

Relocation to NMS – the case of Hungary

Magdolna Sass

**Institute of Economics of the Hungarian Academy of Sciences and ICEG
European Center**

**Presentation for the joint conference of MGYOSZ and ICEG EC, Brussels, 18th of
November 2005**

ICEG European Center

6/B Dayka G. Street, Budapest, H-1118

Tel/Fax: +36-1-248-1160 e-mail: office@icegec.hu website: www.icegec.hu

Ongoing research, output presented:

Hunya G., M. Sass (2005) Coming and Going: Gains and Losses from Relocations Effecting Hungary. WIIW Research Reports. (forthcoming)

Sass M. (2005) Relocation – Experiences of a Host Country. Workshop on “Re-location of production and jobs to CEE countries - who gains and who loses?”, organised by the HWWA, Hamburg, September.

ICEG European Center

6/B Dayka G. Street, Budapest, H-1118

Tel/Fax: +36-1-248-1160 e-mail: office@icegec.hu website: www.icegec.hu

Relocation and competitiveness – impact on the host country

- Increasing economic activity, directly (via the affiliate) and indirectly (via suppliers)
- Important role in establishing higher technology production, upgrading (spillovers?)
- Role in increasing competitiveness in foreign markets – higher growth of exports and overall foreign trade
- Net job-creation, higher wages, in some cases employing less skilled workers, more prone to falling out of the labour market
- Additional FDI through reinvested earnings, and additional tax revenues – though repatriation of profits substantial – BOP impact
- Additional demand for infrastructure development

Methodology

- Database: 65 cases on declared company relocations to and from Hungary, between July 2003 – 12th of September 2005
- Sector and product level data (foreign trade and output)
- Relocation: companies move part of their production processes and/or service functions to a subsidiary in a cheaper location
- Concentrating on host country impact
- Relation to FDI: every fifth project in the analysed period

ICEG European Center

6/B Dayka G. Street, Budapest, H-1118

Tel/Fax: +36-1-248-1160 e-mail: office@icegec.hu website: www.icegec.hu

Characteristics of relocation to Hungary 1 – Nationality of investors

To Hungary	Number of cases	From Hungary	Number of cases
USA	15	USA	3
Germany	14	Germany	2
Austria	6	Austria	1
Japan	6	Italy	1
Other Europe	18	Altogether	7
Altogether	60 (incl. 1 Canadian)		

ICEG European Center

6/B Dayka G. Street, Budapest, H-1118

Tel/Fax: +36-1-248-1160 e-mail: office@icegec.hu website: www.icegec.hu

Characteristics of relocation to Hungary 2 – Sectors affected

To Hungary	No. of cases	From Hungary	No. of cases
Electronics	12	Footwear+textile+clothing	2
Automotive	12	Automotive	1
Business and related services	9	Electronics	1
Footwear+textile+clothing	8	Chemical	1
Chemical products	6	Other	2
Household appliances	4		
Other	11		

ICEG European Center

6/B Dayka G. Street, Budapest, H-1118

Tel/Fax: +36 1 248-1160 e-mail: office@icegec.hu website: www.icegec.hu

Characteristics of relocation to Hungary 3 – Other foreign sites involved

Relocation to Hungary	No. of cases	Relocation from Hungary	No. of cases
Germany	15	Romania	3
Austria	8	Austria	1
Other Western Europe	28	Latvia	1
„EU-15 periphery”	5	Poland	1
Other NMS	2	Slovakia	1
China	1	Ukraine	1

ICEG European Center

6/B Dayka G. Street, Budapest, H-1118

Tel/Fax: +36 1 248-1160 e-mail: office@icegec.hu website: www.icegec.hu

Characteristics of relocation to Hungary 4 – Labour market impact in the host country

- **Net job creation in 44 cases: ~7000 (8200-1200)**
- **No. of jobs lost in other countries: usually lower than no. of created in Hungary**
- **Top job-creating sectors: electronics (3100), business and related services (2200)**

Country origin	No. of cases	No. of jobs created
Germany	12	3040
Austria	6	259-279
Other Western Europe	21	4452-4457
„EU-periphery”	3	144

ICEG European Center

6/B Dayka G. Street, Budapest, H-1118

Tel/Fax: +36 1 248-1160 e-mail: office@icegec.hu website: www.icegec.hu

Characteristics of relocation to Hungary 5

– Size/extent of capacities transferred

- Illustrated by electronics sub-sectors
- Transfer of capacities: smaller than perceived
- Mainly export-oriented capacities (higher ratios for exports)
- Germany: more affected than the EU-15 average

	If EU-15 output=100		If German output=100	
Hungarian output in				
	1995	2003	1995	2003
Compu- ters	0.2	3.1	0.8	13.8
Electr. machin.	0.7	3.1	1.7	7.4
Radio, TV	0.6	4.6	3.2	20.8

ICEG European Center

6/B Dayka G. Street, Budapest, H-1118

Tel/Fax: +36 1 248-1160 e-mail: office@icegec.hu website: www.icegec.hu

Thank You For Your Attention!

ICEG European Center

6/B Dayka G. Street, Budapest, H-1118

Tel/Fax: +36 1 248-1160 e-mail: office@icegec.hu website: www.icegec.hu