

PRESS RELEASE

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TRADE POLICY REVIEW BODY

REVIEW OF HUNGARY

TPRB'S EVALUATION

The Trade Policy Review Body of the World Trade Organization (WTO) concluded its second review of Hungary's trade policies on 7 and 8 July 1998. The text of the Chairperson's concluding remarks is attached as a summary of the salient points which emerged during the discussion.

The review enables the TPRB to conduct a collective examination of the full range of trade policies and practices of each WTO member country at regular periodic intervals to monitor significant trends and developments which may have an impact on the global trading system.

The review is based on two reports which are prepared respectively by the WTO Secretariat and the government under review and which cover all aspects of the country's trade policies, including: its domestic laws and regulations; the institutional framework; bilateral, regional and other preferential agreements; the wider economic needs and the external environment.

A record of the discussion and the Chairperson's summing-up, together with these two reports, will be published in due course as the complete trade policy review of Hungary and will be available from the WTO Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

Since December 1989, the following reports have been completed: Argentina (1992), Australia (1989, 1994 & 1998), Austria (1992), Bangladesh (1992), Benin (1997), Bolivia (1993), Botswana (1998), Brazil (1992 & 1996), Cameroon (1995), Canada (1990, 1992, 1994 & 1996), Chile (1991 & 1997), Colombia (1990 & 1996), Costa Rica (1995), Côte d'Ivoire (1995), Cyprus (1997), the Czech Republic (1996), the Dominican Republic (1996), Egypt (1992), El Salvador (1996), the European Communities (1991, 1993, 1995 & 1997), Fiji (1997), Finland (1992), Ghana (1992), Hong Kong (1990 & 1994), Hungary (1991 & 1998), Iceland (1994), India (1993 & 1998), Indonesia (1991 and 1994), Israel (1994), Japan (1990, 1992, 1995 & 1998), Kenya (1993), Korea, Rep. of (1992 & 1996), Lesotho (1998), Macau (1994), Malaysia (1993 & 1997), Mauritius (1995), Mexico (1993 & 1997), Morocco (1989 & 1996), New Zealand (1990 & 1996), Namibia (1998), Nigeria (1991 & 1998), Norway (1991 & 1996), Pakistan (1995), Paraguay (1997), Peru (1994), the Philippines (1993), Poland (1993), Romania (1992), Senegal (1994), Singapore (1992 & 1996), Slovak Republic (1995), South Africa (1993 & 1998), Sri Lanka (1995), Swaziland (1998), Sweden (1990 & 1994), Switzerland (1991 & 1996), Thailand (1991 & 1995), Tunisia (1994), Turkey (1994), the United States (1989, 1992, 1994 & 1996), Uganda (1995), Uruguay (1992), Venezuela (1996), Zambia (1996) and Zimbabwe (1994).

TRADE POLICY REVIEW BODY

REVIEW OF HUNGARY

CONCLUDING REMARKS BY THE CHAIRPERSON

The second Trade Policy Review of Hungary was conducted by the TPR Body on 7-8 July 1998. These remarks, prepared on my own responsibility, are intended to summarize the main points of the discussion; they are not intended as a full report. Details of the discussion will be reflected in the minutes.

The discussion developed under four main themes: (i) economic background and transition issues; (ii) regional integration issues; (iii) trade and investment measures; and (iv) sectoral issues.

Economic background and transition issues

Members congratulated Hungary on the remarkable changes that had been achieved, during the short period since the previous TPR in 1991, in its transition to a market-oriented economy. It was recognized that these changes had taken place under difficult economic and social conditions, including the collapse of trade with the CMEA, the bankruptcy of a large number of companies and the consequent temporary loss of jobs. Members welcomed the fact that, despite these circumstances, Hungary had pursued its liberalization process and continued to make an important contribution to the WTO.

With regard to macroeconomic management, Members recognized the Government's achievement in restoring domestic and external balance following the March 1995 stabilization package. However, questions were raised as to whether fiscal consolidation could be maintained in the absence of further large-scale receipts from privatization, now in its final phase, and in view of difficulties in creating an efficient and equitable tax collection system. Questions were also raised whether the impact on the external balance of recent real effective appreciation of the currency might not lead to renewed contractionary measures.

In response, the representative of Hungary said that the improvement in government finances was not the result of a one-time windfall from privatization, but due to cuts in government expenditures. The budgetary situation was expected to strengthen further, due to improved tax collection methods and to the gradual shrinking of the unofficial, grey sector of the economy as tax rates were to be reduced. He added that improvements in the trade and current account balances implied that there would be few risks of negative effects from the real appreciation of the currency. While the crawling-peg devaluation of the forint might have been lower than the difference between the rates of inflation in Hungary and in its major export markets, this gap was offset by productivity improvements in Hungarian exporting sectors.

While welcoming the considerable structural changes to the economy through privatization and the role of the price mechanism in allocating resources, Members sought clarification of the role of industrial policies, including investment incentives, in influencing the future structure of the economy. In response, the representative of Hungary emphasized that direct investment in Hungary was fully liberalized. Hungary did not apply specific sectoral incentive schemes; investment incentives in general, and tax concessions in particular, were equally available to any sector.

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Regional integration issues

Members recognized that the move toward EU accession had been a major element in Hungary's liberalization process. However, questions were raised on possible trade diversion stemming from preferences, and there was a considerable debate on this issue and its systemic implications. In response, the representative of Hungary stressed that WTO rules and commitments had been, and would be, thoroughly observed during the whole process of integration into the European Union. He rejected allegations that European integration had diverted trade to the disadvantage of third countries; on the one hand, trade flows had moved in favour of western markets, following the collapse of the CMEA, and before the introduction of EU preferences; on the other, imports from non-European trade partners, both in North America and in the Pacific region, had grown faster than those from EU sources.

Trade and investment measures

Members raised concerns over the scope of unbound tariffs on a number of items, such as some fish products, footwear, precious stones, transportation equipment and agricultural products, and on the average levels of bound and applied tariffs in some areas. In response, the Hungarian representative noted that 95.7% of tariff lines were bound and that the data on bound and applied items in the Secretariat report reflected averaging of bound and unbound items.

While welcoming the phase-out of the global quota on consumer goods, Members raised questions concerning its allocation and the reasons for its under-utilization. Members also sought clarification of the Government's future import and export licensing policies. In response, the Hungarian representative said that details of the operation of the quota had already been notified to the WTO. The reasons for the under-utilization of some subquotas was that the yearly 10% increase of the quota in many cases exceeds the actual demands.

Members also raised questions on:

- the alignment of technical regulations and standards to international norms, as well as inspection procedures;
- investment incentives conditional upon [export] performance and plans to notify existing TRIMs to the WTO;
- Hungary's attitude to joining the Government Procurement Agreement, to which it is not a party;
- state-trading, and plans and priorities to further reduce Government involvement in enterprises through privatization; and
- the enforcement of laws pertaining to the protection of intellectual property.

In response to these issues, the representative of Hungary pointed out that the number of Hungarian national standards was continuously decreasing, the objective being to reach a 70% share of international or European standards by Hungary's accession to the EU. Only 35 industrial products were subject to inspection (on health and environmental grounds), with domestic and imported products treated identically. He emphasized that Hungary had no incentives in the sense of the TRIMs Agreement. On government procurement, the representative of Hungary called attention to the transparency of the new law introduced from 1996. Having weighed the pros and cons of possible accession, Hungary did not intend to join the Plurilateral Agreement at this stage; however, it was participating actively in the Working Group on Transparency in Government Procurement as well as in the Committee on GATS Rules, where future government procurement rules are being negotiated. On state trading and privatization, the representative of Hungary stated that there was no State trading in the sense of GATT Article XVII. In the context of the full market economy, no sectors or industries were excluded from further privatization. On intellectual property rights, the representative stressed that Hungary's present legislation complied fully with the requirements of the TRIPS

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Agreement. As a result of new legislation and enforcement efforts, the number of infringement cases had been significantly reduced.

Sectoral issues

On agriculture, food and beverages, Members raised various questions referring in particular to land ownership; tariffs; plant certification; SPS measures; the nature and value of various types of support; and export restrictions and subsidies. The representative of Hungary responded that there were no plans to change land ownership regulations at present: compensation for former landowners had recently been ended. The Hungarian agricultural tariff regime was, as shown in its WTO Schedule, one of the most liberal among WTO Members. The increase in tariff dispersion was the consequence of tariffication, which reflected the variable effects of previous agricultural NTMs. Only certified plant types could be marketed in Hungary, consistent with OECD provisions: SPS standards were becoming internationalized under the 1995 Food Law. Domestic support, justified under "green box" provisions, involved advisory services and agricultural research programmes together with assistance for structural adjustment, to disadvantaged regions, and for the promotion of soil conservation. Guaranteed prices were set for five products, below the cost of production; intervention had been used only once. Export licensing was maintained only on maize, and was not restrictive in practice. As regards export subsidies, the representative reaffirmed Hungary's strict adherence to the terms and conditions laid down in the WTO waiver.

On motor vehicles, the representative of Hungary rejected allegations by Members that preferential tariffs and quotas related to regional trade agreements adversely affected third parties, citing the success of a Korean company in increasing exports to the Hungarian market during the period 1992-96. He added that the restriction on importation of used cars over four years old was designed to prevent Hungary becoming a "garbage cemetery" for used cars.

Members raised questions on trade measures applying to textiles and clothing, referring in particular to outward processing trade (OPT), and to wholesale activities for pharmaceuticals. The representative acknowledged that the share of OPT was high, reflecting existing patterns of trade. Hungary respected international practices in this regard; i.e., material inputs are imported duty-free on condition that end products are subsequently exported. On pharmaceuticals, legal provisions were in force to maintain health protection; the wholesale sector was open to foreign participation.

On services, Members welcomed Hungary's high level of commitments in the GATS. It was asked whether this level provided sufficient flexibility for Hungary; if establishment of foreign branches in Hungary was allowed for services other than financial; and whether the Government would advance the date for liberalization of national and international telephone services. The representative of Hungary replied that Hungary would not withdraw its GATS commitments; in unforeseen circumstances, GATS rules would be followed. He confirmed that, as of 1 January 1998, all restrictions on foreign branching, including in financial services, had been abolished. As regards advanced liberalization of telecommunication services, the representative replied that the Government had a legal obligation to maintain the exclusive rights granted in business contracts with investors for the agreed periods, however, there was strong competition in the market.

Conclusions

Hungary's participation in this review has reflected its strong commitment to the WTO process, as well as the positive effects of its transition to a market economy. The statements made on Tuesday, and again this morning, have indeed been helpful to Members.

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I would agree with the view expressed by several delegations that Members have much to learn from Hungary's process of transition to a market economy and the role of trade and investment liberalization in this process. There has also been quite a lively debate, in this connection, on systemic issues related to regionalism and its effects in terms of possible trade creation and diversion; these issues will, no doubt, be followed appropriately in the CRTA.

Finally, I should like to thank the delegation of Hungary, led by Dr. Balás, for their clear statements yesterday and today, and its positive participation in the review; and also thank our two expert discussants, Dr. Raby and Mr. Mukerji, for their very useful opening remarks yesterday and follow-up comments today. The overall success of this review has also largely depended on the full participation of other delegations, to whom I express my gratitude. I wish Hungary success in their endeavours in the further opening up of their economy in line with their WTO obligations.

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