

Thoughts on Economic Neutrality

Welcome by the Editor-in-Chief



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In our fast-paced world, impatiently hopeful of better times, we generally look ahead after each troublesome event or crisis, paying little to no attention to the possibility of ‘bad times’ returning. The Great Depression of 1929–1933 was considered the most significant crisis of the 20th century. Too soon? Maybe so, as what followed were world wars, the oil crisis, the collapse of the Eastern Bloc, and the economic catastrophes that ensued. The crisis of the early 21st century, beginning in 2007–2008 and capable of shaking the very foundations of systems, was thought to have already ended the great crisis of the 21st century, while billions of euros in bank and public funds were wasted and the consequences seem to have consolidated for almost a decade. In 2020, however, the COVID-19 pandemic broke out, causing a drastic economic downturn. Before it was over, in February 2022, the escalation of the war between the two Slavic sister nations, which continued over an extended period, escalated. The Russian-Ukrainian war and the Western measures in response to it have caused a commodity crisis, followed by an economic downturn, exchange rate depreciation, inflation, and financial instability. The crisis is not the result of the war but a third party’s inadequate response. The perpetuation of war has continued with the renewal of armed conflicts in the Middle East. The perception of wartime is only exacerbated by the attitude demonstrated in Brussels by cutting us off from development funds. Yes, there is a war going on, and we too are at war. It is an economic war, waged against Brussels, because of Brussels’ misguided policies.

Belligerent parties always act by forming coalitions and gathering into alliances. It is no different for us, Hungarians. Our main ally is the European Union, and, in legal terms, Hungary has been a Member State for 20 years. But as early as the late 1980s and onward, in the hopes of future membership, we relinquished control over our economic markets, enabling the privatization of much of our industry and agriculture for them. Economic concessions were sought and granted in exchange for our eventual membership. We have placed our trust, assets, and substantial annual contributions into the EU budget, yet we receive development funds inconsistently and sparingly. Rather than funds, we should be entitled to repayments, i.e., reimbursing us for handing over access to our national market, for the assets privatized during the euphoria of post-communist political transition, which continues to provide profits for them. Meanwhile, the EU is underperforming; our main ally is increasingly lagging in global competitiveness. None of the world’s top 10 companies are based in the European Union. In 1995, Europe’s productivity compared to the United States was still

at 95%, only slightly lagging behind the other. Today, however, it lags more than 20% behind U.S. efficiency levels. The Lisbon Strategy, aiming to make the EU the world's most advanced knowledge-based economy by the turn of the millennium, has failed. It never became a reality. Since then, every reform aimed at developing the EU as a whole has also fallen short. The inflow of migrants from the Third World to Europe is encouraged, even as internal population growth rate within the EU remains disastrously low. Economic and military sanctions are imposed against Russia, yet Germany, the most advanced EU member and post-World War II economic prodigy, is facing severe economic decline and political crisis. In addition to economic embargoes imposed against Russia or potentially even the People's Republic of China, the European Union is becoming increasingly entangled in a complex array of military challenges. It supplies the Ukrainians with weapons used in combat, while two-thirds of its annual defence budget comes from imports, with two-thirds of those imports coming from the United States. Today, Europe lacks a modern arms industry that could be a bastion of cutting-edge technology. And it is only the tip of the iceberg. What is truly missing is not even a solid defence industry, but rather a workforce capable of providing high added value and a broadening capacity for innovation that could, in turn, strengthen the defence industry. Moreover, a lack of realizing the fact that Europe should focus more intensively on improving its economy rather than edging toward direct military involvement is apparent. The Orbán government, as the Member State holding the rotating presidency of the European Union, has assumed the role of being the driving force behind it. In November 2024, at the meeting of the European Political Community, it successfully endorsed a program aimed at increasing the European Union's competitiveness.

To paraphrase the words of my university colleague Balázs Orbán, political director of the Hungarian Prime Minister, the world today most resembles a vast battlefield, where chaos ensues within great armies, and opposing generals strive to 'regroup' in the face of the changed circumstances.

It is important to see that Hungary cannot cope with the competitive losses currently affecting the European Union. The declining German economy has limited potential to hoist Hungary's economic performance. While it remains essential to maintain our alliances with Western Europe, and while the automotive plants operating within Hungary are of great significance to Hungary, we must consider the decreased demand for German cars in the United States and even China. This trend is underscored by the fact that German direct investment in China has doubled each quarter in 2024, with corporate investments reaching €6.5 billion in 2023, expected to total €15 billion in 2024. It follows that German cars are needed in the Chinese market, and German automotive companies have recognized that production conditions in China are more favourable and innovative than in their own country. Meanwhile, U.S. President-elect Donald Trump identified that strengthening the U.S. economy requires primarily bolstering the domestic market through measures such as reducing corporate taxes to 15%, intended to encourage American companies to return to the United States, and even attract Western European corporations to move their operations over there. To further reinforce this, they urge the imposition of protective tariffs of 10-15% on products from the EU and 60% on Chinese products should be in place. Textbook protectionism at its finest.

The Hungarian foreign trade strategy, in place for 14 years, proves effective, strengthening trade and working capital imports with the Far East, especially China and South Korea, in addition to the traditional Western European orientation. In addition, the Hungarian government's recognition of the need to normalise economic relations with the United States is also correct. With the victory of Republican candidate Donald Trump, relations between the two countries could be restored, and both US and Hungarian businesses and citizens could benefit from adopting the double taxation treaty, originally withdrawn by the Biden administration.

We are developing economic relations with our new allies based on mutual respect, and we do not interfere in each other's internal affairs. Regarding working capital and trade in goods, we do not mutually claim to have a say in the partner's social policy or in shaping national law, as is, unfortunately, the practice of the Brussels administration. Measures that could erode our independence must not return. A decade and a half ago, we stripped ourselves of the shackles of the right to interfere, given to the International Monetary Fund and the IBRD in return for loans. Brussels cannot allow the return of these times. We must hold our ground in that regard.

To paraphrase Balázs Orbán once again¹, as a smaller nation determined to take control of its own destiny, we have no choice but to move forward with boldness and creativity in mind. In Prime Minister Viktor Orbán's terminology, progress is economic neutrality; for Balázs Orbán, it is about economic connectivity. In my view, aligned with these perspectives, the path forward lies in diversifying (i.e. decentralization and spreading out) our economic relationships, instead of reviving the block-based division that characterized and divided the world in the 20th century. The economic innovation of the 21st century in policymaking focuses on economic neutrality, fostering connections based on mutual benefits, and decentralizing foreign economic relations. It also aims for stronger ties with innovation leaders. In other words, it is about directly establishing business relationships. Not through intermediaries, not with the consent of Brussels, but independently. This means the exchange of capital, foreign direct investment (FDI), investments, innovation, technology, and energy from the sources that offer the greatest advantages and, of course, the highest quality available.

In our issues, both now and in the future, we remain committed to outlining practical and scientific methodologies of Hungarian economic policy, and to be the point of reference for the general public.

It is worth reading the *Polgári Szemle*!

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¹ Orbán Balázs (2023): *Huszárvágás – A konnektivitás magyar stratégiája*. MCC Press, 288 p