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Is the Greek road to EU membership suitable for Hungary too?

(How can the Greek model be adapted to Hungary?)

1. COMPARING GREECE AND HUNGARY

The two countries have almost the same population (10 million) and area (132,000 and 93,000 square kilometres for Greece and Hungary respectively). Per capita GDP in Greece fell considerably behind the average in the EC (63%) before Greek admission, and the same figure currently amounts to 40% in Hungary. In both countries agriculture and foreign trade in agricultural products play an important role.

2. GEOGRAPHICAL POSITION

Both countries are situated on the periphery of Europe, (EU?) in a geographic and economic sense. „Europe" has decided that both countries should be integrated into itself. For some time now (more than a decade), both countries have played the role of „outposts of Europe". As a result of history, both countries have national minorities which have remained

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outside the national borders. For these reasons, cross-border economic co-operation, common environmental protection and management policy have been particularly necessary.

Hungary, together with Greece seems bound to remain the outer boundary of the EU, an „outpost" of welfare state, advanced Europe for a long time yet. In terms of accessibility and economic geography Greece is an „island", having no direct line of land communication with the other member states of the EU. On admission, Hungary however will, functionally speaking, be directly integrated into the European division of labour.

Figure 1
An integration map for Greece and Hungary;
5+1 model for integration into the EU

3. ECONOMIC PARAMETERS

As far as the macroeconomic figures are concerned, both countries are far from fulfilling the Maastricht criteria. Greece has been excluded from the first round of admissions to EMU because of her rate of inflation, budget deficit and high government debt. Although the Hellenic government's programme for admission to EMU has already been completed, no drastic measures (such as quickening the pace of privatization and cutting back the number of state employees etc.) have yet been taken.

Although the Hungarian government too has taken drastic measures at the end of the nineties in order to fulfill the Maastricht conditions (cutting inflation, stabilizing government debt), it is now clear that even given EU membership, our nation will not be a full member of the EMU by 2002. In particular, the inflation rate cannot be cut to the desired level by that time.

Table 1
Fulfillment of the Maastricht criteria in Greece

Item	EU criteria	Greece
Inflation (%)	3.3	4.5
Interest rates (%, annual average)	8.5	10.0
Budget deficit (in % of GDP)	–3.0	–3.0
Debt (in % of GDP)	60.0	102.9

It should be noted that of the 15 EU member states, Greece has been deliberately excluded from admission to EMU, while Denmark, Sweden and the United Kingdom have so far declined to join.

It is clear that at the end of the twentieth century the primary driving force behind modernization in both countries is financing by foreign working capital. In this respect, neither Hungary nor Greece can rely solely on scarce domestic capital. The European transfers are basically designed to help establish the proper economic climate; such as infrastructure, human resources etc. Unfortunately, neither the Greek nor the Hungarian economy are strong enough to rival others in the keen competition on the advanced European market.

During the nineteen-nineties, the increase in Greek GDP generally fell behind the EU average (3% in 1998). Hungary, however, could at the end of the nineties, boast of an increase in GDP in excess of that within the European Union (5.1% in 1998).

Figure 2.
Increase in GDP in real terms in the EU and Greece from 1980 to 1996[1]

Following the change of regime, the rate of increase in Hungarian industrial production quickened in the second half of the nineties.

This was particularly true for the engineering industry and its exports.

During the same period, the rate of increase in Greek industrial production slowed down and the process of industrial modernization unfortunately came to a sudden halt. The most important sectors of industry continue to be textiles, woodworking and metallurgy and oil refining, followed by the engineering industry.

So far as tourism (the number of visitors in millions) is concerned, both countries rank among the first ten on a global scale. Tourism is of vital importance for the maintenance of the balance of payments in both Greece and Hungary.

[1] OECD Economic Outlook.

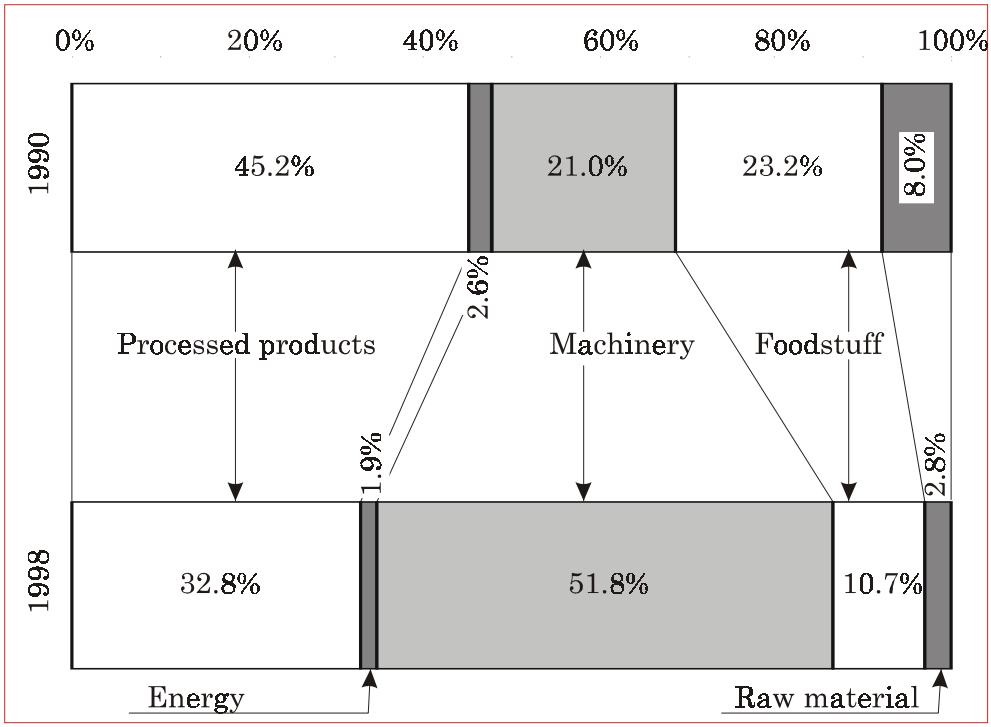

Figure 3
Structure of export by main commodity groups during the transition period[2]

4. AGRICULTURE

Since the agrarian sector is of paramount importance for both countries, a separate comparison of the sector in both countries is given below.

Table 2
Role of agriculture in the two countries[3]

	Greece	Hungary
Percentage of those employed in agriculture, forestry and fishing	13.7	7.9
Contribution of agriculture to GDP	14.9	6.7

[2] IKIM and GM.
[3] KSH and OECD Economic Survey – Greece

In both countries the importance of the agrarian sector has somewhat diminished. Today, the percentage contribution of agriculture to Greek exports amounts to 25%, whereas in Hungary, the same figure has fallen from 25% to 11%. In both countries the modernization of agriculture has been hindered by both natural and structural factors. However, as the list below also shows, the degree and effect of these factors are different in the two countries.

Table 3
Natural and structural factors of Hungary's and Greece's agriculture

Factors	Relation
Ratio of small farms	Hungary < Greece
Drought	Hungary = Greece
Backward farming on highland	Hungary < Greece
Level of agrarian education	Hungary > Greece
Animal husbandry/plant cultivation	Hungary > Greece
Backwardness of agrarian marketing and trading organizations	Hungary = Greece
Mediterranian plant cultivation and keeping of sheeps and goats, fishery	Hungary < Greece
Cattle, pig and poultry husbandry, growing of grain crops	Hungary > Greece

In order to implement the agrarian reform initiated by the EU in 1992, Greece applied for and subsequently received, financial support. The Greek government intends to achieve the following:

- Percentage employed in the agrarian sector; 19% by 1999;
- Share in GDP of the sector; 13%;
- Percentage of those over age 55 employed in farming; cut to 53%;
- Ratio of plant cultivation to animal husbandry; down to 32% from 65% in favour of the latter.

Currently (1999), the equivalent Hungarian figures are all better as compared to the Greek figures. Thus, the Hungarian figures conform better to EU requirements.

It can be ascertained that the roles tourism and agriculture play in the management of natural resources are very similar in the two countries considered. On the other hand, both countries are „light green" as far as environmental protection is concerned.

5. CONCLUSIONS

The comparison of Hungary with Greece an EU member country geographically and historically closest to it, shows that Greece was in a less favourable position when it started on the road towards European integration than Hungary will be in the future. The modernization of Greece, the process of bringing the Hellenic state closer to the core area of the EU has fallen behind at the end of the 20th century. The macrostatistics from other similar integrating states, e.g. Spain and Portugal, are much more reassuring.

Hence, it can be ascertained that mere participation in the integration process does not automatically amount to catching up with the core states. The so far unsuccessful attempts made by Greece to modernize, show that the benefits associated with integration can only be expected on the basis of a sound domestic economic policy.

On the other hand, the example of Greece also demonstrates that protection for traditional products and their production, as well as improvement of these products, will continue, even after integration into the EU (see the agrarian sector).

Keeping track of the economic processes in the two small countries is of interest for two reasons; Greece is kept afloat by tourism and agriculture, its industry cannot be competitive within the EU. The same path should be followed by Hungary, with however, great emphasis on the environment; e.g. ecotourism, bioproducts etc.

Hungary needs a constructive economic integration policy not only following admission, but also prior to integration. Hungary can expect to face fierce economic competition once full membership has been achieved. As the Greek (and Spanish as well as Portuguese) example shows, Hungary's trade deficit with the EU is bound to sky-rocket following accession. The common, unified market favours already strong economies. Import competition within the Union is also expected to partially squeeze domestic products out of the market.

Greece also showed a decline in competitiveness, which is due to the fact that rising unit labour costs also reduce the comparative advantages.

From a comparison of the two countries it can be ascertained that Hungary would pose less of a competitive threat to Greece on the foreign market given the difference in the export structure towards Greece. Once Hungary is integrated into the EU, the subsidies from Brussels to Greece are expected to be cut, first of all in the agricultural sector. Despite this drawback however, Greece supports the admission of Hungary to the Union on condition that Cyprus too be allowed to join.

Summarizing in brief the answer to the question put in the title of this paper, it can be concluded that it would not be a good idea to adapt the Greek model in general to Hungary. However, there are areas of economic activity such as agriculture and tourism which, after slight adjustment, could be used in the process of integrating Hungary into Europe.

6. LITERATURE

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