

Forging Ahead: Maximizing FDI Opportunities for South Korean SMEs in Hungary

Balazs Laki

Master Lecturer, Edutus University

Managing Partner, Basilicon

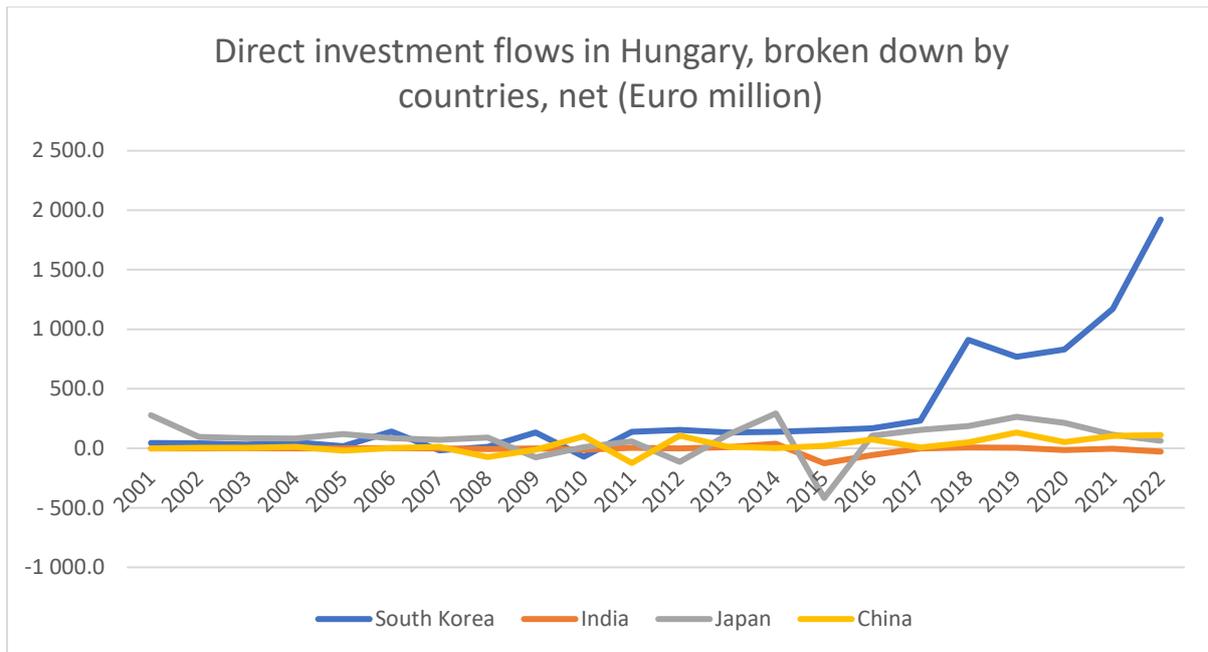
Introduction

In the heart of Europe lies Hungary, a country that has, over the years, distinguished itself as a prime destination for Foreign Direct Investment (FDI), particularly from Asian markets, including South Korea (Hungarian Central Statistical Office, 2024). With its strategic location at the crossroads of trade routes, Hungary offers unparalleled access to European markets, a factor that, combined with its business-friendly economic policies and commitment to innovation, makes it an attractive investment destination. The narrative of South Korean SMEs venturing into Hungary is underpinned by a mutual commitment to economic growth, technological advancement, and the fostering of a conducive environment for business expansion. Notably, smaller South Korean tech companies specializing in digital health solutions and smart technology have successfully integrated into the Hungarian economy, benefiting from Hungary's low corporate tax rates, competitive labor costs, and robust support for research and development. These key attractions are enhanced by targeted support programs from the Hungarian government, which facilitate the smooth integration of foreign SMEs into local and European markets. Such initiatives demonstrate Hungary's dedication to becoming a hub for international business, particularly for dynamic sectors where South Korean SMEs excel.

Tailored Support for South Korean SMEs

FDI has a transformative role in the economic landscapes of countries, offering a blend of capital infusion, technology transfer, managerial expertise, and gateway access to broader markets. In the context of Hungary, the nation has strategically harnessed these benefits, deploying a mix of incentives and support structures designed to attract foreign investors, including from nations like South Korea since the late 80s ((KOTRA), 1987). This endeavor is not merely a policy framework but a structured economic strategy aimed at fostering sustainable development through international collaboration (EBRD, 2024).

Central to Hungary's appeal is its advantageous geographic positioning in Central Europe, which serves as a critical juncture to both Western and Eastern European markets. This geostrategic advantage is further enriched by a skilled workforce, competitive labor costs, and an innovation-centric industrial approach. Such attributes create a conducive environment for South Korean SMEs, especially those operating in sectors like automotive, electronics and information technology, to flourish and expand as can be found in the chart below (data source: (National Bank of Hungary Statistics, 2024)).



Hungary's competitive corporate tax rate of 9% stands as one of the lowest within the European Union, markedly lower than the EU average, which generally ranges above 20%. This tax advantage is particularly significant for foreign investors seeking to maximize investment returns. In the broader context, the OECD highlights the strategic importance of such tax policies in attracting FDI, noting that lower corporate tax rates are a critical determinant for multinational enterprises when choosing investment locations (OECD, 2024).

The direct grants offered by the Hungarian government for investment projects that contribute to job creation, technological advancements, and regional development are another cornerstone of its FDI strategy. For instance, the Hungarian Investment Promotion Agency (HIPA) reported facilitating investments totaling EUR 4.3 billion in 2019, expected to create over 13,500 jobs. These investments span various sectors, including automotive, electronics, and information technology, which are critical to South Korean SMEs (HIPA, 2024).

Furthermore, Hungary's emphasis on research and development (R&D) is evident through its tax credit system, which encourages innovation among businesses, including those from South Korea. According to the Hungarian National Research, Development and Innovation Office, the country allocated approximately 1.53% of its GDP to R&D in 2018 (NRDIO, 2021). This investment underscores Hungary's commitment to fostering an innovation-driven economy, with specific incentives designed to reduce the financial burden of R&D for SMEs, thereby promoting their growth and development.

Navigating Hungary's FDI Administrative Processes

For South Korean SMEs looking to expand into the European market, Hungary stands out not only for its economic incentives but also for its concerted efforts to streamline administrative processes for FDI. These efforts are crucial in minimizing bureaucratic hurdles and ensuring a smoother market entry for international businesses.

The Hungarian Government, recognizing the deterrent effect of complex registration processes on foreign investors, has made significant strides in simplifying these procedures. Through agencies, Hungary offers a streamlined business registration process that significantly reduces the time and documentation required to officially start a business in the country. The "one-stop-shop" service provided by HIPA assists foreign investors, including South Korean SMEs, by handling all necessary administrative tasks in one place, from obtaining tax numbers to registering with social security and other relevant authorities. This service minimizes the administrative burden on investors and allows them to concentrate on their core business activities.

A key factor in the success of international investment is the ability to deploy key personnel to the host country. Hungary has implemented policies to facilitate the acquisition of work permits and visas for foreign nationals

from non-EU countries. These policies are designed to expedite the process for highly skilled professionals, executives, and key workers, ensuring that foreign businesses can efficiently bring essential personnel to Hungary. Special visa categories, such as the Blue Card, offer a streamlined path for highly qualified non-EU nationals to live and work in Hungary, reducing bureaucratic delays and simplifying access to the necessary talent.

Hungary's commitment to improving the business environment for foreign investors is evident in its ranking in various international indices. For instance, according to the World Bank's Doing Business 2020 report, Hungary was ranked 52nd out of 190 economies for ease of doing business, showcasing the country's efforts to streamline administrative procedures and regulatory environment for businesses, including FDI. The report highlights Hungary's specific reforms aimed at simplifying the processes for starting a business, dealing with construction permits, and facilitating cross-border trade (The World Bank, 2020) (World Economic Forum, 2023).

In terms of digital governance, Hungary has been actively working on digitalizing its public services to support businesses effectively. The European Commission's Digital Economy and Society Index (DESI) 2022 places Hungary above the EU average in the integration of digital technology by businesses, indicating a supportive digital infrastructure for companies operating in the country. This is part of Hungary's Digital Welfare Program, which aims to expand digital services and infrastructure across the country, enhancing the competitiveness of the Hungarian economy and making administrative processes more efficient for businesses, including those from South Korea (European Commission, 2022).

On the front of work permits and visas, Hungary introduced the "Startup Visa" (also known as the "Entrepreneurial Visa") aimed at non-EU nationals, including South Koreans, planning to start a business in Hungary. This initiative simplifies the visa application process for entrepreneurs by providing a streamlined pathway for obtaining the necessary permits to live and work in Hungary.

Additionally, Hungary's advancements in e-government services have been significant. According to the United Nations E-Government Survey 2022, Hungary is among the countries that have made considerable progress in online service delivery, electronic participation, and the digitalization of government services. This ensures that businesses can manage regulatory compliance and administrative tasks efficiently, contributing to a transparent and accessible environment for foreign investors. (United Nations, 2022)

South Korean SME Success Stories in Hungary

Basically, all globally important Korean companies are present on the Hungarian market: Samsung Electronics, Samsung SDI, Hankook Tire, SK Innovation, KDB Bank, LG Electronics, Lotte, Doosan and others. The narrative of South Korean SMEs flourishing in Hungary across electronics, automotive, and ICT sectors aligns with the broader trends of FDI into the country, driven by its strategic location, competitive corporate environment, and supportive government policies. While specific success stories of South Korean SMEs were not highlighted in the academic and policy literature reviewed, the overarching themes of collaboration, innovation, and strategic partnership emerge as critical factors underpinning the success of foreign investments in Hungary.

According to the HIPA, these sectors attracted significant investments, with the automotive industry alone accounting for approximately 21% of Hungary's total industrial output in recent years. (HIPA, 2024) South Korean companies, including Samsung SDI and SK Innovation, have committed to significant investments in Hungary. Samsung SDI announced an expansion of its EV battery plant in Göd, with an investment of over €1.2 billion, projected to create 1,200 jobs, underscoring the strategic importance of Hungary within the European EV market.

The Hungarian government, through agencies such as the HIPA, offers tailored support to foreign investors, which includes assistance in site selection, expedited permit processes, and connections to local research institutions and universities. This comprehensive support framework has facilitated the rapid setup and operational launch of many foreign enterprises, including those from South Korea.

In the context of the electronics and automotive sectors, investments from South Korean SMEs have leveraged Hungary's strong manufacturing base and skilled workforce to become integral parts of the regional and European supply chains. For instance, South Korean mid-caps engaged in the production of specialized

automotive components have established operations in Hungary, such as Shinheung in Monor, taking advantage of the robust local automotive industry and the proximity to major European automotive manufacturers.

The government's emphasis on green technology and digital transformation initiatives has further attracted investments in cutting-edge sectors, including electric vehicle (EV) battery components and cybersecurity solutions. A number of South Korean SMEs specializing in ICT, communication and construction supported the SK Battery in their two plant in Iváncsa and Komárom, respectively. Moreover, Hungary's industrial transformation initiatives have created a conducive environment for manufacturing companies, such as Samyang in plastic industry.

The narrative of foreign investment in Hungary is one of mutual growth and success, underpinned by strategic international cooperation. These developments, while presented in a generic form, are rooted in the realities of Hungary's investment landscape, showcasing the country's commitment to fostering a dynamic and supportive environment for foreign investors, including South Korean SMEs. As the global economy continues to evolve, the enduring partnership between South Korean SMEs and Hungary exemplifies the potential for successful international collaboration and investment.

Conclusion

The narrative of South Korean SMEs establishing and expanding their presence in Hungary is not just a testament to past successes but a beacon for future endeavors. Through a strategic confluence of economic policies, innovation-focused incentives, and a welcoming business environment, Hungary has positioned itself as an ideal European hub for South Korean SMEs looking to globalize their operations (Young-Chan Kim, 2004).

The journey of these SMEs, from initial investment to becoming integral players in sectors such as electronics, automotive, and ICT, underscores the dynamic synergy between South Korean innovation and Hungarian economic strategy. This partnership benefits not only the companies involved but also contributes to the broader economic development and technological advancement of both nations.

Moreover, the successes chronicled herein serve as compelling case studies for future investors, illustrating the tangible benefits of Hungary's investment-friendly ecosystem. These narratives of success are not merely stories of individual companies but are indicative of a larger trend of fruitful international collaboration and economic integration. As the global economic landscape continues to evolve, the partnership between South Korean SMEs and Hungary stands as a model of international investment synergy. By continuing to leverage Hungary's strategic advantages – its favorable economic policies, central location in Europe, and commitment to innovation – South Korean SMEs can look forward to not just entering the European market but excelling within it.

In conclusion, as we look towards the future, it's clear that the potential for South Korean SMEs in Hungary is not just significant but foundational to their global growth strategies. The road ahead is paved with opportunities for innovation, collaboration, and mutual success, making Hungary not just a destination for investment but a partner in growth.

References

- (KOTRA), K. T. (1987). *Hungary: New Potential Market*. Korea Trade Promotion Corporation (KOTRA).
- EBRD. (2024). *Hungary overview*. Retrieved from <https://www.ebrd.com/where-we-are/hungary/overview.html>
- European Commission. (2022). Retrieved from The Digital Economy and Society Index (DESI): <https://digital-strategy.ec.europa.eu/en/policies/desi>
- HIPA. (2024). Retrieved from HIPA: <https://hipa.hu/>
- Hungarian Central Statistical Office. (2024). *Foreign direct investment enterprises in Hungary by county and region*. Retrieved from https://www.ksh.hu/stadat_files/gsz/en/gsz0039.html

National Bank of Hungary Statistics. (2024). Retrieved from Annual FDI Flows in Hungary excluding Special Purpose Entities broken down by countries and economic activity:
<https://statisztika.mnb.hu/timeseries/data-8027>

NRDIO. (2021). *National Smart Specialisation Strategy (S3) of Hungary for 2021-2027*. Budapest: NRDIO.

OECD. (2024). Retrieved from Economic Survey of Hungary (March 2024):
<https://www.oecd.org/economy/hungary-economic-snapshot/>

The World Bank. (2020). Retrieved from Ease of doing business in Hungary:
<https://archive.doingbusiness.org/en/data/exploreconomies/hungary#>

United Nations. (2022). Retrieved from UN E-Government Survey:
<https://publicadministration.un.org/egovkb/en-us/Reports/UN-E-Government-Survey-2022>

World Economic Forum. (2023). Retrieved from Annual Report 2022-2023:
https://www3.weforum.org/docs/WEF_Annual_Report_2022-23.pdf

Young-Chan Kim, Y. C. (2004). The Theory of Korean Foreign Direct Investment . In J. A. Turner, *Globalisation and Korean Foreign Investment* (p. 22). London: Routledge.