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## China's Role in Hungarian Foreign Policy

Veronika Jóźwiak

*In May, China raised bilateral relations with Hungary to a comprehensive strategic partnership. Hungarian involvement in China's Belt and Road Initiative (BRI) is part of Prime Minister Viktor Orbán's foreign policy approach aimed at increasing access to eastern markets, attracting foreign direct investment, and further strengthening economic cooperation with China. However, so far, the cooperation has not had the intended effect. New Chinese FDI in Hungary has decreased significantly in the last few years and nothing indicates a reversal of this trend.*

Hungary concluded a comprehensive strategic partnership with China during the first Belt and Road Initiative (BRI) Forum in May this year in Beijing. This is the highest level of bilateral relations in China's foreign relations, apart from special relations, maintained with Germany, Russia, Pakistan, and others. The comprehensive strategic partnership is a political signal to Chinese businesses to intensify their activities or take action in a given country. Out of the 16 Central and Eastern European countries cooperating with China in the 16+1 format, only Poland and Serbia had this status before Hungary. Around 50 countries have China's "usual" status of strategic partner.

**Railway Connection—A Single Chinese Project.** One of the likely Chinese expectations in exchange for the partnership might be that Hungary ensures conditions for the implementation of the Budapest-Belgrade high-speed rail project. The project has not launched despite several agreements signed in 2014, flagship status for Hungarian-Chinese and Serbian-Chinese relations, and cooperation in the 16+1 format and BRI. The partnership document obliges the parties to engage further in the construction of the Hungarian section of the railway. Hungary is unable to finance this investment on its own, but financial analysts say the credit offered by Exim Bank of China is more favourable than any other credit available on the market. A \$1.65 billion loan will be granted by the Chinese bank for 20 years at 2.5% interest. That would cover 85% of the estimated construction costs. However, the profitability of the project is questionable. The railway line is not extensively used in international transport and, according to experts, the cost of construction cannot be made up from passenger traffic. Modernisation, however, could increase passenger flow between Budapest and Belgrade and provide Hungary with a better connection to the Balkans.

China is keen on the project, not only to expand its transport network but also to promote infrastructure investments of Chinese companies. The rules for selecting contractors for the project, adopted by the Hungarian parliament in May, allow outsourcing the works to companies outside the EU. The European Commission is about to close an EU pilot procedure examining the Hungarian-Chinese intergovernmental agreement concerning this investment. In its current form, the agreement assumes the tender will be issued by a Sino-Hungarian railway consortium, which will select contractors. Hungary wants to conclude the loan agreement with China by autumn and start the procurement procedures.

**Hungary's Rapprochement with China.** Hungary's closer diplomatic and economic relations with China—as well as Russia—began in 2002–2003 and have developed through subsequent governments.<sup>1</sup> This explains the fact that in the last decade China has invested most of its capital directed to Central and Eastern Europe in Hungary. The Eastern Opening policy announced by the second Orbán government in 2011, soon supplemented by a southern and global opening, was another instrument of economic diplomacy aimed at China, Central Asia, and the Middle East. Within this framework, Hungary has developed a network of trading houses (in China, in Shanghai and Ningbo) and issued five-year government bonds. Foreigners who buy €250,000 worth of these bonds have the right to settle in Hungary. This also enables them to move freely within the EU. Mainly Chinese buyers (about 17,000 of them) used this opportunity. Since the beginning of the 1990s, the Chinese diaspora in Hungary has grown to about 35,000. The government also has signed agreements with several Chinese companies to facilitate the inflow of capital. In addition, the Hungarian National Bank announced in January its intention to buy Chinese bonds from Hungarian foreign exchange reserves. Hungary also supports Chinese claims in the international arena. In 2016, it supported China's pursuit of market economy status. It also helped dilute (together with Croatia and Greece) a critical EU statement on the PRC's territorial disputes over the South China Sea.

In return, Hungary has received mainly symbolic benefits, including the possibility of hosting a 16+1 summit in Budapest this autumn of the heads of government of China and its Central and Eastern European partners. In addition, the Bank of China located its regional centre in Budapest in 2014. In the same year, a Confucius Institute training centre for Chinese teachers from Central and Eastern Europe was established at Eötvös Loránd University in Budapest. In April, the Chinese Academy of Social Sciences (CASS) was founded at the seat of the Hungarian Academy of Sciences. This is the first such institute in Europe.

Hungary's greater activity in the Mid and Far East and its stronger relations with China are often presented by the Orbán government as a substitute for the weakened relations with Western states. This especially has been the case in the context of disputes with the European Commission and the U.S. since 2011. When current Minister of Foreign Affairs and Trade Péter Szijjártó took office in 2014, economic diplomacy and the pursuit of economic interests have played greater roles in Hungary's foreign policy.

**Economic Results.** Chinese foreign direct investment (FDI) in Hungary is worth about €2 billion (in Poland, it is about €940 million). This equals around 3% of the total FDI stock in the country. The Chinese investments, however, are mostly related to the activities of two companies—Wanhua and Huawei—which have been in Hungary since before 2010. There have been no new major Chinese investments since 2011. That year, 89% of Chinese capital invested in the region went to Hungary, but in 2016, this percentage was only 6%. One of the reasons was the weakening of Hungary's investment attractiveness due to unpredictable economic policy. During the last BRI summit, the Chinese Development Bank (CDB) announced the refinancing of a €79 million loan made by a Hungarian bank for an investment in Wanhua. This is the first such agreement signed by the CDB with an EU partner.

Hungary's trade with China has grown steadily, though. Currently, it is about €6 billion a year (the value of bilateral trade between Hungary and Poland, for example, is over €8 billion). The value of Hungarian exports to China almost doubled in 2010–2016 (now about €2 billion). That represents 2% of Hungary's total export of goods (for Poland, China accounts for 0.9% of total exports). However, the share of Hungarian companies in the country's exports to China is less than 10%, with the rest held by international companies. Hungary intends to use its food industry to increase its exports to China, although it competes with Poland and others.

**Conclusions.** Hungary, just like all other Central and Eastern European countries, aspires to become a "gateway to Europe" and leader of the region's cooperation with China. The Orbán government's eastern opening has not, however, translated into a more significant inflow of Chinese capital to the country. That is why Hungary remains only a bridgehead for China compared to the more developed Western European markets, where it invests much more capital.

Hungarian diplomacy's efforts, historically good bilateral relations, and previous investments make Hungary a stable marker on China's regional map of interests. However, these factors are less and less important when making business decisions. The comprehensive strategic partnership itself will have little impact on them. In the meantime, Hungary has filled the absence of a market-based strategy with political gestures, which also often undermine EU unity, as visible in the case of the South China Sea statement.

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<sup>1</sup> D. Kačan, "They Who Sow the Wind... Hungary's Opening to the East," *PISM Bulletin*, no. 37 (632), 19 March 2014.