

Hungary is one of the most open economies

The Ernst&Young has recently published its annual report on globalization which includes the globalization index for the 60 largest economies of the world, and according to this ranking Hungary was placed the 10th.

The globalization index of Ernst&Young

The globalization index measures and tracks the openness of countries on the basis of 20 separate indicators. Some of these is a figure taken from international statistical sources (such as, for example, National Accounts), and others are from questionnaires in which the senior executives of 1000 multinational companies were surveyed by a scorecard with a 1 to 5 point ranking. The index is a kind of relative indicator which aims to compare quantitative data with the size of a country. At the calculation of the index the qualitative and the quantitative indicators are weighed differently, and thus the final scores of the various categories were defined. As a result, smaller countries that depend on international integration tend to have a high level of globalization, while larger countries that can rely on a big domestic market tend to have a lower level. The indicators are as follows:

Categories, indicators:

1. Exchange of goods and services:

- Total trade (export+import) as percentage of GDP
- Openness to trade (5=very high)
- Tariff/non-tariff barriers (5=very low)
- Ease of trade (5=very easy)
- Current account restrictions (5=very low)

2. Movement of capital and finance

- FDI flows (in and out, as percentage of GDP)
- Portfolio capital flows (as percentage of GDP)
- Government policy in regard to foreign investment (5=very encouraging)
- Danger of expropriation (5=non-existent)
- Investment protection schemes (5=very good)
- Government bias for domestic companies (5= no bias, level-playing)

3. Exchange of ideas and technologies

- R+I trade (in and out, as percentage of GDP)
- Broadband subscriptions (per 100 persons)
- Number of internet subscriptions (per 100 persons)

4. *Movement of labour*

- Net migration rate (per 1000 persons)
- Current transfers (in and out, as percentage of GDP)
- Hiring of foreign nationals (5=very easy)

5. *Cultural integration*

- Tourism (in and out, as percentage of GDP)
- Outgoing international calls (minute/person)
- Openness of national culture to foreign influence (5=very open)

The latest results

E&Y have been tracking the level of globalization on the basis of the above indicators since 1995 both on a general level **in regard to the entire global economy** and on **the level of individual countries** with an outlook until 2015. **Globally**, after the temporary slowdown, **growth resumed in the past two years**, and until **2015 this trend is expected to continue**: economies are to open up more and more. In comparison to the 2010 report, in 2011 there was almost no change in the ranking, **the same countries retained the first 5 places**. At the top of the ranking is Hong Kong, followed by Ireland which has made the greatest progress among the 60 countries since 1995, and Singapore comes as third. In the top ten Belgium, Sweden, Denmark, the Netherlands, Switzerland and Finland score higher than Hungary. Russia, Indonesia, Venezuela, Algeria and Iran come in at the tail-end of the list of 60 countries, which have a very low global integration level.

Hungary has been ranked as the 10th overall and thus our economy is the most open in the region according to the survey. The below table shows the summary of regional scores and in brackets after the name of each country the ranking it has received.



With the exception of cultural integration, Hungary received the highest score in each category among the countries of the region, and our technology score is much higher than that of the other countries.

Key challenges for the global economy

The report emphasizes that the global economy has been currently struggling with major problems. More than half of the senior executives surveyed believe that **economies globally will decline into recession by the end of 2012**, and almost two-thirds of them expect that the **European debt crisis will turn into a global financial crisis**. Almost 50 percent of respondents predict that **Chinese growth will also slow down** in the next five years.

They have also identified 4 major challenges for businesses. First, **nowadays success does not come as easily even in rapidly growing regions as it used to**. Second, businesses face different risks, prospects and business environments on different markets and in order to overcome these **international companies need to rethink their structural operations**. Third, due to the uncertain economic background, governments implement hardly predictable economic policy measures, often raise taxes and increase state interference. Because of that, higher cooperation is required, measures must be supported pro-actively and there must be closer interaction with tax authorities. Last but not least, it is **hard to find competent labour force** for certain jobs; although there are usually many applicants, but only a few of them do really possess the skills and knowledge required.