

## **ECONOMIC STATISTICS**

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### **ROLE OF THE FOREIGN CAPITAL IN THE HUNGARIAN ECONOMY**

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Foreign direct investment could be considered as a specific indicator of the economic internationalization. According to several OECD studies the stock of foreign direct investment reached 5 per cent of the World GDP in 1980 and increased over 8 per cent in 1990. Especially multinational enterprises gained from this process as well as from the rapid international expansion after 1990, when new countries – namely the transition countries of Central and Eastern Europe – began offering favourable possibilities to the Western investors.

During the last few years these transition countries regarded the foreign investors, and among them the multinational enterprises, as the driving force in the integration of the world economy.

From the point of view of the multinational firms, advantages of investing in transition economies could be the following ones: lower transaction costs, shorter production cycles, more benefits gained from the R + D costs, better situation of competition at the Eastern European market.

Deregulation in the transition countries opened up new markets as well as more possibilities of joining their production sphere.

From the point of view of the international organizations (OECD, IMF, World Bank etc) foreign direct investment can be a significant factor both for macroeconomic growth and for recovering from the economic crisis at the end of this century.

Among the conclusions of several international comparisons<sup>1</sup> it was underlined that the quality of foreign direct investment is relevant to the host countries (as to the developing and as to transition economies). This means that foreign direct investment could support the structural adjustment of the host countries to the more developed area of the World. It was also emphasized that great initial mutual understanding between the transnational corporation and the economic counterparts in the host countries could ensure overall benefits and higher level of efficiency.

The third factor influencing the success of foreign direct investment is the nature of the host country's industrial strategy within which foreign direct investment has to

<sup>1</sup> Among others: United Nations Centre on Transnational Corporations. The Determinants of Foreign Direct Investment. A Survey of Evidence. UN. New York. 1992.

operate. Namely the country's industrial strategy can be either an import-substituting industrialization for the medium and long-period or an export-generating industrialization. It is quite sure that both of these government strategies have their advantages as well as disadvantages for the foreign investors. A suitable balance must be found between the ownership advantages of transnational corporations and the advantages of the host country.

It became evident from the results of different international studies that during the last decade most multinational corporations focused on countries providing an environment permitting the suitable efficient use of their existing technology and research input as well. Most of the investors aimed to supply not only the host country's market but the neighbouring countries as well.

They preferred to adopt in labour-intensive technologies in the host countries at the beginning of their collaboration with little local research-and-development activities. Need of adaptation more developed process could be expected only after a few year's success.

No doubt that importance (quantitative as well as qualitative) of management expertise in local firms can support the above mentioned advantages. Experience and capable managerial skills, personal contacts from our area with managers operating in other transition countries are also a key factor influencing the investments of foreign capital-owners.

After this short introduction we shall take a look in direct investment flows in the OECD countries presented by Table 1.

Table 1

*Direct investment flows in some OECD countries*  
(million dollar)

Country	Inflows				Outflows			
	1991	1992	1993	1994	1991	1992	1993	1994
<i>OECD Total</i>	<i>117 209</i>	<i>100 511</i>	<i>105 350</i>	<i>142 101</i>	<i>178 941</i>	<i>163 845</i>	<i>166 544</i>	<i>186 992</i>
Of which:								
Austria	359	940	960	1 315	1288	1 871	1 404	1 255
Australia	6 033	4 263	3 637	4 849	.	577	2 069	4 194
Finland	-247	396	593	1 475	1 049	406	1 831	3 769
France	11 073	15 928	12 142	10 955	20 501	19 097	12 167	10 895
Germany	4 202	2 536	503	-3 003	22 879	17 745	11 673	18 985
Greece	1 135	1 144	977	.	.	.	.	.
Italy	2 481	3 210	3 751	2 478	7 326	5 948	7 231	4 275
Japan	1 368	2 728	86	826	30 726	17 222	13 714	17 711
Netherlands	5 002	6 994	5 651	3 204	12 270	14 096	10 079	11 368
Portugal	2 451	1 914	1 378	1 241	474	687	107	194
Spain	10 423	8 115	6 746	8 221	3 574	1 273	2 599	4 241
Turkey	1 041	1 242	1 016	830	27	133	175	78
United Kingdom	15 826	16 448	14 536	11 066	16 071	19 444	25 697	29 721
USA	27 246	11 452	22 630	60 071	32 696	41 587	58 094	58 422

Source: OECD International direct investment statistics yearbook 1995. Paris. 12. p.

The trends of direct investment flows seem to be growing in the OECD as a whole, but there are significant differences in growth from one year to the other. There are some countries where direct investment outflows had grown rapidly in the 1991–1994 period: like the United Kingdom, the United States and among the smaller countries Finland. The UK and the USA gave during these four years 40.5 per cent of the total OECD direct investment outflows, not only towards to the OECD countries but to other regions as well.

### *Hungarian traditions*

The appearance of the foreign capital in the economic activities of Hungary has a historical background. At the beginning of the eighties several big Hungarian industrial enterprises established production relations with foreign firms.

These kinds of relationship contained the simple types of commission work, applications of licenses, and know-how, as well as contracts on joint production.

The co-operation with well known foreign firms was inspired by the fact that the Hungarian economy and especially the manufacturing industry needed more up-to-date technologies and working methods. Hungarian enterprises already acquainted with the developed market and being aware of all competition circumstances, expected that the new form of international co-operation would help them to find a better position at the international market.

The situation in the eighties could be described in short by the following figures:

- in 1981 the share of production based on co-operations with foreign firms was 7 per cent in the industrial production, at the same time the share of these activities was 17.3 per cent of the industrial exports;
- in 1981, 570 active commission work contracts were valid, most of them in the light industrial branches;
- 430 licence or know-how contracts were applied in the industrial branches;
- there were 116 contracts of division of production by products, and 128 contracts for dividing the production processes domestic and foreign between firms;
- only 3 joint ventures worked in the Hungarian industry in 1981 and their number was not significant even at the end of the eighties.

This background of the international co-operation had a good effect on the arrival of the foreign capital at the beginning of the nineties. The terrain was not unknown for the foreign firms. For example: about 580–600 contracts were based on the collaborations with firms from the German Federal Republic. Their managers got acquainted with the Hungarian industrial leaders at several industrial branches, some of them had good personal contacts even with the Hungarian industrial managers at medium size. So most of the foreign investors could find out both the advantages and the disadvantages of the capital investments in the Hungarian economy.

It is worth to mention an other factor influencing the attitude of the foreign investors, and this is the legal environment, which became more reliable than earlier, at the very beginning of the nineties. The Hungarian Parliament guaranteed favourable conditions for the foreign capital together with some preferential tax opportunities.

All of these factors lead to the result, that among the Central and Eastern European transition countries Hungary became a favourite place for the foreign capital coming from multinational firms as well as from small businesses.

*Number of the enterprises based on foreign direct investments and their capital*

At the very beginning of the nineties growing interest was recognised at different kind of foreign firms towards the Hungarian economy. First of all, most of these enterprises wished to set up a basis in Central and Eastern Europe, looking for obtaining a new market. It must not be left out of consideration, that at that time not only the leaders as well as the experts of the transition countries but also the same ones of the developed market countries had in mind and hoped that the transition process would be fast and successful in a short period. So those firms which decided to enlarge their market in the transition economies aspired to be among the first ones in the promising new market-area. But this is only one aspect. The other one is, that those Hungarian managers, who had earlier good relationships with foreign firms took the initiative in founding joint ventures hoping to have profitable co-operation and a relatively quick adaptation to the new circumstances. Most of these Hungarian managers had not significant personal financial background, but they had experiences at the Central and Eastern European firms, on market-conditions – and they had also close personal relationship with the earlier industrial and trade managers of the transition area. This kind of intellectual and relation based capital meant sometimes more for the Western partners, than being in possession of any financial background.

The third factor influencing the relatively quick flow of the foreign capital investment was based on family contacts. Several Western businessmen had Hungarian relatives who could prepare a new firm here, and – which is also not neglectable – who knew their way to go around the not so simple Hungarian administration processes. (The results of all these factors could be seen from Table 2.)

Table 2

*Enterprises with foreign direct investment*  
(at the end of the year)

Year	Number of organizations	Capital	Foreign capital
		paid in million HUF	
1990	5 693	274 200	93 200
1991	9 117	475 589	214 697
1992	17 182	713 035	401 792
1993	20 999	1 113 158	662 872
1994	23 557	1 398 217	833 502
1995	24 950	1 973 000	1 308 000
1996*	29 000	2 013 000	1 338 000

\* Previous data.

This table shows the rapid enlargement of the process in 1991–1992. The trend is being still continued, but from 1994 the rate became slower. At the same time a new phenomenon could be found, namely the share of foreign capital in the total capital of joint ventures was in 1991: 45 per cent, in 1992: 56 per cent and in 1993–1994: 60 per cent. This increased to 1996 until 66 per cent. This fact can underline the attitude of

foreign interest. Several Western firms decided to take part in the Hungarian privatisation process. Some of them have bought most parts of earlier Hungarian enterprises, other ones founded independent new firms in Hungary and some multinational enterprises established affiliated firms in our country. The latter ones often installed new technologies. A typical example is the car production, which was missing earlier from the production palette of our manufacturing industry.

It is also typical that at the end of 1990 only 5.5 billion HUF capital was invested in enterprises having only foreign owners, which provided 5.9 per cent of the total foreign capital invested in Hungary. The share of the capital paid in firms having exclusively foreign interest was: 66.4 per cent in 1996.

There is an other significant factor as the composition of enterprises with foreign direct investment by categories of subscribed capital. (This can be followed in Table 3.)

Table 3

*Share of newly founded enterprises with foreign investment by value of capital  
(per cent)*

Categories of capital in million HUF	Number of organizations		Total subscribed capital		Of which foreign capital	
	1990	1996	1990	1996	1990	1996
– 1	35.5	80.6	0.7	8.3	0.9	9.1
1.1 – 10	43.1	14.3	2.8	5.7	3.9	5.7
10.1 – 50	12.2	3.4	6.5	8.8	8.9	9.7
50.1 – 100	3.1	0.6	4.7	4.5	5.9	4.2
100.1 –	6.1	1.1	85.3	72.7	80.4	71.3
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>

Comparing data of the last six years could inform us on the changes in the attitude of foreign investors. At the very beginning big firms were preferred by the foreign investors. More than 80 per cent of direct foreign capital went to enterprises having subscribed capital over 100 million HUF. Their share decreased from 80 to 71 per cent in 1996. Interest on medium-size firms was practically stable, but much more foreign capital was invested into the smallest firms.

The number as well as the capital of the newly founded firms based partly or totally on foreign direct investment have been stable during this period. About 4 thousand smaller or bigger firms were established yearly, majority of which exclusively by foreign owners; the yearly invested foreign capital was about 30 billion HUF.

#### *Distribution of joint ventures by countries*

At the very beginning of the transition period Germany and Austria were the largest investors in Hungary and the determinant role of Germany has not changed since 1990 till 1996, only their share has modified. According to the most up-to-date figures the proportion of the German capital was 19.2 per cent in 1996, the second place was occupied by the enterprises of the Netherlands with 16.5 per cent and Austria, who was some years ago the second of the largest foreign investors, slipped back to the third place

with its 10.5 per cent. Having in mind that Austria belongs now to the European Union, this fact can explain this decline, which could be temporary or permanent, it is difficult to forecast the expectable changes till the end of this century.

From the side of the Hungarian economy it has to be recognised the growing interest of the non-European countries. More than 11.1 per cent of the invested foreign capital came in 1996 from the Near East mostly from firms of Israel. Further 5.8 per cent of the foreign investments originated from firms of Cyprus and 5.6 per cent from the United States.

Studying the processes during 1990–1996 the following tendencies could be outlined.

- German firms became determinant in the foreign direct investment.
- Significant diversification could be stated among the other investors coming from different part of the world.
- Competition among the transition countries are intensified for obtaining (as well as maintaining) interest of the foreign capital: in this competition the safe and the reliable business – environment together with the active, correct Hungarian partnership could make it possible to maintain the leading role of Hungary.
- There are several well recognizable reserves: first of all: the share of firms of the United States in the Hungarian business-sphere is too low. During the last two years significant modification could be found in this respect, mainly in 1995 when the share of capital coming from the USA achieved 15.6 per cent of the total foreign investment, but the amount – from the point of view of the USA investors – was relatively low at that time as well.
- There are some possibilities of diversification of the group of foreign investors by firms of South-Korea, Japan, South America as well. For reaching this aim more active industrial policy is needed.

#### *Composition by branches*

If the attractiveness of the Hungarian economy has to be studied, the most relevant picture can be outlined by the branch-composition of the foreign direct investments during the last six years.

It is also possible to draw some conclusions on the motivation of different groups of investors as well as on the changes of their motivation during this period.

There are several factors influencing where the investors would place their funds:

- to that branches where turnover could be quick,
- where labour costs (both direct and indirect) are relatively low,
- where skilled labour force is at disposal,
- where the Hungarian law guarantees suitable conditions, tax preferences etc.

The overall interest of the foreign investors could be seen in Table 4. The first four columns show that state of branch-structure developed till the end of 1995, the next four columns illustrate the progress in 1996. Comparing these data it becomes evident that during 1989–1995 interests of foreign investors were concentrated on manufacturing branches, a significant part of the foreign capital went to firms in the food industry as well as that in manufacture of machinery and equipment (see in Table 4: Engineering). During this period several enterprises of electricity, gas, steam and water supply became also joint ventures. The invested foreign capital in that branch was 172 billion HUF, representing 13.1 per cent of the total subscribed foreign capital. Wholesale and retail trade units were also very popular among the foreign investors, most of them were small firms (the average foreign capital/firm was at the end of 1995: 12.9 million HUF); but some enormous shopping centers appeared as well. It can also be recognized that those

activities which were quite insignificant earlier, till the end of the eighties in the Hungarian economy became attractive for the foreign investors, especially several kinds of financial activities as well as real estates, renting and other activities helping the new business-sphere (for example tax-advising, computer-based management).

Table 4

*Distribution of enterprises with foreign direct investment, by branches*

Branches	Number of firms	Capital	Of which foreign capital		Number of firms	Capital	Of which foreign capital	
		paid in billion HUF	per cent	paid in million HUF		per cent		
	Stock at the end of 1995				Founded in 1996			
<i>Industries total</i>	24 950	1 973	1 308	100.0	4 088	39 838	30 082	100.0
Of which:								
Agriculture, hunting etc.	800	25	16	1.2	107	541	457	1.5
Mining	69	15	11	0.8	8	47	34	0.1
Manufacturing, energy	4 217	1 131	732	56.0	542	11 580	6 001	19.9
Of which:								
Food industry	579	201	158	12.1	46	1 947	1 435	4.8
Basic metals	474	48	34	2.6	76	1 458	1 309	4.4
Engineering	1 062	185	148	11.3	140	5 479	1 190	4.0
Construction	1 213	55	46	3.5	180	2 103	1 958	6.5
Wholesale and retail trade	12 122	203	156	11.9	2 202	6 037	5 209	17.3
Hotels, restaurants	1 144	49	32	2.4	167	566	484	1.6
Transport, communication	830	178	118	9.0	103	2 078	334	1.1
Financial activities	162	185	105	8.0	43	7 568	6 921	23.0
Real estate, renting	3 525	118	83	6.3	628	8 398	7 862	26.1

Firms founded in 1996 belonged mostly (49.1%) the earlier mentioned branches. This means that the share of manufacturing industrial firms declined in 1996 compared with the earlier phase. Wholesale and retail trade remained as popular as previously, among them smaller and bigger firms as well.

It is also remarkable that the share of foreign investment in the total subscribed capital was in firms established till the end of 1995: 66.3 per cent and in 1996 newly founded firms: 75.5 per cent; at the same time more economic units were established, in which the share of foreign capital was 100 per cent (in 1993: 41.9 per cent, in 1996: 50.1 per cent calculated on invested capital basis).

*Distribution by counties*

Though Hungary belongs to the relatively small countries in Europe significant differences could be found between its eastern and western part. This is not a brand new phenomenon, there was the same situation 30–40 years ago as well, but the influx of foreign capital enlarged the development differences.

It is quite reasonable that most proportion of the foreign capital was invested in Budapest, mainly in the infrastructure. The intellectual background of it is that here could be found the biggest part of the world-famous Hungarian managers who were the

most active ones during the first period of the privatisation in the process of looking for foreign partners.

From 1994 a new tendency could be recognised: some areas of Transdanubia joined the capital, especially Győr-Moson-Sopron and Fejér counties. Their share in the foreign investment increased spectacularly. In 1995–1996 a special industrial park was established in Fejér county around the town Székesfehérvár. There was earlier an industrial basis (television, bus, several kinds of instruments production), a significant part of it has got ruined, but based on their remnants, utilizing the skilled and suitable labour force (workers as well as intellectuals) and by help of foreign capital an industrial center could be set up, not far from the capital. (Details on foreign owned – totally or partly – firms are shown by Table 5.)

Table 5

*Distribution of newly founded enterprises with foreign capital by counties  
(per cent)*

County	Number of organizations			Capital paid in HUF			Of which: foreign capital		
	1994	1995	1996	1994	1995	1996	1994	1995	1996
Budapest	55.7	60.3	59.3	64.9	65.1	55.5	67.4	63.8	51.2
Baranya	2.8	2.6	3.2	2.1	1.1	3.4	1.6	1.4	3.6
Bács-Kiskun	3.1	3.0	2.3	1.4	5.1	1.8	1.6	1.8	1.5
Békés	0.9	1.0	0.6	0.2	0.3	0.2	0.3	0.4	0.2
Borsod-Abaúj-Zemplén	1.8	1.1	1.6	0.9	1.1	1.2	0.9	1.1	1.0
Csongrád	2.7	1.9	1.8	1.4	0.3	0.8	1.3	0.4	0.8
Fejér	2.1	2.0	1.8	2.9	2.2	10.5	3.2	2.2	12.0
Győr-Moson-Sopron	5.9	4.4	4.2	4.0	3.6	11.4	4.1	4.7	14.9
Hajdú-Bihar	1.8	1.5	1.5	1.4	0.6	0.2	0.9	0.4	0.3
Heves	1.1	0.9	1.3	1.2	0.3	1.0	0.9	0.4	0.7
Jász-Nagykun-Szolnok	0.9	1.1	1.2	2.1	3.6	0.5	2.2	4.7	0.3
Komárom-Esztergom	2.0	1.9	2.8	1.2	0.6	4.4	0.9	0.4	4.9
Nógrád	0.5	0.5	0.6	0.0	0.6	0.9	0.0	0.7	1.1
Pest	6.2	6.9	6.8	5.2	3.6	2.2	2.2	3.6	2.3
Somogy	1.4	1.5	2.0	0.5	0.6	1.4	0.2	0.7	1.8
Szabolcs-Szatmár-Bereg	1.5	1.5	2.1	2.9	0.6	0.3	3.2	0.4	0.3
Tolna	0.9	0.7	0.8	0.3	0.0	0.3	0.0	0.0	0.4
Vas	3.3	2.4	2.2	1.9	0.8	0.9	2.2	0.7	1.0
Veszprém	2.9	2.2	2.1	2.6	8.5	1.1	3.1	10.9	1.1
Zala	2.5	2.6	1.8	2.9	1.4	2.0	3.8	1.3	0.6
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>

The majority of foreign owned enterprises seems to be concentrated chiefly in the Transdanubian area leaving collapsed the eastern and northern counties as Szabolcs-Szatmár-Bereg, Nógrád, Borsod-Abaúj-Zemplén. These counties cannot offer attractive conditions for the foreign investors regarding the infrastructure, industrial traditions, but there could be found relatively cheap (and mostly unskilled) labour-force.

As to the origin of the foreign capital, it is to be stated that significant share of German investors were interested in Budapest and in its agglomeration in Pest county,

investors from the USA came mostly to the industrial park in Fejér county and the Austrian investors preferred the borderregions near western counties, among them Győr-Moson-Sopron, and Vas.

There are several areas in Hungary where the foreign investors established more firms based on their own capital, without collaborating with Hungarian partners. For example in 1996 97.7 per cent of the foreign capital installed in firms of Győr-Moson-Sopron county was possessed by firms having only foreign owners; and this was a significant amount nearly 4.4 billion HUF, the 14,6 per cent of the foreign capital invested in 1996 in the country. The share of exclusively foreign owners was similar in Somogy county (93.7 per cent). In Budapest the share of joint ventures (invested partly by Hungarian, partly by foreign owners) was more than the average.

An other typical feature of the newly established firms is, that in 1996 more big units were founded in the western Hungarian area, than in Budapest. The average capital of the firms (exclusively foreign owned and joint ventures together) established in Győr-Moson-Sopron county was 26.3 million HUF, that in Fejér county was 576.4 million HUF, while in Budapest more small units were founded, their average subscribed capital was in 1996 only 9.1 million HUF. All of these figures can underline the significance of the western Hungarian industrial area.

#### *Economic importance of the foreign capital investments*

Having in mind the experiences of the last 6–7 years, it is to be recognised that the transition process leading toward to a real and successful market economy is a longer and more painful period than it had been expected (and hoped) by the Central and Eastern European economists. In this process the role of foreign capital became determinant, and Hungary achieved a favourable position in this respect among the transition countries.

Let's shortly summarize advantages as well as disadvantages of this process. First of all: reception of the foreign investment in Hungary was during 1990–1996 quite diverse. Because of the lack of sufficient Hungarian capital several economic experts hoped the rapid development of the economy from the foreign investors, securing up-to-date technologies as well as new markets at the same time. On the other side several experts, businessmen worried about the expansion of the foreign capital. The main cause of this fear was, that foreign firms—well-known all over the world—would aspire to buy out the Hungarian market, which became during the last few years more diversified and the productions of the foreign firms had generally better quality products and – which is also not neglectable – more attractive manner of packing, therefore the foreign products were and are more popular among the wealthy Hungarian consumers than the Hungarian ones. After having experiences of the last 6–7 years it must be stated that only a few part of the foreign investments took this opportunity (typical examples are the production and trade of children clothing, and a few sub-branches of the food industry).

It is no doubt that this phenomenon belongs to the disadvantages of the arrival of the foreign capital to the Hungarian economy, but this is an exception to the general rule.

Generally speaking the foreign enterprises based totally or partly on foreign capital have stimulative effect on the trade as well as on the directly productive sphere.

The main elements of this effect are the followings:

- productivity of joint ventures became significantly higher;
- most of these enterprises are export-oriented and extended the Hungarian exports going to market economies;
- new technologies and some new products appeared in the Hungarian industry;
- Scope of services were enlarged especially that of the small and medium-sized enterprises, a significant proportion of these services belongs to the ones supporting financial and other business activities;
- most – but not all – of the newly founded joint ventures worked profitably even during the first and second year of their activity;
- a determinant proportion of their profit was invested into the firms, which can indicate the attitude of the foreign owners, namely their aspiration to maintain permanent relations not only with their Hungarian partners, but also with the firms and consumers of the Central-Eastern European area.

*Some kinds of information indicating the positive results of the foreign investments*

It is well-known that until the end of the eighties productivity level of the Hungarian economy, and within that of the industry was relatively low compared with the market economies of Europe. Firms with 100 per cent or more than 50 per cent share of foreign capital had a higher productivity level especially in the industry than the enterprises owned only by Hungarians. This comparison is not realistic enough because of the structural differences.

A better approach of this topic is that the joint ventures produced more value added per person than the state-owned ones and those owned exclusively by Hungarian privatised firms. Between 1993 and 1995 the differences achieved about 60 per cent, in favour of exclusively foreign firms or joint ventures.

These relatively significant advantages were mainly the result of the technology transfer and its concomitant phenomenon: the licenses and know-how. This appeared among other branches in some food industrial subbranches, in manufacturing of machines and vehicles etc.

Exports of enterprises with foreign direct investment were growing from one year to the other. Their share in the total Hungarian exports was in 1992: 32.4 per cent, in 1993: 43.6 per cent, in 1994: 54.4 per cent.

It is also significant that 67–74 per cent of their exports went to market economies, most to the countries of the European Union.

Less favourable is the distribution of their exports by commodity-groups. 30–33 per cent of the exports of these enterprises were raw materials, semi-finished products or spare parts. Machines, equipments vehicles and other capital goods composed 16–20 per cent of their exports and the share of these commodities did not grow during the last few years. Proportion of industrial type consumer products was 29–33 per cent, with a decreasing tendency.

Exports going to Eastern European countries had a different commodity structure than the exports tending to market economies. Share of raw materials for the food industry, live animals as well as processed food products played a determinant role in the exports of joint ventures tending to Eastern European countries. At the beginning of the nineties this share was more than 40 per cent, but it decreased to 27–30 per cent. This proportion is also much higher, than the share of these kinds of products exported

towards market economies, where the share was between 14–19 per cent. The volume as well as the share of other raw materials, semi-finished products and different kinds of spare parts achieved 33–36 per cent of total exports toward market economies from the Hungarian joint ventures.

Less significant differences have been found generally in the share of machines, equipments, vehicles, and other capital goods within the exports tending to Eastern European countries or to market economies. In the latter case the proportion was somewhat lower.

Final result of external trade can be illustrated by the export–import balance, which was negative in the examined part of the Hungarian economy as well. It can be explained by the fact, that the newly founded foreign investments were at that time and are nowadays mainly import-oriented. Their firms established in Hungary made and make only a few part of the total production process, so they rely on imported semi-finished products as well as on raw materials. Often the labour-intensive processes are performed by the Hungarian affiliated firms.

As it was mentioned earlier among the new foreign firms are many trade units, their turnover is based mostly on imported products.

The export–import balances of these firms are negative in the external trade handled with countries in transition as well as that with market economies. It is quite natural that higher proportion of negative balance exists in the trade with developed market economies. The most significant proportion of the negative balance originated from the firms founded by German owners (this was 19–27 per cent of the total negative balances during 1992–1994).

#### *Possibilities for the future*

A high need for foreign capital appeared in the transition countries, which were lacking sufficient capital resources domestically for renewing, making their economies more up-to-date, more profitable. The first phase of the transition period approaches to its end now, in 1997, which means that most part of the privatisation process came to their closing phase.

The first years constituted the basis of getting acquainted with the foreign investors, with they manner of management, with they requirements and working-style. This was a learning-period for the Hungarian economy and it can be stated that most enterprises, smaller units, joint ventures reacted well upon this challenge.

It was a learning-period not only for the Hungarian participants, but for the foreign investors as well. They had the challenge “how to adapt themselves to the economic environment of a transition country”. The statistical data as well as information achieved from different sources show that in general the learning period was successful though naturally not without mistakes and errors.

The next phase will be the time of closing up to the European Union’s developed market economies. The companies founded and operated with foreign capital could make the transition period easier for the whole Hungarian economy.