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THE SPECIAL CHARACTERISTICS OF THE HUNGARIAN NATIONAL ECONOMIC COMPETITIVENESS

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Abstract
The political and economic regime change, proceeded over the past few decades, the accession to the European Union, the financial crisis and the global environmental changes continuously challenged the Hungarian national economy. Therefore, now the main objectives of the economic policy are the increase of the economic performance, catching up to the improved Western European countries, the adaptation to the global economic environment and increase the competitiveness. The Hungarian economy had come a long way in the last decades in order to catch up with the former socialist countries to the modern market economies and improve its own competitiveness.

1 Introduction

There were many significant changes in the economy in the last few decades, such as the technical economic paradigm shift, the information communication technologies revolution, the broadening of specialisation and trade and the realignment in the balance of power and the globalisation of processes. In the global economic life the power and intensity of the competition is constantly growing, the main question is that how can the national economies adapt to the changing environment and changing competition. The main aim of the case study is to summarize the theoretical questions and introduce the Hungarian economic performance and competitiveness' special characteristics in the comparison of Visegrad countries. The Visegrad countries create a smaller geographical unit in Central Europe, because Hungary has direct borders with the Czech Republic and Slovakia, and those ones with Poland. However, the name of the Visegrad countries came from a historic event. In 1335, a consultation was held on the initiative of Charles Robert Hungarian king with Casimir III. of Poland and John of Luxemburg , King of Bohemia in the Royal palace of Visegrad. The goal of the meeting of the three countries was to agree on an economical-political collaboration. The collaboration's modern renovation happened in 1991, which main aim is the liquidation of the totalitarian regime, the defense of democracy and the cooperation among countries in their economic development. The former Socialist countries, like the Visegrad countries, had come a long way in the past 20 years in order to catch up, diversity evolved in their economic development despite their common past, therefore their catch up and current economic results and their place in competiveness ranking list show different results. During the preparation of the case study, data gathered from the Central Statistical Office and Eurostat database was analyzed at the review of the economic competitiveness. As the result of the global competition, a number of international organizations conduct competitiveness analysis, accordingly, the qualifications evolved in the global competition, prioritizations, and the drive towards the measurement of international competitiveness. This information helps to provide opportunity for decisions and comparisons. The results of the competitiveness surveys carried out by international organizations were presented in the summary of the competitiveness investigation.

2 Bibliographical review

The competition was always present, but globalization is what encourages for technical, logistical and other innovation. As deep is the specialization within an industry, and trade is broadening as possible, competition intensifies more. Globalization boosts the intensity of the international competition; hence, the examination of the competition and competitiveness gradually takes on a priority status. There is no commonly accepted definition for the concept of competitiveness; therefore, it provides the possibility for wider examination. Adam Smith (1959/1776) interprets in his book "The Wealth of Nations "competitiveness at the level of international trade, what is defined by the absolute advantage of a country [1]. Ricardo (1991/1817) approached in a similar manner the competitive advantage at macroeconomic level, according to the comparative advantage theory, the comparative advantage is the relative labour productivity and the relative expense, the relative costs compared to other countries and products–alternative costs in respect of standard existing comparative advantage [2]. A considerable period has elapsed since the classical theories of Smith and Ricardo. Due to the globalization, growing cross-border economic transactions of multinational enterprises led to the decrease of the national economy's role. According to Porter (1984) the theory of Ricardo's comparative advantage cannot give acceptable explanation to the international division of labour and specialization, because this theory disregards the economies of scale, technologies and the connecting know-how phenomenon, to the monopolistic markets or the product differentiation [3]. Porter published his book " The Competitive Advantages of Nations" in 1990, where he summarized the factors determining the macroeconomic competitiveness into one model. These are the factor conditions, demand conditions, related industries, and corporate strategy, structure and rivalry. In Porter's view, a country's comparative advantage is defined by the domestic economic environment four related conditions [4]. According to Trabold (1995), there are four important factors of the national economic competitiveness. The first factor is the exportability, with which economic growth can be achieved; this shows that they are able to sell more in abroad, than what they bought. The second factor, what kind of environment can be provided for the farming units by it, the third factor is that how is it able to adapt to the world economic competition conditions with its economic policy. The fourth factor is what kind of GDP producing capability does it have [5]. The macroeconomic factors provide general conditions for the enterprises effective and productive operation, the better conditions a national economy provides; the more competitive it is [6]. Competitiveness is the ability of the national economy what can create, use, or sell products and services within the framework of the global competition, while in the meantime its own production factor returns and also the citizens prosperity is growing in a sustainable way. This competitiveness is the condition of the development of resources 'productivity increase by continuous maintaining of conditions which guarantee the growth of other institutions efficiency [7]. The national economies competitiveness lies in the exploration of its own comparative advantages and in the establishment of competitive advantage. The comparative advantages mean the resources, such as the favourable geographical location and richness in natural resources. The competitive advantage is the totality of those factors by which the resources are used efficiently. The complexity of these features results the economic performance, what gives the possibility to the comparison and measurement between the economies. Building upon to one or another will not result competitiveness. That can be considered as a competitive nation which has both factors.

3 Results

3.1 National economy performance

The case study examines the performance of the Hungarian economy in the view of macroeconomic indexes, in the average of Visegrad countries and EU-28. The analyses show the countries performance characteristics, growing tendencies since the period of EU accession.

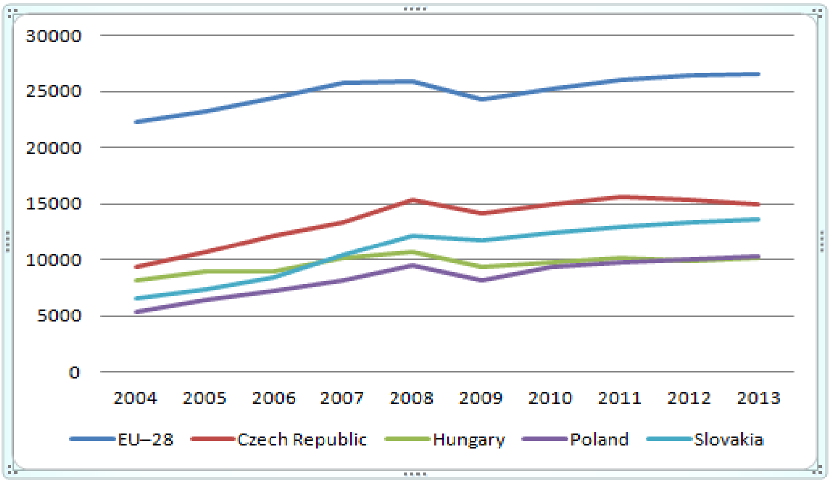

Figure 1. The ratio of per capita GDP 2004–2013 (k Eur)

The rate of the economic growth is presented by the GDP per capita in Figure 1. Hungary and the Visegrad countries are performing under the EU-28 average on GDP per capita. Hungary went before Poland and Slovakia in 2004, but in 2007 only Poland, and since 2012 it is on the fourth place on GDP per capita. This shows that there is a downturn in the economic growth; the data of 2013 are barely above the results of year 2007. Since 2004 the growth has stopped in Hungary and the crisis caused bigger fallback than in the other countries of the region. In the case of Poland the GDP per capita was duplicated, but the rate is still does not reach the smaller than itself Czech Republic and Slovakia. The external trade merchandise is the highest in Poland, the Czech Republic occupies second place, Hungary is the third and Slovakia is in the fourth place. Following the crisis, the export is increasing; the most dynamic growing can be seen in Poland and in the Czech Republic. According to the public finances gross debt in 2004, at the time of the EU accession Hungary had the highest debt in GDP rate. Hungary's indebtedness is both the cause and effect of the stop of the economic growth and stagnation. The country's external indebtedness was above 50% at the time of regime change, it increased from this level to 81% in spring of 2011 [8]. While the highest value was 56% in the case of the Czech Republic, Poland and Slovakia, the debt was 58.8% in Hungary at the time of EU accession. Hungary is still in the trap of debt since then; the rate was 77.3% in 2013. Poland, Slovakia and the Czech Republic follow Hungary. The Czech Republic was able to surpass the EU-28 average as regards of employment, and it exceeds the performance of Hungary, Poland and Slovakia. The Czech Republic is followed by Slovakia and Poland, both countries are about 60% in the view of employment in the past years. Slovakia and Hungary started together with more than 56% employment rate in 2004, but for 2008 Slovakia reached the level of 62.3%, while Hungary stayed on 56.7%. Hungary was the most seriously affected by the crisis; it can be seen in the employment percentages. Hungary managed to catch up behind Poland and Slovakia due to the public employment program.

The foreign working capital is continuously flowing in the Visegrad countries. In 2004, Poland had the highest stock of foreign working capital, and there was 191% growth until 2013. The Czech Republic is followed by Poland both in stock and in willingness to invest. The increasement of foreign capital was 137% in the last 10 years. Hungary has the third place as regards of the amount of stock, but the capital inflow shows 80% growth. In 2010 and 2011, there was a big stock decrease. Slovakia has the lowest size of the foreign working capital, but compared to the 2004 value, there was 109% stock growth. The foreign working capital allowed the economic recovery of the Visegrad countries after the regime change. It influenced significantly the further economic development. In the national economic performance there is a parallel growing tendency, where the foreign capital is growing and also the employment and GDP. The results of the Czech Republic and Slovakia are due to the centuries of industrial past, geographically favourable location, and the foreign capital inflow (Figure2).

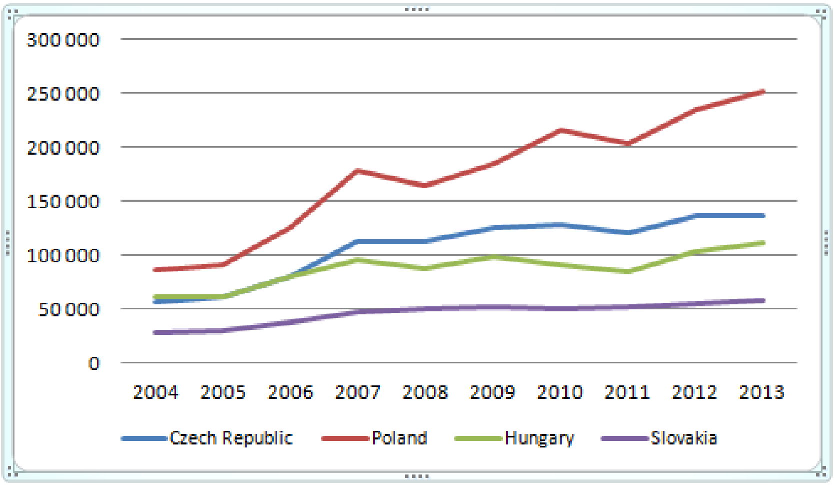

Figure 2. Foreign Direct Investment FDI stock ratio 2000–2013 (million USD)

To obtain the economic and employment growth in Hungary, foreign trading of goods should be increased and the public finances gross debt stock should be decreased, and this way catching up with the Visegrad countries and more developed economies can be possible.

3.2 National economic competitiveness

During the comparison of nations economic performance good basis is provided for the measurement of national economies competitiveness. However, competitiveness goes beyond the economic performances, a number of factors taken into consideration. There are several international organizations, where the competitiveness is measured by different methods. Their purpose is to supply all the necessary information for the economic operators, who are the stakeholders of national economy. There are significant differences in the national economies performance and competitiveness hierarchy. According to Muraközy (2012) it is necessary and natural that there are differences between the countries and group of countries as regards the development of the state, which also shows in their current competitiveness [9]. The IMD publishes the World Competitiveness Yearbook since 1989, what examines the political, social cultural areas as well as the economic performances. It investigates the nation's capability how can they ensure and sustain for the enterprises such an environment, what guarantees the profit and prosperity [10].

Figure 3. IMD World Competitiveness Yearbook Ranking Main Index (2010-2014)

Figure 3 demonstrates the last 5 years competitiveness ranking. At the time of EU accession, in 2004, Hungary, Slovakia and the Czech Republic had similar competitiveness; however, nowadays Hungary and Slovakia are viewed as lagging countries next to the competitiveness of the Czech Republic and Poland. Czech Republic is the closest to the centre, and Poland is progressing near. Slovakia and Hungary are moving away from these two countries. The IMD examination divides the main ranking into further, competitiveness influencing factor groups, in order to establish which factors influence the competitiveness of the countries. It examines separately the economic performance, government and business efficiency, and infrastructure. The government efficiency influencing factor groups are the public money, fiscal politics, institute system, the regulation of economy and the social structure. Compared to the main index, in Hungary and Slovakia, the not appropriate government efficiency has negative impact on the competitiveness. The problem is caused by taxation and benefit systems, budget deficit and high government debt. Poland and the Czech Republic belong to the middle field as regard by their government efficiency. Business efficiency, the economy's efficiency influencing factor groups, productivity, labour market, financing, management practice, attitudes and values. As compared to the main index, there is a major negative discrepancy in the field of business efficiency in Hungary. Investment flows dry up, it is hard to provide capital to the enterprises, in the dual enterprise system the domestic entrepreneurs can be only the suppliers of the foreign owned companies. Economic performance influencing factor groups are the domestic economy, foreign trade, international investments, employment and prices. The favourable economic performances of the Czech Republic are significantly increasing its competitiveness. Poland's performance shows growing tendency and it managed to catch up in the middle field. The factors, which influence infrastructure, are the basic infrastructure, technological infrastructure, scientific infrastructure, health and environment, and education. The Czech Republic and for a long time Hungary have very good results, however, Hungary have poor outcome in infrastructure. Poland's infrastructure becomes better, while Slovakia is excluded from the middle field.

Table 1. WEFORUM-Global Competitiveness Report-GCI (2004-2015)

	Czech Republic	*Poland*	*Hungary*	*Slovakia*
2004-2005	*40*	*60*	*39*	*43*
2005-2006	*38*	*51*	*39*	*43*
2006-2007	*29*	*48*	*41*	*37*
2007-2008	*33*	*51*	*47*	*41*
2008-2009	*33*	*53*	*62*	*46*
2009-2010	*31*	*46*	*58*	*47*
2010-2011	*36*	*39*	*52*	*60*
2011-2012	*38*	*41*	*48*	*69*
2012-2013	*46*	*42*	*63*	*78*
2013-2014	*39*	*41*	*60*	*71*
2014-2015	*37*	*43*	*60*	*75*

Source: http://www.weforum.org/

The internationally also significant WEFORUM Global Competitiveness Report, what introduces the examinations results since 1979 according to what cause the differences in the economic growth and the difference between the economies in the value of income per capita. The resources of the analyses are questionnaire data, with the answers of company directors and beside with some publicly available economic data [10].

The Czech Republic and Hungary were ranked almost at the same place at the time of the EU accession according to Global Competitiveness Index of the World Economy Forum. While the Czech Republic was able to correct its place, Hungary significantly slipped down on the ranking list. The development of the basic requirement has negative influence on the competitiveness of both countries, more specifically, for those one the institutions, infrastructure, macroeconomics stability, health care and basic education have impact. These categories need to be improved significantly. In the field of business refinement and innovation ability there is a big fallback, it is caused by the big proportion of the small and micro enterprises. Poland reached the place 43 from the place of 60. The competitiveness of Slovakia is constantly declining and in the last years it reached notably bad ranking, its competitiveness was moving between places 69-78 by judgement. The countries competitiveness was closer to each other at the time of EU accession. Nowadays the judgement of Hungary and Slovakia shows strongly declining tendency depend on the table 1.

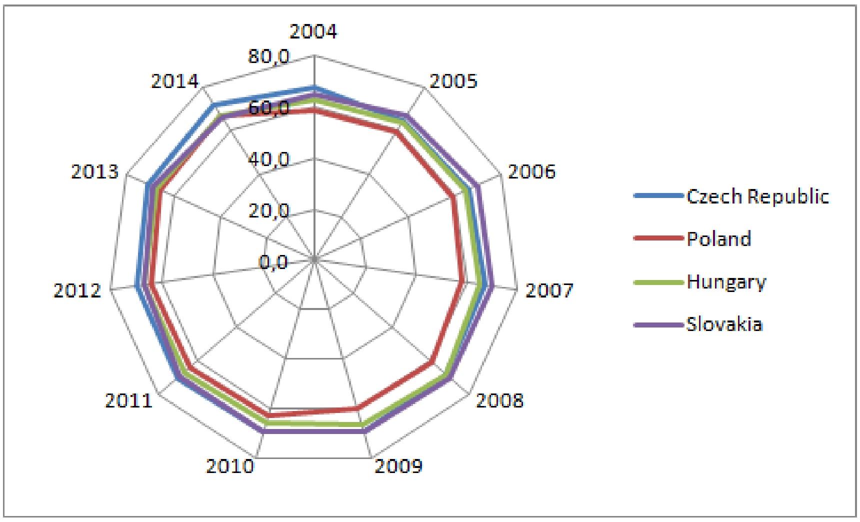

Figure 4. Economic Freedom Index (2004 – 2014)

The competitiveness indexes are concentrating on natural components and fields. The index of economic freedom examines rather institutional characteristics. The bigger is the freedom of competitive market, less is the role of the state, and the economic prosperity is bigger in the given country. The Heritage Foundation composes the Index of Economic Freedom.

The analysis is related to 52 developed OECD countries, the optimal value would be about 100%. The economic freedom focuses on four questions, what are counted into ten indicators and they create the Index of Economic Freedom from the totality of these. In general terms, the growth of the index is contributed by the trading and investment freedom, the budget and monetary freedom; the corruption and the government expenditures slow down the rate of the economic freedom growth. The economic rate's freedom is almost the same in Poland, Hungary and in Slovakia. Between 2012 and 2014 in the case of the Czech Republic, a major difference can be experienced.

The Czech Republic's economic freedom index is outstanding, which was 72.2 % in 2014. The notable improvement is partly due to the labour market quality improvement, which was 84% in 2014, and partly due to the economic freedom, which was 80%. Figure 4 shows the almost similar economic freedom, in the middle with red line there is Poland, with 62% in the past 11 years average, than Hungary with green line 66% economic freedom. Slovakia is marked with purple line has 68%, while the circle is closed by the Czech Republic with blue line 69 % economic freedom.

Table 2. Ease of Doing Business (2010-2014)

	Czech Republic	Poland	Hungary	Slovakia
2010	74	72	47	42
2011	63	70	46	41
2012	64	62	51	48
2013	65	55	54	46
2014	75	45	54	49

Source: www.doingbusiness.org

The Doing Business Project started in 2002 in the organization of World Bank, where it is examined under what conditions the enterprises operate in the 189 countries of the world. It compares the enterprise regulatory environment through the economy with gathering and analyzing comprehensive quantitative data. The main aim is to ensure an objective basis for the business understanding and development, and for the regulatory environment improvement and business activity operation. Ranking is made for 189 nation's economy. Figure 3 demonstrates the Visegrad countries' average of ranking between 2010 and 2014. In the comparison of the four countries, with a slightly decaying classification, but Slovakia is the best performer with the places of 41-49. Slovakia is followed by Hungary 46-54 ranking, also with decaying position. Poland goes after Slovakia and Hungary with the ranking between 45 and 72 places, however, its judgment is continuously improving. The Czech Republic took the last place with ranking between 63 and 75. The ranking of Doing Business was published in 2003; it contained 5 factors at that time, nowadays it covers 11 indicators. The case study analyses 9 indicators due to comparability. The average of the last 5 years was introduced in Table 3 from country to country. The analyses by factors points out to several competitiveness factors, where the national economies should improve in order to facilitate business activity in the given economies more favourable for the foreign capital. The start-up of enterprises, taxation and investments protection decrease the competitiveness of the Czech Republic. Poland should improve on the fields of taxation and enterprise start-up, and in obtaining government license. Hungary was listed backwards because of the investments protection and taxation. Slovakia should develop in the fields of investments protection, taxation and external trade.

Table 3. Doing Business average index 2010-2014

	Czech Republic	Poland	Hungary	Slovakia
Ease of starting business	133	119	45	80
Ease of licences	76	147	66	52
Ease of Property	41	76	47	10
Ease of Credit	49	9	44	24
Ease of Investment	96	46	123	112
Ease of Taxes	122	125	118	115
Ease of Trading	64	47	72	103
Ease of Contracting	78	66	17	67
Ease of Closing/Resolving	49	65	65	37

Source: www.doingbusiness.org/

Conclusions

The abstract presented the special characteristics of the Hungarian national economy's performance and competitiveness in comparison to the Visegrad countries. The performance of the Hungarian national economy lags behind the other member states in several respects. Based on the assessment of IMD and WEFORUM, the problem of Hungary's competitiveness means the not suitable institutional system, decaying macroeconomic stability, inadequate business refinement and innovation. It is important to improve in these areas. The conditions of business start-up and business activity performance are worse in the Czech Republic and in Poland than in Hungary or Slovakia, according to the Doing Business. Hopefully this situation provides attractiveness for the foreign working capital. In the lack of domestic working capital, the inflow of the foreign working capital has major importance, in order to increase the external trade merchandise and GDP per capita, because due to this, the employment can grow and the debit of public finances can decrease. All of these factors can create possibility for the increase of national economy and to improve competitiveness.

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