

Creative added value

The state of the creative economy in
Hungary

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Creative industries have been a recognised driver of developed economies for decades. All over the world, the vast majority of products with high added value are still designed in Europe and the US, and only their production has been relocated to Asia. These products are distributed around the world through European and American companies, brands and retailers. Therefore, Hungary is typically only involved in these global processes through minor manufacturing and logistics operations, and primarily on the consumer side. Századvég Konjunktúrakutató has conducted a comprehensive analysis to explore how Hungary could strengthen its role in this industry.

Today, **creativity is the key competitive advantage of strong economies.** It is the added value that determines the attractiveness of a product and is the main driver of purchases. For example, the iPhone smartphone is manufactured outside the US, but analysis¹ shows that design, branding, iOS platform or iStore development account for nearly two-thirds of its value, while manufacturing accounts for between 3% and 10% of its value.

Cultural and creative industries are increasingly valued in the European Union

The European Union has long recognised that Cultural and Creative Industries (CCIs) are important pillars of society and the economy. **These industries are seen as essential** to maintaining the cultural diversity of Member States and Europe's competitiveness in the global market. These dynamic industries have positive spill-over effects on other sectors of the economy, such as technological innovation, hospitality and cultural tourism.

CCIs are a major driver of the economy in the EU. In 2019, they generated EUR 643 billion in total turnover and EUR 253 billion in added value, accounting for **4.4% of EU GDP**, more than telecoms, high-tech, pharmaceuticals or automotive. The CCI sector employs

¹ Kraemer, K. L., Linden, G., & Dedrick, J. (2011). Capturing value in global networks: Apple's iPad and iPhone. *Research supported by grants from the Alfred P. Sloan Foundation and the US National Science Foundation (CISE/IIS)*

more than 7.6 million people and has created around 700,000 new jobs (around plus 10%) since 2013, including authors, performers and other creative workers. In 2017, the EU exported EUR 28.1 billion worth of cultural goods, representing **1.5% of total EU exports**.

Although creative industries have become an important pillar of economic development in developed and developing countries, there is **much less consensus** among experts on the **definition of creative industries**. The definition is important not only for theoretical reasons: the level of development of the creative industries and trends in the sector are currently measured in the literature and by international organisations using partly different methodologies, so the conclusions on development are not always clear and unambiguous. The good news is that all methodologies justify the growing role of the industry in developed economies. This justifies the **introduction of the concept of the creative economy**, which is the set of creative activities that take place in the economy. There are **several indications that Hungary is lagging behind in** the performance of the creative economy. The value added of products and services in the creative industries is significantly below the EU average, while the Hungarian foreign trade balance shows a significant deficit in creative goods. Creative industries have a low number of SMEs, a complete lack of listed creative companies, a very low number of trademarks and almost non-existent design registrations. This means Hungary is losing significant growth potential, as this is a key growth area for the future of developed economies.

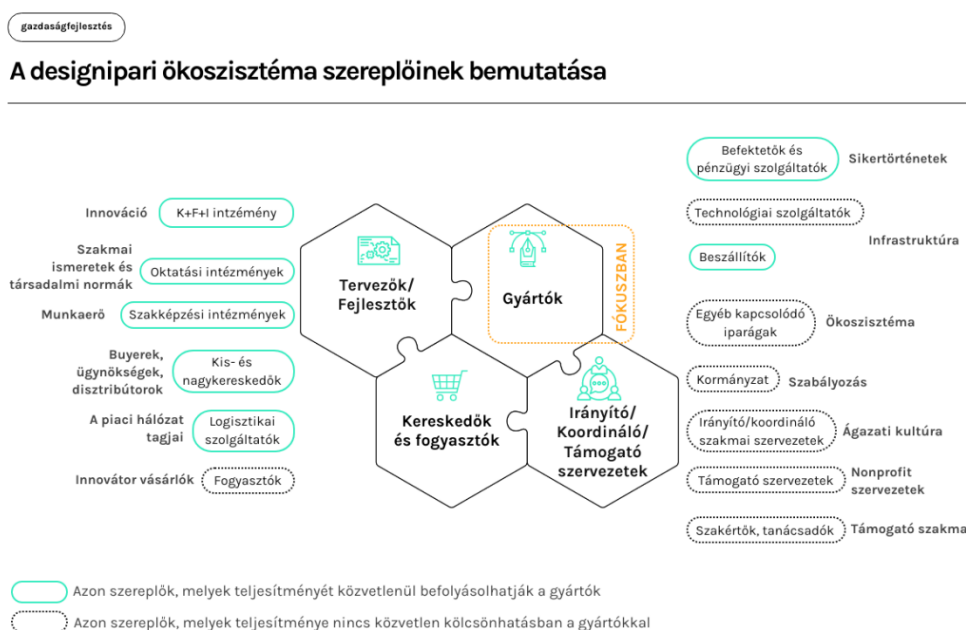
Creative added value can be increased through product design, brand development, integration into global value chains (GVCs) as well as retail and online development. Hungarian businesses do not seem to recognise this and are not ambitious enough about it in their developments. This loss of time comes at a high price, as access to the domestic market has already become more difficult, and its incubation capacity has therefore significantly reduced.

Complex interactions: design manufacturers operate in complex ecosystems

For a comprehensive analysis and effective strategic planning, it was of paramount importance to examine in detail all the influencing factors related to the manufacturers in

focus. Many variables affecting the sector, such as supplier relations, material costs, innovation capabilities as well as consumer preferences and trends, affect manufacturers' activities and success in complex ways. Exploring such complex interactions allows us to get a more comprehensive picture of the sector as a whole and helps us understand the long-term effects of individual decisions and strategies.

The figure below **shows the many interacting actors in the design ecosystem**. The design industry, in its narrow sense, consists mainly of manufacturers, but we should not forget the suppliers, some of whom may themselves be active in the design industry (e.g. designers, developers or raw material producers). At the other end of the supply chain, there are almost always retailers who ensure that design products reach consumers. As the figure shows, there are also many stakeholders from the manufacturers' perspective, and their needs and opportunities need to be well understood. Manufacturers do not have direct control over most of these, such as one key resource, skilled workforce.



The design industry plays a prominent role in Hungary's creative economy

The design industry accounts for 1.1% of total output, which is already a remarkable economic contribution. However, the industry is even more important in terms of exports,

with 2.1% of total exports coming from sales of design products. Accordingly, the export intensity of the design industry is higher than the average for Hungarian sectors.

Only 0.9% of domestic added value comes from the design industry. Our calculations show that the national average value added per unit of output is 43%, while in the design sector it is only 34%, so the **value-added content of the design industry lags behind the average of other sectors**. Value-added content is one of the key determinants of competitiveness in a sector. A typical tool for strengthening and catching up a sector with lower added value is the implementation of higher levels of innovation, new technologies and processes. Productivity is therefore almost 30% lower in the design industry than in the national economy.

PRODUCTIVITY RELATIVE TO THE NATIONAL ECONOMY AVERAGE

	Value added per capita compared to the national average (<i>National average = 100%</i>)
Manufacture of textiles, clothing and leather products	33%
Manufacture of non-metallic mineral products	116%
Electrical equipment manufacturing	91%
Furniture manufacturing and other manufacturing	69%
Other professional, academic and technical production	160%
Total design industry (weighted average)	72%

Source: Századvég, based on databases of the Hungarian Central Statistical Office

However, looking behind the data, it is clear that the design sector with a huge productivity deficit is textiles, clothing and leather products, with a value added per capita of only 33% of the national average. Excluding this data, the overall productivity of the design industry is above the national average. One explanation for the lower productivity rate is the high proportion of lower-skilled workers in this industry. According to our analysis, almost 70% of the workforce in the design industry have less than secondary vocational education (I5), compared to only 40% for the national economy as a whole.

PRODUCTIVITY IN THE DESIGN INDUSTRY

	Productivity (value added/output)
Manufacture of textiles, clothing and leather products	37%
Manufacture of non-metallic mineral products	34%
Electrical equipment manufacturing	25%
Furniture manufacturing and other manufacturing	40%
Other professional, academic and technical production	65%
Total design industry (weighted average)	34%

Source: Századvég, based on databases of the Hungarian Central Statistical Office

Although it is only a small part of the national economy, the Hungarian design industry **exports three quarters of its output**, which is good for the national economy as it contributes to increasing revenues from abroad and strengthening international competitiveness. Hungarian exports of creative goods more than doubled between 2005 and 2015, from USD 651.5 million to USD 1.3 billion, and this trend continued over the next ten years. Design products have traditionally accounted for the largest share of creative exports. Publishing (books and journals) was the second most dynamic sector for exports of creative goods, with a total value of USD 119 million. Imports of creative products amounted to USD 1.3 billion in 2015, mainly due to the impact of design products, artisanal/arts-and-crafts products, publishing and audiovisual products. However, the ratio of final consumption to gross accumulation is relatively low, suggesting that **the Hungarian design industry serves other sectors rather than being directly integrated into the consumption structure of Hungarian households and businesses.**

Methodology

The following methodological elements were applied in the preparation of the study:

1. **Desk research/document analysis:** Processing of national and international literature. Sector reports and analysis of some development programmes in the area. Examining different model countries in international examples. Analysis of previous development programmes.

2. **Data analysis:** Analysis of sectoral international (e.g. OECD) and domestic data (e.g. KSH), data visualisation.

3. **Qualitative data collection:** In order to understand the workforce demand, employer expectations and difficulties of the creative economy, we conducted in-depth interviews with stakeholders and managers of Hungarian light industry companies.

4. **Quantitative survey of the population:**
Sampling period: October 2023
Sample: 1,000 persons (Hungarian adult population)
Methodology: CATI (Computer Assisted Telephone Interview)
Margin of error: +/-3.1 percentage points