Monthly Bulletin of Economic Trends

July 2019

Corporate reactions to the raise of the minimum wage/guaranteed minimum salary of qualified staff

Our brief analysis examines the nine potential measures that can be reactions to the affects of the January 2019[1] raise of the minimum wage/guaranteed minimum salary for qualified staff. CEOs were asked to fill in the form below.

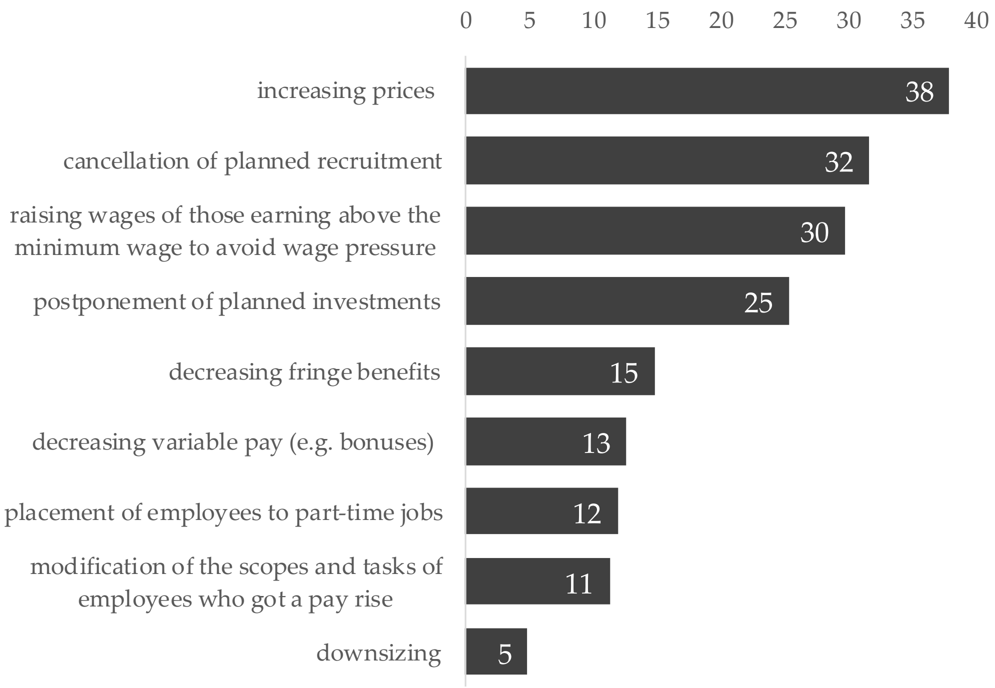
The raise of the minimum wage to HUF 149,000 and the guaranteed minimum salary of qualified staff to HUF 195,000 have resulted/will result in the following measures at your company in 2019:

- *wages of those earning above the minimum wage are also increased to avoid wage pressure*
- *planned staff recruitment is cancelled*
- *redundancies are made*
- *projected investments are postponed*
- *employees entitled for a raise are given new duties*
- *employees entitled for a raise are reorganised to do part-time jobs*
- *other benefits (e.g. perks) of employees involved are cut*
- *variable pay (e.g. bonus) is decreased*
- *prices are increased*

Of the above measures, CEOs generally preferred to increase prices: More than one third (38%) of them have opted for that solution or responded to increase prices later this year. 32% of respondents reported the cancellation of planned staff recruitment. 30% of CEOs have given - or are planning to give - a raise this year to employees earning above the standard minimum wage in order to avoid a wage pressure. One quarter (25%) of the surveyed companies are planning to postpone projected investments. 15% and 13% of companies respectively chose to decrease fringe benefits and variable pay (e.g. bonuses). About one in ten businesses (12%) will redirect employees to part-time employment.or modify the duties of those eligible for a raise (11%). Redundancy was the least common reaction, performed by only 5% of surveyed companies.

[1] Cf: Governmental Decree 324/2018. (XII. 30) on minimum wage and guaranteed minimum salary. https://net.jogtar.hu/jogszabaly?docid=A1800324.KOR

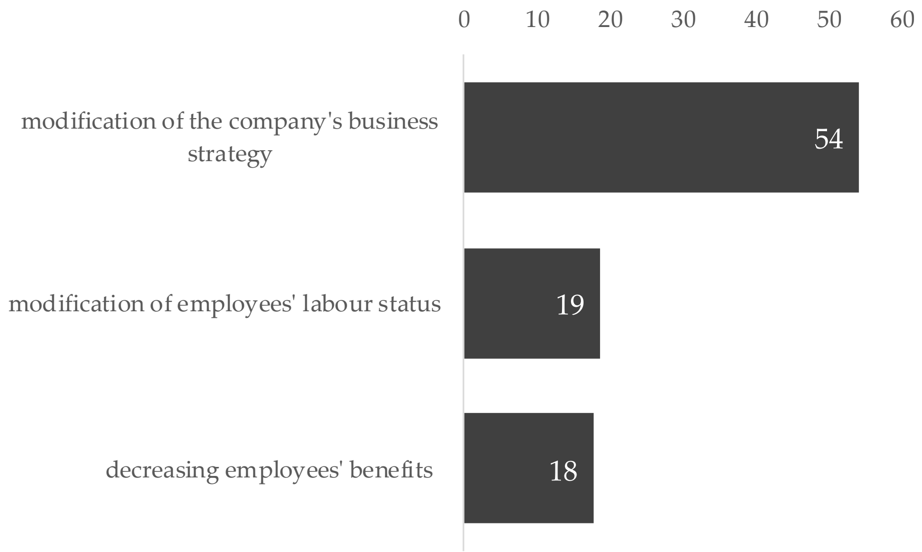
Figure 1: Rate of companies that implemented/plan to implement measures in 2019 as a reaction to a raised minimum wage, per cent



Source: IEER 2019

Our results show that the raise prodded more than a half (54%) of the surveyed companies to change their business strategies, i.e. postpone their projected investments and hirings, and raise their prices or fees. 19% of companies have been considering to take employment-related measures. If they haven't done so already, these companies will engage in downsizing, modifing job descriptions and renegotiating contracts of those employees who got a raise, offering them part-time employment. 18% of enterprises plan to cut fringe benefits and variable pay.

Figure 2: Rate of companies that implemented/plan to implement measures in 2019 as a reaction to a raised minimum wage, per cent



Source: IEER 2019

The inclination of implementing the nine measures included in the survey decreased with company size. Among companies with a staff below 50 inclination was bigger, whereas larger companies were more reluctant to take steps or even plan such measures.

The results of each economic sector show us that the raise had the greatest effect on trade companies. They were the most inclined to implement the measures surveyed.

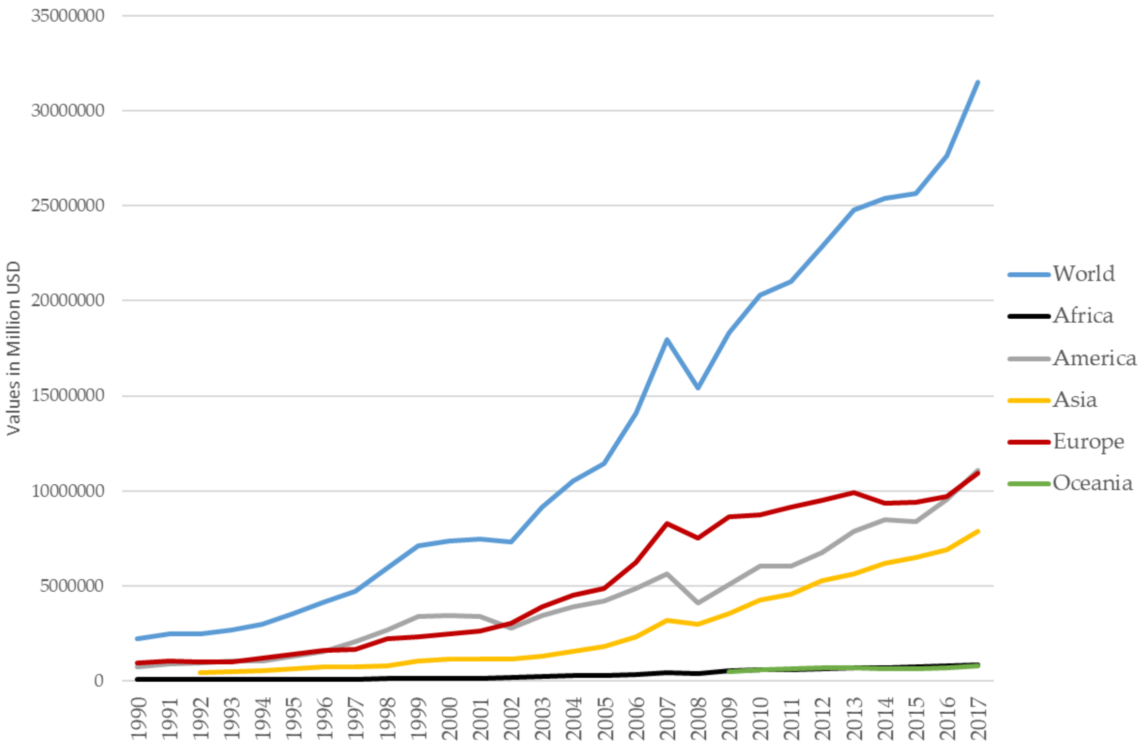
Examining the results with regard to ownership structure we find that there is no statistically significant difference (at a 95% reliability rate) between domestic and partly/predominantly foreign companies. Their reactions to the raise of the minimum wage have been practically the same.

Looking at export activity we can see that the raise of the minimum wage had the smallest impact on major exporters, while a greater proportion of non-exporters and minor exporters had to - or have yet to - take measures to counter the effects of the raise.

European Outward Foreign Direct Investment in Africa: Status, Challenges and Future Directions

In this era of globalization, foreign direct investment (FDI) has become a key feature of the global economy through internationalization of industrial goods and services in which thousands of multinational companies are engaged in business worldwide. Looking at the global statistics, it appears that FDI stock has generally exhibited a tremendous increase since 1990 except for the brief period following the 2008 financial crisis. The FDI stock of Europe has grown from $932.5 Billion in 1990 to $10.9 trillion in 2017, while that of America has grown from $759.6 billion to $11.08 trillion during the same period. Asia, which experienced rather steady growth until the global financial crisis, has also shown an increase from $2.9 trillion in 2008 to $7.8 trillion in 2017.

Figure 3: FDI Stock of Different Regions of the World Across Time

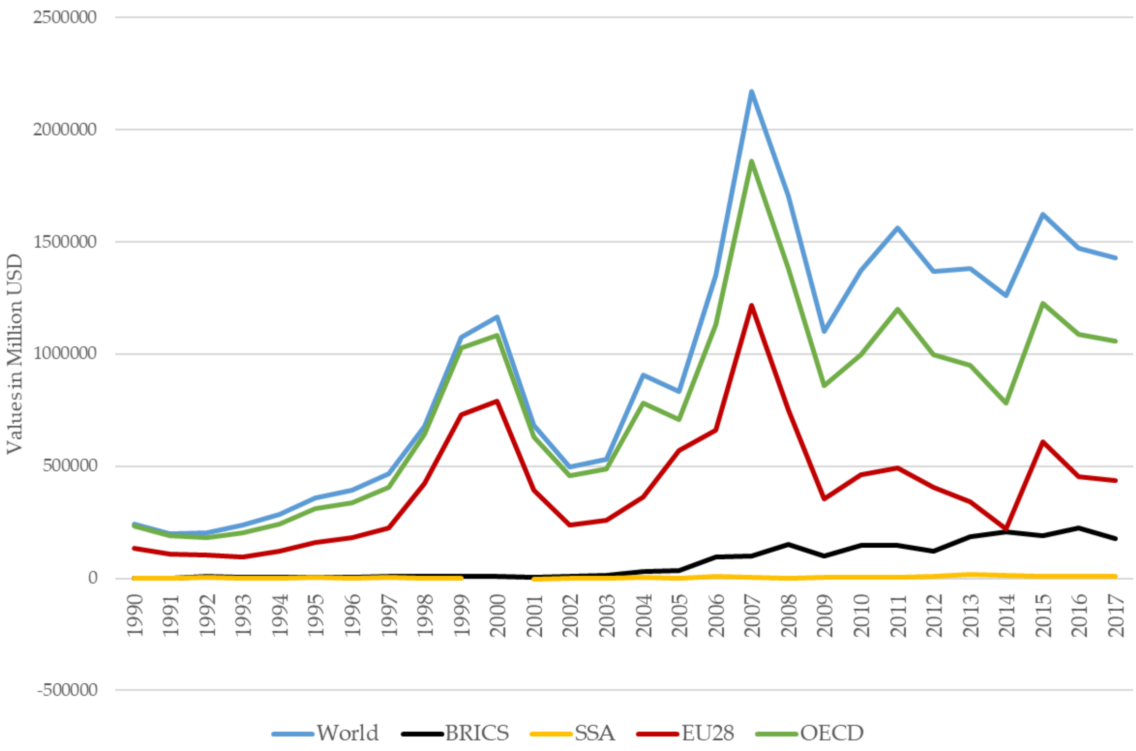


Source: UNCTAD, 2018[2]

As far as the flow is concerned, self-evident in the Figure – 4 (see below), the global outward FDI is heavily determined by what happens in the developed economies as changes in the latter have always affected the former in a significant way across time. The role of Africa as a region has been negligible so far.

[2] UNCTAD (2018), Foreign direct investment: Inward and outward flows and stock, annual.

Figure 4: Outward FDI Flow for Selected Regions



Source: UNCTAD, 2018

While this tendency of outward investment has been a phenomenon of the developed countries, internationalization from the developing nations is also gaining a momentum as the case with BRICS (Brazil, Russia, India, China, South Africa). The outward FDI of BRICS has grown 25 times larger to become $177 billion in 2017 from $7.1 billion in 2000, while that of SSA has also increased 20 times during the same period under consideration.[3] Corollary to this development is the fact that the share of established economies in the global flow of FDI has been in a continuous decline. For Europe this works both at the individual country level as well as collectively.

The share of European Union (EU28) in the global outward FDI has dropped by 25% since 2005 from 66.6% to 40% in 2018 mainly to be explained by the change in the outward FDI of the Netherlands and Great Britain.[4] Yet, the share of Great Britain, the Netherlands and Italy declined by half from 2005 to 2018 to become 2.3%, 6.6%, 5.6% respectively; France exhibited 2% increase for the same period, while Germany seem to be recovering from a decline of the past following the growth experience after 2016. The USA, which has been on a more or less continuous rise since early 2000s, has witnessed a sharp decline in this regard, particularly from 22% in 2017 to negative

[3] UNCTAD (2018), Foreign direct investment: Inward and outward flows and stock, annual.

[4] OECD (2019), FDI stocks, doi: 10.1787/80eca1f9-en (Accessed on 08 July 2019)

5.4% in 2018. The share of OECD decreased in the out flow of the world investment from 85% in 2005 to 66% in 2018, where the share of Chinese has grown by about seven times and that of Russia has doubled over the last fifteen years.

Similar to the outward flow of FDI, it has been an established fact that the inward flow of FDI is dominated by the developed countries than the developing or least developed countries of the world.

Table 1: Share of Global Inflow of FDI by Income Groups

Income Groups	Value (Mill. USD)	Share of Global FDI Inflow (%)
Low-income economies	15428.75	1.08
Lower-middle-income economies	134848.7	9.4
Upper-middle-income economies	362935.6	25.4
High-income economies	916574.1	64.1

Source: UNCTAD, 2018

According to UNCTAD, in 2017, the low-income economies have managed to attract only 1% of the total global flow of FDI that amounts to 15.4 billion USD, while the top twenty (G20) economies of the world accounted for more than 70%, where the share of OECD is 53%. The European Union (E28) attracted about one-fifth of the global inward flow of FDI, which is slightly greater than the ever increasing share of BRICS (18.9% in 2017).

The European Outward FDI to Africa in View of Globalization: Status and Challenges

Although the global flow of new FDI towards Africa has dramatically increased from about 9.7 billion USD in 2000 to 41.8 billion USD in 2017, its share still remains to be less than 3%.[5] Nevertheless, Africa is now viewed as a realm of opportunities, where a number of economies are developing very fast and the African middle class in particular is experiencing very rapid growth.[6] With its untapped natural resources that makes the supply of raw materials easy, rapid population growth (expected to double by 2050) that continue to provide cheap labour and enormous demand for market, the African continent in deed offers an opportunity for business from the perspective of the investors. From the vantage of the Africans, FDI is considered as a panacea for underdevelopment and poverty that secures economic growth and employment. Hence, Africa is a "willing partner" for the investors that demand for natural resources, in return for job creation

[5] UNCTAD, 2018.

[6] Schmieg, E. (2019) EU and Africa: Investment, Trade, Development, what a Post-Cotonou Agreement with the ACP States Can Achieve, SWP No. 1, January 2019, pp.2.

and markets.[7] Table 2 shows major investment destination countries in Africa.

Table 2: Major FDI Destinations in Africa by Number of Projects, 2016-2017

	2016	2017	Change in Rank vs. 2016	Share (2017)	% Change	Jobs share
South Africa	139	96	-	13%	-31%	3%
Morocco	81	96	+1	13%	19%	21%
Kenya	40	67	+3	9%	68%	4%
Nigeria	51	64	+1	9%	25%	12%
Ethiopia	16	62	+7	9%	288%	16%
Egypt	79	56	-2	8%	-29%	6%
Ghana	28	43	+1	6%	54%	4%
Tanzania	22	35	+1	5%	59%	3%
Algeria	17	24	+2	3%	41%	12%
Cote d'Ivoire	34	23	-3	3%	-32%	1%

Source: EY Africa, Africa Attractiveness Report, 2018

Historically, the European economies were the major investors in Africa. EU and its members still collectively dominate FDI stock in Africa with 40% share (€291 billion) in 2017, the USA owns 7% (€51.52 billion), and China with 5% (€36.16 billion).[8] As of 2016, EU controlled the inward flow on external investments to Africa by about 24%, in which the France and Great Britain shared 5% each and Germany with less than 2%.[9]

Gauged in terms of the number of projects, out of the top ten investors in Africa, six are European countries.[10] In the year 2017, the Great Britain (10%), France (9%), Germany (5%), Switzerland (4%), the Netherlands (3%) and Italy (2%) were the top European investors in Africa. About 18% of new FDI projects in Africa belongs to USA that held first rank in the same year; while China was ranked 4th with 8% share; UAE had equal share with Netherlands, and South Africa, ranked 7th is the only noted African investor in the top ten list.

The advent of globalization has, however, brought other contenders, USA and China, as key actors into the African political and economic scenes. As alluded to, the economic impact of USA in Africa is becoming more significant than ever, as it has become the largest investor on the continent. Since 2000, AGOA (African Growth and Opportunity Act) has helped integrate trade and investment into the U.S.-Africa policy dialogue and led to the creation

[7] Chen, W. & Nord, R. (2018) Reassessing Africa's global partnerships: Approaches for engaging the new world order, January 11, 2018.

[8] EU (2018) European Commission's Progress factsheet: Africa - Europe Alliance, 18 December 2018.

[9] Schmieg, 2019.

[10] EY Africa (2018), Africa Attractiveness Report.

of wide range of economic opportunities on the continent. The introduction the BUILD Act, which would create the U.S. International Development Finance Corporation (IDFC) to lend and make equity investments would undoubtedly render the US a more competitive capacity against Chinese state-backed funds. However, it is also a clear indication that investing in Africa continues to be a priority for the U.S. According to Schneidman and Wiegert (2018) there are about 600 U.S. companies in South Africa alone.[11]

The Chinese economic involvement in Africa has also become an increasingly popular topic in the current world, with all complex issues surrounding it. This has become visible over the last two decades, when the Chinese role in the African economy has grown significantly *via* three channels of economic engagement, namely: trade (risen more than 40-fold over the period), loans and FDIs.[12] China have financed more than 3,000 critical infrastructure projects on the African soil. It appears now that China is the "largest creditor" in sub-Saharan Africa with 14% of the region's total debt stock despite being increasingly a public policy concern.[13] In the FDI, studies have revealed that more than 10,000 Chinese MNCs operate in Africa, as of 2017, about a third of whom are involved in the manufacturing sector. Accordingly, the Chinese investors are asserting their economic position in Africa through job creation, skills development, and the transfer technologies, all of which used to be associated with "Western business norms".[14] The FOCAC (Forum on China-Africa Cooperation) is a *de facto* institutional framework of 'Beijing Consensus'[15] at work in this regard.

It is true that the economic and political importance of European powers in Africa has sharply declined following independence of the latter, and even more after the end of the cold war. However, last couple of years have rather revealed the revival of European political and economic interest in Africa. The Cotonou Agreement of 2000 was the most important politico-legal framework that governed the investment and trade relations between the European Union and the African, Caribbean and Pacific Group of States, also called "ACP states". The partnership is ending soon in 2020. Recently, the efforts are underway to strengthen the EU's partnership with Africa through "Africa-Europe Alliance for Sustainable Investment and Jobs" that is meant to attract investment and create 10

[11] Schneidman, W. & Wiegert, J. (2018) Competing in Africa: China, the European Union, and the United States, April 16, 2018.
[12] Chen, W. & Nord, R. (2018) Reassessing Africa's global partnerships: Approaches for engaging the new world order, January 11, 2018.
[13] Ibid.
[14] Schneidman & Wiegert, 2018.
[15] 'Beijing Consensus' is the Chinese model of economic development that upholds semi-free market and strong economic role of the state as a condition for sustainable economic growth especially in the context of developing countries. It is often portrayed as an alternative view to 'Washington Consensus'.

million jobs in Africa by 2023.[16] Yet, the economic hardship of the last decade continue to pose an internal challenge to the EU and its members.

On the other hand, despite the competition to invest in Africa, investors still regard the continent as a "high-risk" region from the economic point of view. Although efforts have been underway to improve macroeconomic and political stability in the region through such initiatives as NEPAD (New Partnership for Africa's Development), African countries still suffer from globalization due to their low level of competitiveness and poor investment climate.

Future Directions

Globalization has brought a two-fold challenge as far as FDI is concerned which is self-revealing at least in the African context. In as much as it provides the opportunity to invest anywhere in the world, globalization has brought a fierce competition among the developed countries to invest and similar pattern of competition to attract investment among the developing nations as well. The three major investors in Africa, i.e. EU, USA and China, have already given the issue a political dimension by setting up institutional infrastructures, the Cotonuo Partnership or the recent Europe-Africa Alliance, AGOA and FOCAC respectively. Europe has a better cultural advantage due to shared history with Africa, USA has a leading capital stock in Africa to maintain its position and China has great potential with its lead in the new investment flow to Africa.

No doubt that FDI will continue to be a key issue of Africa's future development. However, it all depends on how the three economic actors strive to make use of the prevailing investment opportunities, and how the continent responds to the offers in the context of the growing role of African Union in the region's matters.

[16] EU (2018) European Commission's Progress factsheet: Africa - Europe Alliance, 18 December 2018.

International trends

Changes in the production, consumption and employment situation in certain major international economies compared with peer expectations and the previous period.

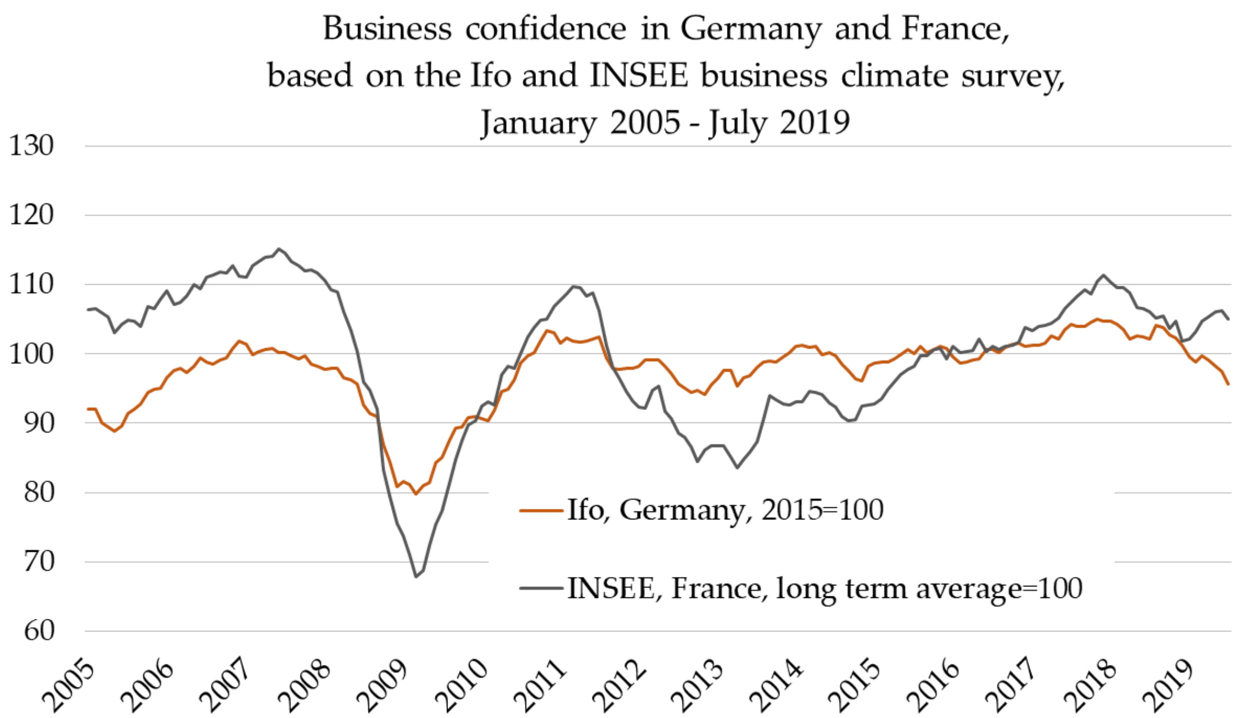
		Period in review	Actual data	Expectations	Previous period
Germany	Unemployment Rate	(Jul)	**5.0%**	**5.0%**	**5.0%**
	Manufacturing Purchasing Managers Index	(Jul)	**43.2**	**43.1**	**43.1**
	IFO Business Climate Index[1]	(Jul)	**95.7**	**97.1**	**97.5**
France	INSEE Business Climate Index[2]	(Jul)	**105**		**106**
USA	Unemployment Rate	(Jul)	**3.7%**	**3.7%**	**3.7%**
	CB Consumer Confidence Index	(Jul)	**135.7**	**125.0**	**124.3**
	Manufacturing Purchasing Managers Index	(Jul)	**50.0**	**51.0**	**50.6**
China	Manufacturing Purchasing Managers Index	(Jul)	**49.7**	**49.6**	**49.4**

[1] https://www.ifo.de/en/umfragen/time-series

[2] http://www.insee.fr/en/themes/indicateur.asp?id=105

The rest of the data source: http://worldeconomiccalendar.com

In Germany, the unemployment rate stagnated at the same level as in June meeting the expectations. The manufacturing purchasing manager index (PMI) shows a slight increase in this month while the IFO business climate index continued to decrease and was below the expectation. The French INSEE business climate index slightly decreased compared to the last month. In the United States, the CB consumer confidence index increased significantly compared to last month and was above the expectations. The manufacturing PMI slightly decreased and performed worse than expected. The unemployment rate continues to stagnate. The Chinese manufacturing PMI slightly increased and was higher than expected.



Sources: www.ifo.de, www.insee.fr

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