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**Hungary – the New Border  
of the European Union**

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*Case study*

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Europe in the World

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## **1 Preface**

Our standpoint is that in addition to implementing the cohesion policy in its developing regions, the European Union should also seek to adopt a comprehensive development strategy for the European territory as a whole. The ESPON programme (European Spatial Planning Observation Network) is an integrated approach whose purposes are: to identify the decisive factors relevant for a more polycentric European territory; to develop territorial typologies and tools in order to be able to diagnose the main structural difficulties and potentialities; to investigate the territorial impact of sectoral and structural policies.

The ESPON Project 3.4.1 “Europe in the World” (carried out by a large international research group led by Claude Grasland /RIATE) is considered to be a “diagnosis of the principal territorial trends at EU scale, ... a cartographic picture of the major territorial disparities; ... a number of territorial indicators and typologies assisting a setting of European priorities for a balanced and polycentric enlarged European territory; some integrated tools and appropriate instruments to improve the spatial co-ordination of sector policies” (ESPON, 2004a). The whole project was completed in spring 2006.

A few case studies had been designed within the frame of the Project 3.4.1. “in order to strengthen the capacity of production of qualitative analyses and elaboration of policy recommendations” (ESPON, 2004b). The case studies focused either on certain geographical areas of interest (e.g. external borders of the EU) or on specific topics of concern which had not been sufficiently explored by quantitative means.

The present case study “Hungary – the new borders of the European Union” deals with the evolution of relationships between Hungary and its two neighbouring countries, Romania and Serbia, after the fall of the communist regime.

Hungary’s early EU accession created a novel situation. Once again, borders serve to separate Hungary from neighbouring non-EU countries, only temporarily in the case of Romania, but for a longer time in the case of Serbia. The purpose of the research is to highlight the old and new elements of the emerging forms of integration as well as the consequences of Hungary’s membership to the European Union over its neighbourhood policies for Romania and Serbia. The topic has been approached through a new research method. In an effort to better grasp the current state of affairs, experts from both sides of the borders have joined in the project and shared their views on the “hot” issues and major trends in neighbourhood relations between Hungary and Romania, Serbia respectively.

## 2 Introduction

Hungary has common borders relations with seven countries: Austria, Slovakia and Slovenia are EU members while Slovakia, Slovenia and Romania joined NATO. Romania stands good chances of becoming an EU member in 2007. Even though it is generally assumed that borders should not divide but unite, Hungary shapes up its present neighbourhood policies in accordance with the realities of a still divided Europe. Different circumstances obtain at the regional level across soft or hard borders (depending on whether the neighbouring country belongs to the EU and/or NATO or not).

The aim of this research is to examine the development of relationships between Hungary and two neighbouring countries (Romania and Serbia-Montenegro) after the fall of the communist regime (*Figure 1*).

Figure 1

*Studied countries*



Source: Authors' compilation.

After 1989, Hungary's two neighbours evolved in completely different directions. Impacting on these countries neighbourhood policies are elements such as: international relations and perceptions, economic growth, the pace of progress made during the transition, inner social tensions, political, social, economic conditions, etc. Nevertheless, a number of similarities are to be found across the border regions of the three countries. First of all, large Hungarian minorities live in the areas close to the borders. Moreover, economic differences across the borders are less dramatic. These regions in particular as well as countries in general are characterized by a history of multicultural coexistence. The political system change had special relevance to the borderlands, as isolation could be brought to an end, borders became transparent and hence they could develop new connections with the rest of Europe.

Hungary's early EU accession created a novel situation. Once again, borders serve to separate Hungary from neighbouring non-EU countries, only temporarily in the case of Romania, but for a longer time in the case of Serbia-Montenegro.

Bilateral relations between Hungary and Romania form the cornerstone of the stability in Eastern Europe. The relationship between the two countries suffers from a painful past, mainly due to the partly unresolved situation of the Hungarian minority. After 1989 this became a key issue in Hungarian foreign policy and a highly divisive, politicized and manipulated topic in Hungarian domestic politics. Right wing parties prefer to portray themselves, rightly or wrongly, as champions of the cause of Hungarian minorities (e.g. grievance for cultural autonomy for Hungarian minority in Romania, the so-called Status law, double citizenship, etc.). On the other hand, the parties constituting the actual liberal-socialist governing coalition tend to put the emphasis on the improvement of bilateral relations and the support of Romania's accession to the EU, thus hoping that the situation of minorities would improve as a consequence of it. This policy line was given special emphasis at the meeting of the governments of the two countries, in October 2005 in Bucharest. Some voices went as far as to compare the importance of this joint session to the beginning of French-German reconciliation after World War II.

Relations between Serbia-Montenegro and Hungary were not deeply influenced by minority conflicts (at least not after World War II). However, the Yugoslav war put an end to what had been a more or less peaceful relationship. Tensions have been sparked off in the beginning by the influx of Yugoslav (as well as Hungarian minority) refugees and later by drastic altering in the social and economic situation in Voivodina (where Hungarians primarily live). This has been mainly due to the massive Serbian immigration. As a result, political participation of Hungarian minority has been much more restricted. The new conflicts cast the shadow on current Hungarian-Serbian co-operation as well.

We seek in this study to expose economic and social differences among the three countries both at the national level and in border regions. Consequently, we

attempt to focus on the old and new elements of the emerging forms of integration, and the obvious consequences of EU membership of Hungary for its neighbourhood policies with Romania and Serbia-Montenegro.

### 3 Social and economic differences after 1990

#### 3.1 Economic potential

With 22 million inhabitants and a surface of 238,000 km<sup>2</sup>, Romania is considered to be a large country both at regional level – compared to its other two neighbours – and at European level. Hungary and Serbia-Montenegro have similar size: Hungary counts 10 million inhabitants on 93,000 km<sup>2</sup>, whereas the 8,3 millions inhabitants of Serbia-Montenegro live on 91,000 km<sup>2</sup>. According to their economic capacity, Hungary finds itself in leading position: in 2003 the Romanian GDP reached 69% and the Serbian one 25% of Hungary's value.

Economic development (GDP/capita) in Hungary reached in 2003 less than 55% of the European average (E-15), while in Romania 26 % and in Serbia-Montenegro 17% of it only (*Table 1* and *Figure 2*),

Hungary's relationship with the two neighbouring countries has been deeply influenced by the sharp economic differences existing between them. Despite their rapid growth (in 2001 and 2002 the growth of Hungarian GDP was 3,8 and 3,3%, while in Romania 5,3 and 4,9%, and in Serbia-Montenegro 5,5 and 4,0%), these economic differences remained at the same level.

Differences are less visible in the border region (40–80% in favour of Hungary) compared with the three times differences of the countries' average (*Figure 3*).

Table 1

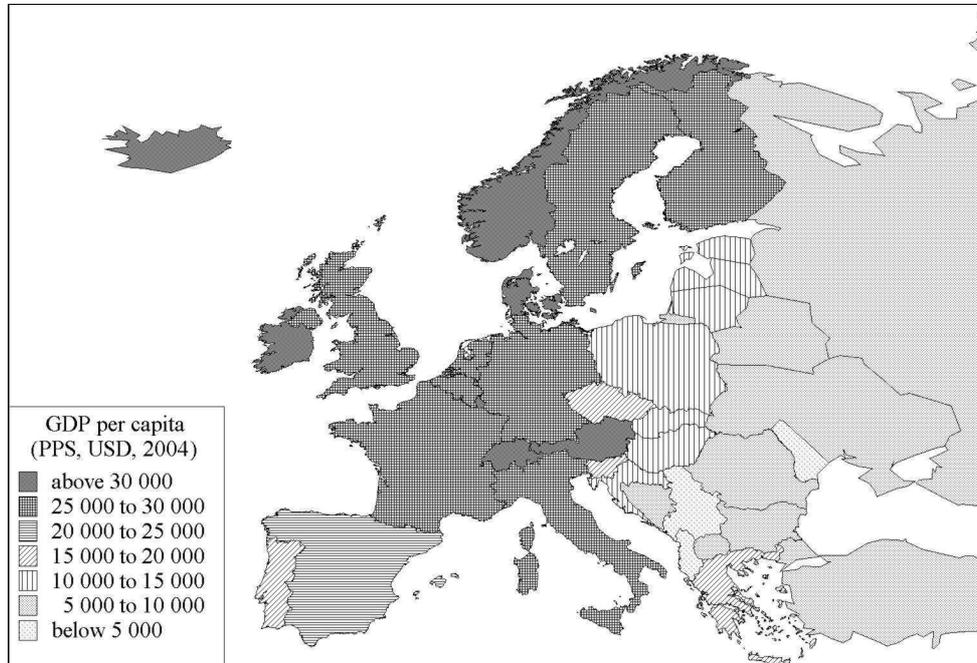
*GDP per capita (Hungary = 100%)*

Country	1998	1999	2000	2001	2002	2003
Romania	40.3	33.3	35.5	35.4	32.5	31.7
Serbia-Montenegro	31.8	43.5	17.9	27.2	29.0	30.1

*Source:* Transition report 2004.

Figure 2

*GDP per capita in European countries*



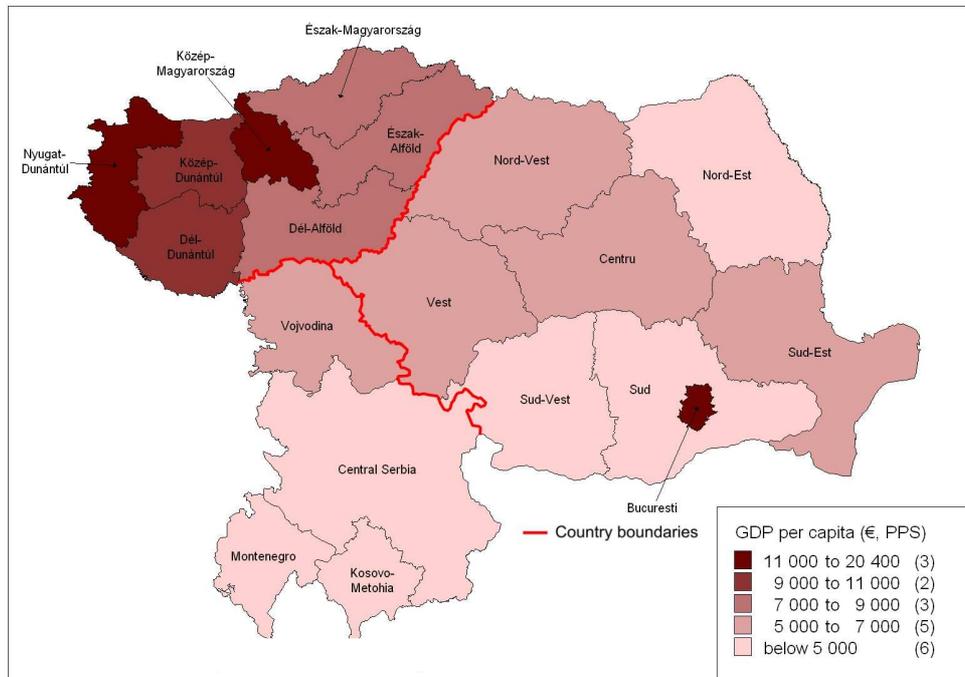
Data source: World Bank, 2005.

### 3.2 Employment and unemployment

The employment rate significantly decreased after 1989, affecting women in particular. The socialist inheritance – the high level of employment – has longer persisted in Romania and Serbia-Montenegro (much more than in other Southeast-European countries such as Italy, Greece or Turkey). At the same time, the employment rate has been following a downward path (*Table 2*).

Unemployment could not be analyzed in connection with employment partly due to the calculation method of unemployment registration and partly because of the unknown extent of the black economy. The unemployment level is relatively low particularly in Hungary but also in Romania. On the contrary, not only that the unemployment level is extremely high in Serbia-Montenegro but it has been continuously going upwards (*Table 3*).

Figure 3  
*Regional differences in the GDP per capita of the three countries, 2002*



Data source: EUROSTAT, Human Development Report Serbia 2005.

Table 2  
*Employment rate, 2001*

Top countries in Europe	%	Studied countries	%	Proportion of women %	Bottom countries in Europe	%
Sweden	78.4	Romania	62.2	46.2	Greece	48.7
Iceland	74.3	Serbia-Montenegro	59.9	42.9	Turkey	48.7
Norway	73.3	Hungary	53.3	44.4	Italy	48.0

Source: Trends in Europe and North America – 2003.

Table 3

*Unemployment level in 2001*

Top countries in Europe	Unemployment rate, %	Studied countries	Unemployment rate, %	Bottom countries in Europe	Unemployment rate, %
Luxemburg	2.0	Hungary	5.7	Bosnia-Herzegovina	39.9
Iceland	2.3	Romania	6.6	Macedonia	30.5
Switzerland	2.6	Serbia-Montenegro	27.9	Serbia-Montenegro	27.9
Netherlands	2.7			Bulgaria	19.4
				Slovakia	19.2
				Poland	18.2

Source: Trends in Europe and North America – 2003.

### 3.3 Competitiveness

At the European Union level, the countries' competitiveness has been measured on the basis of the employment rate and productivity (*Figure 4*).

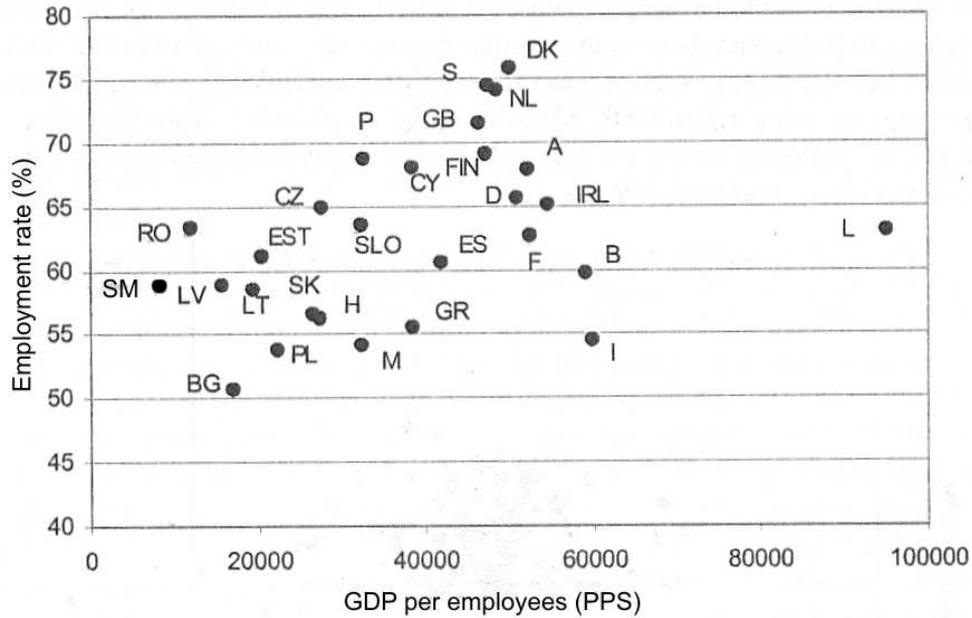
The figure shows that countries from Central and Southeast Europe and the Baltic area fill in the unfavourable bottom-left corner. The lowest productivity level is registered in Serbia-Montenegro, Romania, Latvia and Bulgaria while the lowest employment level can be found in Bulgaria, Poland, Hungary and Slovakia. Only Czech Republic and Slovenia could catch up with the countries from the European middle-group.

### 3.4 Changing the economic structure

A strong correlation can be noticed between economic development and economic structure. In other words, in the countries where economic development (GDP/capita) is high, the proportion of the tertiary sector is also significant whereas that of the agriculture is generally low. There are nonetheless several exceptions: Malta, Greece and Latvia register high rates of the tertiary sector although their economic development is at a medium level. In Austria, Finland, Norway, Ireland the proportion of industry in the economic structure is extremely high. In Iceland agriculture also plays an important role at present. However, our research countries (Hungary, Romania and Serbia-Montenegro) could not be included into this "exception" group (*Table 4*).

Figure 4

*Competitiveness of European countries*



Notes: B – Belgium, DK – Denmark, D – Germany, GR – Greece, E – Spain, F – France, IRL – Ireland, I – Italy, L – Luxemburg, NL – Netherlands, A – Austria, P – Portugal, FIN – Finland, S – Sweden, GB – Great Britain, CZ – Czech Republic, EST – Estonia, H – Hungary, LT – Lithuania, LV – Latvia, PL – Poland, RO – Romania, SLO – Slovenia, SK – Slovakia, CY – Cyprus, M – Malta, BG – Bulgaria, SM – Serbia and Montenegro.

Source: Based on Lengyel, I., 2003, p. 357. (author's own calculations).

Table 4

*GDP and employment by major economic sectors, 1995 and 2001*

	1995			2001		
	Agriculture	Industry	Tertiary	Agriculture	Industry	Tertiary
Hungary	6.8 (8)*	30.9 (33)	62.3 (59)	4.3 (6)	31.3 (34)	64.4 (59)
Romania	20.9 (40)	40.3 (31)	38.8 (29)	14.8 (43)	34.0 (26)	51.2 (31)
Serbia-Montenegro	19.3 (6)	37.8 (52)	42.9 (42)	21.1 (6)	32.1 (63)	46.8 (30)

\* The employment rates in brackets.

Source: Trends in Europe and North America – 2003, p. 155, 174.

Economic transition had a significant impact on Hungarian agriculture (before 1989 the agriculture gave almost 30% of the GDP, and 20% of the employment rates). At the same time, industry has preserved its importance. The present employment structure in Hungary shares some similarities with Austria, Finland, Ireland or Norway: a low proportion of the agriculture (1–4%), and a relatively high proportion of the industry (32–42%).

As of Romania, the slow modernization process is coupled with the agriculture's large share of the national economy. It is however true that the contribution of the traditional industry (metallurgy, particularly) has significantly decreased. In Serbia-Montenegro the main tendencies are somehow opposite to those from the other two countries: the proportion of agriculture amongst GDP indicators as well as employment in the industry sector have been growing, while the importance of the tertiary sector has been decreasing. These trends can be explained by the unstable economy and the extremely high unemployment level.

### **3.5 Infrastructural supply**

The driving sectors of a modern economy are transports, telecommunications and informatics. We shall analyze these branches in the countries under research.

Under state socialism, even among the COMECON countries, Hungary was situated on the last place as regards the building of infrastructure (*Figure 5*).

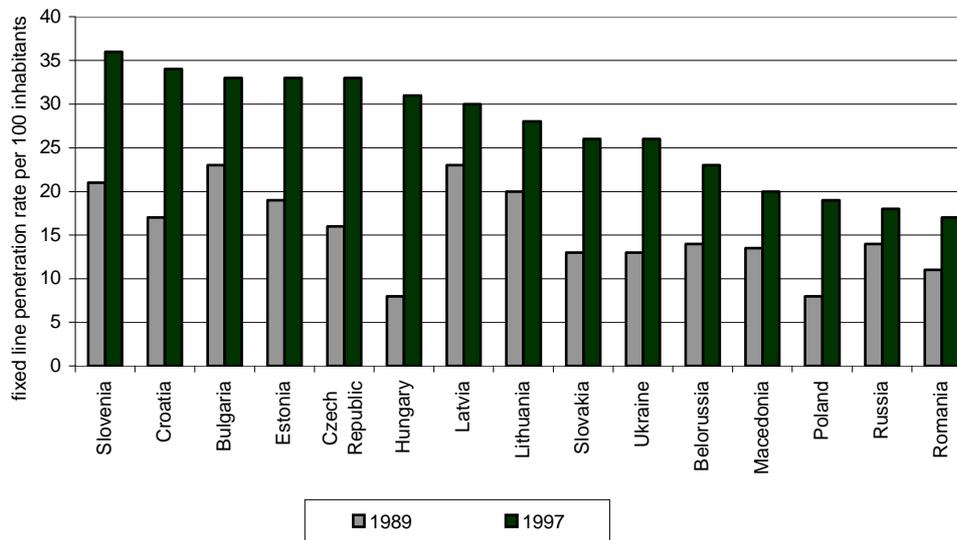
During transition, Hungary improved its position compared to its neighbours but it is still lagging behind the EU countries. Following the EU accession, rapid progress has been made in infrastructure development (motorway building, railway modernization, infrastructure of telecommunication).

A comparison between the three research countries and the most developed or the most dynamic European countries has been carried out (*Table 5*). Therefore, it can be argued that all three countries are significantly backward. General differences between them and the chosen developed countries are 2–3 fold. The PC spreading is alarmingly low: the difference in the number of PCs per 1000 persons is 6-fold between Sweden and Hungary, and 22-fold between Sweden and Serbia-Montenegro.

Particularly in regard to the use of PCs and Internet, Hungary enjoys the most favourable position amongst the three countries. Due to its high-paced infrastructural development during the socialist era, Serbia-Montenegro could keep up with relatively good standards concerning telephone supply and the length of motorways (per 1000 inhabitants).

It can be generally concluded the use of mobile telephony within the three countries registered the fastest expansion. At the same time, the development of information technology was relative and very slow.

Figure 5  
*Telephone coverage in transition economies in 1989 and 1997*



Source: World Telecommunications Development Report, ITU; and World Bank.

Table 5  
*The current situation (2001) and occurring changes in the infrastructural supply (%) from 1995 to 2001*

	Hungary 2001	1995– 2001 %	Romania 2001	1995– 2001 %	Serbia- Montenegro 2001	1995– 2001 %	Germany	Ireland	Sweden
							in 2001		
Telephone*	374	10	183	6	229	3	635	485	739
Mobil*	498	64	172	175	187	187	683	729	790
PC*	85	17	32	19	23	10	336	359	507
Internet*	145	84	36	117	38	111	292	207	456
Cars*	244	–	139	–	161	–	534	361	455
Motorway (m)*	45	–	5	–	45	–	142	31	171

\*Pieces (or meter) per 1000 inhabitants.

Source: Own data compiled by using the database of Trends in Europe and North America – 2003.

### 3.6 Social differences

*Infant mortality* is a basic indicator of public health. If one draws a comparison between our research areas and the most developed European countries, one can distinguish among highly significant differences, even among the three countries. (Table 6).

As far as *life expectancy* is concerned, several similarities are to be noticed among the three countries – especially their serious lagging behind developed Europe. In the cases of the Baltic countries, Hungary and Romania, men were considered as “the club with the least hopes” in 2000 (Table 7).

Table 6

#### *Infant mortality in 2000*

Infant mortality rate (per 1000 live birth)	Countries
< 4	Finland, Spain, Sweden, Iceland, Norway
5 – 10	Czech Republic, Croatia, Estonia, Hungary (9.2), Lithuania, Poland, Slovakia, Slovenia
10 – 20	Albania, Bosnia-Herzegovina, Bulgaria, Latvia, Romania (18.6), Serbia-Montenegro (13.3), Macedonia
36,6	Turkey

\* CEB: Central European and Baltic states, SEE: Southeast-European countries.  
 Source: Trends in Europe and North America – 2003, p. 191.

Table 7

#### *Life expectancy at birth in 2000*

Countries	Woman	Men
Hungary	75.6	67.1
Romania	74.2	67.0
Serbia-Montenegro	75.1	70.3
Sweden	82.1	77.5
Italy	82.9	76.7
France	83.0	75.5

Source: Trends in Europe and North America – 2003, p. 187.

During the last 10–15 years, *tertiary education* all over Europe experienced a dynamic increase in the students' number. Finland has been at the top of the European list (52 students per 1000 population) whereas Norway, Ireland, Estonia, Latvia, Poland and Slovenia are also part of the “top group” (with more than 40 students per 1000 inhabitants). In the case of the above-mentioned countries, it has been argued that the high enrolment rates in higher education are not stimulated only by the pace of development at national level but also by certain political decisions taken in its favour. It is a fact that in Hungary (30 students/1000 capita) and in Romania (24 students/1000 capita) the number of students tripled from 1990 to 2000. Nevertheless, the gap between these countries and the leading ones is still significant. Unfortunately, Serbia-Montenegro has not registered any increase during this decade (16 students/1000 capita).

### 3.7 Macroeconomic stability

Foreign direct investments (FDI), inflation, current account and external debt have been chosen as indicators of the macroeconomic situation of the three countries.

The histories of *FDI* are different in each of the three countries. Hungary initiated a massive privatization process immediately after the regime change. The largest supply branches (except for the land and the banking sector) had been opened up to foreign investors. In the first part of 1990s, Hungary was the leading host country in Eastern Europe. Between 1998 and 2002, namely right after the end of the Hungarian privatization, Czech Republic and Poland experienced their golden years of privatization and infusion of FDI. Nowadays, Slovakia is considered to be an important host country for FDI. Beginning with 1997, FDI penetrated Romanian economy and reached its peak in 2004. On the other hand, foreign investors have not shown any particular interest in the economy of Serbia-Montenegro so far (*Table 8*).

Table 8

*Foreign direct investment (net inflows recorded in the balance of payments)*

Countries	Cumulative FDI inflows 1989–2003 in million USD	Distribution among CEB and SEE countries (%)	Cumulative FDI inflows per capita 1989–2003 in million USD
Hungary	33,641	18.8	3,364
Romania	10,536	5.9	486
Serbia-Montenegro	3,112	1.7	374

Source: IMF, central banks, EBRD, Magyar Nemzeti Bank, 2003.

The transition process has also brought about extraordinarily high rates of *inflation* in all post-socialist countries. Between 1992 and 1996, in Hungary the inflation rate was of 23–28% (annual average retail/consumer price level). 1993 was the “top” year in Romania, with 256% inflation rate on record; starting with 1997 (155%), inflation had a continuous, downwards trend. Because of the Yugoslav war, at the beginning of the 1990s, the economy of Serbia-Montenegro experienced a worrying hyperinflation. (9237% in 1991); after a period of oscillation, a radical decrease of inflation could be noticed in 2002. In 2003, the inflation rate was 15,4% in Romania, 11,2% in Serbia-Montenegro while in Hungary it went under 5%.

As far as *general government balance* is concerned Hungary displayed signs of instability in 2003 when the budget deficit was 6,1%. Despite strict expectations of the EU, this level remained high in 2005 too. Romania and Serbia-Montenegro managed to control the governmental sector more effectively, thus pushing this indicator under 2% in Romania, and under 4% in Serbia-Montenegro.

Between 2000 and 2003, the *external debt* stayed the same in Serbia-Montenegro, while it increased by 50% in Romania and it doubled in Hungary. If one is to compare the external debt with the economic capacity, Serbia-Montenegro proves to be in serious financial crisis; meanwhile, Hungary could more or less finance its debt through important FDI (*Table 9*).

Table 9

*External debt in 2003*

Countries	External debt in USD million	External debt/GDP (%)
Hungary	40,157	62.3
Romania	11,588	34.6
Serbia-Montenegro	10,753	68.9

Source: Transitional Report 2004, p. 137, 165, 173.

### 3.8 Progress in transition

Since 1994, the European Bank for Reconstruction and Development elaborated some transition indicator scores in order to be able to formulate judgments about the country-specific progress in transition. The transition indicators are classified into four main fields: enterprises, markets and trade, financial institutions and infrastructure. The indicators from 1 to 4+ stand for little or no change from a rigid, centrally planned economy, whereas 4+ qualifies for standards of an industrialized market economy. The EBRD report also points at the private sector’s share in the GDP (*Table 10*).

According to the present EBRD report (2005) Hungary is the transition leader among post-socialist countries. Romania has important debts as regards the governance and enterprise restructuring, the competition policy and the securities markets. Serbia-Montenegro could show important progress only in the case of price liberalization.

Table 10

*Transition indicator scores, 2004*

Indicators	Hungary	Romania	Serbia-Montenegro
Large-scale privatisation	4	4–	2+
Small-scale privatisation	4+	4–	3+
Governance and enterprise restructuring	3+	2	2
Price liberalisation	4+	4+	4
Trade and foreign exchange system	4+	4+	3+
Competition policy	3	2+	1
Banking reform and interest rate liberalisation	4	3	2+
Securities markets	4–	2	2
Infrastructure reform	4–	3+	2
Total	34	28	21
Private sector share of GDP (%)	80	70	50

Source: Transition report 2004.

## **4 Political, social and economic relations between Romania and Hungary, Serbia and Hungary prior to Hungary's accession to the EU**

### **4.1 Co-operation forms between Hungary and Romania prior to Hungary's accession to the EU**

Following the signing of the Trianon treaty at the end of the First World War, borders between Hungary and Romania had been redesigned and bilateral relations had been rather frozen throughout several decades. Only after the overthrow of the Ceausescu regime in 1989 did hopes for a normalization of relations flourish again. The difficulties arising from the transition to a market economy as well as the significant economic differences posed additional burden on the initiation of co-operation forms. The unfolding of cross-border co-operation has been hindered by the fact that the Hungarian regions in the vicinity of Romania are economically

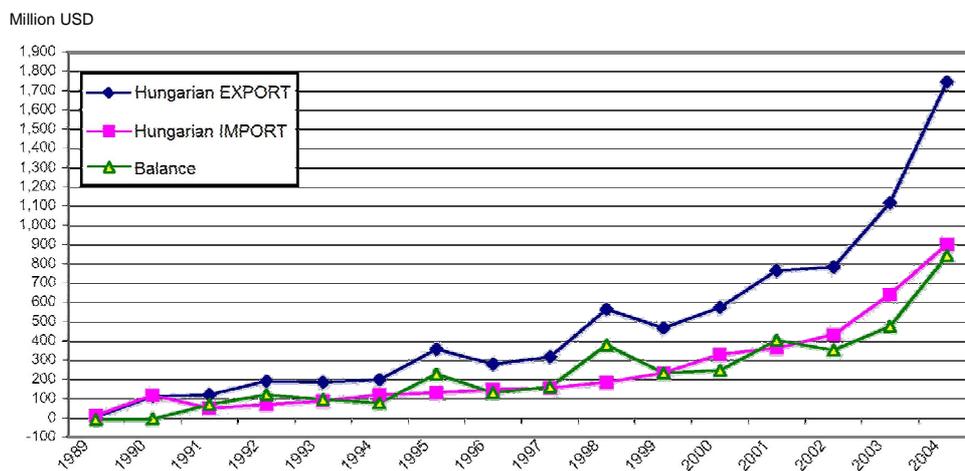
underdeveloped and have been particularly affected by the transitional changes. The social tensions foregrounding minority-related problems and nationalism intensified. However, strained relations between the two countries have progressively been left behind and bilateral relations at national, regional and local levels were enhanced in the last one and a half decades.

#### 4.1.1 Economic Relations

*Foreign trade* between the two countries still registered a low turnover in the first period of the 1990s. Although the exchange of goods went upwards in the last decade, genuine prosperity could be felt only after 2000. In the years following 2000, imports and export figures steeply rose (*Figure 6*) so that the import-export turnover was three times higher by the end of 2004. Hungarian foreign trade has always had positive figures in relation to Romania. Hungarian exports primarily consist of electrical machines, vehicles, mineral fuel, medicaments and meat products. The accession to the EU had a negative impact on the exports of agricultural products to Romania, i.e. the export of cereals had been reduced with 70%. Aluminium and its derivatives, atomic reactors, boilers, machines and mechanical equipment, electric machines and accessories, clothing items form the bulk of imports of Romanian products.

Figure 6

*The evolution of Hungarian–Romanian foreign trade from 1989 to 2004*

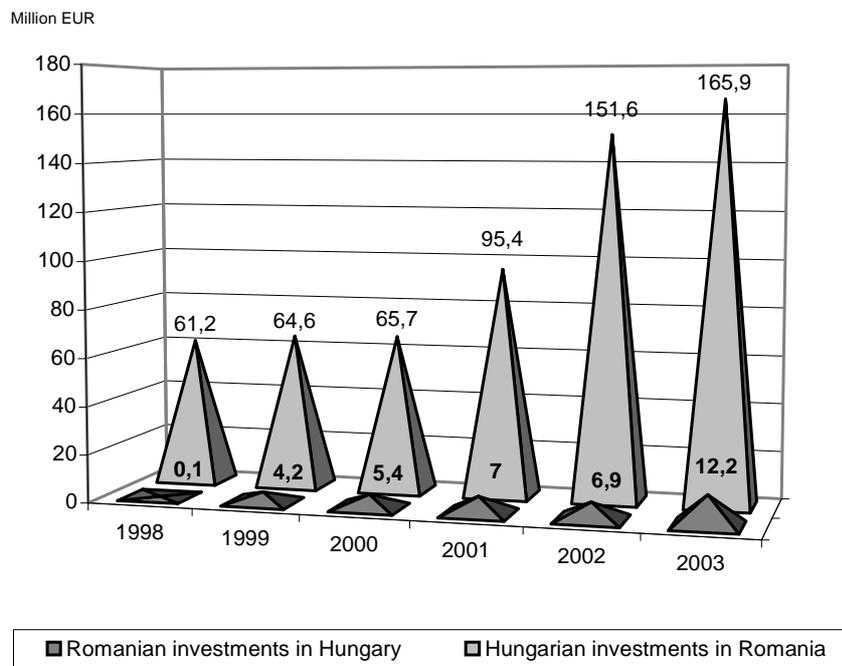


Source: Hungarian Central Statistical Office.

Mutual *direct capital investments* evolved unequally. After the regime change, Romania continued to be a preferred destination for Hungarian capital. Already in 1998, Hungarian capital investment in Romania overtook 61 million EUR. Even though capital export has been continuously increasing ever since, a real jump of more than 45% was made in 2001, while in 2003 growth registered a rise of almost 59%. Within 6 years the value of Hungarian investment in Romania became three times higher and in 2003 it rose above 165 million EUR. If other elements of corporate investment are also taken into account – credits, assets, securities and the capital market operations – only in the first half of 2005 the real value of Hungarian capital in Romania was more than 700 million EUR (Figure 7).

Figure 7

*The evolution of Hungarian and Romanian mutual investment from 1998 to 2003*



Source: Figure compiled on the basis of the data provided by the Hungarian National Bank.

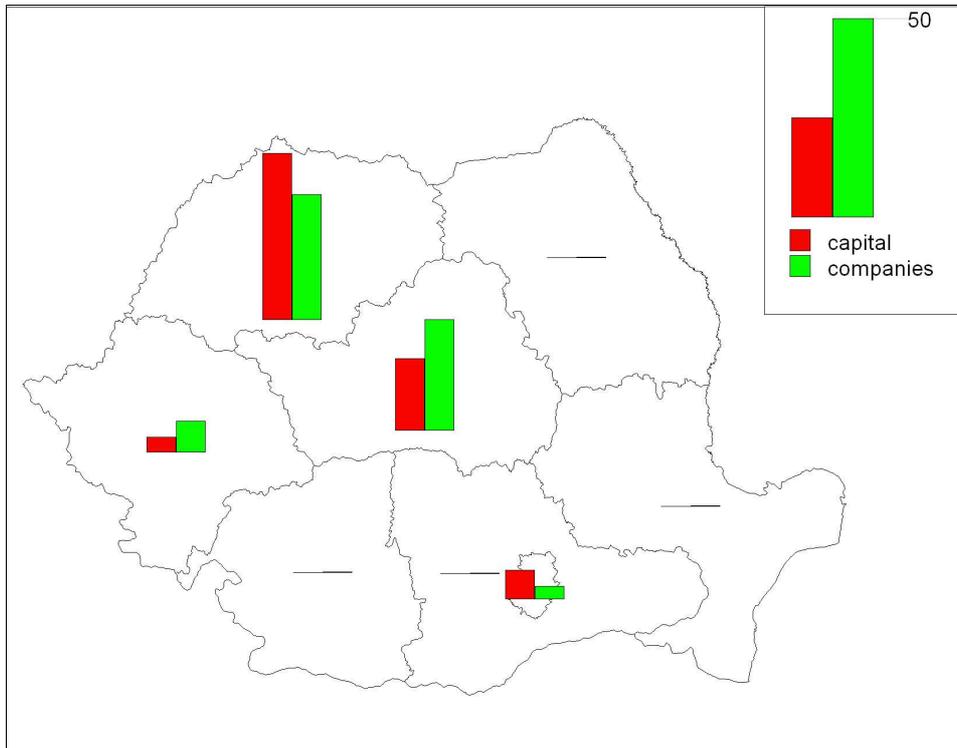
Hungary is ranked only 9<sup>th</sup> (from data provided by the Romanian Agency for Foreign Investments, ARIS) among the countries carrying out investments in Romania. However, in respect to the number of joint ventures created, Hungary fills in the 5<sup>th</sup> position. On the other hand, even though the value of Romanian investments in Hungary also continues to go upwards, Romania does not count as a significant investor in its neighbouring country (in 2003 the value of investment was 12,2 million EUR, meaning less than one tenth from the value of Hungarian investments in Romania). Industrial sectors (chemical industry/engineering) as well as the banking sector are mostly attractive for Hungarian investors. 30% of Hungarian companies have investments in the Romanian heavy industry, whereas 16% of them flourish in the retail industry, 24% in the industrial sector and 14% in the services branch.

Contrary to investments from other countries, Hungarian capital is primarily placed in the Romanian regions inhabited by Hungarians, namely in the four counties along the Romanian-Hungarian border and in the inner counties of Transylvania. In addition, prominent Hungarian investments are directed towards the otherwise geographically isolated Bucharest (*Figure 8*). The presence of Hungarian investors is explained by the fact that Transylvania is among the more developed Romanian regions, by the use of a common language and by prior investments made there. Investment in the farther regions is impeded by several factors such as: low capacity of absorption, unqualified labour force and backward infrastructure. However, one has to note that Hungarian entrepreneurs investing in the areas near the border generally bring less capital value: the average size of their investment barely counts as a quarter of the non-Hungarian investments. These entrepreneurs are predominantly micro and small enterprises. Nevertheless, the major Hungarian businesses (OTP, MOL, TriGránit and Richter Gyógyszergyár, etc.) have also invested – mainly in Bucharest and in the larger towns from Transylvania (MOL Rt. is largely present in Bucharest and operates petrol stations in the Székely county).

Romanian export of capital to Hungary has been mainly directed to Budapest. This trend can be mostly explained by the fact that the Eastern part of Hungary is economically underdeveloped and that there is not a significant Romanian minority over the border (namely it did not settle there because of the language difficulties). In addition, Romanian companies take Hungarian capital for a safe stepping stone in the direction of the EU or they choose to invest in the Western part of the country. Several assistance schemes have been designed under Hungarian – Romanian cross-border economic co-operation programs with the purpose of remedying the unfavourable status of the border region (Euroregions, agencies of regional development, chambers, business development endowments, etc). With the exception of the PETROM investment started up in 1999, these attempts have had little success in the Southern Great Plain so far.

Figure 8

*Distribution of Hungarian investments in Romanian regions*  
(2000, in percentage of country total, at NUTS2-level)

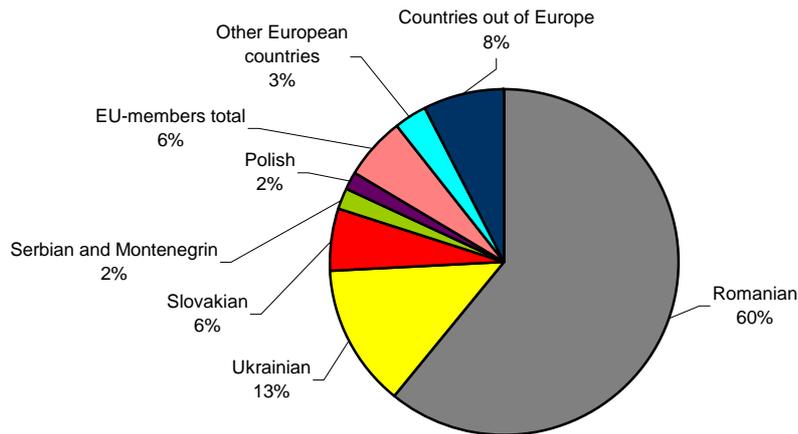


Data source: Sej, G. L. 2004, p. 58.

*Guest working.* The proportion of guest workers and immigrants is the highest in Hungary (about 60% of all). They are concentrated not along the border, but much more in Budapest and in its region. As earnings in Romania are significantly lower and living standards poorer than in Hungary, it is not surprising that the number of Hungarian citizens in possession of a Romanian work permit is not representative. On the contrary, the number of *Romanian citizens working legally and illegally in Hungary* is highly representative. On the basis of the number of work permits distributed to foreigners of different nationalities in the first half of 2002 it can be argued that most of the workers come from Romania, Ukraine and Slovakia (these ratios are still sound). The majority of comers originating from the neighbouring countries are of Hungarian nationality, therefore not facing integration difficulties in the guest country (*Figure 9*).

Figure 9

*The distribution of Hungarian work permits on nationality criteria  
in the first half of 2002*



Source: Figure compiled by Balcsók, I. on the basis of the data provided by the Labour Office.

The number of foreigners officially in possession of work permits – thus not even the large number of Romanians – does not influence the dynamics of the labour market. If one takes into account both the figures of those officially unemployed and of those filling in vacancies their number is at an acceptable level. Greater problems arise from the fact that the period of time spent for performing seasonal work shows an upward trend, however not in those areas where seasonal work would be needed indeed.

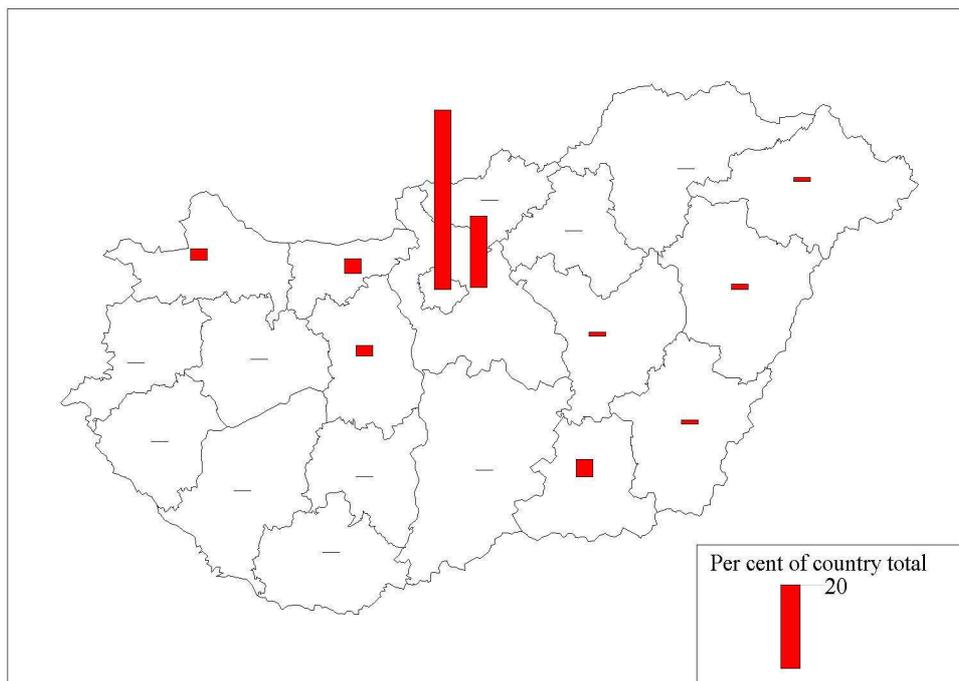
In a retrospective analysis, the great majority of foreign labour force has been seeking jobs in Budapest and Pest county, while only a fraction of the comers have found incentives to settle in the counties along the border with Romania (*Figure 10*). At the same time, the proportion of foreigners with work permits in the Southern and Western regions went upwards. In other words, this means that due to the lower wages on the Hungarian market, the high rate of unemployment and the scarce work opportunities, the Eastern region of Hungary will not be able to attract foreign workers in the future either.

Romanian citizens working on the Hungarian black labour market essentially get seasonal jobs in agriculture and constructions. There are no accurate data in connection with their status but it can be argued that a great deal of them work in compliance with the legal provisions. In many cases, illegal/black work is just a

statutory concept. Sometimes the only way to respond quickly to the demands of entrepreneurs in exchange of modest rewards is to hire Romanian citizens ready to come to the small Hungarian settlements along the Romanian–Hungarian border. It often happens that it is more advantageous to transport the group of illegal workers over the border in the required area for only half of the usually charged daily-work fee. This is explained by the fact that the accommodation cost for several days is still cheaper than hiring the services of Hungarian employees. In addition, guest workers on the black market are not interested in meeting all formal requirements in order to get a legal work permit. It is time and money consuming. To sum up, even though the black market already seriously affects the regional labour market along the border with Romania, the rate of unemployment is still high in these areas. It could be therefore concluded that this phenomenon does not exert a significant influence so far.

Figure 10

*Distribution by counties of the effective number of work permits released to foreigners (31 December 1999)*



Source: compiled on the basis of the data provided by the Labour Office.

#### **4.1.2 Migration**

It can be argued that migration tendencies are similar to the work patterns. That is to say that the number of Hungarian citizens settling in Romania is not at all representative, whereas for Romanian citizens Hungary is one of the cherished destinations. For years, the proportion of Romanian citizens in possession of residence permit has been the highest in comparison to other nationalities settling in Hungary. From 2002 to 2004 their number doubled, while their ratio systematically exceeds 60%. Accordingly, at the end of 2004 Romanian citizens were in possession of 55723 immigration permits (58.9% from the total number released to foreign immigrants) and of 11865 residence permits (68,4% from the total number of residence permits attributed to foreigners). Romanian citizens settling in Hungary are predominantly of Hungarian nationality. Their migration is not merely justified by ethnic reasons but also by the encouraging economic prospects that re-settling entails. It is not easy to identify accurate data/trends from the distribution of Romanian immigrants in the Hungarian regions. However, on the basis of the distribution of work permits it can be argued that most of Romanians choose to settle primarily in Budapest and Pest county and in Western Hungary. Only a few prefer to reside in the regions along the Romanian border, nevertheless they still constitute more than half of those settling close to the border.

#### **4.1.3 Education**

The number of Romanian citizens coming to study in Hungary is also significant. They are solely Hungarian nationals from abroad and mainly graduating from higher education institutes. Unsurprisingly, as Hungarian is the language of instruction, they are not confronted with language problems. Many years of experience have shown that a great deal of these students do not go back to Romania, trying instead to settle themselves in Hungary.

In the past years, out of the total number of Hungarian students from Romania who enrolled in basic training only less than 10% pursued their studies in Hungary (the ratio of Hungarians from Ukraine approached 50%). From the perspective of Hungarian nationals outside the borders, training pursued in their country of origin is still very important, since certain special training programs are made available there in Hungarian and at an adequate level. At the same time, among 12913 foreign students enrolled in Hungarian institutes in the academic year 2003–2004, almost a quarter of them (3105 persons) came from Romania. The majority of Romanian students – similarly to students from other neighbouring countries – benefit from college and university training. Besides, the number of students from Romania enrolled in Hungarian PhD and DLA programs is more than half from the total number of foreigners (*Table 11*).

Table 11

*The number of foreign students coming to Hungary from the neighbouring countries*

Country	Higher education	College level	University level	Further specialization	PhD, DLA	Total
Number of students receiving training						
Austria	1	14	8	5	4	32
Croatia	3	32	168	13	9	225
Romania	13	1,647	1,001	122	281	3,064
Serbia and Montenegro	–	601	469	8	17	1,095
Slovakia	5	1,223	1,115	37	67	2,447
Slovenia	–	14	18	1	2	35
Ukraine	5	662	437	10	58	1,172
Total no. of foreigners	28	5,016	7,049	240	580	12,913

Source: Oktatási Minisztérium, 2005.

#### 4.1.4 Tourism

Tourism between Romania and Hungary became an important sector. Most of the foreigners visiting Hungary are from Romania. In 2004, a fifth (6922 thousand people) from the total number of foreigners came from Romania, thus overtaking the visitors from Slovakia, Austria, Serbia and Montenegro, Germany, Ukraine and Croatia. Close to 80% from the total figure of tourists visiting Hungary in 2004 came from these six countries and Romania. From the number of Romanian visitors in Hungary, 71,5% came here only for one-day visit, 19% spent from one to three nights here, whereas 9,4% four or more nights. Altogether 8,7% from the amount of one-day visitors travelled for touristic purposes (leisure tourism<sup>1</sup> – 385 thousand persons, business tourism<sup>2</sup> – 48 thousand persons). The rest of visitors only passed through Hungary or they came to do shopping here. From the number of tourists spending more days in Hungary almost half came for tourism, however, the number of visitors in transit is still high.

By examining the distribution of Romanian tourists visiting Hungary for several days according to touristic regions, it can be concluded that Budapest has been the

<sup>1</sup> Leisure tourism: holiday; round trip; sightseeing; hiking; visiting relatives, friends, acquaintances; medical treatment; wellness treatment; taking part to cultural and sport events; hunting; religious purposes.

<sup>2</sup> Business tourism: conference, congress; business trip; exhibition; market.

most preferred destination. Nevertheless, the South and Northern Great plain regions at the border with Romania receive a significant proportion of visitors. On the other hand, the per capita daily expenditures of Romanian one and several-days visitors are quite low. In 2004, the below 20 € expenditures were significantly behind the average of the 35 € of the other foreign visitors in Hungary.

Romania is a preferred destination for Hungarian citizens, too. According to the figures, in 2004, on the second place after Austria, Romania received the highest number of Hungarian tourists. Nonetheless, this figure is less than half from the total number of Romanians coming to Hungary. The proportion of one-day visitors is 72,1%, out of which the majority certainly travelled to Romania for shopping and “petrol” tourism. Unfortunately, the Hungarian Central Statistical Office does not provide detailed data on the motivations of travellers, but from experience it can be concluded that Hungarian tourists go to Romania for several-days visits for leisure tourism. First of all, they visit areas populated by ethnic Hungarians, especially places of interests and holiday resorts in Transylvania and the Székely region.

In addition to the above, Hungarian–Romanian relationships entail several other aspects, from cultural relations and twinning settlements to environmental co-operation. A series of treaties regulated the cross-border co-operation between the two countries. Besides border control and patrolling agreements, a series of *state treaties* with direct impact on cross-border co-operation had been signed between Romania and Hungary. Among these, the *Hungarian–Romanian Comprehensive Agreement* (1997 yearly code XLIV.) is the most important, as it enforces the co-operation framework. The intergovernmental expert committees (i.e. the Committee concerning co-operation among minorities, the Committee concerning economic, trade and tourism – related co-operation, the Cross-border co-operation Committee respectively that for co-operation among local governments, the Committee for infrastructure, traffic, water and environmental management co-operation, etc.) set up in terms of the treaty the most important tasks. In other words, who is to work out and to monitor the co-operation between Hungary and Romania in “joint affairs”.

Numerous bilateral comprehensive co-operation agreements have been and are enforced at the social economic level (i.e. the convention on multimodal forwarding of goods, the Hungarian–Romanian agreement on the protection of investments, diplomas issued by accredited research institutes, diplomas, official certificates and bilaterally recognized academic degrees, the Hungarian–Romanian co-operation agreement on privatization, etc). Among these, due to geographic conditions, the agreements on water management and environment protection receive special attention.

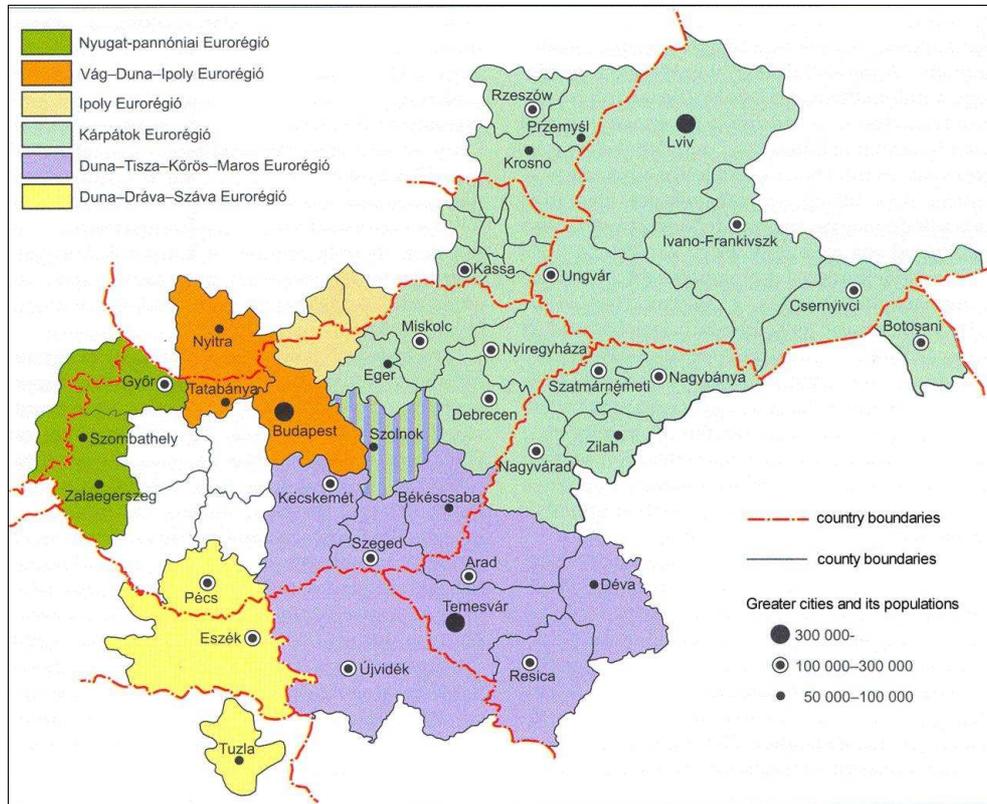
#### **4.1.5 Cross-border relations**

The fundamental framework has been defined on the grounds provided by the Hungarian – Romanian Border Rivers Convention signed in 1986 and by the Treaty on “Co-operation in regard to environmental protection” in effect from 2000. In addition, several agreements on water conservation have been enforced (i.e. the Agreement on the Flood Control, the Agreement regarding drainage, the Rule on the Exchange of Information, etc). In fact, the need for closer co-operation has arisen from the fact that the borderline cuts in two the natural ecosystem (among which a great deal of ecological corridors) and that the two areas are connected through a network of surface – underground water systems (with numerous water flows across the border). Moreover, enhanced co-operation is justified by the existence of common surface and underground water supplies in the area, by the fact that the industry in the border region – especially on the Romanian side – is outdated and makes use of environmental-polluting technology. This entails high environmental risks, as for instance in the case of Tisza and its related tributaries which are regularly contaminated with cyanide and heavy metal residuals.

The establishment of *Euroregions* in the 1990s as well as of new and smaller-sized euro-regional organizations and agencies significantly contributed to the intensification of the cross-border relations. The Hungarian and Romanian counties along the border line share two large-scale, very diverse Euroregions given their development and operational patterns: the Carpathians Euroregion and the Duna-Körös-Maros-Tisza Euroregion (*Figure 11*). The western part of the border line incorporates the Carpathians Euroregion – facing the Duna-Körös-Maros-Tisza Euroregion, in place from 1997 on. This has not been the result of a self-developing, “bottom-up” initiative but its framework has been enforced in connection with greater political objectives, in a “top-down manner”. The Carpathians Euroregion has a “multinational” character. Oversized historical-territorial-ethnic and other sort of problems prevent the large organizations from working efficiently there. Once this has been acknowledged by local actors, they came to realize that smaller-sized and hereby more efficient Euroregional organizations should be created. Two organizations at county level are already in place: the Interregio, formed at the border between Romania-Ukraine and Hungary and the Hajdú-Bihar-Bihar Euroregion respectively. Moreover, the Bihar-Bihar Euroregional Organization has come into being on the two sides of the border, as merger of the associations created by the inhabitants of the Hungarian Bihar and Romanian Bihar regions.

Figure 11

*Euroregional co-operations along the Hungarian border*



Source: Enyedi-Horváth, 2002, p. 449.

In addition, the *agreements between settlements* have a significant importance for cross-border relations. Among these, the most efficient framework for daily, operational agreements is the twinning of cities (i.e. Nyíregyháza – Szatmárnémeti, Debrecen – Nagyvárad, Békéscsaba – Arad, Szeged – Temesvár). Many Hungarian settlements have a Romanian twin town. It can be nevertheless argued that these relations could essentially come into being due to the existence of Hungarian-Hungarian relationships. In other words, amongst Romanian settlements, the majority of partners are Hungarian. Consequently, we could distinguish among the cross-border relations on one hand those that render co-operation more operational and on the other hand most of the cultural relations existing between twin towns. Many

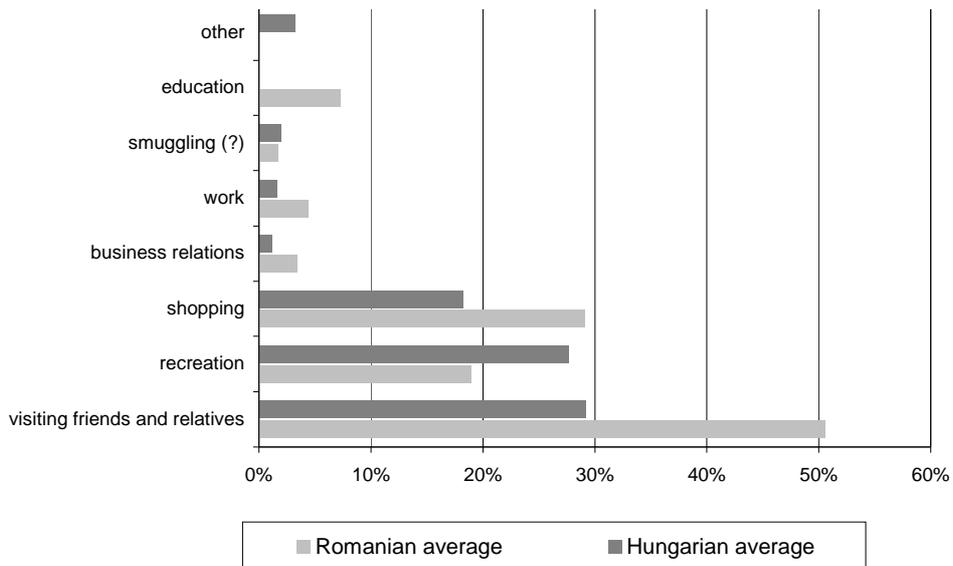
Hungarian settlements are involved in such relations, whereas most of the Romanian towns participating in twinning projects are from the Székely region.

*Frequent and diverse relations develop between the inhabitants of the very border region in particular. With regard to the nature of cross – border relations with the neighbouring country, Romanian and Hungarian respondents have equally placed personal relations (visits of relatives, friends, and acquaintances) as the most frequent motivation. Furthermore, both parties have emphasized the frequency of resting and leisure – related as well as of shopping- driven motivations (Figure 12).*

A development concept and programme, with particular relevance to the Hungarian–Romanian cross border relations, was designed in September 2000. Its priorities were revisited in 2003. According to the main document entitled *The Development Concept and Program for the Hungarian–Romanian Cross-Border Region*, its objectives are formulated at the county level.

Figure 12

*The nature of relations between the inhabitants of the settlements across the Hungarian–Romanian border (measured by their frequency)*



Source: Data collected from a questionnaire-based survey, administered by Debrecen Institute of MTA RKK ATI.

## 4.2 Forms of co-operation between Hungary and Serbia-Montenegro before the EU accession

The social and economic differences between Hungary and Serbia after 1990 are due to different paths that systemic changes undertook. While Yugoslavia has been involved in a civil war (although a multi-party system has also been established there, the power was practically in the hands of the post-communist nationalists), Hungary started and – as the most relevant indicators show – completed the transition period to a market economy.

As argued in the previous chapter, Serbia-Montenegro and Voivodina have been completely ruined by the war. The economy continued to be in a shattered state after 2000 and development is still very slow. Transition is an ongoing process; the country's social, economic situation is not stabilized yet. Unemployment level stayed high, inflationary effect is strong, and corruption is overwhelming whilst politics and cohabitation of nationalities are poisoned by nationalism. In spite of their pre-war dynamism, *the state of affairs in the border area with Hungary and Voivodina resembles this picture.*

### 4.2.1 The economic situation of Voivodina

Similarly to the general state of affairs in Serbia, Voivodina is characterized by slow economic growth rate (in 2002 it was 2%), high unemployment, outdated technology, low competitiveness level, non-transparent legal regulation system and stagnating industrial production. In 2001–2002, Voivodina's economy was deeply confronted with stagnation in almost every economic sector. Import rates were higher than export ones and in 2002 industrial production was less than half of the 1990 level. At the same time, territorial indicators are in many respects better than the indicators of Central-Serbia or the whole republic (*Table 12*).

Table 12

*Comparison of some economic indicators of Voivodina and Serbia*

	Voivodina	Serbia	Central-Serbia*
2001–2002 industrial production growth (%)	2.1	1.7	1.6
2001–2002 wholesale trade turnover growth (%)	9.5	3.1	1.7
2002 per capita average real income (Dinars)	10,480	8,742	9,208

\* Without Voivodina and Kosovo Autonomous Regions  
Source: Socio-Economic Trends, 2002, 9.

27% of the active population is unemployed in Voivodina. Since 2001 onwards, the unemployment level has been growing with 10% (there are 500 thousand employed and 270 thousand unemployed persons). Factory bankruptcies are also frequent nowadays. In many cases (according to the estimations in the case of 200 thousand employees) employment equals a formal or a minimum wage. The post-civil-war influx of Serbian refugees exacerbated economic stagnation, generating further unemployment (in 1996 the unemployment level was below 20%). In this respect, the situation is even worse here than in the case of Central-Serbia or of the whole country. While in Voivodina there are 123 unemployed persons to 1000 inhabitants, in Serbia there are 101 and in Central-Serbia 93.<sup>3</sup>

#### ***4.2.2 Cross border co-operation between Hungary and Serbia***

Even though Voivodina is considered to be one of the most developed regions in Serbia, it is still quite backward in comparison to the areas close to the Hungarian border. This area bears the ruinous consequences and aftermath of the civil war whereas in the southern Hungarian border area “only” signs of backwardness and slow development are to be noticed.

##### *Some words on the civil war period*

During the civil war in the 1990s, fleeing ethnic Hungarians from Serbia, Serbs and other Yugoslav ethnic groups transferred significant wealth over the border, in Hungary. The number of Serbian enterprises has risen in the southern border region, strong migration processes have started, trade and other relations have been enhanced. Szeged became the central settlement of entrepreneurial capital investment. The refugees located their new enterprises near the border, thus indicating their wish to return to the origin country. However, only 15% of the capital investments were real, 85% of them consisted of fictive family enterprises with insignificantly subscribed capital.

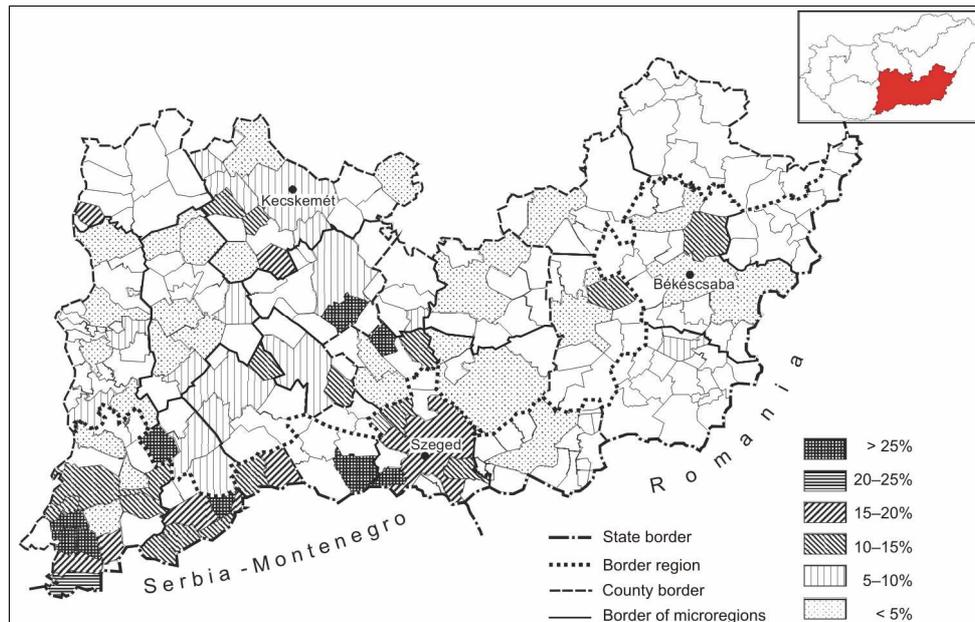
At the end of the ‘80s, wealth has been transferred to the banks in Szeged. Many people bought flats, which led to a significant rise in flat prices in this town; others invested their capital in enterprises. With a view to Hungary’s territory, the Szeged–Kecskemét–Budapest axis became especially attractive for investors (*Figure 13*).

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<sup>3</sup> 31 December 2001 data.

Figure 13

*Yugoslav enterprises in the settlements of the Southern Great Plain  
(number of Yugoslav enterprises/number of local enterprises)*



Source: Szónoky, Miklósné 1999.

*After the war*

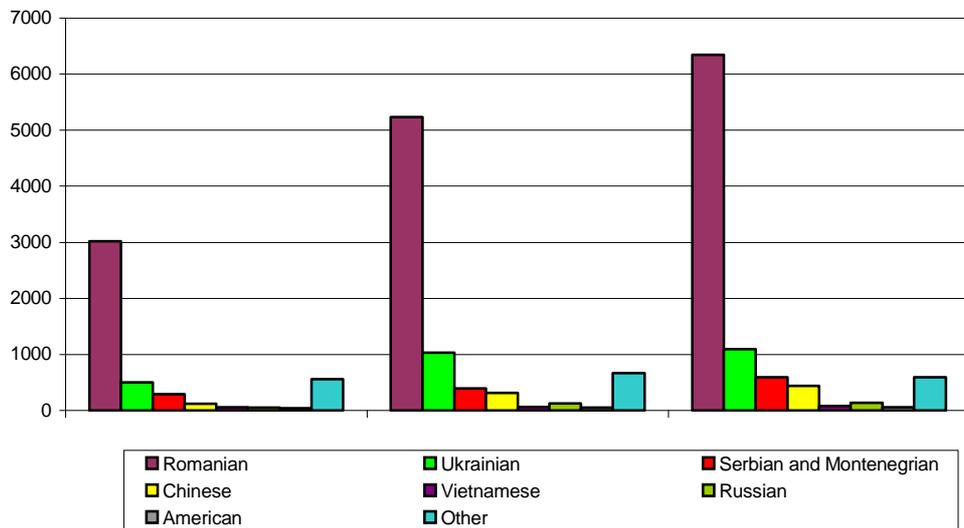
At present, Hungarian entrepreneurs are highly reluctant to invest in Voivodina or in other Serbian territories. Since 2001, some 140–150 investments have been registered in Voivodina. Hungarian SMEs opened branches there mostly by establishing joint ventures with local partners. Hungarian firms often seek work partners there who could use the significantly cheaper Serbian labour force. The presence of Hungarians in Voivodina is favourable to Hungarian investors as they also carry cultural and information capital; their language skills and local knowledge encourage Hungarian capital to enter the Voivodina market. Hungarian firms can count on the local governments' political support in the communities led by Hungarian local governments. Moreover, by cooperating with local Hungarian entrepreneurs, they enjoy certain economic benefits, too. 70 per cent of Serbian firms in Hungary are located in the border counties. The number of these firms grew slightly between 1996 and 1999.

### Migration

Political tensions, fleeing away from the capital and family unifications<sup>4</sup> significantly contributed to the migration processes. These processes have mainly featured the first half of the '90s, although they are still ongoing. *Figure 14* illustrates migration processes in the first years of the new millennium, on the basis work permits, settlement permissions and the naturalization processes. The current share of immigrants from Serbia-Montenegro is significantly lower than in the '90s, yet there is a slightly growing tendency.

Figure 14

*The evolution of the residence permits' number according to citizenship (2002–2004)*



Source: Office of Immigration and Nationality, 2004.

### Economic relations with Hungary

Before 1990 Yugoslav–Hungarian and cross-border economic relations had been very lively before the system change. During this period, the reclusive policy of the socialist countries was mitigated by the so-called “small border traffic”,<sup>5</sup>

<sup>4</sup> The male family members abroad aimed at family reunification.

<sup>5</sup> The border area population’s freer traveling, border crossing were made possible by an interstate agreement.

very prolific at the beginning of the '80s. In the trade sector, the department store co-operations<sup>6</sup> were in favour of a higher export-import rate, and their primary aim was to diversify the product offer and decrease the shortage of goods.

Under the co-operation framework of the food processing industry, Hungarian sugar beet and soybean productions were also processed in Voivodina. In the '70s and '80s, co-operations were set up in the milk industry, meat industry, plant improvement and in the field of seed grain production. Moreover, contacts between agricultural experts made possible experience exchanges at the higher education level and in the seed grain producing institutions. Seed grain production and research carried out in the Agricultural Faculty of Novi Sad University were opened to Hungarian producers until the mid-'80s.

In other words, until the beginning of the '90s, the division of labour preserved its dynamism. On the other hand, inter-institutional and interpersonal relations developed extensively. At that time, Yugoslav firms engaged in better relations on the global market as technology and product development had been in place in Voivodina earlier than in Hungary. There was a significant rate of "shopping" tourism but also of real tourism. Although in a quite formal way, the process of twinning settlements has also been initiated at the time as well as contacts between economic organizations.

The dynamic relations in place before the political change (1990) have been disrupted by the civil war when Yugoslavia disintegrated. After the end of the war, since 15 August 1996, ambassadorial relations were launched again between Hungary and Serbia-Montenegro. There is an embassy and trade agency in Beograd and a foreign economy attaché in Subotica/Szabadka.

Several important bilateral agreements have been signed between the two countries:

- Total visa exemption agreement (1967);
- The most favoured nation status ensuring economic and trade agreement (1996);
- Agreement aiming the avoidance of the double taxing; Investment protection agreement (2001);
- Bilateral free trade agreement (2002)<sup>7</sup>.

Although bilateral trade relations were enhanced since 2000, no significant results could be registered so far. Moreover, the implementation of the free trade agreement and of the so-called 'six points economic package'<sup>8</sup> is quite slow.

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<sup>6</sup> It was not an accepted socialist solution; the corporations generally were not authorized to directly cooperate.

<sup>7</sup> Business2Hungary.yu, Hungarian Investment and Trade Development Agency Our bilateral economic relations, <http://www.business2hungary.hu/>.

Co-operation forms between enterprise development foundations, firms, commerce and industry chambers, and by different exhibitions, fairs, business people meetings<sup>9</sup> organized by the county and local governments contributed to the strengthening of cross-border economic relations. Despite differences between the Hungarian and the Serbian Chambers, they however enjoy the capacity to assist with the development of direct corporate relations, with the mutual participation to exhibitions and fairs, with the organization of cross border business meetings and the exchange of information.

The target areas of co-operation are commerce, wood industry, food processing industry, confection industry, furniture industry, and business consulting. As a result of it, it is worth mentioning the setting up of the Cross Border Coordination Working Committee; it coordinates the work of regular chamber meetings, the mutual participation to fairs and business meetings.

The relations show an upward tendency only since 2000 onwards. But opportunities are open in the region. The “relations/connections” capital could be immediately activated under favourable circumstances.

#### *Hungarian direct investment*

Co-operation possibilities and expectations are much higher than the actual involvement of Hungarian capital in the Serbian economy. In fact, the Serbian party suggested that the Hungarian government should send experts to the Serbian Ministry for Economy and Privatization in order to promote participation to privatization programs.<sup>10</sup> An agreement has been signed by the General Consul of Subotica and the Economic Chamber of Sombor district, aiming to a higher participation of Hungarian investors to the privatizations in Voivodina. Consequently, the Sombor economic chamber will provide on-line information regarding the district's economic possibilities and the firms to be privatized.<sup>11</sup>

#### *Commerce*

The free trade agreement between Hungary and Yugoslavia came into force on 1 July 2002. According to this agreement, Hungary contributes to the temporary insurance of some one-side advantages in connection with the elimination of customs; this is the first agreement of this kind, by which Hungary assumes a certain

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<sup>8</sup> Free trade agreement, energy systems' co-operation, SMEs credit guarantee based support, Building of the Budapest-Beograd motorway, participation in the reconstruction, tourism co-operation.

<sup>9</sup> East-West Expo, Farmer Expo International Agricultural and Food Processing Industry Professional Exhibition, Csaba-Expo.

<sup>10</sup> Meetings on the Hungarian enterprises' participation in the Serbian privatization Magyar Szó (Hungarian Word) 7 December 2002.

<sup>11</sup> Visa requirement and economic relations Magyar Szó (Hungarian Word) 7 December 2002.

asymmetry in the benefit of the other party. In respect to Yugoslavia, this is the first free trade agreement concluded in line with the norms of the World Trade Organization (WTO). The evolution<sup>12</sup> of bilateral trade in the last two years is illustrated by *Table 13*.

Table 13

*The evolution of the bilateral trade 2001–2002*

Year	Trade turnover (million USD)	Hungarian export into Yugoslavia (million USD)	Increase of the Hungarian export (The same period of the previous year = 100)	Hungarian import from Yugoslavia (million USD)	Increase of the Hungarian import (The same period of the previous year = 100)
2001	258.6	194.0	109.5	63.0	106.9
2002	350.0	224.5	115.0	66.8	120.6

*Source:* KSH, 2003. 12. 5/b. Foreign trade turnover concerning the relatively important countries.

In 2001, Hungary filled in the eighth place in respect to Yugoslav exports. As far as imports are concerned, it was on the fifth position, with significant Hungarian bilateral foreign trade surplus.<sup>13</sup> As for Hungarian export, the share of processed products is the largest, but food, beverages and tobacco are significant Hungarian export items too; Serbia-Montenegro mainly exports products processed in Hungary. Following the free trade agreement, the barter turnover between the two countries increased, thus *reaching the pre-war level*. It is difficult to objectively judge the role of the free trade agreement in the upswing of the foreign trade. This is due to the fact that normalization of bilateral relations encouraged the development of trade independently from it. Contrary to the desired pace of bilateral relations, several unpleasant circumstances prevented potential Hungarian partners from initiating contacts.

The Yugoslav cautiousness towards Hungarian entrepreneurs is justified because of their financial attitudes, backed by the current state of the economy and the events of the previous years. The economy is characterized by mutual indebtedness of enterprises. No remedy has been found so far whereas it is only made more difficult by the restrictive financial policy. Cash or ready-made transactions dominate the foreign trade. Open transportation, delayed payment, application for product credit without bank deposits are not offered. The indebtedness, the lack of

<sup>12</sup> Concerning the relations with Hungary, the trade between the Voivodina and Hungary grew 18% between 2001 and 2002 due to the effect of the free trade agreement.

<sup>13</sup> IMF, 78–79.

financial assets makes highly risky the collection of non-paid accounts, products and services.

In case of a product bought in Serbia, it is mandatory to avoid advance payment because of the “product elimination” risk. The collection of the expired claims via legal means is quite uncertain too. Due to the uncontrollable character of corporate transformations and financial channels, the debt payment is questionable in the implementation phase as well. Transportation and technology discipline are insecure and unreliable, the custom procedure is slow and complicated and there are problems with the property registry (even though this latter is significantly better in Voivodina than in Central Serbia).<sup>14</sup>

### *Education*

During the 90s, but mainly since 1993, in the hope of a more secure education, high school pupils and university students went to study to Budapest, Szeged or other centres where it was possible to get specialized education (wood processing high school, horticultural high school, actor training high school). The education-driven migration reached its peak between 1992 and 1995, and another important period was around 1999, during the Yugoslavia NATO attacks. Due to the economic and politic difficulties, this process is still ongoing.

From Yugoslavia’s point of view, the unprecedented higher education relations have been established during the most difficult times of embargo.

There are a few hopeful examples for the new co-operation in education: although there is a symbolic and formal-like co-operation between Szeged University (Hungary) and the Natural Science Faculty of the Novi Sad University (Voivodina), the Zenta-based distance education centre at the Horticultural Engineering Faculty of Saint Stephen University (Hungary) is much more valuable for practical reasons. Through this connection, 80 horticultural engineers from North-Bácska (Voivodina) got degrees and remained in Voivodina! The local branch of the Technical College from Gábor Áron University (Hungary) similarly operates in Subotica and recently a SZÁMALK local branch opened in Topolya (Voivodina).

Starting with the summer of 2000, due to co-operation forms at the higher education level, it is worth mentioning that students from Hungary-based university and colleges could organize their summer training in Voivodina.

### *Tourism*

The former Hungarian inbound tourism from Serbia (arrival en masse of people from Voivodina to the Hungarian spas, the Lake Balaton, Budapest) completely collapsed between 1992–93. Following the system change and the transition to a market economy, prices went up and Serbian economy found itself in decline. Only

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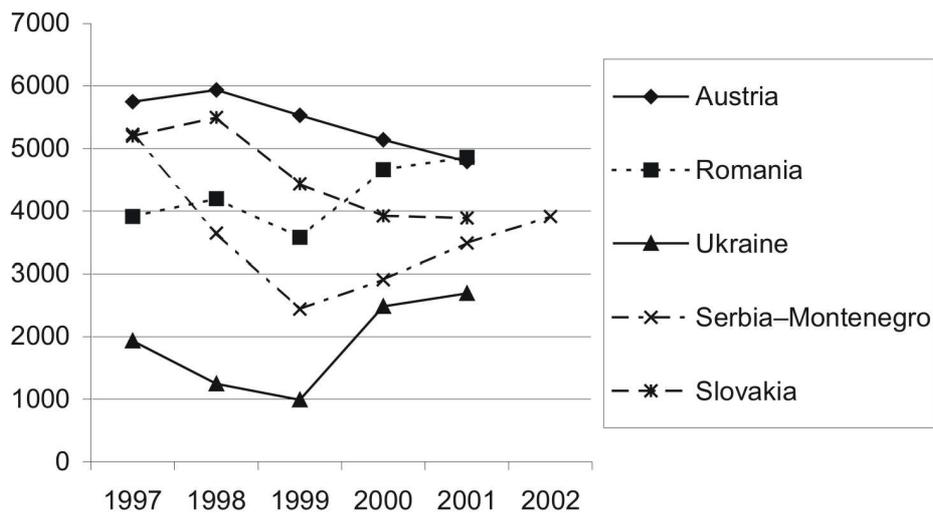
<sup>14</sup> Interview with András Pallos.

“shopping” tourism continued to flourish after the Serbian change in 2000. It can be however noticed a slight upwards tendency in other tourism branches as well. Transit tourism stayed alive during the ‘90s and education tourism is also significant. Particularities of the “visiting” phenomenon also underline these trends. In the first part of 2005 the share of one-day stay (transit tourism) was 81% while the share of stays over 2–3 days was minimal. The number of nights that visitors spent (in the first half of 2005) was 47000, indicating a 13% increase in comparison with the same period of the previous year (*Figure 15*).

There is a continuous health care migration from the Voivodina region inhabited by Hungarians, i.e. the Voivodina people travel to Szeged to get specialized private treatment.

Figure 15

*Number (thousands) of the foreign tourists arriving in Hungary from the neighbouring states*



Source: Hungarian Central Statistical Office: KSH, 2005.

#### *Regional, settlement co-operation*

During the years after the change of political system in Hungary, the Yugoslav–Hungarian *cross border co-operation* has been exclusively handled in the form of relations between settlements. This has been due to the absence of a proper “middle level” in the Yugoslav public administration. However, the local governments of

*Bács-Kiskun and Csongrád counties* maintained relations with the Sombor and Subotica municipal governments. Although these relations were restricted during the '90s, they became more vivid in the context of regional co-operation carried out between Subotica–Szeged and the Sombor–Baja regions. The Hungarian villages on the Serbian side (Ada, Becse, Bácsstopolya, Magyarkanizsa, Zenta and newly Törökkanizsa) set up significant contacts as well. The twin-town relations between smaller settlements are more or less restricted to cultural and sports activities.

*Water management relations*, re-opened in 1955 brought their contribution to the development of co-operation forms. The number of water management organizations engaged in co-operation programs significantly rose. In fact, it is indispensable to ensure continuous co-operation in view of fulfilling the professional requirements (the effective flood control and catastrophe protection presumes co-operation).

In the field of *environmental protection*, the Kiskunság National Park Directorate and the (Serbian) Voivodina Nature Protection Institute attempt to establish cross-border co-operation, with particular emphasis on concerted management of Subotica forests and the Körös Landscape Protection Area.

The Voivodina Autonomous Region (VAR) is a member of the Danube–Körös–Maros–Tisza Euroregion since 1997. Its greatest achievement was to assure full membership status for Subotica city in this organization.

In line with the Euroregion development strategy, closer co-operation of the region's counties is enhanced. However, this co-operation could be made more effective through developing communication strategies (border crossing points, public roads, regional information technology) and through European economic development methods (incubator houses, innovation centres, industrial parks). The re-opening of the former Szeged–Temesvár–Kikinda railway as well as the assurance of the navigability on Béga and Temes Rivers are taken into account. In the context of the cross border regional development co-operation, in 2003 an initiative was launched for the establishment of the Kunbaja–Bajmok Industrial Park and Logistical Centre.

The readiness for co-operation is well proven by the existence of the border-related regional development concepts and strategies. Among the Hungarian documents there are direct references to this aspect e.g. in the *South Great Hungarian Plain Regional Development Strategy*, *Csongrád County Regional Development Strategy*<sup>15</sup> as well as from the Serbian side in the *Serbian Land Use Plan*<sup>16</sup> and the *Voivodina Economic Development Concept*<sup>17</sup>. The *Upper-Bácska and North-Voivodina Co-operation Program* as well as the *DKMT Euro region Devel-*

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<sup>15</sup> MTA RKK ATI (Great Plain Research Institute of the Center of Regional Studies of the Hungarian Academy of Sciences) Békéscsaba Group, 2000.

<sup>16</sup> Prostorni Plan Srbije, 1996.

<sup>17</sup> GTZ, 2003.

opment Strategy<sup>18</sup> are made possible with the participation of both states' experts. All documents underline the importance of co-operation, emphasizing the significance of traditional economic sectors' (food processing industry, seed grain production and trade) and the new EU forms and opportunities for co-operation (industrial parks, establishment of incubator houses).

The success of co-operation is also acknowledged in the 80 PHARE CBC – where participants with small projects signed in. There were nearly 450 applicants for the 2005 Neighbourhood Program applications (INTERREG III A – CARDS<sup>19</sup>). In spite of the relatively small amount (2 million EURO) available, the great responsiveness of applicants proves the viability of these renewed connections (economic, chamber, self government, and research institutes related fields).

## **5 How does Hungary's EU membership influence its relationship with neighbouring countries?**

### **5.1 Hungarian–Romanian relations**

From 1 May 2004, Hungary became member of the European Union and thus the only neighbour of Romania with communitarian status. This chapter discusses how Hungary's accession to the EU affects relations between the two countries.

Bilateral relations have always evolved against the backdrop of disputes concerning the situation of the large Hungarian minority in Romania. However, Hungary's recent EU membership sets the traditional topics of this debate in a broader European context and raises new challenges. This study argues that Hungary's accession in the EU did impact the relationships between the two countries. Since 1 May 2004, the two post-communist countries addressed mutual problems not only from a strict neighbourhood perspective but mostly in the light of Hungary's already EU membership and Romania's candidacy respectively.

Our main argument is that the status differentiation (EU member vs. EU candidate) had a maturing effect on bilateral relations, in the sense that issues of common interest were approached with a higher degree of responsibility and European awareness. This status differentiation contributed at leaving behind past tensions and opening up new channels of dialogue and co-operation. At the same time, Romania could indirectly experience the immediate effects of the EU accession and acknowledge various changes that European integration brings about.

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<sup>18</sup> MTA RKK ATI Békéscsaba Group, 2005.

<sup>19</sup> CARDS-program – *Community Assistance for Reconstruction, Development and Stabilization* – It is related to Albania and the Yugoslav successor states.

### ***5.1.1 Political developments: leaving behind conflicts of the past, focusing on future challenges***

Even though Romania and Hungary have both engaged in efforts towards European integration in the past 15 years, the different perceptions of the status of the Hungarian minority living in the north-west part of Romania (Transylvania) generated sometimes critical moments in the bilateral relations.

Soon after 1 May 2004, relations between the two countries witnessed a critical moment: Hungarian officials proposed that regional autonomy for Hungarians in Transylvania should become a pre-condition for Romania's accession to the EU. Without having any direct impact on the rapports of Romania with the EU, the statement made a few eyebrows raise in Bucharest. Regional autonomy counts as the highest grievance of the Democratic Union of Hungarians from Romania (DUHR). Even though enlarged minority rights have been conceded in the last 15 years, successor Romanian governments failed to confer regional autonomy proper to Hungarians in Transylvania. In the light of this state of affairs, Romanian political class qualified Hungary's usage of authority derived from the EU membership as a tactless interference in the internal affairs of an EU-candidate with a large Hungarian minority. Moreover, the declaration did not match the external policy line promoted by the European Union itself. As the Commissioner for Enlargement Olli Rehn repeatedly stated, to confer or not regional autonomy is a matter of domestic politics, to be solved internally by each member or candidate country ([www.divers.ro](http://www.divers.ro), no. 40 (186) 4 November 2004, 26 (218)/7 July 2005; <http://www.hatc.hu/editorspicks.php>, [www.bbc.co.uk/romanian](http://www.bbc.co.uk/romanian) ).

Further burden has been put on bilateral relations in autumn 2004, when a referendum was called in Hungary on dual citizenship for Hungarians outside Hungary's borders. The referendum held in December and soon after the Romanian general elections, provided ground for heated discussions both in Hungary and in Romania. The referendum was declared invalid due to low turnout. It nevertheless revealed a complicated anatomy of relationship between the two countries, in connection with the grievances and envisaged migration trends of Hungarians from Transylvania. As its representative, DUHR officially voiced the will of the Hungarian minority to enjoy double citizenship, thus having unrestricted access to the space and market of the European Union. On the other hand, as a major actor of Romanian domestic politics, DUHR is nevertheless aware that by supporting the dual citizenship it may jeopardize its own interests in the long run: if dual citizenship is enforced, a high number of Hungarians from Transylvania could relocate to Hungary/EU, therefore the electoral basin of DUHR could be seriously affected and the political stakes of the European Union endangered.

While it still remains an open question, there is however reason to hope that despite these temporary setbacks, with the change of prime minister in Hungary and a

newly elected government in Romania relations will by and large continue to evolve in a positive, friendly manner. In early 2005, the recently appointed Hungarian prime minister stated in the course of bilateral talks held in Budapest that Romanian internal issues such as “regional autonomy” are to be exclusively addressed by DUHR, the official representative of Hungarian rights in Romania. In the course of several bilateral meetings held in 2005, both Hungarian and Romanian prime ministers called for European “compromise solutions” to matters of mutual interest and stated that both countries should primarily focus on a common future and leave the cumbersome legacy of the past behind.

### ***5.1.2 Migration trends in Hungary and Romania after 1 May 2004***

As its living standards have been approaching the Western ones, Hungary became an attractive target for work and residence. Moreover, the country is considered to be a “tampon zone”, an interface between the rich West and poor East. The Hungarian minority from Transylvania is the main pole of migrants from Romania to Hungary.

In this regard, Endre Sik, director of the International Centre for Research on Migration and Refugees argues that “with the exception of ethnic Hungarians from neighbouring countries, almost no one else speaks Hungarian and this is a sort of natural system of defence against economic migration” ([http://www.bbc.co.uk/romanian/news/story/2005/05/050530\\_trailer\\_arena\\_dunare.shtml](http://www.bbc.co.uk/romanian/news/story/2005/05/050530_trailer_arena_dunare.shtml)). The presence of Hungarian minority in general and the Hungarian minority from Romania in particular, in the overall migration towards Hungary is quite obvious if we consider the data disclosed by the Office of Immigration and Nationality of the Hungarian Ministry of Interior in respect to 2003. The number of foreigners having immigration permit to Hungary by 31 December 2003 was nearly 100 000. Nearly 60% of these permits (exactly 57 847) was issued to Romanian citizens (*Király, András*). Mr. Zoltán Egyed, director of the Immigration Office of the Ministry for Domestic Affairs argues that 48 000 applications for residence visas were handed in only in 2004. Three quarters of these applications were also in connection to getting a work permit (BBC Romanian, [http://www.bbc.co.uk/romanian/news/story/2005/05/-050530\\_trailer\\_arena\\_dunare.shtml](http://www.bbc.co.uk/romanian/news/story/2005/05/-050530_trailer_arena_dunare.shtml)).

As EU member, Hungary became in 2004 gateways to the world’s largest economic market and the rise in illegal migration on its eastern *border* was inevitable. For this reason, the European Union had thought reasonable to introduce careful and strict regimes for entering its territory to filter out ‘unwanted guests’ already from November 2003. Thus, as a preliminary step towards its integration in the EU in May 2004, Hungary adopted the Schengen border regulations in regard to Romanian citizens. Before this date, Romanian citizens could renew every month

their staying in Hungary, fact which led to an exodus of Romanians seeking work and residence abroad, often through illegal means. Since November 2003, Romanian citizens are allowed to spend without a visa 90 days in 6 months on the territory of Hungary.

Given the large Hungarian minority from Romania, the adoption of the EU border regulations created new challenges to be met. How could Hungary comply with the strict EU regulations concerning access to the EU territory and simultaneously follow its own priorities regarding the flux of Hungarians in and out of Hungary? (*Király, András*) Hungarian minorities from abroad regard Hungary as their kin-state and are in favour of enjoying more subsequent privileges. On the other hand, as an EU member, Hungary has to enforce strict border regulations against illegal migration, which can often conflict with its identity-preserving policies towards Hungarians abroad.

The effects of enforcing the EU border regulations could be experienced without delay. The provisions mainly aimed at cutting down the number of illegal immigrants to Hungary and other EU countries by initiating more thorough control of passengers at the border, closer examination of the valid visas, a better tracking down system at the Romanian–Hungarian border control points. In fact, once Romania would reach full EU membership, it will become itself a “tampon zone” between the farther east and the west of the continent and will have to deal with the same frontier issues as Hungary at present (*Juhász, 2003*). On the other hand, these regulations made it harder for Hungarians outside Hungary to keep contacts with relatives and friends inside Hungary, as the number and duration of visits became more limited. In the long run, the newly enforced measures could entail some psychological effects of those ethnic Hungarians who feel that the door of access is being closed in their face.

Consequently, Hungary made attempts to further shape its migration policy along the lines of EU requirements as an international obligation but at the same time not to destroy the network of manifold relations with Hungarians living outside its borders. For instance, in order to counterbalance the failure of the referendum on double citizenship, the Hungarian state introduced, effective from March 2005, “national visas” for citizens from neighbouring countries, i.e. multiple entry visas for a period of 5 years. These visas are intended to help preserve the identity of ethnic Hungarians beyond the borders without however, automatically conceding to them the right to work in Hungary (BBC Romanian, 06 January, 2005 – Published 16:46 GMT).

### ***5.1.3 Enlarged regional co-operation within an European framework***

Intensified programs of regional co-operation and border management have been already envisaged by Hungary and Romania in accordance with general European policies. As previously argued, Hungary acts as a “buffer country” between the EU space and the non-EU countries. Its border with Romania became external frontier of the European Union and serves as a filter to prevent illegal immigration into the EU.

Romania’s own capacity to ensure efficient border management is a key area of concern for the European Union, as the country aims at full membership in the bloc on 1 January 2007. When Romania joins the EU it will manage more than 1500 km of the enlarged Union’s external border and Brussels has interest in making sure that Romania could fulfil this role. “It should be able to prevent the illegal trade in goods and people, without erecting a new iron curtain between the EU and the countries which will be left outside the enlarged Union”, explains Jonathan Scheele, the European Commission’s chief negotiator in Bucharest (Story from BBC NEWS: <http://news.bbc.co.uk/go/pr/fr/-/1/hi/world/europe/4110754.stm>, Published: 2005/06/21, 15:35:19 GMT).

In addition to being able to act as a filter against illegal migrants and products from countries such as Moldova and Ukraine towards the EU, Romania has also the duty to make sure that its own citizens do not abuse the right to free circulation within the Schengen space. In 2004, the border police managed to stop more than 1.5 million Romanians from travelling to the EU, but the filter is not perfect. One of the reasons is corruption among some border police, who is ready to accept money in return for turning a blind eye to irregularities in the travel papers of fellow Romanians.

The Romanian border police chief argues that this is a “particular concern” on Romania’s western border with Hungary, now EU member. Such an incident caused by corruption and mere incompetence took place in March 2005, when several coaches with more than 200 Romanian citizens on board were refused entry to Spain, motivated by lack of valid travel documents. The Arad Border Police was found guilty, as it failed to check that passengers have valid passports, hotel bookings, return tickets and enough money for their journey. “Everybody is allowed to make a mistake once”, said European Commission’s chief negotiator in Bucharest. “But it shouldn’t happen again, because it would undermine confidence in Romania’s ability to control its border with Hungary, hence with the EU”. Should Romania not register considerable progress at the chapter of frontier security, its EU entry could be delayed with one year till 2008.

However, progress has gradually been made and common strategies of border management as well as various projects of cross-border co-operation between Hungary and Romania have been launched. According to the Trans-Border Co-

operation Program 2004, signed on 8 April 2005, the CBC program Romania-Hungary has a budget amounting to some 5 million EUR from PHARE funds and some 1.58 million EUR from Romania's budget. The CBC programs incorporate Romania's western and Hungary's eastern parts. The funds are mainly being allocated for projects of infrastructure development between Romania and Hungary, promotion of tourism and environmental protection.

Co-operation with Hungary in the environment field is now very efficient, and the bilateral relations are developing at a fast pace, Hungary's Minister of Environment and Water Miklos Persanyi said. "Environment protection has no boundaries. No country can have a clean environment, unless its neighbour is concerned with the same aspect. We depend on each other," the Minister added (Mediafax, [http://www.roinfocentre.be/media\\_news\\_358.asp](http://www.roinfocentre.be/media_news_358.asp)). Moreover, according to Magdolna Kalapati, Head of the South Great plain Regional Office of the National Agency for Regional Development in Hungary, 18 economic development and infrastructure projects will be financed within the framework of the PHARE CBC program (Bucharest Daily News, [http://www.roinfocentre.be/media\\_news\\_224.asp](http://www.roinfocentre.be/media_news_224.asp)) in the near future.

Broader forms of future co-operation between the two countries are directly facilitated by the infrastructure projects carried out in the western part of Romania. Building at least one motorway that could link Romania to the major European traffic corridors is first priority for the country, given its speculated accession date to the EU in 2007. However, it has been a much disputed and politicized topic as to which route the motorway should cover and how should its building be financed.

In the late '90s, on the occasion of the European Conference for setting the Pan-European transport corridors, Romania took the responsibility to build up the fourth Pan-European corridor, cutting its way from Romania's western to the eastern border: Arad – Timisoara – Sibiu – Rimnicu-Vilcea – Pitesti – Bucuresti – Constanta (*Figure 16–17*). The project is to be financed from European structural funds, disposed through the European Investment Bank. Its works have actually started and some financing channels have been already activated. However, the Nastase government (2000–2004) decided to initiate works for a new motorway, cutting through the middle of Transylvania, from Brasov to Bors, at the expense of continuing works for the "IV Pan-European corridor".

This other motorway has a much better coverage of the region inhabited by Hungarians, hence its emphasis on the political agenda of the Democratic Union of Hungarians from Romania (DUHR). The motorway construction works were commissioned to the American company "Bechtel". Two main objections were voiced in connection with this contract: apparently the project was commissioned to Bechtel in the absence of a public tender, and at odds with the interest of some European bidders; secondly, all construction costs are deducted from the state budget, which poses additional burdens on the Romanian tax-payers.

Figure 16

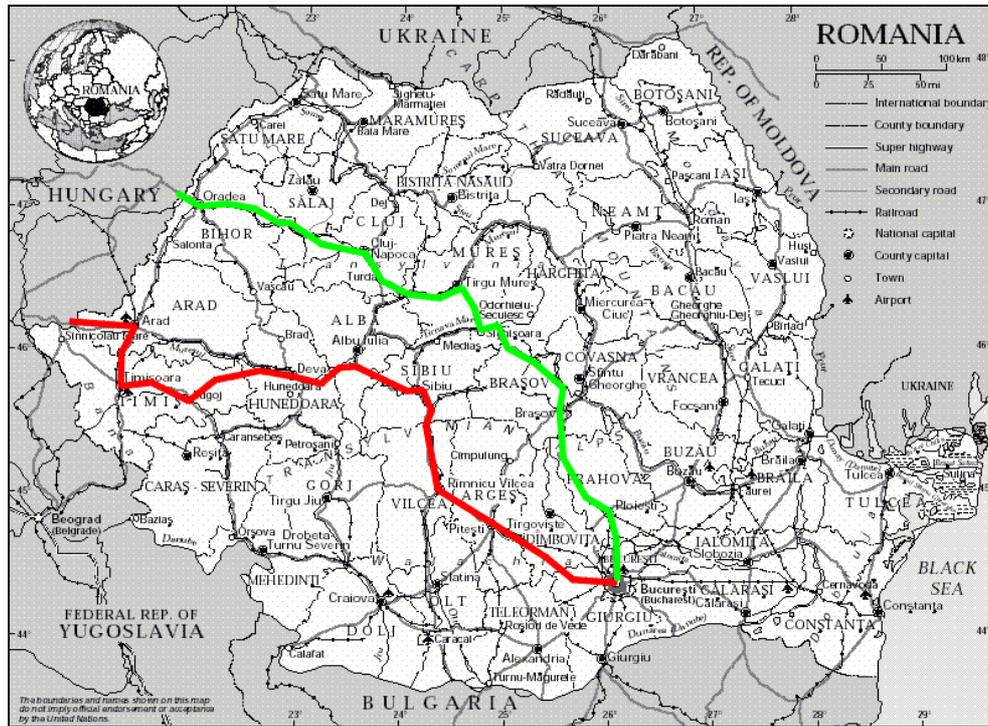
*European transport corridors and the concession made to Romania:  
how the IV European corridor intersects Romania*



Source: [http://www.mt.ro/traceca/romana/rom\\_proiecte\\_propuse\\_romania.htm](http://www.mt.ro/traceca/romana/rom_proiecte_propuse_romania.htm).

Figure 17

*The Corridor IV (red line) and the Bors–Brasov variant (green line)*



Base map: <http://www.aboutromania.com/maps88.html>.

The “Bechtel highway” was a constant topic of dispute in the electoral campaign of 2004. After the new government PNL-PD came into power, works have been stopped in the first months of 2005 and only 213 million EUR (instead of 500 million EUR) construction costs have been allocated from the state budget for 2005 (<http://stiri.acasa.ro>, 30 May 2005, 09:59 am, “Doua variante pentru legatura cu Occidentul”).

The incumbent government has clear-set objectives: “If Romania wants to pose in a serious country and the current government in a credible institution, then we need to respect certain European engagements” stated prime-minister Tariceanu (<http://www.expres.ro>, 11 July 2005, “Autostrada se muta de la Cluj la Sibiu”). At present, the works at the “IV European corridor” are given priority but the building up of the Bechtel highway will also continue, even though at a slower pace.

To choose the routing of the motorway linking Romania to Europe is in fact a political decision. The topic stirred some debates within the current governing coalition. DUHR is unmistakably in favour of the “Bechtel” project, as developing the road system in the middle part of Transylvania, where most Hungarians live, is a necessity. Such a motorway would directly link Hungarian communities from there to Hungary and to EU further. Regional advantages are significant: it would be a clear incentive for Hungarian investors to start up new trades, relocate and intensify already existing businesses in the western part of Romania, inhabited by their co-ethnics.

On the other hand, building up the motorway along the “IV European corridor” has its own advantages. The connection with European traffic corridors and international economic exchanges is anyway made through Hungary. Additionally, it seems that Hungary itself has plans to build a motorway up to Szeged – Nadlac, giving priority to the European corridor as well ([www.cotidianul.ro](http://www.cotidianul.ro), 29 May 2005). It follows from here that this route would connect not only the west of Romania with Hungary/EU but also the country’s south-eastern regions. It therefore provides stronger incentives for a larger category of European investors, interested in setting the foot in Romania, anywhere from Transylvania to the Black Sea. In other words, building the motorway in accordance with the IV corridor would enhance the economic attractiveness of Romanian regions both at a regional and wider European scale.

#### ***5.1.4 Economic consequences of Hungary’s accession to the EU for Romania***

Hungary’s integration in the EU created important economic opportunities and incentives for attracting FDI but also highlighted certain difficulties and threats having mainly to do with the implementation of common European market policies.

Overall, it can be argued that Hungary’s accession to the EU and Romania’s prospects to membership from 2007 respectively had a positive impact on economic relations. Although spectacular results cannot be visible in two years, Hungarian investments became slightly more dynamic and more diverse. The already existing investments underwent a process of consolidation while new investments have been more oriented towards sectors such as: banking, telecoms and IT. In addition, Romanian companies showed increased interest to receive information, experience and expertise from their Hungarian counterparts, already familiar with the EU market.

An analysis regarding the regional distribution of foreign investments in Romania in the last 14 years shows that Hungarian investments had mainly been focused in the north-west and central part of the country, inhabited by Hungarians. The

Hungarian company MOL has been reported as the biggest investor in the area, with some 104 million dollars invested in the purchase of the petrol distribution company in Cluj/Kolozsvár ([http://webzter.ro/resurse\\_investitii\\_straine\\_prezentare\\_zonala.php](http://webzter.ro/resurse_investitii_straine_prezentare_zonala.php)). At the end of November 2004, the export of Hungarian capital to Romania summed to 345, 08 million dollars (the real value of investments amounted to 720–740 million dollars) through some 4.948 Hungarian functional companies. At the same time, it is worth mentioning the presence of Romanian capital in Hungary, summing up 50–55 million dollars through some 6 010 companies with Romanian capital. The largest Romanian investor is SN Petrom, with a social capital of 17 million dollars ([www.cotidianul.ro](http://www.cotidianul.ro), 23 January 2005).

After 2004, when Hungary entered the EU, an increasing number of European companies which used to have their production plants in Hungary started thinking about ‘délocalisation’, that is shifting factories and jobs to the lower-wage economies of the non-EU members, such as Romania (“European Union Enlargement”, April 28th 2005/ From “The Economist” print edition). Another reason for which Western companies invest eastwards is the access to the local market. “Romania with its 23 million inhabitants and with wage costs under 1 dollar per hour is a very attractive target. Moreover, unlike its neighbours, such as Ukraine, the implementing of the pre-accession strategy to the EU considerably reduced the political risks”, it is argued in the study.

The increasing presence of FDI (Hungarian investments, too) in Romania is directly related to the low wage costs in the country. The Economist Intelligence Unit shows in a study that wages in Romania are the lowest in the region (BBC Romanian, 30 November 2004, published 16:37 GMT). For instance, in the course of 2004, Romanian companies spent on average 0,95 dollars for one hour of work of an employee whereas 7,71 dollars were spent in Slovenia and 4,37 dollars in Hungary. Even though this affects the purchasing power of Romanians, it can also bring economic advantages to the country, the study shows.

Hungarian companies such as OTP, MOL and Gideon Richter had massively invested in Romania. For instance, OTP, Hungary’s flagship bank was rated in 2004 as the 6<sup>th</sup> largest investor in Romania (with a social capital of 48 million EUR) following the purchase of the bank RoBank. In autumn 2005, , OTP has filed its bid for buying Romanian savings bank CEC, which could be of key importance for fulfilling its goals in Romania. MOL is now the owner of Shell (a carburant distribution network operating mainly in Bucharest and in Central-Western Romania), whereas Gideon Richter invested in a large research and development center in Tirgu Mures, in Transylvania. “Broader urban investments amounting to 1.2 billion USD are expected to be achieved through the construction of urban and commercial centres in the areas around Bucharest and Cluj in the next few years, as well as the enlargement of the RoBank network and investments in telecommuni-

cations”, stated János Halasz, director of the Romanian-Hungarian section of the trade development agency ITDH, ([www.cotidianul.ro](http://www.cotidianul.ro), 23 January 2005).

Romania’s upcoming EU entry is a sound explanation why an increasing number of Hungarian businesses expand to Romania. The number of inquiries to the ITDH regarding investment opportunities in Romania went up by 80% last year (*Világgazdaság*, pp.1&2; *Hungary Around the Clock*, <http://www.hatc.hu/editorspicks.php>, 14 July 2005). Hungary is rated as the seventh largest investor in Romania, with over 5,100 companies in the country, of which 674 were registered last year alone. Hungarian businesses are most active in food processing, software development and auto spare parts. (<http://www.hatc.hu/editorspicks.php>). Hungarian companies are setting foot in the Romanian market by acquisitions and/or by setting up new subsidiaries in a bid to expand regionally, Halasz explained. This signals that many SMEs are financially sound enough to make the jump, he noted. Moreover, as already benefiting from EU development programs and financing schemes, a series of Hungarian SMEs have been involved in expertise and training programs for their Romanian homologues, in order to facilitate their integration in the European market (<http://www.hatc.hu/editorspicks.php>).

After 1 May 2004, the price of basic products, especially sugar and oil, doubled in Hungary in line with the provisions of the common European market. This led to a massive import of sugar from the western part of Romania to Hungary. The imports determined Hungarian sugar producers to file complaints to the Hungarian Finance minister in Budapest asking for a solution to be worked out against this market disequilibrium (BBC Romanian, 14 July 2004 – Published 11:02 GMT).

In exchange, following the same provisions of the common market, the wheat overproduction registered in 2004 in the new member countries of the EU (Hungary, Czech Republic, Poland) could pose a serious threat to the Romanian existing stock, considered to be the most expensive in Europe – the president of the Romanian National Association of Flour Milling and Baking Industries argues that while a tonne of wheat produced in the EU costs around 100 EUR, Romanian wheat is sold with 20–30 EUR more per tonne ([http://www.expres.ro/afaceri/?news\\_id=182664](http://www.expres.ro/afaceri/?news_id=182664), 29 March 2005). In order to avoid a market collapse, the EU had to intervene by purchasing and transporting large quantities of cereals resulted from the wheat overproduction registered in Hungary, Poland, Czech Republic in 2004.

It is said that at the beginning of 2005 the European Union had the largest stocks of cereals in the last ten years ([http://www.expres.ro/afaceri/?news\\_id=182664](http://www.expres.ro/afaceri/?news_id=182664), 29 March 2005). Unlike in the EU countries where mechanisms of intervention in cases of overproduction are enforced and made use of, the non-EU countries face a high risk of massive imports of cereals at a very low price.

There is reason to believe that although Romania signed an agreement with the EU based on which only 124.000 tonnes of wheat could be imported without customs tax in 2005, the actual imports could be even higher, due to cheaper, tax-in-

clusive prices ([http://www.expres.ro/afaceri/?news\\_id=182664](http://www.expres.ro/afaceri/?news_id=182664), 29 March 2005). At any rate, starting with 2007 – the envisaged date for Romania's accession to the EU- Romanian producers will not enjoy any state support or subsidies in connection with the cereal production. Thus, they will have to enter in direct competition with other cereal producers from the EU member countries.

However, the effects of Hungary's accession to the EU were visible at the daily level too. Lower prices in Romania provided an incentive for Hungarian citizens to cross the border on a weekly basis seeking cheaper food, clothing and household products. As a result, so-called "border supermarkets" have mushroomed after Hungary's accession. It was reported that the number of Hungarian citizens crossing the eastern border with Romania doubled since 1 May 2004 ([www.capital.ro](http://www.capital.ro), 7 April 2005).

## **5.2 Hungarian–Serbian relations**

Hungary's new status – as an EU member – exerts particular influence on Voivodina region (inhabited by Hungarian minority), but impacts less on Central-Serbia. The unsuccessful referendum on dual citizenship for Hungarian minorities posed additional burden on bilateral relations. Relations with the home country became colder and a certain lethargy from minority's side could be felt.

The obligatory visa –system introduced in 2004 (after Hungary's accession to the EU) inhibited mobility. On the other hand, the Hungarian Embassy in Beograd or in Subotica grants for free one-year visas to Hungarians willing to travel to the home country. CMH Offices (*Concordia Minoratis Hungaricae*) make available the so-called "Hungarian identity card" for the members of the Hungarian minority, with the purpose of facilitating the visa procedures.

After 2004, mobility trends have not significantly changed. The nature and intensity of legal and illegal migration from Voivodina stayed the same as before. Nevertheless, one could notice a slight increase in the transit-commuting activities from Austria to Serbia via Hungary.

During the last years there have not been visible signs of enhanced economic co-operation. This is mainly due to the fact that Hungarian entrepreneurs have no motivation to invest in Central-Serbia or Voivodina.

Despite these negative tendencies, the emigration or guest working from Serbia/Voivodina to Hungary has not radically increased either. Some experts argue that a few emigrants who fled the country in the course of social changes in the '90s consider coming back to Voivodina.

Finally, stagnation and tense atmosphere characterizes the Hungarian-Serbian relationship, and there is no real hope to improve it in the near future.

## **6 Conclusion**

Hungary's accession to the European Union created a novel situation. Hungary's borders currently stand for EU's external borders. Indeed, a "thicker line" has been drawn between Hungary and its non-EU neighbours. This state of affairs affects Romania only temporarily but it will impact on Serbia-Montenegro for a longer period of time.

This research aims to highlight older and recent aspects that the EU integration process entails at national and regional levels. Such an approach provides us with the opportunity to reflect upon the manner in which Hungary's EU membership altered its neighbourhood policy towards Romania and Serbia-Montenegro. In our attempt to present the multi-faceted integration process in the most possible objective way, we sought to adopt a genuine research method: experts living on both sides of the borders have permanently shared their knowledge and have exchanged their views in respect to the integration matters under scrutiny.

The study consists of three main parts:

- the economic and social differences among the three countries both at the national level and within border regions after 1990;
- political, social and economic relations prior to Hungary's accession to the EU;
- the influence of Hungary's EU membership on the relationship with neighbouring countries after 2004.

Bilateral relations between Hungary and Romania form the cornerstone of stability in Eastern Europe. The relationship between the two countries suffers from a painful past, mainly due to the partly unresolved situation of the Hungarian minority. The difficulties arising from the transition to a market economy as well as the significant economic differences posed additional burden on the initiation of co-operation forms. The unfolding of cross-border co-operation has been hindered by the fact that the Hungarian regions in the vicinity of Romania are economically less developed and have been particularly affected by the transitional changes. According to our researches the Romanian–Hungarian economic relations became more enhanced, although disparity still remains a main feature.

Relations between Serbia-Montenegro and Hungary were not deeply influenced by minority conflicts (at least not after World War II). However, the Yugoslav war put an end to what had been a more or less peaceful relationship. Tensions have been sparked off in the beginning by the influx of Yugoslav (as well as Hungarian minority) refugees and later by drastic altering in the social and economic situation in Voivodina (where Hungarians primarily live). This has been mainly due to the massive Serbian immigration. The new conflicts cast the shadow on current Hungarian-Serbian co-operation as well. In order to visibly improve its relationship

with Hungary (and any other neighbour), Serbia-Montenegro must first undergo a deep, long-run consolidation process both at the political and economical levels.

The main conclusion of our study is that as a member of the EU, Hungary brings about new challenges in the region. Most importantly, it has the capacity to strengthen neighbourhood relations as well as to open up new channels of regional co-operation and development. Hungary enjoys nowadays the status of being a full EU member, with all its subsidiary duties, rights and responsibilities. On the other hand, it brings about a clear political division (EU vs. non-EU states) that can affect bilateral relations and make old tensions rise again.

Through Hungary, the EU became the watchdog in the region, formulating clear recommendations in regard to the security of the EU external borders, illegal migration, economic policies, environmental protection, etc.

Given its envisaged accession to the EU in 2007, it can be argued that Romania needs to cope with these exigencies in a more dramatic, ultimate-like way in comparison with Serbia-Montenegro. Once the Romanian Eastern border will become the EU external border, Hungary's solutions to the problems of "national minorities beyond EU borders" could serve as example to Romania when similar issues will arise in regard to Romanians from the Republic of Moldova.

Hungary currently stands for a country with a dynamic market economy, being itself an attractive potential investor in the neighbouring countries. It has become a country in possession of the status, the experience and the practical knowledge necessary to expand its investments regionally. The existence of large Hungarian minorities in the border regions of both Romania and Serbia presents a clear incentive for Hungarian investors to set up or relocate business there. There is hope that a higher infusion of Hungarian investments could constitute a basic ingredient of the "development recipe" prescribed by the EU. In exchange, it is likely that the presence of Hungarian capital in these Hungarian-inhabited areas would contribute to inhibiting nationalistic sensitivities, stirred up by the political "EU-non EU member" divisions.

Researchers' recommendations to the European Union:

- The enlarged EU borders should not affect the former bilateral connections.
- The EU has to pay particularly more attention to the national minorities living near the "new" borders. General and more specific (even case- to- case) policies in respect to cross-border forms of living and co-operation would be welcome.
- It is perfectly reasonable that the EU enforces advantageous relations with the countries benefiting from the next accession wave (Romania, Bulgaria). At the same time, the EU may show a bit more concern with the dramatic problems hampering Serbia-Montenegro, as in return, its collapse would by and large threaten the European Union.

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