

# Interview: Péter Szijjártó - Minister of Foreign Affairs & Trade, Hungary

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28.06.2016

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*Hungary's Minister of Foreign Affairs and Trade Péter Szijjártó highlights the significant role that foreign direct investments have played in developing the country's healthcare and life science sector, while detailing the nation's ambitions of not only pivoting into Europe's hub for production, but also innovation.*

**With over a century-long tradition, Hungary's pharmaceutical industry has clearly served a pivotal role in the country's socioeconomic development. How have foreign investments helped facilitate the extension of this legacy?**

Throughout the **20<sup>th</sup>** century, **Hungary was the most important supplier of medicine** for Eastern Europe and remained at the forefront of the region's pharmaceutical industry.

**In the 1990s**, international pharmaceutical companies **recognized its expert knowledge and potential to establish export-oriented, high added-value production in the country**. The worldwide acknowledged expertise of Hungarian professionals and the capital of the multinational companies were the foundations of the continuous growth of the sector.

Today, the country **has over 85 core biotechnology companies** of various sizes focused on biotech R&D and manufacturing. The majority was established in 2005-2007, and market their

products and services worldwide. Hungary has a **proven track record in R&D** and is a net contributor to the global biotech industry. Although biotechnology is a relatively young science, its related industries and research fields have longstanding **traditions in Hungary**, giving companies access to a deep knowledge-base.

Hungary's pharmaceutical traditions and internationally acknowledged achievements in chemistry and biology serve as the basis of its healthy biotechnology sector. Today, the Hungarian **pharmaceutical industry contributes to the health of people in almost 80 countries** around the world.

### **What characteristics depict Hungary as such a appealing investment destination for healthcare and life sciences companies?**

Hungary has the most advanced pharmaceutical sector throughout Central and Eastern Europe, and a number of global companies operate high-tech research centers, even in cooperation with universities. Our country is recognized worldwide in the field of **international clinical trials**, the registered number of which is **over 330 per year**. This is an outstanding number considering Hungary's population of 10 million.

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Building on rich traditions in natural, technical and medical sciences, Hungary's several **knowledge and research centers** related to healthcare, life sciences and **medical technology** provide a **perfect background for innovative companies**.

According to Hungarian Central Statistics Office (HCSO), **pharmaceutical industry provided for 46.9 % of the manufacturing industry's R&D** expenditures in Hungary in **2014**.

Following this approach, it was an important step to embrace research and development and innovation (**R&D&I**) in Hungary: as early as in 2013 the **Government provided** a record **amount of aid, about HUF 118 billion**, to stimulate the area, and according to plans, between 2014 and 2020, it will support R&D&I with about twice the funds provided in the **previous EU period, more than HUF 700 billion**.

The Hungarian **labor force** is **well qualified and cost effective**, which increases the country's international competitiveness. The large number of high quality research institutions is a testament to Hungary's traditional strengths in science and technology. The 2016 statutory **gross minimum wage in Hungary is HUF 111,000** (about EUR 3,452 per month). The **average earnings were around HUF 247,784** (about EUR 800) in 2015.

Education contributes to the continuous growth of the sector: **more than 19,000 students conducted life sciences-related studies** in tertiary education in 2013/2014. Moreover, there are **250 biotech-related research and educational institutes in Hungary**. Main knowledge centers are Budapest, Pécs, Szeged, and Debrecen.

Another competitive advantage of Hungary is the **strategic location**: it provides easy access to both Western and Eastern European countries from the heart of the continent. We are at the crossroads of **3 TEN-T core network corridors** which make the country ideal to establish a regional distribution centre. Hungary has the **third highest road density** in Europe – the highest in the region – and offers the **best quality of motorways** in CEE.

The Conway group – a company providing comprehensive corporate investment consulting – has released a publication entitled ‘**The World’s Most Competitive Cities – 2015**’. It evaluated the most competitive big cities in terms of investment having a population above 500,000 people. **Budapest was the most attractive city of the Eastern European and Central Asian region in life sciences**. Moreover, Budapest is displayed as one of the most dynamic hotspots of Central Europe, supported by the diversity of the city.

**How does the government plan on creating a more competitive and favorable business environment in Hungary moving forward? What changes are required before the country can truly capitalize on its fundamentals in your opinion?**

In the past four years, our country has made a tremendous contribution to ensure that Hungary be the most competitive investment and project development environment in Europe. To this end, the **Government transformed the tax system**, created one of the **most flexible Labor Codes** in the continent, **reduced the administrative burden** and **reorganized higher education**. All this was necessary because Hungary’s economy is a highly open economy, which means in practice that export performance fundamentally determines the nation’s economic activity.

Our country offers its **excellent logistics conditions, favorable infrastructure, investment benefits** and **tax breaks** as well as, for the production sector, the possible use of EU aid and other tender support for investors. The 2014–2020 period may give a new impetus for development: **60 percent of EU funds are spent on economic development**.

In addition to Hungary, companies making investment decisions have attached special importance – by their own admission – in their investment decisions to the presence of highly qualified and skilled workforce in Hungary, the standard of secondary and specialised higher vocational training institutions, the logistics conditions in Hungary, competitive wages, and the professional attitude of

the cities and towns involved.

The Hungarian investment environment is increasingly recognized abroad, too: according to the 2016–2017 investment annex to the **'European Cities and Regions of the Future' of fDi Magazine** belonging to the Financial Times Group, which is highly prestigious in professional circles, **Budapest continues to be featured in the top ten list** of the most attractive Eastern European cities, and is also included in **three subcategories of the top ten list** of the most important European cities. It is another significant success that besides Budapest, Győr was included in the top list of smaller cities for the first time, and Central Hungary and Transdanubia also received recognition among the regions.

**With significant pricing competition from the Far East and an increasingly attractive knowledge base growing among neighbouring CEE countries, what would you identify as the key success factors in further cultivating and maintaining Hungary's status as Europe's manufacturing hub?**

The fact that after 2010 Hungary could become a production center in Europe means Hungary has achieved its first goal, but of course there are additional plans. Therefore, efforts should be made in the future – and the first steps have already been taken for this – to make Hungary also Europe's center of innovation.

As indicated above, **Hungary is no longer just a low-wage target country for investment**, where assembly and manufacturing are carried out. The **proportion of more complex, higher added-value projects keeps increasing** in our country. When choosing investment locations, corporate executives continuously narrow the perspective: after selecting a continent, they think in regions, followed by choosing a target country. Therefore, our biggest rivals are our immediate neighbors in the region.

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In addition, investors often appreciate a **stable economy** and a **favorable business environment**, as well as the importance of **partnership with the Hungarian government, universities, and educational programs**.

It is also in favor of our country, that it is Hungary in the region where a **company can be established the fastest**. While the procedure takes 30 days in Poland, 18.5 days in Slovakia on average, 8.5 days in Romania and 6 days in Slovenia, **as few as 5 days are enough in Hungary** to get from obtaining the necessary documents to the establishment of a company.

Another important factor is that the aid scheme based **on individual government decisions (EKD), offering simpler and more flexible conditions**, which was modified at the end of last year, also serves the interests of investors. Its latest element is that now also in the case of projects implemented in **Vas, Veszprém, and Zala** Counties, it is enough to present a minimum eligible cost of **EUR 10 million and the creation of 50 new jobs required** in the case of disadvantaged regions. In addition, in the case of **start-up projects** aimed at new economic activities, this form of aid is available from a cost of as low as **EUR 5 million and the creation of 100 new jobs**. Another important feature is that special attention will be given in the future to high value-added projects aimed at the establishment or expansion of regional service and innovation centers, for which aid is available in all regions eligible for aid regardless of the size of the project, from as few as 50 people.

**Although relatively small in scale, Hungary actually has a thriving export industry - particularly with respect to pharmaceuticals. How can international stakeholders benefit from partnering with Hungarian manufacturers? What value-added qualities do they bring to the table?**

In our country, the **pharmaceutical industry is a sector based on a centuries-old tradition**. Many successful Hungarian pharmaceutical companies operated during the last century. In the 1990s, the majority of them were bought up by large foreign companies which further developed and expanded the companies on the basis of industry traditions and knowledge base. With this, they significantly contributed to ensuring that the standard of domestic pharmaceutical production keep pace with the most advanced countries in the world and that the pharmaceutical industry remains the most innovative sector of the national economy. Their investments also contributed to ensuring that Hungarian pharmacists and scientists find work that poses a professional challenge to them also in Hungary.

The scientific creativity of Hungarians is internationally recognized, which is apparent from the **large number of Nobel laureates of Hungarian origin**. This talent is particularly noticeable in the fields **of natural, technical and medical sciences** (e.g.: Fülöp von Lénárd, Robert Bárány, Richard Adolf Zsigmondy, Albert Szent-Györgyi, George de Hevesy, Georg von Békésy, Eugene Wigner, Dennis Gabor, John Charles Polanyi, George Andrew Olah, Adam Hershko etc.).

Therefore, international pharmaceutical companies can count on **a highly skilled workforce, a stable existing knowledge base and excellent infrastructure** in our country.

It is important to mention **'partnering' which is crucial in this sector**. Its essence is that even the largest pharmaceutical companies need expert partners, SMEs, the subcontract manufacturing or research services of which they can use. They are also looking for new drug molecules that have been discovered by small companies, spin-offs.

In addition to large manufacturers, a number of **domestic pharmaceutical and biotech SMEs operate in our country**, which may be worthy partners of even global companies with their research and other services. It is also true for **university research workshops**, because they also **participate in 'partnering'**.

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