

**UNIVERSITY OF WEST HUNGARY
FACULTY OF ECONOMICS**

**About international capital flow, with
special regard to working capital inflow to
Hungary**

Dissertation Theses

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Preliminaries of the study and targeted objectives

The subject matter of the dissertation was determined by the fact that ever since getting my diploma in economics I have been working in finance, especially with different forms of capital investment.

I have been in contact with the University of West Hungary since 1999, where I gave lectures on ‘Money and capital markets’ and ‘Stock market transactions’, and I am still leading examinations of students.

When choosing my subject matter, I was working as a vice CEO of Corvinus Nemzetközi Befektetési Zrt. My every day job included supporting the Hungarian capital investments in abroad. In line with the strategy of Corvinus Nemzetközi Befektetési Zrt., I was responsible for finding investment targets in the

country selected together with the Hungarian partner, and then performing the purchase of the target company.

By writing the dissertation, my objective was to scientifically reveal the drivers and motivation of capital flow through acquisitions realized in Central and East Europe and the experiences gained from these transactions.

The pre-concepts of my theses mainly changed in defining the directions of capital flow. The essentially West-East direction of capital flow seems to be changing nowadays, but it does not reach the threshold level which would induce the radical rejection of previous theories.

The capital – accumulated mainly in the last 5 years –

has not yet started flowing back towards the traditionally capital exporting countries. The traditional capital flowing direction has not changed yet.

Although the development dynamics of capital export in improving countries (e.g. Russia, China, Arabic countries) exceed the world average, it does not mean a threat to the improved countries.

In some industries, such as the Information Technology sector, there are examples of re-acquiring the previous mother company, but it is not yet en masse.

The period since my diploma defense has brought dramatic changes to international capital flow which is the main subject of my Ph.D. The financial crisis that

appeared in 2008 significantly reduced the capital outflow. Emphasis is put on investment forms of which the targets are the assets of companies being terminated or getting close to bankruptcy because of the crisis. The amount of free investment capital has been reduced, however, the demand for it has increased. The number of current acquisitions and mergers has drastically been reduced, their values decreased.

The subject, the method and the justification of the research

The dissertation contains the findings of two researches that are similar in subject matter but different in geographical aspect.

The first subject matter starts with analysing the

international statistics of global capital flow. When analysing world capital flow, I demonstrate the most important financial and economic market players, show their motivation, describe and give opinion – based on own experiences – on theories of working capital flow.

By describing the cross-border merger and acquisition (M&A) activities, I present a method of capital flow that is getting more and more important.

I focus separately on the history and the different development lines of capital flowing to China and the South-East Asian countries. Geographically narrowing, I continue studying the world capital flow by analysing the movements of the European Union's working capital. I search the countries which recently joined the European Union (with special regard to

Visegrád countries) to find the reasons behind their entering the global capital market in a relatively short period of time. In the last part of the first chapter, I analyse the flow of the Hungarian working capital. I classify the advantages and disadvantages of the Hungarian capital import and capital export. I explain the investments and the particulars of the previously mentioned Corvinus Nemzetközi Befektetési Zrt.

The second subject matter explores the capital that was flowing into Hungary after the system change, with the help of a linear regression model. In this model, I try to reveal the relation of the regional and quantitative variables and the working capital quantity flowing to the given region.

By using county statistics and analysing their relations, I make conclusions regarding investment

locations. Relying on the model, investment decision makers can realize their investments based on well-defined motivations and correlations. This research is the improved and updated version of a former research carried out in the 90s.

I improved the research methodology and considerably prolonged the time scope of the original timeline and studied the conclusions covering the whole period. The longer timeline indicate the development of economic processes more significantly.

Findings

I hold for the greatest findings of the dissertation the systemization of global and domestic motivations and the conclusions of Hungarian motivation researches.

The major conclusions of the dissertation referring to Hungarian capital investment distribution:

- The industry level and the economy size in Hungarian regions (counties) show a positive correlation to the size of working capital flow.
- Either the number of industry employees or the unemployment rate could be attractive, neutral or discouraging from the point-of-view of investments. It is not probable that from the point-of-view of working capital flow the differences of salary level in different counties

would be of much importance. As salaries in Hungary are generally low, other factors are of more importance when making an investment decision.

- The low unemployment rate can also indicate a medium economic development level in certain counties. Curiously, on the other hand – taking the findings of the model – the high unemployment rate does not necessarily mean disadvantage to the working capital. A good example of this is Borsod-Abaúj-Zemplén county, where the very high unemployment rate caused by closing down mines, was eased by privatization with foreign working capital inflow.
- The development level of infrastructure and

education has a very encouraging effect on working capital flow.

- The distance from the capital and Austria shows a negative correlation, as the most improved infrastructure and most enterprises are concentrated in Budapest and the surroundings and the working capital flows in from Austria. Interestingly enough, the distance from Austria is significant in the beginning, however, later Budapest takes over this function.

Theses:

1. The direction of capital flow

According to the traditional theory, the capital flow comes from the direction of improved

countries towards unimproved countries. Based on my researches, this is not always the case, as the capital accumulated in the peripheries attempts to find direction the other way round too.

The traditional capital flows show West-East direction, from the centre to the peripheries. The development in the last 30 years indicate that even in the improving countries there can be capital accumulation centers which change this direction, however, this quantity would obviously not be sufficient to overthrow the original theory. By world globalization, the economic processes may alter traditional capital flow directions.

2. The capital flow among improved economic zones

The crucial proportion of capital flows appear among economically improved areas. The majority of capital flow transactions happen in the three economically most influential regions (North America, European Union, Japan).

On national level it appears in Hungary too, as it can clearly be seen that the counties with more improved economy attract more capital flows than the less improved ones.

3. Capital flow motivation

When considering a new investment, the decision is very much influenced by the creation of a new capital resource center,

administrative limitations on capital investment, cultural similarities in differently improved areas, religious or ethical coordination.

The thesis that the capital flow is traditionally encouraged by the cheapness of assets is expanded with the above mentioned aspects and new motivations.

4. The correlations of Hungarian capital flow

Through the development of the Hungarian capital flow since the system change, it can be seen that a part of the capital flow previously aimed at improved areas is shifted towards less improved areas which can be explained by

workforce market reasons and governmental provisions. The governmental objective to support capital investments in less improved areas can be measured by the method I use.

5. Change in the function of traditional capital flow centers

The function of previous capital distributor centers is changing. Through the example of Budapest and Vienna I justified that after the system change, Budapest – joining the world economy processes – started to take over certain functions from Vienna previously responsible for Central and Eastern Europe.

From capital flow aspect, the county centers are more and more dependant on the distance

from Budapest and not from the western borderline. This clearly suggests that the previously natural West-Hungarian capital investments (primarily with Austrian and German investors) start to explore the East-Hungarian regions too, with coordination from Budapest.

Conclusions, suggestions

The all-time leaders of economic policy have a huge responsibility how successfully a country can enter the world capital flow.

One of the most important areas of economic diplomacy is the “channeling” of foreign working capital as well as supporting domestic companies in opening to abroad and protecting

their interests efficiently.

The dissertation presents the countries (e.g. United Kingdom, the Netherlands) where the above mentioned objectives are strongly embedded in economic policy which significantly facilitates these countries to maintain their constant growth.

It is highly suggested that the institution system assisting working capital flow is strengthened and not repressed (as it currently happens at Corvinus Zrt.).

Only those countries can be successful whose companies are diversely present in different sectors and geographic regions in the globalizing world and try to make the difficult-

to-handle but very useful working capital flow
serve their own interests.

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