

The investment's role in the expansion of innovation particularly on the South-Alföld Region in Hungary

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The aim of investment is growth and development. Its efficiency depends on the increase of competitiveness, which can only be realized in light of the utmost consideration of innovation. The role of innovation in growth has been proved by a number of economists. According to the famous economist, Joseph Schumpeter, growth stages are characterized by mass innovation. He also emphasises that in a national economy „the entrepreneur is neither who develops new technical methods, nor the owner of capital but someone who organizes work force, capital and technical innovation economically in order to gain further profit.

Innovation is the basement of competitiveness of small and middle businesses, in other words, it is the engine of economy. The prerequisites for efficient operation of innovative systems are the expansion of knowledge and information, its clear fluctuation among economy, production, universities and research institutes. Technological knowledge and the flow of information are important factors in innovation. In order to advance innovation, entrepreneurship should access not only the information on the latest developments in technology but also those that assist the integration of innovation in everyday life.

Innovation, as a result of the latest changes in economy and society, has become one of the most important factors in production. In consequence of rapid technological developments, long term competitiveness of entrepreneurs can only be secured through continuous research, activities in development and innovation, which realize in real new products, services, methods of production, and in the introduction of organizational systems, market conducts and channels of distribution. In most cases entrepreneurs cannot do that alone, therefore, regional and innovative aids are necessary for the efficient operation of institutes and inter-regional organizations.

The role of innovation in growth is outstanding. Unfortunately, in the present (as in the past), the demand for innovation is not large due to the development, receptiveness and

achievements in innovation in Dél-Alföld Region. Yet, scientific background and human resources are extraordinarily good in the region as a large number of faculties and research institutes can be found there, which carry out basic and applied research.

Map of the Hungarian Regions



The main economic potentials of the three counties creating Dél-Alföld Region were agriculture, stock raising and cultivation in the past centuries. On the other hand, the region the region lacked industrial traditions because it was poor in well-known raw materials. As a consequence of the rectification of the borders in the Treaty of Trianon, these counties found themselves on the country's periphery and still could not regain their former high importance in transportation and logistics. During socialism, these counties benefited from the country's industrializational plans, but mainly industries with low value added were built so they lacked competitiveness and export orientation. From 1972 it became possible to establish enterprises with direct foreign capital but there was a relatively poor interest for the counties in Dél-Alföld.

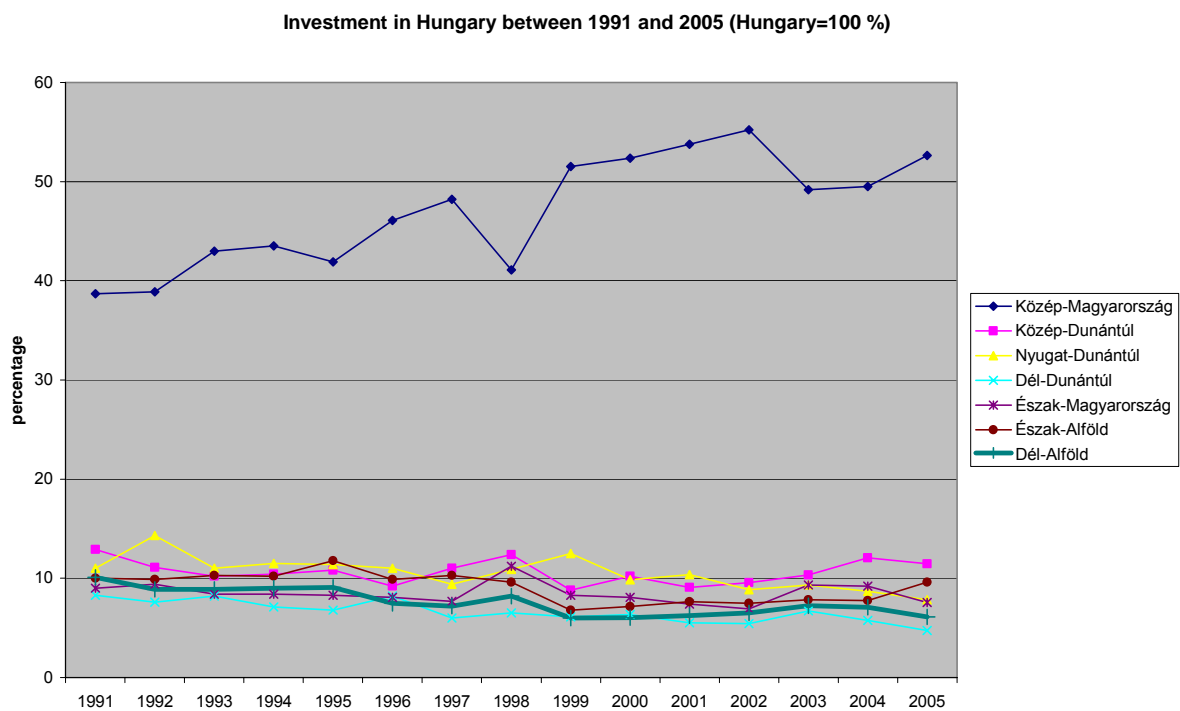
In the years following the democratic transformation of the country, the region found itself in an accumulatedly disadvantageous position. Socialist markets collapsed in no time, and those goods, which were previously marketable, were no longer such. The loss of former markets for agricultural products still remains an acute problem. It takes long time and large efforts to climb out of this downturn.

After the democratic transformation, the proportion of the sectors in national economy was modified according to the latest trends in world market. Naturally, this change ment that

the proportion of labour and employment was also modified. The reorganization of the main sectors of the economy meant a significant decrease in the importance of agriculture and a significant growth in services.

Since the middle of the 1990s, the processes enlarging the differences in regional economy have become stronger and stronger because most of the foreign working assets concentrated in the capital and in the western part of the country. Therefore the extent of dispersion has increased and differentiation has taken place. The dominance of the capital city, Budapest, (where the tertiary sector amounts to nearly 70 per cent) in the national economy and the largest share of industrial output value is produced in Közép-Magyarország, Közép-Dunántúl és Nyugat-Dunántúl Regions.

Unfortunately it is evident even these days that foreign capital investment stops at the Danube, and investors who cross the line of the river invest not in Hungary but in Romania, which is also a member of the EU, and in the Ukraine appealing to the considerably cheaper cost in investment and operation. This is another reason why the ratio of investment with foreign interest is low in the whole region.

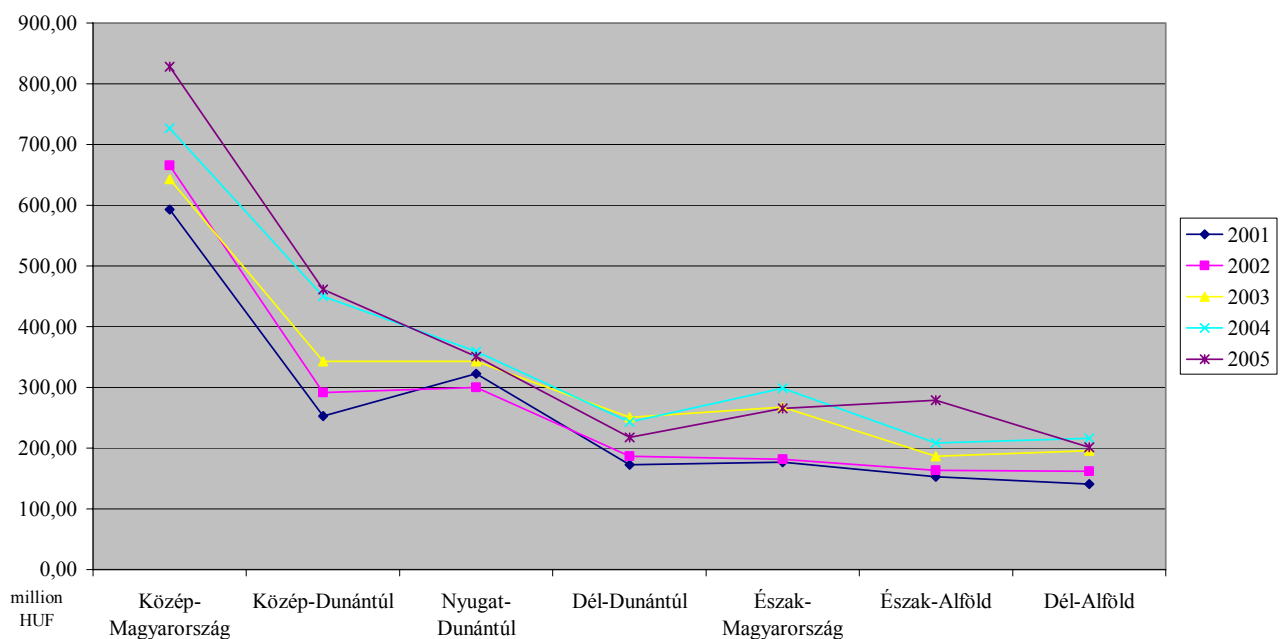


Source: Hungarian Central Statistical Office

The three counties of Dél-Alföld Region belong to the underdeveloped regions. They are far from the centre of growth and foreign capital does not prefer them because the counties inherited insufficient industrial structures, their infrastructure is relatively underdeveloped, are without easy reach in European standards (despite a number of development) and lag behind in many respects. The economic production (GDP/capita) of Dél-Alföld Region, which was 1 395 236 Forints in 2004, is the fifth in the rank of the seven regions. It is a considerably shortfall from the national average (2 019 707 FT/capita).

The industrialization in the region is low as it is far from the main economic centres. The ratio of the foreign invested working assets is also low and the industrial capacities already existing can be characterised mostly with underdeveloped technology. The aim of this thesis is first, to show what investment has taken place in the region after the democratic transformation and in the early 21 century, second, to give a vivid picture on the importance of the different sectors of economy and third, to compare its datas with the national ones. When we examine the scale of the regional investments in Hungary, it can clearly be seen that Dél-Alföld Region is in the one but last place considering total investment and investment per capita. However, investment is the foundation of development.

Investment in Hungary (per 1000 people)



Source: Hungarian Central Statistical Office

Investment in agriculture takes a large part in Alföld Regions, especially in Dél-Alföld. On the other hand, industrial investment is in a relatively low level. Investment in the tertiary sector is close to the national average and ranks in the middle in the race among regions. Similarly to the former centuries, no significant development in industry took place at the beginning of 21 century.

We can find geographical sub-regions within the region with their profile mostly in the agrarian and tertiary sectors but the former industrial centres (such as food processing, heavy and light industry) show a marked decline. The representatives of the tertiary sector are at a high level in the larger towns of the region, moreover, actors in the quaternary sector (research and development, informatics) have also appeared on the scene (enterprises in informatics and biotechnology in Szeged). Due to the above mentioned tradition, we can not expect that the number of industrial investment rises in the near future.

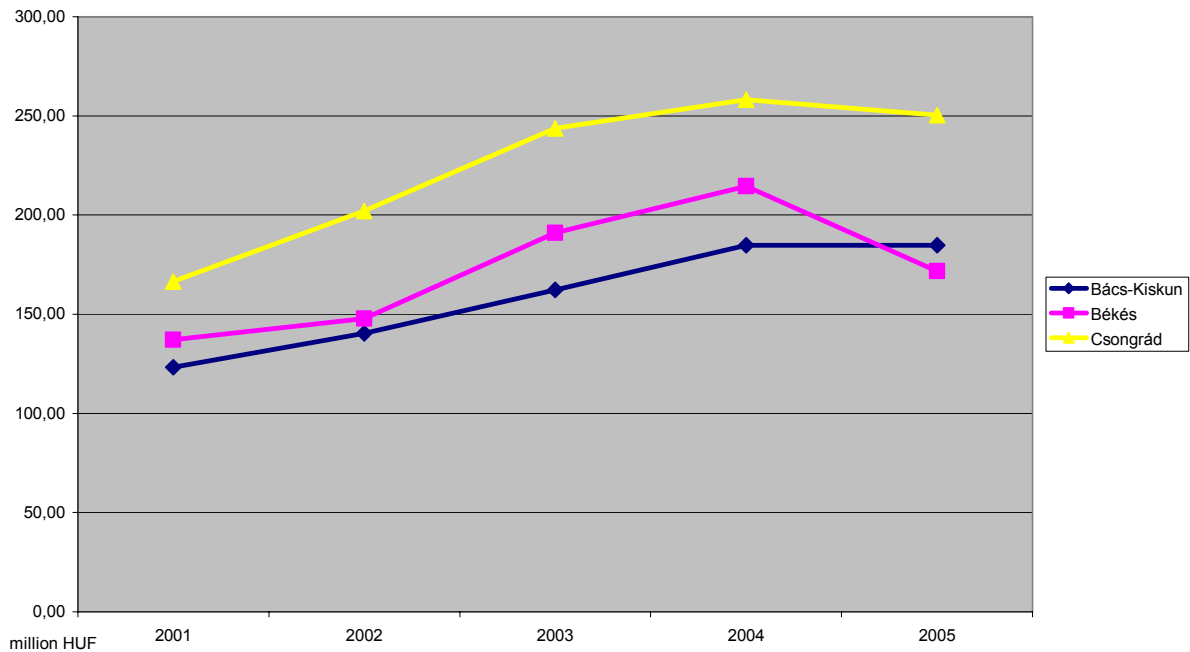
If we take the tendency in the volume of investment into consideration, we can say that the tendencies in the three counties has become stable.

As Csongrád County has a higher economic potential and less population, it leads the race in the region each and every year, while the last place of Békés County might be the result of its peripheral geographical position and its underdeveloped economic structure, even in intra-regional standards. In nowadays' global competition only those companies can operate efficiently and economically that are open to renewal and receive innovation.

The equity requirements of innovative economic branches are very high as they require constant development and modernisation. Biotechnology, which is an important innovative potential in the region, is one of those branches that require the most equity.

Based on the above mentioned, we can say that the innovative potential of Dél-Alföld Region can only be developed if it happens together with large capital investments. Among those investments, privatisation forms a lesser extent as the main tendencies are additional and green. As innovative investment acts as multiplier, we can see its effect not only in the economic but in other sectors of investment. It increases the possibility of co-operation among enterprises, the development of local small and medium enterprises and the rise of supplier networks.

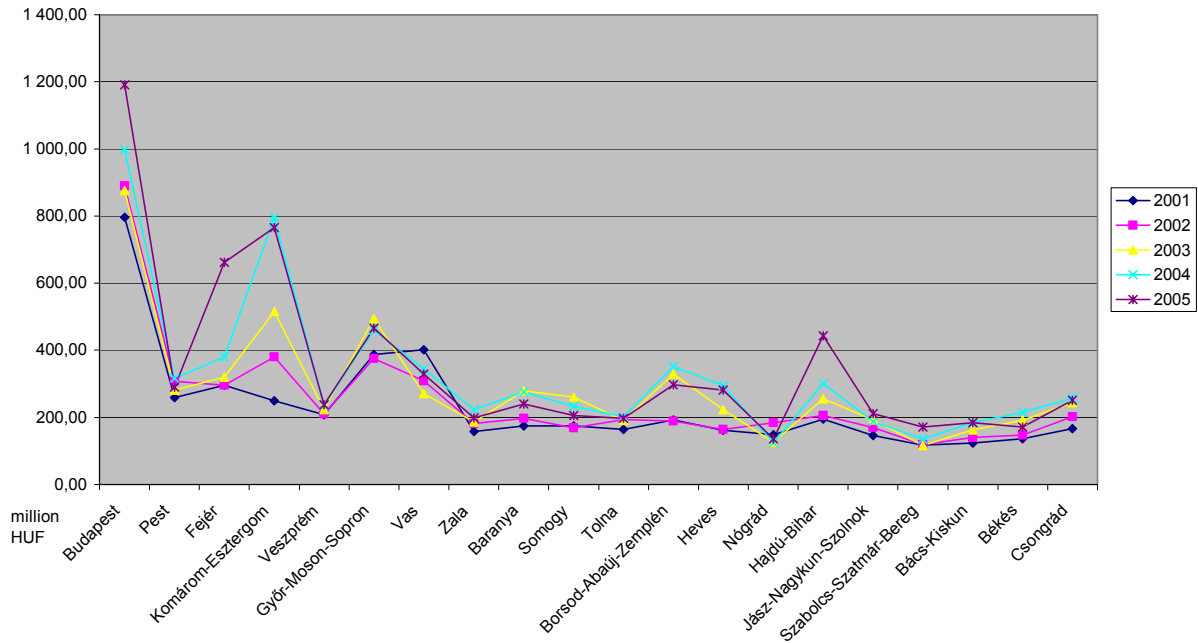
Investment in the countys of the South Great Plain Region (Dél-Alföldi Régió) per 1000 people



Source: Hungarian Central Statistical Office

It is also alarming that the otherwise low rate of specific investment in the counties of Dél-Alföld shows a tendency of deterioration these years. That means that investment per populace does not grow in spite of the decrease in population. None of the counties in the region could show a stable increase in investment during this interval. This can result in the decrease of economic competitiveness even in short term, which can indicate further negative tendencies in a longer time frame. (unfavourable tendencies in employment, increasing unemployment, emigraion, decrease in attraction, deterioration in the strucutre of populace, lower scale of profitability, lower solvent deman, etc.)

Investment in the Hungarian countys between 2001 and 2005 (per 1000 people)



Source: Hungarian Central Statistical Office

It is important that more and more knowledge-based industry have settled down and they operate on a long scale in the region as a result to its high standard in education. The city of Szeged aims to fulfill the role of prominent pole of development in the Second National Development Plan: Biopolis Program can be highly significant in respect of its long scale economic development. The conditions for knowledge-based investment are given, M5 motorway has reached Szeged and the Serbian border, therefore all major cities in Western Europe can be reached on motorway. Even the standard of railway connection has improved in the last years. The expansion of the regional airport can give an additional stimulus to the region.

Since joining the EU, a number of investments and investment-inspiring processes have taken place in Hungary, many of which have affected Dél-Alföld Region, either directly or indirectly. It was directly affected by the hand over of the above mentioned M5 motorway in 2006, and the refurbishment of Szeged Regional Airport, together with the stipulating effect of the First and Second National Development Plns, which started after Hungary became a full member of the EU in 2004. the improvement of underdeveloped regions, among them Dél-Alföld, through tender forms an important part in economic projects.

The region received a source of 83,8 billion Forints from the National Development Plan for development, mainly for investment in economy and infrastructure. The task of the coming years will be to follow closely the efficient utilization of these sources and the strengthening of induced economic processes. As investment is the innovative engine of development, the positive tendencies in its width and parameters can result in diverse and multifold effects in national economy.

What are the specific characteristics of investment in Dél-Alföld after the democratic transformation?

After the democratic transformation and during 1991-2006, Közép-Magyarország Region received an ever increasing stake of the annual Hungarian gross volumen of investment. The annual rate of increase was 1.1 per cent in average. This high rate could only be achieved because the stake of other regions were strongly reduced. This strengthened the differentiation of territorial development, together with all its negative impact, which was the most drastic in Dél-Alföld.

In relation to other regions, the specific value of investment per 1000 inhabitants was also unfavourable in Dél-Alföld. The otherwise low, last and one but last place of the region stabilized. The rate of per capita investment in Dél-Alföld in 2005 was less than a quarter of Központi Region.

The size of per capita investment volume in Dél-Alföld was the following: the best was Csongrád County, followed by Békés and Bács-Kiskun. The last two counties changed place in 2005.

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The rate of investment (the volume of investment in the percentage of GDP) in the region was smaller than half of the national average. Although this indicator showed a dynamic increase until 2004, even last year's rate of the period in analysis fell 6 per cent below the national average.

The distribution of investment coefficient of economic sectors in Dél-Alföld showed a significant deterioration from the national annual rate between 2001-2005. It is good news that the share of public sector is the highest in the country, moreover the region stands in first place with its share of investment in agriculture. On the other hand, it is unfortunate that the share of industry in investment performance is in the last or one but last place, together with Dél-Dunántúl Region. As competitive industrial sector still functions as a traction impulse, the low scale of the region in this case does not help its development.

The role of innovation in growth is outstanding. Unfortunately, in the present (as in the past), the demand for innovation is not large due to the development, receptiveness and achievements in innovation in Dél-Alföld Region. Yet, scientific background and human resources are extraordinarily good in the region as a large number of faculties and research institutes can be found there, which carry out basic and applied research.

For the sake of the rise of the region it is highly recommended in the future to concentrate on the strengthening of co-operation among economy, higher education and research institutes, on the deepening of innovation-oriented relations within the region and with its sister towns. One should help the institutional engagement among international innovative organisations, too, because this is the only way investment brings the desired result.

Dél-Alföld Region and its three counties are in most unfavourable position since the democratic transition in regard to the volume of investment, its composition and its specific value among the regions and counties in Hungary. Therefore our region belongs to those who fall behind and we can fear of economic marginalization, even if this region has a number of characteristics, which can take an important role especially after having joined the EU and can make a dynamic development possible (geography, meeting point of three countries, logistics, innovative potential, qualified working force, crude oil, natural gas, thermal water, traditions, etc.)

To achieve these aims, capital investment is highly needed in the region. Therefore it is important that inner and outer sources to grow and to use them in a more and more efficient way in order to vitalize the economy and first to slow down the negative tendencies in the region, and then to reverse them.

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