europe.

All those countries expect –first of all– an increase in the influence and a strengthening of the bargaining position in the process of association of each country with the European Community. It means, the securing of the most convenient terms possible on the route to full membership of the Community. The lesson of the practice is that much greater weight is carried in the negotiating process by arguments backed by rationalization of action on a regional scale than by ones which have to do with individual national cases. This derives from the experience of the negotiating process of the countries of Southern Europe, Spain and Portugal in particular and the rules that have arisen in the Community's external relations with such regional groups as the Maghreb or the Carribean countries.

Cooperation within the Visegrad Group should –parallelly– be expected to yield a deepening of action aimed at harmonization of systemic transformation and conforming the mechanism of its countries' economies to the standards, rules and requirements of the European Community. This applies in particular to such detailed aspects of systemic transformation as price-determination policy, which governs the shape of price relationships on the internal market of each country, and the principles of development of the capital market and consequently of the financial and banking systems.

Indispensable harmonization is also required by tax and tariff policies and the principles of developing joint production ventures. In the whole of this sphere the application of matching rules is necessary.

Finally, the subregional cooperation of the countries of the Visegrad Group has the chance to act as a catalyst of economic cooperation on a much larger scale, especially in the sphere of development of economic ties between Western and Eastern Europe.

Causes of the Breakdown of Trade between the Visegrad Countries

The collapse of the socio-economic system brought in its wake a veritable breakdown of trade between the former socialist countries [Buiques, Ilzkovitz, 1992]. It is worth to note there that the trade within the COMECON grouping went into downturn as early as 1989 and then plunged steeply in 1990 and more drastically still in 1991-1992. The effects of the collapse of trade within the CMEA are clearly shown in Table 1 below.

Table 1. Foreign Trade of the Visegrad countries since 1988

	Czechoslovakia	Hungary	Poland
Intra-CMEA trade as % of total (1988)	50.5	44.6	43.0
Cumulative % decrease of intra-CMEA trade, 1985-92	7.2	40.5	59.5
Cumulative increase in trade with West, 1989-92	62.1	59.1	52.3
Increase in imports from EU, 1988-92	5.4-11.4	8.8-16.4	7.8-15.3
Source: Kolankiewicz (1994), p. 35; Polityka-Eksport-Import (1994)			

It seems useful to analyse the evolution in foreign trade more detail. Let us take as example the Polish trade. In 1985 Czecho-Slovakia received 6.2 percent of Polish exports and was a major source of Polish import procurements (over 6 percent). Hungary was the destination of over 3 percent of Poland's exports and accounted for a similar share in Poland's imports [GUS, 1986, p. 5]. The 1991 data indicate that the two aforementioned countries' share of Polish trade decreased drastically. Czech-Slovakia with an indicator of 3.3 percent for imports and 4.6 percent for exports is now of far

less significance in Polish trade than Holland or Switzerland (GUS, 1992, p. 5). Hungary, with which Polish trade fell to under 1 percent in 1991 (0.9 - import; 0.7 - export) [GUS, 1992, p.5], has slipped to a very low place on the list of Polish trade partners. The longer term prospects are without a doubt infinity better even if account is taken only of the most natural and obvious factors determining import absorption and export creation capacities.

The fundamental factor in the process of breakdown of trade in this region was the collapse of "really existing socialism" and with it of this system's rules of international cooperation, based on the COMECON formula. This was a formula which ensured the possibility of taking advantage of the natural economic complementariness between the centre of the structure of so-called socialist integration and the countries located at the periphery. In this case the core economy performed the role of supplier of raw materials and fuels plus so-called heavy technology for their initial processing and recipient of products with a greater input of value added [For a detailed analysis see: Rown, Neuberger, 1968; Holzman, 1976]. In these circumstances the emergence of complementary networks among the countries surrounding the centre was made extremely difficult. What asserted itself instead was a tendency to develop economic structures of a similar and so competitive character. It is worth to look there at the lack of competition in those countries in terms of the Burenstam Linder preference-for-similarity hypothesis [Linder, 1961]. Burenstam Linder stresses the role of domestic demand in shaping a strong production and marketing base for future export expansion. Without the domestic market test, by and large non-existent in permanently disequibrated economies, enterprises manufacture goods of inferior quality, often technologically obsolete, that are not easy to sell even at a discount. It should also be noted that goods from COMECON countries also cannot be measured by the next Burenstam Linder test, the similar markets test [Linder, 1961]. This is the case because all those economies -under pressure of persistent excess demand- are equally lenient with respect to quality requirements [Winiecki, 1991, p. 187; Winiecki, 1988]. The abrupt disintegration of COMECON has left not only an institutional but also a structural vacuum. It is because of this that the heritage of the effective economic ties makes them as ill-adapted as they are at present to utilization of international trade as a major dynamy of economic development. Simultaneously, the arbitrariness of the settlements system, based on the transferable rouble, ruled out calculation of the cost-effectiveness of international exchange.

The next important explanations for the drastic decline in trade lies in a change in the system of settlements of transactions within the group. The essential elimination of an artificial unit of account like the transferable rouble and the switch to settlements in convertible currencies and world prices produced immense problems of adjustment to the new conditions [Berg, Sachs, 1992, pp. 117-173]. There appeared wholly new

incentives to choice of trading partners. The introduction of convertible currencies in settlements meant the creation of preferences for markets in which goods could be purchased of much higher technological and performance standards than those available on the markets of Central and Eastern Europe. That being so, there arose an understandable tendency to maximize exports to COMECON trading partners payable in convertible currencies but minimize such imports. This fact alone greatly reduced the trade creation possibilities. It also goes without saying that matters were not helped by a shortage of these convertible currencies, the only sources of which could be either surplus in trade with the West or western credits.

An enormous role in the slump in trade was played by the deep economic recession which has gripped all the countries of the region, though with varying degrees of severity. To a large extent it is an inescapable price of the transformation process [A detailed examination of the process of transformation in these countries see: Portes, 1993; Lipton, Sachs, 1990; Newbery, 1991, Charap, Dyba, 1991]. The principal cost exacted by this process was an inevitable cutback in production capacities. This fact strongly affected the momentum of international trade, reducing effective demand and the ability to absorb imports and create exports.

Finally, adoption of a strategy based on a fundamental opening of the economy to the world, and Western Europe in the first place, resulted in trade with western countries with market economies becoming in the years in question the sole channel of an absolute growth of trade (see Table 1 above). It could not however offset the collapse of eastern markets, while lack of progress in reorganizing economic relations on the subregional plane developed into a clear barrier to rapid integration of the economies of the post-socialist countries with West-European economic structures [see: Hamilton, Winters, 1992, pp. 67-116; Senior Nells, 1991]. But the fact is that these countries can occupy a significant place in the economic policy of the West themselves and creating a stable bridge between the western and eastern halves of Europe [For a summary of this view see: Inotai, 1992].

The above diagnosis of the causes of the slump in trade and economic cooperation within the Visegrad Group delineates also the areas in which adjustment to the requirements of these countries' new economic development strategies and implementation of undertakings furthering the normalization and then invigoration of mutual economic relations is essential. The first task must aim at bringing the economic systems of the countries of this region into increasingly close alignment so that the organization of relations between them can be grounded in rational market principles. The second task is the necessity of removing the barriers which have arisen in international cooperation as a result of the flaws in the structure of these countries' economic development and exerted a direct influence on the kind of economic ties that have evolved between them. The first of these tasks in a sense a precondition of the

second since compatibility of systems creates the indispensable groundwork for applying similar tools, instruments and methods of simulating trade and cooperation. Within the group of four countries discussed here there seems to be a favourable soil for attaining compatibility of systems since all of them have embraced a similar strategic development option. The fact that Poland, Hungary, the Czech Republic and Slovakia have association status has, as it were, predetermined the formula governing these countries' systemic transformation. In the existing conditions the Visegrad Group is potentially best suited to tackling the tasks of subregional cooperation since they are wedded to similar strategic objectives and detailed goals connected with the process of ongoing systemic change.

Barriers to Cooperation within the Visegrad Group

It has to be remembered that the market of the four countries in question is an area which adds up to some 65 million consumers and also has the advantages of geographical propinquity, a quite well-developed transport infrastructure, a similar model of consumption, and market requirements standards typical of medium level of industrial development [For a brief summary of Commission-funded research on "East Central Europe 2000", see: Gorzelak, 1994]. However, making the most of these opportunities will be very difficult. Identification of the barriers slowing the momentum of trade is, therefore, an indispensable first step towards activating mechanisms aimed at simulating international cooperation.

It is important to distinguish two groups of barriers: one in the sphere of political relations and second in the currently existing structure of economic ties within Visegrad Group.

The first group is connected with the legacies of the past and first of all with the legacies of the system of so-called socialist integration within the COMECON framework which formed a major disincentive to the undertaking of new exercises in institutionalization of the forms of mutual economic ties. The process of seeking new economic arrangements is also affected by an unstable political situation with abrupt changes of course in economic policy and inability of too short-lived governments to frame long-range and stable strategies for development of subregional cooperation. Each member of the Visegrad Group nurses fears of having to pay the price of defects in the economic system of any of the others. Countries which have been most successful in controlling inflation, for example Czech Republic are afraid of expanding cooperation with the other partners where inflation is much higher and the budget deficit larger [see: Dyba, Svejnar, 1991]. Hungary, which has enjoyed the relatively most dynamic inflow of foreign capital fears that an excessive tightening of economic

ties with the countries of the region which are less attractive in this respect could weaken the interest of foreign investors in this country [For summary data on foreign investment see: Commission of the European Communities, 1990]. In Poland where systemic transformation had advanced farthest and where are promising symptoms of emergence from the depth of the recession there are fears that the crisis in the Czech Republic and Slovakia and the persistence of recession in Hungary could slow down the process of economic recovery when it becomes necessary to adjust to the requirements of the economic policy of the other members of the Group. Finally, there is also unmistakable competition between each of the countries of the region over the pace of movement towards closer relations with European Community [Kolankiewicz, 199, p. 482].

The second set of barriers should be traced to the currently existing structure of economic ties within the Visegrad Group. The most striking feature of the evolution in the trade is a dramatic fall in the share of machinery and technical equipment which until recently were the dominant item in the mutual trade of the countries of this region. On the other hand, there was a very steep increase in the share of raw materials and others primary products [see: Okolocsanyi, 1993, pp. 19-22]. It looks like a stage, at which the most attractive part of domestic output is expected to markets outside the Visegrad Group. It seems unlikely that this trend can be reversed until a deeper restructuring of the production capacities of each of the member countries is brought about by the pressure of strategies of adjustment to the West-European market and the dramatic slump that emerged in the sphere of investment in all the countries of the region is turned around.

Prospects of Cooperation

The decision about an establishment of Central European Free Area, which came into effect on 1 March 1993 from the chief plane of action aimed at restructuring commercial relations between the countries of the Visegrad Group. A definite timetable has been adopted –under the terms of the agreement– for reduction of tariffs and non-tariff barriers within a period of five to eight years. A reduction of trade barriers will proceed along varying line for each of three commodity groups. For example all tariff restrictions were lifted on 1 March 1993 for industrial goods with little value added, raw materials and goods which in each of the countries are produced in quantities which fall far short of meeting internal market demand. In second group reductions will began in 1995 and each year tariffs will be lowered by one – third of the base rate with the result that complete liberalization of trade of trade can be expected in 1997. The last group, with the longest period of elimination of traffic restriction, which is expected to began

in 1995 and complete in 2001, consist of primarily products with the greatest degree of vulnerability to international competition. During the period of vulnerability to international competition. During the period of construction of the free trade area the most strongly protected area of the economy will continue to be agriculture. In this area each country will have possibility to introduce additional means of protecting the agricultural market (Kwiecinski, 1994, p. 34).

The negotiations showed that implemetation of the aims of the free trade area agreement will be beset with serious difficulties. It is worth to note the difficulties with the implementation of the principle of symmetry of benefits. The scale of the markets of the individual countries varies, changes in the established structure have been great and the methods of protecting internal markets are extremely diverse. It is likely that it will prove objectively impossible to arrive at complete equilibrium of benefits, especially in a static and short term perspective. There seems to be a case for supplementing this principle if seen in dynamic terms with the criterion of the trade creation effect for the group as a whole without detriment to the individual interests of the participants in the liberalization process. But for the countries of Visegrad Group this agreement is not an end in itself but only an instrument and tool for accelerating the integration of the countries concerned with the European Community. The advancement of this goal will be better served by the consequences of increased trade flows within the group than by observance of the principle of symmetry of short term benefits.

The second direction of action of critical importance is an indispensable improvements of the conditions of mutual financial settlements. Settlements continue to be extremely troublesome operations, which is only partly justified by the fact that none of the Visegrad Group country has yet moved to external convertibility of domestic currencies. A more useful area to be explored in the sphere of financial relations would be the idea of creating a ramified system of settlement banks, which could play a very constructive role in the process of gradual movement from development of bilateral relations to the plane of multilateral action. The internal financial systems of the Visegrad Group countries and the formulas for settlements between them should be more clearly directed to acceleration of the adaptation to the European Monetary System.

Critical importance to the prospects of expanding subregional cooperation is the restructuring of the production capacities of the Visegrad Group countries. Account must be taken of the fact that industry structure will continue to converge so that opportunities for intensification of economic relations can only arise as a result of deepening intra – industry complementariness at an increasingly high level of specialization. The Visegrad Group represent too small makret to be able solely by means of development of mutual relations to eliminate the structural gap inherited from

the past and make up the arrears in development of industrial civilization. A broad field for manoeuvre in this area is, however, opened up by the possibility of adjustment of economic structures in Poland, Hungary and the Czech Republic and Slovakia through the effective inclusion of these countries in the inter – industry and above all intra – industry division of labour between the European Community and associated countries.

Conclusions

From the analysis conducted here follows that from the strictly economic point of view, and ignoring the numerous political frictions between the countries of the Visegrad Group, these countries, though close neighbours, have failed to develop intensive cooperation till now. All of them are struggling with similar problems (an antiquated economic structure, technological obsolescence, shortage of capital, small domestic markets) and have similar export profiles which make for mutual competition rather than complementariness. That trade between them has so far been not very large is not, therefore, surprising. The establishment of the Central European Free Trade Area (CEFTA) is a means of reinforcing mutual ties and thereby facilitating cooperation once these countries have entered the European Union. Paralelly, it is hard to expect a breakthrough in mutual economic relations between countries of Visegrad. However, gradual normalization on a new footing could play an important role for those countries. Especially in accelerating the process of socio – economic change and attainment of compatibility of systems. These are indispensable preconditions of a consistent marketization of mutual economic relations. The deepening of mutual economic ties could become an important asset strengthening the bargaining and negotiating positions of the Visegrad Group countries in their relations with the European Community.

If advantage is to be taken of the emergent opportunities in the longer term a number of conditions have to be fulfilled. First, construction of an effective free trade area requires treatment of the symmetry principle not statically but dynamically. And the criterion of effectiveness of liberalization should be tied to the subregional trade creation effects. Next, improvement of the settlements system in mutual trade should go in the direction of tying the group's monetary relations more closely to the European Monetary System. Third, action aimed at harmonization of systemic change and attainment of compatibility of the instruments, tools and methods of economic policy requires expansion of the Visegrad Group institutional infrastructure. Finally, subregional cooperation within the Visegrad Group must be treated as a means of implementing the strategic aims of the member countries' development. It should be a group looking not only to the West but also the East. It can perform the important function of an organization piloting the development of cooperation between the

countries of Western and Eastern Europe. Acting as a bridge for the development of these relations, the Visegrad Group has a chance of enhancing its position and significance in European Union and countries of Eastern Europe.

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