**The FDI-led development model revisited?**[[1]](#footnote-1)

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1. Introduction

Central European transition process has been earmarked by the strong penetration of multinational business, especially in the Visegrad (V4) countries[[3]](#footnote-3). The role of foreign capital in establishing state-of-the-art manufacturing industry and service sector was seen as systemic element with remarkable historical background for the region, mainly the territory of the former Austro-Hungarian Empire (Szanyi, 2003). Another rationale of the powerful presence of multinational business was the unfolding globalization process. Markets became global. Global competitiveness depends on the successful combination of traditional comparative (local) advantages and new, company-bound competitive advantages. These later ones can be most readily offered by investments of multinational firms. The combination of various competitiveness factors is reflected in the most commonly used FDI theory, the Eclectic Paradigm by John H. Dunning (1988, 2001).

The decisive role of FDI in shaping economic development in the V4 can be demonstrated also with the comparison to economic development of neighboring countries like Rumania, Serbia or Croatia. The lack of the presence of multinational business largely explains the relatively weak development performance of these countries. International differences in FDI density are also caused by the nature of multinational business. Current day technologies, large factory and batch sizes enable firms to build regional centers, production facilities need not be repeatedly established in neighboring countries. First movers of the region, countries which opened up their economies early obtained significant advantages in FDI attraction. Today we may declare that multinational firms became stable and progressive elements of V4 economies.

It is therefore rather surprising that the strong presence of multinational business became a political issue in V4 with rather successful FDI attraction records. Political debates on multinational business has been started and (populist) conservative parties called for action against their spreading influence. This is most visible in Hungary and Poland. The debates are usually heated by anti-globalist sentiments, and only strong criticism is articulated[[4]](#footnote-4). The tendency is conceptualized by some authors as new expression of economic patriotism (Clift and Woll, 2012; Naczyk, 2014). The (populist) conservative political elite would like to modify the group of winners of the transformation process. Yet, since international competitiveness still depends on the performance of multinational firms, Hungarian government decided to split them. “Enemies” (mainly in services) are punished, “friends” (mainly in manufacturing) are not rewarded but kept in relevance through “strategic partnership agreements” between firms and the Hungarian government.

In this paper I would like to recall some important long-term impacts of strong FDI presence in Hungary, both the beneficial ones and the problematic ones. I will argue, that the environment of globalization process does not offer good chances for a development policy that would like to substitute market leaders through national champions. This is current day reality and FDI policy must rather enhance international integration of small open economies of V4. Policies aimed at changing foreign trade partners (Eastern opening) are also not likely to succeed since V4 are integrated part of the single European market. Trade flows are largely determined by multinational firms’ technical needs as well as their logistical processes and sales policies.

The main part of the study analyzes FDI policy in Hungary during the 2010-2015 period, the dual treatment of multinational business and the results: declining investments, sluggish economic growth. Special attention is paid to the strategic agreements conducted between the Hungarian government and a number of large multinational companies that carried out large scale investments in the country. A series of interviews will highlight the real importance of these in the changing Hungarian economic policy practice away from normative regulation towards more discretional decisions. The concluding remarks will explain the negative impacts of these tendencies on market economic institutions.

This paper deals mainly with issues of the Hungarian economy from a political economy viewpoint. At some points also the broader Central European relevance will be highlighted. The assumption of the paper is that Hungary and the V4 became integrated part of the single European market and current globalized world economy. This environment works under the principle of free enterprise and democracy, allowing much criticism of their negative impacts but acknowledging the dynamism and robustness of the system that produced a series of convincing results in social and economic development[[5]](#footnote-5). This is a strong value statement. Hence, the focus of the analysis is always set on the impacts of policies on free enterprise and market institutions. The rationale of policies is explained within theoretical frames of new institutional economics.

1. The establishment of the FDI-led development model

Hungary is a small open economy, which started the transition process from socialism to the market economy in 1989. The establishment of minority foreign ownership in form of joint ventures was legally allowed already in 1972, and a USD 400 million large stock of investments had been accumulated until 1989. Moreover, regular contacts to world markets and to foreign firms allowed the accumulation of some network capital in the Hungarian economy that became an important lever of Hungary’s internationalization process. More significant volumes of FDI started to arrive to the country after 1991 when privatization process was directed towards sales to foreign investors. When privatization process decelerated at the end of the 1990s large scale greenfield investments started to upheld yearly FDI inflow levels in the range of EUR 3-4 bn. Later on also the expansion of existing capacities gained momentum. This is shown by the increasing share of reinvested profits in the source structure of FDI stock increment (Antalóczy et al, 2011). Traditionally, FDI statistics has been provided from the balance of payment figures of the countries. This source became rather problematic after the year 2000 but especially from around 2010. FDI flow figures became mixed up with capital flows of “special purpose entities”, moreover temporary capital flows were also reflected. The problem has been recognized internationally (UNCTAD) and figures cleaned also by the Hungarian National Bank. However, despite of the cleaning procedure international and also timely comparisons remained rather difficult and less reliable than earlier (Antalóczy and Sass, 2015).

Table 1. Inward FDI in Hungary (net inflow, reinvested profits, loans, bn. EUR)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | FDI change | capital inflow | reinvested profits | loans |
| 1995 | 3 695,7 | 3 562,7 | -163,6 | 296,5 |
| 1996 | 2 625,0 | 1 745,9 | 397,3 | 481,8 |
| 1997 | 3 681,1 | 2 010,2 | 1 155,0 | 515,9 |
| 1998 | 2 988,1 | 1 371,8 | 1 009,2 | 607,1 |
| 1999 | 3 106,3 | 1 434,9 | 1 054,2 | 617,3 |
| 2000 | 2 998,4 | 1 509,6 | 1 135,0 | 353,8 |
| 2001 | 4 390,7 | 1 096,3 | 1 478,7 | 1 815,7 |
| 2002 | 3 185,1 | 1 156,7 | 1 911,4 | 116,9 |
| 2003 | 1 887,5 | -664,1 | 1 787,6 | 764,0 |
| 2004 | 3 438,7 | 1 081,6 | 2 227,4 | 129,6 |
| 2005 | 6 172,1 | 3 966,2 | 1 917,9 | 288,0 |
| 2006 | 5 454,4 | 1 475,3 | 1 358,6 | 2 620,4 |
| 2007 | 2 852,1 | 844,0 | 2 274,5 | -266,4 |
| 2008 | 3 086,8 | 2 301,4 | 895,1 | -109,8 |
| 2009 | 1 289,1 | 2 821,6 | -191,8 | -1 340,8 |
| 2010 | 1 231,6 | 2 814,0 | -186,1 | -1 396,3 |
| 2011 | 1 557,5 | 430,0 | 1 225,9 | -98,4 |
| 2012 | 3 942,1 | 1 915,9 | 1 462,0 | 564,1 |
| 2013 | 1 871,8 | 2 202,7 | 1 491,0 | -1 821,9 |
| 2014 | 4 504,5 | 87,3 | 3 682,7 | 734,5 |

Source: Hungarian National Bank

Despite of this, Hungarian FDI statistics clearly demonstrate the outstanding role of foreign investments. During the years of the transition process most of the largest multinational companies established direct presence in Hungary in the form of an affiliated company. Foreign presence has been especially strong in the automotive and electronics industries in manufacturing, in retail trade, banking and financial services, telecommunication, media. These are typically the most globalized businesses. The establishment of Hungarian affiliates in them reflects the fact of successful integration of the Hungarian economy in global production networks. I regard this development as a key determinant of structural development, technological modernization, investment activity and economic growth in Hungary.

The outstanding role of FDI in the development model of V4 countries has strong, partially even historic roots. The two main drivers of economic development and catching-up with more developed European nations have traditionally been foreign capital investments and policies of developmental state (Szanyi, 2003). In the era of globalization state development policy cannot target the establishment of national champions any more, be it public or private firms. Most current industrial policies are enabling ones that support the development of abilities in order to gain international competitiveness. This may be reflected in comparison with capabilities of world leading multinational business and target national enterprises or may aim the inclusion of global big business in the national economy. I argue that the choice between the two options was not open in Hungary during the first two decades of the transition process.

The economic situation of Hungary at the beginning of the transition process was determined by a number of specific factors (Szanyi, 2003). Firstly, the country was heavily indebted, cash revenues were required to cover debt services and possibly reduce debt. Secondly, economic reform process during the late decades of socialism produced valuable contact network and experience with doing business on international markets with multinational companies. The importance of this factor cannot be overvalued since in other socialist countries firms and company directors worked isolated from world markets and foreign firms. This prior managerial knowledge could be readily utilized already in the early phase of transition. Thirdly, Hungarian government put great emphasis on improving national competitiveness through restructuring and technological development in the economy. This process could be most efficiently launched with the involvement of multinational firms[[6]](#footnote-6). Fourthly, privatization and especially sales to foreign owners was regarded as an important element of institution building. State owned enterprises’ (SOEs) long imprinted paternalistic attitude towards various levels of government were to be replaced by own initiative. The message of consequent privatization policy was straight: state ownership was not maintained for the long run and opportunistic behavior of SOE management was not tolerated either (Szanyi, 2002).

Parallel with the privatization process also investment attraction policies were applied (Antalóczy et al, 2011). It aimed the attraction of big business in most globalized industries like electronics or the automotive industry. The applied policy tools were fiscal (tax allowances), financial (budget subsidies) and other specific regulatory incentives. In the first period (1988-1995) of FDI attraction policy in Hungary mainly fiscal incentives played important role. Large scale investments (sometimes bound to privatization purchases) received long time tax holidays that could be renewed with further investments. In this period incentives were applied on selective basis and were not readily transparent. Attraction policy was not focused explicitly on certain industries or regions, but rather more general political aims were articulated like contribution to employment and exports. Hungary successfully attracted a large portion of FDI investing in Central Europe.

Regional competition for investments increased by the end of the 1990s when other V4 countries also introduced FDI incentives and started to privatize on mass scale preferring sales to foreign investors. Also, the rather loose, not normative incentive system produced a number of negative examples. This all, and intensifying pressure from international organizations urged the Hungarian government to streamline the incentive system and define it on a normative basis. From 1996 till 2003 more transparent system was in effect that defined some general policy aims to be achieved with the help of FDI (large-scale investments). These aims included structural elements with preferred sectors and regional focus alongside with employment and export targets. Besides the fiscal incentives new regulatory changes played important role: the establishment of industrial free trade zones (IFTZ). Firms operating in these zones were exempt of customs duties as well as the value added tax[[7]](#footnote-7). But not only new fiscal incentives were available, but IFTZs significantly reduced the costs of bureaucratic procedures. Based on advantageous IFTZ regulation regional investment hubs developed. Pilot FDI projects attracted traditional suppliers to invest in Hungarian IFTZs. In some counties large scale changes of economic structure occurred. On the other hand, FDI became regionally concentrated and typically also isolated from local business.

One of the last problems of Hungary’s EU accession negotiations was the streamlining of FDI incentives with EU regulations. Industrial policy (also FDI attraction) can easily contradict competition policy goals even if applied on non-selective basis. FDI incentives had to be transformed into the general European state aid system. Development goals had to be articulated more precisely, fiscal and financial support were to be fitted into the aid intensity principle, IFTZs were to be abolished altogether. Due to the changes importance of financial means increased, and emphasis of the supports shifted towards more general objectives that aim the improvement of competitiveness in general, not specifically addressed to single investment projects. Since the most important elements of investment support were still bound to investment size, aid was still largely addressed to big multinational business. Hungary’s leading role in capital attraction faded out. Yet, by this time Hungarian economy was driven by the activity of multinational firms.

1. Positive and negative impacts, main criticisms

The strong influence of multinational companies in the Hungarian economy can be illustrated by several figures. They have contributed much to national investments[[8]](#footnote-8) creating a massive body of highly productive manufacturing and services base. The spread of FDI is very much visible too. In certain hot spots like Komárom, Győr, Székesfehérvár, various parts of the larger Budapest agglomeration new industrial districts have been created or old ones renovated. Foreign companies produce 70 % of manufacturing production, 48 % of manufacturing employment. Their share in retail trade, banking and financial services, telecommunication is also exceptionally high. Since foreign firms especially those in manufacturing are partners in international value chains they by definition are export oriented. Over 80 % of total manufacturing export is delivered by the foreign owned sector. In other V4 countries foreign ownership participation is similarly important.

Table 2. Share of foreign owned companies in sales, employment and gross investments in Hungary (selected economic branches, %)

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | 2008 | 2012 |
| sales |  |  |  |
|  | manufacturing | 64,9 | 69 |
|  | energy supply | 74,4 | 67,5 |
|  | trade | 44,6 | 45,4 |
|  | infocommunication | 62,7 | 67,7 |
|  | total non financial | 50,1 | 53,3 |
|  | financial | 53,8 | 70,1 |
| employment |  |  |  |
|  | manufacturing | 44 | 47,7 |
|  | energy supply | 51,5 | 51,9 |
|  | trade | 21,5 | 24 |
|  | infocommunication | 29,8 | 37 |
|  | total non financial | 23,8 | 26,1 |
|  | financial | 46,9 | 45,1 |
| gross investments |  |  |  |
|  | manufacturing | 67,8 | 78,3 |
|  | energy supply | 61,6 | 65 |
|  | trade | 49,4 | 41,3 |
|  | infocommunication | 74,2 | 79 |
|  | total non financial | 49,6 | 55,3 |

Source: Central Statistical Office

We can evaluate the strong presence of multinational business in various ways. My standpoint regards the development trends of the whole transition period up till now. Compared with the starting point the current economic structure of Hungary is more developed with high share of high- and upper medium-tech manufacturing production and highly efficient services sector. I sincerely doubt this extraordinary change in economic structure would have been possible without the strong investment activity of foreign firms. It is important to see, that global markets are dominated by firms who are present also in Hungary. Entry barriers of global markets are extraordinarily high, penetration is extremely difficult even for the most innovative small firms. True, there are some success stories of East-European born global companies, like Hungarian Graphisoft, Prezi or Estonian Skype. However, they all work on rather small market segments, and were sold to multinational big business when their further expansion to broader markets required large scale investments. Inserting V4 economies into the system of global value chains is hardly imaginable without the effective role of global players of the markets.

Table 3. Per capita value added of Hungarian and foreign owned firms (selected economic branches, HUF thousand)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | 2008 |  | 2012 |  |
| per capita value added | Hungarian | Foreign | Hungarian | Foreign |
|  | manufacturing | 4931 | 8751 | 5443 | 10782 |
|  | energy supply | 22203 | 24023 | 23758 | 28542 |
|  | trade | 3265 | 7876 | 3179 | 7638 |
|  | infocommunication | 5488 | 22997 | 6216 | 20720 |
|  | total non financial | 4078 | 9723 | 4400 | 11129 |

Source: Central Statistical Office

On the other hand, we can see also clear drawbacks as well. The strong presence of multinational firms produced dual structure in V4 economies. Foreign firms have relatively few contacts to local companies along their main production activity. Local suppliers usually do not enter their value chain. The reasons of this are manifold. Firstly, existing technological cooperation links in the value chain are not likely be replaced by new entrants because of the high costs of entry. Secondly, local firms attained technological capabilities, financial and logistics capacities for cooperating with global business only gradually. At the moment of FDI penetration of the V4 economies local firms were not fit for cooperation (Antalócy, et.al., 2011). Nevertheless, the scope of essential contribution by local firms to the global value chains started to increase after 2000. Due to the 2008/9 crisis and recession thereafter cost cutting considerations became even more important that moved multinational firms towards more intensive local sourcing. V4 countries launched support programs to enable local firms to cooperate with multinational companies (Kalotay, K. – Sass, M., 2012).

Another important widely discussed issue is the extent of positive externalities stemming from multinational firms (spillover effects). Most studies tried to measure the externalities using various measures of productivity, assuming that the aggregate impact of spillovers will increase productivity of local firms. The results have been mixed and not very convincing. A meta-analysis of the related literature stated that a larger part of the findings supported the idea of measurable productivity increase (Iwasaki and Tokunaga, 2014). There are methodological and also logical explanations of the lacking positive results (Szanyi, 2002b).

Other critics of the FDI-based development model drove attention to systemic problems that can be far more important than the low level of positive impacts. Nölke and Vliegenhart (2009) wrote an important paper in which they tried to conceptualize the CEE economic model. They picked out the role of foreign direct investments in shaping the structure of the establishing market economies of the V4 countries. They argued that the high share of multinational companies in the production and trade of these economies strongly influenced the development of some other economic and social sub-systems as well. Their impact on national innovation and education systems was negative, because their operation did not need high-end inputs from these systems. Furthermore strong bias was exercised on a variety of national policies, since multinational companies’ tax reliefs deprived governments from financial tools, and also because their operation was largely independent from national policies. Nölke and Vliegenhart called their CEE model dependent market economy model (DME).

DME model called attention to important drawbacks of the FDI-led development model in the V4 countries. In my view however, these handicaps should not necessarily mean an unavoidable failure or a dead end. The FDI-led pattern of strong integration of the V4 economies in global value chains could not be easily substituted by the creation of national champions. Non-integration on the other hand had not been a viable option in globalized world economy either[[9]](#footnote-9). It is still a better situation to be included in global business even if the benefits of the participation are not distributed evenly. I also would like to emphasize the big difference between foreign and domestic firms in terms of productivity, technological sophistication and financial capabilities. Without the demonstration effect delivered by the strong presence of multinational firms local companies’ capabilities would have lagged behind even more substantially. Some of the negative effects, distortions in the educational system, decreasing R&D activity must be taken serious and corrected by government policies. I do not share the view that V4 governments have little (decreasing) resources to pursue such policies. On the contrary, I think that multinational firms’ presence increased fiscal revenues, despite of tax allowances. This is especially true for the period after 2004 when capital attraction policies were adjusted to EU standards. Excessively large allowances were not undertaken, and the “lacking” tax revenues would not have been collected if investments were not carried out anyway.

But there has also been another, political criticism addressed to foreign investments and multinational companies’ activities. Populist parties hoped to receive social support and votes in the elections with such criticisms. Terms like “luxury profits” of foreign firms, treatment of profit transfers as an attack against national property, predetermined expectations of tax revenues treated as justified claims of the state towards foreign firms earmarked the populist sentiments that were articulated in Hungarian and Polish mass media. Similar statements served as moral justification, political and social support for unfriendly changes in regulation and tax policy. This meant that political expectations of sharing a bigger part of the potential benefits of global economic integration were enforced by measures that reached beyond the usual action sphere of policies and market institutions.

Another important area where Hungarian national interests have been pushed forward at the expense of international business was the ownership pattern of the economy. State (and national) ownership has been intended to increase in Hungary in banking, trade, utility services and some manufacturing industries. One important avenue of the change was the nationalization of private pension accounts. Minority shares of stocks in a number of traded companies were accumulated this way. Another important method was regulatory capture. Tax and other regulations were changed in ways that fundamentally deteriorated the operational environment of selected foreign-owned companies that were then sold to various agents of the Hungarian state. The increased uncertainty of the regulatory environment and frequent changes in tax policy deteriorated the investment climate of Hungary. FDI inflows dried up after 2008.

The change in the treatment of foreign companies and the preference of national firms has been conceptualized by some authors as an increase in economic patriotism (Clift and Woll, 2012; Naczyk, 2014, Drahokoupil, 2008). Since political parties in CEE had had weak ideological underpinnings, voters revolved among parties frequently. Ideological (conceptual) values were hardly transferred to the general public. In the early years of transition ideological values of the “international advising community” (Appel, 2004) were transferred in cooperation with local political leaders and officials. The transmitted values of neo-liberal ideology served as legitimacy for political decisions. Frequently either coercive mechanisms (threat of force) or remunerative measures were also used. In this framework Naczyk (2014) interpreted the current changes in Polish and Hungarian economic policy as shifts in the content of economic patriotism. During the 1990s quick departure from communism was the most important national goal which was effectively backed by the neo-liberal agenda. During the 2000s new content was given to economic patriotism, the support of national business presence and stopping further internationalization. Drahokoupil (2008) stated that central European transition economies of the 1990s were characterized by the emergence of a new political elite, the „comprador service sector” that effectively supported and complemented the spread of multinational business in the region. The economic regime of the neo-liberal economic thought served certain individual and party interests too. Using the same logic we can interpret the current turn in policies as changes in the power of various business-polity alliances. Instead of the FDI-bound “comprador service sector” another elite based on local business gained power. When new political elites come to power alliances and economic policy focuses change as well.

1. Changes in FDI-related policies in Hungary

While the main focus of the Hungarian government was set after 2010 on supporting domestic business ventures, the strongly imbedded Hungarian economy continued relying on the activity of multinational firms. The populist political attacks against these were targeted against selected branches and even companies. Critical arguments (when applied at all) lost their general character when they were translated into policy measures. The Hungarian government defined a group of companies that were not treated friendly, meanwhile other companies and branches received further (mainly political) support[[10]](#footnote-10).

Banks and financial institutions were repeatedly accused by unfair practices towards customers. They were also thought to realize above average profits. Foreign presence in the Hungarian banking sector was unusually high (80 %) that also annoyed the government. Actions were taken to change all this. The Hungarian was one of the first governments which introduced sector-specific extra taxes (on turnover and on transactions). Besides this banks had to bear much of the costs of the compensations of private debtors with (non-performing) foreign exchange debt. These changes in the regulation and new taxes brought banks into red when they still had problems with recapitalization after the 2007/8 financial crisis. Owners of private pension funds were accused with the low level of returns by the government. Pension claims were then “secured” by the government when the second pillar of the pension system, that is claims of private pension accounts coming from the compulsory insurance system were taken and rechanneled to the pay-as-you-go firs pillar state pension system. Most affected financial institutions were foreign-owned in both cases.

In the 2013 case of the cooperative of local deposit collecting financial institutions the method of regulatory capture (see: Yakovlev, 2006) was applied. First the state increased the level of required deposits. Since the small banks could not meet the new obligation overnight, the state itself provided them with the necessary capital and connected this transaction to the acquisition of a controlling share of ownership. Owners of the small banks were not asked before but were provided an ultimatum for the case they would reject the generous offer. In 2014 the Hungarian state acquired MKB Bank from the German owners. The German parent bank was unwilling to run the Hungarian daughter at loss and sold to the only serious buyer: the Hungarian state. The losses were, however, caused by various negative changes in the business environment initiated by the Hungarian government, and by the process of restituting the private foreign-exchnage debtors. The achievement of 50 % of national ownership presence in the banking sector was heralded soon after. Later that year FHB Bank was purchased by the Hungarian Post increasing national ownership to over 60 % of bank assets.

Retail trade chains and other trading companies, firms in the telecommunication and energy sector as well as media were also harassed by disadvantageous selective regulations, most importantly sector specific taxes and fees in Hungary. In order to save local business from the effect of the new taxes various specific selection rules were applied. In case of the tax on broadcasting advertisement high level turnover threshold was fixed so that the tax affected one major foreign owned medium[[11]](#footnote-11). A larger number of transactions and regulatory changes over a longer period of time was undertaken under the umbrella of limiting utility costs. The promise of savings on utility costs was a major campaign tool of the 2010 and 2014 election campaigns. The government prohibited price increases of the public utilities already in 2010. Later on prices were set by government agencies at significantly lower levels than before thus eliminating profits from this sector. This was a measure that directly affected the profitability of private business. Limiting utility costs through price decrease resulted in companies going into red. Owners soon felt encouraged to sell their loss-making assets. This process is regulatory taking: company revenues dry up because of unfavorable changes in market regulations or excessive taxes. Many of the utility firms were thus sold to central or local public bodies. Some of them received quite generous compensations (for example German RWE). The rationale of utility firms’ purchase can be explained by the utility cost reduction policy of the government[[12]](#footnote-12).

T.I.H. (2014) analyzed the usage of selective policies from the viewpoint of lobbying. The main conclusion of the analysis was that policies of the Hungarian government increased uncertainty not only in the regulatory environment but also in the communication channels between business and polity. Though previous regulation on lobbying and control of corruption was also far from perfect, institutions with normative effect were curtailed or lifted (e.g. the law on lobbying), and arbitrariness of decision making increased. Instead of using official channels practice of lobbying became informal. Business representatives used special occasions like soccer games, social events to meet influential politicians. Representatives of “bad” as well as “good” business equally used the informal channels.

In order to make a formal difference between favored and punished firms Hungarian government signed strategic agreements with a number of foreign companies[[13]](#footnote-13). The process started in Summer of 2012 when macroeconomic situation of Hungary worsened. GDP fell, investments by major business ventures were postponed. The sluggish business conduct of large firms could not be counterbalanced by supported SME activity. The Hungarian government decided to encourage the activity of selected multinational firms with the declaration of partnership. Up till September 2015 60 such strategic agreements were signed, out of which 54 partners were foreign owned company. The partners concentrated in three major manufacturing branches: electronics, automotive- and pharmaceutical industries. According to the Transparency International’s calculations the contracts signed by mid-2014 covered firms presenting 18 % of manufacturing employment and 40 % of manufacturing exports, a significant share of Hungary’s manufacturing base.

Agreements were initiated mainly but not exclusively by the government. There is a set of conditions that applies for big multinational business (5 years track record in Hungary, significant contribution to GDP production and exports, investments exceeding HUF 5 bn, contribution to employment – at least 1000 own employment, intention to increase job creation for skilled workers, participation in education -, at least 10 % local supplier input in production). The content of the agreements was rather uniform. Usually the intention of cooperation was declared in job creation, training and education, R&D, local supplier network development. No concrete measures of cooperation were included. Our previous analysis of FDI attraction policies pointed out that these areas used to be the main foci after 2004. Thus, the Hungarian government did nothing more in the strategic partnership agreements then reassured selected foreign firms about the possibility of the type of cooperation and support, which had been normatively expanded to all business players before 2010.

The application of the strategic partnership agreements was evaluated by T.I.H. (2014) through personal interviews made with CEOs and other business representatives. The evaluation of the practice with the agreements looked back on a period of less than two years. Therefore, most interviewees expressed their hopes that the new tool will serve a more efficient lobbying and communication with the Hungarian government. Some stated that signing the agreement was a symbolic gesture from the side of big business as well: companies expressed their good will despite of the unfriendly policies of the government. In that early period interviewees expressed their satisfaction with the fact that based on the strategic partnership agreement they could directly contact medium- or high level government officials, which was not possible before.

In Autumn 2015 a series of interviews with CEOs of strategic partner companies was conducted to check if opportunities of the practical usage of the agreements increased[[14]](#footnote-14). Most interviewees felt it important to have a direct channel of communication with the government. Nevertheless, they were not expecting quick results from negotiations. Some of them were most skeptical stating that the PR value of the campaign was most important, and they even did not hope to receive any kind of concrete benefits. Others reported some kind of success or at least hoped to have positive impacts on success in public procurement tenders in future. Most firms seemed to have been engaged in the cooperation activities suggested by the partnership agreement anyway, and could not report on substantial extra government support on these areas either. In sum, we could confirm the major findings of T.I.H. (2014) one year later too. Most multinational affiliates used the strategic agreements as communication channel, a platform for lobbying. But the success of their lobbying efforts did not depend on the conditions or content of the agreement. In fact they mostly wanted to achieve results in areas that were not covered by the strategic partnership agreements.

1. Potential institutional impacts: departure towards the “patronage state”

What does the dual treatment of domestic and foreign owned companies, changes in the communication channels to business agents mean for the business model of Hungary? In another paper I argued that arbitrary involvement of the state in the ownership patterns of the Hungarian economy would bring important systemic risks (Szanyi, 2016). Basic market economic institutions like the private property regime and the rule of law can be seriously undermined if the government does not apply the laws consequently for his own transactions. The dual treatment of local and international business seems to be less dangerous practice. It is rather a different concept of regulation which is in conflict with competition policy principles. Yet, the ways how losers and winners are picked may also matter. The decline of normative regulation and preference of selective measures will deliver the wrong message to economic agents that their success will more depend on the development of their network capital than own business activity. Also, a danger of increasing corruption is bound to the process. This all may strengthen negative tendencies of the evolution of crony capitalism.

In my understanding crony capitalism means a legally uncontrolled (badly controlled) interaction between polity and business that works against the principles of free enterprising and fair competition. Policy makers and influential business people cooperate to create preferential treatment for “friendly business” in exchange for material support of parties, politicians, election campaigns. This type of cooperation is not unknown in developed economies, though a more developed institutional background and strong civil society control may limit the harmful impacts of cronyism on market economic institutions. If financial support of political parties is transparent and lobbying for industry (company) interests is institutionalized, than crony capitalism is under social control. It does not mean of course, that the markets are free of marginal interest enforcement. In case cronyism is not transparent and not controlled it may lead to very high social losses and even illegal transactions. A major difference between most of the established market economies and most of the transition economies lies in the level of institutional and social control of polity-business interactions. Loose control in transition economies deteriorates investment and business climate which is expressed in rather low level of rankings in competitiveness reports and high cost of financing.

Interaction between polity and business has been surveyed in the CEE region by many scholars. Well known contributions by Stark (1996), Stark and Bruszt (1998), McDermott (2002) highlighted that the establishing ownership structure in CEE was marred by cronyism and favoritism and established new clans/interest groups. The clans incorporated representatives of the political sphere as well. Papers of the 1990s expressed fears of re-establishment of the economic power of the “*nomenklatura*”. This argument is known also from the papers of the mainstream literature (Boycko et al., 1996, Frydman and Rapaczynski, 1994). Nevertheless, as time passed by the fears of a political revision to pre-transition communist rule proved to be unrealistic. However, instead of a political retreat to communism increasing cronyism posed new threats to the development and efficiency of market economic institutions.

A new contribution to the just mentioned string of literature on the role of networks and clans is Schoenman (2014). This book differentiated among CEE economies according to the type and strength of polity-business interactions. The intensity and main values of the relationship was determined by the level of uncertainty in polity and of doing business (political changes, regulatory environment, macroeconomic policies, etc.) and the structure of business networks. Broad networks link cross-sectoral coalitions and facilitate collective action. The role of networks is especially strong in societies with weak institutions. Instead of institutions networks may become the more important channels of interest representation. Business networks tend to develop political ties in case there is political competition and politicians and parties need (financial) support and there are mutual benefits in the relationship. The process is accelerated in the presence of political and economic uncertainty. Based on Kitschelt (2000) he also states that in case of strong business networks institution more likely become “broadly distributive” providing for a wider layer of business normatively (e.i. independent from agents’ political sympathy and support). In contrast, “selective advantage” institutions distribute benefits to targeted recipients who are among the supporters of the ruling political party.

Under high level of uncertainty collective action evolves in the presence of broad networks. This is because of efficient information flow that increases threat to reputation in case of selective agreements. Under high levels of uncertainty and narrow networks cooperation between business and polity is unlikely, because the value of political promises is low due to lacking business support, and does not spread due to inefficient information flows. Consequently, business turns directly on the state and not in a concerted manner. In case of low level of uncertainty and narrow business networks polity is not afraid of political competition and can exploit atomized firms. Under low levels of uncertainty and broad networks the state is likely to enter into collusive relations with firms. The four types of relationship are summarized as follows:

Table 4. The effect of networks and uncertainty on the state

|  |  |
| --- | --- |
|  | Uncertainty |
|  | Low | High |
| Network structure | Narrow | *Patronage* | *Captured* |
|  | Broad | *Embedded corporatist* | *Concertation* |

Source: Schoenman (2014 p. 50.)

Different consequences result from the distinct settings concerning polity (state) – business relationships. In high uncertainty environment broad business networks tend to establish regular cooperation links with polity and the state that work in favor of the broad business community. In exchange it provides necessary financial stability to political parties. The state develops mutually beneficial institutions for concertation on the long run. The state broadly functions as a coordinating agent, channels information and mediates among interests. When networks are narrow (business elites do not create cooperation) and uncertainty is low with stable, monolithic political structure and solid economic environment, the state applies “selective advantage” type institutional solutions and picks the winners. This setting is called patronage. In case of high uncertainty and narrow business networks economic elites dominate political elites potentially leading to state capture. Finally, low uncertainty and broad networks describe the embedded corporatist state. In this case well established political elites do not face uncertainty and cooperate with business networks. In Schoenman’s opinion this setting is unlikely to happen in competitive election systems.

Schoenman (2014) run factor analysis using various proxy measures of uncertainty and network density for CEE economies. While the indicators and also the actual relevance of the results may be discussed, the typology is very remarkable. Patronage and captured states corroborate with the concept of state and business capture (Yakovlev, 2006). The typology can also be used in the explanation of recent changes of polity-business relationships in Poland and Hungary.

State favoritism in Hungary ranging from public procurement to market regulation seriously contradicted normative regulation and violated the principle of equal treatment and EU competition law. For example, only in the first half of 2015 three major processes were launched in Brussels against the Hungarian government. Levy on retail trade supervision and tax on tobacco products were suspended, and grants for road construction were ceased to be transferred to Hungary due to ongoing competition policy procedures. In the first two cases tax policy measures were designed in such ways as to favor a selected number of politically linked agents. The public procurement cases were investigated because of unusually high prices, but road construction was regarded by observers also one of the main areas of patronage[[15]](#footnote-15).

Selective advantages have been provided to clients and simultaneously, competitors of clients were frequently punished by unfavorable regulation. This is most clearly visible in the example of punishing representatives of multinational business by selective disadvantages (extra taxes, exclusive regulation), meanwhile other members of the same community were rewarded and included in the close circle of strategic partners of the Hungarian government. The simultaneous steps in the opposite directions can be interpreted as a deliberate policy aimed at splitting the established business networks (that of foreign companies/multinational business). Using Schoenman’s typology, this is a move towards narrow networks and the patronage state (business capture), since political uncertainty is perceived very low by the government since Fidesz won elections twice in succession with 2/3 majority in the Parliament.

These cases illustrate the departure from the “competition state” (Drahokoupil, 2008). The concept of illiberal state declines the free market system and democratic institutions. The above cases as well as the whole departure process from the Western values has been conceptualized in Hungary and is therefore regarded by the Hungarian government as a sovereign decision to establish a new economic system. Populist followers of the Hungarian agenda can be found also in Poland. PiS party openly declared his appreciation of the concept declaring that hopefully once there will be Budapest in Warsaw. But the essence of the opinion of Polish observers is that the concept of economic patriotism has already been introduced in Poland as well.

When compared the fundamentals of the FDI-led development model and the current policy changes in Hungary (with an eye on potential changes in Poland) my assumption is that FDI-lose economic development cannot be run without an important decline of international competitiveness. I am not even sure if the replacement or substitution of multinational business is technically possible at all even on the long run. But if yes, I do not think that such a change could be carried out without a significant drop in economic activity, income generation and living standards. Therefore, such an undertaking is also politically hardly feasible. Thus, I evaluate increasing cronyism is not as fatal danger but rather as a factor that deteriorates economic performance due to less effort on improving business activity.

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Appendix

1. List of companies with strategic partnership contract (2012-2015 September)

|  |  |  |  |
| --- | --- | --- | --- |
| Unilever Magyarország | 2015 09 23 | NL | food |
| Johnson Electric Hungary | USA | electronics |
| Alföldi Tej  |  | HUN | food |
| Coloplast |  |  | DK | medical instruments |
| Alpine |  |  | JAP | electronics |
| Ibiden |  |  | JAP | automotive |
| Zoltek  |  |  | JAP | plastic parts |
| Nemak Győr |  | MEX | automotive |
| Le Bélier |  |  | F | automotive |
| Oracle |  | 2015 01 15 | USA | software  |
| Kőröstej |  | 2014 11 06 | HUN | food |
| Magyar Cukor  |  | A | food |
| Agrana-Juice Magyarország | A | food |
| Takata |  |  | JAP | automotive |
| Bonafarm Csoport |  | HUN | food |
| Ganz Holding |  | HUN | engineering |
| Schwarzmüller |  | A | automotive |
| Festo |  |  | D  | engineering |
| ZF Hungária |  | D | automotive |
| Servier Hungária |  | F | pharma |
| Deutsche Telekom |  | D | telecom services |
| Heineken |  | NL | food |
| Prinzhorn |  | A | paper |
| Knorr-Bremse |  | D | automotive |
| Delphi |  |  | GB | automotive |
| Leier Hungária | 2014 01 04 | A | building materials |
| Schneider Electric |  | F | electronics |
| Egis |  |  | F | pharma |
| Phoenix Mecano |  | CH | engineering |
| Telenor |  |  | N | telecom services |
| Samsung |  |  | KOR | electronics |
| Hewlett-Packard Magyarország | USA | electronics |
| Bosch |  |  | D | electronics |
| Ericsson |  |  | S | electronics |
| Linamar |  |  | CAN | automotive |
| Denso |  |  | JAP | automotive |
| Siemens |  |  | D | electronics |
| Bridgestone |  | JAP | rubber |
| Sanofi |  |  | F | pharma |
| Teva |  |  | IZR | pharma |
| Waberer's |  | HUN | spedition |
| Huawei Technologies | CHN | electronics |
| Lego Manufacturing |  | DK | toys |
| Dalkia Energia  |  | F | energetics |
| Continental |  | D  | automotive |
| Jabil Circuit |  | USA | electronics |
| Tata |  |  | IND | engineering |
| IBM Magyarország |  | USA | electronics |
| Audi |  |  | D | automotive |
| National Instruments Hungary | 2013 02 15 | USA | electronics |
| Tesco |  | 2012 12 18 | GB | retail trade |
| Stadler Rail |  | CH  | railway equipment |
| Microsoft |  |  | USA | software  |
| GE |  |  | USA | electronics |
| Hankook Tire |  | KOR | rubber |
| Suzuki |  |  | JAP | automotive |
| Daimler |  |  | D | automotive |
| Alcoa-Köfém |  | USA | metal |
| Richter |  |  | HUN | pharma |
| Coca-Cola HBC Magyarország | 2012 07 20 | USA | food |

Source: Hungarian Government

1. Transcript of the interviews

A

*Q1. Did the agreement mean anything special for the company?*

The strategic partnership agreement is important because it creates a kind of platform: should we want to come up with a concrete issue, this gives a basis for it. Anybody who does not have an agreement weeks to have it. I do not say however if anyone who would like to come up with something concrete can not do this, but strategic partners will get perhaps an earlier date. The agreement is therefore a mutual acknowledgement each other’s work.

*Q2. Concrete issues can be read in the agreement like the firm can apply for unique training support in case of new employment…*

We did not apply for this in the past.

*…The firm can deduct own training costs from the central training contribution…*

We did not deduct, but if we would declare that we would like to we certainly could negotiate about this.

*…The government will pass legal regulation that would improve Hungary’s competitiveness in informatics...*

Yes, this is extraordinarily important! I think of education of informatics for example, support for obtaining informatics skills is unavoidable to meet challenges of the digital revolution.

 *…Looking back on government policy on education I can’t see any special emphasis on this, or resources allocated…*

The strategic agreement is important because of this too.

*Q3. You mentioned that the agreement is a kind of platform: you can transmit your ideas to the government.*

Yes, we contact regularly and keep our topics hot. We keep them on agenda always on professional events, business conferences or in the media too.

B

*Q1. Did the agreement mean anything special for the company?*

We did not see a penny since we signed it. For us it means only that we receive request to supplement our figures of employees, R&D expenditure, sales revenue, export, etc. The agent adds the figures and reports Mr Szijjártó (*Minister of foreign affairs and foreign economic relations – M.Sz.*) describing how nice is everything.

*Q2. But the agreement is regarded as a kind of information channel: if you have some concrete suggestions you may deliver it to the government.*

There was only one negotiation and we asked two things: one was infrastructural development that is badly needed for the further activity of the factory. This request was acknowledged to be important and wished the city major success for the project. The other request was a bike path that was arranged the same way.

*…That means nothing?*

Nothing yet. I say this is a romantic agreement that declares we love each-other.

*Q3. What about training and education?*

We invest HUF 40-50 million in dual education each year. Besides we started all kinds of reinforced and useless cooperation with higher education facilities of the countryside.

*…Can you deduct these expenses from the central training contribution?...*

No, we can not. But for a company of the caliber like us HUF 40-50 million is affordable, especially if we can select in the dual education a few people who will be capable to meet our entry requirements in a few years time after we spent further hundred millions in their training.

C

*Q1. Did the agreement mean anything special for the company?*

The agreement is under preparation now and will be signed and public in few weeks time. I regard it important especially from the sales viewpoint. Hungary should not purchase in public procurement from Italy or China, but order from his own strategic partner.

*Q2. Is it not natural that you have a good chance as an important Hungary-based manufacturer?*

I think, we are going to have much better chances. I know about another large manufacturing firm that could not sell anything in Hungary until they signed the agreement. Since the signature they provide one third of the purchases. Look, the agreement does not bind in any way. We invest strongly in dual education, pursue R&D activity, cooperate with higher education, create jobs. Thus the only thing that we hope to achieve and is important is that this act will create additional sales opportunities.

D

*Q1. Did the agreement mean anything special for the company?*

In sum I find the agreement important, it is a communication platform: the ministry established a specialized department for this where we communicate every month.

*…Others told that communication means mainly that the Ministry asks for figures…*

True, but frankly, CEOs have enough workload and I am not sure I liked it more if I had to visit the ministry every month for reporting.

*…But if you had an own initiative, you could raise it…*

Oh yes, the existing communication channel is good for this purpose.

*Q2. And what initiatives did you raise until now?*

We did not have any initiative until now. Nevertheless, they organize a conference every year with presentations where we can meet representatives of the government, so the thing works. And it does not bind to do anything, we did not have to promise much.

*Q3. But for example design and financing dual education might be burdensome.*

Dual education is one of the best most important things. Very good students apply, they are very motivated by the opportunity. OK, we must invest, design projects, but this pays off. Yet, the process has just been started in Hungary. In Germany plenty of practice and method coexist, we have just started. For example, onsite training does not fit into the curriculum properly like in Germany. If they got bonus points for better training performance they would be motivated even better. We try to arrange that dual education is more professional also from the educational-administrative side.

*Q4. What else can be regarded as a result of the agreement?*

In case of tenders it may mean an advantage. I mean not only strategic partners can win but if it is a border case, partnership agreement may have importance. Thus, this is not mere PR action, but a lot more could be achieved by the ministry.

*…For example?...*

If there were real consultation. Ministry would get a lot more information. For example for designing tenders. True, the last GOP *(Economic Development Operational Program: application form for EU-co-financed development programs. SzM.*) announcement was much more precise than the previous. In case of the supplier network development for example. There are these supplier integrator programs. If the ministry obtained more information on this more effective programs could be designed.

E

*Q1. Did the agreement mean anything special for the company?*

This is mere PR action.

F

*Q1. Did the agreement mean anything special for the company?*

After all, this was positive for our company. It means communication opportunity: we can consult with the government in certain issues.

*Q2. Are your suggestions considered?*

This is longer term process. We don’t ask things that could be realized overnight.

*Q3. Others stated that EU supported projects can be launched more easily.*

Not exactly. Programs are awful.

*Q4. But in sum do you find the partnership benefitial?*

I think that any agreement can bring only results that are important for both sides. If companies can not take the opportunity they must think about the reasons.

G

*Q1. Did the agreement mean anything special for the company?*

Yes, we evaluate it positively. It is better to have it, than not to.

*Q2. What concrete benefits come from it?*

We joined a communication channel. We can raise ideas, we have our communication channels. And not just formal channels. Last time we discussed issues of investment attraction policies.

*Q3. What other advantages can you mention?*

I do not say that we hope to receive more orders immediately, but maybe in some indirect ways. In sum we are not dissatisfied.

H

*Q1. Did the agreement mean anything special for the company?*

It means that a more direct link has been established to the government.

*Q2. For what purpose can you use this more concretely?*

Concrete advantage would not come from this.

*Q3. Do you mean this is just a PR action?*

One thing is what the government would like, and another is… Well, our parent company does not want us to engage any kind of political issue in Hungary. Not even if it would become public that we met to negotiate with political actors. Negotiations do not happen like representatives of (…) company and officials of the Hungarian government sit down to discuss. But it is representatives of the electronics business (organized by e.g. the AmCham) and the government.

*Q4. And what are the topics of the negotiations?*

It is mainly training, that there is not enough skilled workforce. We can not grow, we can not hire new labor. I told, we told this the secretaries of state the public work campaign had very negative effects. Excess labor disappeared even from regions with high unemployment, for the one side because new investors indeed came, also because many people moved to the West, but mainly, because public work is very much satisfactory for those who remained back. They make good living from public work, do business in the shadow economy too. Public work killed the last remaining work morale. We told that public work is against regular employment. Few years ago we competed with each other for highly skilled labor on regional labor market. Today we are luring blue-collar unskilled labor from each-other. This is new phenomenon that deteriorates competitiveness of Hungarian production sites.

*…And did you convince the secretaries of state? Do you think will the government withdraw the public work program?*

Well…

I

*Q1. Are you strategic partner of the government?*

We started negotiations at the end of last year. The problem is that we are not big enough. I think, the government has a kind of work plan to decide who can get involved containing information on branch, size, that is payroll, sales revenue, export, things like this matter. True, conditions are not carved in stone for everyone.

*Q2. You make strong efforts to integrate local suppliers into your value chain.*

 Yes, this also matters, we mention this in the negotiations. We are cluster members and invest to improve cluster functions, we mention all this in the negotiations. We invest in local (city) infrastructure, swimming pool, ice skating hall, and the like.

*Q.3. Am I correct when I say that firms initiate the partnership? Or there are firms that the government approached?*

Both. In our case we initiated the talks.

*Q4. And what do you expect from the partnership? You have won already a lot of New Széchenyi Plan tenders. What is in excess that such an agreement can provide?*

 Look, it is true that nothing concrete is fixed in these agreements. Nevertheless, I mean this is a declaration from both sides for long-term future cooperation.

*Q5. And what is such a declaration good for?*

For example, when you win a tender then you must fulfill certain criteria here for a number of years and you are monitored even longer. Well ours is a cyclical business, it can happen that we cannot fulfill every condition every year. If there is a fixed long term intention we expect that such problems will not be picked up.

*Q6. I see. Please tell me if your owners plainly accepted that you were contributing in the frames of CSR to the swimming pool and skating hall investments of the city?*

Look, it is quite difficult for the owner to understand how things move forward here. What is this TAO and sponsoring sports. But they were quite worried that they will be perhaps asked in a few years time to pay back the state support that they spent on their investment.

J

*Q1. What does partnership mean for your company?*

The strategic partnership cannot be evaluated black or white. The agreement is an opportunity, more concretely, if we would like to raise a topic then we can sit down with the responsible person.

*Q2. Are you really getting a term or this is just theoretical?*

They really give terms. I organized meetings twice, and I must tell you that they came well prepared for the meeting. They asked for our questions in advance and their delegation arrived with some 30 experts and they gave answers to each question.

*Q3. All right, they answer, but what if you ask for something I suspect that your meetings aim asking for something?*

There were requests that were taken into consideration, and there were some that they did not allow.

*Q4. Could you give me an example?*

Here is for example the question of the Electronic Highway Shipments Control System. We tried to convince them with a series of argument why the introduction will not be good in the way they wanted to, they did not change their mind. Later they eased some conditions but all in all we could not convince the responsible staff.

*Q5. What was considered?*

An example for this is TAO, the sponsorship of selected sports that were amended favorably for us (as a group).

But these are just peanuts. Lot more important would have been the easing of the regulation on working on holidays. This is again something where the government did not change opinion, albeit these stoppages mean serious disadvantages in our business. The government recalls EU regulations why work on holidays is prohibited. And we know well from information of our company chain that after some negotiations it becomes possible in Germany, or that in Romania operation does not stop at all on holidays. Thus, a solution can be found if someone really wants to.

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2. Miklós Szanyi, Budapest Business School; Director, Institute of World Economics, MTA KRTK [↑](#footnote-ref-2)
3. Poland, Czech Republic, Slovakia and Hungary [↑](#footnote-ref-3)
4. The existence of „luxury profits” is mentioned, tax optimization, and profit repatriation (two worldwide phenomena) was retaliated by discretional taxes in Hungary. [↑](#footnote-ref-4)
5. We do not discuss here alternative models of economic development like the East-Asian developmental state. Our starting point is that for V4 the continental model of capitalism is traditional, that determines the room for maneuvering. I do not believe that economic and social models can be changed at will overnight. [↑](#footnote-ref-5)
6. An example of this attitude was the privatization of the Hungarian telecommunication company. The new owners were contracted to build the country-wide fiber optic communication network and apply cutting edge digital switching centers instead of the old analogue network and electro-mechanic switches (See: Szanyi, 1997). These developments were delayed and not completed under state ownership due to the lack of the necessary capital and also technological knowledge. [↑](#footnote-ref-6)
7. The IFTZ was considered extraterritorial for purposes of duties, foreign exchange and other legislation including not only goods but also means of production. For details see: Antalóczy et al, (2011). [↑](#footnote-ref-7)
8. The other main source of investment financing was EU transfers. Hungarian national sources’ share was rather small. [↑](#footnote-ref-8)
9. The lack of own multinationals makes comparisons with more developed small open economies like Austria, Netherlands problematic. Comparisons to some emerging market economies (Mexico, Turkey, Brazil) which succeeded in creating few globally competitive national champions is also problematic given the substantial differences in size and openness, not to mention the post-socialist heritage of CEE. [↑](#footnote-ref-9)
10. Documents of various government officials’ media communication on the ideological differentiation between „good, productive” and „bad, speculative” business are analized by Mihályi (2015) and T.I.H. (2014). [↑](#footnote-ref-10)
11. Government communication explained the measure with suspected tax evasion of the company. Yet, it was never explained if there was something illegal in RTL’s taxation, then why was this not repared by the responsible state institution the tax office? [↑](#footnote-ref-11)
12. It is of course another question if today’s sales revenues are sufficiently high for the necessary investments? Observers state that public utility companies are still in extremely bad financial conditions do not invest any more, which may even threaten the quality of their services. [↑](#footnote-ref-12)
13. The list of Hungarian government’s strategic partners is provided in the Appendix. [↑](#footnote-ref-13)
14. The interviews were conducted by Ms. Andrea Szalavetz Ph.D. to whom I would like to express my special thanks and gratitude! [↑](#footnote-ref-14)
15. Until 2014 construction tenders were won to a very high degree by companies of Mr Simicska, an old friend and former treasurer of Fidesz. Mr Simicska criticised the government rather vehemently in 2014 and as a consequence his companies were banned from participation in public procurement tenders for three years in 2015. This was a clear application of selective advantage/disadvantage policy (Source: INDEX internet news portal). [↑](#footnote-ref-15)