

GENERAL AGREEMENT ON TARIFFS AND TRADE

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Working Party on Structural Adjustment
and Trade Policy

RECORD OF DISCUSSION ON COUNTRY CONTRIBUTIONS
RELATING TO EXPERIENCE WITH STRUCTURAL ADJUSTMENT

Hungary
(Spec(82)6/Add.2)

1. The representative of Hungary, highlighting certain points arising from the Hungarian experience in regard to structural adjustment, said that during the post-war period the Hungarian economy had undergone dramatic structural changes. For example, between 1950 and 1979 the share of agricultural production in GNP had fallen from 42 per cent to 16 per cent, while that of industrial production had risen from 32 per cent to 54 per cent. The rapid structural adjustment process had been due to both internal and external factors. As regards internal factors, the main aim of Hungary's post-war economic policy had been to make Hungary an industrialized country with a developed agricultural sector, bearing in mind the country's natural resource endowments and the imperatives of the international division of labour. The period from 1945 to 1956 which included the era of the post-war reconstruction, had been characterized by forced industrialization, partly due to the circumstances imposed by the cold war and the quasi-stagnation of agricultural production. The decade from 1957 to 1967 had brought a more balanced development between industry and agriculture, and the progressive exhaustion of the resources available for extensive growth. Partly in connection with this latter development, Hungary had introduced on 1 January 1968 a new economic management system, the most important features of which were as follows:

- the national economic plans became indicative, i.e. they did not provide directives or compulsory targets for enterprises;
- economic regulators - i.e. prices, profits, taxes, credits, interest rate, exchange rate, customs duties - became the means of orienting the autonomous decisions of enterprises, instead of government directives.

This fundamental change in the economic management system had made it possible for Hungary to join the GATT on a customs tariff basis.

2. He said that the structure of the Hungarian economy had also been shaped by the trade policy measures of Hungary's trading partners. This type of experience was shared by all countries but was especially important in small ones heavily dependent on foreign trade. In this connection, he underlined the following points:

- total Hungarian exports represented nearly 40 per cent of the net material product (NMP), and each 1 per cent growth of NMP generated an increase of nearly 2 per cent in imports;
- the losses experienced by Hungary as a result of the worsening of the external market situation and the deterioration of the terms of trade between 1973 and 1980 had been greater than the damage caused to Hungary by World War II;
- about 25 per cent of Hungarian exports to its most important Western trading partners, the member countries of the EEC, were subject to quantitative restrictions inconsistent with Article XIII of the General Agreement. Agricultural products not subject to quantitative restrictions were in many cases subject in the same countries to prohibitive import burdens.

3. In his view, many contracting parties to the General Agreement had been departing more and more in recent years from the guiding principle of comparative advantage. He believed this was detrimental to every country, but especially to small countries and less developed countries, i.e. to those with a limited range of internationally competitive sectors and products. He said that the Hungarian delegation could hardly be in a position to accept any conclusions by the Working Party that did not acknowledge the appropriate importance of external factors, in particular trade policy measures, in the process of structural adjustment. In big countries with rich natural resources and large internal markets, internal factors in the structural adjustment process were determining and the degree of freedom available to their governments in decision-making was much higher than that in smaller countries. He believed that on the basis of the above at least two conclusions could be drawn: first, a high share of foreign trade in a country's GNP meant a high degree of influence of external factors on the structural adjustment process; the second conclusion related to the great influence and therefore responsibility of governments enjoying a high degree of decision-taking freedom in bringing about or distorting the structural adjustment process taking place throughout the world. The first group, i.e. "policy takers", were mostly small countries, while the second group, i.e. "policy makers", consisted of the larger countries. The process of structural adjustment was a painful one even when it took place according to a country's comparative advantage, but it was more painful and its social costs were higher when countries were obliged to adjust their economies to their bigger partners' economic structures distorted by protectionist trade policy measures.

4. Turning to a number of questions put by members of the Working Party, the representative of Hungary first responded to an inquiry about the credit policy of the National Bank of Hungary and the rôle of that body in the adjustment process. He said that the National Bank of Hungary, in compliance with its investment credit policy, granted credits inter alia for the following purposes: rationalization of the energy consumption of enterprises; utilization of secondary raw materials; investments for so-called "export development"; and other investments, essentially infra-structural and social ones. Considering their amount, the so-called "export development" credits played the most important rôle in the structural adjustment process. To supplement credit funds serving other

purposes, the National Bank of Hungary had created in 1976 a so-called "investment credit for export development", to the value of approximately 54 billion Forints. Such credits could be obtained through tender. Producing enterprises to which credits were given were selected by the National Bank of Hungary on the basis of investment programmes for export development submitted by them. To submit applications for such credit, the costs of investment had to be likely to be covered within three years by export receipts resulting from the new production capacity created. These investments served to develop the production of up-to-date and competitive goods, thus promoting a faster process of adjustment of the Hungarian production structure to developments in the world economy. Between 1976 and 1980, the National Bank of Hungary had granted credits from this special fund to 1,800 applicants; 38 per cent of the credits had been granted to the food industry and 28 per cent to machine industry. He said that this credit programme would remain in force for the period between 1981 and 1985, with a total value of credit to be allocated of 65 billion Forints. This credit policy constituted an essential means of realizing Hungarian economic policy objectives, in particular the re-establishment of external equilibrium.

5. Taking up a question on the effects of price policy on Hungarian exports, he said that his delegation considered that an examination and description of the functioning, effects and technical details of the Hungarian price system would fall outside the mandate of the Working Party. He therefore confined himself to stating that the competitive price system, consequent upon the Hungarian price reform of 1 January 1980, was intended to ensure that producers' prices of materials, semi-manufactured goods, finished products and equipment followed world market prices. As a result, producing enterprises were directly exposed to the impulses of the world economy and were in a better position to adjust to them in a more direct and rapid way. Through its functioning, this price system stimulated enterprises to produce saleable goods and cease manufacturing products falling short of this criterion. Enterprises were likewise incited to reach the highest possible prices on the world market.

6. Replying to questions on factors responsible for the development of the Hungarian steel industry, the representative of Hungary said that the words "because of special factors in Hungary's economy" on page 5 (paragraph 2, line 1) of the English translation of the Hungarian submission (Spec(82)6/Add.2) did not accurately reflect the French language original. These words should read in the English text "because of the then prevailing circumstances in Hungary's economy". He said that up to 1979 Hungarian steel enterprises had been able to purchase coal and iron ore at prices more favourable than those on the world market. The price system introduced in 1980 had changed this situation, and Hungarian producers were now purchasing coal and iron ore at current world market prices. The Hungarian iron and steel industry had been facing serious difficulties, especially since the second half of 1980 due to the market effects of this new price system. Both production and exports in this sector had considerably diminished. He added that it should be noted that sales possibilities for Hungarian metallurgical products on certain traditional markets had decreased as of 1978.

7. Dealing with a question on how the Hungarian Government reacted to increased competition from imports, he said that during the period examined in the Hungarian submission, the Hungarian authorities had applied no specific restrictive measures on imports in response to increased import competition. Thus, Hungarian imports from GATT contracting parties had more than doubled since 1973. In the Hungarian economic management system tariffs were the main means of import protection, while the import of consumer goods was regulated by a global quota. In this connection, he noted that as of 1 September 1982 Hungary had introduced temporary restrictive measures on imports for balance-of-payments safeguard purposes, under Article XII:2(a) of the GATT. As for sector-specific plans for structural adjustment, a central development plan was being currently realized in the fields of aluminium production, computer technology, electronics, pharmaceuticals, and insecticides and intermediaries.

8. Taking up a question on policies aimed at the "progressive limitation of the activities of low-efficiency sectors" (Spec(82)6/Add.2, paragraph 10), he said that the activities of enterprises in low-efficiency sectors were gradually decreased or switched over to other sectors. Enterprises that were unable to adjust their activities to changing market conditions - and in cases where the slowing down of economic activity was caused not simply by temporary unfavourable market conditions - had decreasing financial means at their disposal and were not granted credits. Employment policy considerations were taken into account upon the liquidation of such organizations. He said that the elimination of the global quota had nothing to do with the gradual liquidation of low-efficiency sectors.

9. Commenting on the Hungarian submission and presentation, a member said that examination of the Hungarian experience was particularly interesting because of the nature of the economic system employed and the sorts of mechanisms available for influencing economic structures, for example the credit policy of the Hungarian national bank. He said that certain aspects of the new Hungarian economic policy were welcome, notably the efforts made to align domestic prices with world market prices and the increased decentralization at the enterprise level, which should facilitate structural adjustment. On the other hand, he was of the view that the Hungarian submission and presentation tended to overstate the impact of external factors, although he recognized the dependence of the Hungarian economy on foreign markets. He was of the view that, when talking of the influence of external factors on the Hungarian economy, all relevant factors should be taken into account including trade with economic groupings that accounted for a larger share of Hungary's foreign trade than did the group of countries that he represented. It should also be recognized, in his view, that trade between Hungary and his group of countries had developed at a relatively satisfactory rate, including in the agricultural sector; and that, according to calculations made by his authorities, quantitative restrictions affected only 4 per cent of Hungarian exports to his group of countries.

10. Responding to the comments made and certain further questions, the representative of Hungary confirmed the observation of one member that the share of the tertiary sector in employment had risen, while its share in GNP had actually fallen (Spec(82)6/Add.2, table on page 4). The main

reason for this lay in the relatively low productivity in the tertiary sector, as compared to that of processing industries and agriculture. In regard to the comments recorded in paragraph 9 above, he felt that he had tended to understate rather than overstate the role of external factors in Hungarian economic problems and structural adjustment. He pointed out that his statement about the losses suffered by the Hungarian economy, as a result of the deterioration of the terms of trade, had related to the whole of Hungary's foreign trade. With respect to the share of Hungarian exports affected by quantitative restrictions, inconsistent with Article XIII, he recalled that his delegation did not accept the 4 per cent figure that had been quoted.