HUNGARIAN-ROMANIAN CROSS-BORDER ECONOMIC CO-OPERATION

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Abstract – *The differences in the transformation process have resulted in a diverging economic development in Hungarian and Romanian regions while their contacts have intensified. The less developed part of a more developed country meets the more developed part of a lesser-developed country. A firm-survey carried out on the two sides of the border between Hungary and Romania shows that firms take advantage of the closeness of the other region, at least in terms of foreign trade. We find no evidence for the migration of the workforce from the lower-salary region toward the higher-salary one. The sample supports the hypothesis that Hungarians from the border region invest in the nearby Romanian region. Although the time of EU accession is far away compared to the time-horizon of firms, substantial changes can be foreseen for the time when Hungary becomes a member but not Romania. Hungary may lose its attractiveness for Romanian firms as a bridgehead and easily accessible country.*

Key-Words - REGIONAL DEVELOPMENT, ROMANIA, HUNGARY, TRADE, FDI, CO-OPERATION, EU-ENLARGEMENT.

JEL Classification: O52, P27, F15, R23, R39.

This paper was prepared in the framework of the "Countdown" project at the Vienna Institute for International Economic Studies (WIIW) financed by PHARE-CBC funds. The full project is available on the WIIW/Countdown homepage:
http://eu-enlargement.org/discuss/default.asp?topic=research.

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1. THE REGION

For many years, the national borders in East-Central Europe, have been serious obstacles for intensive international flows of goods, capital and labor, not only with the "West", but to a great extent also between the allegedly friendly countries of the CMEA. Commodity trade was intensive but mainly between big companies and big industrial centres, not between nearby locations[1]. Border regions were separated by "dead borders" between Hungary and Romania especially in the 1980s. The situation eased abruptly after 1989. Improving personal and economic freedom in both countries, as well as the easing of border controls and building of new crossing points allowed a fast development of cross-border traffic and economic co-operation.

The 445 km long Romanian-Hungarian border is the outcome of the post-WWI peace treaty and does not constitute a natural or historical, cultural or ethnic border. It was mainly the more successful recent economic and institutional development of Hungary that made the two sides markedly different from each other. Differences in the process of transformation resulted in further divergence of the main macro-economic indicators. Hungary's per capita GDP is 2.8 times that of Romania at the current exchange rate, and 1.8 times higher at purchasing power parity (PPP). Hungary has higher trade intensity and specializes in its exports on more sophisticated machinery products than Romania, which is a larger and less open economy specializing on light industry goods as well as on steel and chemicals.

Hungary is a forerunner of transformation and EU accession. Romania shows slow progress of transformation and a weakness of market economy institutions. While most of the industry in Hungary is privately owned, in Romania only half of the initial state ownership in this sector has been transferred into private hands so far. Hungary has attracted almost 7 times more FDI per capita than Romania, but has problems with raising the interest of investors in the more backward and less connected eastern border areas. Hungary is also exporting capital to neighboring countries while outward FDI from Romania is marginal. Hungary stands at the 11th place among foreign investors in Romania. Its share amounts to 3.6 per cent. The primary motivation for investment of Hungarian firms is the goal to gain new markets in Romania. There are about 2,000 Romanian ventures in Hungary, usually small firms in wholesale trade.

At the Hungarian-Romanian border, the less developed part of a more developed country meets the more developed part of a lesser-developed country.

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[1] See for a case-study Grimm (1998).

The per capita GDP difference is less important than the average difference between the two countries: only two times at the exchange rate and at PPP the difference is only one quarter to the benefit of Hungary. In both countries, the northern part of the border region is less developed than the southern. Table 1 shows EU data for GDP differences of NUTS-2 regions, the standard medium size regional statistical units in the EU. These are somewhat larger statistical units than the basic administrative units (megye, judet) along the borders.

Table n° 1: Per capita GDP at PPP in % of the EU average in bordering Romanian and Hungarian NUTS-II regions, 1998

Romania	*28.2*
North-West	26.0
West	32.4
Hungary	*49.0*
North-Plain	33.1
South-Plain	37.4

Source: EUROSTAT.

The Romanian border region is as developed as the country average and its southern part, Judet Timis, the core of the historical region Banat, is one of the most developed administrative units in the country. In Hungary, the eastern border region is less developed than the country average: per capita GDP of the four "megye" ranged between 55 % and 86 % in 1999.

Different cost structures and legal frameworks exist on the two sides of the border. But as EU accession is the target of both countries, the main features of their legal systems converge. Existing differences can be serious obstacles for companies acting across the border as specific knowledge of both systems is required in addition to various risk factors and transaction costs. Firms acting mainly within the border region are exposed to the competition of imported goods, which, given the small transportation costs from the neighboring country, may come in a larger variety than in other parts of the country. Moreover, consumers may decide to purchase goods in the other country, as happens many times. The migration of consumption may vary according to the products. On the other hand, lower production costs, especially the labor-cost of the developed country or region may create competitive advantages: companies may sell their goods at a lower price than those from more developed regions. While Romania has labor cost advantages in comparison with Hungary, this advantage is smaller in the comparison of the two border regions. At the same time the less advanced legal and institutional environment in Romania adds to the transaction costs. Firms have a strong stimulus to combine opportunities on both sides of the border, optimize production costs, access larger markets and reduce transaction costs.

Romania and East-Hungary joined the European Union's PHARE CBC program, which supports the development and cooperation of border regions in 1998 (see Törzsök, 2000; Pascariu, 1999). According to the guiding principles, the projects under this program should help to create balanced territorial development, contribute to the development of regional infrastructure, stimulate the economy and the development of human resources (incl. entrepreneurship) as well as contribute to the protection of the environment. The so-called micro-projects represent a special and relatively flexible category of cross-border co-operation projects (CBC) at the community level. The whole Hungarian-Romanian border region is a recipient of CBC co-financed projects. These facilitate the opening of new border crossings with connecting infrastructure, supporting SMEs, etc.

In spite of political declarations and official commitment towards European integration of both governments, the cross-border co-operation and regional development processes did not receive much political and legal support. The centralist interests of both governments jeopardized projects. Especially in Romania, regional administration has depended too much on Bucharest, international contacts were treated as central government monopoly. Slow changes took place in the late 90s. It was a difficult process: for the Banat Regional Economic Co-operation, the Carpathian Euroregion and the Danube-Kris-Mures-Tisa Euroregion took almost three years to establish the legal framework and another two years to start the activity of the regional development institutions. Both Euroregions include other neighboring countries as well and reconstruct historical-geographical entities[2]. The autonomy of administrative units was originally wider in Hungary. Since the late 1990s centralization tendencies in Hungary have been opposed to decentralization steps in Romania.

Hungary has a unilateral interest in its relationship with Romania due to the 1.7 m citizens of Hungarian nationality in Romania. The share of Hungarians in the counties along the border is 35 % in the north (Satu Mare and Bihor) and 10 % in the south (Arad and Timis). Hungarian government aided institutions were established to facilitate cross-border activities especially in culture, education and SME development. For Romania, Hungary is the most frequented transit country to the EU, hence its basic interest in good relations. In 1997-2000 the party of the Hungarian nationality in Romania (Hungarian Democratic Alliance-UDMR) was in the governing coalition of the country and since 2000 it has supported a minority government. Being integrated in the decision making has benefited the development of national and regional institutions.

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[2] On the history of Banat, the Danube-Kris-Mures-Tisa Euroregion see Rieser (1998).

2. THE SAMPLE

This paper presents the main results of a company survey. Questionnaires were prepared in order to analyze the cross-border economic activity in the counties of the Romanian-Hungarian border regions[3]. The investigation focussed on the following issues:

- main characteristics of enterprises in the border regions,

- the importance of the cross-border economic activity for firms at present and in the near future,

- motivations and obstacles in the process of conducting cross-border activities,

- the geographical preference of Hungarian and Romanian enterprises in selecting business partners,

- the influence of Hungary's assumed EU-accession upon the behaviour and business strategy of companies,

- the level of knowledge about the possibilities of cross-border activity, and the expectations of the companies concerning their cross-border relations in the future.

The sample consists of 200 companies in Hungary and 200 companies in Romania registered officially in the counties of the border region. The border regions cover the following counties (megye and judet respectively): Szabolcs-Szatmár-Bereg, Hajdú-Bihar, Békés and Csongrád in Hungary, and Satu Mare, Bihor, Arad and Timis in Romania. The sample excludes the agricultural sector, and those companies that have less than 10 employees. The questionnaires were filled in by direct method at the selected enterprises. Answers were obtained from the owners, managers or members of the directorial staff of the companies who had a good knowledge of the economic situation of their enterprises and had a direct influence on company strategy.

3. THE POSITION OF FIRMS ON THE TWO SIDES OF THE BORDER

The firms in the two regions are compared to show the differences in their distribution of legal form and economic branches, employment size, ownership structure, the size and direction of foreign trade and turnover.

The branch distribution of the Hungarian firms is very different from the Romanian ones (table n° 2). While Hungarian firms are distributed almost equally between industry and services, almost 70 % of the Romanian firms are in services. This difference is caused by the larger presence of Romanian firms in trade and other services, while there are more Hungarian firms in heavy industry.

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[3] The survey was carried out in the period of May and June, 2000. The coordinator was the Institute of European Comparative Minority Studies (IECMS) in Budapest.

The Romanian survey could not capture the largest, often partially state-owned companies in the region. The difference of economic activity may cause further differences in the behavior of the two samples.

Table n° 2: Distribution of Firms by Economic Branch

	Hungary		Romania	
Branch	Number of firms	% of firms	Number of firms	% of firms
Extraction, energy, water supply	4	2.1	2	1.0
Manufacturing, of which	99	50.8	58	29.3
Light industry	50	25.6	45	22.7
Heavy industry	49	25.1	13	6.6
Services, of which	92	47.2	138	69.7
Construction	12	6.2	15	7.6
Trade	63	32.3	80	40.4
Transportation	7	3.6	4	2.0
Finance, real estate	0	0.0	5	2.5
Other services	10	5.1	34	17.2
Total	195	100.0	198	100.0

Note: Light industry: food, textiles, leather and footwear, publishing, wood and other unclassified. Heavy industry: chemistry, plastic, rubber, ceramics, metallurgy, machine building, electrical equipment, transportation equipment. Other services: hotels and catering, telecommunication, education, health, other services.
Source: IECMS survey.

In both countries, firms are mostly small, the number of employees is less than 50 for 78.5 % of the Hungarian, and for 82.3 % of Romanian firms. The development of sales (output) of firms shows a very different behavior on the two sides of the border. In 1999 sales increased by 22.6 % for the Hungarian firms, while they declined by 12.6 % for the Romanian ones. The % of growing firms – defined as those whose sales increase in comparable prices – is 63 % for Hungary and only 8.4 % for Romania. This reflects the fact that the Hungarian economy started to grow in these years, while the Romanian one still suffered from recession.

Foreign ownership is more prevalent in the sample of Romanian firms. 34 Romanian firms (19.2 %) have foreign ownership to a larger or smaller extent, while in the Hungarian sample only 14 firms have foreign owners (7.1 %). This may be caused by the difference in the two regions. While foreigners who want to invest in Romania, may prefer the closest region to the west, the less developed region of Hungary is not attractive for foreign investors. A further difference in the foreign ownership consists in the average % owned: more than 20 % of the Romanian firms are 100 % foreign owned, while only 14 % of the Hungarian firms have full foreign ownership.

In terms of foreign ownership the sample reflects the situation in the two regions. The border counties in Hungary have absorbed a mere 5.6 % of the FDI in this country while those in Romania two times more, 11.1 %. Judet Timis is one of the most attractive targets of foreign investors in Romania.

Hungarian and Romanian firms in the sample differ a great deal in respect of the origin of foreign owners (table n° 3). 40 % of Romanian firms with foreign ownership are owned by Hungarians, while only one firm (8.3 %) out of the Hungarian firms with foreign ownership is owned by Romanians. Over half of the owners of Hungarian-owned Romanian firms originates from the border region. Therefore, the data support the hypothesis that Hungarians living in the border region establish firms mainly in the nearby Romanian region. For small investors it may be more attractive to invest in a near-by location. They may take advantage of cheaper production costs of the less developed region to increase their overall competitiveness. For Romanian firms the border region in Hungary is not attractive, they invest in the country as a whole, concentrating on Budapest and its surroundings[4].

European Union companies are the most frequent foreign owners of firms on both sides of the border. Six firms, one half of the Hungarian firms with foreign ownership, are owned by EU investors and the Romanian figure is close to 45 % (16 firms). There are two investors from former socialist countries in Hungary, both from the former Soviet Union, and three in Romania, one of whom is from the former Soviet Union. From outside Europe only the USA are represented, with 2 firms for both countries.

Table n° 3: Origin of Foreign Owners

	Hungary		Romania	
Origin of Foreign Owners	Number of Owners	% of Owners	Number of Owners	% of Owners
Hungary/Romania, of which	1	8.3	14	40.0
Border region	0	0.0	8	22.9
Other regions	1	8.3	6	17.1
Europe, of which	9	75.0	19	54.3
Austria	1	8.3	4	11.4
Other EU	5	41.6	12	34.3
Other developed	1	8.3	0	0.0
Former SU	2	16.6	1	2.9
Other former socialist	0	0.0	2	5.7
USA	2	16.6	2	5.7
Total	12	100.0	35	100.0

Source: IECMS survey.

4 The Central region concentrates 73 % of the Romanian-owned firms in Hungary, the eastern border region only 6 % (see Kovács, 1999).

One possible advantage of investors locating in a border region can be the larger variety of available workforce. Hungarian firms may take advantage of employing Romanian labor and thus lower their production costs, but this behavior is not verified by the Hungarian sample. There are only 6 Hungarian firms that have Romanian employees, all employing ethnic Hungarians from the other country. 7 Romanian firms employ foreign workers, three of them Hungarians, 4 other nationals. The small number of Hungarian firms employing workers from the other side of the border may be explained by the fact that employing foreign workers brings about huge administration costs for the firm, and it takes several months for the foreign employee to be allowed to start working[5].

The availability of work opportunities may be a serious constraint on cross-border employment and migration. Income differences to the advantage of the Hungarian side of the border cannot conceal its poor economic situation compared with the rest of the country. The unemployment rate in Eastern Hungary is 14 %, two times the national average. The relative prosperity of the Romanian side is expressed by the 5 % rate of unemployment, which is half of the country average.

4. REPORTED CROSS-BORDER ECONOMIC ACTIVITIES

International co-operation in the broader sense comprise not only trade but also other forms of contacts like networking and regular personal meetings. Companies of the sample gave answers about the present and future intensity of such links. As to the Hungarian firms in the border region, 41 % of them have connections with EU countries, 28 % with Romania, 22 % with other CEECs (table n° 4). An important part of the latter is cross-border activity with Ukraine, Slovakia, Yugoslavia. Romanian firms are less engaged in international co-operation, as only 30 % of them have contacts with EU countries, 35 % with Hungarian companies and 10 % with other CEECs (more than one answer allowed).

The difference in the overall intensity of foreign contacts corresponds with Hungary's stronger export orientation, its higher level of GDP and better transformation progress. Romanian companies are more inward oriented, rely on a more populous domestic market and have less experience with international co-operation (table n° 5). The direction of change towards more intensive international contacts is a common feature for both countries. While the Hungarian firms have broadly spread foreign relationships, Romanian firms concentrate more on neighboring Hungary.

[5] Illegal employment of Romanian citizens in Hungary is estimated to a total of 60,000. Most of them do seasonal work in construction and agriculture.

Table n° 4: International Co-operation of Companies of the Hungarian Border Region

	With Romania	With Austria	With other EU states	With former socialist* countries	Member states of the former USSR	With other countries
In the past five years	12.5 %	5.6 %	9.7 %	4.9 %	7.0 %	2.9 %
In the present	28.5 %	20.1 %	41.4 %	22.4 %	16.1 %	17.3 %
Intend in the future	35.4 %	36.8 %	36.2 %	45.5 %	33.6 %	39.6 %
Have no intentions	22.9 %	37.5 %	12.7 %	27.0 %	42.7 %	36.7 %
(n=100 %)	165	165	166	164	164	160

** Former socialist countries – excluding Romania and former USSR members.*
Basis: companies that had international activity in the past, have in the present or intend to have in the future.
Source: IECMS survey.

Table n° 5: International Co-operation of Companies of the Romanian Border Region

	With Hungary	With Austria	With other EU member states	With former socialist* countries	Former states of USSR	Other countries
In the past five years	15.4 %	5.3 %	6.3 %	6.9 %	3.5 %	3.8 %
In the present	35.3 %	8.6 %	29.6 %	9.7 %	1.4 %	6.8 %
In the future	36.5 %	46.4 %	40.9 %	34.0 %	22.7 %	27.1 %
Have no intention	12.8 %	39.7 %	22.0 %	49.3 %	72.3 %	62.4 %
(n= 100 %)	*162*	*157*	*165*	*150*	*147*	*138*

** Former socialist countries – excluding Romania and former USSR members.*
Basis: companies that had international activity in the past, have in the present or intend to have in the future.
Source: IECMS survey.

Companies in the border regions differ from the average Hungarian or Romanian firms in respect of the intensity of the relationship with the close neighbor. The importance of geography is shown by the high significance firms give to cross-border links. An unevenness of interest also appears. For Romanian firms in the border region, Hungary as a whole is the main present and future co-operation target. The attraction of the stronger and more prospering economy is obvious. Significantly fewer Hungarian firms in the border area maintain or intend to establish contacts with the eastern neighbor.

At the same time, for the Romanian companies the visa-free entry to Hungary is a major motivation for doing business. As Romanian citizens need a visa for entering the EU, many smaller traders are deterred from going further[6]. They may do business through middlemen or subsidiaries in Hungary.

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[6] The European Union has stopped requiring a visa from Romanian citizens since the beginning of 2002.

As to regions within the countries, 25 % of firms from Hungary chose the border region in Romania and 19 % of the firms from Romania chose the counties of the border area in Hungary as cooperation partners. If we add that Hungarian firms also mentioned, with 11 % the Hungarian populated counties of Transylvania, we can discover a clear regional and ethnic preference for doing business across the border. For Romanian companies, Hungary as a whole is a preferred target, not the border region. They recognize that the center of the Hungarian economy is Budapest and tend to find business partners there. In this respect the survey confirms the national data showing that Budapest is the main target of foreign investors in Hungary.

5. CROSS-BORDER TRADE

As to foreign trade (table n° 6), more Hungarian than Romanian firms exported their products: out of the firms which answered this question, 55.8 % of the Hungarian firms exported goods, while only 18.2 % of Romanian companies did. This difference is huge, but modified by the larger export intensity of Romanian exporters: on average, they export more by 9 % points of their total production. The % of firms with imports is approximately equal to exporting firms in the Hungarian sample (57.3 %), while in Romania it is 37.3 %, two times larger than the number of firms which export. The average % of imported inputs is very different in the two countries: while in Hungary less than 40 % is imported, in Romania this ratio is close to 60 %. In short, for Hungarian firms foreign trade is a general part of their activity, while the average Romanian firms hardly trades, but some of them specialize on exports. The latter firms are mostly in light industry, engaged in outward processing trade (OPT) and are often foreign-owned.

Table n° 6: Characteristics of Foreign Trade

	Hungary	Romania
Number of firms with exports	87	35
Average % of sales exported	42.4	51.3
Number of answering firms	156	192
Number of firms with imports	82	71
Average % of input imported	38.2	59.2
Number of answering firms	143	190

Source: IECMS survey.

As to the destination of exports, 20.9 % of the partners of Hungarian firms are Romanian, and half of the partners in Romania are located in the border region. Thus, 10 % of all foreign buyers are from the neighboring Romanian counties. This is not a large part of Hungarian firms' exports, but taking into account the relatively small size of this region compared to the remaining part of Romania. This result provides evidence that firms from the Hungarian border take advantage of proximity. The most important buyers, for almost half of the exports of the Hungarian firm's products, are firms in the European Union – the larger market attracts more despite the greater distance than close Romania.

The Romanian firms sell more often, in one third of the cases, to Hungary, overwhelmingly in the border region. Romanian firms thus take advantage of their lower production costs and the closeness of a more developed cross-border region. The European Union is the major trading partner of both Hungarian and Romanian firms: half of the foreign buyers originate from there.

The origin of imports is very different from the export destination. In the case of Hungary, only 11 % of the partners are from Romania, and none from the border region. But for Romanian firms, in 46 % of all cases, imports originate from Hungary, and in 21 % of cases from the border region. This is in line with the higher degree of specialization of Romanian firms in trade and the attractiveness of Hungary as a source of consumer goods. It also complies with the trend at the national level where Hungary runs a considerable trade surplus with Romania. Also direct investments flow more intensively from West to East.

6. MOTIVATION OF CO-OPERATION

Several questions were asked concerning both market seeking and efficiency seeking (production cost advantage) and the motivations of cross-border activities (table n° 7).

Table n° 7: Motivation of Cross-Border Co-Operation

Considered very or rather important	by Hungarian firms, %	by Romanian firms, %
Reactions to strategies of competitors	47.3	36.8
Reactions to strategies of customers	71.0	70.4
Low labor costs	45.5	36.8
Human capital, labor force	37.1	39.6
Potential markets in the target country	58.5	63.7
Closeness to customers	42.0	46.0
Reduction of transport costs	38.4	46.0
Common appearance on the markets outside of EU	35.5	45.8
Common appearance on EU markets	26.0	53.3
Maintenance of supply sources	38.4	60.1
Specific know-how of the partner	42.6	48.7
Potential access to public orders	44.0	42.3

Basis: all answering firms.
Source: IECMS survey.

For both sides the primary motivation of cross border activities is market seeking, i.e. to reach strategic customers or to target the market of the other country in general. Access to public orders has lower and almost equal significance on both sides. For Romanian companies, the common appearance on EU markets is a major driving force to co-operate with Hungarian firms. Hungary has a clear bridgehead function in this respect. Romanian companies can rely on the knowledge of the EU market of their Hungarian partners.

Another market-related motivation of Romanian firms is to maintain supply sources, i.e. seeking essential imports from Hungary. This can be an indication of slow progress of market economy transformation, which is responsible for higher transaction costs in Romania and makes imports desirable. Romanian firms engaged in the imports of goods from across the border have a concentration in the border area. According to local observations, a large proportion of the new shopping centers in the Hungarian border area serves Romanian customers with daily necessities, like sugar or milk. Large purchased quantities indicate that the buyers are often firms and not individuals.

Production cost related motivations (efficiency seeking) are generally less important than market related motivations. But companies on the two sides of the border differ in the kind of cost reduction they can achieve. Hungarian firms are attracted by lower labor costs in Romania. Romanian firms, on the other hand, are interested in lowering transport costs and getting access to the know-how of the Hungarian partner. Comparative advantages are reflected. There is also some evidence of knowledge spillover (know-how, EU market access) from the more developed country to the less developed one. The less developed region may benefit from its proximity with the more developed region, and thus catch up with it, while Romania on average is falling back compared with Hungary.

It was also asked to what extent the expectations connected with cross-border activities have been fulfilled. The answers of both Romanian and Hungarian firms indicated a very low degree of satisfaction with the results of cross border relations. Also the willingness to answer this question was very low. It shows that contacts are relatively new, unstable, and operate in a fuzzy environment. Expectations may not have been clearly defined either. The negative answer to this question contradicts the optimism concerning future intentions to enlarge co-operation.

7. BARRIERS TO CROSS-BORDER CO-OPERATION

On average, Hungarian firms stress more difficulties they face in Romania than Romanian firms in Hungary (table n° 8). They had to scale the importance of 22 factors one by one. Hungarian firms gave six obstacles 30 % or higher importance, Romanian companies named only three factors with such high scores. Only Romanian companies named obstacles of little importance. The overall difference between the assessment of the two sides reflects that the business environment in Hungary is easier due to more advances in transformation.

As to the most important obstacles, Hungarian companies are more concerned than Romanians about the general economic and political situation in the partner country. But when it comes to the question of actual bureaucratic obstacles, neither of the sides complains. The Hungarian firms are unsatisfied with the conditions of infrastructure and the environmental standards they find in Romania, but do not consider these as major obstacles.

Table n° 8: Difficulties in Cross-Border Economic Activity

	Hungarian firms		Romanian firms	
	Very important %	The least important %	Very important %	The least important %
Economic situation in partner countries	30.0	6.5	15.5	15.5
Exchange rate risks	20.5	6.0	5.0	35.5
Political situation in the other country	30.5	6.0	17.0	15.0
Lack of knowledge about legal conditions	27.5	4.5	16.0	12.0
Level of qualification of workforce	29.0	3.5	14.5	8.5
Labor costs	20.5	4.5	13.0	9.5
Infrastructure	25.0	4.0	11.0	12.0
Environmental standards	27.0	4.5	14.5	13.0
Customs restrictions, border formalities	22.0	7.5	7.5	30.0
Bureaucratic obstacles	17.0	6.5	6.0	30.5
Differences in mentality	20.0	3.5	11.5	14.0
Lack of suitable partners	26.5	12.0	18.5	4.5
Lack of accessibility of possible partners	23.0	4.0	22.0	4.0
Differences in corporate culture	16.0	5.0	10.5	10.5
Troubles in financing	30.0	5.5	21.0	10.5
Language barriers	34.0	2.0	42.5	1.5
Lack of suitable workforce	38.0	2.5	33.5	3.5
Not enough frontier crossing points	35.0	2.5	30.5	5.0
Lack of information about opportunities for co-operation	25.5	4.5	16.5	9.0
Lack of knowledge about the market situation in other countries	24.0	3.5	20.5	7.5
Low perspectives for profit	24.5	3.0	24.0	5.5
Too little public grants	19.0	11.0	13.0	28.0

Each row contains the distribution of answers for separate questions therefore column sum not applicable.
Source: IECMS survey.

The most important obstacles are related to the quality of the workforce and to language barriers. The former is more significant for the Hungarian firms, which at the same time named low labor cost as a primary motivation of co-operation. The language barrier is significantly more important in the case of the firms from Romania than vice versa. It is interesting they should not lack bilingual staff. Language problems may also lie behind the "lack of suitable workforce", because this obstacle got on both sides much higher scores than the qualification, mentality and cost of the labor force.

Another similar obstacle for companies on both sides of the border is the lack of border crossings. In fact, there have been major improvements in this respect during the last few years, and two new Hungarian-Romanian crossing points were opened in the year 2000. Yet it must be acknowledged that many of the pre-1918 roads and rail tracks still have a dead end at the border. It is interesting to find that despite long waiting hours at the border crossings, companies do not complain about border formalities.

8. MOTIVATIONS AND OBSTACLES AFTER HUNGARY'S ACCESSION

What will change in the cross-border relationships when Hungary becomes an EU member before Romania? It follows from the year 2000 assessment of the European Union that Hungary will be among the first candidates to join the EU, while Romania will be among the last. The first enlargement can take place in 2004 or 2005. No time horizon is given for the less prepared countries. Romanian experts suggest that their country will be ready to join the EU by 2007-2010. For a considerable period of time, the EU borders will shift from the Austrian-Hungarian border to the Hungarian-Romanian border. The questionnaire tried to find out what impact such a situation will have on the border regions.

Suppose that the Schengen border arrangement will be installed on the Hungarian-Romanian border (technical facilities already exist) and abolished on Hungary's Western border. The companies in the survey expect that first of all the contacts with the EU will intensify. Hungarian firms will get another strong push to co-operate with other EU members due to lower transactions costs on the single market. This can divert their interest from the cross-border co-operation with Romania. For Romanian firms the access to the Hungarian market will not become more difficult. Most of the present regulations of border crossing will remain the same. The association treaty between the EU and Romania will apply which allows free movement of goods more widely than the present CEFTA agreement between Hungary and Romania. At the same time, Romanian access to present EU countries will improve as there will be no second border to pass. This can divert Romanian interest from Hungary to the rest of the EU. The fear that Hungary will introduce visas for Romanian citizens when joining the EU and thus make cross-border co-operation more difficult has lost validity, as Romanians have visa-free access to the EU before Hungary's accession.

While companies have a clear view about their present interest, more than half of the Romanians, on the Hungarian side more than 60 %, do not know what will happen after Hungary's accession to the EU. This reflects the unclear time-horizon of such a situation and the lack of detailed knowledge concerning the impact of EU accession on the firm. In fact the probable date of accession is five years later than mid-2000 when the questions were asked. Firms in general do

Table n° 9: Further Co-Operation in Case if Hungary Will Join the EU

	Hungary	Romania
Basically imaginable	21 %	33.5 %
Not imaginable	16 %	13.5 %
Imaginable with benefiting by more financial grants	19 %	33.5 %
Not imaginable with grants	12 %	13.5 %

Source: IECMS survey.

Table n° 10: Change in Economic Activity of the Company in Case of Hungary's EU Accession

	Hungary (n=199)	Romania (n=200)
Improve significantly	7.5 %	7.0 %
Improve	46.2 %	44.5 %
There will be no change	25.6 %	31.5 %
Grow worse	10.5 %	6.5 %
Don't know	10.1 %	10.5 %

Source: IECMS survey.

Table n° 11: Difficulties in case if Hungary's accession to EU precedes Romania's

	Hungarian sample %			Romanian sample %		
Difficulties	Very important	Medium	Not important	Very important	Medium	Not important
Economic situation in partner countries	10.5	16.0	19.0	15.5	7.0	13.5
Exchange rate risks	10.5	17.5	18.0	5.5	4.0	29.5
Political situation in the partner country	19.0	17.5	12.5	16.5	5.0	18.5
Lack of knowledge about legal conditions	10.5	17.5	19.0	15.0	4.5	14.0
Level of qualification of workforce	16.0	23.5	9.5	16.0	10.5	6.5
Labor costs	15.5	17.0	10.0	10.5	9.5	9.5
Infrastructure	7.5	15.0	12.0	11.5	9.0	13.0
Environmental standards	10.0	14.5	18.5	14.0	4.5	18.5
Customs restrictions	12.0	11.0	17.5	5.5	1.5	44.0
Bureaucratic obstacles	5.0	14.5	18.5	5.0	2.5	43.0
Differences in mentality	5.0	21.0	12.5	12.0	8.0	10.0
Lack of suitable partners	11.0	18.5	12.5	19.5	8.5	3.0
Lacking accessibility of possible partners	9.5	20.0	10.5	19.5	8.5	3.0
Differences in corporate culture	6.0	19.0	11.5	13.0	8.0	10.5
Troubles in financing	16.0	10.5	15.0	16.5	9.5	6.5
Language barriers	29.5	7.5	5.5	39.5	1.5	1.5
Lack of staff in company	30.0	12.0	5.0	31.0	5.0	3.0
Missing frontier crossing points	25.5	13.5	6.5	25.0	7.5	3.5
Lack of information about opportunities for co-operation	11.5	19.0	10.5	13.0	16.0	9.5
Too little public grants	8.5	20.5	11.5	12.5	2.5	27.5

Each row contains distribution of answers for separate sub-questions, therefore column sum not applicable.
Source: IECMS survey.

not have such a long time horizon. It seems, nevertheless, that the inequality of interest will remain as Romanian firms not only at present but also after Hungary's accession will have more interest in co-operating with Hungarian firms than vice-versa (table n° 9).

The majority of the answering companies on both sides believe that their economic performance will improve after Hungary joins the EU (table 10). When evaluating the importance of the same difficulty in the future with the present, the importance of obstacles became lower (table n° 11). More obstacles received higher not-important scores. But the importance of specific major obstacles did not change much. Language barriers and lack of staff remained the primary concern. The lack of frontier crossing points remained a more important barrier than customs formalities.

Romanian firms believe that the quality and prestige of Hungarian products will increase. Hungarian firms are afraid that the increasing competition pressure of EU companies might wipe them out. Their present cost advantage may disappear when labor and environment related costs increase in Hungary. But Hungarian firms will find cheaper production facilities and lower labor costs in neighboring Romania which they may use to support their competitiveness on the EU market. It is also expected that the legality of economic activities will improve in Hungary. Companies on both sides are looking forward to more official help and information related to cross-border activities during and after the accession process.

9. SUMMARY

The analysis of the firm-survey carried out on the two sides of the border between Hungary and Romania shows that there are considerable differences between the firms in the two regions. Firms take some advantage of the closeness of the other region, at least in terms of foreign trade. Hungarian firms moderately export to the neighbouring Romanian counties, while Romanian firms both export and import more intensively with the nearby Hungarian regions. The analysis does not support the flow of workforce from the lower-salary region toward the higher-salary one, however, more detailed analysis would be necessary to investigate this phenomenon. The sample supports the hypothesis that Hungarians from the border region invest in the nearby Romanian region.

The survey results show marked differences between the foreign orientation of Hungarian and Romanian firms. It has been confirmed that companies in the more developed backward eastern border region of Hungary have different interests and different strategies from corporations located in the less developed western frontier zone of Romania. Although the time of EU accession is far away compared to the time-horizon of firms, substantial changes can be foreseen for the time when Hungary becomes a member but not Romania.

Prior to that, the Romanian firms can reckon with easier access to EU markets as visa-free travelling has been introduced. Hungary may lose its attractiveness for Romanian firms as a bridge-head and easily accessible country. Hungarian firms will become also more Western oriented, but they may also look for cost-saving co-operation in the East.

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HUNGARIAN-ROMANIAN CROSS-BORDER ECONOMIC CO-OPERATION

Abstract - *Differences in the process of transformation resulted in divergence of economic development between bordering Hungarian and Romanian regions while their contacts intensified. The less developed part of a more developed country meets the more developed part of a lesser-developed country. A firm-survey carried out on the two sides of the border between Hungary and Romania shows that firms take advantage of the closeness of the other region, at least in terms of foreign trade. We find no evidence for the migration of workforce from the lower-salary region toward the higher-salary one. The sample supports the hypothesis that Hungarians from the border region invest in the nearby Romanian region. Although the time of EU accession is far away compared to the time-horizon of firms, substantial changes can be foreseen for the time when Hungary becomes a member but Romania not. Hungary may lose its attractiveness for Romanian firms as a bridgehead and easily accessible country.*

RELACIONES ECONÓMICAS ENTRE LAS REGIONES FRONTERIZAS DE HUNGRÍA Y DE RUMANIA

Resumen - *Un desarrollo económico distinto ha resultado de las diferencias en el ritmo de las transformaciones económicas entre las regiones húngara y rumana mientrás se han intensificado sus relaciones. La parte menos desarrollada del país el más avanzado (Hungría) es fronteriza con la parte más desarrollada del país el menos avanzado (Rumania). A partir de una muestra de empresas situadas a ambas partes de la frontera, este estudio muestra cómo, con los intercambios externos, las empresas húngaras y rumanas aprovechan su posición fronteriza. Sin embargo no averigua el hipótesis de una migración de la mano de obra hacia las regiones con sueldos más altos. Las inversiones directas húngaras van en mayoría a la región rumana vecina, mientras que el contrario no funciona. Sin embargo la perspectiva de que Hungría fuera miembro de la Unión Europea podría volverla menos atractiva para las empresas rumanas.*