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The influence of Japanese automotive industry investment in East Nógrád

This study explores Japanese-Hungarian economic relations, specifically focusing on foreign direct investments (FDI) in Hungary. The analysis delves into the historical development and current state of Japanese capital flow into Hungary, with a particular emphasis on the automotive industry. Foreign direct investments are shown to enhance productivity through technology transfer and foster positive impacts on corporate relationships, contributing to economic growth. The study demonstrates the mutual benefits of Japanese FDI in the Hungarian automotive industry and includes a case study on the activities of a Japanese company in Hungary, examining its role in the regional labour market.

Keywords: FDI, Japan, Hungary, employment, economy

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Introduction

The presence of Japanese, Chinese, and Korean companies has expanded globally, including in Europe, driven by economic progress in Asian nations. In 2020, Japan emerged as one of the major Asian investors in Hungary (MTI, 2019). Japanese companies were among the pioneers in expressing business confidence in the growing Hungarian economy during the democratic transition of the 1990s.

Japan and Hungary have maintained diplomatic ties since 1869—a period that dates to the Austro-Hungarian Empire (JEiH, 2020). Japanese businesses came to Hungary faster than they reached other nations in the region since Hungary had already started structural changes in 1995. Furthermore, a rise in international trade was observed (Kiss, 2007). Automobiles and vehicle parts were Japan's top export items, followed by electronic gadgets, whereas Hungary primarily exported foodstuffs and chemical goods.

The objective of the investigation is to examine the motives behind Japanese company's decision to establish a subsidiary/affiliate in an underdeveloped region. Can the reasons be attributed to European, Hungarian and specifically local factors? Furthermore, which factors contributed to Japanese FDI becoming established in East Nógrád?

Literature Review

Ojo (2015) defines FDI as an investment that grants a global corporation power over 10% of the votes in the subsidiary's management. FDI is frequently viewed as a saving force by nations with transitional economies, as they anticipate that it will act as a catalyst for economic expansion. This is especially likely if the investments support innovation and research and development (R&D) (Schneider & Frey, 1985).

Several theories criticize the way FDI contributes to economic expansion. Herzer et al. (2014) argue that FDI is a primary driver of inequality. The substitution hypothesis, as asserted by Adams (2009), suggests that FDI makes developing nations vulnerable to foreign investors. However, popular theories highlight the benefits of FDI. The impact of FDI on financial markets

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or the host country's absorption capacity, for instance, is not automatic and can vary (Carbonell & Werner, 2018). In countries where government policy attracts international investors and supports indigenous enterprises, FDI acts as a stimulus for economic growth (Bailey et al., 2016).

The positive consequences of the infusion of foreign working capital, such as rise in employment, technical advancement, and productivity, are frequently emphasised in research that examines the regional effects of FDI. By analysing the regional drivers of economic growth in Hungary, Lengyel-Varga (2018) discovered that the working capital of the foreign processing industry of Hungary significantly contributes to its GDP growth.

Japanese companies have been present in Hungary since the 1990s. The first success story was Hungarian Suzuki (Suzuki, 2020). Suzuki was subsequently followed by many companies. In 2016, 151 Japanese companies were already present in Hungary, providing 30,000 jobs (Manufacturing Trend, 2016). Six years later, at the beginning of 2022, the number of companies increased to 180 companies, employing 34,000 employees (Origo, 2021).

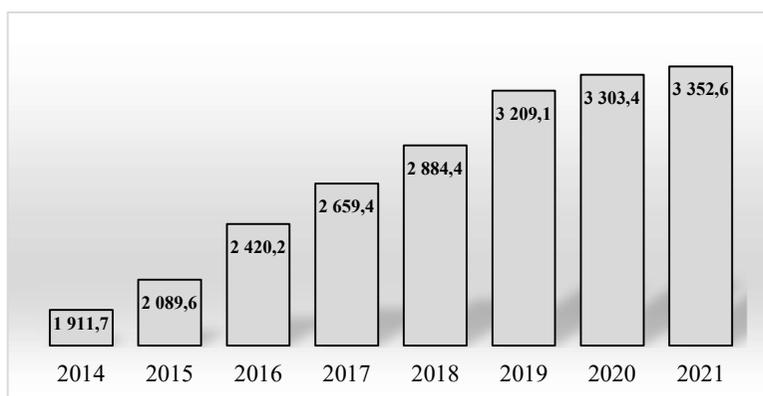


Figure 1. Inward Japanese FDI Position in Hungary - Total (Euro Million)

Source: MNB

Not only Hungary but other Visegrád countries have also attracted Japanese FDI, mainly in the automotive and electronic industries, as well as some other services. The number of companies is consistently increasing year-on-year, though with a relatively minor share in the total FDI stock. This trend is anticipated to persist in V4 countries due to the potential relocation of Japanese companies following Brexit (Szunomár, 2021). However, ensuring access to a skilled labour force is crucial for these companies, enabling Hungary and others to move up the value chain (Goreczky, 2021).

To attract foreign FDI, a region needs abundant labour, concentrated manufacturing, relevant industrial demand, infrastructure, and inter-industrial agglomeration economies (Szigethy-Ambrus, 2023). The significance of unit labour cost is ambiguous, as it lacks differentiation between skilled and unskilled workers. This absence results in a positive association between unit labour cost and FDI. However, the coefficient of the labour cost variable is negative in certain countries (Baudier-Bensebaa, 2005). However, the positive effect of FDI is reflected in the increased regional activity, improvement of inter-county relations, and the growth in domestic R&D in Central Europe (Pavlínek, 2004).

In Mór, in 2020, the SEWS industrial company was handed over a 2.75 billion factory hall, the construction of which was financed by a state subsidy of almost 1 billion forints. With their investment, the Japanese company created 561 new jobs for local residents (HRPortal, 2020). In 2021, Seiren Ltd built an automotive plant in Pécs with an investment of HUF 15.2 billion, employing 170 workers. The construction was supported by the state through the provision of HUF 4.6 billion (MTI, 2021). Three investments were also completed in 2022, leading to the

creation of 355 jobs (HVG, 2022; Infostart, 2022; KEMMA, 2022). The sectoral distribution of investments highlights the dominance of automotive companies. This trend will continue in 2023, with Nippon Paper announcing a battery-related investment in Vácátót worth HUF 15 billion that will create 60 jobs with support from the Hungarian state (Behaviour, 2023).

A Japanese Automotive Supplier in East Nógrád

Our research involves the acquisition of local information, where we used the annual publications of the Nógrád Chamber of Industry and Commerce, presenting the companies of the county (Nógrád TOP-50). Our study focused on Mitsuba, the Japanese automotive supplier, and the researched information it has recently gathered. Mr. Okabe, the former head of Mitsuba in Salgótarján, gave a presentation at the BGE Salgótarján Institute in 2009. Student Alexandra Szegedi prepared a student research paper on the founding of the company in Nógrád. During our research, we visited the company and there we had the opportunity to interview several managers. The interviews in 2023 with Csaba Tatár, the managing director of Salgó Vagyon Kft. (the operator of the industrial park), and Csaba Szabó, the chief engineer of Mitsuba Hungary, played a prominent role in the presentation delivered by the company.

The Mitsuba's global operation

Mitsuba Corporation was founded in 1946 in Japan. The company started out with manufacturing and selling generator lamps for bicycles and started producing wiper motors in the 1950. Today, it is a global company with a presence on every continent. Its main activity is focused in the automotive sector, primarily as a supplier. The company is also active in R&D, software development, and IT and systems management. Mitsuba is part of the Honda Motor Group. In addition to Honda, the company's main shareholders include Japanese banks and insurance companies (Mitsuba 2023).

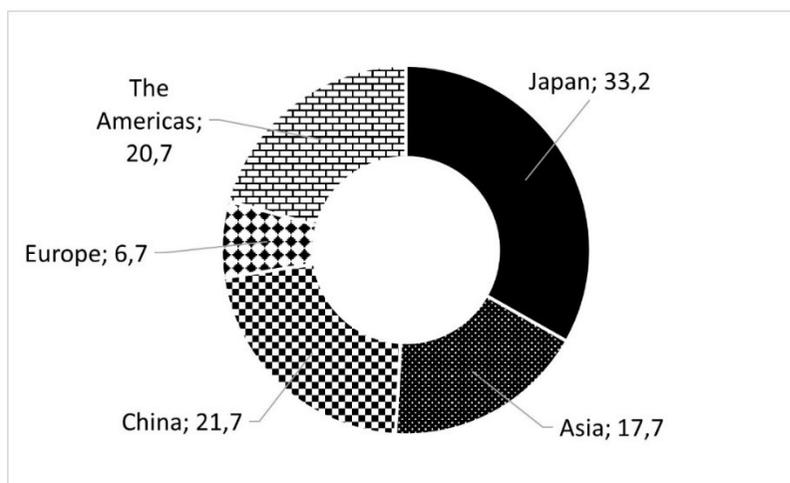


Figure 2. Sales Breakdown by Geographic Region, 2022 (%)

Source: Mitsuba

The company operates in 47 locations around the world. The most critical continent for the company is Asia, where most of its subsidiaries are located and where the largest share of its sales is concentrated (Figure 2). China is home to seven subsidiaries, and the company's operations also extend to the Philippines, India, Vietnam, Indonesia, and Thailand. In 2022, nearly one third of Mitsuba's sales were generated in Japan, while approximately 40% of sales were attributed to other Asian countries, primarily China. Europe accounted for only 6.7% of

sales. Fifteen years earlier, in 2007, 52% of the Japanese company's sales were generated in Japan and only 19% in other Asian countries. The European share was 6%. These figures indicate that over the last decade and a half, the Japanese automotive supplier has increased its presence in the Asian market, including China (Mitsuba, 2023).

In Europe, in addition to Hungary, the company is active in Italy, France, Germany, and Russia, as well as in the Asian region of Turkey. In Europe, the company set up its first plant in France and then in Italy. The establishment of a subsidiary in Hungary was a key step in strengthening the company's presence in the European market. At the European level, Mitsuba invested most of its capital in its subsidiary in Salgótarján, amounting to approximately EUR 6.7 million, which represented 49.7% of the total amount invested in European companies (Szegeci, 2009).

Mitsuba in Salgótarján

Mitsuba entered Hungary in 2001, though it had previous ties to the country. In 1992, through a Mitsuba license, Bakony Művek in Veszprém began supplying Suzuki, a Japanese car manufacturer. Suzuki had established its factory in Esztergom in 1991 and received wiper systems and horns for Swift cars from Bakony Művek. Over time, Bakony Művek also became a supplier for the Suzuki and Opel joint development, Wagon R. Mitsuba continued delivering components to Bakony Művek and directly to the Esztergom plant. Suzuki and Mitsuba have maintained a longstanding partnership, continuing their collaboration in the European market (Antalóczy-Sass, 2011). For Mitsuba, the years 2006–2007 marked a significant turning point, as it was during this period that the cooperation with the German VW group started.

Mitsuba Automotive Systems of Europe Kft. was established in Salgótarján as a 100% Japanese-owned company (a characteristic of Japanese companies in Hungary is that they do not seek to establish joint ventures and are inclined towards sole ownership). This company established its plant in the county capital of Nógrád, as a greenfield investment and as the only subsidiary in Hungary and Central Europe. Trial production started with 10 workers in April 2001, with actual production starting in August. In March 2023, 380 people were working at the Mitsuba. The plant primarily manufactures and sells wiper and washer equipment for the European market, in addition to comfort equipment such as electric window lifters, power steering motors, and electric horns. The production is mainly for export purposes, with a consistent share of over 90% over the years.

Choosing Salgótarján offered Mitsuba numerous advantages. Having prior experience in Hungary, a country where post-World War II division of labour among socialist nations led to the end of automobile production, Mitsuba saw the country rapidly integrate into the European and global economy after the regime change. This period witnessed a trend of auto suppliers, including Mitsuba, relocating production from developed to emerging regions like Central Europe. The region offered well-developed infrastructure, a cost-effective and skilled workforce, and supportive public economic policies, making it attractive to major European and Asian car manufacturers seeking to establish new capacities. Central European countries engaged in competition to attract multinationals, reflected in the available state incentives.

For automotive investors like Mitsuba, the region's favourable logistical position, particularly in Hungary, offered a significant advantage. They could efficiently export products to Western Europe and neighbouring Central European countries, integrating into continent-wide production chains and potentially shortening existing ones. The location also facilitated expanded trade with non-EU countries to the east and the Balkans. Mitsuba's choice of Hungary was influenced by its traditional partner Honda, which had car plants in the UK and Turkey. Additionally, with Hungary's anticipated EU membership in 2004, Mitsuba saw the opportunity to access the large single European market. This trend was reflected in the broader influx of Japanese companies seeking to bypass EU customs duties through trade-substitution investments, with over 180 Japanese companies operating in Hungary by 2021, employing 34,000 Hungarians.

In the 2000s, Hungary became an attractive location for international car manufacturers and suppliers, including Japanese companies, thanks to the development of a supportive car

manufacturing and supply ecosystem. By 2004, there were around 270–300 companies recognized as regular suppliers in Hungary (Szegedi, 2009). It should be noted that 13 of the world's 30 largest automotive suppliers, including several Japanese-owned ones from which Mitsuba was able to obtain information on the conditions of operation in Hungary, were already established in the country (e.g., DENSO and Linamar).

Mitsuba examined 40 sites in 5 Central European countries before making its final decision on the Salgótarján investment. The prominence of Northern Hungary was clearly demonstrated by the fact that the Salgótarján site was competing with other settlements in the region, such as Miskolc, Rétság, and Tiszaújváros (Nógrád Megyei Hírlap, 29.03.2001).

The peripheral nature of Nógrád, including its capital Salgótarján, played a decisive role in the location choice. Geographically situated on the Slovak-Hungarian border, it is characterized by underdevelopment. Formerly a moderately developed Hungarian county, Nógrád became the poorest in terms of GDP per capita post-transition. In 2001, when Mitsuba was founded in Hungary, Nógrád's GDP per capita was 54% of the national average, declining to 46% by 2021 (KSH, 2022). Despite its peripheral location, the county's economic geography is favourable as it is approximately 100 km close to the country's centre, the capital, and its surroundings. This proximity holds potential for the county to catch up in economic development, a process that has been delayed since the regime change.

For a considerable period, Salgótarján faced unfavourable transport connections. The high-speed road to Budapest, specifically Hatvan, the M3 motorway junction, was only completed in 2019. Despite this, the proximity to Budapest was crucial for maintaining international and national contacts, given Hungary's unitarian centrality, where decisions are concentrated in the capital. However, the Salgótarján-Hatvan railway route (approximately 55 km), a long-standing primary line, faced significant traffic restrictions. Despite passing directly by the Salgótarján Industrial Park, home to Mitsuba's factory, the railway could not adequately support the company's transport needs.

The region's decline stems from the collapse of the former heavy industry-mining landscape after socialism. This is evident in a significantly higher population decline than the national average, a decrease in the working-age population, emigration of young and educated individuals, an aging population, and ongoing depopulation in Nógrád county and Salgótarján. In 2001, Nógrád's population was 220,000 when Mitsuba arrived in Hungary, and by 2021, it had fallen by 17% to 183,000. Salgótarján's population decreased from 42,000 in 2001 to 34,000 in 2021 (KSH, 2022). Nógrád's wages are about 25% lower than in other Hungarian regions. The region's enduring economic depression facilitated the establishment of the Japanese assembly company by providing access to a sizable pool of inexpensive labour and some industrial tradition.

Mitsuba chose Salgótarján due to the opportunity to purchase land in a government-supported industrial park with existing infrastructure, often available at a discounted price. The presence of the park also allowed for accelerated depreciation. Mitsuba cultivated a positive relationship with the municipal company managing the park, aiding the company in overcoming operational challenges. Industrial parks played a vital role in Hungary's 1990s economic development, transforming industrial structures, reducing unemployment, and promoting environmentally friendly investments (Nikodémus, 2022). This definition was perfectly suited to the industrial park in Salgótarján in which the Mitsuba plant is located.

The Salgótarján-Bátonyterenye Area Enterprise Zone was established in 1998 with government support, responding to the crisis caused by the disappearance of traditional large-scale industrial activities. These zones aimed to address economic underdevelopment by creating a business-friendly environment, promoting investment, and addressing unemployment. Infrastructure improvements were made, investors received tax breaks for 15 years until 2020, and long-term guarantees of public support were provided. Salgótarján's designation as an enterprise zone was fitting for its circumstances.

Mitsuba benefited from the fact that in 2001, several Japanese companies were already operating in similar sectors in Hungary (Table 1). In Nógrád, TDK, an electronic components producer established in 1995, and Hi-Lex since 2006, both situated in the Rétság industrial park, were significant contributors. The presence of Suzuki in Esztergom, a traditional partner of Mitsuba, played a crucial role, and Mitsuba's Salgótarján plant became a permanent supplier to the Esztergom facility. Beyond Suzuki and Honda's presence in Europe, Mitsuba's subsidiary secured orders from various global car manufacturers. The Salgótarján plant strategically integrated into German automotive value chains, supplying Audi in Győr, Mercedes in Kecskemét, and contributing to BMW's plant under construction in Debrecen. This success resulted from a long-term, well-planned strategy.

Table 1. Automotive Suppliers in Nógrád County in 2022

Company (country of origin)	Town	Activity	Number of employees	Net sales (million euro)
Mahle Compressors Hungary (Germany.)	Balassagyarmat	compressors, engine parts	663	88,6
Mitsuba (Japan)	Salgótarján	wiper equipment	378	49,1
Parat Ungarn (Germany)	Szügy	plastic products	170	28,3
Hanon Systems (South Korea)	Rétság	light metal casting	120	15,4
Hi-Lex Hungary (Japan)	Rétság	vehicle engine parts	392	41,5
Magna Car Top Systems (Canada)	Szügy	textile industry and automotive components	293	28,0
Bumchun Hungary (South Korea)	Salgótarján	electric car battery parts	250	13,4

Source: Nógrád TOP-50 (2022), www.ceginformacio.hu

Other government and municipal subsidies also played a role in attracting and supporting the company's founding. In 2001, Mitsuba received HUF 76 million in government support for the establishment of a factory under the Széchenyi Plan (Nógrád, 22.07.2022). Furthermore, the local government granted the company a maximum of 7 years of local tax exemption (not all the benefits received by Mitsuba at the time were made public, making it difficult to assess the exact amount of the tax breaks). Mitsuba's operations were also facilitated by the factory site operating as a free zone.

Mr. Hiroyuki Okabe, the then CEO of Mitsuba in Salgótarján, said the following at a conference held at the Salgótarján College in 2002: "The advantages of the county seat of Nógrád were the proximity to European customers on a global level, and on a micro level, subsidies and cheap labour". He also said that the absence of other multinationals in the city played a crucial role, as there were no other companies to drive up wages. After all, the benefits of agglomeration and positive synergies can usually outweigh the costs of having an experienced and skilled workforce. As noted, Mitsuba was then specifically looking for a location for its new plant in low-wage countries (Grosz, 2002).

There were certain factors that did not contribute to a favourable investment environment. These included a tax system that was not always investor-friendly, inflexible labour regulations, and

differences in mentality and traditions between Hungary and Japan (Szegeci, 2009). Emigration from the county continually reduced the pool of potential workers, which was undesirable given the presence of other companies in the company's 'attraction zone' requiring a similar workforce. Mitsuba's main competitor is the Bosch plant in Hatvan, situated approximately 60 km from Salgótarján, employing between 5000 and 6000 people in the past. Similar challenges are posed by industrial parks in Balassagyarmat (about 45 km away) and Rétság (about 65 km away), both housing automotive suppliers.

In 2006, Mitsuba addressed a sudden labour shortage during the factory expansion by hiring 50 Slovakian workers at minimum wage. The cross-border workforce, proficient in Hungarian, ensured smooth factory operations. However, as unemployment decreased and wages rose in Slovakia, this advantage diminished. In spring 2023, only 10 Hungarians from Slovakia worked in the Salgótarján factory. Persistent challenges in finding skilled labour led the company to organize bus services for workers within a 30 km radius around Salgótarján.

Despite the difficulties encountered, the Japanese-owned company has become a permanent part of the economic life of the Nógrád county seat. Slowly and deliberately, it has become an increasingly crucial player in the economic life of the region. The number of employees has slowly risen to over 100 in the years following the factory's establishment. For example, in 2011 the number of employees was 134 (Nógrád TOP-50, 2012). The development of the factory and the expansion of its workforce was clearly driven by the successful acquisition of German car manufacturers as partners. With its significance and operations, the factory has contributed to the integration of the Nógrád and Salgótarján economies into the global economy.

In 2017, Mitsuba completed the expansion of its factory, acquiring additional land in the local industrial park to build a new plant. The investment cost HUF 4.3 billion, with substantial HUF 850 million support from the Hungarian state. This level of aid is significant in Hungary's context. The investment aimed to increase the workforce from the previous 320 to 474 by 2018. However, due to global challenges in the car industry caused by the pandemic, the number of employees significantly decreased in 2021. (386; Nógrád TOP-50, 2022). This made Mitsuba the third largest employer and the company with the largest net sales and exports in Salgótarján. At the county level, Mitsuba's net turnover was exceeded only by Mahle Compressors, which is also an automotive supplier based in the Balassagyarmat industrial park. Overall, it can be stated that Mitsuba's plant is not a large company even by Hungarian standards (Nógrád TOP-50, 2022).

Table 2. Economic Indicators of Some Salgótarján Companies in 2011 and 2021

Company	Activity	Net sales (billion HUF)		Number of employees	
		2011	2021	2012	2021
Mitsuba	automotive parts	7 090	22 618	134	368
Wamsler SE	stove manufacturing	9 560	7 148	788	461
Salgglas	glass production	4 945	6 554	289	371

Source: Nógrád TOP-50 2012, Nógrád TOP-50 2022.

Mitsuba's operation exemplifies the economic transformation in the former heavy industry area around Salgótarján. Traditional heavy industries have been dismantled, with the remaining ones struggling to effectively contribute to regional modernization. Their weight in the local economy is steadily diminishing. For instance, the stove factory Wamsler SE European Zrt. is employing fewer people each year and attempts to revive traditional stained-glass production faced

liquidation again in 2021. Salgglas Zrt., engaged in traditional flat glass production, primarily manufactures automotive products, aligning itself as an automotive supplier. (Table 2).

The Role of the Salgótarján Plant in Mitsuba's Global Operations

The Mitsuba factory in Salgótarján, although not large in the global company's network, holds a significant role in the European market. It functions as the company's European car manufacturing centre, receiving components from worldwide subsidiaries such as China, the Philippines, or Japan. Global trade within the company is crucial for Mitsuba, especially for parts like engines that are not subcontracted, protecting product design and know-how. Mitsuba Hungary, for instance, manufactures the wiper motor and mechanism, while another factory produces the wiper arm and blade, creating the final product sold to customers.

Most Asian deliveries to the Salgótarján plant arrive via sea at the port of Koper and are then transported by road to Hungary. The plant produces products for German-owned car manufacturers, making it a crucial part of the dominant German car industry in Europe. The products are primarily developed in Japan, establishing a close link between the Salgótarján plant and the parent company. Close collaboration with the Munich engineering office is maintained for efficient product design and testing, especially for major customers like the VW Group, BMW, and Mercedes. The international cooperation within Mitsuba's global network involves continuous dialogue with various subsidiaries, following a systematic and regulated approach. The Salgótarján plant benefits from Japanese managers regularly spending five years in Hungary before returning home.

Mitsuba aims to streamline supply chains, particularly for new projects, positively impacting performance and reducing risks such as stock-outs and long turnaround times. While some suppliers are in Hungary, Mitsuba's localization concept extends beyond the country to the broader European region. However, due to a lack of suitable companies in Nógrád's immediate vicinity, permanent supplier partners are scarce. An exception is the engineering office Delta-Tech in Balassagyarmat, a significant R&D company producing machinery and assembly lines. The potential supplier pool is constrained by high-quality requirements, reflecting Mitsuba's focus on supplying premium categories therefore when they are looking for partners, they are thinking globally and partly in the Central European region.

Moreover, the company has no R&D activities in Hungary, that is based in Japan, therefore its impact on the dissemination of technical culture and its contribution to the local R&D capacity is not significant. The company has good relations with the local vocational training centre, where they train secondary school students to provide the necessary workforce. Furthermore, they support the municipality of Salgótarján in its scholarship scheme to retain young people after graduating, that could ensure the next generation of technical engineers.

Conclusion

The Nógrád region has witnessed industrial restructuring after the economic collapse that followed the regime change, even if the development has been “one-sided”. However, it has not been able to fully replace the sectors and companies that have disappeared. A critical feature of the restructuring was the emergence of numerous activities linked to the European car industry in Salgótarján. These are primarily low value-added activities based on the cheap labour force and work culture left over from the collapse of the former heavy industry in the county. The enterprises in the region have become part of the global (European) production chains through manufacturing and assembly activities, enabling the region's integration into international economic networks.

However, the higher income generating stages of production chains, R&D, marketing, and commercial-service activities have not been associated with new investment in the county. Based on the above, the position of Nógrád and Salgótarján can still be considered peripheral. However, with its resources, which primarily constitutes cheap labour, the region is serving as

the European centre. The establishment and development of the Japanese automotive supplier, Mitsuba, align perfectly with the transformation of the region over the last three decades.

Although Mitsuba is one of the most successful companies in the region, it has permanently established and linked the region to the global economy through the automobile industry. However, the firm failed to address the region's underlying issues. In the surveyed area, the GDP per capita is the lowest in Hungary, incomes are low, and the region is permanently on a demographic decline. It is crucial to note that Japanese investment is not a responsible for the local problems, but it has not contributed significantly to the recovery.

In Hungary, the battery manufacturing sector is developing very quickly in recent years. Three factories related to battery production have already appeared in the Salgótarján area. In our opinion, this will replace the role of traditional automotive suppliers in the long term. As automotive suppliers approx. 20 years ago, they took over the role of traditional heavy industry in the region.

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