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# **Economic Relations Between Hungary and the ASEAN Region**

## **Highlighting a Special Business Opportunity in Vietnam**



### *Summary*

Economic integration was started half century ago by five countries in the Southeast Asian region. As a result, by now the ten members of ASEAN (Association of Southeast Asian Nations) have grown to be a new Asian economic power besides China, Japan, India and South Korea. Beyond the overview of the main steps in this five-decade development, the authors aim to give an insight into the economic, social and political aspects of relations between Hungary and the ASEAN. The timeliness of the topic can be underlined by the foreign economic strategy of “Eastern Opening”, proclaimed by the Hungarian Government in 2012.

**Journal of Economic Literature (JEL) codes:** F14, Q17, R11, N75

**Keywords:** trade relations, ASEAN region, Hungary, Vietnam, agricultural trade, Hungarian export

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## INTRODUCTION

In 2017 the 50th anniversary of the establishment of ASEAN was celebrated. On 8 August, 1967, five developing countries of Southeast Asia (the Philippines, Indonesia, Malaysia, Singapore and Thailand) signed the Bangkok Declaration, an alliance of governments called the Association of Southeast Asian Nations (ASEAN). The Permanent Secretariat of ASEAN resides in Jakarta, the capital of Indonesia. After having gained independence, Brunei also joined the organisation in 1984, Vietnam in 1995 and Laos and Myanmar in 1997 and at last Cambodia in 1999. The aims of this regional organisation are the promotion of economic growth and the acceleration of social and cultural development in the region. However, there were also other important political and security-related considerations for creating ASEAN, which included: a) the prevention of political conflicts in the region which could lead to the intervention by an external power, b) to create a forum for handling disputes between members, c) to bring stability to the social and economic systems of the members. In January, 1992 ASEAN announced the future development of AFTA (ASEAN Free Trade Area) for the period between 1993 and 2008, with the gradual phasing out of customs restrictions within the Association. In 1995 the deadline for the completion of AFTA was brought forward to 2003.

In the course of the 50-year history of ASEAN, its members have been among the most spectacularly developing countries in the world. According to analysts, the economy will continue to grow rapidly in the next few years (see figures of Table 1). The member states have a population of 622 million people, which bodes for considerable growth in consumption for the coming decades. In terms of population, the ASEAN region exceeds the European Union or the United States, and it is the 3rd largest market in the world, next to India and China. Its total trade increased by nearly USD 1 trillion between 2007 and 2014, with intra-ASEAN trade comprising the largest share of its total trade by partner. ASEAN attracted USD 136 bn in FDI in 2014, accounting for 11% of global FDI inflows, up from only 5% in 2007.

The most recent milestone in the economic integration process of Southeast Asia was the formal establishment of the ASEAN Economic Community (AEC) on 31 December 2015, built on four interrelated and mutually reinforcing characteristics: (a) a single market and production base, (b) a highly competitive economic region, (c) a region of equitable economic development, and (d) a region fully integrated into the global economy. ASEAN had a combined GDP of USD 2.6 trillion in 2014, ranked as the 7th largest economy in the world and the 3rd largest in Asia. The formal establishment of the AEC in 2015 was not a static end, but a dynamic process that requires the continuous reinvention of the region to maintain its relevance in an evolving global economy. The agenda “AEC Blueprint 2025” was adopted to guide ASEAN economic integration between 2016 and 2025 (Fact Sheet on ASEAN, 2015).

We believe that Hungary and Hungarian companies should strive to develop economic and business relations with all members in ASEAN. However, Vietnam may be in the most distinguished position for Hungary, as it is bolstered by the “historical” bilateral relations looking back for decades, but also the dimensions of the country and

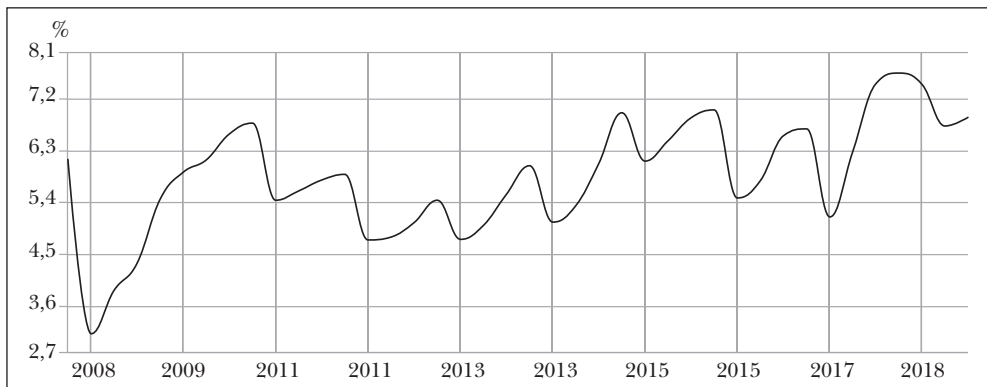
Table 1: Key economic data for ASEAN and its members (2013)

	Size of the economy (USD bn)	Population (million)	GDP per capita (USD)	Trend rate of annual economic growth (real GDP) 2013 to 2018 (%)
ASEAN	2,397.54	625.31	3,770	5.64
Brunei	16.18	0.42	38,760	3.10
Cambodia	16.20	15.14	1,070	7.44
Indonesia	868.35	250.80	3,460	6.18
Laos	11.00	6.78	1,620	7.35
Malaysia	313.16	29.72	10,538	5.64
Myanmar	44.85	61.95	724	7.06
Philippines	272.07	98.39	2,770	5.94
Singapore	297.94	5.40	55,183	4.76
Thailand	387.25	67.01	5,780	4.49
Vietnam	170.55	89.71	1,901	6.38

Source: Authors' compilation on the basis of Kinibiz online and the Economist Intelligence Unit, data for 2013

its rapid and dynamic economic growth seen in the recent three decades. Vietnamese economic and political reforms started in 1986, and have by now transformed Vietnam from one of the world's poorest nations to a lower middle-income country. According to The World Bank, Vietnam's economy is performing well, remarkable growth fosters job creation and income growth resulting in welfare gains and poverty reduction. The World Bank estimated the economic growth of Vietnam at 7.1% (y/y) in the first half of 2018, with manufacturing growing the fastest, 13%, bolstered by strong external demand. Agricultural output grew by 3.9% and expansion in the service sector remained robust at 6.9% (The World Bank, 2018). Figure 1 illustrates the economic growth rate of Vietnam in the past 10 years. Clearly, for the most part of the recent decade it exceeded 5%.

Figure 1: Economic growth rate of Vietnam between 2008 and 2018



Source: Trading and Economics, 2018

## MATERIAL AND METHODS

The purpose of this study is to explore the economic, social and political attributes through a descriptive analysis based mainly on results and information obtained from literature sources and databases. In addition, both authors have worked in the development of economic and political relations with various ASEAN countries, and therefore they could contribute their direct experiences. The data used in this study were obtained from the Hungarian Research Institute of Agricultural Economics (AKI), from the Hungarian Central Statistical Office (HCSO), and from the Ministry of Agriculture and Rural Development (MARD) of Vietnam, while the prices of commodities were published by ICE, NASDAQ, IG UK and the CME Group. In case of agricultural trade the authors relied on the classification of the Hungarian statistical trade system, which uses four categories: I. Livestock and animal products (01-05) II. Plant products (06-14), III. Animal and plant fat, oil and wax (15) and IV. Food products, beverages and tobacco (16-24). This classification does not comprise several types of goods, especially various raw materials, of either agricultural or mineral origin, but the statistical system does not properly differentiate them either. However, the aggregate figures deriving from the aggregate of the mentioned four categories of products represent the trends and approximate figures of the agricultural trade.

## TRADE RELATIONS BETWEEN HUNGARY AND THE ASEAN

Hungary's relations to some countries of the ASEAN region were already established in the 1950's and 1960's. Partnership with the former socialist Vietnam and Cambodia and Laos can now be seen as well established (bearing in mind that the development of political and economic relations was primarily in the interests of the Soviet Union, and not particularly Hungary).

Hungary's relations with the other countries in the region are more recent. Relations started with Thailand, Malaysia and Singapore in the 1980's and 1990's. Although an economic partnership was formed with Indonesia in the second half of the 1950's, relations were interrupted by the political changes there in 1965, and were only re-addressed in the second part of the 1980's. Hungary has very modest economic relations with the other Brunei and Myanmar. Hungary used to have more intense relations with the once "socialist" Burma until the end of the eighties. The ruling military junta and the international political isolation of Myanmar since 1988 have provided an unfavourable economic environment for the maintenance of the previous relations. In 2015 79.2% of Hungarian exports were dispatched to and 76.5% of Hungarian imports derived from the member states of the European Union. Asian countries – including China, India, Japan, the ASEAN members and other countries – totalled 5.7% in Hungarian exports and 12.8% (KSH, 2016).

Our proposal coincides with the intention of the Hungarian government, which has recently launched its new foreign economic strategy called Eastern Opening and Southern Opening, with a view to increasing trade activity with Asian, African and

*Table 2: Hungarian exports to Southeast Asia (USD '000)*

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Brunei	239	400	324	178	2,501	1,466
Indonesia	64,077	71,553	24,040	38,987	36,944	49,068
Cambodia	146	262	6,078	1,269	255	795
Laos	4,913	13	22	734	403	317
Myanmar	176	21	27,280	1,112	4,025	4,465
Malaysia	96,171	235,488	158,125	137,660	117,014	116,484
Philippines	29,431	6,720	14,218	9,425	14,814	17,439
Singapore	587,060	835,326	402,014	284,561	209,853	195,683
Thailand	126,619	200,582	119,231	71,355	92,962	85,136
Vietnam	41,891	45,628	44,025	59,601	85,245	67,188
ASEAN total	950,722	1,395,992	795,357	604,222	564,016	538,042
Total Hungarian Exports	94,749,270	111,217,664	102,830,359	108,014,978	112,536,911	100,299,053
ASEAN proportion of the above (%)	1.00	1.26	0.77	0.56	0.50	0.54

*Source: Authors' compilation from the data of the Research Institute of Agricultural Economy (AKI), Budapest, 2016*

*Table 3: Hungarian imports from Southeast Asia (USD '000)*

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Brunei	3	0	0	0	1	0
Indonesia	74,557	107,691	66,470	95,902	121,998	141,997
Cambodia	53	545	505	292	9	330
Laos	34	0	n/a	12	3	24
Myanmar	11	11	n/a	352	48	48
Malaysia	161,001	240,425	326,452	208,891	253,098	320,958
Philippines	313,637	212,476	161,000	156,791	177,568	189,066
Singapore	952,649	854,216	583,518	622,610	514,374	331,429
Thailand	270,356	284,681	293,179	378,863	379,446	420,125
Vietnam	28,409	35,975	44,631	48,650	50,558	75,671
ASEAN total	1,800,679	1,736,021	1,475,754	1,512,3623	1,497,103	1,479,649
Total Hungarian Imports	87,434,153	101,375,449	94,307,658	99,307,021	104,188,086	90,770,226
ASEAN proportion of the above (%)	2.06	1.71	1.56	1.52	1.44	1.63

*Source: Authors' compilation from the data of the Research Institute of Agricultural Economy (AKI), Budapest, 2016*

Latin-American countries. The data in Tables 2 and 3 shows that trade with the ASEAN countries represented only a small and slightly shrinking fraction of Hungary's total foreign trade turnover, and Hungarian imports exceeded the exports to the region between 2010 and 2015. In this period the total amount of both Hungarian export and import grew (the total export from around USD 94.7 bn to USD 100.3 bn, and import from USD 87.4 bn to USD 90.7 bn). It is difficult to discover direct trends, but in terms of Hungarian exports to ASEAN countries the best year seems to be 2011 (with almost USD 1.4 bn), followed by a shrinking trend until 2015 (USD 538 m), due mostly to a drop in Hungarian export to Singapore, Thailand and Malaysia. Hungarian export started to grow to Myanmar and Brunei during these years from nearly zero, and besides them the only ASEAN country where Hungarian export has grown since 2010 is Vietnam. While Hungarian exports to the ASEAN region peaked in 2011, import declined in this period (from around USD 1.8 bn a bit less than USD 1.5 bn). Hungarian imports from several ASEAN countries (Indonesia, Malaysia, Thailand and Vietnam) grew in this six-year period, while shrinking imports were recorded from Singapore and the Philippines. In spite of the fact that the ASEAN region has a small share in Hungarian foreign trade, trade relations and other types of co-operation have been steadily growing with several countries, first and foremost with Vietnam.

It is also worth analysing the possible causes of the relatively low and shrinking figures of Hungary's export to this region. Previous research (Neszmélyi, 1999) pointed out the comprehensive political and economic metamorphosis in Hungary during the early 1990's, when the fragmentation of the former, state-owned Hungarian foreign trade companies narrowed the new business entities' economic-geographical radius, and their increasing focus on the European markets. Another research project, undertaken at the beginning of the nineties, suggested that the poor export performance of Hungary to the Southeast Asian region was largely due to the country's export structure, mostly consisting of mass-products with a high demand for resource (raw materials, semi-finished products) and high transport costs (Gáspár-Sass, 1992). But in the past 20-25 years – a lot of things have changed. Hungary is now a well-functioning market economy which has successfully overcome the negative impacts of the economic crisis of 2008-2009, and in the relevant period the overall macro-economic trend has been positive. Besides the considerable geographic distance and the different business cultures, another reason might be the lack of capital that prevents Hungarian SMEs to open towards Southeast Asia as exporters or as FDI investors. The import growth is triggered by a global trend in diversification. As an example, certain vehicles or semi-conductors are imported from Malaysia or Singapore, as they are less expensive than the equivalents imported from other sources.

An additional point that needs highlighting is that China has made concerted efforts at investing and developing local and overseas infrastructure construction by allocating about USD 900 bn governmental funds (Sági-Engelberth, 2018a). The fact that China advances rapidly with this megaproject, called One Belt One Road (OBOR) to improve and diversify its commercial routes to Europe may potentially mean additional possibilities for the EU-ASEAN trade. In its scope of international relations and

economic cooperation China considers the ASEAN region as a priority (Nemes-Sipos, 2009), and in addition to considering the conclusion a free trade agreement with the ASEAN members in the frame of Regional Comprehensive Economic Partnership (RCEP, Engelberth–Sági, 2017), China cooperates with Vietnam to implement projects in railway development and transport connections (Jun–Long, 2018).

#### AGRICULTURAL TRADE BETWEEN HUNGARY AND THE ASEAN REGION

As the major part of the territory of the ASEAN countries is situated in the tropical zone, from this region Hungary can import products and crops which cannot be grown domestically, like spices, cocoa, coffee, and certain tropical fruits. The export of Hungarian food to the region is by comparison very modest. The export of bulk products (e.g. cereals), incur very high transport costs due to the great distance. Added to this, Hungary cannot compete with the goods of numerous bigger countries, like the USA, which are shipped to Asia in large scale at more reasonable costs and prices or even as aid. However, in the recent decades Hungary did manage to export even wheat to the region (for example to Indonesia), on several occasions. But the majority of the profit from such trade goes to the intermediaries. The prospects are better for highly processed goods, although problems are also associated with these. Potential exporters tend to be ignorant or ill-informed of local tastes and market conditions (channels, market regulations etc.). Hungarian entrepreneurs cannot generally afford market opening, with the associated traveling and marketing costs, market research, etc. Most of them find the cost of penetrating these markets either too high or too risky. But as Erdeiné Késmárki-Gally and Fenyvesi (2012) underlined, there is a continuous growth of food consumption in the world, there is a growing demand for agricultural produce and food (this is significant in certain developing countries) and simultaneously there is more and more demand for producing industrial raw materials and developing ‘non-food’ agricultural crops (Erdeiné Késmárki-Gally–Fenyvesi, 2012). According to Zsarnóczai improvement in food security is a matter of fundamental importance, and thus using international resources, e.g. in projects supported by the European Union, it is an important task to find the most efficient ways of spreading advanced technologies and modern methods (Zsarnóczai, 1979; 1997). As a positive development in the recent years Hungary re-opened several diplomatic missions and commercial representation offices in the region (in Kuala Lumpur and Ho Chi Minh City), and thus their on-site activity might add positive value to trade turnover and to bilateral FDI relations with these countries. The figures of Hungarian export to the ASEAN countries clearly show that it represents a relatively small fraction in the total Hungarian agricultural export. However, there is a growing trend, as between 2010 and 2015 its value has been more than tripled (from about USD 9.1 m to USD 32.1 m), while the overall Hungarian agricultural export also grew in this period, although slower (from about USD 7.8 bn to USD 8.8 bn). The main export market of these goods for Hungary is Vietnam. Between 2010 and 2015 the overall agricultural imports to Hungary also grew, from about 4.9 bn USD to 5.4 bn, and also agricultural imports from ASEAN region also grew from USD 23 m to USD 30 m. Both export and import

figures were higher between 2011 and 2014 than in 2010 or in 2015. In this period, the biggest importer of Hungarian agricultural goods in the ASEAN region was Malaysia; but Indonesia, Thailand and Vietnam were also significant importers (Tables 4 and 5).

*Table 4: Hungarian agricultural export to the Southeast Asia (USD)*

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Brunei	0	0	0	0	0	0
Indonesia	270	637	411	552	2,157	3,269
Cambodia	39	0	0	67	0	58
Laos	0	0	0	18	0	0
Myanmar	0	8	0	0	2,035	3,684
Malaysia	9	172	494	401	1,245	2,546
Philippines	45	48	46	95	172	45
Singapore	756	1,499	2,813	3,813	7,415	4,712
Thailand	382	458	727	669	1,117	1,744
Vietnam	7,628	6,877	1,951	4,024	20,704	16,053
ASEAN total	9,128	9,700	6,443	9,640	34,843	32,111
Total Hungarian agro-export	7,758,704	10,004,240	10,373,175	10,637,477	10,274,086	8,774,143
ASEAN proportion of the above (%)	0.12	0.10	0.06	0.09	0.34	0.37

*Source: Authors' compilation from the data of the Research Institute of Agricultural Economy (AKI), Budapest, 2016*

*Table 5: Hungarian agricultural imports from select countries of Southeast Asia (USD '000)*

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Brunei	0	0	0	0	0	0
Indonesia	2,986	5,494	4,629	3,646	4,987	4,638
Cambodia	0	137	479	269	0	178
Laos	0	0	0	12	0	24
Myanmar	0	0	0	0	0	36
Malaysia	9,690	18,162	17,412	16,263	17,080	16,003
Philippines	425	200	666	712	751	1,575
Singapore	278	572	436	352	482	238
Thailand	4,956	4,667	4,019	4,418	3,744	2,727
Vietnam	4,678	5,515	4,024	3,456	4,916	4,379
ASEAN total	23,013	34,747	31,665	29,127	31,961	29,797
Total Hungarian agro-imports	4,923,471	6,188,378	5,730,419	5,932,332	6,206,152	5,386,171
ASEAN proportion of the above (%)	0.47	0.56	0.55	0.49	0.51	0.55

*Source: Authors' compilation from the data of the Research Institute of Agricultural Economy (AKI), Budapest, 2016*

Aside from trade through intermediaries, there are other opportunities for co-operation in food industry, for example, the establishment of joint ventures, or research and development collaboration. In Thailand, there is a government scheme to turn the opium plantations in the northern part of the country into areas for the cultivation of other crops of the temperate climate zone. In the Philippines, there is a central project to improve the quality of maize production. Hungarian expertise could be used in both. With regard to Vietnam, the “traditional” relationship, based on the former “socialist partnership” has successfully been converted to a new, business-oriented type of relationship which has been extended to various fields of business. In the field of agriculture, mention must be made about experiments to introduce Hungarian seed varieties, for example hybrid maize, vegetables and fruits into the market, as well as to produce from Hungarian seeds in cooperation with Vietnamese partners. Another co-operation initiative in the field of animal feed manufacturing in the frames of a joint venture is under elaboration.

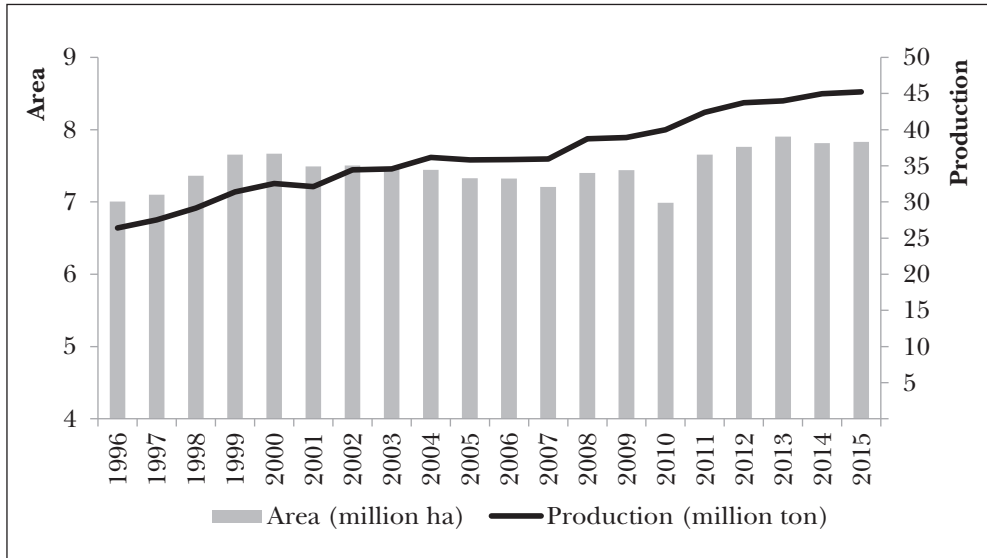
#### HUNGARIAN KNOW-HOW EXPORT TO VIETNAM – A PROPOSAL

International competition is sharp on the market of Vietnam, a country with 95 million inhabitants, and Hungarian companies do not have an easy job to cope with Japanese, South Korean, American, German and Chinese competitors, whose market shares are remarkable. There was a significant number of Vietnamese students who graduated at Hungarian universities, including agricultural higher education between the 1960's and 1989. Most of them have retired by now, even though many of them were in important positions either as corporate managers or as leading governmental officials, so they could have catalysed the broadening of partnerships in the last 25 years. Hungary has almost failed to take advantage of this opportunity, and it is the last moment to rely on this human basis. But based on our personal experience gained in the past five years, this market still provides plenty of opportunities for the Hungarian knowledge export.

Public warehousing and credit against the pledge of chattels with warehouse receipts used as collateral have a very long tradition, especially in countries with large agricultural sectors, like Belgium, the Netherlands, the United States and Hungary. Hungary has a history of 150 years in this form of financing. Between 1990 and Hungary's 2004 accession to the European Union, public warehousing and the collateralized lending became a true success story in financing agricultural products. As the agricultural and food sector of Vietnam grows at a pace of more than 6% of GDP per annum, exceeding the above-mentioned countries, it is reasonable to set up this business in Vietnam. The country has a huge production basis, it is one of the world's largest producers and exporters of rice and coffee, and productivity is increasing (Figure 2). Public warehousing can be a completely new long-term investment with short ROI, based on the successful export of Hungarian know-how.

Locations need to be carefully chosen for the warehouses to be constructed, and the appropriate methodology must be selected in agreement with the regional development policies reflecting specific regional needs (Sági–Engelberth, 2018b).

Figure 2: Production areas and volumes in Vietnam (1996–2015)



Source: Ministry of Agriculture and Rural Development of Vietnam (MARD)

Based on the currently available information, the potential dimensions of the public warehousing market are illustrated only for the three most important agricultural products (see in Table 6).

Table 6: The most important agricultural products in Vietnam, 2017

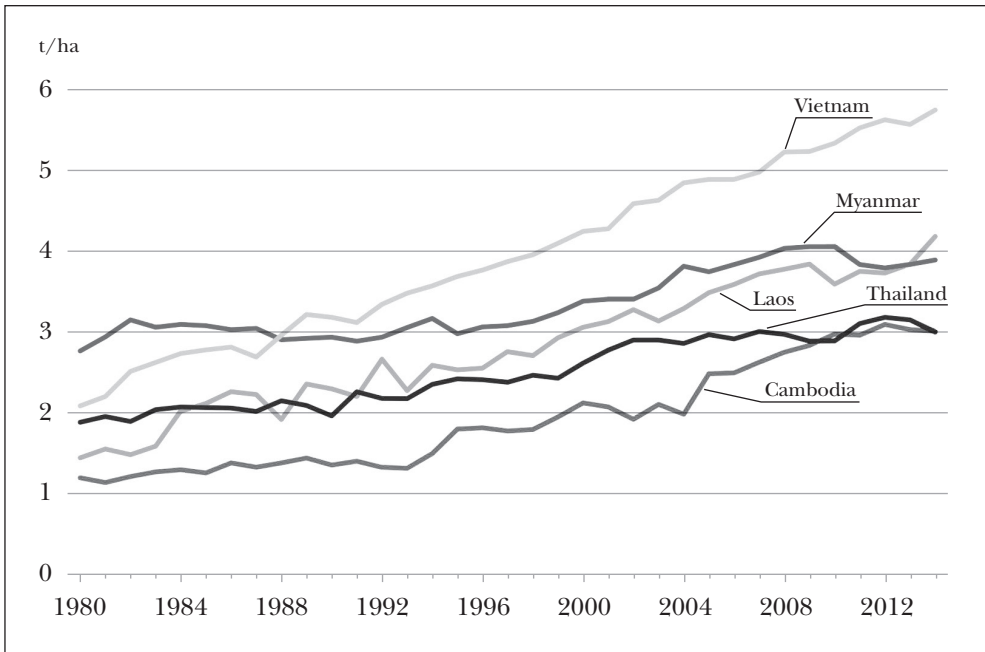
Product	Production 1.000 tonnes	Price USD/tons	Value million USD
Coffee	1,700	~2,300	4,000
Rice	46,000	~ 460	21,000
Corn	6,000	~ 260	1,600
<b>Total</b>	<b>53,700</b>	–	<b>~ 26,600</b>

Source: Authors' compilation from the data of ICE, NASDAQ, IG UK, CME Group, FAO and USDA

Thus, the value of the three main agricultural products is nearly USD 27 bn every year, and it is increasing year by year. Vietnam also imports 5-6 million tonnes of wheat in the value of USD 1.5 bn, and it may also be involved in Public Warehousing. The Hungarian grain market ranges between 10-12 million tonnes per year, representing approximately USD 2.8 bn, a mere one tenth of the Vietnamese, and even less than just the Vietnamese coffee market of USD 1.2 bn. Before Hungary joined the European Union, noticeable amount of liquidity (HUF 200 bn ≈ USD 690 million)

flew into the once underfinanced Hungarian agricultural market through public warehousing based on collateralized credits annually, which was a major help to the production sector. In the banks' traditional approach of the time, the agricultural sector was held to be highly uncreditable. Based on the Hungarian and European experience, 65% of the annual harvest was stored and financed by producers, traders and processing companies. Approximately 35% of the whole production needed extra financing possibilities based on Public Warehousing. In the United States, which has one of the most developed PW system, this ratio exceeds 50%.

*Figure 3: Rice production, crop yields in Southeast Asian countries; 1980–2015*



*Source: Authors' compilation from the data of FAO*

No accurate figures are available about Vietnam at the moment, but due to the current financing shortage in agriculture, this ratio probably reaches USD 15-20 bn. Vietnam's agriculture, similarly to the Hungarian agriculture in the 1990's, is short of financing. The production sector records considerable losses on the absence of sufficient storage capacity, which causes more than a million tonnes of waste for rice, exceeding the effect of the low dumping prices of both the rice and coffee. Vietnam has the highest production in the ASEAN region, as clearly illustrated in Figure 3, but it is not reflected in revenues, as average export prices are 30% lower than those of Thailand according to our information.

In our experience and according to our investigation, the public warehousing sector proposed to be carried out in cooperation with Hungarian firms and using

their know-how could improve the value of these agricultural commodities. The establishment of a public warehousing company in Vietnam would be important for business policy considerations, on the one hand, and relevant for investment, on the other. Adapting the Hungarian professional experience to the Vietnamese market, we recommend the establishment of a Vietnamese-Hungarian joint public warehousing, possibly logistics, company, to act as a professional investor with the involvement of a local bank and with USD 8 million capital. Its business activity should be local and it should rely partly on a Hungarian bank financing background. Only a fraction of this capital is needed to operate the company in the first partial and full business years. Most of the capital would be provided as a deposit guarantee for the business activity for financing banks. However, in terms of guarantees we need to point out the importance of the various credit guarantee systems. Sági (2017; 2018) emphasized that recently, strict risk measures have been required to tap lending capabilities and ensure the willingness of banks, and guarantee programs are designed to mitigate the lending gap. In the Hungarian and Vietnamese relationship, it is a favourable fact that Vietnam is one of the priority destinations of the Hungarian ODA (Overseas Development Assistance), and thus the Hungarian government strives to provide additional assistance, like governmental credit guarantees, loans with favourable conditions etc. for such projects (Külügyminisztérium, 2013).

Initially, the company should store coffee in rented warehouses. Warehousing logistics is considerably simpler for coffee than for grains, as it requires light-weight buildings with adequate ventilation, instead of reinforced concrete halls and silos. There is a good chance to quickly achieve spectacular results on the coffee market with a collateralized credit financing construction. Rice and other locally produced or imported products can be included on the basis of the experiences gained in coffee warehousing and financing. Based on the production value specified above, and taking a 80-85% financing rate for price risk management, USD 7 bn additional financing sources could be generated on a national level, USD 1 bn coffee financing included, in a few years. Potentially, approximately 2% of financing (1.5% of the warehoused product value) can be realized as PW fees. Table 7 shows the turnover and revenue of a newly-created company in the first business years.

Table 7: *Planned turnover for the first 5 business years (coffee only; pessimistic version):*

Year	2019	2020	2021	2022	2023
Quantity tonnes	32,000	70,000	120,000	160,000	200,000
Value thousand USD	73,600	161,000	276,000	368,000	460,000
PW fee thousand USD	1,104	2,415	4,140	5,520	6,900

Source: Authors' calculation

The new company would be able to operate with the management and staff listed in Table 8 and at the operating cost shown in Table 9, up to the planned 200,000 tonnes of public warehousing quantity in the first 5 business years.

*Table 8: Labour Costs*

<b>Job</b>	<b>Gross salary USD monthly</b>
<b>CEO</b>	10,000
<b>Commercial Director</b>	8,500
<b>CFO and Financing Director</b>	7,500
<b>Central Assistant</b>	2,400
<b>2 Area Manager</b>	4,400
<b>2 Central Manager</b>	4,000
<b>Secretary</b>	1,800
<b>Gross Labour Costs</b>	38,600
<b>Contributions 50% of GLC</b>	19,300
<b>Staff Cost</b>	57,900
<b>Staff Cost per Annum</b>	694,800

*Source: Authors' calculation*

*Table 9: Fixed assets, infrastructure and operating costs*

<b>Cost type</b>	<b>Cost USD / year</b>
<b>Office lease</b>	27,000
<b>Car lease; 6 pieces</b>	55,000
<b>Fuel plus maintenance</b>	90,000
<b>Telephone and internet services</b>	9,000
<b>Accountancy</b>	18,000
<b>IT and office equipment (3 years delimitation)</b>	7,000
<b>Marketing</b>	10,000
<b>Annual maintenance cost</b>	216,000
<b>Annual operating cost</b>	910,800

*Source: Authors' calculation*

According to preliminary calculations, the new company can be operated at a cost of approx. USD 1 million per year up to 200,000 tonnes of public warehousing turnover.

Table 10: Return on the investment

**Thousand USD**

Year	2019	2020	2021	2022	2023
PW fee net revenue	1,104	2,415	4,140	5,520	6,900
Operating cost	1,000	1,000	1,000	1,000	1,000
Tax base	104	1,415	3,140	4,520	5,900
Corporate tax 20%	21	283	628	904	1,180
Net profit	83	1,132	2,512	3,616	4,720

Source: Authors' calculation

The investment made would be recovered from the PW fees by the 5th business year. The financing bank can realize a 2-3% interest margin. The security, provided by the public warehouse, would also become available in the Vietnamese agriculture market. The implementation of a new and significant project attracts the opportunity for Hungarian companies to become involved in the development of warehouses, logistics projects, goods handling, ventilation, disinfection and other areas. The financing of warehoused stocks should basically be based on local banks, but the opportunity would also be open to the involvement of Hungarian banking, insurance and other financial service provider companies. Last but not least, it is not negligible that such a significant Hungarian presence can provide a basis for similar projects in other ASEAN countries.

## CONCLUSION

The ASEAN region is only slightly represented in Hungarian foreign trade. The growing weight and importance of the ASEAN countries in the world economy and their rapid social and economic development should encourage Hungarian companies to be much more involved in trade with this region of the world. The opportunity described above could be a good starting point, and would also open the gate for Hungarian commercial banks, insurance companies and other financial servicing firms for involvement. Finally, a strong and successful Hungarian presence in Vietnam could be considered as a positive precedent and this pattern might be used for the exploration of the markets of other ASEAN countries.

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