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TRANSNATIONAL COMPANY RELATIONS AND HUNGARY

*Tibor Palankai**

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I. INTRODUCTION

Exploiting the advantages of international division of labor has in recent years become a most important key to successful adjustment to the world economy. Various countries and companies have also chosen the strategy of "fleeing forward" in the years of international recession. International division of labor, or transnationalization of company relations, has accelerated, particularly within the leading firms of the industrialized capitalist countries. However, it is also occurring in some Third World countries, especially the so-called newly-industrializing countries (NICs). These countries have become the center of Third World expansion of transnational enterprises, and some of their national companies have joined the ranks of transnational enterprises.

II. THE LEADERS IN MODERN TECHNOLOGY

Transnationalization includes not only the intracompany division of labor and business but also the wider fields of intercompany cooperation with other international companies, with partners, or with subcontractors. Since these two aspects can be difficult to distinguish, it is enough to think of transnationalization as any extension of intracompany management beyond the company, such as inventory management, the infrastructure of enterprise communication, and so forth. "The transnational division of labor is nothing but the internal integration of product development, manufacturing and sales of certain company organizations that step over national frontiers."[1]

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1. Peter Margittai, *Kolcsonosseg a transznacionalis munkamegosztasban* ("Mutuality in the Transnational Division of Labour") (Research Inst. of Cycles and Markets, Budapest, June 9, 1980).

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The acceleration of transnationalization is closely interlinked with both developments in and requirements of new technologies. Because research and development capabilities of industrialized capitalist nations are overwhelmingly concentrated in transnational enterprises, these companies control both development and flow of new technology. (International technology transfer, by contrast, flows mainly within a company or between cooperating enterprises.)

Because transnational enterprises have the intellectual and material resources for accelerated innovation, it is primarily these companies which realize the superprofits of such innovation. Revolutionary scientific and technological advances allow for significant expansion of international cooperation; at the same time, exploiting the advantages of such cooperation requires wide international markets and impulses. The development, manufacture, and marketing of those goods which have come out of new technology cannot be imagined without big business capital. Only the company system which maneuvers and transacts business on a transnational scale can minimize costs, optimally allocate and use resources on an international scale, and guarantee the stability of markets. Such an enterprise is best able to follow consumer demand both quickly and flexibly. The transnational company system makes the direct production process international and concentrates the exploitation of the advantages of division of labor on intracompany or direct intercompany links. Market segments increasingly recognize that the operations of the transnational company determines world market prices.

Cooperation between transnational enterprises has necessarily become the dominant form of international division of labor, which emphasizes a complex relationship among all agents in the production process, instead of the traditional form of simple exchange. This relationship, which concentrates the possibilities of benefit from international division of labor in the transnational enterprise, forces the national economies to elaborate new strategies and policies whether they like it or not. Today a nation's international economic policy can succeed only by restructuring its national companies in the form of transnational enterprises.

The interlinking transnational enterprise system came into being with modern scientific developments. In turn, as the new model of effective use of productive forces, it accelerates scientific innovation. The development of transnational enterprise links has become the necessary framework for, as well as the measure of, company adjustment to the new conditions of the world economy since the 1970s.

III. National Strategies

Expert evaluation of the role of the transnational enterprise in a nation's adjustment to the world economy is ambivalent. Transnationals are hailed as either the answer to the world's problems or as the source of every evil in the world economy.

This modern form of international monopoly subordinates optimization of activities, development of external economic relations, and expansion to the profit maximization which monopoly affords. Consequently, it is not at all certain that the ambitions and policies of these companies contribute to an optimum of national economy. The company itself pursues maximum efficiency and profit, and its activity can distort the national economic structure. Thus, cooperation by a national government with transnational enterprises may bring about not only adjustment to the world economy but also severe dependence on other nations, as well as economic exploitation. The transnationalization process can be particularly dangerous for small national economies. Overdependence on transnationals can make a country vulnerable on both the export and the import side.

At the same time, both companies and governments have increasingly recognized the importance of transnational company relations to success in the world economy. Thus external economic policy in increasing numbers of nations depends upon promotion of nationalization. Cooperation with foreign firms provides for direct transfer of the impulses of international economy and thus reduces the time necessary for national adjustment to the world economic process.

Because transnationalization thwarts the purposes of classic economic policy — employment and external economic balance — both originating and receiving countries have long expressed reservations. Still, a positive, supporting attitude has remained alive since the 1970s. National states use various forms to promote the outward, international expansion of their companies to foster strategic and political interests. By the same token, the immigration of foreign capital and manufacturing can enhance the national economy by modernizing its structure, increasing its efficiency, and improving its external balance by reducing imports or increasing exports.[2]

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2. Norman Tebbit, ex-Minister of Industry for Great Britain, said: "No doubt for the British, it is better to buy Japanese cars assembled by British workers than German cars assembled by the Turks" (reference to the assembly plant of Nissan in Britain).

It is generally recognized that the policy towards transnationals is not simply one of liberalization. Naturally, transnational enterprises will follow their own interests and may adversely affect national economies of basis and receiving countries.

The 1984 White Book of the Irish government on industrial policy, for example, emphasizes the penetration of foreign firms but it also warns that their activity should be integrated into the national economy. It offers priority to the companies that implement not simply one sort of activity but rather all of the crucial enterprise functions — research and development, modern marketing, and so on. It expects from the foreign firms increased employment, maximization of value added, expensive reinvestment of profits in the receiving country, and improvement of external economic balance. To reach these goals, the Irish use both economic incentives, such as government subsidies and tax rebates, and administrative measures, such as investment licensing.

The one-sided and exaggerated national attitudes towards transnational enterprises — that is, either unlimited acceptance or absolute rejection — have consistently lost ground in the 1980s. The transnational enterprise is at once a form of capital and a production framework. A well-considered, comprehensive economic policy can defend even the small, developing country against the negative effects of foreign investment by finding compromises that coordinate the interests of the companies and national economies concerned.

Such a policy is naturally the function of the given social conditions and power positions. Under the changed international power relations and conditions (New International Economic Order), transnational corporations tend to show more willingness to seek compromise with the Third World instead of confrontation. During the past fifteen years, certain industrialized countries have reconsidered their economic strategy. By incorporating the function of capital imports into their economic policy, they have contributed not only to the acceleration of various countries' economic growth and modernization of production structure but also to the improvement of these countries' exporting capacities.[3] It is more and more accepted that transnational enterprises require strategic treatment in economic policy.

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3. Andras Inotai, *A kulfoldi tokebefektetesek szabalyozasanak jellemzoi nemzetkozi osszehasonlitasban* ("Characteristics of the Regulation of Foreign Capital in International Comparison"), KULGAZDASAG ("External Economy") (Dec. 21, 1985).

IV. Possibilities and Constraints of Hungarian Firms

Hungary's attention centers essentially on acquiring foreign capital resources and modern technology. Because optimal exploitation of the advantages of today's international division of labor depends on the complex transnational industrial structure, it is crucial that Hungary extend its traditional foreign trade links to develop necessary access to new technology and to mobilize external capital resources.[4]

Direct manufaturing cooperation and company links can allow Hungary to avoid monopoly prices for important spare parts and also to benefit directly from the efficiency of division of labor. Links with transnational corporations can bring to the national economy stricter standards of technology and quality, as well as raise the level of organizational and management capabilities. Furthermore, one cannot overlook the role of company links in providing access to foreign markets.

However, while various Hungarian firms have taken the first steps toward joining the transnational enterprise structure, the process is a slow one because: (1) of the limited scale and capital of Hungarian companies and (2) of the scarcity of experts in the fields of advanced technology and transnational business. That is, Hungary lacks the company background, system of institutions, and government regulation necessary for truly effective activity abroad. Moreover, Hungary is in many cases unable to accept to any useful degree the advanced technology or management methods which characterize transnational operations.

Legislation concerning the share of foreign capital, repatriation of profits, and customs-free zones has improved the conditions of manufacturing cooperation, joint venture, and foreign investment in Hungary. The coming years will tell whether these measures are sufficient.

Despite these improved conditions, the attitude that transnational business relations are not natural economic activities appears to prevail. This view considers that transnational cooperation encourages chiefly negative consequences — dependence, exploitation, and technological colonization, among others. Thus, foreign companies should be "let in" only as a temporary expedient and resorted to only

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4. This issue is considered extensively in Hungarian literature. Particularly worthy of mention is the discussion in the journal KULGAZDASAG ("External Economy") with the participation of Zoltan Krasznai, Mihaly Laki, Peter Margittai, Ferenc Kozma, Ferenc Redei, Andras Inotai et. al.

within narrow, strictly determined bounds.[5] Hungary's foreign capital regulation, which is severe, compared to that of other countries, can easily discourage direct international cooperation of enterprises.

Moreover, capitalist propaganda warns firms against becoming "hostage capital." Foreign companies express political and ideological reservations, even though they generally consider the socialist countries to be reliable partners and safe arenas of cooperation.

Also, the experience of other countries demonstrates that a simple admission policy, that is, either letting business in or not letting it in, does not answer the needs of foreign capital investment. Foreign firms want large-scale, broad preferences in the form of tax breaks, customs advantages, and subsidies. Investors give much attention to a nation's economic policy, institutional system, regulation, and administrative and legal stipulations, such as licensing. They explain the lack of Western capital investment in the so-called centrally planned countries as the result of exaggerated bureaucracy, confusing and unpredictable planning, and unsophisticated management systems. This phenomenon indicates the importance of clear, simple regulation. One must emphasize that this is only an external condition. Certainly international cooperation presupposes strong interest or economic benefit (cost reduction or entrance to markets, for instance) behind it, to make attractive what is otherwise risky, difficult, and expensive.

Preferential treatment of foreign capital is, in no way, a subordination of national interests to foreign monopolies. One can cite many examples from the experience of Third World or smaller capitalist countries, where beneficial compromise has coordinated the interests of foreign firms and receiving countries within the framework of a complex and well-elaborated economic strategy and policy. Thus, both nations have been able to enjoy the advantages attendant on the international division of labor.

From one perspective, the negative effects of transnational monopolies are undeniable. However, behind these is always a severe, one-sided dependence arising out of the given country's particular economic facts, the corrupt behavior of bourgeoisie or ruling classes that abandon national interests, or the lack of a coherent policy for realizing nation interests.

5. *See* Inotai, *supra* note 3. ("While in the earlier period, the age of abundant capital, importers could better determine the conditions of capital realization, since 1979-80 as a consequence of the international shortage of liquidity and other factors, the position of capital exporters or better say, the position of international productive capital has undoubtedly been strengthened.").

Foreign investors are generally motivated by a desire to preserve capital or to reach external capital sources. A particular investment will be chosen in most cases, either because it is cheaper or because it can be realized under more favorable conditions of capital than in other places. Behind the purchase of foreign firms or manufacturing plants lies the evident rationale that it costs less to acquire given capacities or market positions in this way than by direct investment in the development of one's own capacities. Although market or technology acquisition may determine a particular investment decision, capital savings remains the factor of greatest importance.

By participating in local national markets, a transnational enterprise hopes to optimize its capital requirement — that is, mobilize local capital, accelerate circulation, and reduce financing costs — by taking advantage of international money and credit markets. Thus, in the actual world economy, it is not simply "surplus" foreign capital which tries to find investment options. Paradoxically, while foreign investment or capital participation helps a given country to reach additional existing sources, it helps the investor company to save capital, too. That is to say, on the enterprise level, foreign investment appears also as "capital imports." A similar paradox characterizes the technology transfer, with the foreign firm bringing modern technology while it tries to use local technological development capacities.

Bearing in mind these advantages to the investing company, one must re-examine Hungary's possibilities for cooperation with transnationals. One blames capital shortage for missed opportunities to exploit the international division of labor. Also, some situations simply demand direct investment. Finally, the most attractive transnational opportunities require "up front" money. However, while these are actual factors, they are only a part of the picture. By (1) revealing economical and attractive investment possibilities and (2) participating actively in local capital markets, Hungarian firms can acquire external capital resources and achieve a net capital receiving position. In this way, foreign capital participation can be realized both through the investment by foreign firms in Hungary and also through the foreign cooperation of Hungarian domestic enterprises.

Thus far, Hungary has taken only the initial steps in either direction. It seems certain, however, that foreign capital participation can be realized only by (1) development and modernization of Hungary's domestic capital market, (2) increased connections to foreign capital markets, and (3) broader and more active participation and maneuvering of our domestic firms.

Encouragement and regulation of new organizational structures, technological modernization, and world economic adjustment increas-

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ingly depend upon international monetary and credit mechanisms. Although the lack of convertible national currencies did not halt traditional commercial relations between East and West, the transnational character of today's world economy has changed the situation. It is already impossible to imagine the optimization of resource allocation, decisions and management of international scale, and operation and international links of the capital market without a kind of convertibility of the national currency.

It is worthwhile to mention separately the issue of a foreign investor's share of ownership, a question many critics consider crucial in regulation. However, the legal possibility of a majority share, absent other interests or motivations, does not by itself attract foreign capital. The ownership share appears to be of particular concern only when the field of investment has strategic importance for the investor's company.

Many joint ventures have been established, for instance, where the law allows only a minority share for foreigners. This pattern is similar to what one observes in national governments that maintain an active foreign capital policy. These states protect only the strategic spheres of the national economy with majority share restrictions, allowing up to one hundred per cent foreign ownership in the "neutral" spheres. The neutral zone where both parties can disregard their strategic, political interests and let economic interests determine ownership share can be extremely wide.

The vital element here is a well-elaborated cooperation policy. Where the fifty-fifty "marriage" substitutes for such a policy, the results do not produce the efficiency and market advantages expected. The projects are viable only under special conditions or lasting mutual interests, and they readily disintegrate because of control conflicts or prestige interests. Changing conditions easily imbalance the special compromises underlying these "marriages" and can lead to the breaking-off of relations. Evidently, the hard decisions necessary to bring about effective adjustment to the world economy are possible only where the cooperating companies have developed a framework of advanced integration and internal reconciliation of interests.

The goal of foreign expansion is mainly to reach markets, usually large domestic markets, such as those of India, Brazil, or China. A small country can be a preferred field of investment for foreign firms if it is a stepping-stone to wider markets. The question, then, is not whether foreign enterprise will invest, but which nation offers the most generous conditions for cooperation and the readiest access to other markets.

While Hungary's domestic market is small, capitalist corporations are essentially interested in access to CMEA markets. Because of the growing CMEA demand for "hard," or essential, items, there are good possibilities of concerting these interests. It is important to remember that merely attracting foreign capital is not enough to obviate the problem of vulnerability to external business cycles. A well-developed policy framework is essential to the improvement of the external balance of trade. Such a liberal, sophisticated policy of cooperation would not only make Hungarian markets attractive to foreign capital but could also bring about trade in the opposite direction as well.

The import requirement of foreign capital investment is often regarded as a deteriorating factor of balance of payments. However, the willingness and obligation of the foreign firm to export can more than compensate for this factor. The imports of up-to-date background capacities or their products strengthens the spin-off effects of structural and technological development in other branches of the economy.

Various examples from the Third World demonstrate that rigorous domestic regulation in itself will not deter foreign capital investment if local industry maintains the requisite high standards. Furthermore, the improved quality, technology, and efficiency which foreign investors require of domestic industry are a strong incentive to adjust. Many governments have realized that such adjustment coincides with the fundamental interests of domestic industrialization.

For real market competition, national enterprises must be fully independent, and appropriately regulated import competition must be encouraged. If Hungary is to adjust to the world economy, a well-elaborated and complex export and import policy is indispensable. Direct competition of transnational enterprises on various domestic markets has played a significant role in the adjustment to the world economy. Significantly, the monopolistic advantage of Hungarian markets has only been slightly diminished, and has even be strengthened in some fields, such as import restrictions.

Infrastructure weaknesses appear to be a significant deterrent to development of Hungary's international relations and competitive stance in a world economy. Foreign investors are more concerned over our inadequate communications system than our technological backwardness or lesser economic efficiency in certain fields. Electronic data processing and telecommunication are often referred to as the railway system of today, the age of a new technological revolution. It can lead to catastrophic consequences for Hungary's adjustment to and participation in the world economy if Hungary does not develop its system rapidly enough and with adequate "gauge."