Kovács, András
Master of economics

Borderless retail trade

The characteristics of cross-border retail trade in the Western part of the Slovakian-Hungarian border area

Theses

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1. Aims and structure of the dissertation

The phenomenon of cross-border retail trade (the “beyond the border shopping activity” of people living in border areas) could be observed for decades alongside the different Hungarian state borders, although it has not been accompanied by considerable scientific attention until nowadays.

Ferenc Erdősi called the attention of regional scientists in the first Hungarian monograph on border research (The regional- and settlement development problems of areas with special location) for the importance of cross-border retail trade: “There is a very concrete need to widen the researches in the field of small scale cross-border retail trade. There are a lot of spontaneity and irrational features coming from the lack of harmonisation in the development of the official cross-border retail trade flows. To the short period migration of people over the borders aiming private, not public purposes belongs the cross-border shopping. This phenomenon is influenced mainly by the different price structures of goods, the cross-rates of currencies, the different subsidy levels of prices, the diverse currency regimes and duty rules. The lack of product in domestic market plays a slightly important role. Many call this phenomenon shopping tourism. Hardly can an activity with such an apparent economic function be associated to tourism, because visits with aims like hiking, sightseeing, visiting monuments or participating in cultural events are more exceptional than usual.”¹ (Erdősi F., 1988)

Although Erdősi outlined the importance of this topic already in 1988, and marked the questions to be answered, the researchers in domestic regional

¹ Translated by the author.
science gave little heed to the detailed analysis of the phenomenon, while many important, interesting questions were (are) waiting to be clarified.

In order to highlight the socio-economic importance of the research of cross-border retailing it is not enough to deal with the contact field of retail trade and border theory, I have to insert my research in a wider frame. Before I have carried out my own empirical research, I had to answer several theoretical questions on the basis of previous researches, or (in the lack of them) with the creation of new models.

In my work I was seeking the answer to the following six questions:

1. Which are the most dominant directions of domestic and international border researches, and among them where can we find cross-border retailing?
2. Can the following terms: border region, border area, borderside region, borderside area on the basis of region and border categories be clarified and defined?
3. How do different sciences dealing with borders define the cross-border economic factor flows?
4. Can these economic factor flows and their different influencing factors such as economic, social, spatial, cultural, political agents be modelled?
5. Can the term “cross-border retail trade” be defined and distinguished from “shopping tourism”?
6. Which are the most important characteristics of cross-border retail trade alongside the Slovakian-Hungarian border, and how is it examined?

Before introducing the hypotheses, methods and results of my empirical research I want to clarify the framework and the most important terms used in
the theoretical part of my work, because without them my research results cannot be understood.

In this paper I only introduce those theoretical terms and models that are necessary to grasp the empirical results or are developed by me.

2. The main directions of border researches

While the border studies nowadays can be considered as a separate and broad research field, I grouped the studies published in well-known and distinguished scientific journal of border researches (Journal of Borderlands Studies) by topics (Figure 1.). It is worth highlighting, because as Figure 1 shows, the studies dealing with the cross-border economic flows are one of the most important research directions. (The cross-border retail trade belongs to this topic!)

**Figure 1: Studies published in Journal of Borderlands Studies, 1986 to 2007**

Source: own research
The international borderland researches have got several-decade-long tradition in the USA and in Western-Europe, but in Hungary a two-decade long lag can be observed.

The Hungarian border researches – just like the foreign ones – can be grouped in more ways. In my work I sorted them by research theme, and I distinguished the followings:

1. theoretical and methodological works
2. borderside researches
3. cross-border researches

In the Hungarian literature there are just few theoretical works, among them the most important ones are the writings of József Nemes Nagy (Nemes Nagy, J., 1998, 2009).

One of the popular forms of border researches in Hungary is the so called “borderside region research”, in which a chosen domestic or foreign micro, mezzo or macro space (located alongside the state border) is examined from an economic, social, political, etc. point-of-view. In these researches the cross-border dimensions do not or hardly appear (Horváth Gy., 2004) (Sikos T. T. – Tiner T., 2008).

To the new approach of border studies belongs the so called “cross-border researches”, in which both sides of the border zone is researched. In these scientific works the internal and external contacts and flows of border regions or border areas are analysed (Baranyi B, 2007) (Hardi T., 2002) (Kruppa É., 2003) (Sikos T. T. – Tiner T., 2007).
3. Theoretical basis, terms

Neither in the Hungarian, nor in the international literature are the terms of “border region”, “border zone”, “borderland”, “border area”, “border side region”, etc. clarified. The different authors use these above mentioned terms as synonyms, although there are considerable differences among them.

That is why in my PhD-work I would like to give an exact definition these terms based on the Haggett’s classic region-definition (Haggett, P., 2006):

*Border region:* a geographical space separated by one or more state borders, where the power, extent and intensity of cross-border socio-economic relations are strong and have existed for a long time.

*Border area:* a geographical space separated by one or more state borders, where the total lack of socio-economic relations can be observed, or their strength and intensity are weak, and the relations are quite new ones or have got a permanent changing character.

*Borderside region:* a region which has got a considerable length of state border compared to its full length borderline. In these regions the intra-regional socio-economic flows have got a determining character, the cross-border flows do not exist at all, or are inferiors.

*Borderside area:* a peripheral space alongside a state border, where neither the intra-regional, nor the cross-border socio-economic flows are strong and have got powerful character. There is no cohesion (Figure 2.).
After the determination of basic terms of different border spaces, I dealt with the description of economic flows inside them, based on the international and Hungarian literature.
4. Border economics

The effects of borders on economic flows have been researched by several disciplines (geography, economics, regional science) from different points-of-view.

The economic approach describes the changes of goods between point-economies (between two point-regions). The regions have got special factor endowments, and the factor flows are limited on different levels (from the free flows to the prohibition) (Krugman, P., 2003) (Brakman, S., et al., 2001).

The approach of regional sciences (such as geography and regional science) is more heterogeneous, in their theories the geographical, political and economic elements appear together and mixed with different weights (Frisnyák S., 1992) Leimgruber, W., 2005) (Tóth J., 2002).

Among the newest point-of-views in the research of cross-border economic flows the “border economics approach” can be mentioned. It focuses on borders and cross-border factor flows on micro and/or macro level during the research of cross-border economic processes (van Houtum, H., 1998) (van Houtum, H., 2000).
Figure 3: Cross-border economic flows and the system of influencing factors

By constructing my own border economics model (Figure 3.) I aimed the followings:

1. I would like to separate the different cross-border economic flows: I distinguished intraregional economic flows, flows between central and borderside regions, and flows between central regions (here the borderside region appears as a transfer zone)
2. I determined five factor groups that influence the economic flows at different levels and for different periods of time: economic, social, geographical, political, cultural agents
3. I defined which influencing agent has got a considerable effect on which flow-type.
4. Finally I grouped the agents by their duration (short, medium or long run effects).

With this model I would like to outline the different types of cross-border economic flows, and their complex and reflexive influencing agents. Nowadays – especially in Central-Europe – different kinds of cross-border economic co-operations are gaining more and more importance, several entrepreneurs build up new international and cross-border business relations. That is the reason why the analysis of cross-border economic processes has got great importance.
5. Cross-border retailing and shopping tourism

Among the cross-border economic flows we can mention cross-border retail trade. This phenomenon has got more than a decade-long tradition at the borders of the USA, Canada and Western Europe, but the beginning of this process goes back to the time of socialism in Hungary too. Although it has got a long history, the mainstream of Hungarian cross-border research has never focused on it.

I define this process as follows:

Cross-border retail trade: Frequent shopping activity of people living in borderlands on the other side of the border in order to make profit. During this type of shopping mostly FMCG-products are purchased for the households.

The importance of my cross-border research can be summarised in the followings:

- On both sides of the state borders many retailers and other retail-connected service providers are involved, so it can influence the prosperity of retail traders and has a considerably effect on the level of employment.

- Cross-border retail trade is influenced by several short-, medium- and long-term factors which modify or change its volume and direction.

- The motivation of “cross-border shoppers” is complicated, cannot be explained merely by changes of cross-rates or by different price levels.
To summarise the previous statements: Cross-border retail trade is a dynamic, complex process with many participants which is shaped by the permanent interactions of participants and the socio-economic environment. (Figure 4.)

**Figure 4: Cross-border retail trade and its environment**

Source: own research

In my work I wanted to clarify the differences between terms “Shopping tourism” and “cross-border retail trade”. These expressions are used as synonyms in everyday life and in scientific discussions too, but I am convinced there is a considerable difference between them. The detailed explanation of these terms exceeds the extent of this thesis-book, but in the Table 1 I summarise the most important characteristics. (Table 1.)
Table 1: Cross-border retail trade and shopping tourism

<table>
<thead>
<tr>
<th></th>
<th>Cross-border retail trade</th>
<th>Shopping tourism</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Participants</strong></td>
<td>people living in borderlands</td>
<td>profit maker tourists (there is no spatial determination)</td>
</tr>
<tr>
<td><strong>Affected region</strong></td>
<td>border regions and borderside areas (as starting point and destination area)</td>
<td>the whole country (as a starting point and destination area)</td>
</tr>
<tr>
<td><strong>Primary aim</strong></td>
<td>shopping for the household (dominantly)</td>
<td>multiple aims: recreation, profit making, etc.</td>
</tr>
<tr>
<td><strong>Preferred product groups</strong></td>
<td>FMCG-products</td>
<td>souvenirs, gifts or durable goods</td>
</tr>
<tr>
<td><strong>Duration</strong></td>
<td>a few hours (less than 24 hours)</td>
<td>more than 24 hours</td>
</tr>
</tbody>
</table>

Source: own research and edition

We can state that cross-border retail trading exists if the conditions, as free movement of people, goods and services are secured, and the participants (potential shoppers) are able to make profit surplus with the help of it. The net value of saving is equal to total saving minus extra costs of cross-border shopping (e.g.: costs of travelling) (Figure 5.)
6. Hungarian-Slovakian cross-border retail trade

In the empirical part of my dissertation I analysed the characteristics of cross-border retail trade alongside the Slovakian-Hungarian border. The research of this phenomenon met difficulties from more points-of-view. Partly because no previous, comprehensive research was conducted in this topic, partly because a permanently changing process had to be observed during the time of a global financial and economic crisis.

In my analysis I wanted to discuss the relations of supply and demand sides (sellers, buyers) to cross-border retail trade. I focused especially on the share of retailers’ turnover deriving from cross-border shoppers, and on the behaviour of cross-border shoppers (spending, shopping frequency, shopped goods, etc.)

In the research I used standard questionnaires to survey retail shops and the population of the Slovakian-Hungarian borderland. The survey of retail shops
was conducted in November and December 2008, the final sample contained 309 shops (167 on the Hungarian, and 142 on the Slovakian side of the border). In the survey I concentrated on the market centres (more important towns) of the border area (in Hungary: Győr, Komárom and Esztergom; in Slovakia: Dunajská Streda, Velky Meder, Komárno, Stúrovo). In the interviews shop keepers, managers and (if they were not available) shopping assistants were asked.

The survey of the population in the border area was carried out in April and May 2009. The sample contained 800 questionnaires, among them 784 were processed (16 could not to be processed due to missing data or another reasons). On the Slovakian side 393 persons, on the Hungarian side 391 persons’ answers got into the final dataset. Before the survey I set up a representative sample on sex, age, nationality, place of residence and its closeness to the border, based on the data of the 2001 census in Hungary and Slovakia.

I formulated 8 hypotheses for my empirical research. Some of them I could confirm, another ones I had to reject because they proved to be false or I could not confirm them due to lack of data.

In the following part I introduce my hypotheses and the most important research results on the basis of which I decided to confirm or reject them.

_H1: Retailers on both sides of the border make considerable part of their revenues from the shoppers coming from the other side of the border, but because of the unique spatial structure of the border area (meeting zone of the centre and the periphery), and its effects (e. g. commuting of employees) the share of “cross-border shoppers” is higher in the Hungarian part._

This hypothesis can be partly accepted, partly rejected. The part of the hypothesis which assumes asymmetric relations in the cross-border retail trade due to the centre-periphery relations is true. The surveyed people in Slovakia do their shopping more frequent in Hungary than the Hungarian do it in Slovakia. In
this process the development level of retail infrastructure plays an important role, besides the current cross-rates between the euro and Hungarian forint.

In the second part of the hypothesis I prognosticate considerable revenues from cross-border shoppers for retailers on both sides of the border, however, it is not true. On the Slovak side only 1-5% of the retailers’ total revenue came from Hungarian shoppers. As a reason we can mention the extremely weak forint exchange rate compared to the euro (and other currencies) during the period of the economic crisis (the end of 2008 and the first half of 2009).

But in this way it can be proven that there exists a level of cross-rate which influences and changes the amounts and directions of cross-border retail trade. The cross-rate of Hungarian forint and Slovakian crown grew from 6 HUF/SKK to 10 HUF/SKK level in 3 years between 2006 and 2009. Although in these years the volume of cross-border shopping diminished, it did not completely vanish. And this proves that the directions and amounts of shopping are influenced not only by the level of cross-rates.

H2: **The shoppers coming from the “other side” of the border have got special customer needs compared to the “domestic shoppers”, but these needs do not get enough attention from the shop keepers.**

This hypothesis has to be rejected. In the opinion of the asked retailers there is little difference between shoppers coming from Slovakia or from Hungary. Both Hungarian and Slovakian retailers agreed on this topic: 90% of Hungarian and 74% of Slovakian retailers said that they experienced no difference in the needs and expectations of domestic and foreign shoppers.
**H3: The socio-economic and political processes and events of the last years (EU- and Schengen-accession, cross-border workforce-flow, economic crisis, changes in cross-rates, etc.) affected the cross-border retail trade. Retailers and shoppers got to know them and built them in into their business behaviour.**

I could not prove this hypothesis. Although I supposed that the different macroeconomic factors have got considerable effects on cross-border retail trade, but with my research method (standard questionnaires) I could not prove the relation doubtlessly. Based on the opinions of retailers and “citizens of border area” we can determine just a weak stochastic relation between different macroeconomic factors and cross-border retail trade. Most of the surveyed shoppers and shop-keepers evaluated the effect of the EU- or Schengen accession on cross-border retailing to 0 (neutral value) on a bipolar differential scale (from -5 to +5). For the estimation of real value, one should need another (e. g. deep interview) technique.

**H4: The extent and direction of cross-border retail trade is influenced jointly by the cross-rates of affected countries, the development of retail sector, the supply of different goods and the business behaviour of retailers on both sides of the border.**

I consider this hypothesis confirmed, so I accept it. Based on the relations observed during the analysis of the surveys, I proved that the cross-border retail trade is influenced not only by the short-term volatility of cross-rates, but by the medium and long term effects such as the marketing communication activity of retailers or the development level of retail sector. Among the evidences of this we can mention the fast development of the retail sector of Dunajská Streda. The opening of new, large area shopping centres in the town has not influenced the shopping frequency and spending of inhabitants of the region towards the
regional centre, Győr. Győr’s regional centre role can be traced for kilometres from the state border as my retail research proves it too.

As further evidence I can mention the period of forint devaluation in 2009, when the Hungarian Tesco started an offensive marketing communication towards the border (radio ads, leaflets, a web page in Slovak, etc.). This “marketing attack” forced the Slovakian hypermarkets to launch an unsuccessful “counter attack” in form of price-comparing tables and more intensive marketing activity. (Slovakian retailers could not counterbalance the price differences coming from the extreme cross-rates with marketing tools!)

H5: The cross-border shopping frequency of residents living next to border is influenced by:

- Place of living: the country (Hungary or Slovakia) and the distance from the border (“direct borderside” or “near the border” location)
- Nationality (Hungarian or Slovakian)
- Place of work (geographical location – Hungary or Slovakia)
- Income level (under the average, average, above the average)

I could prove the relation between shopping frequency and the place of work, nationality and income level, so I accept the hypothesis. There is significant difference in the shopping frequency of

- shoppers living in “direct borderside” or “near the border” settlements
- Hungarian or Slovakian shoppers
- Slovakian workers doing their jobs in Hungary or in Slovakia
• People with under the average, average and above the average income levels.

Some data as evidence: 7% of people living in “direct borderside” settlements do their cross-border shopping “almost every day”, while for people living in “near the border”-settlements this ratio is about 0.5%. The difference among the “1-2 times per week”-shoppers is significant too: 13% for “direct borderside” settlements and 5% for “near the border” settlements.

The geographical place of work has got a considerable effect on cross-border shopping. While 1/3 (33%) of Slovakian people working in Hungary do their shopping in Hungary weekly or more frequently, the Slovaks who have got a “domestic workplace” do this less frequently (7%).

In the case of nationalities I have to reject my hypothesis. People (Slovakian and Hungarian) living in “direct borderside”-settlements shop on the same frequency, while for Slovaks and Hungarians living in “near the border”-settlements do their shopings on different frequency. I traced huge differences: the ratio of non-buyers is 9% for Hungarians, and 29% for Slovaks (in “near the border”-settlements).

H6: The share and value of cross-border spending (from the per capita incomes) is influenced by:

• Place of living: the country (Hungary or Slovakia) and the distance from the border (“direct borderside” or “near the border” location)
• Nationality (Hungarian or Slovakian)
• Place of work (geographical location – Hungary or Slovakia)

I consider this hypothesis confirmed, so I accept it. A significant difference can be observed in spendings by:
- Place of living (Slovakia or Hungary)
- Proximity to the state border
- Nationality
- Geographical place of work

For example: 35% of the people questioned in Hungary spend 0% of their income in Slovakia, and further 40% of the people sampled spend 1-5% of the per capita income there. While 10% of Slovaks spend more than 50% of their income in Hungary, and further 20% of them spend 20-50% of their total income there.

We can observe the same differences by the spending per one shopping. The Hungarians spend much less in Slovakia (30% of them 1-5000 Ft, further 25% 5000-10000 Ft per shopping), than the Slovaks in Hungary (35% 10000-20000 Ft, another 25% 20000-50000 Ft).

**H7: The shoppers cross the border to do weekend shoppings, they buy more product groups, and they visit first-of-all new, large area shopping centres and hypermarkets.**

I reject this hypothesis. The statement is true for the Slovakian shoppers, but false for the Hungarian ones. The most shoppers coming from Hungary visit discount stores, small retail outlets, although there are several hypermarkets in the region (in Dunajská Streda and Komárno too).

The cause of the difference is the different development level of the retail sector on the two sides of the border, which is further accelerated by the devaluation of forint. The majority of interviewed people in Slovakia mentioned hypermarkets and shopping centres (150-200 persons), while the most Hungarians preferred small retail outlets.
H8: The majority of buyers connect their shopping to other activities (recreation, visiting relatives, etc.)

I consider this hypothesis confirmed, so I accept it. Only 25% of the interviewed people cross the border only to do their shopping. The majority join other activities to this. By the Slovaks the most common ones are: recreation and cultural activities, while by Hungarians occur the visiting of relatives and recreation. It is important to note that for these people the most dominant and primary motivation is shopping.

7. Further research topics

The most important aim of my research and thesis was to lay down the fundamentals of the topic and carry out a thorough examination in all of its aspects.

Of course, the framework of this dissertation is far not enough to introduce all fields of cross-border retail trade. My analysis is just a “snapshot” about the relations of regional retail trade at the turn of 2008 and 2009, and some theoretical contribution for those who are interested in the research of this phenomenon.

In the near future I intend to repeat my field research in order to depict the effects of the changing macro- and microeconomic environment. Furthermore, this present research did not examine phenomena related to cross-border retail trade, which also has got great importance:

- The analysis of contact fields of cross-border retailing and shopping tourism, and determination of exact terminology.
• The analysis of effects of macroeconomic processes (cross-rates, economic growth, etc.) on cross-border retail trade with the help of new methodology.
• Permanent monitoring and analysis of prices
• Differentiation of effects caused by price levels and by changing cross-rates on retail prices.
• Comparison of retail supply and retail network of both sides of the border
• Unfolding the hidden motivation structure of cross-border shopping.
8. References


9. The author’s publications in related topics

Books (chapters):


Studies in proceedings:


Studies in scientific journals:


10. Citations on the author’s works


11. Author’s conference talks related to this topic

In Hungarian:


5th regional meeting of MRTT. Miskolc. 25-26 October 2007. Session: „Helyi iparfejlesztés” [Local industry development]. Title of talk: (together with Szabó, Ingrid): Nemzetközi tőkebefektetések munkaerő-piaci hatásai Komárom és Komárno térségében [Labour market effects of FDIs in Komárom-Komárno region]


HAS – Centre for Regional Studies – Fórum Minority Research Institute: Conference on „A szlovák-magyar határtérség társadalmi-gazdasági vizsgálata” [Socio-economic research of the Slovakian-Hungarian border area] co-financed by the EU (INTERREG HUSKUA/05/02117) 11, Jun 2008. Samorín Slovakia. Title of talk: „Kereskedelem, bevásárló turizmus” [Retail trade and shopping tourism]

6th regional meeting of MRTT. Gödöllő. 11-12, December 2008. conference on: „Új elemek a vidékfejlesztésben” [New elements in rural development] Session: „Térinformatika” [Spatial informatics], Title of talk: „A marketing új dimenziója: a geomarketing” [New dimension of marketing: geomarketing]

Conference on ’Fenntartható fogyasztás – növekedés határai – új trendek a kereskedelemben” [Sustainable consumption – borders of growth – new trends in
In English:


International Innovation Conference for Co-operation Development (InCoDe) Pécs, 16-19 October, 2008. Session: „Spatial aspects of innovation” Title of talk: (together with Sikos T. Tamás) „The development of retail trade sector in South-Slovakia”