Cristian SPIRIDON
Doctoral School of Economics,
Faculty of Economics and Business Administration
"Alexandru Ioan Cuza" University of Iaşi
Iaşi, Romania

DIFFERENT DYNAMICS FOR SOME COUNTRIES OF CEE

Case study

Keywords
Central and Eastern Europe
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Growth

JEL Classification
F01, F10, F41, F43

Abstract

The study addresses the economic development of four European countries - Romania, Hungary, Czech Republic, and Poland beginning with 1990. It will be employed a descriptive analysis of their trade and growth dynamics. Emphasis will be placed on the determinants of economic growth of this group of countries in general and foreign trade in particular. The results indicate a heterogeneous dynamics of economic performances explained by specific characteristics and less by exogenous aspects related to trade partners and commercial structure, regional integration or foreign policy influenced by geographic proximity. In what concerns Romania, it appears to have been driven by a weaker engine of economic growth in the last two centuries.

Introduction

Beginning with 1990, countries of Central and Eastern Europe have undergone a considerable economic restructuring stimulated by the preferential trade arrangements they were involved in at the regional level and beyond. Foreign trade has grown considerably during the transition process to market economy despite the complex social and economic context of these countries especially after the disintegration of the Council for Mutual Economic Assistance (CMEA) in 1991 (Crespo and Fontoura, 2007, pp. 612). The European Union has seized the moment and signed a total of ten agreements with the countries of Central and Eastern Europe between 1991 and 1996 which led to the abolition of tariffs on manufactured goods in the European Community until January 2002.

At a country level, the Czech Republic and Romania seemed to have suffered the most from the loss of the CMEA outlets along with Hungary which has lost half of its market (Daly and Kuwahara, 1999, pp. 718). This fact has been reflected in the decline of GDP between 1991 and 1992 for both countries. It was only in 1998 Romania managed to exceed the amount of GDP of 1990, while the Czech Republic has grown by over 60% compared to the same year base (1998 compared to 1990). Some economists put these differences on account of the lack of ability to restructure the economy of these countries. Main issues consisted in the delayed process of privatization and persistent macroeconomic imbalances over the interval. The Hungarian economy was characterized by moderate growth allowing the Czech Republic to surpass it in terms of gross domestic product value. The best performance among studied states has been recorded by Poland that has almost tripled its GDP in the period ranged 1990-2000 and thus widely spread the difference to other countries of the group (as seen in Figure 1).

Assumed that institutional and structural differences between these countries exist, however, it appears that during the transition period an important role in the evolution of the economy have been constituted by the factors that influenced consumer demand in these markets (such as household consumption, investment, government spending for investment and consumption, and net exports). All countries of the group have encountered increased investments as a share of aggregate demand except for Hungary, which in 2000 recorded a lower ratio of investment compared to 1990. It's also worth to notice that Romania's economic growth was based mainly on household consumption (in 2000 it represented 77.48% out of total aggregate demand compared to 64.37% in Poland, 51,30% for the Czech Republic, and only 39.8% for Hungary). If in terms of household consumption there are significant differences, investment level of demand is quite similar for all the countries of the group ranging somewhere between 23.7% and 33.01%. General government consumption declined for all countries within this time interval.

In what trade is concerned, it can be seen for all countries a positive development in the period between 1990 and 2000. The largest degree of trade openness approximated by the share of exports plus imports out of GDP accounted by the Czech Republic and Hungary while Romania and Poland performed somewhat poorly (as seen in Figure 2). Indicators such as population size and GDP per capita absolute amount might provide an explanation of these dynamics. The Czech Republic and Hungary's domestic markets throughout the period considered did not exceed 10.5 million inhabitants while Romania and Poland - although on a downward trend - had a population twice and fourth as large respectively.

It is noticeable the increased economic openness in all countries of the group after 2000 and the inflection points in 2004 (the year when the Czech Republic, Hungary and Poland acceded to the European Union) and 2009 (the year of the financial crisis burst) (as seen in Figure 3).

The trade profile of each of the countries from the Central and Eastern Europe partly explains their export performance. One may refer that manufactured goods as a share of total export trade flows were in the range of 85 to 96% in 1993 and between 90-96% in 2011. Dynamics suggests a predominant high share of manufactured goods in the export pattern of the country group observed. The economic crisis from the mid-2008 caused negligible changes to these weights (except for Hungary) which indicated the existence of a strong manufacture output structure within all these countries. However, Romania deals with an increase in the share of the agricultural sector in overall exports which doubled in the period ranging 1993 to 2011 (as seen in Figure 5). On the other side, Hungary and the Czech Republic are highly specialized in exports of goods ranging from machinery and equipment to transport equipment, including the upstream sector of basic metals and fabricated metal products as well (as seen in Figure 4). Poland retained a significant segment of exports of food products, textiles and wood products (which generally have a very low value-added mark-up), although it has seen a significant growth in the manufacturing area. Romania has an export profile characterized by a high share of textiles and clothing and food products. It should be noted that the high value added sectors increased as a share of total exports. Thus, there are other factors that may explain the poorer development of Romanian exports compared to the other countries of the group.

Although Romania's economic openness counted by its trade as a ratio of GDP is lower compared to countries like Hungary or the Czech Republic there is the example of Poland which succeeded significantly in matters of economic growth and international trade with a relatively lower economic openness (Connolly, 2010, pp. 257-258).

Further on it is useful to observe the trade pattern of each country in term of their commercial partners. There appears to be no contrasting aspects.

The top five trading partners for each of the countries under study comprises Germany and France on first places from 2005 to 2009 (as seen in Table 1). Also note the presence of Great Britain in the top export destinations for all countries except for Romania. On the import side, Germany and Italy are stable partners. They are followed by France. China's emergence as one of the main countries of origin for the imports of the Central and Eastern Europe began in 2009. In the same vein, Russia exports primary products (mainly oil and gas) to Romania, Poland, the Czech Republic, and Hungary (Gomez-Tello, 2015, pp. 263). As a consequence, becomes difficult to assess the trade and growth dynamics on the ground of different trade patterns backed on their partners.

FDI being employed appears that investment dynamics as a share of GDP in the countries under review cannot explain the evolution of exports at all (as seen in Figure 6). Foreign direct investment remained relatively constant throughout the period between 1993 and 2012 while exports as a share of GDP increased in all four countries. There proves that FDI had no contribution.

As for Hungary, there is a remarkable increase of inward FDI as a percentage of GDP from 2007 to 2008 but this has not translated into a significant increase in exports. In the case of Poland there is a not so strong correlation between FDI and exports (Lokar *et. al*, 2013, pp. 15-16).

Conclusion

Central and Eastern European countries trade and economic dynamics appear to be different. Although a tendency to trade openness is observed for each of the countries under study, the Czech Republic and Hungary have performed better in this respect compared to Romania or Poland. This can be attributed to differences regarding the market dimension fact that make Hungary or the Czech Republic to look outwards in order to obtain the optimal level of sustainable economic growth, while countries like Romania or Poland still develop on the national markets demand potential. Since different trade policies (since 2004 for the Czech Republic, Hungary, Poland and Romania 2007) cannot be employed to explain different trajectories in terms of trade openness especially considering that main trading partners for the four countries are the European Union, Russian Federation and China. Moreover, FDI towards these destinations seem to have a uniform impact on expanding exports. Firstly, this happens because foreign direct investment growth was not constant upward for any of the countries under study. Although joining the European Union has changed the disclosure of statistical data a little the consequence consists in a distorted perception of every national economy.

In the future, research should focus on the specific characteristics of each state which determines the differential in the economic performance. Among these there could be: the total factor productivity, trade infrastructure and logistics (transport, delivery), geographic proximity to trading partners, similar or complementary bilateral trade structures.

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Appendices

Appendix A

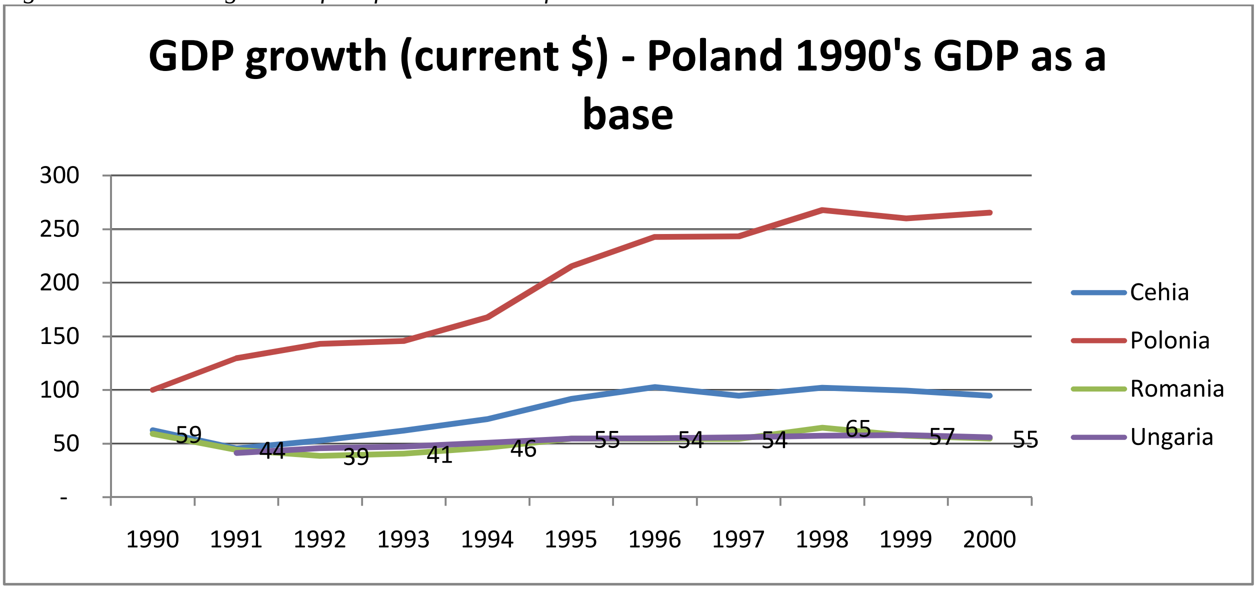
Table No. 1

The four countries group main trade parteners

	2005		**2008**		**2009**	
	exports	***imports***	***exports***	***imports***	***exports***	***imports***
România	**Italy** **Germany** **France** United States Turkey **(52,46%)**	**Italy** **Germany** Rusia United States Turkey **(50,42%)**	Italy Germany France Turkey Hungary **(45,82%)**	Germany Italy Russian Federation Hungary France **(46,11%)**	**Germany** **Italy** **France** Turkey Hungary **(45,25%)**	Germany Italy Hungary France China **(44,59%)**
Ungaria	**Germany** **Italy** United States Great Britain **France** **(50,07%)**	**Germany** Russian Federation Austria **Italy** France **(50,14%)**	Germany Italy Romania France Great Britain **(42,49%)**	Germany Russian Federation Austria China France **(47,1%)**	**Germany** **Italy** Great Britain **France** Romania **(42,02%)**	Germany China Austria Russian Federation United States **(44,66%)**
Polonia	**Germany** **Italy** **France** Great Britain Russian Federation **(50,84%)**	**Germany** Russian Federation **Italy** France China **(51,16%)**	Germany Italy France Russian Federation Great Britain **(47,28%)**	Germany Russian Federation Italy China France **(50,92%)**	**Germany** **Italy** **France** Great Britain Czech Republic **(48%)**	Germany China Russian Federation Italy France **(48,8%)**
Cehia	**Germany** Slovakia **France** Great Britain Austria **(52,55%)**	**Germany** Poland **Italy** Slovakia France **(49,91%)**	Germany Slovakia France Italy Poland **(50,99%)**	Germany China Russian Federation Poland Slovakia **(51,34%)**	**Germany** Slovakia **France** Great Britain Poland **(51,10%)**	Germany China Poland Russian Federation Slovakia **(51,47%)**

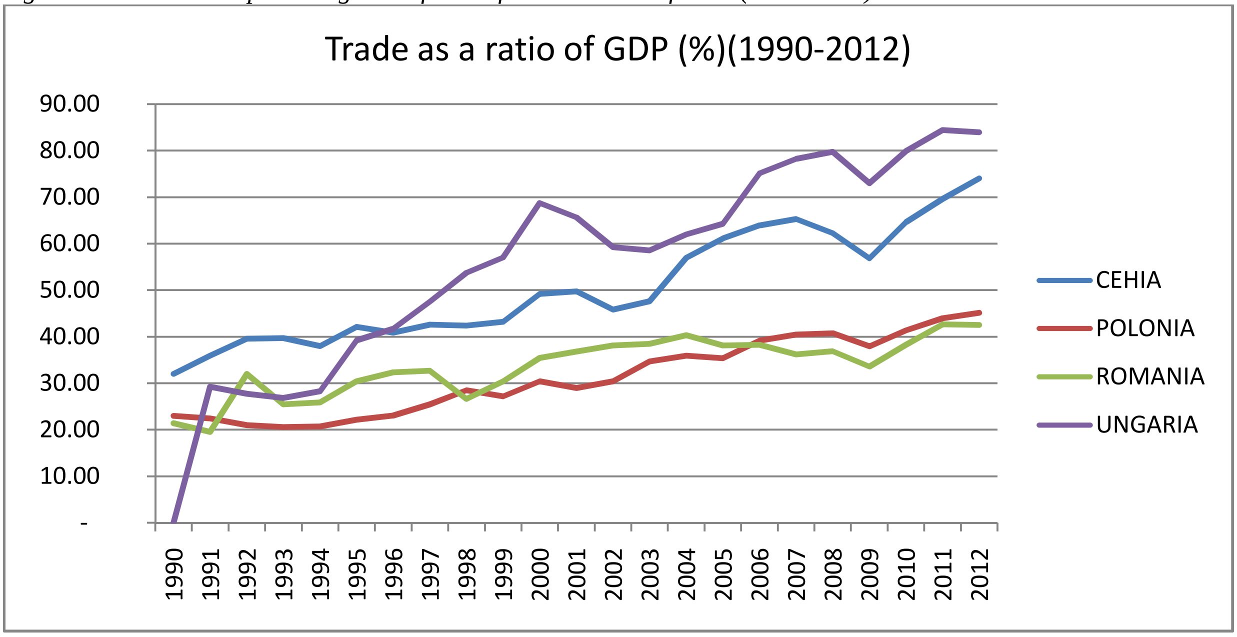
Source: Own presentation using STAN Bilateral Trade Database By Industry and End-use category

Figure No. 1 – GDP growth of the four countries of CEE



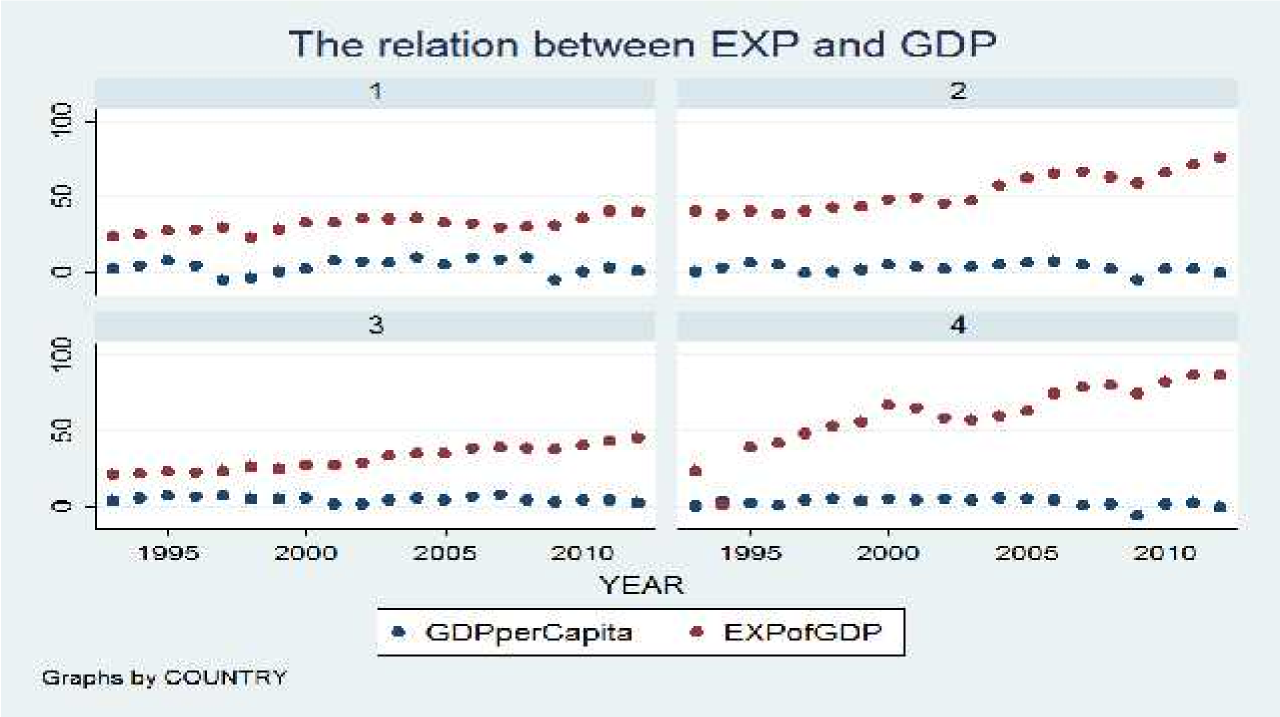
Sursă: Own computations using World Bank World Development Indicators (GDP at current $). Poland 1990's GDP as a base (100).

Figure No. 2 – Trade openness growth for the four countries of CEE (1990-2012)



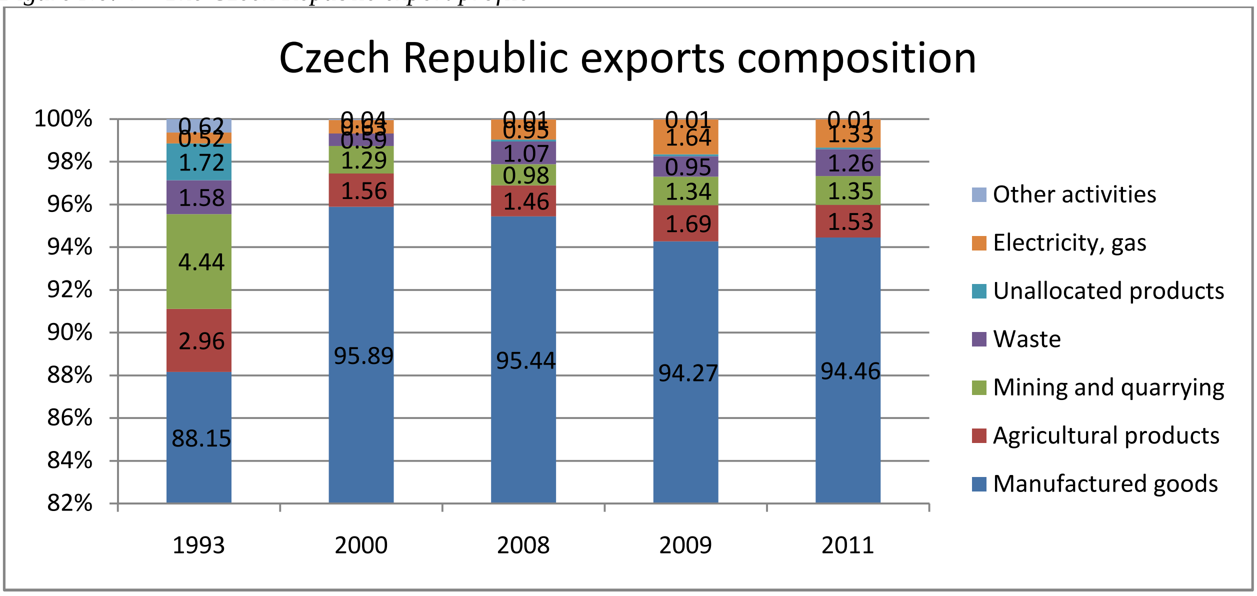
Source: Own computations using World Bank World Development Indicators. Formulae: (exports + imports)/GDP*2

Figure No. 3 – The relation between exports and GDP for Romania, Hungary, Poland, and the Czech Republic



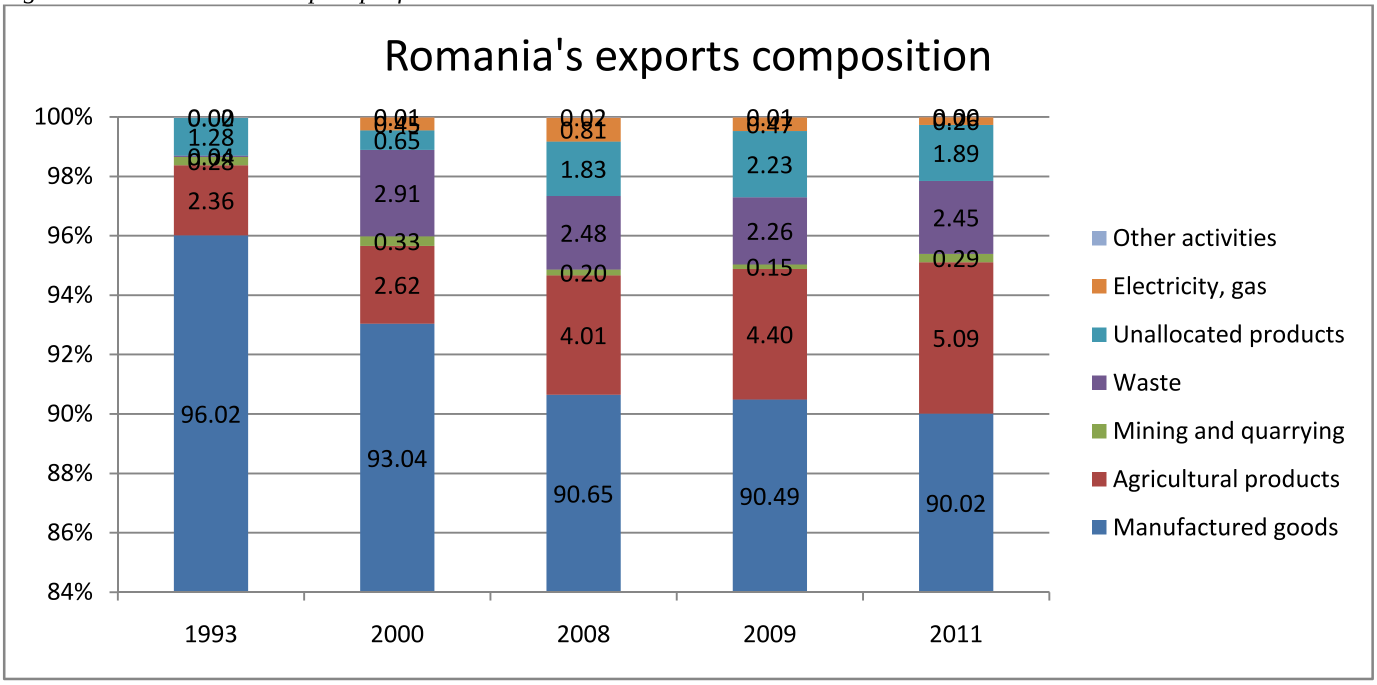
Source: Own computations using World Bank Data by Country (Exports of goods and services, % of GDP; GDP per capital at current $ 2005). 1- Romania, 2- Czech Republic, 3 - Poland, 4 - Hungary

Figure No. 4 – The Czech Republic export profile



Source: Own computations using the STAN Bilateral Trade Database by industry and End-user category published by OECD

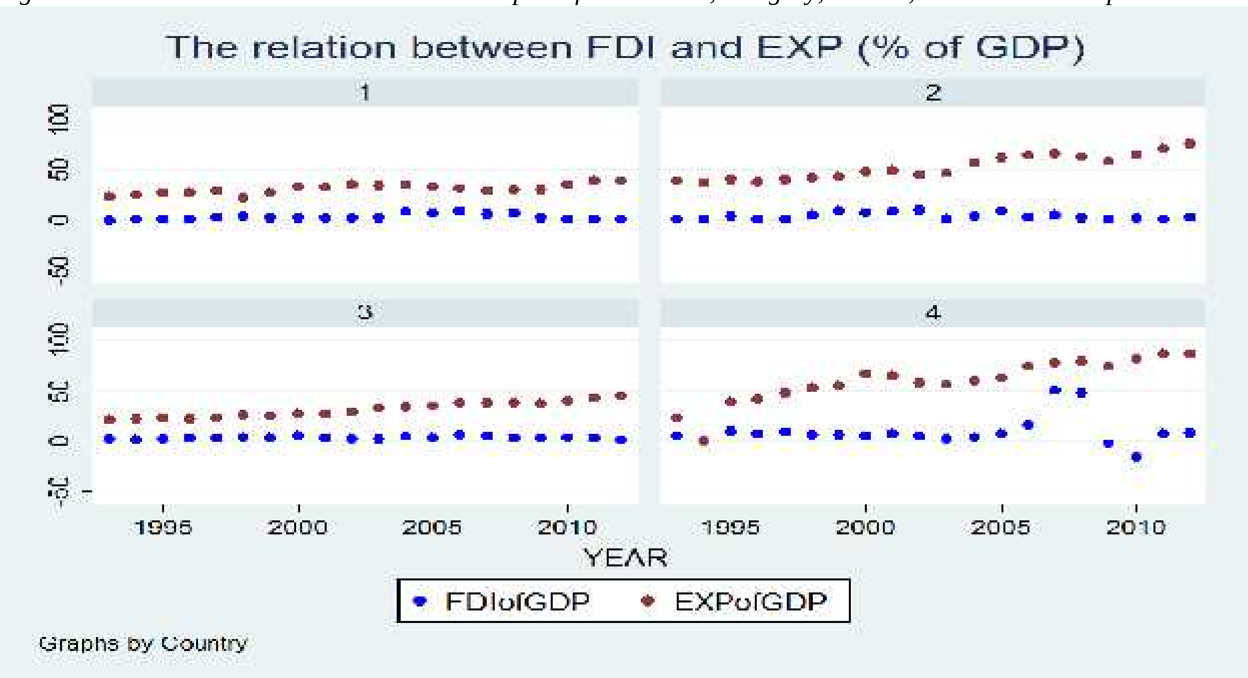
Figure No. 5 – Romania's export profile



Source: Own computations using the STAN Bilateral Trade Database by industry and End-user category published by OECD

Appendix B

Figure No. 6 – The relation between FDI and exports for Romania, Hungary, Poland, and the Czech Republic



Source: Own computations using World Bank Data by Country (Foreign Direct Investment, net inflows % of GDP; Exports of goods and services, % of GDP). 1- Romania, 2- Czech Republic, 3 - Poland, 4 – Hungary