

An Authoritarian Advance or Creating Room for Manoeuvre? The Case of Hungary's China Policy

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Hungary is one of the most active proponents of cooperation with China in Europe. Sino-Hungarian political relations are thriving and Hungary participates enthusiastically in activities related to the Belt and Road Initiative (BRI), 17+1, and other Chinese initiatives. Hungary is regularly pictured in Western media as an advocate of Chinese interests and a Trojan Horse for China in the old continent. The Chinese influence in Hungary, however, is overestimated, and data shows that China plays a very limited role in Hungarian affairs. It is true that Prime Minister Viktor Orbán's government frequently makes friendly gestures towards China, but this reflects the ambitions and calculations of the Hungarian side more than China's efforts to build up influence. This article discusses the context, the motivations, and the aims of Hungary with regard to China and the BRI in order to assess the real impact of Chinese ties with the country.

Keywords: China, Hungary, Belt and Road Initiative (BRI), China–Europe relations, China–CEE.

Introduction

Hungary was the first European Union (EU) member state to sign a 'Memorandum of Understanding' document, indicating its willingness to join the Belt and Road Initiative (BRI), and it is one of the most active proponents of cooperation with China in Europe. Sino-Hungarian political relations are thriving, high-level visits are regular, and Hungary enthusiastically takes part in activities related to the BRI, 17+1, and other Chinese initiatives. Hungary is regularly portrayed in the Western European and American press as an advocate of Chinese interests in the old continent, and critics claim that by joining the BRI and other Chinese projects – as well as by not succumbing to the American pressure regarding the expulsion of Huawei and the loosening of political ties with Beijing – Hungary acts as a Trojan Horse for China within the EU. These policies are frequently interpreted as the results of China's efforts to gain influence and strengthen its position in Europe in order to undermine the Western unity, promote its political values, and, in the long run, rewrite the rules of the international order. From this point of view, thriving Sino-Hungarian relations

are important as yet another manifestation of China's global ambitions; a force that is in the process of reshaping the world before our eyes. However, the issue raises several questions. Is Hungary's pro-China turn a choice made by Hungary or by China? What makes Viktor Orbán's government court China so intensely? How unique is Hungary's case in the Central and Eastern European (CEE) region? How extensive is China's influence in Hungary and how threatening is it to Europe? In this article, I will discuss the context, the motivations, and the aims behind Hungary's partnership with China, as well as its participation in the BRI. I will subsequently assess the real impact of the Chinese influence in Hungary.

The China–CEE relations, including Sino-Hungarian ties, have been discussed in a number of scholarly reports and many newspaper articles in recent years. However, as regards the question of agency, it has been assumed unanimously that in these relations China was the active player, while Hungary (and other small CEE countries) were passive pawns in China's European game. In this paper, I will probe this assumption and show why and how small countries such as Hungary can actively manipulate the Chinese presence to their own perceived advantage. The Chinese influence in all parts of the world is and will be a widely debated topic in the foreseeable future, and through the example of Hungary I would like to call attention to the undeniable necessity to take into account the actions and motivations of *all* relevant sides when discussing contemporary international relations.

Literature review

While literature on many aspects of the Chinese presence in the CEE region, including Hungary, has been proliferating recently, there are no scholarly analyses on Hungarian strategic calculations regarding China. Official sources are scarce as well; no official Hungarian China strategy has ever been published, and political speeches, interviews, and documents mention China only sporadically, apart from statements released at diplomatic occasions, and these repeat the same commonplaces about the bright present and even brighter future of the Sino-Hungarian relations. Thus, I draw on information scattered in Hungarian newspaper articles and political communiqués for most of this article, attempting to organise this data into a coherent narrative.

That said, the sections about the regional context and economic relations are based on scholarly literature and official data. Until the beginning of the 2010s, contemporary China–CEE relations had been so marginal that they were practically discussed only in collections of essays published to commemorate significant anniversaries of establishing diplomatic relations with China. Understandably, these volumes never touch upon any sensitive subject.¹ In the past decade, China's growing presence in Europe

¹ For a recent example, see Chen Xin and Márton Ugródsy, *Hungary and China: 70 Years of Diplomatic Relations in the Changing World* (Budapest: China–CEE Institute, 2019).

and the establishment of the 16+1 framework have both led to fears in Western European and in the EU's institutions and elites about Chinese manoeuvring in Europe (especially in its Eastern part) causing serious threats to the European unity and values.² These views are represented, for example, in the infamous report by the MERICS (Mercator Institute for China Studies) and the GPPi (Global Public Policy Institute) that pictures China's efforts as a menacing "Authoritarian Advance".³ Many scholars, especially those from CEE countries, responded by publishing studies analysing different aspects of China–CEE relations; these usually came to the conclusion that the Chinese influence in the region is highly overestimated.⁴ It is interesting to note, however, that in some cases there are discrepancies between the title and the content of the projects dealing with the subject; while the former suggests a dangerous situation, characterised by a malign Chinese intent,⁵ the latter does not actually confirm the existence of such threats. Also, Chinese and China-sponsored publications present Chinese initiatives as opportunities for the region and the whole EU, and try to downplay the risks that come with it.⁶

The narrower topic of Sino-Hungarian relations is mostly covered by Hungarian scholars, such as Tamás Matura and Ágnes Szunomár. The former one studies topics such as China's political influence, its representation in the media and political discourse, as well as its economic impact on Hungary, while the latter one specialises in China's investment in the CEE region and focuses mostly on economic matters. In this paper, I build on their research heavily, but concentrate more on Hungary as a self-standing actor instead of being merely China's target or tool.

The European context

China's influence in Europe was increasing until the COVID-19 outbreak; most European countries still have very intense political and business relations with China. China is the second largest trading partner of the EU, and the EU is China's number one partner. China has been investing in European firms heavily and the most important aim of the BRI is to increase connectivity between China and Western Europe. These developments have caused much controversy in Europe, mostly among long-standing EU's members and the EU's organisations. While China's rise has provided Europe with

² Tamás Matura, "The Misguided Discourse on Chinese Influence in Central Europe," *The New Federalist*, October 4, 2018, <https://www.thenewfederalist.eu/the-misguided-discourse-on-chinese-influence-in-central-europe>.

³ Thorsten Benner et al., "Authoritarian advance: Responding to China's growing political influence in Europe," Report by MERICS and GPPi, February 2018, https://www.merics.org/sites/default/files/2018-02/GPPi_MERICS_Authoritarian_Advance_2018_1.pdf.

⁴ See, e.g., the works of Ivana Karásková, Tamás Matura, Richard Q. Turcsányi, and Matej Šimalčík – all cited elsewhere in this paper.

⁵ "Central Europe for sale" (see note 9), "ChinfluenCE" (<https://www.chinfluence.eu/>), "Authoritarian Influence" (https://politicalcapital.hu/library.php?article_read=1&article_id=2477), etc.

⁶ See, e.g., Chen Xin and He Zhigao, eds., *16+1 cooperation and China–EU relations* (Budapest: China–CEE Institute, 2018).

great opportunities and contributed to the economic development of European countries, many actors have recently started to view China more as a threat. A 2019 report by the European Commission entitled *EU–China: A Strategic Outlook* describes China as “an economic competitor” and “a systemic rival” – this was the first time a EU document had used such language when referring to China.⁷ The new coronavirus pandemic fuelled rising anti-China sentiment in most parts of Europe, both in the populace and the elites, and a general criticism of everything of Chinese origin has become stronger.⁸ Furthermore, the United States has openly pressured its European allies to join its global coalition with the aim of containing China, thus contributing to the re-evaluation of ties with China in certain countries.

China’s growing influence in Central and Eastern European (CEE) countries has also become a target of criticism. Many in Western Europe and the United States fear that China is pursuing some kind of a “divide and rule” approach to the EU, aiming to weaken European institutions and norms by luring some of the EU’s newer members to its side.⁹ Hungary is frequently cited as an example of this trend, as the country, under the leadership of Prime Minister Viktor Orbán since 2010, has got into a series of conflicts and disagreements with other EU’s members and institutions on issues concerning China. Despite all the criticism and pressure, Budapest does not seem to be bothered by being labelled as a “Trojan Horse of the Chinese”, and the pandemic has further problematised Sino-Hungarian relations.

The regional context

Hungary conducts many of its dealings with China in the 17+1 cooperation framework. China initiated the 16+1 framework in 2012 in order to intensify cooperation between China and 16 CEE countries.¹⁰ Among the latter, 11 are EU members and

⁷ “EU–China – A strategic outlook,” European Commission and HR/VP contribution to the European Council, March 12, 2019, <https://ec.europa.eu/commission/sites/beta-political/files/communication-eu-china-a-strategic-outlook.pdf>.

⁸ Laura Silver et al., “Negative views of both U.S. and China abound across advanced economies amid COVID-19,” Pew Research Center, October 6, 2020, <https://www.pewresearch.org/fact-tank/2020/10/06/negative-views-of-both-us-and-china-amid-covid-19/>.

⁹ See Ivana Karásková et al., “Central Europe for Sale: The Politics of China’s Influence,” *Policy Paper* 03, Prague: AMO, 2018, http://www.chinfluence.eu/wp-content/uploads/2018/04/AMO_central-europe-for-sale-the-politics-of-chinese-influence-3.pdf; Matej Šimalčík and Ivana Karásková, “Roundtable: The Extent and Kind of China’s Influence in Central Europe,” *Briefing Paper* 08, Prague: AMO, 2018, http://www.chinfluence.eu/wp-content/uploads/2018/06/AMO_chinfluence-roundtable-the-extent-and-kind-of-chinas-influence-in-central-europe.pdf; Richard Q. Turcsanyi, “China is raising its flag in Central and Eastern Europe,” *East Asia Forum*, August 31, 2018, <http://www.eastasiaforum.org/2018/08/31/china-is-raising-its-flag-in-central-and-eastern-europe/>. The most comprehensive document detailing these claims is the report by MERICS and GPPi (Benner et al., “Authoritarian advance: Responding to China’s growing political influence in Europe”).

¹⁰ Song Lilei and Dragan Pavlicevic, “China’s Multilayered Multilateralism: A Case Study of China and Central and Eastern Europe Cooperation Framework,” *Chinese Political Science Review* 4, no. 103 (July 2019).

5 are Balkan states outside the EU. In 2019, Greece joined the framework, making it 17+1.¹¹ From China's perspective, the establishment of the 16+1 cooperation came from the realisation that CEE countries are different from the 'old' EU states in the economic, cultural, and political sense; they share some common historical heritage, and it is much less bothersome to Chinese decision-makers to treat these countries as a unit than coping with them one by one.¹²

Four factors need to be taken into account when observing the CEE countries participating in the 17+1 framework. *First*, the economic and business ties, as well as cultural, educational, scientific, tourist, and other relations between China and these states are all on a much lower level than those between China and most of the EU's original members. Intensifying and expanding such relations between China and CEE countries does not mean that these will become more substantial than the Sino-German, Sino-French, or similar relations in the foreseeable future. It only means that the gap might narrow to some extent, or at least it is not likely to widen any further. The fact that criticism of these countries for wishing to do business with China is voiced by actors with much closer relations with China seems rather problematic. *Second*, CEE countries have oriented their foreign policy and economic relations almost exclusively to the West since the beginning of the 1990s. Most of them are one-sidedly dependent on trade and investments from Western economic powers, especially Germany. Increasing the level of relations with China is a way to diversify their foreign contacts, but it is not realistic to assume that China can ever take the place of the Western partners in the economies of CEE countries. The volume and intensity of the Chinese ties will always be dwarfed by the Western ties. *Third*, ideological factors play a minor role in the foreign relations of CEE countries and the public is less enthusiastic about the values of liberal democracy than in Western European states. As a result, having good political relations with countries with different political systems is less controversial in most CEE countries. However, the claim that the populist or illiberal turn in some CEE countries is a result of the Chinese influence is completely unfounded. No evidence has been presented so far to confirm that Beijing has any interest in the political systems of CEE countries. *Fourth*, Western European countries and companies, as well as the United States, all look at the CEE region as their natural sphere of influence, and the entering of other actors is looked upon with some hostility, leading to lobbying against it in many fields, including politics. This partially explains why the 17+1 framework has received a lot of criticism.

The BRI was announced somewhat later than the 16+1 cooperation, but the two initiatives have been linked, as CEE countries lie along the economic corridors of the BRI. On the one hand, most CEE countries are underdeveloped when compared to

¹¹ "Full text of the Dubrovnik Guidelines for Cooperation between China and Central and Eastern European Countries," *Xinhua*, April 13, 2019, http://www.xinhuanet.com/english/2019-04/13/c_137973910.htm.

¹² For official information on the 17+1 framework, see its homepage at <http://www.china-ceec.org/eng/>.

Western European economies; they lack natural resources and their level of productivity is relatively low. One of their problems is the infrastructure gap; their railway, highway, and other infrastructure systems are outdated and, in some cases, crumbling. On the other hand, the location of many CEE countries could make them important transit states. There is also a need for high-productivity jobs in practically all CEE economies. It is not surprising that when President Xi Jinping announced his vision about the Belt and Road Initiative, most CEE countries saw it as a great opportunity to develop their own infrastructure systems and economies, and they showed considerable enthusiasm towards the initiative. However, when it became clear that the BRI would not be a game-changer in the region in the foreseeable future, some CEE countries have silently backed off, while others still approach the initiative with great expectations.

There is, nonetheless, a difference between the needs of the EU and that of non-EU states in the CEE region. The EU's members have access to cheap resources to modernise their own infrastructure, so they are not in desperate need of Chinese loans. What they need is green-field investments, high-quality jobs, and markets for their small- and medium-sized enterprises. However, those Balkan states which are not members of the EU do need financing and infrastructure projects offered by China. That is why not even one infrastructure project has been finished in the EU member states of the CEE region, while some have been carried out successfully in the Balkan states. Somewhat unwisely, China did not differentiate between CEE countries and offered the same type of packages to all of them, as it did to states along the BRI in Africa and Southeast Asia. The packages consist of loans given by Chinese policy banks to finance a public construction project, built mostly by Chinese companies and with Chinese technology and employees.¹³ The 11 EU countries in the CEE region do not really need these kinds of projects, which is why they have not accepted the Chinese offers so far, regardless of the above-mentioned infrastructure gap. (The only exception is the modernisation of the Belgrade–Budapest railway that will be discussed later in this article.) This is not to say that they have all given up on the BRI, but, rather, they see it as a possible opportunity not of the present but of the future, in case its content changes. Moreover, no breakthrough has been achieved in either investment or trade between China and the CEE region. Chinese investments play a marginal role in CEE countries' economies, and while trade has been growing for some years, most of the exports of the region to China consist of products of multinational companies that outsourced their production facilities in CEE.

A recent development that casts a shadow on China–CEE relations and the participation of CEE countries in the BRI is the intensifying geopolitical rivalry between traditional Western powers, dominated by the USA, and China's rising (economic and

¹³ Anita Kőműves and Erdélyi Katalin, "Viszonzatlan szerelem – semmi nem valósult meg az Orbánnak ígért kínai óriásprojektekből," *Átlátszó.hu*, October 18, 2018, <https://atlatzso.hu/2018/10/18/viszonzatlan-szerelem-semmi-nem-valosult-meg-az-orbannak-igert-kinai-oriasprojektekbol/>.

political) power. There is enormous American pressure on all European countries to scale back their relations with China, e.g. not to use the 5G mobile broadband equipment made by Chinese companies. In some cases, governments are forced to make choices, which is a situation that most of them have always wanted to avoid. This is true for CEE countries as well; close US' allies, such as Poland, may be required to back out from certain fields of cooperation with China. The real weight and impact of the US' pressure in the long run is yet to be seen, but it will certainly have a negative effect on the China–CEE relations.

Some characteristics of Sino-Hungarian relations

Hungary has been one of the most enthusiastic countries in the CEE region regarding the 17+1 framework and the BRI, and its level of commitment towards China does not seem to be decreasing despite recent global developments and regional disappointments. On every occasion when Chinese and Hungarian delegations meet or when a joint cultural or trade event is held, it is invariably emphasised that Sino-Hungarian relations have never been as good as in recent years, and that we live in a 'golden age' in this respect. Soon after forming his new government in 2010, Hungarian Prime Minister Viktor Orbán announced his 'Eastern Opening' policy, with China being its most important target. This coincided with the initiation of China's 16+1 framework, which was followed by the BRI. Hungary saw in these undertakings an opportunity to corroborate its 'Eastern Opening', so it claimed that Hungary shared China's vision about an integrated Eurasian continent and wanted to be an important actor in realising this goal. The Hungarian government made a strategic decision about supporting basically all Chinese initiatives and has become one of the most ardent proponents of the BRI in Europe, at least rhetorically. Since 2010, Hungary has even got into a series of conflicts and disagreements with other EU's members and institutions on issues concerning China, signalling to China and the rest of the world that Budapest is willing to take risks in order to strengthen its cooperation with Beijing. Hungary was the first among the EU's members to sign up to the BRI, and the country tries to portray itself as an indispensable part of the New Silk Road. This is rather unique for more than one reason. First, as a member of the EU, it has full access to the EU's resources to rebuild its infrastructure, so the Chinese participation is not desperately needed. Second, there are no strong cultural or historical foundations for Sino-Hungarian relations, and the 'special friendship' of the Chinese and Hungarian people, often mentioned by politicians, does not exist. Third, Chinese trade or investment does not play an important role in the Hungarian economy, and no actual project has ever been finished in Hungary as part of the 17+1 or the BRI, so a decade of 'Eastern Opening' has turned out to be rather fruitless. Fourth, the strengthening of the Chinese ties can undermine Hungary's existing partnerships with its traditional allies, and these do play a crucial role in Hungary's economy and security. Fifth, Beijing does not seem to pay

special attention to Hungary and does not provide it with particular privileges that would motivate its leaders to stick to their pro-China policy. Sixth, obtaining a large number of loans from Chinese partners contradicts the government's programme of decreasing the state debt. For all these reasons, the choices of the Hungarian leaders seem to be rather controversial.

In the remaining sections of this paper, I will provide an explanation of Budapest's efforts to strengthen its Chinese ties despite the above-mentioned factors. However, before getting into the details of Hungary's calculations, I would like to provide a brief description of the environment that shapes Hungary's policy towards China and the BRI. Some of these factors are somewhat shared between other CEE countries, while others are unique to Hungary.

A cross-party agreement

There seems to be a tacit agreement among most of the political parties that the development of relations with China and taking part in the BRI is very important, and opposition parties – unlike the mainstream liberal media¹⁴ – almost never criticise the government's China-related actions. Some exceptions occurred during the first phase of the coronavirus pandemic in 2020 when the acquisition of low-quality Chinese equipment, such as masks, was condemned by some of the MPs. These, however, were isolated cases. A detailed analysis of the Hungarian media showed that no opposition politician had had anything to say publicly about China between 2010 and 2017,¹⁵ and this has not changed significantly to date. The rise of China and the growth of Chinese influence have not triggered anxiety or fear in the country. On the contrary, the fact that China has not brought enough investment into the country and does not buy more Hungarian products is widely considered to be the main problem. Instead of too much China, too little China seems to be the problem.

Hungary is unique in Europe in that it has had a strong and stable government since 2010, dominated by Viktor Orbán's ruling party. However, when another party comes to power one day, it probably will not change Hungary's China policy. Actually, the overtures between Hungary and China did not begin in 2010, but, rather, under the previous government in 2003, and Mr. Orbán merely continued his predecessors' work in this respect. A recent development on the Hungarian political scene is the appearance of a new party called 'Momentum', consisting of young pro-Western

¹⁴ See, e.g., Tamás R. Mészáros, "Magyarország lett Kína kapuja, csak Kína nem tud róla," *Index.hu*, February 8, 2017, https://index.hu/gazdasag/2017/02/08/kina_magyar_kapcsolat_orban_longform/; Edit Zgut et al., "Kína az Új Selyemúton hódítaná meg Közép-Európát," *24.hu*, March 25, 2018, <https://24.hu/kulfold/2018/03/25/kina-az-uj-selyemuton-hodita-na-meg-kozep-europat/>.

¹⁵ Tamás Matura, "A kínai jelenlét Magyarországon," *Műhelytanulmány* 10, Prague: AMO, 2018, http://www.chinfluence.eu/wp-content/uploads/2018/06/AMO_A-ki%CC%81nai-jelenle%CC%81t-Magyarorsza%CC%81gon.pdf, 7.

liberals whose rhetoric includes some anti-China elements. However, they are still quite far from having any influence on Hungarian foreign policy.¹⁶

The relative insignificance of the topic

While the rise of China is a hot topic in many countries all around the world, Hungarians show a significant degree of indifference towards it. Both the growth of the Chinese power and the issue of the Chinese influence in Hungary is covered more frequently in the foreign press than in Hungary itself. Public discussions rarely touch upon China-related topics and there have been no political or public debates about China. When China is dealt with, it is usually economic and business issues that dominate the agenda – such as the Belt and Road projects – and the coverage tends to be practice-oriented, while relevant values and principles are rarely mentioned.¹⁷ Recently, quite a few reports have appeared on Sino-American conflicts, but these are presented as the business of two remote great powers on the other side of the world that do not have much to do with Hungary. The COVID-19 outbreak, of course, was widely covered, but the topic was only slightly politicised, and China’s role in the pandemic was barely mentioned in the second half of 2020.

This indifference of Hungarians can be attributed to several factors. First, because of geographical distance, China has never played an important role in the history or culture of Hungary; it has never been either a close friend or an enemy, so no deep emotion is attached to it. Second, while Hungary clearly belongs to the West in a historical, cultural, political, military, and economic sense, Hungarians tend to see themselves as an ‘in-between’ people, having the potential to act as a bridge between the East and the West, so they look at the rise of China as an opportunity that might make their own role as a mediator more important. Third, China’s economic impact is still limited; apart from goods made in China that surround people in Hungary, Chinese companies or markets are not claimed to affect the lives of ordinary Hungarians, and Hungarians do not consider Huawei or other Chinese high-tech companies to be more of a threat for them than Google or Facebook is.

Disappointment in the West

The way many Hungarians see China is affected by some extent of disappointment in Western values, institutions, and countries. The fall of Communism brought not only freedom, but also a lot of hardships to the whole region. The 1990s and the early 2000s

¹⁶ Anna Donáth, “Tisztázzuk: Brüsszelből a pénz jött, Kínából a vírus,” *Mandiner.hu*, April 1, 2020, https://mandiner.hu/cikk/20200401_tisztazzuk_brusszelbol_a_penz_jott_kinabol_a_virus. The author of the viral Facebook post quoted here is a member of the European Parliament delegated by the Momentum, and the title is “Lets make it clear: Form Brussels came the money, from China came the virus.” This sentence appeared in an advertisement created by the party as well.

¹⁷ Donáth, “Tisztázzuk: Brüsszelből a pénz jött, Kínából a vírus,” 9.

were characterised by a blind belief that joining the Euro-Atlantic community would solve all the problems and raise Hungarians' living standards. Hungary joined the NATO in 1999 and the EU in 2004, and it followed the Washington consensus without any reservation, adapting Western-style market economics and liberal democracy as fundamental systems in order to fully integrate into these communities. Dreams of catching up with the West, however, have not come true, and the 2008 global crisis brought another round of economic and political turmoil. The confidence in Western institutions was shaken and the disillusionment was corroborated by America's failed attempts to export democracy to Afghanistan and Iraq, proving to many that liberal democracy is simply not suitable for certain countries and cultures. The 2008 crisis contributed to the worldwide acceptance of the Chinese system, as the latter proved to be stable, resilient, and efficient in the midst of the breakdown of the global system. The growing prestige of China was felt in Hungary as well, and the Chinese model, previously seen as inferior to the Western one, was increasingly assessed as a possible option for other nations. It was also felt by many that the West is on the decline and the East is rising, and, as a result, clever decision-makers should put more emphasis on the development of respective countries' Eastern relations.

Regardless of whether one accepts these arguments or not, there is serious rationale for the expansion of Hungary's non-Western links. In the process of the Euro-Atlantic integration, Hungary has become almost exclusively reliant and dependent on Western European and American partners. A diversification of relations is certainly necessary and getting closer to the second largest economy in the world can indeed serve the national interests. While building a political friendship with a Communist dictatorship can and should be debated, establishing business connections with China simply means following the example set by Western powers decades ago.

Hungarian domestic politics and Viktor Orbán

It can be said with great confidence that since 2010, Hungary's China policy has been guided by one person, namely Prime Minister Viktor Orbán. The Ministry of Foreign Affairs and Trade functions merely as an implementer of the foreign policy previously formulated by Mr. Orbán. Government agencies work on justifying Mr. Orbán's vision, not on shaping it, and no government official or politician tends to express any views on China independent of the Prime Minister. It is thus quite important to understand Mr. Orbán's geopolitical vision and manoeuvring techniques.

One of the very few constant elements of Mr. Orbán's ideology is the idea of a declining West and the need to defend Hungary from certain Western elements – Brussels-based bureaucrats, liberal ideologues, the IMF, George Soros, etc. – that strive to destroy the values upheld by Hungary, compromising its sovereignty. In its permanent struggle against these elements, Hungary needs like-minded friends, and China is considered to be such a friend. According to Mr. Orbán, the Western system

was built on “speculation”, but Hungary is developing a system built on “labour”, just as China did.¹⁸ Hungary refutes all external attempts to interfere in its affairs and stops liberals from undermining traditional social and national values, similarly to China. Moreover, according to Orbán, as the West is destroying itself, “shrewd Hungarians”, led by a “true leader”, should turn to the winners of the future, i.e. to China and other emerging economies.¹⁹ This paper does not deal with the question of whether Mr. Orbán is right or whether he actually believes in what he says. What is important from our point of view instead is that this theory provides some explanation of Hungary’s China policy.

China is also used in domestic politics as a source of legitimation and an element of political communication. Government media tend to overestimate Hungary’s importance to China and picture Mr. Orbán as a visionary statesman treated with great respect by Chinese leaders; in this narrative, Viktor Orbán elevated his country to the level of global politics and has a good understanding of great developments in the world. Mr. Orbán also uses China as a bargaining chip in his constant debates with Brussels, suggesting that if the EU does not let him have his way, he will turn to his Chinese friends for support and money.²⁰

The BRI and Hungary’s strategic calculations

While Chinese relations are used as tools in short-term schemes both in domestic and in EU politics, the Hungarian government does seem to have long-term strategic calculations regarding the BRI. The modernisation of the Belgrade–Budapest railway line can be considered as one such element. It must be noted, however, that no official Hungarian China strategy has ever been published, so the aims and calculations of the Hungarian leaders can only be inferred from isolated statements, remarks, and personal communication with people involved in the bilateral ties.

Securing the involvement of great powers

One fundamental element of the Hungarian government’s way of thinking is that the world is changing fast and the future is unpredictable, especially for small countries such as Hungary. The 2008 financial crisis that caused a serious debt crisis in Hungary taught the political leadership that too much dependence on – and trust in – anyone, in that particular case the West, is likely to pose a threat. The present government believes that in order to increase the country’s security, Budapest must

¹⁸ Donáth, “Tisztázzuk: Brüsszelből a pénz jött, Kínából a vírus,” 4.

¹⁹ See, e.g., Viktor Orbán, “Together we will succeed again,” *About Hungary*, September 21, 2020, <http://abouthungary.hu/speeches-and-remarks/pm-orban-in-magyar-nemzet-together-we-will-succeed-again/>.

²⁰ Haász János, “Orbán Berlinben: Ha Európa nem ad pénzt, kérünk Kínától,” *Index.hu*, January 10, 2018, https://index.hu/belfold/2018/01/10/orban_berlinben_ha_europa_nem_ad_penz_t_majd_kerunk_kinatol/.

achieve a condition that prompts all great powers to have a stake in the stability and prosperity of Hungary, which also provides its government some room for manoeuvre. As a great power, China must have a stake as well. If it has some large-scale investment in Hungary, there will be a motivation for Beijing to help Hungary in case of another crisis. The COVID-19 outbreak, the initial paralysis of the EU, and the catastrophic treatment of the pandemic in the US have all proved that reliance on one partner may turn out to be insufficient in times of difficulty.

Becoming a transportation hub

Another calculation of Hungary is that it should use its location between the East and the West – and the North and the South – to its advantage in order to develop its economy and elevate its status. Hungary lacks natural resources, but its geographical position can make it an important transit country and logistic centre, a role that may attract investment in other areas as well. There are other countries vying for this role in the CEE region, but investments in infrastructure and good foreign relations can provide Hungary some advantage, or at least this is what Hungarian decision-makers believe.²¹ The BRI fits well in Hungary's age-old ambition of becoming a transportation hub or a 'gate' of China to Europe, which explains Hungary's rapid positive reaction to China's vision. Just as in all other countries in the CEE region, the conditions of roads, railroads, airports, and other infrastructure in Hungary are far from perfect, and a lot of investment should be made for these nations to be able to catch up with the Western European standards in this regard. It is logical to invite Chinese companies – suffering from over-capacities and encouraged by the BRI programme – to get involved in infrastructure development.

Many projects of this kind were discussed in the past decade (e.g. enlarging an airport in the western part of Hungary so that it could serve as a cargo base for Chinese goods, building a railroad ring around Budapest as well as a high-speed railway line between the Budapest airport and the city centre). However, not one such project has been launched to date. The same is true for all the EU's member states of the CEE region, apart from a failed Polish highway project.²² The reasons for this are not only strict EU's regulations on public procurement and building standards, but also unrealistic expectations. In spite of many failures and broken promises, Hungarian leaders have not given up on having Chinese firms participate in narrowing the infrastructure gap.

²¹ Claudia Patricolo, "Hungary fastest growing transport hub in CEE," *Emerging Europe*, October 22, 2019, <https://emerging-europe.com/news/hungary-fastest-growing-transport-hub-in-cee/>.

²² Bao Chang, "COVEC stops Polish highway construction," *China Daily*, June 18, 2011, http://www.chinadaily.com.cn/bizchina/2011-06/18/content_12728120.htm.

The Belgrade–Budapest railway

There is one important project, however, that will most certainly be completed, namely the modernisation of the railway line linking Serbia's Belgrade and Hungary's Budapest. The project has been delayed many times, and actual construction has not begun as of November 2020, but the winner of the construction tender has been announced and the first part of the loan is being drawn down.²³ The modernisation of the Belgrade–Budapest railway is the only real BRI project in the CEE region involving a EU member, and its Hungarian section will also be the first Chinese infrastructure project inside the EU. As such, it can serve as a reference and precedent for Chinese and European actors on all sides in the future.

The idea of the project was conceived soon after the Greek port of Piraeus had been acquired and developed by the Chinese company Cosco. Most Chinese goods reach Europe by sea, and Piraeus is the closest European port for Chinese ships that cross the Suez Canal. If Chinese goods were transferred to trains in Piraeus, they could reach markets in many parts of Western Europe somewhat faster than by having them shipped to a Western or Northern European port. The Athens–Skopje–Belgrade–Budapest line can become an important part of the BRI, facilitating the transfer of goods and connectivity in both directions. The problem is that the railway system throughout the Balkans is ravaged and outdated, and full modernisation is needed. The Belgrade–Budapest line will be the first section of this larger project. On a side note, the line between Budapest and Vienna – a route through which Chinese goods can reach the lucrative Western European markets – is in a rather good shape.

The said Belgrade–Budapest line will be the most expensive railway project in the recent history of Hungary, and it is widely criticised both in Hungary and in the EU. 85% of the costs will be financed by Chinese lenders charging an interest rate of around 2–3%, and a large part of the work will be done by Chinese companies.²⁴ On the one hand, the reasons why *China* is ready to take part in this project are clear. These include the following: the Chinese charging of market interest rates and the loan is guaranteed by the Hungarian and Serbian state, so they will gain profit under any circumstances; some Chinese railway-building companies will have work and income; Chinese goods can reach their target market faster (if the section between Greece and Belgrade is modernised as well, for which there are plans); and Chinese companies will have a reference within the EU for future projects. On the other hand, the reasons why *Hungary* undertakes this project are much less known, especially if only material profit is considered.²⁵ The line will be quite useless for Hungarians, as

²³ “Govt Applies for Chinese Loan, Budapest-Belgrade Rail Construction about to Start,” *Hungary Today*, June 7, 2019, <https://hungarytoday.hu/budapest-belgrade-railway-construction-china-loan/>.

²⁴ Péter Bodacz, “Drága lesz a kínaiak üzlete,” *Magyar Nemzet Online*, November 4, 2016, <https://magyarnemzet.hu/archivum/gazdasag-archivum/draga-lesz-a-kinaiak-uzlete-4257128/>.

²⁵ See, e.g., Zoltán Vörös, “Who Benefits From the Chinese-Built Hungary-Serbia Railway?,” *The Diplomat*, January 4, 2018, <https://thediplomat.com/2018/01/who-benefits-from-the-chinese-built-hungary-serbia-railway/>.

it does not touch any major Hungarian towns, while cargo traffic and flow of people between Hungary and Serbia are both minimal. The profitability of the line is widely questioned, especially since it will certainly increase Hungary's state debt, contradicting Mr. Orbán's anti-debt rhetoric.²⁶ The Athens–Skopje–Belgrade–Budapest line is also in collision with the EU's planning of the Trans-European Transport Networks, as the latter prefers a parallel route. Viktor Orbán, who is the proponent of the project, personally said that monetary factors were of secondary importance in this decision, as the point that makes the project worthwhile is that it will upgrade the international status of the country.²⁷ This means that, at least in the short run, the Belgrade–Budapest railway is more of a political project than an economic one. Not only will the line put Hungary on Chinese maps, which is an important aim of the Hungarian government, but it will also make Hungary an important land link between the Balkans (as well as Turkey and the Middle East) and Western Europe. The fact that politically well-connected Hungarian companies will take part in the multimillion-dollar project cannot be overlooked either. It is also expected, though not guaranteed, that the project will draw Chinese investors to Hungary. If parts are imported from China and assembled in Hungary along the railway line, the final products can have the 'Made in EU' label and be transferred to any EU country tax-free.

If the project ever starts, it may be a game-changer in Sino-Hungarian relations, as it will make Hungary indebted to China, bring thousands of Chinese workers to the country, have a serious impact on relations between Budapest and Brussels, and create Chinese interests in the country that will need to be defended in case of a conflict or turmoil.

While the Belgrade–Budapest railway line is the only BRI project Hungary is involved in at present, a new possibility was hinted at during the 2019 China–CEE summit in Dubrovnik. Viktor Orbán mentioned that a railway line between Romania's capital Bucharest and Hungary's Budapest might be built, and the line will go through Cluj-Napoca (Kolozsvár) in Transylvania, the western part of Romania. Details are not known, but it is certain that China will be involved. This project will be much more important for Hungary because of the close ties between ethnic Hungarians living in Romania and Hungary, as well as the more intense relations between Hungary and Romania as two members of the EU.

The overall weight of China's presence in Hungary

Despite fears and criticisms about China gaining too much influence in Hungary, the Chinese economic presence in the country is, in fact, still rather limited. A detailed

²⁶ Andreea Brînză, "China and the Budapest-Belgrade Railway Saga," *The Diplomat*, April 28, 2020, <https://thediplomat.com/2020/04/china-and-the-budapest-belgrade-railway-saga/>.

²⁷ "Orbán szerint másodlagos, megtérül-e a Belgrád–Budapest-vasút," *Magyar Nemzet Online*, December 1, 2017, <https://mno.hu/gazdasag/orban-szerint-masodlagos-megterul-e-a-belgrad-budapest-vasut-2431194>.

economic-oriented analysis will not be provided here, but some of the facts need to be mentioned.

The economies of most of the old EU's members, such as Germany or France, are much more tightly interconnected with China than that of any of the CEE countries, and the whole CEE region is much less dependent on China than it is on the rest of the European Union.²⁸ This is true for Hungary as well, in spite of the fact that Hungary would welcome much more Chinese investment, more BRI projects, and more Chinese involvement in the Hungarian economy.

Investment

In the whole CEE region, Hungary has received the second largest stock of Chinese investment so far (surpassed only by Poland), but it must be noted that China's ventures in the whole CEE region are marginal. Among all of China's regional cooperation frameworks (such as the ASEAN-China Dialogue, FOCAC, etc.), the per capita Chinese FDI is the smallest in Central and Eastern Europe.²⁹ By 2018, only 6% of all Chinese-accumulated FDI in the world had been invested in Europe, and only 2% out of these 6% had been invested in the CEE region. Germany alone had received six times more FDI than all Central and Eastern European states taken together (see Figure 1).³⁰ In the case of Hungary, more than 75% of foreign investments in the country had come from the EU's countries, while only 2.4% had come from China as of 2017,³¹ and no new large-scale Chinese investment has been realised since then. While this is not insignificant – and it is the highest rate in the CEE region – it is clearly not enough to counterweight Hungary's dependency on its traditional partners in the West. The vast majority of Chinese investments is taken up by two projects, namely the Chinese chemical industry giant Wanhua buying up BorsodChem (totalling up to 75% of all Chinese investments in the country)³² and Huawei setting up its regional logistical centre there. Both deals had been decided upon and negotiated before Mr. Orbán came to power and before Hungary's political pivot towards China was implemented. Since the introduction of Orbán's 'Eastern Opening' policy and the setting up of the '16+1 mechanism' by China, only a handful of less substantial Chinese investments have been made in Hungary. Moreover, most of these were not greenfield investments creating new jobs, but simple acquisitions

²⁸ Turcsányi, "China is raising its flag in Central and Eastern Europe."

²⁹ Horváth Levente, "Kína geopolitikai szerepe a Kelet-Közép-Európai régióban," *Geopolitikai Szemle* 2, no. 2 (2020): 197.

³⁰ Levente, "Kína geopolitikai szerepe a Kelet-Közép-Európai régióban," 200–201.

³¹ Ágnes Szunomár, "Chinese economic influence in Hungary: Rhetoric versus realities," *Institute of World Economics Blog*, September 20, 2018, https://vilaggazdasagi.blog.hu/2018/09/20/chinese_economic_influence_in_hungary_rhetoric_versus_realities.

³² Tamás Matura, "Chinese Investment in Hungary: Few results but great expectations," *ChinInfluenCE*, February 14, 2018, <http://www.chininfluence.eu/hu/chinese-investment-hungary-results-great-expectations-2/>.

of already existing companies. It must also be noted that while Hungary, especially at the beginning of the 2010s, hoped to sell state bonds to China in order to replace IMF loans tied to some of the conditions, China made only a symbolic investment in Hungarian bonds, one on an insignificant level.³³ The Belgrade–Budapest railway will be financed by Hungarian taxpayers in the end, so this is not a real Chinese investment either.

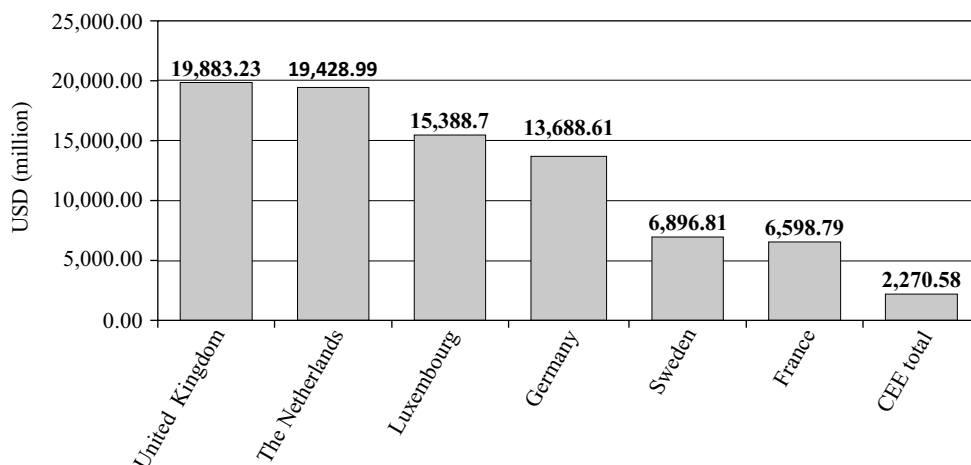


Figure 1. Chinese FDI in selected EU countries and the CEE region in 2018

Source: Levente, “Kína geopolitikai szerepe a Kelet-Közép-Európai régióban,” 201.

Trade

The Hungarian government explains the ‘Eastern Opening’ policy as a strategy to facilitate the growth of Hungarian exports to the East, especially China, but in reality, Hungarian exports to China do not play an important role in the Hungarian economy. While the majority (around 80%) of Hungary’s exports still ends up in the EU’s member states (mainly Germany), exports targeting China have never surpassed 3%. On the other hand, somewhat less than 75% of Hungary’s imports come from the EU, and only around 6% come from China as of 2019.³⁴ Hungarian exports have been growing, showing an annual increase by 7% between 2010 and 2016³⁵, and suddenly

³³ “130 millió eurónyi magyar államkötvénnyel árasztottuk el Kínát,” *24.hu*, July 26, 2017, <https://24.hu/belfold/2017/07/26/130-millio-euronyi-magyar-allamkotvennyel-arasztottuk-el-kinat/>.

³⁴ KSH (Hungarian Bureau of Statistics). “A külkereskedelmi termékforgalom forintban, országcsoporthoz szerint (2012–),” https://www.ksh.hu/docs/hun/xstadat/xstadat_eves/i_qkt016.html. See also Szunomár, “Chinese economic influence in Hungary: Rhetoric versus realities.”

³⁵ Matura, “A kínai jelenlét Magyarországon,” 4.

leaping by 17% in 2017.³⁶ However, the increase of Hungarian exports was half of the CEE average during this period;³⁷ the volume fell by 14% in 2018 and then by 24% in 2019,³⁸ pointing to a spectacular failure of the ‘Eastern Opening’ policy. In 2019, 6% of Hungarian imports came from China and only 1.35% of its exports targeted the Middle Kingdom³⁹ (see Table 2). Moreover, the overwhelming majority of this amount is produced by multinational companies – mostly German car and machine manufacturers operating in Hungary – and their growth does not have much to do with Sino-Hungarian political relations, Hungary’s ‘Eastern Opening’ policy, or the BRI. Of course, Hungary’s role in China’s imports is even more insignificant, and given that Hungary has none of the natural resources or technologies that China seriously needs, this probably will not change in the future. While political gestures indicate that China is an exceptionally important trading partner of Hungary, this is actually not the case; Hungary’s export dependency on China is less than that of Germany, the UK, or France.⁴⁰

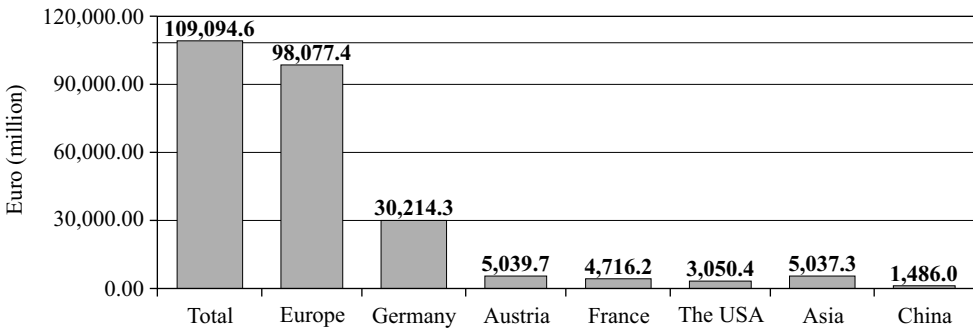


Figure 2. Hungarian exports to selected regions and countries in 2018

Source: KSH (Hungarian Bureau of Statistics), “A külkereskedelmi termékforgalom értéke euróban és értékindexei a fontosabb országok szerint (2014–),” http://www.ksh.hu/docs/hun/xstadat/xstadat_eves/i_qkt020d.html.

³⁶ KSH (Hungarian Bureau of Statistics), “A külkereskedelmi termékforgalom értéke euróban és értékindexei a fontosabb országok szerint (2014–),” http://www.ksh.hu/docs/hun/xstadat/xstadat_eves/i_qkt020d.html.

³⁷ Tamás Matura, “The Misguided Discourse on Chinese Influence in Central Europe,” *The New Federalist*, October 4, 2018, <https://www.thenewfederalist.eu/the-misguided-discourse-on-chinese-influence-in-central-europe>.

³⁸ KSH (Hungarian Bureau of Statistics), “A külkereskedelmi termékforgalom forintban, országok szerint (2001–),” https://www.ksh.hu/docs/hun/xstadat/xstadat_eves/i_qkt009c.html.

³⁹ KSH (Hungarian Bureau of Statistics), “A külkereskedelmi termékforgalom forintban, országok szerint (2001–),” https://www.ksh.hu/docs/hun/xstadat/xstadat_eves/i_qkt009c.html.

⁴⁰ KSH (Hungarian Bureau of Statistics), “A külkereskedelmi termékforgalom forintban, országok szerint (2001–),” https://www.ksh.hu/docs/hun/xstadat/xstadat_eves/i_qkt009c.html.

Info-communication technology

Recent global developments make the question of information-communication equipment extremely important. Chinese hardware manufacturers dominate the Hungarian market in ICT. Practically all the mobile and Internet service providers in Hungary use Chinese network equipment. Telenor Hungary uses the ZTE hardware almost exclusively, and ZTE provides much of Magyar Telekom's equipment as well;⁴¹ meanwhile, Vodafone uses Huawei technology.⁴² One of the largest cable network providers in the country, Invitel, was acquired by the China–CEE Fund, an investment fund dominated by China's Eximbank.⁴³ This puts the country in a very awkward position in the intensifying Sino-American controversy over ICT issues. So far, the Hungarian government has shown no sign of yielding to any pressure in this regard; on the contrary, in the middle of the Huawei controversy it proudly announced that the Chinese company was to open an R&D facility in Budapest.⁴⁴

Conclusions

The leaders of Hungary take China's growing role and its Belt and Road Initiative very seriously and consider it an excellent opportunity to strengthen the country's status in the CEE region. Hungary's 'Eastern Opening' policy and China's 'Belt and Road Initiative', if they ever materialise in concrete projects, may complement each other very well, and their synergies could be useful for both sides. One significant BRI project, namely the modernisation of the Belgrade–Budapest railway, will start soon and it will be the first real infrastructure construction within the BRI project inside the EU, which makes it a historic undertaking. The project shows Hungary's commitment to China's Belt and Road vision and its indifference towards critiques. This commitment can be explained by Hungary's strategic calculations about the new global order and the country's place in it, though short-term tactical elements related to domestic and European political games play a part as well. On the other hand, actual data shows that China plays a very limited role in the Hungarian economy. Moreover, its cultural presence, its role in domestic debates, its media coverage, as well as people-to-people relations between the two countries are all extremely limited. In the economic field, Hungary's reliance on Western investments and markets seems to be unshakeable. Therefore, the BRI will not play a central role in the Hungarian

⁴¹ Csaba Gálffy, "Leállítja tevékenységét a ZTE," *Hwsw*, May 10, 2018, <https://www.hwsw.hu/hirek/58792/zte-telenor-lte-halozat-exportkorlatozas-mobil.html>.

⁴² "Vodafone-Huawei: Együtt gyorsulnak Magyarországon," *Bitport*, March 4, 2011, <https://bitport.hu/mobilitas/vodafone-huawei-kozos-halozati-modernizacio-fejleszt-es-lte-4g-3g-edge>.

⁴³ Tamás Koi, "Végre megvették az Invitel," *Hwsw*, January 13, 2017, <https://www.hwsw.hu/hirek/56674/invitel-invitech-mep-ertekesites-matel.html>.

⁴⁴ "Huawei to set up research and development center in Budapest," *About Hungary*, October 21, 2020, <http://abouthungary.hu/news-in-brief/huawei-to-set-up-a-research-and-development-center-in-budapest/>.

economy in the foreseeable future, but it might provide it with an opportunity to become somewhat more balanced. Viktor Orbán's government does make friendly gestures towards China quite frequently and tries to make China more involved in Hungarian affairs, but this reflects the ambitions, calculations, and domestic and regional political games of the Hungarian side rather than China's efforts to increase its influence in Hungary.

China can count on Hungary's commitment to promote the BRI in the long run, as – while individual projects can be contested – there is a consensus in the country that Chinese relations should further be developed. According to the official rhetoric, it is in the strategic interest of both countries to maintain a high level of cooperation in the long run, so more joint projects can be expected. The economic influence of China, however, will remain limited. Therefore, Hungary's commitment can mostly be explained by political reasons, i.e. the desire of its leaders to gain more room for manoeuvre on the international scene, which is a typical tactic of small countries in the midst of great powers' rivalry. With intensifying US–China conflicts, this can be a risky undertaking, as the gains of one of the sides may not compensate for losses of the other. Hungary's present government has clearly decided to take this risk, and only time will tell if this decision was right.