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THE TRANSNATIONALISATION OF THE HUNGARIAN ECONOMY.

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The Theses of PhD Dissertation

Pappné Nagy Valéria

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Programm: Theory and praxis of the economic trends, international market strategies

Programdirector: Prof.Dr Balázs Judit

Supervisor: Prof.Dr Balázs Judit

Signiture of the supervisor

Professional background

The author of the dissertation has been working as an assistant professor of high school education of financial field of Hungary. She has been involved in modernising teaching materials in connection with the subject, introducing new professional ideas in teaching practice as well as preparing text books, and another teaching materials for nearly two decades.

For several years she has been teaching as a visiting professor in the Faculty of International Business and Enterprise at Furtwangen University. She has been lecturing on the economic transformation of Eastern and Central Europe.

Due to this work she got connected with „Kairos Europa", which is a movement supported by the World Federation of Churches. One of the main theoretical leaders of the movement is Professor Ulrich Duchrow at Heidelberg University who was the first to encourage the author to conduct research into this field, since after the transformational crises in the region it was in close connection with her former research to world economic crises.

The author has also been motivated to write her dissertation driven by the need to epitomise and publish the results of her research work and the changes in Hungarian high school education.

The subject of the dissertation

In the 1960s-70s the exports and imports of goods and services indisputably played a key role in globalisation. However, in the second half of the 70s a new trend was looming, which was fundamentally changing the world economy. It is called transnationalisation in professional terms.

In this new order of world economy transnational corporations were gradually taking over by national companies, and through the network of their subsidiaries they optimised their activities, and reached a maximum amount of wealth and profit.

In the 20 years following the changes in the political system the greatest achievement in the Hungarian economy is the intensification of economic connections with more highly industrialised countries, building a stronger contacts with the present centre of the world economy and the completion of the whole reorientation of foreign trade.

This integration of the Hungarian economy into the global world economy was achieved by co-operation of foreign companies, which was outstanding even at an international level.

The Hungarian transnational index has been 30% on average in the past few years, which is outstanding by international standards. Similar European countries had 1/3 of the Hungarian figure, while the world average is 11%.

The approx. 80% export/GDP ratio, the 100% international debt/GDP ratio, the 82%/GDP shows a strong international dependence, especially if it is taken into consideration that a substantial part of macroeconomic achievements are produced by foreign corporations whose operations are determined by the strategic decisions of the parent companies and not by Hungarian economists.

This „developmental model integrated by foreign companies" implies both substantial political and economic risks. In case of liberalized economies – just like in case of the Hungarian economy – vulnerability against external influences and also external dependence has been strengthened. This vulnerability, this asymmetric dependence has been clearly proved by the fact that the current global crisis appeared in Hungary with such intensity.

This dissertation analyzes the major economic trends of the history of the Hungarian economy following the change of the economic system of the Hungarian economy and the integration of this transformed economy into the new global economy. Due to the complexity of the topic the author could not undertake a detailed analysis of all possible aspects of this process, however, the author has striven to provide a detailed and comprehensive picture of the past 20 years – together with the topic related determining economic trends and also of the current situation as a result of these economic processes.

2. Methodological remarks

The research study had been largely set back due to shortcomings, inaccuracies and unreliability of the necessary for the database, and also due to interest-based distortions. The 'objective' data of different organizations – often contradictory and mismatching to each other and also amended in many cases subsequently – have made discernment difficult.

The world economy of the 21st century is a very complex system. The 200 nation states, the international organizations, the integrations registered as independent bodies and the 600,000 transnational companies with their 800,000 subsidiaries worldwide and their subtle system of relations is non-transparent. This complex reality has been covered by an even more complex statistical system. The standardization of statistics is still at its initial stages.

The conclusions drawn from the analysis of the international economic processes and situation, therefore, should be handled or be used with caution; the conclusions of other researchers also have to be used with care. Some special attention has to be paid on:

- The internal identity of the content - not only in regard to translation errors
- the diversity of statistical methods used,
- handling of the lack of data due to different levels of development monetary system and of economic development.

3. Main points of the doctoral thesis

1. External transnationalisation is defined as domestic companies entering the international world of business. In the case of organically developing market economies external transnationalisation – the consolidation of domestic corporations, the set-up of international manufacturing networks - mainly precedes internal transnationalisation, which means basically the increase of foreign participation in internal economic processes of a national economy.

A reverse process can be observed when looking at the integration of less developed regions, among the others countries belonging to the former Eastern European block, into world economy. The internal transnationalisation precedes the external one, as a result of which these economic regions integrated into the world economy in an asymmetrical way. However, mostly the incoming foreign enterprises have been able to benefit from the advantages of the integration.

2. The external transnationalisation, which began later in these national economies, has several anomalies, since it is mostly not the national capital having consolidated owing to the positive impact of integration which was involved in international business activities, but rather the formerly inflowing external capital – due to its privileged situation – gets consolidated and moves on.

What appears to be external transnationalisation that is basically the change of the scene of the external capital i.e. expansion through its local subsidiaries.

3. The Central and Eastern European countries were struggling with substantial lack of capital after the changes in the political system, which hindered the development of market economy. There was a fierce competition among the countries of the region for the acquisition of western capital import. The countries of the region were competing with one another to offer more and more favourable conditions to investors.

The Hungarian government had worked out an even internationally outstandingly liberal policy in order to attract foreign investment which caused Hungarian enterprises a substantial competitive disadvantage.

4. Due to its „successful" foreign investment attraction policy the Hungarian economy had become the leading importer of capital in the region. Owing to the asymmetrical treaty of association as a first wave of working capital, multinational department stores set their feet and soon gained dominance in the domestic market. Then the privatisation process, which favoured mainly foreign investment in addition to the most controversial economic step i.e. letting foreign investors take over strategic sectors, especially the bank sector, exposed the Hungarian economy to foreign investors.

5. Although the influx of working capital – as the vessel of internal transnationalisation - was a deciding factor of the transformation of Hungarian economy as well as the reorientation of foreign economy, and consequently contributed to the Hungarian economy's integration into the world economy, however either the privatisation policy (since there was no consistent privatisation strategy), or the capital import policy implemented during the transitional period was part of a well-thought out, conscious and neutral development strategy that took into consideration the national interests and characteristics while favouring no parties. In contrast, it seemed to have been forged out by sudden brainwaves and influenced by political

terms while aiming a short-term financial balance.

6. According to a view internationally accepted by experts of finance the benefit of the influx of foreign capital is dependent on to what extent the capital import can be integrated into the domestic economy, how intense relationship the influx of capital creates with other actors of the domestic economy, since it increases productivity and accelerates the spread of modern technology through these contacts.

In the geographical and physical meaning of the word foreign investments, which are active in capital importing countries and create export from import, economically do not belong to the receiving countries, although they may increase substantially some micro-economic figures of them such as the amount of export and the GDP.

If the incoming capital acts separately, such as an enclave, the odds are very high for a dual-structure economy. The development of such an economic structure is more likely if investments are not motivated to have their own share in the domestic market. After all it is not the market-oriented investors who create a breakage in the structure of an economy but rather the export-oriented green field investments which are aimed to increase efficiency.

By the end of 2002 there is statistic evidence that the Hungarian economy can be divided into two main segments. One of the segments of the economy is made up by foreign multinational companies which abound in capital, boast modern technology and specialise in internationally successful sectors such as informatics, telecommunications and electronics.

The other sector is owned predominantly by Hungarian small- and middle-scale enterprises, which constantly struggle with the lack of capital and function separately from the previous sector.

Corporations belonging to the first sector usually have a foreign parent company in the background and intensive export-import connections, they employ highly skilled workforce with an adequately high income, therefore it is quite distinctly separate from the domestic small- and middle-scale enterprises which provide for a narrowing internal market, constantly struggle with the lack of capital and funding, and at the same time levied by a heavy tax burden.

7. It is not the privatisation policy being fundamentally responsible for the Hungarian dual structure. The unprecedentedly rapid and government decisions based privatizations, non-deliberate and with the suspicion of corruption, has had several negative consequences. The newly privatized companies continued their manufacturing and production under the direction and management of the new foreign owners and in most cases kept their previous connections with their domestic suppliers.

At the same time investors carrying out greenfield investments, - primarily due to tax free zone regulations – stood aloof from establishing local ties and connections. Either setting up their suppliers' businesses here, - being more favourable economically – or their input connections were conducted by their traditional suppliers via import.

The privatisation policy, however, can hardly be justified completely. The privatization of the banking sector enabled significant capital relocations. It was the result of which foreign dominance characterised the domestic banking sector by 1998. – enabled significant capital relocations. The small and medium sized companies and enterprises mainly in national hands have lost ground and have been sidelined from the loan market.

It is an indisputable fact that lacking adequate regulations, foreign capital results in significant destruction of resources. Both repatriated profits and shortages of domestic sources of credits have an unfavourable effect on domestic economy.

Without acquitting the Hungarian management of economic policy for the situation caused by its erroneous capital attracting policy, the question may be put forward rightfully: can a small sized economy in such a short period of time integrate the inflow of such a large quantity of direct capital.

8. The inflow of large amounts of foreign capital in an amazing speed into a relatively small and open economy, combined with the assistance of the government's outstandingly open economic policy towards foreign capital investment, the domestic businesses and enterprises, characteristic of substantial shortage of capital and also having huge debts and deprived of quality labour force and not at least of bank loans, found themselves in an impossible economic situation.

Similarly to the other transitional economies, the Hungarian state has spent - and is spending - tremendous amounts of capital on luring investors, enhancing settling of multi-national companies, facilitating the expansion of their already ongoing domestic activities, relying on their positive external effects. The „ returns" of such subsidies, however, according to domestic experience, is doubtful. With a thoughtful and alternative usage of the same capital and assets, investing fundamentally into the small and medium-sized companies and businesses owned basically by the national capital, some better or at least more lasting results could be predicted.

By 2007 the total amount of foreign direct investment into the Hungarian economy has surpassed 68 billion Euros. The proportion of foreign investments in the domestic economy sectors is almost 50%, while it is absolutely significant in the high-technology export-oriented sectors, and also in the financial sector. The dominance and proportion of advantages or disadvantages of foreign direct investment largely depends on the professionalism of the corporate management of the target country, the measures of economic and political dependence and also the actual need of capital import of a country.

9. As a result of the influence of foreign capital in all industries of strategic importance, - energy, electronics, telecommunications, informatics and financial sector – it is significant in export, too. Economy has its path dependency. An independent economic policy with more determined national interests, however, has very limited margins, especially in our current global economic crisis and in the circumstances of record high level internal and external debts.

4. Suggestions and recommendations:

- Working out a long-term development strategy with national interests but independent from elections cycles, a strategy with consistent policies in the fields of health service, education, science, research and development, social care, regional and minority issues.

- We estimate that the past 20 years and on top of all the current global crisis has caused the greatest damage in its broad sense in human capital, in physical, psychical and moral state of the population. The recovery of all this and the re-creation of the eroded values may take decades.

- With an economic and „society development" strategy – also enjoying a relative social support – unnecessary unique regulations, ad hoc interventions, decisions made by individuals in accordance with hidden agreements, autocrat management and constant economic Uncertainties can all be prevented. This strategy could be the reference point for all participants of the economic sector and could mean reliability for the individuals.

- Instead of stimulating internal transnationalization – in this field the Hungarian economy has outstanding performance already on international level – the stimulation of internal integration and the strengthening of ties and relationships of domestic participants should be stimulated. If countries spent all the attracting foreign capital resources on subsidizing their own small and medium-sized company sectors, together with external advantages much higher social returns could be achieved.

- The stimulating elements of traditional extensive growth should be boosted, i.e. the number of those officially employed, - the number of taxpayers – must be increased. In the Czech economy, which is about the same size as the Hungarian one, there are almost 1 million more employees than in the Hungarian economy.

- Efforts have to be made in order to further integrate the 30 thousand foreign owned companies operating in the catchment area of the Hungarian economy, out of which only 0.5% belonging to the multi-national circles.

- The credit support of the three domestic banks, the MFB, the EXIM Bank and the Export Credit Insurance Ltd. has to be enhanced, since these banks have a major role in financing the export of domestic small and medium sized companies.

- A revised foreign trade orientation is needed. The traditional eastern markets that have been mistakenly neglected in the 1990s have to be regained and the revitalization of these eastern markets is inevitable because of the obvious change of the centre of the global economy.

- Contrary to the current domestic practice and similarly to the EU member states, following especially the examples of France, Spain and the United Kingdom, the preference of domestic companies is vital in large state public invitations for bids and public procurement procedures and all these have to be corruption-free. The rightful usage of the 30 billion Euros predicted to arrive into the Hungarian economy by 2013 may look promising. The goal is not to violate the sets of rules and regulations of the Union in equality in bidding and tendering, but to eliminate the current preference of foreign investors. In several member states such as the Netherlands or Austria the foreign investor does not get such tax reliefs that can not be received by a domestic investor wishing to invest in the same field.

- One of the most important economic targets is to regain the internal market, to end the monopoly of international network of retail stores. With state support a domestic network has to be established where local domestic producers can find markets for their commodities.

- In order to keep the „ functionality” of the country it is desirable to revise the decisions that had short-term economic benefits but still contradicting long-term ones such as closing down railway lines, primary schools and local post offices in remote regions. The revision of these hasty decisions seems to be desired for domestic political reasons as well. The negative effects of population concentration and exceeded urbanization, in the long run, are well known.

- The young and degree holding intelligentsia – doctors, engineers, and information technology specialists – have all been trained at tremendous public costs. This is vital for the future to attract them to stay at home not just by paying higher salaries but by other means affecting their quality of life.

- Special attention has to be paid to the social control of further planned privatizations, since the water treasure and resources will be the most valuable „factor of production” of the 21st century.

5.The most important publications of the author, listed as defined by the Doctorate School

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