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HUNGARIAN–UKRAINIAN ECONOMIC RELATIONS: OVERVIEW OF THE PAST ONE AND HALF DECADE

Hungarian–Ukrainian relations have been balanced and stable since Ukraine became an independent state at the end of 1991. Hungary was among the first states that recognised the newly-born Ukrainian state. New Hungarian-Ukrainian relations had an exceptionally good start. *“At the conjunction of a rare historical moment, the two countries were able to give each other something that they could not get elsewhere: Hungary supported Ukrainian independence, while Ukraine signed a minority document of model importance.”* (PÓTI, 2003, p. 74.) What is really important, the development of Hungarian-Ukrainian relationship has not been significantly influenced by political changes either inside Hungary or in Ukraine, though naturally small modifications in government priorities might have been pointed out.¹ Though bilateral political relations could be considered balanced without the burden of any serious conflict in the whole analysed period and official high-level meetings also indicated stable relationship, in some respect they were too ‘silent’. Ukraine used to be a ‘forgotten’ or ‘neglected’ neighbour by Hungary. Moreover, balanced political relations have not automatically guaranteed flourishing economic ties. It is mainly from the beginning of the 2000s, that mutual economic links show a fast developing tendency, though Ukrainian market belonged to the few success stories of Hungarian export activities even in the first part of the nineties. The recent outstandingly rapid growth in mutual trade turnover is especially striking in the light of political instabilities within Ukraine for the past few years. However, this fact also highlights a most important feature of nowadays Ukraine: despite po-

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¹ For example priority given to the issue of ethnic Hungarian minorities living in Ukraine was characteristic for Hungarian right-wing governments. For more details see Póti (2003).

litical crisis and inner instabilities the Ukrainian economy has found its way toward a firm tendency of dynamic economic growth.

This article intends to give an introduction to major characteristics of Hungarian-Ukrainian economic relations by presenting reasons for and roots of intensifying mutual ties. It focuses on trade and investment links of the 2000s, but it seems reasonable to have a short view at Hungarian–Ukrainian economic relations in the past.¹ Recognising the special role of the Ukrainian county, Trans-carpathia in bilateral relations, a special chapter has been dedicated to economic relations between Trans-carpathian and Hungarian business circles.

HUNGARIAN-UKRAINIAN RELATIONS IN THE NINETIES: TRADE AND INVESTMENT LINKS

After the collapse of the Soviet Union the newly independent Ukraine became the biggest one of all Hungary's neighbours considering the size of both its territory and population. Since in the Soviet era Hungary's most important trading partner was the Soviet Union, of which Ukraine was a part, furthermore due to the specific industrial-economic potential of Ukraine, its transit position in road, railway and pipeline transportation etc., Ukraine retained a rather high, though lowered significance as compared to the earlier period in Hungary's foreign economic system. During the first few years Hungary and Ukraine signed the most important two-sided economic agreements (for example agreements on avoiding double-taxation, mutual protection of investments, air and rail transportation, co-operation in plant-protection, on the order of state borders and co-operation of customs authorities of the two countries etc.) that created a favourable general business environment for the two countries. Nevertheless, with respect to all the mentioned facts, Ukraine could not be considered as a strategic partner for Hungary. Similarly to other Central East European countries Hungary concentrated all efforts to joining Euro-Atlantic integration organisations while East-European countries had got marginal significance. This orientation – and other causes – led to a restructuring of foreign trade both geographically and structurally.² This fact may be reflected by mutual economic contacts, that were below opportunities. On Ukrainian side, it was the long-lasting and deep economic depression that hampered to the development of all foreign economic links, including those with Hungarian partners.

Hungarian–Ukrainian trade links

Going into details of Hungarian-Ukrainian mutual trade statistics of the nineties dynamism and structural characteristics are worth mentioning. As regards the first issue Ukraine was one of the major success stories in the history of Hungary's foreign trade during the examined period. Except for the very specific year of 1996,

¹ Though the author recognises the importance of other elements of bilateral economic activities, such as co-operation in the field of energy or infrastructural development, these issues exceed the limits of this article.

² As a result, for example the share of the former Soviet Union in total exports fell to 13.4 per cent in 1991 and under 10 per cent in 1996-1997 as compared to about 30 per cent in the 1980-ies. (Though these figures must be treated with reservations due to the deformed system of prices and exchange rates in the CMEA-era, they may illustrate tendencies.)

when important modifications in Ukrainian legislation related to import regulation were carried out, it was only in the Ukrainian crisis period of 1998-1999 when Hungarian exports to Ukraine did not increase.¹ For many years Ukraine was the only CIS-country to which Hungarian exports steadily increased, instead of fluctuations that could be observed in Hungarian deliveries to other CIS-countries. (CZAKÓ – LUDVIG – WEINER, 2004) This is an apparent sign of Ukraine's specific role in Hungarian foreign relations, being the only neighbouring CIS-country of Hungary. At the same time imports from Ukraine also grew to huge extents almost doubling between 1992 and 1997. (See *Table 1*) For all the examined period Ukraine had been the second largest trading partner-country among all Soviet successor states with a share fluctuating around 1.3-1.8 per cent regarding exports and 1.3-1.4 per cent concerning Hungarian imports. Ukraine had been among the first 15 countries of the whole world in the list of Hungary's foreign trade partners. From 1994 Hungary had a trade deficit in turnover with Ukraine, though its amount was not extremely high and did not show a permanently growing tendency.

Table 1
Hungary's foreign trade with Ukraine (1992-1999), million USD²

	1992	1993	1994	1995	1996	1997	1998	1999
Exports	199.1	159.3	184.7	317.5	233.8	249.8	219.9	127.8
Imports	154.9	141.4	219.3	346.8	291.9	285.1	226.4	214.9
Turnover	354.0	300.7	404.0	664.3	525.7	534.9	446.3	342.7
Balance	44.2	17.9	-34.6	-29.3	-58.1	-35.2	-6.5	-87.1
Annual change (% of previous year)								
Exports	...	80.0	115.9	171.9	73.6	106.8	88.0	58.1
Imports	...	91.3	155.1	158.1	84.2	97.7	79.4	94.9
Turnover	...	84.9	134.4	164.4	79.1	101.8	83.4	76.8

The structure of Hungarian exports underwent significant changes during the nineties. Foodstuffs represented the most important product group with the highest share of 51.3 per cent in 1995 with a declining tendency since then. At the same time the share of processed products was continuously growing, getting above 60 per cent at the end of the decade. Hungarian machinery exports also fluctuated to a great extent, declining dramatically from the beginning of the nineties and fluctuating with a share between 17-25 per cent after 1995. Energy sources and raw materials had marginal importance for all the examined years. The Ukrainian export side had a totally different character with an overwhelming weight of energy sources, relatively high share of raw materials and marginal role of machinery and food products. Though processed products had a high share, majority of them could be considered as low value-added product. (See *Table 2*)

¹ Similarly to the 1998-1999 Russian financial crisis Ukrainian economy passed through a deep depression in 1998-1999.

² Source: Central Statistical Office, Hungary.

Table 2
Commodity structure of Hungarian trade with Ukraine (1995–1999), %¹

	1995	1996	1997	1998	1999
<i>Exports</i>					
Foodstuffs. drinks	51.3	39.2	33.8	27.8	15.2
Raw materials	0.6	3.6	2.7	1.8	3.8
Energy sources	2.0	1.7	1.8	1.0	1.2
Processed products	21.4	36.3	44.2	49.3	65.2
Machinery. machinery equipment	24.7	19.2	17.5	20.1	14.6
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>
<i>Imports</i>					
Foodstuffs. drinks	1.6	2.6	1.2	1.2	1.1
Raw materials	14.1	16.9	13.2	16.2	15.2
Energy sources	44.5	49.3	49.2	35.5	39.6
Processed products	37.2	28.9	34.0	42.6	38.4
Machinery. machinery equipment	2.6	2.3	2.4	4.5	5.7
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>

The first half of the nineties meant an important era in the process of capital movements, though capital flows at that time were rather one-sided: from Hungary to Ukraine. Hungarian capital investments at that time had the following general characteristics featuring capital flows towards Ukraine as well:

1. The size of capital investments in most cases was small due to the undercapitalised economic situation of Hungarian firms and the entrance of Hungarian SMEs on the market.
2. Contrary to the amounts of invested capital the number of Hungarian enterprises investing in Ukraine was rather high leading to exclusive ranking in the list of countries with most investing companies.
3. A relatively considerable part of all Hungarian capital was invested in the trading sector and not in the productive branches of the Ukrainian economy.
4. Majority of Hungarian investments were located near the Hungarian border, in the case of Ukraine in Trans-carpathian county. This allocation pattern was due to the following factors: existing and newly established personal links, better communication possibilities with Hungarian ethnic population in Ukraine, similarity in the mentality of the inhabitants, relatively better access to transportation etc.
5. Hungarian investing activity, especially that of SMEs was extremely active in the years following the systemic change in Hungary and in Ukraine as a first wave of rising interest deriving from the newly opened opportunities. Later on investments developed with a more modest dynamism.

¹ Source: Central Statistical Office (Hungary) and Ministry of Economy and Transport (Hungary).

According to the available data (*Table 3*) the share of Hungarian investments in total foreign investments in Ukraine accounted about 3 per cent in 1994 and less than 2 per cent at the end of 1996. The former represented a very good ranking for Hungary with a position of the 8. place. In the middle-nineties Hungarian share in foreign investments calculated on the basis of the number of companies with foreign capital was even much higher, about 11 per cent. (Meaning 450 companies with partly or wholly Hungarian participation from the total of 4117 joint ventures or wholly foreign companies at the end of 1996.) However, these figures represented only a modest share of less than one per cent regarding Ukraine's, as a destination country's, role in total Hungarian outward investments at that time. This low figure well illustrates the then very low confidence of Hungarian business actors in the economic prospects of the neighbouring country. In the middle of the past decade about 20 per cent of total foreign investments in Trans-carpathia amounting to 14–15 million USD was invested by Hungarian business. (LUDVIG – PÓTI, 1999, p. 72.)

Table 3
Hungarian investments in total foreign investments in Ukraine (1994–1996)¹

	1994	1995	1996
Total foreign investments in Ukraine (million USD)	450.1	896.9	1355.9
Hungarian investments in total foreign investments (million USD)	13.7	20	24.6
Share of Hungarian investments (%)	3	2.2	1.8
Hungarian ranking among major investor countries	8 th	9 th	13 th

On the other side, according to press sources at the beginning of 1997 approximately 3 per cent of total registered Ukrainian capital invested abroad targeted Hungary with an absolute cumulated sum of 2.8 million USD. (Világgazdaság, 1997)

However in the nineties, and up still now, mutual economic relations have had another important side that could not have been reflected by statistics. These activities, hidden by statistics, caused mainly by the gap in living standards between the two countries included the flourishing “suit-case tourism” especially within the framework of the then existing “small cross-border transit” or the very high amounts of illegal Ukrainian migrant workers in Hungary.

¹ Source: calculations based on data of the Ukrainian Statistical Office.

THE NEW ERA OF DYNAMISM IN HUNGARIAN–UKRAINIAN ECONOMIC RELATIONS: REASONS AND CHARACTERISTICS

Since the 2000's Ukrainian economy has been growing dynamically and with an extremely high growth rate. The impact of this economic recovery can be well illustrated by the rapidly improving figures in bilateral business contacts. Though an important change in general business environment occurred in 2004 with Hungarian EU-accession, the new conditions did not have negative impacts on mutual economic links. On the contrary, Hungarian exports continued to increase dynamically and even Ukraine gained a more exclusive place in Hungary's foreign priorities as a dynamically growing neighbouring partner outside the large unified inner market of the EU. Recent important events (like the first meeting of the Joint Economic Cooperation Committee in March 2007, or the signing of the agreement on the common "Action Plan" for 2007) in bilateral relationship also indicate this increased significance.

Table 4
Main trading partners of Ukraine (2006)¹

<i>Exports</i>			<i>Imports</i>		
Ranking	Country	Share	Ranking	Country	Share
1.	Russia	22.5	1.	Russia	30.6
2.	Italy	6.5	2.	Germany	9.5
3.	Turkey	6.2	3.	Turkmenistan	7.8
4.	Poland	3.5	4.	China	5.1
5.	Germany	3.3	5.	Poland	4.7
6.	Belarus	3.2	6.	Italy	3.3
7.	USA	3.2	7.	Belarus	2.8
8.	Hungary	2.5	8.	France	2.2
9.	India	2.2	9.	Kazakhstan	2.1
10.	Kazakhstan	2.2	10.	Korean Republic	2.1
			11.	USA	2.0
			12.	Japan	1.9
			13.	Czech Republic	1.8
			14.	Hungary	1.8
Total		100.0	Total		100.0

Though it is evident that the two countries do not represent major strategic partners for each other at recent times, either, their mutual significance has been steadily growing for the past few years regarding both foreign trade turnover and other

¹ Source: Ukrainian Statistical Office.

forms of business contacts. According to evidence of *Table 4* major partners for Ukraine arrive from other parts of Europe, namely from the old EU (Germany, Italy) and the CIS-countries (Russia, Belarus), or from other parts of the world like Turkey, USA or China or the Asian CIS-country Turkmenistan.

Hungarian–Ukrainian trade turnover

The optimal or at least the expectable maximum level of mutual trade turnover used to be subject of wide debates in Hungary for several years. Some Hungarian officials used to state that mutual turnover had reached its practical limits, on the level of more than 500 million USD, thus the new impetus originating from the situation, namely that Ukraine had become a new independent neighbour of Hungary, has been exhausted. However, developments in recent years proved these arguments to be false. On the contrary, those who argued that there were still huge potentials in mutual trade were justified. The economic recovery in Ukraine brought new impetus to bilateral business. Even those estimations that put the maximum level of mutual trade twice as high as it was in 2002, seem to have been underestimated.¹

While Ukraine ranks among the biggest 20 trading partner-countries for Hungary, Hungary's relative importance is even much higher for Ukraine being in the first ten most important country-destinations of its exports.

Table 5
The share of Ukraine in Hungary's foreign trade²

	2000	2001	2002	2003	2004	2005	2006
Ukraine's share in Hungarian exports (%)	0.6	0.7	0.8	1.0	1.1	1.3	1.7
Ukraine's ranking in Hungarian exports	24 th	21 st	19 th	17 th	18 th	17 th	15 th
Ukraine's share in Hungarian imports (%)	0.7	0.9	1.2	1.2	1.1	0.8	1.1
Ukraine's ranking in Hungarian imports	26 th	24 th	20 th	20 th	20 th	23 rd	20 th

However, according to the lessons that can be learnt from *Table 7*, Ukrainian customs statistics should be treated and analysed carefully. Most probably they well illustrate major trends and proportions, but cannot be regarded as wholly reliable. It is a well-known phenomenon for many years that a significant part of export deliveries arrive from different directions to the Ukrainian border, then somehow “disappear” from the official Ukrainian statistics. Comparing Ukrainian customs statistics with the appropriate Hungarian ones (mirror-statistics), one can notice surprising differences. During the last two years only about 60 per cent of Hunga-

¹ It is interesting to put here a figure on official estimates on mutual turnover of the Soviet era: it was about 3 billion USD yearly in contrast with more than 2 billion USD achieved in 2006. (Ludvig, 2003)

² Source: own calculations based on data of Central Statistical Office (Hungary) and Ministry of Economy and Transport (Hungary).

rian supplies arrived in Ukraine on the basis of official statistics.¹ On the contrary, Ukrainian exports to Hungary tend to be higher based on Ukrainian statistics than Hungarian statistics indicate.

Table 6
The share of Hungary in Ukraine's foreign trade²

	2000	2003	2004	2005	2006
Hungary's share in Ukrainian exports	...	3.7	2.5	2.0	2.5
Hungary's ranking in Ukrainian exports	9 th	6 th	8 th	11 th	8 th
Hungary's share in Ukrainian imports	...	1.2	1.2	1.8	1.8
Hungary's ranking in Ukrainian imports	14 th	19 th	16 th	11 th	14 th

Table 7
Hungarian-Ukrainian foreign trade according to Hungarian and Ukrainian statistics (1999-2006), million USD³

	1999	2000	2001	2002	2003	2004	2005	2006
<i>Hungarian exports</i>								
Hungarian statistics	127.8	165.6	209.3	275.1	441.4	613.3	821.2	1288.2
Ukrainian statistics					270.0	362.3	647.7	802.2
<i>Hungarian imports</i>								
Hungarian statistics	214.9	234.6	295.2	458.4	589.5	644.6	538.9	836.9
Ukrainian statistics					849.8	807.6	688.8	946.1
<i>Turnover</i>								
Hungarian statistics	342.7	-165.6	-209.3	-275.1	1030.9	1257.9	1360.1	2125.1
Ukrainian statistics					1119.8	1169.9	1336.5	1748.3
<i>Hungarian balance</i>								
Hungarian statistics	-87.1	-69.0	-85.9	-183.3	-148.1	-31.3	282.3	451.3
Ukrainian statistics					-579.8	-445.3	-41.1	-143.9

¹ Figures for imports from Poland are even more striking. During the past years nearly half of Polish deliveries simply „disappeared” between the Polish and the Ukrainian borderlines! (Ludvig, 2005, p. 229.)

² Source: own calculations based on data of Ukrainian Statistical Office.

³ Source: Central Statistical Office (Hungary), Ministry of Economy and Transport (Hungary), Ukrainian Statistical Office.

Beside statistical errors we have to assume tax-avoiding purposes, leading to illegal activity on the Ukrainian side, mostly being in the background of these differences. Neither negotiations nor Hungary's EU-accession could help in solving this problem. For example, in the last few years a so-called "accompanying letter" was attached to all consignments exceeding 7,5 tons so that the delivered stuff could be followed by authorities. Contradictory figures in *Table 7* evidently reflect that the application of this method proved to be a failure. (LUDVIG, 2005) Those who wanted could find the new wicked doors even under the new circumstances. Further more the bulk of bilateral trade turnover is being realised by small firms and entrepreneurs that use trucks with smaller capacity than 7.5 tons. There is only a slight hope that along with gradual "whitening" of the whole Ukrainian economy the problem of illegal trade and smuggling will fade away in Hungarian-Ukrainian trade. The very first signs of this may already be noticed in figures for 2005 and 2006 in the decrease of differences between the two official statistics.

What is more important, the last seven years witnessed extremely high dynamism in mutual trade according to both statistics with an average of around 40 per cent concerning Hungarian exports and with a slightly less modest growth rate regarding Hungarian imports based on data of Hungarian Central Statistical Office.

Table 8
Dynamism of Hungarian-Ukrainian foreign trade (1999–2006),
annual change as of the previous year¹

	Hungarian exports	Hungarian imports	Turnover
1999	58.1	94.9	76.8
2000	129.6	109.2	116.8
2001	126.3	125.8	126.1
2002	131.5	155.3	145.4
2003	160.5	128.6	140.5
2004	138.9	113.6	122.0
2005	133.9	83.6	108.1
2006	156.9	155.3	156.2
Average annual change (2000-2006)	139.7	124.5	130.7

The outstandingly successful Hungarian performance on the Ukrainian market may be partly explained by the favourable export structure. The high level of diversification makes Hungarian exports not too vulnerable to sudden market upheavals.

¹ Source: Central Statistical Office (Hungary), Ministry of Economy and Transport (Hungary).

Table 9
Commodity structure of Hungarian trade with Ukraine (2000-2006), %¹

	2000	2001	2002	2003	2004	2005
<i>Exports</i>						
Foodstuffs, drinks	22.6	12.4	11.8	10.3	9.0	6.9
Raw materials	1.0	1.6	0.9	0.7	1.0	1.0
Energy sources	0.7	0.5	0.5	0.3	0.2	0.3
Processed products	59.2	65.1	60.6	51.5	57.6	56.1
Machinery, machinery equipment	16.5	20.4	26.2	37.2	32.2	35.6
<i>All together</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>
<i>Imports</i>						
Foodstuffs, drinks	3.7	3.3	1.2	0.7	1.2	0.2
Raw materials	17.5	13.4	12.0	12.4	14.4	16.4
Energy sources	32.6	15.8	30.1	32.5	30.7	16.6
Processed products	42.9	63.4	54.2	46.1	44.8	53.0
Machinery, machinery equipment	3.3	4.1	2.5	8.3	8.9	13.9
<i>All together</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>

According to data for 2005 more than 86 per cent of all Hungarian deliveries to Ukraine is confined to some 20 product groups of different manufactured products. In 2005 the share of machinery was 35.6 per cent with a significant stake of telecommunications and electrical machinery apparatus, appliances and parts within the product group. Medicines comprised the second major export-product group with their 9.8 percent share. Medicines are traditionally major items of Hungarian deliveries to the CIS-countries. Figures indicate strong Hungarian-Ukrainian contacts in chemical industries. Not surprisingly, due to similarly favourable conditions for agricultural production, agrarian trade is not really relevant in trade turnover between the two countries, though Hungarian export success in this respect depends to a great extent on the fluctuating output of Ukrainian agriculture. All together the tendency for Hungarian agrarian exports to Ukraine is declining.² According to latest information there were not large structural changes in Hungarian exports during 2006-2007 either. Since most dynamic product groups remained the

¹ Source: Central Statistical Office (Hungary) and Ministry of Economy and Transport (Hungary).

² However, an interesting piece of news in this respect is the formation of an Ukrainian company named „Dom Vina Tokaj” in Dnyepropetrivsk in June 2007, with the aim of selling exclusively wines originated from Hungarian Tokaj district. (Information given by the Office on Foreign Economic Relations of the Embassy of Hungary.)

same as in previous years, the composition changed for the better with the share of machinery reaching about half of all Hungarian supplies.

Table 10
Share of main product groups in Hungarian–Ukrainian trade turnover, 2005¹

“A” = Share in Hungarian exports to Ukraine (%) ↓			“B” = Share in Hungarian imports from Ukraine (%) ↓		
HS code	Product group	“A”	HS code	Product group	“B”
1	meat and meat preparations	1.8	24	wood and cork	11.0
8	feeding stuff for animals	1.4	28	metalliferrous ores and metal scrap	4.1
51	organic chemicals	1.7	35	electric current	14.8
54	medical and pharmaceutical products	9.8	51	organic chemicals	7.2
55	essential oils and resinoids and perfume materials; toilet, polishing and cleaning preparations	2.9	66	non-metallic mineral manufactures	6.2
57	plastics in primary forms	8.7	67	iron and steel	10.8
58	plastics in non-primary forms	3.5	68	non-ferrous metals	13.0
59	chemical materials and products, n. e. s.	1.7	84	articles of apparel and clothing	6.1
64	paper, paperboard, and articles of paper pulp, of paper or paperboard	2.5	76	telecommunications and sound recording and reproducing apparatus and equipment	4.5
65	textile yarn, fabrics, made-up articles, n.e.s., and related products	3.9	77	Electrical machinery, apparatus and appliances, n. e. s., and electrical parts thereof	5.7
69	manufactures of metals, n. e. s.	4.5			
81	prefabricated buildings; sanitary, plumbing, heating and lighting fixtures and fittings	1.9	<i>Together</i>		83.4

¹ Source: Hungarian Statistical Yearbook on Foreign Trade, 2005.

Table 10 (continued)
Share of main product groups in Hungarian–Ukrainian trade turnover, 2005¹

HS code	Product group	Share in Hungarian exports to Ukraine (%)
84	articles of apparel and clothing accessories	3.4
89	Miscellaneous manufactured articles, n. e. s.	4.0
72	machinery specialised for particular industries	2.5
74	general industrial machinery and equipment, n. e. s., and machine parts, n. e. s.	4.4
75	office machines and automatic data processing machines	1.7
76	telecommunications and sound recording and reproducing apparatus and equipment	14.5
77	electrical machinery, apparatus and appliances, n. e. s., and electrical parts thereof	7.6
78	road vehicles	4.0
<i>Together</i>		<i>86.4</i>

On the Hungarian import side raw materials and energy comprised more than 30 per cent of total imports from Ukraine in 2005. Energy including both electric current and gas used to compose approximately 30 per cent of total Hungarian imports from Ukraine in the last few years, but in 2005 their share decreased to 16.6 per cent due to lowest value of imported gas, which is a natural consequence of Ukrainian-Russian gas disputes. (Earlier gas deliveries from Ukraine were mostly of Russian origin.) On the other hand electric current shows a growing tendency in Hungarian imports, almost reaching 15 per cent in total imports. Manufactured products represent the bulk of Ukrainian deliveries with significant share of metals, iron and steel in accordance with general Ukrainian export structure. Recently the latter product group shows a dynamic growth due mainly to the intensifying bilateral-co-operation links in the metallurgic sector. Wood and cork products totalled to more than one tenth of total Ukrainian deliveries to Hungary. The amount of machinery import totalled to as much as 13.9 per cent share compared to 2.5 per cent in 2002 reflecting an improving trade structure on the Ukrainian side as well.

Beside trade in products Hungary is a major partner for Ukraine in trade in services. Regarding commission work Hungary ranks among the three main partners after Germany and Russia.

¹ Source: Hungarian Statistical Yearbook on Foreign Trade, 2005.

Mutual direct investments in Ukraine and Hungary

In international comparison neither Hungary nor Ukraine are among major capital investor-countries. However, Hungary is on the second place within the Central-East-European region after Russia. Though great distances do not represent obstacles to capital movements, one may find the regional aspect as a major motive even in the directions of Hungarian outward FDI. (LUDVIG, 2005) Neighbouring countries, and generally Central-East-European countries (including the Balkan region) are among major destinations. According to official figures on Hungarian outward FDI-stock in 2005, investments in Central East European countries totalled to almost two third of overall Hungarian direct outward investments of which Ukraine ranked 15th.

Table 11
Major country-directions of Hungary's outward foreign direct investments based on stock data for 2005 December¹

Ranking	Country	Million euro	%
1.	Slovakia	2075.0	31.5
2.	Netherlands	1252.9	19.0
3.	Korean Republic	637.2	9.7
4.	Croatia	522.4	7.9
5.	Macedonia	397.5	6.0
6.	Romania	313.4	4.8
7.	Bulgaria	306.6	4.7
8.	Poland	184.5	2.8
9.	Serbia and Montenegro	146.6	2.2
10.	Cyprus	105.3	1.6
11.	Czech Republic	96.2	1.5
12.	United Kingdom	96.1	1.5
13.	Turkey	69.8	1.1
14.	Germany	42.7	0.6
15.	Ukraine	28.3	0.4
	Above mentioned together	6274.5	95.2
	<i>All together</i>	<i>6589.2</i>	100.0

In Ukraine the main investor-countries are Western European countries (Germany, Austria, the United Kingdom, the Netherlands, France and Switzerland), the USA and Russia. (As it is well-known the latter has retained its specific weight in the whole Ukrainian economy.) Besides, typical of CIS-countries, tax-paradises (Cyp-

¹ Source: Hungarian National Bank.

rus or Virgin-islands) included into the list play a special role: Russian, and most probably Ukrainian capital arrives in Ukraine (back) through these countries. Hungary ranks 12th according to the latest available data.

Table 12
FDI-stock in Ukraine by countries of origin (2005-2007)¹

	January 2006	January 2007	April 2007	January 2006	January 2007	April 2007
	<i>Million USD</i>			<i>%</i>		
Germany	5505.5	5620.7	5690.1	33.6	26.5	25.4
Cyprus	1562.0	3011.7	3236.6	9.5	14.2	14.4
Austria	1423.6	1600.8	1782.3	8.7	7.6	7.9
United Kingdom	1155.3	1557.2	1699.9	7.1	7.4	7.6
Netherlands	721.8	1493.0	1692.2	4.4	7.0	7.5
USA	1374.1	1418.0	1360.0	8.4	6.7	6.1
Russia	799.7	980.8	1077.9	4.9	4.6	4.8
Brit Virgin Islands	688.7	808.3	883.7	4.2	3.8	3.9
France	-	826.8	873.2	-	3.9	3.9
Switzerland	445.9	504.9	566.5	2.7	2.4	2.5
Poland	224.0	366.0	380.0	1.4	1.7	1.7
Hungary	191.1	364.5	347.5	1.2	1.7	1.5
Others	2283.3	2633.3	2843.8	13.9	12.4	12.7
<i>All together</i>	<i>16375.2</i>	<i>21186.0</i>	<i>22433.7</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>

Similarly to the phenomenon we have seen in the section on trade, there is a huge gap between Hungarian and Ukrainian figures concerning the analysed FDI-stock originated from Hungary in Ukraine. The major reason responsible for this might be found in different ways of statistical computations, although it is almost impossible to accept it as sole explanation considering the magnitude of differences. The Ukrainian data exceed Hungarian ones several times since they are most likely to be the cumulated sums of FDI inflows, while Hungarian data are based on balances, meaning that the aggregate value of investments are corrected by the amounts of capital withdrawals. A second important factor is given by the method used by the Hungarian National Bank according to which outward investments below a certain sum are not included into the registration.

According to available data (See *Tables 11 and 13*), Ukraine has not been a major destination for Hungarian company-investors until recent times. Balance of yearly Hungarian investment has been around 1–2 million USD, and outward stock in Ukraine represented merely 1–2 per cent in total Hungarian outward FDI with a

¹ Source: Ukrainian Statistical Office.

declining tendency from the millennium. Flow data for 2006 indicate a very important change in Hungarian investment line caused by mainly one significant Hungarian investment by the OTP Bank. In this year Ukraine as a destination country went up to the 3rd place with a share as high as 14 per cent.

Important investment projects are underway. Beside those in line with company strategies one specific example is the 100 million euro co-operation project in the agrarian sphere based on intergovernmental agreement of which the first jointly created object will be a bio-ethanol factory for corn processing. (Information given by ITDH Kiev office.) This and other similar projects induce important business orders for the deliveries of various machinery and construction services.

Table 13
Ukraine's role in Hungary's outward foreign direct investments¹

		From Ukraine	All together	Share of Ukraine in total, %	Ukraine's ranking
1998	<i>Stock data, million euro</i>	10.4	582.4	1.8	9 th
1999		14.1	810.1	1.7	10 th
2000		16.2	1326.4	1.2	12 th
2001		23.4	1675.4	1.4	13 th
2002		19.0	1908.1	1.0	13 th
2003		19.9	2541.0	0.8	14 th
2004		21.2	4107.8	0.5	14 th
2005		28.3	6589.2	0.4	15 th
2006	<i>Flow data (on balance), million euro</i>	654.7	4660.6	14.0	3 rd
2007 Q1		3.4	1750.2	0.2	13 th

However, taking into consideration several factors there is still a great potential for the substantial growth of Hungarian investment activities. First of all, Ukraine is a direct neighbour, with special attractiveness for Hungarian business. It offers cheaper but relatively highly qualified labour force in certain industries, while other costs (i. e. energy, environmental) are still lower than domestic ones even taking into consideration the increasing tendencies. The investment climate will probably change for the better due to the forthcoming WTO-accession of Ukraine.

According to the information of the Office on Foreign Economic Relations of the Embassy of Hungary in summer 2007, Hungarian investments are present in more than 400 companies in Ukraine. *Table 14* presents sectoral composition of Hungarian investments in Ukraine in 2005.

¹ Source: database of the Hungarian National Bank and own calculations.

Table 14
Structure of Hungarian investments in Ukraine¹

Sector	Share in total, (%)
Trade in transport means	15
Wholesale trade and mediating activities	15
Mining industry	14
Machinery	9
Transportation	7
Food industry	7
Electrical industry, gas- and water industry	7
Trade in consumer utility goods	5
Real estate trade	4
Paper and wood pulp industry	4
Above together	87

Hungarian investments in Ukraine can be divided into three groups according to the type of company and period of investments. (LUDVIG, 2005)

1. Small and medium-sized enterprises

Hungarian SMEs investments emerged in Ukraine, especially in the Transcarpathian region in large numbers even as early as at the beginning of the nineties, that is in the earliest phase of Ukrainian independence and transition period. By the mid-nineties their number became rather high, for example in 1994 they amounted to more than 400. Later on many of these early initiatives had to be closed down. (For general features of these investments see section “*Hungarian-Ukrainian relations in the nineties: trade and investment links*”) Hungarian companies and entrepreneurs hoped that all risks related to the very specific Ukrainian environment could be effectively reduced by making use of the “Hungarian-Hungarian” relations. This means that in most cases Hungarian firms looked for a partner belonging to the Hungarian ethnic group on the Ukrainian side, and founded joint ventures with their participation. In this way they could eliminate language barriers and decrease risks related to both the lack of information on local conditions (bureaucracy) and extremely complex and permanently changing Ukrainian legislation. Frequently, Hungarian companies arrived from the border-line region of East-Hungary. Preferable location for Hungarian SME investments in Ukraine remained the Transcarpathian county for many years. Hungarian small and medium-sized companies seldom went further deep into the country.

2. Large Hungarian companies

During the nineties, especially in the second half of them, some bigger Hungarian companies began to appear on the Ukrainian investment market. From the

¹ Source: ITDH office in Kiev.

beginning of this decade their interest towards business opportunities in Ukraine seems to have been increasing, most probably in close connection with the highly improved performance and stabilisation signs of the Ukrainian economy. These companies pay much attention to the preliminary analysis of the Ukrainian general or product-specific business situation and risk-taking, including both economic and political factors. Hungarian large companies with investments in Ukraine came from different industries, but most typically from the energetic, pharmaceutical or chemical sectors. Some of these companies left the Ukrainian market later due to general or, on the contrary, sector-specific factors. As a general characteristic for these investments they go deeper into the country, leaving the border of the Trans-carpathian region, targeting the Ukrainian capital or other popular big cities, like Lviv, that are the most common location generally for foreign direct investments. Unfortunately, the presence of Hungarian companies in the Eastern regions is still very rare, though these regions, locomotives of the whole Ukrainian economy, offer huge opportunities. Representatives of this company group are: Bábolna Ltd and Multifood Ltd. (meat industry), Béres Plc., Richter Gedeon Plc. and EGIS (pharmaceuticals industry), Dunaferri Plc. (metallurgy), MMG AM (electrical machinery), Pannonplast (chemical industry) and System Consulting and Investing Ltd. (energy).

3. *Transnational companies*

The group of TNC-s in Hungarian-Ukrainian investment relations is a rather mixed one. Two groups are worth mentioning. First, those very few TNCs based in Hungary that appeared in Ukraine as investors. Among the first ones the Hungarian oil and gas company, MOL has to be mentioned here, which has a very specific regional strategy for expansion.¹ Another example is the recent investment of Hungarian OTP Bank Plc, the largest bank in Hungary, with similar to the MOL's, regional ambitions. In 2006 OTP bought the former Raiffeisenbank Ukraine, founded in 1998 as a bank with 100% foreign capital. The bank took leader positions in corporate business.² The second group is formulated by the TNCs in general that use any kind of Hungarian mediation in their investment strategy in Ukraine. This kind of activity with Hungarian contribution opens a wide range of opportunities. Though direct advantages for Hungary are not so evident, indirect advantages should also be taken into account. One example is the electronical Flextronics that decided to build up a new producing plant in Ukraine under the guidance of the director of an already existent Hungarian factory. A second example may be the Hungarian unit of Metro Cash & Carry that created a big shopping centre in Kiev beside their plans to build similar objects in Kiev, Harkiv and Dnyepetrovsk.

Several huge Hungarian investment projects have been elaborated right recently in numerous industries including energy sector, pharmaceutical, car industry, packaging technology, electronics or agrarian technology. The motivation is manifold: market-seeking (either in Ukraine or abroad by export-orientated production) combined by efficiency-seeking.

¹ In 2003 December MOL left the Ukrainian market, by selling its shells. The decision most probably was a sector-specific one: presence of Russian competitors is extremely strong in the Ukrainian energy-sector. MOL is still present on the Ukrainian lubricant market.

² See <http://otpbank.com.ua>

On the other side, significance of Ukrainian investors in Hungary is rather marginal at least based on official statistics. According to Ukrainian statistics Hungary represents less than 0.1 per cent of total Ukrainian outward FDI (stock-data), while the share of Russia alone is more than 50 per cent. Major directions of Ukrainian investment activities abroad are highlighted in *Table 15*.

Table 15
Outward FDI stock from Ukraine (2005-2007)¹

	January 2006	January 2007	April 2007	January 2006	January 2007	April 2007
	<i>Million USD</i>			<i>%</i>		
Russia	102.5	93.2	114.9	46.7	42.1	47.5
Poland	21.3	24.2	25.4	9.7	10.9	10.5
Panama	18.9	18.9	18.9	8.6	8.5	7.8
Vietnam	15.9	15.9	3.9	7.2	7.2	1.6
United Kingdom	13.9	13.9	13.9	6.3	6.3	5.7
Spain	13.8	13.8	13.8	6.3	6.2	5.7
USA	5.6	5.7	5.7	2.6	2.6	2.4
Armenia	...	...	5.7	...	...	2.4
Hong Kong	5.4	5.4		2.5	2.4	0.0
Austria	4.6	...	...	2.1	...	...
Switzerland	4.0	4.3	4.3	1.8	1.9	1.8
Georgia	2.2	2.9	3.0	1.0	1.3	1.2
Cyprus	2.1	4.4	10.3	1.0	2.0	4.3
Latvia	...	3.5	3.5	...	1.6	1.4
Lithuania	...	...	3.3	...	...	1.4
<i>Hungary</i>	<i>0.1</i>	<i>0.1</i>	...	<i>0.0</i>	<i>0.0</i>	...
EU-countries together	59.6	66.3	...	27.2	29.9	...
Others	9.3	15.3	15.5	4.2	6.9	6.4
<i>All together</i>	<i>219.5</i>	<i>221.5</i>	<i>242.1</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>

¹ Source: Ukrainian Statistical Office.

Table 16
Ukraine's role in Hungary's inward foreign direct investments¹

		From Ukraine	All together	Share of Ukraine in total, %
1998	<i>Stock data, million euro</i>	8.0	15 306.3	0.1
1999		8.0	19 737.7	0.0
2000		7.2	21 048.5	0.0
2001		6.7	25 543.3	0.0
2002		8.6	29 757.9	0.0
2003		11.5	33 238.9	0.0
2004		11.1	40 425.9	0.0
2005		10.8	46 670.2	0.0
2006	<i>Flow data (on bal- ance), million euro</i>	-0.1	1 529.4	0.0
2007 Q1		-0.2	627.5	0.0

The role of Ukrainian investors is marginal according to Hungarian statistics, either. The stock of FDI from Ukraine totalled only to 10.8 million euro at the end of 2005. However, as it is the case in general concerning Ukrainian foreign economic data, statistics do not tell the whole truth.

Hungary was the target-country for one of the largest Ukrainian investments abroad by the Donbas purchasing of Hungarian shares of two steelworks, located in Dunaújváros and Diósgyőr (Miskolc), but these acquisitions were financed from accounts kept abroad. It is most probably, that Ukrainian investments will increase in the future, parallel with the improvement and rising growth opportunities of the Ukrainian economy. Thus the intensity and extent of Ukrainian outward FDI will depend mostly on general tendencies and results of the country's economy. Will they possess enough capital for investment and expansion purposes? For the time being there are such signals in metallurgy, the pilot industry. The case of Hungarian Dunaferr, with about 80 per cent of its shares purchased by a consortium of Ukrainian Donbas group and Swiss Duferco, is among the very first ones. "The Donbas-Duferco investment may be one example of the changing geographical pattern of FDI from CEE, as well as an example of vertical integration of companies within the iron and steel industry." (VINCZE – HANNULA – LUDVIG, 2005 p. 7.) Duferco offers its experiences in services, while, on the other side, business is based on historical ties between Ukrainian iron (Donbas) and Hungarian steelworks (Dunaferr).

According to earlier information of the Kiev office of ITD Hungary Ukrainian investors are present in Hungary in other branches, than metallurgy as well, like: air and water transport, chemical and car industry, logistics or banking.

¹ Source: database of the Hungarian National Bank and own calculations.

TRANS-CARPATHIA: HUNGARY’S OUTSTANDING BUSINESS PARTNER

The importance of Trans-carpattia was especially outstanding in the nineties due to the newly formulated Hungarian-Hungarian links, owing to which Hungary was even on the first place on the list of major country investors for several years in their wake. Though later on Hungarian business activities focused on the Ukrainian capital and its surroundings at the first place, and on the border region only at the second, links with Trans-carpattia are still worth distinct analysis. In absolute terms Hungary ranks as “only” the fourth place as a source of FDI in the Trans-carpattia county, but its position as trading partner is even better ranking between the first and third places for the past few years, with an approximately 30 per cent of total Trans-carpathian foreign trade turnover directed to or originated from Hungary according to figures for 2006. Regarding capital investments it is only Germany, Japan and the USA that surpass Hungary, while the latter is the first in a regional comparison among neighbouring countries. 42 new Hungarian-Ukrainian joint ventures were established with invested capital amounting to 1.5 million USD only during 2006. Adding them the number of companies with Hungarian participation increased to over 240 in Trans-carpattia.

Table 17
Hungary's share in Trans-carpathian foreign economic activities, 2006¹

	Million USD	% in total	Ranking
Hungary's foreign trade turnover with Trans-carpattia	485.9	29.8	1 st
Stock of Hungarian FDI in Trans-carpattia	32.6	10.9	4 th

Hungarian business activities, including investments, cover a wide range of industries in Trans-carpattia as well. In mid-2005 the composition of Hungarian investments in the county was the following: processing industries – 39.5 %; retail and wholesale trade – 35.8%; energy – 17%; construction – 2.6%; tourism – 2.6%. In 2006 already more than 75 per cent of Hungarian invested capital was directed to industrial branches. Some examples for Hungarian company presence are the following: MOL-Kárpátalja, System Investment Ukraina, Tochpribor Plc or the Beregovo Radio Factory.

On the Hungarian side, economic links with the Ukrainian Trans-carpattia are of outstanding importance as well. Partnership and co-operation with Trans-carpathian firms is a vital element of north-eastern Hungarian firms’ strategies. Share of Ukraine, with a dominant percentage of Trans-carpattia is two or three times bigger in total exports and imports of north-eastern counties (Szabolcs-Szatmár-Bereg, Borsod-Abaúj-Zemplén etc.), then it is in Hungarian national average.

Business circles founded their own associations with Hungarian and Ukrainian (in some cases also with Slovakian or Romanian) participation with the aim of an easier access to information about business opportunities and environment (in-

¹ Source: Hungarian Consulate in Uzhgorod.

cluding legislation) in the respective countries. For example there exists a vivid and fruitful co-operation between chambers of commerce and industry in the Hungarian Szabolcs-Szatmár-Bereg and the Ukrainian Trans-carpathia counties. The Carpathian Association on Borderline Economic Development is a trilateral (Hungarian-Ukrainian-Slovakian) initiative, formulated by institutions of the three countries that built up data bases on enterprises, with the aim of promoting business contacts and economic co-operation along the borderline of the countries concerned. As it is widely known, flourishing business is a way toward regional development. But in the case of Hungarian-Ukrainian border region, that is located at the crossroad of peripheries, other ways also needed. Hungarian EU-accession hopefully opened the door for new sources to finance mutual incentives.

It is worth mentioning that Hungarian business presence is strengthening in other Western Ukrainian counties as well. According to the latest information of the Hungarian Consulate in Uzhgorod the share of Hungarian investments in total reached 11.5 per cent in 2006 in Lviv county, with the participation of two Hungarian firms (Dankar Ltd. and Pharma Market Ltd.) in a major investment project in the county, the project on the development of the Lviv Automobile Factory. Furthermore, Hungary became the biggest trading partner of Ivano-Frankivsk county, with a 16.7 percent share in 2006 in total exports. All these information indicate a positive tendency: Hungarian business, both SMEs and bigger companies began to go further deep into Ukraine, however they still prefer the West-Ukrainian regions.

FUTURE-ORIENTED CONCLUSIONS

There are several arguments that Hungarian-Ukrainian mutual business contacts still retain potentials to develop, and that one may expect further intensification in mutual economic relations.

1. The Ukrainian economy seems to have embarked on growth path with outstanding yearly growth rates. The growing Ukrainian economy has an increasing potential to export while on the other side it also requires substantial imports regarding both consumer goods and investment capacities. In case the GDP growth tendency is accompanied with a modernisation process, Ukrainian economy will need increasing amount of imports of machinery and high-tech products. Hungary is already a significant source for these stuffs.
2. As mentioned above, a very favourable characteristic of Hungarian exports is the high level of diversification. Owing to this fact potential threats from outside or inside on specific industrial branches may not have significant negative impacts on overall Hungarian export to Ukraine.
3. Economic structure, especially industrial structure of the two countries offers lots of potentials for mutual business. Bilateral trade turnover already shows signs of a high level complementarity with still unused capacities to be utilised in the future. Intra-industrial co-operation is already intensive in chemical and metal industries.
4. Hungarian EU-membership is considered on both sides as a positive element, a potential for strengthening economic contacts, rather than a dividing factor, even though definitely disadvantageous trade impacts emerged in the short run, especially on the Ukrainian side. The significance of these negative impacts is rather limited according to the latest detailed figures on trade composition.

5. Ukrainian accession to the WTO will bring about several significant modifications in the level of Ukrainian tariff protection on behalf of Hungarian producers beside general positive impacts like more transparent business environment that is in accordance with international norms opening new chances for further investment links.
6. Another major factor in the development potential of mutual trade is the achieved stability in bilateral contacts on business level. The relative stability of the commodity structure also indicates that business contacts are increasingly based on stable partnership on the company level rather than being of an *ad hoc* character. Approximately half of yearly mutual turnover has been realised by the products of a permanent company circle.
7. If a substantial portion of illegal trade could be diverted into legal channels that would contribute to the significant increase in the official figures on bilateral trade. (Illegal trade incorporates not only those deliveries that disappear on the Ukrainian border from official statistics, as described earlier, but smuggling and case-shopping as well.)
8. Finally, both countries' approach toward the other is open-minded with sound political relationship on highest level. This also includes that Ukraine considers Hungary as an example model, experiences of which are worth following in the Ukrainian transformation and euro-integration process. Though high level political will and readiness has no direct impact on business level, good image of Hungary still may bring positive results even in business sense.

Hungarian–Ukrainian relations may be envisaged in multilateral framework as well. Hungary as an EU-member is a firm supporter of Ukrainian Euro-Atlantic aspirations. However, the terminology is still cautious enough, not using terms of “future Ukrainian membership”, but instead the readiness to offering some kind of an “European perspective”, that might be an appropriate approach in recent state of affairs.¹ Regarding concrete economic Ukrainian goals in partnership with the EU free trade regime is an element that is wholly supported by Hungarian leadership, even taking into consideration those few industries that may be negatively effected by introducing free trade with Ukraine.²

¹ For example ex-Minister of Foreign Affairs, Ferenc Somogyi emphasised that enlargement should not taken as a process closed in geographic terms, but rather based on real performance, preparedness of the candidates. According to him there is no use to put a dividing line between European Neighbourhood Policy and process of enlargement, and Hungary is ready to make all her efforts that Kiev could receive a clear message from Brussels on the matter. On the other hand he also argues that Hungary is the most interested EU member-country in the success of the European Neighbourhood Policy. (Somogyi, 2003)

² Hungarian metallurgical and chemical sectors may suffer to a certain degree from further market opening. (On the other hand, Ukrainian firms are already present on these markets like investors, as well!)

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