KRISZTINA SOREG

University of Sopron, Alexandre Lamfalussy Faculty of Economics, Hungary

PATTERNS OF ECONOMIC GROWTH IN DEPENDENT MARKET ECONOMIES: THE CASE OF CENTRAL EASTERN EUROPE

Abstract:

The development pattern of certain Central Eastern European Countries has always represented a special case within Europe's overall economic growth as well as social progress. Current paper examines the main growth tendencies of the so-called dependent market economies (DMEs) and also provides an extended definition for latter model. In frames of the comparative analysis, the research is based on investigating the relationship between the presence and activity of TNCs and MNCs through their FDI inflow contribution to the destination countries, the performance of the main investor economies and trading countries and also the GDP growth of the DMEs. According to the evidence, in certain countries – e.g. Hungary – a dual economic structure has emerged strongly relying on the multinational sector successfully being integrated into the world economy and a weak domestic sector that is in most cases, not capable of selling its goods and services in a global market. The lack of high value added production and the constant reliance on cheap labour force may further deepen the diverging tendency compared to the developed economies. Our main hypothesis assumes that integrated peripheries – due to certain asymmetric interdependencies – are not likely to produce significant long-term economic convergence to the centre economies with the current conditions of global capitalism and a strongly FDI based growth path they have developed.

Keywords:

dependent market economies, economic growth, development economics, Central Eastern European Countries, varieties of capitalism

JEL Classification: F10, O11, P12

1   Introduction

Central Eastern European Countries (CEECs), post-communist economies, transition countries or emerging economies – all of the above-mentioned phrases are referring to that special region of Europe which has experienced quite a rough and contradictious development path following the regime change. The collapse of the Soviet Union definitely contributed to a rapid economic as well as political power shift leading to a protracted transition crisis and then, a significant economic growth and high Foreign Direct Investment inflow based period. As a next step, the 2004 enlargement of the European Union with 10 economies[1] opened further possibilities for the region's development followed by the 2007 access of Romania as well as Bulgaria and in 2013, Croatia. Latter phase was characterized by the highest ever net FDI inflow to CEE but the financial and economic crisis of 2007-2008 has had devastative effects on these nation states. Following ten years after the economic turmoil, the region more or less has successfully – although not fully – recovered. It is still considered a beneficial destination for foreign investment but still, it seems that the most significant FDI inflow cycle has already achieved its saturation point, especially in certain economies. Is it still the prolonged effect of recent crisis or is there something else that might have negatively been imprinted on the convergence of the country group?

Current research investigates the main growth tendencies of selected Central Eastern European Countries through the lens of economic dependency. The analysis is carried out by distinguishing the region into two basic groups: on one hand, we are focusing on the classical Visegrád Four economies (later referred to as the 'V4' – the Czech Republic, Hungary, Poland and the Slovak Republic) and on the other, three Balkan countries (the 'B3' – Bulgaria, Croatia and Romania) mutually referred to as the CEEC-7. Within the analysis, most attention is paid to the case of the Hungarian economic growth since as it will be demonstrated, it has undeniably representing an outlier factor in many aspects. Our *first hypothesis* states that – strictly in economic frames – *Hungary has been showing a diverging tendency from the Visegrád group in recent years*. On such basis, in given approaches it is examined in the context of the B3 countries' development. To continue, referring to the net FDI inflows to the region as well as some other phenomena, our *second hypothesis* states that *integrated peripheries*[2] (Artner, 2014, pp. 84-85) – *due to certain asymmetric interdependencies – are not likely to produce significant long-term economic convergence to the centre economies with the current conditions of global capitalism and a strongly FDI based growth path they have developed*.

---

[1] Cyprus, Czech Republic, Estonia, Latvia, Lithuania, Hungary, Malta, Poland, Slovak Republic and Slovenia.
[2] *Integrated peripheries* are defined as countries that joined the European Union following 2004 but also Mexico as NAFTA member, might also be cathegorized as such economy. Integrated peripheries usually correspond to the half peripheries in global context (see Artner, 2014).

The study is organized as follows: Chapter 2 presents some relevant literature background concerning the so-called varieties of capitalism and also some selected approaches to characterize dependent market economies. Chapter 3 views the economic performance of our specified country group by analyzing such factors as GDP per capita, annual real GDP growth rate, net FDI inflows as a percentage of GDP and the ranking of the Global Competitiveness Report provided by the World Economic Forum (WEF). In the fourth section the most relevant tendencies and effects of FDI inflows and stock are investigated in details with an intention to define the most important phases of foreign capital presence within the CEEC-7 region followed by Chapter 5's scope on revealing the role as well as some direct/indirect effects of MNC and TNC activity within the region. As the last aspect of our research, in Chapter 6 we extend our examination with the third factor, the dependence on the most important trading partner countries of the CEECs by calculating the rate of concentration and exploring the relevance of Germany as the top trading economy of both country groups.

2   Theoretical approaches of economic dependence

There is a growing literature on the different varieties of capitalism that have developed in recent decades across Europe. It is undeniable that a simple categorization of the continent's development by applying the general definitions and characteristics of capitalism – especially in case of certain regions of the European Union – is not appropriate when preparing a wide-scale economic analysis. There have been several attempts to distinguish among the socio-economic growth paths focusing on Central Eastern Europe's transition countries.

From the point of view of current research, one of the most relevant methods is the so-called *varieties of capitalism (VoC)* created by Peter A. Hall and David Soskice (2001). The authors developed a two-sided approach of political economies by distinguishing *liberal market economies (LMEs)* from *coordinated market economies (CMEs)*. In the first case, companies usually operate under different competitive market arrangements following the classical supply and demand driven tendencies among the participants of the trade. Still, institutions are playing an important role in the coordination of actors' market-driven activities. On the other hand, in case of the coordinated market economies, non-market interactions are gaining more importance among the actors, so equilibrium state occurs primarily on the base of these strategic cooperations (Hall – Soskice, 2001, p. 8). It is also highlighted that both types of market economies might largely contribute to the long-term performance of the given economy (Hall – Soskice, 2001, p. 21). As an example, the authors provide the case of Germany as a form of CME where the extensive use of labour force and industry- or company-specific skills of the workers result a strong dependence on education as well as certain training systems (Hall – Soskice, 2001, p. 25). In contrast, in liberal market economies (e.g. the United States) education as well as training systems should be viewed as complementary "goods" to the labour markets which work quite flexibly

(Hall – Soskice, 2001, p. 30). According to the study, there are altogether five factors causing interdependence: financial system, corporate governance, structure of industrial relations, the already mentioned education and training system and also innovation transfer within the country (Hall – Soskice, 2001, pp. 17-33).

To continue, Nölke and Vliegenthart (2009) further developed the above-mentioned classification first of all, by extending the analysis to other countries besides Germany and the USA to some selected Central Eastern European economies (the Czech Republic, Hungary, Poland and the Slovak Republic) and by adding the relevance of transnational companies. Also, one of the most important outcomes of the research is that in case of CEECs, there is no point in expecting long-term convergence to the developed countries in frames of the liberal approach (Nölke – Vliegenthart, 2009, p. 673). In our study, our main hypothesis is partly based on previous conclusion, as it has been already specified in the first chapter. The most significant element of the cited work is the introduction of the third variety of capitalism that is the concept of the *dependent market economies (DMEs)*. In contrast with the Hall – Soskice methodology, Nölke and Vliegenthart introduced three further conditions: an extensive overall economic coordination mechanism, stable institutions having the core element of institutional complementaries and certain comparative advantages which enable a superior economic functioning compared to the socioeconomic systems (Nölke – Vliegenthart, 2009, p. 676). Two other important elements should also be emphasized: first, DMEs are shaped by the investment driven decisions of the TNCs, especially in our globalized world economy created environment. Secondly, DMEs are even more involved in the foreign capital issues of the biggest investors compared to LMEs and CMEs (Nölke – Vliegenthart, 2009, p. 676). The term itself was chosen by the authors relying on Lawrence King's "liberal dependent post-communist capitalism" concept referring to some Latin American countries' development patterns (King, 2007, p. 309).

Other researches draw our attention to the fact that countries with different forms of capitalism naturally create some alternative growth scenarios and models in order to achieve stable economic growth. Also, recent economic and financial crisis has greatly contributed to the need of distinguishing some other varieties of capitalism (Hall, 2017, p. 4). Hall also outlines that despite the previous expectations, European integration has not resulted in the disintegration of forms of capitalism operating simultaneously. Recent crisis – through the example of such countries' cases as Ireland, the Mediterranean economies as well CEE nation states – has also urged to seek some alternatives of capitalist system instead of applying a 'best practice' based single strategy for such a heterogeneous integration as the European Union (Hall, 2017, p. 27).

Following the dissolution of the Soviet Union, most post-communist countries have become quite attractive to foreign direct investments arriving from developed economies. There are certain views claiming that in this aspect, foreign capital has even become a more crucial development or growth factor than the economic and social activity within the countries. It

is also true that in some transition economies the legacy of post-communism is vivid nowadays having negative effect on the situation of the labour force (Sznajder Lee, 2011, p. 4). Dependent capitalism might be also defined by the capital and technology transfer of the destination countries but also by the management decisions of the investor companies that host countries have no or relatively small influence on (Sznajder Lee, 2011, p. 5).

Gal and Schmidt present that dependent market economies have to face several negative long-run effects on financial, human as well as social capital. The large-scale dependence on external capital might be also viewed as a "historical weakness" of Central Eastern European economies. What is more, the authors consider that low- and also middle-income competitiveness maintained in these countries consequently causes a development trap. As an outcome, some local firms emerge with a relatively high capital base but on the other hand, a large amount of skilled workers migrate to more developed countries since domestic wage level is not being increased significantly over time. In the long run, human capital base will erode, some critical demographic problems may impose further threats on overall development but most importantly, further catching-up might be undermined in these countries (Gal – Schmidt, 2017, p. 90).

Veres explains the settled development model of transition counties – focusing mainly on Hungary – with its origin: attracting FDI was crucial after the post-soviet transformation crisis for stimulating economic growth and it was supported by the belief that technological and know-how based spill-over effects will eventually be integrated into the host country's practice being capable of producing at the same level and quality as the developed investor economies. Not surprisingly, it was not achieved, however, a definite dual structure within the economy has developed with a strong multinational company base and a vulnerable domestic sphere unable to decrease their dependency (Veres, 2018, p. 20).

3   Scope of the research: Economic performance of selected CEECs

In current study, we have chosen a group of Central Eastern European Countries which is not often analyzed in exactly this type of combination in relevant literatures: the Czech Republic, Hungary, Poland, the Slovak Republic, Croatia, Romania and Bulgaria. Latter decision is based on the fact that in case of Hungary – after having checked some indices and growth tendencies – it becomes evident that during recent years economic convergence has not been realized. Also, when making comparison with the classic Visegrád Four economies, Hungary – in certain aspects – represents an outlier country, as it will be later viewed on the base of our data.

Table 1: Main economic indicators of the V4 countries (2006/07-2017/18)

I.	GDP per capita, PPP (current international $)										
	2007	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*
Czech Republic	26120	27845	27594	27694	28797	29047	30486	32263	33469	34749	**36327***
Hungary	19027	20679	20648	21556	22841	23094	24463	25525	26148	26701	*28108*
Poland	**16785*** *	18310	19243	21069	22851	23833	24719	25612	26578	27420	29122
Slovak Republic	21161	23692	23055	24987	25835	26647	27898	28928	29522	30460	31616
II.	GDP growth rate (annual, %)										
	2007	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*
Czech Republic	5.60	2.68	-4.80	2.27	1.78	-0.80	-0.48	2.72	5.31	2.59	4.29
Hungary	0.43	0.86	**-6.60*** *	0.68	1.66	-1.64	2.10	4.23	3.37	2.21	3.99
Poland	7.03	4.25	2.82	3.61	5.02	1.61	1.39	3.32	3.84	3.06	4.81
Slovak Republic	**10.80***	5.63	-5.42	5.04	2.82	1.66	1.49	2.75	3.85	3.32	3.40
III.	FDI net inflow (as a % of GDP)										
	2007	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*
Czech Republic	**4.74***	0.96	0.95	2.37	1.14	2.98	-0.18	1.93	-1.08	3.95	2.63
Hungary	1.78	0.89	0.63	2.93	1.32	2.16	0.11	2.60	2.22	2.24	1.35
Poland	4.07	1.86	1.84	1.85	2.59	1.21	0.80	2.38	2.13	0.93	1.23
Slovak Republic	3.96	4.11	**-1.09*** *	0.98	2.78	3.22	-0.28	-0.64	0.12	0.74	1.99

IV.	WEF Global Competitiveness Report Country Ranking (of 140 countries)		
	2006-2007	*2011-2012*	*2015-2016*	*2018*
Czech Republic	**29*** *| 38	31	**29*** *
Hungary	41	48	63	48
Poland	48	41	41	37
Slovak Republic	37	**69***	67	41

Source: Own calculations based on The World Bank World Development Indicators and the WEF Global Competitiveness Reports
*Maximal value of the country group between 2007 and 2017
**Minimum of the country group between 2007 and 2017

As a first brief analysis based on the World Bank's WDI database and the WEF's certain Global Competitiveness Reports, we are presenting some selected data about the V4 economies evaluating the country-based growth for the period between 2007 and 2017-18 depending on the availability of the data (Table 1). First of all, the *GDP per capita* in purchasing power parity terms was examined. The lowest value was produced by Poland in 2007 (16,785 USD), while the highest amount was realized in the Czech Republic in 2018 (36,327 USD). The average of the four economies for the period is 25,966 USD. As it might be seen, the Czech and the Slovak Republic maintained the highest levels during the entire interval. Hungary and Poland has been usually at the bottom of the group, however, from 2011 Hungary has been constantly the weakest performer among the four economies. With current data and economic conditions, this trend might become even

more persistent. The absolute winner of the four is definitely the Czech Republic: due to its tight foreign trade activity with Germany, it has always been the most stable economy of the region, even before the dissolution of the Soviet Union. Next, we compared the *annual Gross Domestic Product growth rate* of the V4. It has to be highlighted that financial crisis has been quite severe in all of the analyzed economies having a typical double-dip recession phase in 2012. The lowest value for the period could be experienced in Hungary having -6.6 percent annual growth (2009) and in 2012 (-1.64%).Recession has also been the most protracted in this country. The average of the group is 2.47 percent between 2007 and 2017 that has produced the lowest percentage (1.03%) in case of Hungary. Only in 2016 did Hungary change places with the Slovak economy becoming the second slowest country. The fastest growth rate might be observed in Poland (3.7 percent as an average). As for Hungary, it might be also interesting to check its long-term growth rate: by applying the so-called *Jánossy trendline theory* (Jánossy, 1966), the country's long-term (98 year-long) average growth rate is 1.77 percent for the period of 1920 and 2018. On such basis, we may conclude that Hungary has been neither converging nor diverging towards the centre economies (Soreg, 2018a, pp. 577-578)

Third, we also collected the data referring the net *Foreign Direct Investment (FDI) inflows* as a percentage of GDP by calculating the difference between net inflows and net outflows provided by the World Bank's World Development Indicators database. Generally, CEECs received proportionally the highest amounts of FDI following the regime change by becoming attractive destination countries for investors gaining the numerous advantages of privatization. The second largest wave emerged after the accession to the European Union, as it will be later presented but since the two peaks, in most cases stagnation or rather a decrease might be detected. The lowest average for the period has been produced by the Slovak Republic and the second lowest rate by Hungary. During the first two years of crisis, the smallest percentage of net FDI inflows had been directed to Hungary. The lowest value bottomed in 2013 (0.11%) and since 2014, Hungary has been undergoing a gradual decrease in FDI inflows.

As a forth indicator, we have relied on the World Economic Forum provided *Global Competitiveness Report*[1] choosing only 4 periods. Instead of presenting the Global Competitiveness Index itself, we have rather collected the selected country ranks from the 140 economies the WEF is publishing on a yearly base. The overall highest competitiveness has been obviously produced by the Czech Republic achieving the 29th place among 140 countries in 2006-2007 and in 2018. The Slovak republic held the highest rank within the V4 group during the double-dip recession period. Along with the Slovaks, Hungary is also among the weakly performing economies: in 2018 it was positioned to the 48th place and thus being the least compatible country in the region.

---

[1] The WEF valuates the micro- and macroeconomic bases of different countries' competitiveness by relying on the set of local institutions, policies and certain factors which formulate the productivity level of the economies (WEF, 2019).

On base of our previous findings, it was rational to take a closer look at a different combination of Central Eastern European economies and examining whether Hungary's economic performance might be closer to such countries as Bulgaria, Croatia and Romania (Table 2).

Table 2: Main economic indicators of the B4 countries (2006/07-2017/18)

I.	GDP per capita, PPP (current international $)										
	2007	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*
Bulgaria	**12801****	14329	14146	14934	15676	16208	16571	17534	18186	19500	20948
Croatia	18787	20251	19474	19233	20758	21157	21807	22077	23008	24524	26288
Hungary	19027	20679	20648	21556	22841	23094	24463	25525	26148	26701	**28108***
Romania	13793	16727	16493	16966	17908	18932	19797	20623	21632	23868	26657
II.	GDP growth rate (annual, %)										
	2007	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*
Bulgaria	7.34	6.02	-3.59	1.32	1.91	0.03	0.49	1.84	3.47	3.94	3.81
Croatia	5.28	2.04	**-7.29****	-1.47	-0.34	-2.30	-0.49	-0.09	2.40	3.54	2.92
Hungary	0.43	0.86	-6.60	0.68	1.66	-1.64	2.10	4.23	3.37	2.21	3.99
Romania	6.86	**8.26***	-5.91	-2.81	2.01	2.08	3.51	3.41	3.87	4.80	7.26
III.	FDI net inflow (as a % of GDP)										
	2007	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*
Bulgaria	**29.05***	16.87	6.81	2.48	2.81	2.56	2.95	0.37	5.00	1.33	2.12
Croatia	7.03	5.50	2.90	2.13	2.49	2.75	1.89	3.02	0.36	4.16	2.53
Hungary	1.78	0.89	0.63	2.93	1.32	2.16	**0.11****	2.60	2.22	2.24	1.35
Romania	5.36	6.25	2.68	1.79	1.26	1.90	2.05	1.80	1.85	2.65	2.63
IV.	WEF Global Competiveness Report Country Ranking (of 140 countries)										
	2006-2007			*2011-2012*			*2015-2016*			*2018*	
Bulgaria	72			74			54			51	
Croatia	51			76			77			68	
Hungary	**41****			48			63			48	
Romania	68			**77***			53			52	

Source: Own calculations based on The World Bank World Development Indicators and the WEF Global Competiveness Reports
*Maximal value of the country group between 2007 and 2017
**Minimum of the country group between 2007 and 2017

Similarly to the first set of countries, we have started the comparison of the economies with the PPP based GDP per capita. The lowest average amount as well as the absolute lowest amount has been produced by Bulgaria. It has to be added that currently Bulgaria is the poorest economy of the European Union. According to the Eurostat, the severe material

deprivation rate[1] was the highest in Bulgaria in 2016 (over 30 percent), although it significantly decreased from its 2008 rate (more than 40%). In this aspect, Bulgaria was followed by Romania and the fourth place was held by Hungary. Croatia was classified to the 8th place (Eurostat, 2016). Within the examined country group, the highest average might be detected in Hungary: 23,526 USD. It has been also achieving the biggest amount of GDP per capita in each of the listed year followed by Croatia's performance. As for the annual real GDP growth rate, it might be visible that current country group has also been severely affected by the recent crisis. The lowest value was experienced by Croatia in 2009 (-7.29 percent) and Hungary's fallback (-6.60%) was the second most relevant. The largest average percentage of Gross Domestic Product growth rate is maintained by Bulgaria: as taking off from the lowest point when entering the EU, it has been realizing the fastest increase among the four. Croatia and Hungary are rather closer to a more balanced growth rate that also indicates some stagnation close tendencies in certain periods.

In accordance with Table 1's method, our third factor was the FDI inflow as a proportion of the GDP. As a parallel with the V4, it can be highlighted that a decreasing amount of foreign investments is directed to the region. As an average for the 2007-2017 period, the four economies received 3.54 percent. In case of five separate years (including the latest data available for 2017), the lowest values were experienced by Hungary, so latter might also be viewed as a slow-down phase as well the growing dependency of its economy. It seems that by far, Bulgaria and Croatia are the most prominent countries from foreign investors' aspects. Relying on the data of the Global Competitiveness Reports for the selected periods, it is quite obvious that Bulgaria, Croatia and Romania are lagging behind the V4's ranking: Bulgaria and Romania are categorized as upper-middle income countries representing several risk factors for the potential investors and also, high-value added production for export is also marginal within the region. In 2018 the lowest rank was held by Hungary which at the same time, produced the highest one among the V4 economies. On base of the above-specified indicators it might be concluded that – especially in recent years – Hungary's economic performance is on one hand, represents an outlier case in the Visegrád Four comparison and on the other, slightly approaches the overall level of the B3 countries developing concerns that its dependency is probably becoming even deeper.

After having presented some relevant literature background in Chapter 2 and also, the most important economic growth related indicators/tendencies in current section, we are hereby introducing our research's own definition for *dependent market economies* which will serve

---

[1] „The material deprivation rate is an indicator in EU-SILC that expresses the inability to afford some items considered by most people to be desirable or even necessary to lead an adequate life. The indicator distinguishes between individuals who cannot afford a certain good or service, and those who do not have this good or service for another reason, e.g. because they do not want or do not need it. Severe material deprivation rate is defined as the enforced inability to pay for at least four of the deprivation items." (Eurostat, 2019)

as a base for our further investigation of the CEEC-7 country group. We suppose that economic dependency arises and might become even more concentrated in the long run if

- first, *relying on the FDI inflows becomes the core of short- as well as medium-term economic growth* including the development of such economic policies that definitely favour the investors' interests within the given country (e.g. special sectoral taxes practically designed for a multi- transnational company being active in the domestic market; tax allowances; modifications of certain laws, etc.);

- second, when *the presence of foreign multi- and transnational companies is having a growing influence on the given country's performance* (e.g. having significant labour market outcomes by contributing to the increase or decrease of wages, having negative effect on local firms especially in small towns and rural areas, by attracting a large majority of unskilled or low-skilled workers with obviously higher wages but also higher fluctuation rates and by exporting most of the profit realized in frames of the host country's production);

- third, when the relatively high share of total exports is connected to one or a couple of well-defined trading partners over the years and thus *the economic performance of the top trading countries is having relevant influence on the development of the exporter*.
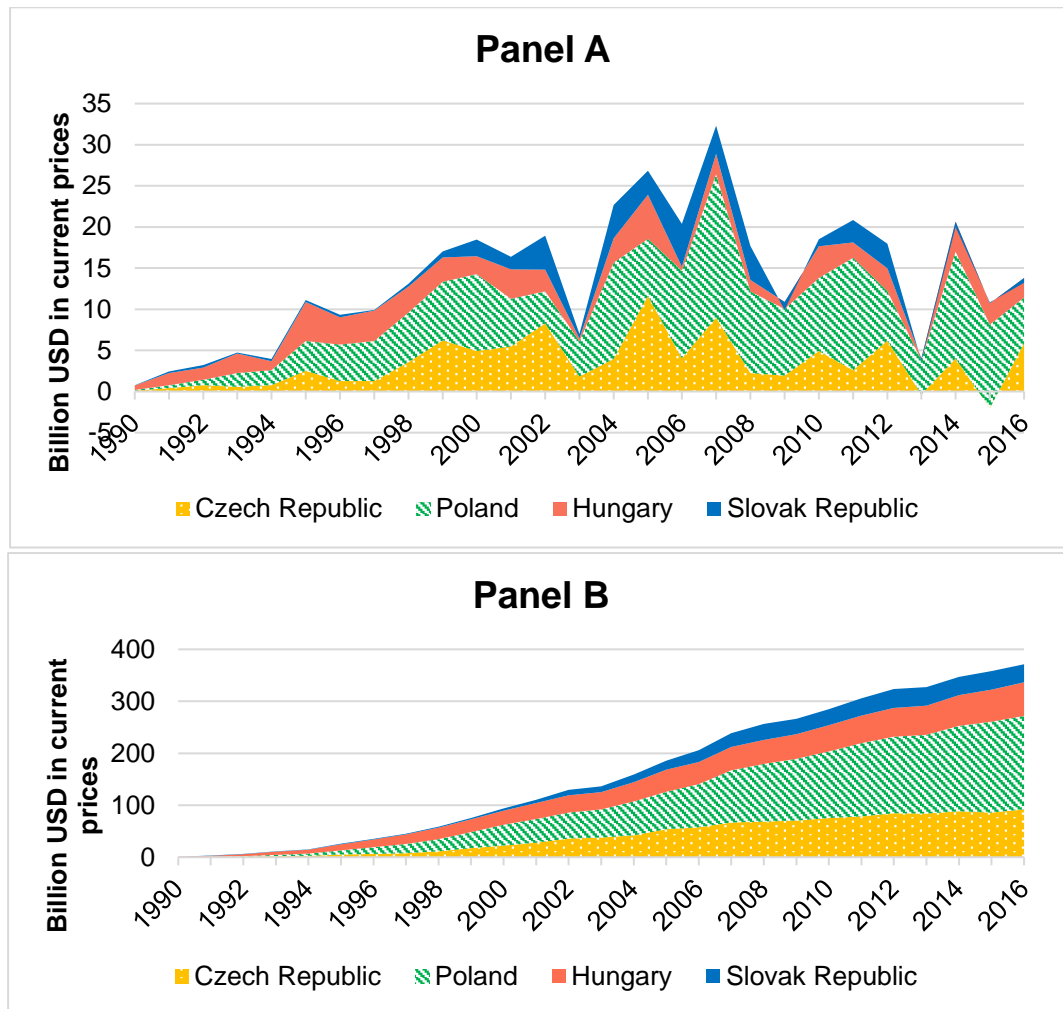
4   Evaluation of Foreign Direct Investment tendencies and effects

In current research we are assuming that a given economy's long-term convergence might be accomplished if significant current account deficit is not accumulated after a relatively longer growth period. A protracted current account deficit period usually contributes to the increase of external indebtedness. Besides, FDI inflows tend to leave a shrinking proportion of capital for the domestic sector (for both local firms and households). After certain time, the expansion of the foreign property rate starts to decrease the difference between Gross Domestic Product and Gross National Income. Concerning massive Foreign Direct Inflows – and at a smaller rate, portfolio investments as well as debt financing – the possibility of a currency crises should be considered. As an example, three such episodes might be presented: the Mexican peso crisis between 1994 and 1995, the East Asian crisis of 1997 and also the Argentinian crisis between 1998 and 2002. It might be noted that latter economies had middle-income level status during the specified periods and also, in each case crises emerged after a high growth phase of the economies.

Figure 1 is indicating the annual and cumulative net FDI in current prices in billion USD for the period of 1990 to 2016. Panel A illustrates the difference between FDI inflow and outflow in current prices (billion USD) calculated relying on the data of the WDI as well as the UNCTADstat. The total areas of the four economies primarily depends on the population of the countries. Latter explains the highest FDI stock volume that has developed in Poland since with its 38 million population, it is representing more than 60

percent of the V4 group. Poland is followed by the Czechs due to the relatively strong interpenetration with the German economy. After Hungary, the Slovak Republic has the smallest FDI balance. On the base of Panel A, three different phases might be distinguished for the period of 1990 and 2016:

- The first period lasted from the regime change until 2003 representing the transition interval before the accession to the European Union. Its main components were the change of the regime, the transition crisis and a relatively high economic growth driven development. Although FDI inflows definitely started to emerge within the region, most foreign investors were rather awaiting the EU access programmed for 2004;

- The second phase could be defined for the period between 2004 and 2008, with latter date as the beginning of the financial and economic crisis in Central Eastern Europe. The accession to the EU greatly contributed to significant foreign direct investment inflows as well as the appearance of several MNCs and TNCs by eliminating trade borders among the countries. For example, in 2007, the biggest FDI balance was achieved by Poland (17.45 billion USD) compared to its previous performance (10.67 billion USD in 2006 and 6.91 billion USD in 2005).

- The third stage has basically started to form after the second deepest wave of recent crisis, following 2012. As our graph proves, in all four countries quite a remarkable fallback was taking place relating FDI but also within the overall economic performance of the Visegrád Four. In the Czech Republic, net FDI balance decreased from 6.18 (2012) to -0.38 billion USD (2013). Since recession was such severe and protracted in the region, it had an immense effect on investors' decisions who – on the base of several indicators and forecasts – considered Central Eastern Europe a highly risky region. The third stage is still being in process nowadays: although recession has been already overcome, its long-term negative effects are still having influence on FDI.
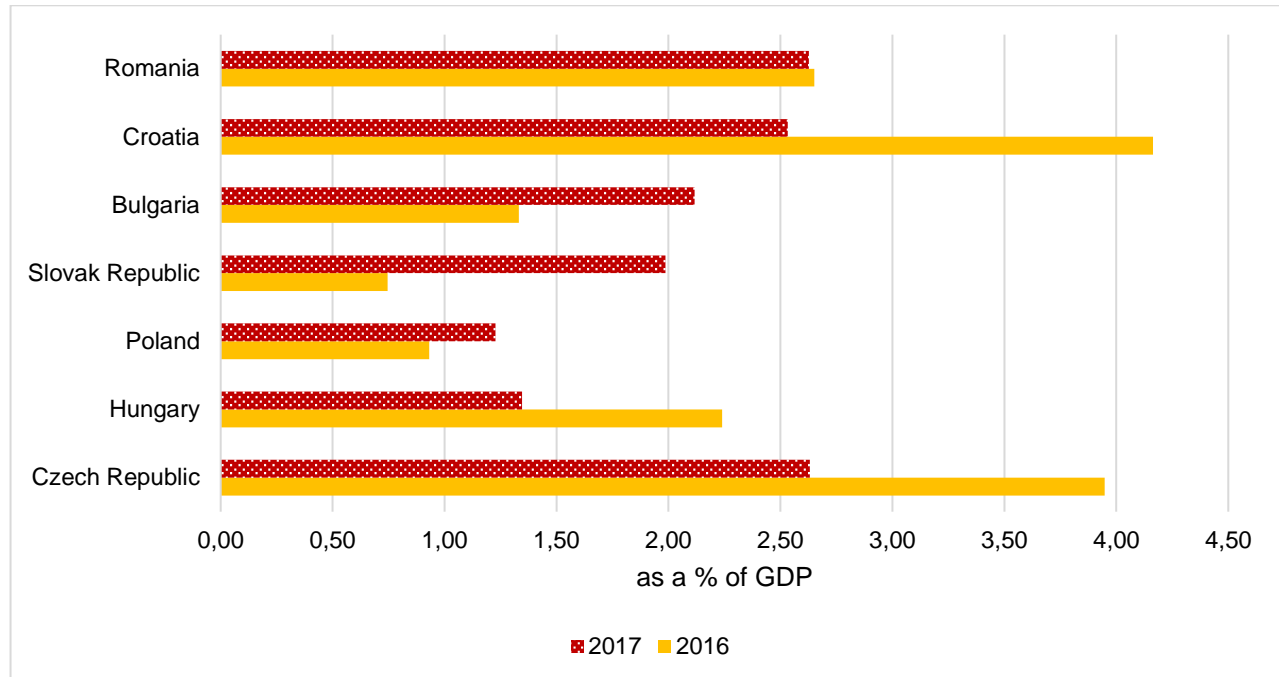
Figure 1: Annual and cumulative net FDI in current prices (billion USD, 1990-2016)

Source: Own calculations based on The World Bank World Development Indicators and the UNCTADstat

Panel B is capturing the cumulative net FDI inflows towards the V4 in billion dollars for the same investigated period. The proportion of FDI inflows had been relatively high for 10-15 years following the change of the regime and its overall increasing tendency in this aspect, might be detected nowadays, although it has been definitely slowing down. It is also important to investigate the cumulative net FDI stock per capita in current USD. In contrast with Figure 1's findings where Poland held the first place due to its high population, latter country is having the lowest FDI value since it has developed a bigger internal market and relatively smaller trade openness compared to other V4 economies. In 2016, the per capita net FDI stock was 4751 USD. The Hungarian and Slovakian values were almost at the same level in recent years (6551 and 6404 USD per capita), while the largest stock could have been detected in the Czech Republic (8703 USD per capita). The Czechs have been holding the first position since 2002 and we should also add, that GDP per capita is also the highest in this economy (The World Bank, 2019 & UNCTADstat, 2019).

In frames of Figure 2, we attempted to visualize the change of net FDI inflows as a percentage of GDP for the V4 and B3 countries from 2016 to 2017 in order to present the main trend within the two country groups. First of all, it might be noted that a decrease in net Foreign Direct Investment inflows was only produced by the Czech Republic, Hungary, Croatia and at a very small rate, Romania. The biggest increase was realized in the Slovak Republic. Let's also add the fact to our analytical approach that the Slovaks were the first to introduce the euro in 2009 and the whole process was carried out in a smooth and successful way following a dual circulation period of both currencies (European Commission, 2009). The graph might also serve as an evidence of our observation about a general decline in FDI towards the CEE region. It seems that currently only Poland, the Slovak Republic and Bulgaria are still representing the most beneficial foreign investment possibilities.

When considering the main aspects of future investors, it might be useful to check some of their analyses. As an example, the Trade Portal developed by the Santander Bank has concluded the following characteristics about Hungary's business environment: among the first, the report highlight the fact that besides the devastative effects caused by the crisis, the biggest trading partners of Hungary (i.e. Germany and the United Kingdom) divested at a higher rate than investing in 2017. Regarding some other relevant risk factors, the high debt-to-GDP ratio is mentioned (72.9 percent by 2017) as well as the introduction of new taxes having negative effects on entire industries: instead of implementing long-run structural reforms, the Hungarian government had only developed a short-term business approach by minimizing certain, most crucial risk factors. What is more, the Hungarian currency has lost its value over the past 10 years at quite a high rate and only marginal research and development focused innovations have been carried out. Energy dependency is also significant and the banking sector is really vulnerable even after 10 years following the economic crisis. Last but not least, corruption has relevantly developed in previous period and the current government's negative attitude towards the European Union are also greatly contributing to the fall of FDI inflows (Santander, 2019). After taking into consideration such aspects, it becomes even clearer why Hungary might be analyzed more realistically together with the B3 countries instead of the traditional V4s. Its dual nature economic base imposes further risks on long-term convergence towards the more developed countries of the region and the EU. The weak domestic sector is being undermined by several MNC/TNC focused economic policies and regulations making the local firms even less competitive at global level. Unskilled or partially skilled workers are not motivated to work for domestic companies due to the much lower wages and thus contribute to the further deepening of such socio-economic dependency of the country.

Figure 2: Net FDI inflows as a percentage of GDP for V4 and B3 countries (2016-2017)

Source: Own calculations based on The World Bank World Development Indicators

5 The role of trans- and multinational companies in Central Eastern Europe

As an extension to our previous, FDI focused chapter, in current section of our paper we are aiming at providing a brief overview of the TNC and MNC presence and activity within the examined region. In 2016, Deloitte published a full report entitled "Central Europe Top 500 – An era for digital transformation" for the period of 2006 and 2016 (Deloitte, 2016). On the other hand, Coface also carried out a deep investigation of certain CEE economies ("The singularity of political risk in Central and Eastern Europe") regarding their business environment (Sielewicz, 2018). These two reports will serve as a base for our analysis due to the poor availability of data in this special sphere.

First of all, on the base of the analyses there are nowadays two significant factors having relevant effect on the inward investment to the region: political risks arising from the elections undergoing in CEE as well as economic acceleration. However, latter region is considered less risky than some other emerging markets of world economy. In terms of freedom and civil liberties, Hungary and Poland are viewed as the most instable countries according to the Coface publication. As an overall tendency, the Central Eastern European economies have become quite "Eurosceptic" with the Czech Republic as the third most Eurosceptic country within the EU (Sielewicz, 2018, p. 1). According to the Freedom House's recent report, the freedom rating for year 2018 is the lowest in case of Hungary

among our examined economies. What is more, Hungary[1] is currently the only economy being rated as "Partly Free" within the entire European Union (70 scores). It is part of the same group as for example, Ukraine, Bosnia-Herzegovina, Serbia, Macedonia, Albania and Montenegro within Europe. This one aspect in itself, is serving as a strong signal for foreign investors when implementing decisions on capital allocation within the region.

Table 3: Freedom rating of certain CEECs (2018)

	2018 Ranking	**Category**
Czech Republic	91	Free
Hungary	*70*	*Partly Free*
Poland	84	Free
Slovak Republic	88	Free
Bulgaria	80	Free
Croatia	85	Free
Romania	81	Free

Source: Data based on the Freedom House's Freedom of the World 2019 Map

It is a well-known fact, that CEE economies are highly dependent on the activity of foreign and in certain cases, local (e.g. MOL in Hungary) multi- and transnational companies. In order to check the current status, we may take a look at the dynamics of the revenues of the top 500 countries: since 2012, after a smaller decrease, revenues have been rather stagnating within the region - 685 billion EUR in 2015 as the latest data (Sielewicz, 2018, p. 11). The median revenue change was the biggest within the real estate sector (19%) between 2014 and 2015 and also within manufacturing (7.4%). In the country approach, the Checks experienced a 6.9 percent median revenue change while in Hungary latter achieved 6.1% for the same period largely due to the appearance of such multinationals as the Mercedes and the extended activity of Audi (Sielewicz, 2018, p. 14). According to the Deloitte research[2], the following three sectors are represented at a highest rate by foreign companies: consumer business and transportation, manufacturing as well as energy and resources (Sielewicz, 2018, p. 15). The report also provides the top 500 list of the biggest companies by revenue in Central Eastern Europe. Within the top 10 firms, Poland represented the biggest share with four companies (PKN Orlen, Jeronimo Martins Polska, PGNiG and PGE) and Hungary was the second biggest player with three companies (MOL, Audi Hungaria Motor and GE Infrastructure CEE) followed by two firms' revenues of the Czech Republic (Sielewicz, 2018, p. 50).

---

[1] *„Hungary's status declined from Free to Partly Free due to sustained attacks on the country's democratic institutions by Prime Minister Viktor Orbán's Fidesz party, which has used its parliamentary supermajority to impose restrictions on or assert control over the opposition, the media, religious groups, academia, NGOs, the courts, asylum seekers, and the private sector since 2010."* (Freedom House, 2019, p. 13)

[2] Deloitte is taking into account the classic, full-coverage Central Eastern European country list, although in the title, the company is using Central Europe as a geographic region.

Besides the usual business orientated approach, the presence of foreign companies within the region is also crucial – and thus also contributes to the further growth of dependency of the countries – from the point of view of employment. In 2014, foreign-owned firms provided approximately 25 percent of jobs within the private sector and 53 percent within latter's value added production in case of Hungary with the exception of the agricultural and financial sector (OECD, 2017, p. 3). As for the B3s, it can be outlined that this country group – despite the obviously higher risks within their business environment – might still provide significant advantages for the investing companies on the base of their higher annual GDP growth rate, lower labour costs and higher dependency on FDI itself compared to the Visegrád countries. Another aspect has also relevant role in the European Union as a whole and especially in countries which strongly rely on TNC and MNC presence: those labourers that fall out of this "circle" (e.g. in lack of qualification, foreign language skills, etc.), tend to move towards some precarious types of employment that will further destabilize their financial background. Such precarious – or atypical – forms of employment might be the following: part-time work, self-employment, zero-hour contracts or even undeclared forms of labour (Artner – Soreg, 2018, pp. 80-86).

6   Economic dependence on the biggest trading partners' performance

As the third factor of our definition for dependent market economies, we are applying a trade based approach by investigating the relationship between Central Eastern European Countries' and their most relevant trading partners' economic interactions.

Table 4: Largest import and export trading partners of V4 and B3 countries (2017)

	Main import partners (%)		Main export partners (%)			Main import partners (%)		Main export partners (%)	
Czech Rep.	Germany	29.8	Germany	32.8	**Bulgaria**	Germany	12,3	Germany	13,5
	Poland	9.1	Slovak Rep.	7.8		Russia	10,3	Italy	8,3
	China	7.4	Poland	6.1		Italy	7,3	Romania	8,2
	Slovak Rep.	5.8	France	5.1		Romania	7,1	Turkey	7,7
	Netherlands	5.3	UK	4.9		Turkey	6,2	Greece	6,5
Poland	Germany	27.9	Germany	27.4	**Croatia**	Germany	15,7	Italy	13,4
	China	8	Czech Rep.	6.4		Italy	12,9	Germany	12,2
	Russia	6.4	UK	6.4		Slovenia	10	Slovenia	10,6
	Netherlands	6	France	5.6		Hungary	7,5	Bosnia & Herz.	9,8
	Italy	5.3	Italy	4.9		Austria	7,5	Austria	6,2
Slovak Rep.	Germany	19.1	Germany	20.7	**Romania**	Germany	20	Germany	23
	Czech Rep.	16.3	Czech Rep.	11.6		Italy	10	Italy	11,2
	Austria	10.3	Poland	7.7		Hungary	7,5	France	6,8
	Poland	6.5	France	6.3		Poland	5,5	Hungary	4,7
	Hungary	6.4	Italy	6.1		France	5,3	UK	4,1

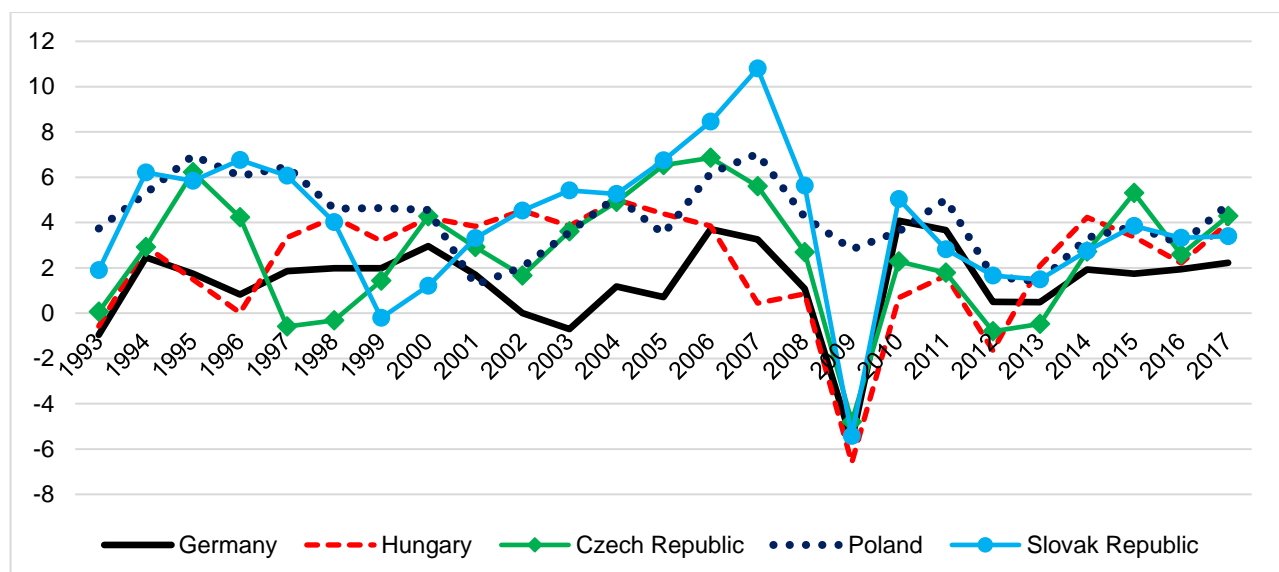| Hungary	Main import partners (%)		Hungary	Main export partners (%)	
	Germany	26.2		Germany	27.7
	Austria	6.3		Romania	5.4
	China	5.9		Italy	5.1
	Poland	5.5		Austria	5
	Slovak Rep.	5.3		Slovak Rep.	4.8

Source: Data based on the CIA World Factbook (2019)

Relying on Table 4's report on the most significant trading partners of the V4 and B3 economies, it can be concluded that both in import and export terms Germany is representing the most important trading country – in absolute as well as relative terms – for all seven economies. On such basis, Germany's overall economic performance has strong influence on its Central Eastern European partners including acceleration and decrease periods in its development path. Besides Germany, the following countries are also playing a vital role regarding imports: China, Austria and Italy. We may also note that in the B3 countries some extra-EU economies are also playing a vital role in trade, as for example Russia, Turkey and Bosnia-Herzegovina. Although Germany is also the top trading partner within latter mini region, we have to add that – due to historical as well as geographical reasons – its total share is much lower than in case of the Visegrád economies. Relying on Table 4's data, we have also made a short analysis of market concentration by using the Herfindahl-Hirschman Index (HHI)[1] for the top 5 export partners of the V4 and B3 economies. As a result, the highest dependency can be detected in the Czech Republic (HHI: 1223.91) followed by Poland (HHI: 888.1) and Hungary (870.5). The least dependent country is the Slovak Republic, having only 699.24 points as it might be seen by the smallest proportion of export to Germany (20.7 percent). After preparing the same calculation for the B3 countries, we may see that the region is less dependent on export activity than the Visegrád economies. The least dependent country is Bulgaria (419.92 points), the second most favorable place is held by Croatia (575.24 points) and the highest HHI has been indicated in Romania (739.58 points). When applying latter method, the World Factbook database provided by the CIA was used for all the calculations (CIA, 2019).

In order to detect such dependence, we have illustrated one of the main economic indicators, the annual real GDP growth rate for examining the German and V4 relationship. Germany has been maintaining tight trade relations with CEE since the 1970s German Ostpolitik (Farkas, 2016, p. 2). It is quite obvious that the four countrys' growth rate has been following the German trend through trade interactions. In 2009, after the economic and financial crisis had reached the region, Germany experienced relevant fallback in GDP growth (-5.62 percent) reaching the second lowest rate among the five examined countries.

---

[1] The Herfindahl-Hirschman Index (HHI) is a commonly used measure for market concentration which might be calculated by squaring the shares and also summing them. The result might range from almost 0 to 10,000.

However, the double dip recession was not that protracted and deep than in case of Hungary and the Czech Republic. Latter two economies are being the most dependent on the German performance. It has been also concluded by other researches that the V4's growth has been undergoing more rapidly than it could have been explained only by their initial incomes since their active and long-term participation in the German supply chain might have a strong effect on latter statement (Farkas, 2016, p. 6). FDI inflows arriving from Germany are having immense contribution on the CEECs manufacturing industry development. The largest amounts of FDI inflow stock concentrates in the Polish and Hungarian economy (Farkas, 2016, pp. 7-8). After having seen the core issue of trade-driven dependency, a question might arise about the future tendencies within the analyzed economies' overall development as well as convergence. What might happen if the biggest trading partners – and primarily Germany – lose their interest in further tightening of commercial relations due to some social, political or negative economic scenarios based reasons? It is sure that latter possible outcome would have a devastative effect on the further growth of transition economies. Still, it doesn't have to be forgotten that trade relations have dual nature: Germany is also heavily relying on its CEE country base.

Figure 3: Annual real GDP growth rate of the V4 and Germany in % (1993-2017)

Source: Own calculations based on The World Bank World Development Indicators

7   Conclusion

In our 21st century world economy, social, political and economic development tendencies as well as power shifts have been undergoing at faster rates than ever due to the concentration of globalization all across the main regions of the world. Still, it might be noticed that certain country groups or individual economies have become even more vulnerable than a couple of decades ago. Current study has made an attempt to present

the recent growth path of a special country club that has been experiencing quite a contradictious development scenario. Although we have selected only seven nation states – the Czech Republic, Hungary, Poland and Slovakia as the V4 as well as Bulgaria, Croatia and Romania as the B3 – within the classical Central Eastern European region, it has been proven that even within such a small group, development and economic growth might produce significantly different variations.

The paper introduced a new definition for the phenomenon of dependent market economies through the example of the CEEC-7 group by assuming that such economic dependency arises and might become even more concentrated in the long run if first, relying at the FDI inflows becomes the core of short- as well as medium-term economic growth, second, when the presence of foreign multi- and transnational companies is having a growing influence on the given country's performance (e.g. having crucial labour market effects) and third, when the relatively high share of total exports is connected to one or a couple of trading partners over the years and thus the economic performance of the top trading countries – for example, Germany – is having relevant influence on the development of the exporter. By analyzing all three aspects, we may conclude that the examined economies might definitely be considered as highly dependent market economies having on one hand, the historical burden of the post-communist regime and on the other, in some cases (e.g. Hungary), a short-run orientated vision of further development. Of course, the magnitude of such dependency may vary but in the long run, it can have a truly negative effect on the catching-up or convergence to the more developed countries.

Within the research, we have been paying a special attention to Hungary since its growth path turned out to be the most contradictious in the group. Due to certain endogen factors, its performance has generally slowed down in recent years and it has also developed a dual structure of economy with a strong multinational and transnational based sector highly integrated into world economy and a weak domestic market that is not competitive on international level due to low value added production and the lack of high quality human capital base. This is the main reason why we have compared Hungary's main economic indices and tendencies separately to the three Visegrád countries and the Balkan economies. On the base of our calculations as well as several other researches results, the first hypothesis stating that Hungary has been showing a diverging tendency from the Visegrád group in recent years, has been thus proven. What is more, after having examined the recent growth path of CEE economies, our second hypothesis stating that integrated peripheries – due to certain asymmetric interdependencies – are not likely to produce significant long-term economic convergence to the centre economies with the current conditions of global capitalism and a strongly FDI based growth path they have developed, is also accepted. Also, latter processes might increase the possibility of the so-called middle-income trap phenomenon. According to certain studies, such trap was already experienced by Poland (between 1976 and 1989) as well as Hungary (between

1979-1989 and 2006-2015) within the Central Eastern European region (Soreg, 2018b, p. 12).

What might be the next step for the CEE region in order to become a competitive economic country group attracting significant foreign investors but not narrowing its development path on latter factor as the only strategy? First of all, policy makers should gradually restructure current growth scenarios by adopting a long-term approach and instead of continuing the "marketing" of the region as a large pool of cheap labour force specializing in mainly assembling activities and focus on the increase of R+D investments as well as large-scale human capital development. We believe that the main inputs are given for these intentions. Secondly, certain economies (e.g. Hungary) should start to decrease the social and political tensions developed in recent years and instead of diverging from the European Union's core policies, values and centre economies, introduce structural reforms to dissolute the dual economy that is definitely functioning as a crisis phenomenon in the long term.

References

ARTNER, A. (2014). *Tőke, munka, válság a globalizáció korában [Capital, Labour and Crisis in the Era of Globalization].* Budapest: Akadémiai Kiadó Zrt.

ARTNER, A. and SOREG, K. (2018). Worrying Labour Market Tendencies in the European Union. *Romanian Journal of European Affairs.* 2018, Vol. 18, No. 1, pp. 71-92.

CIA (2019). The World Factbook. https://www.cia.gov/library/publications/the-world-factbook/

DELOITTE (2016). Central Europe Top 500. An era of digital transformation 2006-2016. https://www2.deloitte.com/ce/en/pages/about-deloitte/articles/central-europe-top500.html

EUROPEAN COMMISSION (2009). *Slovakia joins the euro.* Economic and Financial Affairs. http://ec.europa.eu/economy_finance/articles/euro/article13563_en.htm

EUROSTAT (2018). *Severe material deprivation rate, 2008 and 2016 (%).* Eurostat. Statistics Explained. https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Severe_material_deprivation_rate,_2008_and_2016_(%25)_QoL18.png

FARKAS, B. (2016). *Economic and Political Relations between Germany and Visegrád Countries in Turbulent Times.* ECPR General Conference, Charles University in Prague, Prague, 7-10 September 2016. https://ecpr.eu/Filestore/PaperProposal/e7062017-80d6-45c3-a3f2-bf6008d6b9bb.pdf

FREEDOM HOUSE (2019). *Freedom in the world 2019.* https://freedomhouse.org/sites/default/files/Feb2019_FH_FITW_2019_Report_ForWeb-compressed.pdf

GAL, Z. and SCHMIDT, A. (2017). Geoeconomics in Central and Eastern Europe. Implications of FDI. In: MUNOZ, J. M (Ed.) Advances in Geoeconomics. London; New York: Routledge Taylor & Francis Group, 2017. pp. 76-93.

HALL, P. A. (2017). *Varieties of Capitalism in Light of the Euro Crisis.* Forthcoming in a special issue on 'Theory Meets Crisis' of the Journal of European Public Policy. https://scholar.harvard.edu/files/hall/files/euflorencefeb2017.pdf

HALL, P. A. and SOSKICE, D. (2001). *Varieties of Capitalism. The Institutional Foundations of Comparative Advantage.* Oxford: OXFORD University Press.

JÁNOSSY, F. (1966). *A gazdasági fejlődés trendvonala és a helyreállítási periódusok. [The End of the Economic Miracle: Appearance and Reality in Economic Development].* Budapest: Közgazdasági és Jogi Könyvkiadó.

KING, L. (2007). *Central European Capitalism in Comparative Perspective.* In HANCKÉ, B., RHODES, M. and THATCHER, M. (Eds.), *Beyond Varieties of Capitalism: Conflict, Contradictions, and Complementarities in the European Economy.* Oxford: Oxford University Press.

NÖLKE, A. and VLIEGENTHART, A. (2009). The Emergence of Dependent Market Economies in East Central Europe. *World Politics.* 2009, Vol. 61, No. 4, pp. 670–702.

OECD (2017). *Hungary. Trade and Investment Statistical Note.* International trade, foreign direct investment and global value chains. http://www.oecd.org/investment/HUNGARY-trade-investment-statistical-country-note.pdf

SANTANDER (2019). *Hungary: Foreign Investment.* Santander Trade Portal. https://en.portal.santandertrade.com/establish-overseas/hungary/foreign-investment

SIELEWICZ, G. (2018). *The singularity of political risk in Central and Eastern Europe.* Coface Economic Publications. March 2018. file:///D:/Tanulm%C3%A1nyok/Oktat%C3%A1s/Soproni_Egyetem/2018_2019_2_tavasz/Sectoral_Analysis/FOCUS-300318-CEE+POLITICAL+RISKS.pdf

SOREG, K. (2018a). Long-Term Growth Dynamics of Emerging Economies In Light of Jánossy's Trendline Theory. *PEOPLE: International Journal of Social Science.* 2018, Vol. 4, No. 1, pp. 571-590.

SOREG, K. (2018b). Post-Crisis Growth and Development Slowdown of Central Eastern European Countries from the Middle-Income Trap Perspective. World Journal of Applied Economics. 2018, Volume 4, No. 1, pp. 1-20.

SZNAJDER LEE, A. (2011). *Testing Dependent Capitalism in Central and Eastern Europe: Economic Crisis and Convergence?* EUSA conference in Boston, USA. 3-5 March 2011. https://eustudies.org/assets/files/papers/Sznajder%20Lee_EUSA%202011%20paper%20final.pdf

THE WORLD BANK (2019). *World Development Indicators.* Data Catalogue. https://datacatalog.worldbank.org/dataset/world-development-indicators

UNCTADSTAT (2019): Data Center. https://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sCS_ChosenLang=en

VERES, M. (2018). *Yesterday's FDI Dependency Remains Today's Reality. The evolution of Hungary's external trade, and the relevance of Germany since 1990.* Friedrich Ebert Stiftung Analysis, Budapest. http://library.fes.de/pdf-files/bueros/budapest/14212.pdf

WEF (2006). The Global Competitiveness Report 2006-2007. Geneva, Switzerland. http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2006-07.pdf

WEF (2011). The Global Competitiveness Report 2011-2012. Geneva, Switzerland. http://www3.weforum.org/docs/WEF_GCR_Report_2011-12.pdf

WEF (2015). The Global Competitiveness Report 2015-2016. Geneva, Switzerland. http://www3.weforum.org/docs/gcr/2015-2016/Global_Competitiveness_Report_2015-2016.pdf

WEF (2018). *The Global Competitiveness Report 2018.* Geneva, Switzerland. https://www.weforum.org/reports/the-global-competitveness-report-2018