

# A short description of the Economic Competitiveness Operational Programme

## 1. Introduction

The Economic Competitiveness Operational Programme is one of the five overall operational programmes of the Hungarian National Development Plan relating to the 2004-2006 programming period.

The European Union defines the catching-up of areas whose development is lagging behind and the promotion of sustainable economic growth as primary goals of its regional policy for the strengthening of economic and social cohesion.

The main (overall) objective of the National Development Plan is to improve the quality of life. In order to achieve this objective, increasing prosperity and earnings of the society is prerequisite that the development of economic competitiveness and growth potential accompanied by the accumulation of distributable income provides a basis for. That is what for the Economic Competitiveness is aimed to address.

The planned development measures of the various strategic fields of the ECOP are in coherency with the corresponding EU policies:

- In compliance with the industrial policy of the EU, the preliminary strategy of investment promotion helps improving competitiveness, extending employment and balancing off regional differences.
- The ends and means system in the SME sub-strategy of the ECOP are in harmony with the Council Decision of 20 December 2000 on a multiannual programme for enterprise and entrepreneurship, and in particular for small and medium-sized enterprises for a five year period 2001 – 2005.
- The strategic field of R&D takes into consideration the strategy of the European Research Area that underlines the necessity of adopting R&D results in the local socio-economic environment, with special regard to SMEs, and of the increase of both public and private investment in research and innovation.
- Tasks related to the promotion of information society set by the EU are defined in the e-Europe 2005 document. The strategic objective of e-Europe is that Europe shall become the most dynamic and competitive knowledge-based economy of the world by 2010. The strategy for the development of information society and economy also contains means that are meant to contribute to the realisation of this objective.

At the same time, the strategic fields of the programme also build upon the national special policy concepts such as:

- The Medium-term concept of investment incentives adopted by the Government in September 2002;
- Concept on mid-term tasks of the development of small and medium enterprises;
- The Science and Technological Policy 2000 document as well as the priorities set in the field of research, development and innovation in the Mid-Term Programme for Economic Policy of Hungary.

## 2. SWOT-analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Dynamism of investments in processing and high-tech industries, which helps catching up.</li> <li>• Processing industry is growing dynamically due to multinational companies settling in the country, knowledge transfer is significant, the settlement of operations producing higher added value to Hungary has started.</li> <li>• Strong scientific foundations in the most dynamic R&amp;D fields.</li> <li>• Hungary has strong traditions in the most dynamic R&amp;D fields.</li> <li>• Large number of small and medium-sized enterprises, entrepreneurship is widespread among young people.</li> <li>• Highly skilled, disciplined, but relatively cheap labour force.</li> </ul>	<ul style="list-style-type: none"> <li>• Export goods are dominantly produced by multinational companies (70%), a high proportion of exports involves lease work with low added-value and investment goods.</li> <li>• The proportion of the GDP spent on R&amp;D is low, its structure and the infrastructure, the operation of the institutional system is unsatisfactory with an ageing staff of researchers.</li> <li>• The connection between the R&amp;D and production sector is weak; the network- and transfer- procedures are underdeveloped.</li> <li>• Venture capital is underdeveloped</li> <li>• The performance and profitability of domestic SMEs compared to international companies is disproportionately low.</li> <li>• Hungary is lagging behind in terms of Internet access and content provision.</li> <li>• There are significant development differences among regions.</li> </ul>
Opportunities	Threats

<ul style="list-style-type: none"> <li>· The importance of the knowledge-based economy is growing in world economy. <ul style="list-style-type: none"> <li>• The expected increase of internal consumption gives a widening market for SMEs.</li> </ul> </li> <li>· The political stabilisation of the neighbouring countries improves the assessment of Hungary. <ul style="list-style-type: none"> <li>• The supplement of the insufficiency in the infrastructure gives a favourable position for the construction industry.</li> </ul> </li> <li>· Hungary could become an excellent business and RTD centre in Central and Eastern Europe.</li> </ul>	<ul style="list-style-type: none"> <li>· Considering that the labour costs are increasing in Hungary some of the multinational companies could relocate to other countries with cheap labour force. <ul style="list-style-type: none"> <li>• The political instability of the surrounding countries could damage the assessment of Hungary.</li> <li>• The more and more strict environmental regulation burdens the SMEs.</li> <li>• The regional disparity could increase because of the recession if FDI.</li> <li>• The innovation activity of business sector stays in low level.</li> </ul> </li> <li>• There is an increasing competition in IT technology because of the appearance of countries with cheap labour costs.</li> </ul>
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### 3. Aims and the development strategy

The aim of the operative programme is to broaden and expand the basis of economic development, according to branches, sectors and regions, and to maintain the high rate of growth, which is higher than the EU average, through boosting productivity and the rate of employment, which ensures a gradual convergence between the economic development of the country and the EU.

In countries with small and open economies, like the economy of Hungary, the programmes related to convergence shall by definition focus on the **further development of economic competitiveness**. Improvement of competitiveness can be ensured by the **modernization of enterprises** and of the productive sector and at the same time by maintaining a **well developed business and service environment**

In the first case it is necessary to introduce *structural reorganization* with regards to both the *composition of products* and to the *applied technologies*; it is desirable to improve the quality of *company management*, and of the *innovative capability*, to promote *information society* as well as *marketing* in said fields.

In order to create a more favourable business environment, it is necessary to *improve business infrastructure*, general conditions of accessing *business services*, and help to establish different types of *co-operations and networks*.

Besides boosting competitiveness, the Operational Programme contributes to the achievement of other global objectives of the National Development Plan: 'Healthy, innovative, skilled and solid society', 'Improvement of the quality of environment and sustainable use of resources', and 'Balanced regional development'.

#### Development Strategies of the Operational Programme

The strategic axes of the programme to achieve the objectives are as follows:

In the field of *attracting foreign capital*, a strong regional orientation of foreign investment is necessary in order to speed up development of regions lagging behind. An important duty is to embed the foreign-owned companies that have established rather limited contact with the domestic economy. An important element of the strategy is that the production-oriented investments to deployment will be amended with the help offered to service industries. This will improve the proportion of higher value-added activities and develop the skill-level of labour force as well. Development of business infrastructure means the establishment and development of industrial parks, logistic centres and their services, which are capable of significant economic performance.

The main foci of *SME strategy* are the strengthening of growth-oriented small and medium-sized enterprises, renewal of their technology, assist their market-access, development of management and entrepreneurial skills, unfolding their impact on local economic development and employment.

The *strategy for development of research, development and innovation* contains the promotion of strategically important research and technology development activities based on the co-operation of R&D laboratories and enterprises. It covers the promotion of the elaboration, testing and adoption of new products, means, procedures and services in fields of outstanding and primary importance for the competitiveness of the Hungarian economy. The development of R&D resources (investments, technical infrastructure, human resources) has special momentum as it helps conduct efficient and excellent research and development activity. Supporting the development of corporate and regional innovation potential, knowledge and technology transfer and the R&D co-operation and networking contributes to the practical realisation of R&D results and to enhance the competitiveness of enterprises.

A considerable element of *the strategy for development of the information society* is the stimulation of demand side, that is to promote the access of certain knowledge transfer and employment groups, small enterprises and local communities to

information assets and equipment, facilitating their integration into the 'information society'. Encouraging new management and marketing methods, facilitating the generation of certain digital contents with notable interest to the society and of relating services, as well as supporting the establishment of e-administration contributing to the improvement of quality of life and to a more close to business administration are of equivalent virtue.

So as to address the above strategic directions five priorities (sub-programmes) were specified in the Operational Programme:

- Investment promotion
- Promotion of SMEs
- **Research, development and innovation**
- Development of the information society and economy

#### **4. A short description of the priorities**

##### **4.1. Investment promotion**

*The objectives* include the additional capital involvement required for the development of the Hungarian economy, the stabilisation of the structural change, the introduction of state-of-the-art production technologies, the increasing participation in the international division of labour, the enhancement of business co-operation, the promotion of the development of supplier industries, the creation of jobs, the implementation of environment-oriented developments in the interest of sustainable development, and the substantial alleviation of the environmental load.

##### **Measures**

- Development of capital attraction
- Upgrading the corporate sector
- Improvement of infrastructure in the entrepreneurial sector

##### **4.2. The promotion of small and medium-sized enterprises**

This priority is aimed at improving the contribution of small and medium-sized enterprises to the economic performance, and the smoothing of duality which characterises the Hungarian economy. To this end, it envisions improving the efficiency of market operations, the development of the environment of enterprises and enhancement of their innovative potential.

##### **Measures**

- Development of the technical and technological background of small and medium-sized enterprises
- Development of entrepreneurial culture and knowledge
- Development of co-operation within the SME sector

##### **4.3. Research, development and innovation**

*The objectives* include the increase of R&D expenditure that contributes to the economic development, the promotion of highly trained and innovative R&D human resource; improvement of its quality and quantity, the promotion of priority research areas, which serve for the strengthening of competitiveness and of the sustainable growth potential, the enhancement of the efficiency and conditions of research and development work, the strengthening of partnership between the public and the private sector in the field of R&D, the promotion of efficient and quick implementation of the output of new scientific and technological development, the promotion of new micro businesses relying on intensive technology and knowledge; support of their innovative activities.

##### **Measures**

- Support of co-operative research and technology development activities of strategic importance
- Support to the network building, infrastructure development and human resources for the public research institutions
- Support to the development of innovation capabilities of companies and regions

##### **4.4. Development of the information society and economy**

*The objectives* are promotion of company management and marketing methods for market agents based on the active use of available knowledge and expertise; creation of new high-quality jobs, improvement of the chances of employment; in the service market, promotion of electronic commerce-related services which are tailored to consumer needs and allow easy access to a wide range of choice; on the consumer side, generation of demand for high-quality services, improvement of the level of trust and active participation; for the smooth operation of e-economy a huge mass of data and digital contents in E-commerce is required. The aim is to support efficient generation of these data, promotion of the availability of foreign data in Hungarian and of original Hungarian data in foreign languages.

##### **Measures**

- The development of e-economy, e-commerce
- Development of the information industry

- E-administration