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Hungary's motor vehicle exports from a global perspective

One of the Hungarian Government's key industrial development priorities is increasing the weight of the motor vehicle sector, including not only its role within the Hungarian economy but also the role it plays among exporters. In this paper, we aim to present the current state of Hungary's motor vehicle manufacturing sector and evaluate it from a global perspective.

Several conclusions can be made concerning the global trends of the motor vehicle industry. **The volume of the global export of motor vehicle products had reached a low in 2009**, as annual sales of USD 9 000bn slumped to USD 6 000bn. However, **the industry has seen a positive trend since 2010 and the volume of global exports hit USD 10 000bn in 2013**. It is worth taking a look on the European Union's status in terms of world trade. As far as products are concerned, the EU is a major player in terms of car production, thanks to the performance of the German industry. Globally, however, **the EU has only been the second largest producer since 2012**, and the volume of output could not be increased in the past eight years. The commercial vehicle sector has seen lower output, as South-America has beaten and Japan has caught up with the EU's output. **With regard to respective exports**, on the other hand, **the EU has preserved its dominance**. Between 2008 and 2013, the share of the EU's motor vehicle exports was never below 40 percent of the world's total, but it nonetheless fell from 46 percent in 2008 to 40 percent in 2013, due partly to the impact of the crisis on European motor vehicle manufacturers and partly to the growth of global industrial output. Examining the situation within the Visegrad Four also sheds more light on processes. These four countries cannot be regarded as major players even when production is combined. These countries are primarily car producers, which could not increase output in the aforementioned period, between 2008 and 2013. Therefore, although the volume of the EU's output has diminished, the massive position of the European Union on the world market is bolstering the Hungarian motor vehicle manufacturing sector and Hungarian exports.

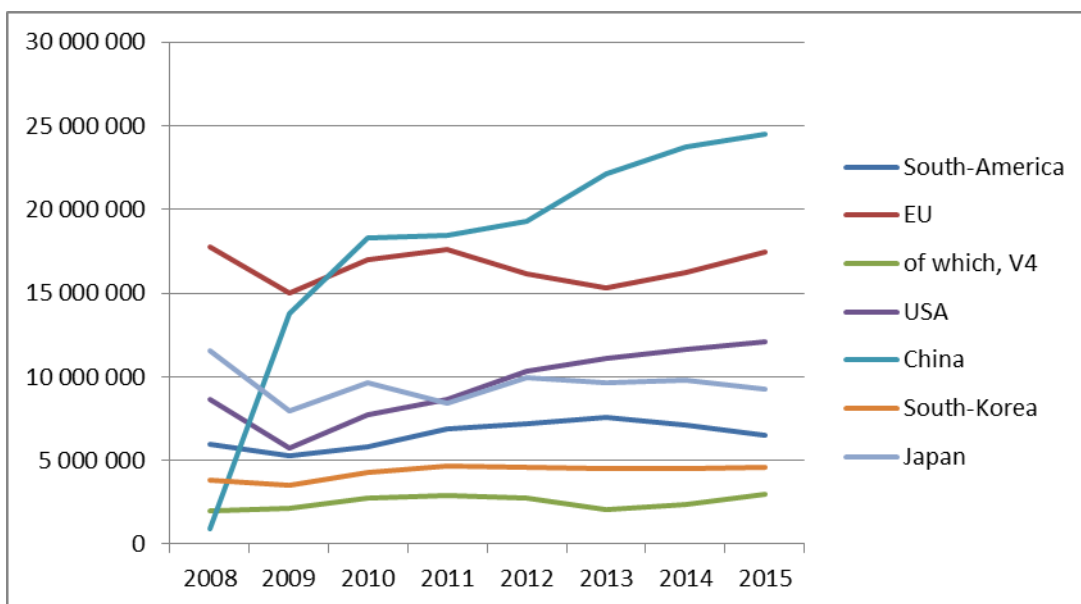
A certain paradigm change can also be discovered in terms of the global trends of the motor vehicle industry. **Between 2008 and 2015, China gained prominence in production**. This is attributable to the drastic growth of car industry output, the volume of which more than tripled in this period. As far as the export position of the country is concerned, China increased the

share within global trade from 8 percent in 2008 to some 12 percent in 2013, which figure places China as the world's second neck-to-neck with the United States, a traditional big player, and right ahead of the EU.

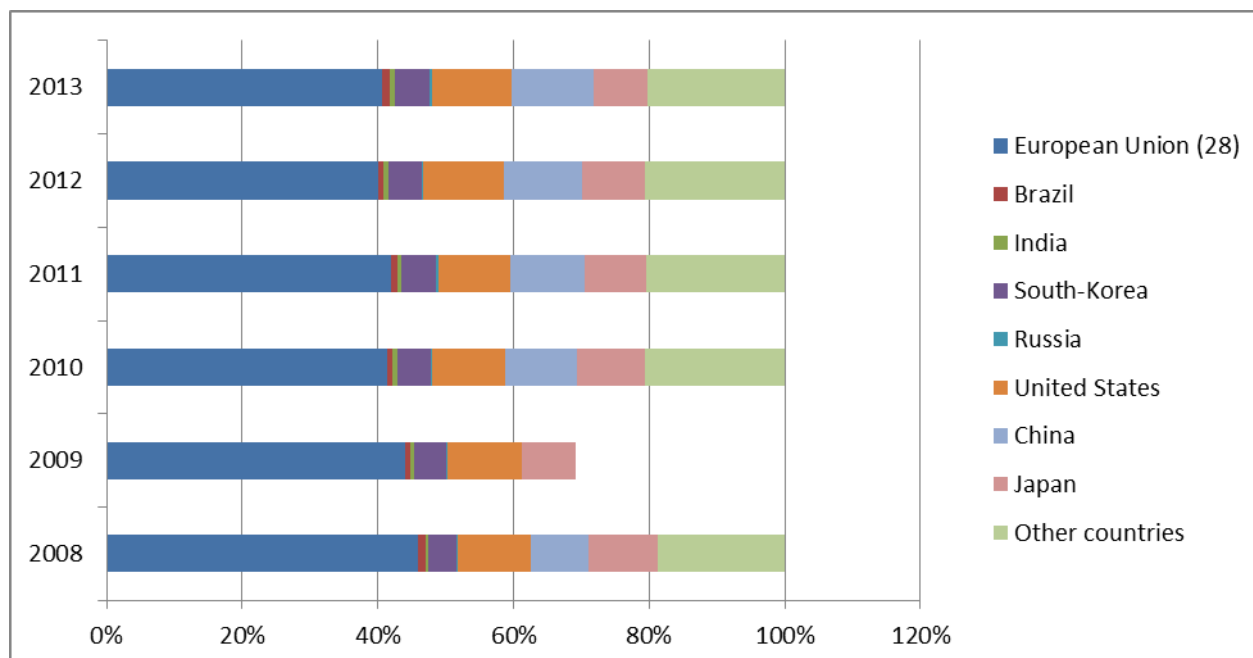
Taking a look on the United States reveals another trend: in recent years the USA has focused on commercial vehicles, while the output of cars has practically stagnated. The production of commercial vehicles has seen a major uptrend, as output reached some 8 million units in 2015 and a global export share of some 12 percent, which, as mentioned before, places the USA on a par with China.

Although the EU has suffered the most from the crisis, **output fell in Japan as well.** Although the share of the country within the global output of motor vehicles has been edging lower, the volume of output has reached that of the European Union, and foreign trade indicators signal negative tendencies: the country's share fell from 10 percent in 2008 to 8 percent five years later. Trends are only slightly better in case of another traditional industrial powerhouse in Eastern-Asia, South-Korea. The country is a major car manufacturer, and while the global share and output volume of the industry have stagnated in recent years, it has managed to boost the share of global motor vehicle industry output from 4 percent to 5 percent.

Motor vehicle output in the world



Global share of motor vehicle output by countries and regions



The significance of the motor vehicle industry within the Hungarian economy is obvious: the value of the car industry's products totalled HUF 7833.3bn in 2015, up by 17.6 percent compared to 2014, and thus **the sector is the most powerful single factor within the national economy**. The number of people employed by the sector rose by 13 percent, to more than 149 thousand. It is another indicator of the sector's significance that **while in 2014 it produced 20 percent of the total volume of Hungarian export of goods; in 2015 this indicator was as high as 21.6 percent**. The motor vehicle manufacturing sector also has a prominent role within Hungary's total trade volume: in 2015 products by road and other vehicle manufacturers accounted for 13.4 percent and 27.9 percent of Hungarian export of goods and manufacturing sector exports, respectively. The sector has been competitive on global markets: the sector's export revenues constituted 93 percent of total sales revenues in 2014.

As far as the share of motor vehicle and related products within total Hungarian exports is concerned, **motor vehicles for personal transport comprise one-half of the so-called export basket, while vehicle components make up some one-fourth of it**. The production of rubber tyres and trailers are also significant sectors, albeit well behind that of the previous two. In comparison to 2008, there was a major change in the export basket: the weight of trailers and



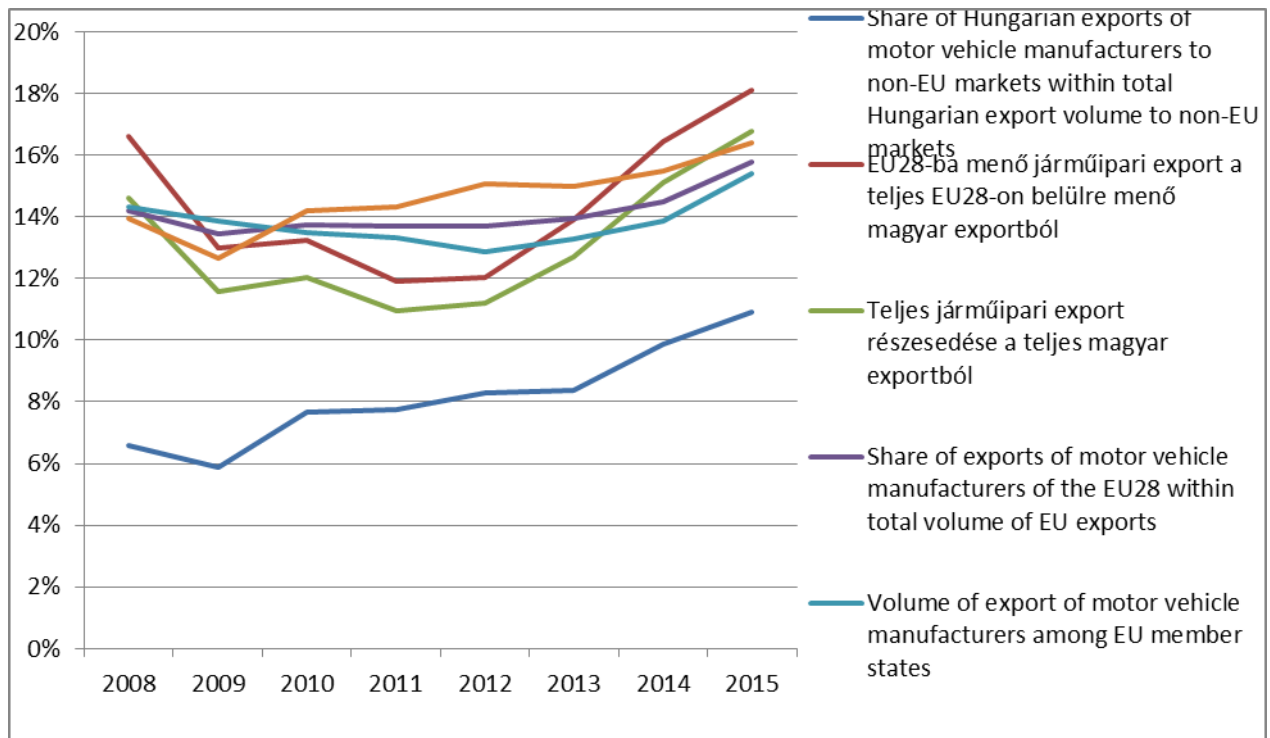
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motor vehicle components has fallen, and that of cars and engine components has risen. The expansion of Hungarian rubber tyre manufacturers shows the huge potential of the industry. Thanks to the significant expansion of production capacities by large international tyre makers in Hungary, such as Japan's Bridgestone, France's Michelin, South-Korea's Hankook and Apollo, **Hungary's annual output exceeds 32 million. This is turning Hungary into a tyre-making centre: estimates predict that twelve out of every hundred vehicles will soon be fitted with tyres made by Hungarian machinery and hands.** However, **more emphasis must be placed on research and development, innovation and the integration of car industry SMEs into the value chain in order to avoid that Hungary operate as a mere assembly line.** The adoption of dual education serves the aforementioned two objectives. Under this system, car manufacturers in Hungary undertake with domestic tertiary education institutions to teach students. Through the scheme, the Government aims to make available people with proper skills in the highest possible number and within the shortest possible time. Enterprises have expressed willingness for not only promoting dual education but also for assuming an active role and welcoming students. Universities are also open to helping and forging closer ties.

The export volume of Hungary's motor vehicle manufacturers compared to the total export volume is high even from an EU perspective. According to our analysis, the share of Hungarian exports to the EU is higher than similar EU indicators (18 percent for Hungary and 15 percent for the EU), but it comprises only 11 percent of non-EU exports. On the other hand, this indicator has signalled improvement in recent years. The number one destination of Hungarian motor vehicle manufacturing products, in terms of each product group, continues to be Germany, but gaining ground on non-EU markets is even more important. **Besides maintaining and expanding market presence within the EU, it has also been a priority to better exploit options outside of the EU.** In recent years, producers have made progress on new, typically non-EU markets in terms of almost every product group, with the exception of three of them (electric transformers, static converters and inductors). For example, Hungarian exports of motor vehicle components to Turkey have soared recently.



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Along with the priorities mentioned above, the development strategy of the motor vehicle industry must also focus on increasing the proportion of products made by Hungarian companies within the total export volume. Concerning the entire motor vehicle manufacturing sector, 40 percent of exports are linked to companies with 100 percent Hungarian ownership, 58 percent to foreign enterprises and 2.85 percent to joint ventures. Net sales revenues generated by Hungarian-owned companies are very low though, less than 5 percent within the motor vehicle industry. Companies in the sub sectors dominated by primarily Hungarian-owned enterprises are far too small (less than 1.5 percent of the industry's total). Only one out of these five sub sectors, accumulator manufacturing, is also an exporter. This sub sector, however, has managed to increase the volume of exports almost five-fold in recent years.

The Hungarian motor vehicle manufacturing sector has vast growth potential, and a coherent vehicle industry strategy could not only improve the sector's global competitiveness and the added value within the Hungarian economy, but it could also promote the interest of companies with Hungarian owners.