China-CEE Institute
中国—中东欧研究院

11. DECEMBER 2017.

ISSN: 2560-1628

2017. No.18

WORKING PAPER

The Question of the Missing Chinese Greenfield Investment in Central and Eastern Europe: the Case of Hungary

Eszterhai Viktor

Kiadó: Kína-KKE Intézet Nonprofit Kft.

Szerkesztésért felelős személy: Chen Xin

Kiadásért felelős személy: Huang Ping

China-CEE Institute
中国—中东欧研究院

1052 Budapest Petőfi Sándor utca 11.

+36 1 5858 690

office@china-cee.eu

china-cee.eu

Abstract

The relation of the Central and Eastern European region and China has shifted to a new phase since the introduction of a transregional mechanism, the "16+1 Cooperation" in 2012 and especially after the lunch of the grand vision of the Chinese foreign policy, the 'Belt and Road Initiative', announced by President Xi Jinping in 2013. One of the most supportive countries within the Central and Eastern European region has been Hungary, since China's regional ambition was parallel with the Hungarian government's "Eastern Opening" policy, aiming to pay more attention to Asia and especially to China in the country's foreign relations. The optimism of the Hungarian government, similarly to other countries in the region, is mostly based on the idea that within the framework of the "Belt and Road Initiative" the country would be able to play a bridge role between China and the European Union, stimulating trade and facilitating investments from China. Despite these hopes, the game-changer investments have not been achieved from China in recent years, which has resulted in serious political discomfort for the Hungarian government, questioning the strategy of the "Eastern Opening" policy. The present study investigates the possible reason for this phenomenon, arguing that the optimism of the Hungarian government about the Chinese greenfield investments is not grounded.

Key Words: Central and Eastern European countries; Belt and Road Initiative; 16+1 Cooperation; investment, Made in China 2025

Introduction

The 2008-2009 financial crisis was a new turning point in the relationship of the Central and Eastern European (CEE) countries and China.[1] After a long break due to the political and economic transition of the CEE region in 1989, the relationship has started to improve rapidly according to the mutual demand of the two parties. The shared interest of the two sides was

[1] Kong Tianping: "16+1 and Economic Relation Between China and the Central and Eastern European Countries." Critcom, December 14, 2015. URL: http://councilforeuropeanstudies.org/critcom/161-framework-and-economic-relations-between-china-and-ceec/ (Accessed: June 12, 2017); Chiriu, A.: "The Chinese Influence in Central Eastern Europe During the Global Economic Crisis" Shinologist.com, February, 2016. URL: http://sinologist.com.ua/wp-content/uploads/2016/02/Chiriu.pdf (Accessed: October 9, 2017.

symbolized by the first meeting of the heads of the government of the CEE countries and China in Budapest in 2011,[2] and the establishment of a new transregional mechanism in the following year, the "16+1 Cooperation" between 16 CEE countries and China,[3] with the aim of effectively coordinating and facilitating the relations.[4] Moreover, the cooperation got an important impetus in 2013 when President Xi Jinping announced the "Belt and Road Initiative" (hereinafter as BRI), a grand-scale vision to establish an economic, financial and cultural belt in order to redefine the relationship of Asia, Europe and Africa, as well as their near seas.[5] One of the core regions of BRI is undoubtedly the CEE,[6] which provides a natural link between the European Union (EU) and China, including several economic corridors of the initiative.[7]

From the side of the CEE countries within the framework of the "16+1 Cooperation", the main motivation regarding BRI was to play a bridge role between the European Union and China.[8] The region has been eager to reach the fast-developing Chinese market and to attract Chinese investments, in order to decrease the high unemployment rate resulting from the crisis. Moreover, the developing economic relation has promised the diversification of their seriously Western-Europe-dependent position. The share of the total trade of the 16 CEE countries with the EU is generally between 60 and 80%, significantly higher than for the other members of the EU.[9] The extremely high dependency is very similar in terms of FDI, too, the average share of the EU is generally about 80%, also higher than the EU average.[10] That is the reason why some scholars identify the CEE countries as "Dependent Market Economies", in

[2] "Full text of Chinese Premier's speech at China-Central and Eastern European Countries Economic and Trade Forum." Xinhua, June 26, 2011. URL: http://news.xinhuanet.com/english2010/china/2011-06/26/c_13950035.htm (Accessed: January 15, 2017).

[3] The participating countries from the CEE region are Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia, and Slovenia.

[4] "China's Twelve Measures for Promoting Friendly Cooperation with Central and Eastern European Countries", Cooperation between China and Central and Eastern European Countries, January 26, 2015. URL: http://www.china-ceec.org/eng/zdogjhz_1/t1410595.htm (Accessed: April 15, 2017).

[5] "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road." Issued by the National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of the People's Republic of China, with State Council authorization, March 2015. URL: http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html (Accessed: May 8, 2017)

[6] Liu Zuokui: "The Role of Central and Eastern Europe in the Building of Silk Road Economic Belt." China-CEEC Think Tanks Network, January 11, 2016. URL: http://16plus1-thinktank.com/1/20160111/1096.html (Accessed: June 12, 2017)

[7] The region is involved in three of the Europe-bound and mainly railway-based economic corridors: the Eurasian Land Bridge (China-Mongolia-Russia) Corridor, the New Eurasian Land Bridge Economic Corridor and the Central-Asia Western-Asia Economic Corridor.[7] The last one, the alternative trade line stretches from the Port of Piraeus (partly under the control of the China Ocean Shipping (Group) Company) in Greece via the countries of Southern Europe and Hungary to the EU.
"The Belt and Road Initiative." Hong Kong Trade Development Council, May 16, 2017. URL: http://china-trade-research.hktdc.com/business-news/article/The-Belt-and-Road-Initiative/The-Belt-and-Road-Initiative/obor/en/1/1X000000/1X0A36B7.htm (Accessed: June 8, 2017)

[8] Turcsanyi, Richard Q.: "Is the Czech Republic China's New 'Bridge to Europe'?" The Diplomat, September 12, 2015. URL: http://thediplomat.com/2015/09/is-the-czech-republic-chinas-new-bridge-to-europe/ (Accessed: October 11, 2017)

[9] "International trade in goods." Eurostat, March 2017. URL: http://ec.europa.eu/eurostat/statistics-explained/index.php/International_trade_in_goods (Accessed: September 21, 2017).

[10] Oehler-Şincai, Iulia Monica: "The 16+1 Process: Correlations between the EU Dependence/Attitude Matrix and the Cooperation Intensity with China." 2017. (unpublished manuscript) 7-8.

which the main force of their economy is the Western-European transnational corporations and foreign-owned banks.[11] In recent years there has been a clear effort to decrease this dependency, which beyond question would provide political benefits to the CEE governments.[12]

The present paper first introduces the general picture of the Chinese FDI in the CEE region, comparing to the recent years' boom in the core member countries, especially in Germany. Then it examines trough the case of Hungary the possible reasons behind the relative failure of attracting Chinese FDI, arguing that the core problem is a structural one within the country's economy. Finally, the paper draws some conclusions and suggestions for Hungary and the CEE region.

The question of the Chinese investment in CEE

As a result of the above-mentioned reasons, there is an extraordinary hope about the Chinese investment in the CEE countries to provide a possibility for breaking out from the dependent, half-peripheral status of the region. The investigations concerning the growing presence of Chinese investments have been very limited,[13] despite the fact that both the "16+1 Cooperation' and the BRI's main sphere is economic cooperation.[14] In the main discourse there is a firm notion that the "16+1 Cooperation" and BRI will play a positive effect on the Chinese investments in the region. The generally cited factors to attract Chinese investments for the region are: 1) the good political relation with China; 2) low labor costs as compared to the EU average; 3) entering the CEE markets for the Chinese companies will also mean an access to EU markets; 4) the favorable geographical position of the region.[15] The high hopes,

[11] Nölke, Andreas – Vliegenthart, Arjan: "Enlarging the Varieties of Capitalism – The Emergence of Dependent Market Economies in East Central Europe." World Politics 61. (4) October, 2009. 670-702.
[12] Oehler-Şincai, 2017. 4.
[13] Chen Xin: "Trade and economic cooperation between China and CEE countries." Working Paper Series on European studies, Institute of European Studies, Chinese Academy of Social Sciences, 6 (2), 2012.; Szunomár Ágnes (ed.): Chinese Investments and Financial Engagement in Visegrad Countries: Myth or Reality?, Institute of World Economics, Centre for Economic and Regional Studies of the Hungarian Academy of Sciences, Visegrad Fund, Budapest, 2014. URL: http://real.mtak.hu/18742/7/Szunom%C3%A1r%20%C3%81-Biedermann%20Zs_Chinese%20OFDI.pdf (Accessed: September 21, 2017); "China-Central and Eastern Europe Investment Cooperation Report." Investment Promotion Agency of Ministry of Commerce of the P.R.China (CIPA), 2016. 1-136. URL: http://www.izvoznookno.si/Dokumenti/AKTUALNO/2016/CHINA-CENTRAL%20AND%20EASTERN%20EUROPE%20INVESTMENT%20COOPERATION%20REPORT.pdf (Accessed: September 21, 2017); TurcsanyI, Richard Q.: "Central European attitudes towards Chinese energy investments: The cases of Poland, Slovakia, and the Czech Republic." Energy Policy 101., 2017. 711–722. Levitin, Oleg – Milatovic, Jakov – Sanfey, Peter: "China and South-Eastern Europe: Infrastructure, trade and investment links." Department of Economics, Policy and Governance, European Bank for Reconstruction and Development (EBRD), July 2016. URL: www.ebrd.com/documents/comms-and-bis/see-china-investments.pdf (Accessed: September 21, 2017). McCaleb, Agnieszka – Szunomár, Ágnes: "Chinese foreign direct investment in central and eastern Europe: an Institutional Perspective." In: Drahokoupil, Jan (eds.): Chinese investment in Europe. Corporate Strategies and Labour Relations 121-140., ETUI Printshop, Brussels, 2017. 121-140.
[14] Kong, 2015.
[15] Szunomár Ágnes –Biedermann Zsuzsánna: "Chinese OFDI in Europe and the Central and Eastern European region in a global context." In: Szunomar Ágnes (eds.): Chinese Investments and Financial Engagement in Visegrad Countries: Myth or Reality?, Institute of World Economics, Centre for Economic and Regional Studies of the Hungarian Academy of Sciences, Visegrad Fund, Budapest, 2014. 26-27.

however, have been questioned in recent years, with some scholars pointing out that the CEE countries have not experienced the breakthrough in the term of investment,[16] while others openly stress that the CEE countries hold "excessive expectations" about the BRI.[17]

The question of the Chinese investment in the CEE region is especially interesting because in the Western part of the EU Chinese FDI has grown rapidly in recent years. According to the often cited paper of MERICS and Rhodium Group, the Chinese companies invested EUR 35 billion in 2016 in the EU, which has meant a 77 per cent increase since 2015.[18] The target of the Chinese investments was Germany (EUR 11 billion) and the UK (EUR 7.8 billion), which together accounted for more than half (53%) of the total investment value in the EU.[19] Moreover, the takeover of some technology and advanced manufacturing assets – the most symbolic one was Midea's acquisition of robotics maker KUKA, in July 2017 – made the German government to strengthen the foreign investment control in 12 important ("critical") [20] infrastructure facilities.[21] On the contrary, the 11 EU member countries of the 16 CEE countries experienced no similar dynamical growth, despite the above-mentioned advantages. While the Chinese FDI increased by 238% in Germany in 2016, the 11 CEE countries experienced only a significantly moderate rate of 31.8%, while in 2015 the same data were 15% for Germany and 5.2% for the CEE region.[22] The total amount of Chinese FDI in the 11 CEE countries compared to Germany's was 51.3% in 2014, while in 2016 it decreased to 26.1%. [23]

Figure 1. Chinese FDI in the 11 EU member CEE countries and Germany (2014-2016).

---

[16] TurcsanyI, Richard Q.: "Obor's Older Brother: Lessons Learned from the China-CEE 16+1 Platform." IAPS Dialogue: The Online Magazine of the Institute of Asia & Pacific Studies, July 19, 2017. https://iapsdialogue.org/2017/07/19/obors-elder-brother-lessons-learned-from-the-china-cee-161-platform/ (Accessed: October 14, 2017)

[17] Liu Zuokui: "China and CEEC Cooperation and the Belt and Road Initiative – Misunderstanding reconsidered." In: Andzans, M. (eds.): Afterthoughts: Riga 2016 International Forum of China and Central and Eastern European Countries, Latvian Institute of International Affairs, 2016. 29-31. URL: http://liia.lv/en/publications/afterthoughts-of-the-riga-2016-china-and-central-and-eastern-european-countries-564 (Accessed: October 14, 2017.)

[18] Hanemann, Thilo – Huotari, Mikko: "Chinese investment in Europe: record flows and growing imbalances." MERICS, 3., January 2017. 1-12. 4. URL: https://www.merics.org/fileadmin/user_upload/downloads/MPOC/COFDI_2017/MPOC_03_Update_COFDI_Web.pdf (Accessed: October 11, 2017)

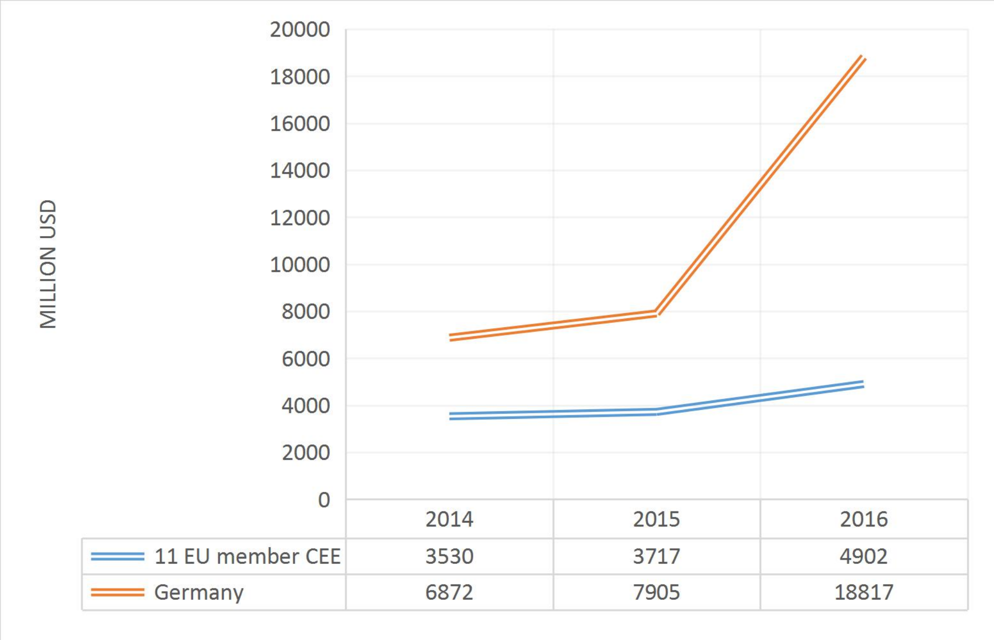
[19] Ibid. 6.

[20] Helmstädter, Felix: "Germany Strengthens Foreign Investment Control: New Rules to Thoroughly Screen Investments in Enlarged Number of Key Industries." Lexology.com, July 19 2017. URL: https://www.lexology.com/library/detail.aspx?g=a6c582a1-b317-49c7-9b19-7b760bb955ad Accessed: October 8, 2017)

[21] These sectors are: IT and telecommunications, transport, healthcare, water supply, nutrition, finance and insurance.

[22] Hanemann, Thilo – Huotari, Mikko: "Preparing for a New Era of Chinese Capital Chinese FDI in Europe and Germany." MERICS, June, 2015. 15. URL: https://www.merics.org/fileadmin/user_upload/pdf/COFDI_Chinese_Foreign_Direct_Investment_EN.pdf (Accessed: October 11, 2017);, Hanemann, Thilo – Huotari, Mikko: „A New Record Year for Chinese Outbound Investment in Europe." MERICS, February, 2016. 7. URL: http://www.merics.org/fileadmin/user_upload/downloads/COFDI_2016/A_New_Record_Year_for_Chinese_Outbound_Investment_in_Europe.pdf (Accessed: October 11, 2017); Hanemann – Huotari, 2017. 10.

[23] Ibid.



Source: Hanemann – Huotari, 2015, Hanemann – Huotari, 2016, Hanemann – Huotari, 2017.

The case of the Chinese FDI investment is not a success story for the CEE region, despite the high expectations toward the "16+1 Cooperation" and BRI. In order to give a better and deeper understanding of the situation, the paper introduces the case of Hungary as the most important target of the Chinese FDI in the CEE region.

The case of Hungary

In the global media Hungary is often referred to as the most successful country attracting Chinese investments in the CEE region. According to the data of the Chinese side, the Chinese investments in Eastern and Central Europe had exceeded USD 5 billion, of which USD 3.16 billion (EUR 2.68 billion) had been invested in Hungary by the end of 2015.[24] The same data were slightly different according to Hanemann & Huotari, which estimated the Chinese FDI in Hungary 2.051 billion in 2016, out of the EUR 4.9 billion total in the 11 EU member CEE countries.[25] The amount of Chinese FDI for the country was estimated similarly – USD 2.5 billion (EUR 2.13 billion) in 2013 – in Hungary by Ágnes Szunomár, Katalin Völgyi and Tamás Matura.[26] The high share of Hungary in the Chinese FDI in the CEE region is generally seen as the result of the good political relations and the support of the Chinese foreign political goals, especially the "16+1 Cooperation" and BRI.[27] No doubt, the

[24] "China-Hungary economic, trade cooperation deepening: Ambassador." China Daily, November 9, 2016. URL: http://www.chinadaily.com.cn/business/2016-11/09/content_27319219.htm (Accessed: October 11, 2017)
[25] Hanemann – Huotari 2017. 10.
[26] Szunomár Ágnes – Völgyi Katalin – Matura Tamás: "Chinese Investments And Financial Engagement In Hungary." In: Szunomar Ágnes (eds.): Chinese Investments and Financial Engagement in Visegrad Countries: Myth or Reality?, Institute of World Economics, Centre for Economic and Regional Studies of the Hungarian Academy of Sciences, Visegrad Fund, Budapest, 2014.
[27] Hutt, David: "China's Relationship With Hungary Is Being Tested As The EU And Russia Apply Pressure." Forbes, September 5, 2017. URL: https://www.forbes.com/sites/davidhutt/2017/09/05/chinas-relationship-with-hungary-is-hitting-a-rocky-patch/#60330b2316d3 (Accessed: October 14, 2017)

Hungary-China political relations are typically regarded the best in the CEE region,[28] and the arriving of the Chinese FDI is not a new phenomenon.

The Chinese FDI to Hungary has started to increase significantly after the country joined the EU in 2004. Hungary was one of the first countries in the CEE region to recognize the growing importance of China in the global economy. In the early 2000s Hungarian Prime Minister Péter Medgyessy's official visit to China in August, 2003,[29] and President Hu Jintao's visit to Hungary in the following year, June showed that this growing interest was not one-sided, and the two countries announced their commitment to establish a "friendly and cooperative partnership".[30] The improving political relations immediately affected the economic relations, too: the trade ratio started to grow constantly and several large-scale Chinese investments were launched. Such an investment was the acquisition of Hungary's largest chemical plant, BorsodChem by Wanhua Group, or the entry of Huawei, which established a regional centre and played an important role in the modernization of the Hungarian telecommunications network, etc.[31] The growing trade and investment activity of Chinese companies in Hungary motivated the Chinese banking sector to make itself presented in Hungary. The Bank of China decided to open a regional centre – as the first Chinese commercial financial institution in the CEE region.

The 2008-2009 financial crisis affected Hungary extremely harmfully as a result of several previous inner economic imbalances (like the high fiscal deficit and public debt ratio) and unhealthy dependence on the Western European market (approximately 80 % of total trade)[32]. In 2011 the Orbán Government, elected in 2010, launched its new foreign politic strategy, the so-called "Eastern Opening", which intended to increase the country's trade with the Asian markets – firstly China – through an effective diplomatic support and to attract Chinese investment.[33] The country has been openly an active supporter of the "16+1 Cooperation" and the BRI: in June 2015 Hungary became the first European country to sign a

[28] Chen Xin – Yang Chengyu: "A Quantitative Analysis on China-CEEC Economic and Trade Cooperation. Working Paper Series on European Studies." Institute of European Studies Chinese Academy Of Social Sciences, 10. (5), 2016.

[29] "Prime Minister Medgyessy Peter of Hungary will Pay a Working Visit to China." Ministry of Foreign Affairs of the People's Republic of China, 20 August, 2003. URL: http://www.fmprc.gov.cn/ce/cedk/eng/xnyfgk/t105642.htm (Accessed: September 21, 2017)

[30] "President Hu Jintao Holds Talks with Hungarian President Madl Ferenc." Ministry of Foreign Affairs of the People's Republic of China, June 11, 2004. URL: http://www.fmprc.gov.cn/mfa_eng/wjb_663304/zzjg_663340/xos_664404/gjlb_664408/3175_664570/3177_664574/t134058.shtml (Accessed: September 21, 2017)

[31] Szunomár Ágnes: "Kínai befektetések Magyarországon: ábránd vagy sikertörténet?" Geopolitika a 21. században, 3., 2013. 183-191. 186-188. URL: http://geopolitika.uni-zsigmond.hu/uploaded/geo/Geopol%204.pdf (Accessed: September 21, 2017)

[32] "International trade in goods." Eurostat, March 2017. URL: http://ec.europa.eu/eurostat/statistics-explained/index.php/International_trade_in_goods (Accessed: September 21, 2017).

[33] Szesztay Ádám (ed.): "Külpolitikánk és külügyi szolgálatunk megújulása. 2010-2013." Kormany.hu, 2013. URL: http://magyaryprogram.kormany.hu/download/8/18/90000/Kulpolitikank_es_kulugyi_szolgalatunk_megujulasa_2010-2013.pdf (Accessed: September 21, 2017); Dániel Péter: "The Eastern Opening – An Element of Hungary's Trade Policy." Europe in Global Economy, September 2015. 1-7. URL: https://www.researchgate.net/publication/282217890_The_Eastern_Opening_-_An_Element_of_Hungary's_Trade_Policy (Accessed: September 21, 2017)

memorandum of understanding with China on promoting the OBOR initiative.[34] In October 2016 the Governor of the Central Bank of Hungary referred to the OBOR initiative as a special opportunity to double the Hungarian gross national product.[35] In November 2016 the Serbian, Hungarian and Chinese parties agreed that in the following year they would start to build the first European large-scale infrastructure project within the BRI framework, a reconstruction of the Budapest-Belgrade railway.[36] In 2017 the government announced that Hungary joins the Asian Infrastructure Investment Bank (AIIB).[37] The "Eastern Opening" strategy's primary target was to increase the FDI from China. The purpose of the National Investment Agency (HIPA) as a background institution of the Ministry of Foreign Affairs and Foreign Affairs has been clearly to find potential foreign investors, to promote investments in Hungary, to create new jobs. The main preference of the Hungarian government has been greenfield investments since they provide a clear political value by generating new jobs. Despite the efforts since the launch of the "Eastern Opening", only very few new Chinese investments have arrived and most of them were mergers and acquisitions instead of greenfield investments. This fits well into the above-mentioned general picture in the CEE region, but seems cheerless in the view of the efforts made in Hungary to strengthen the political relations with China, - not to mention the growing Chinese activism in the core Western-European countries. Moreover, the lack of the investments has eroded the legitimacy of "Eastern Opening" and has been strongly criticized by the Hungarian media.[38]

The possible reason: the structural problems of the Hungarian economy

The Hungarian economy, similarly to other CEE economies, is hard to classify according to the Varieties of Capitalism (VoC).[39] Key characteristics of the system include the intertwined duality of the market and the state, with a high degree of internationalization combined with weak institutions and widespread informality. The duality, however, can be found within the market sector, too: the two main types are the predominantly foreign-owned large multinational companies, and the domestic-owned small and medium-sized enterprises (SMEs).[40] The origin of the present system dates back to the transformation of the economic system after 1989, where the foreign – mostly German – enterprises rich in capital arrived in Hungary to take part in the privatization process in order to acquire some previously large

[34] "Hungarian PM, Chinese FM discuss bilateral cooperation in Budapest." Xinhua, June 7, 2015. http://news.xinhuanet.com/english/2015-06/07/c_134303288.htm
[35] "New Silk Road could double Hungary's GDP, says MNB." Budapest Business Journal, September 16, 2016. http://bbj.hu/economy/new-silk-road-could-double-hungarys-gdp-says-mnb_122080
[36] "China to start building the first segment of high-speed Budapest-Belgrade railway in 2017." People's Daily Online, December 14, 2016.
[37] "Hungary joins Asian Infrastructure Investment Bank (AIIB)." Ministry for National Economy, June 16, 2017. URL: http://www.kormany.hu/en/ministry-for-national-economy/news/hungary-joins-asian-infrastructure-investment-bank-aiib (Accessed: September 21, 2017).
[38] Mészáros R. Tamás: "Magyarország lett Kína kapuja, csak Kína nem tud róla." Index, February 8, 2017. URL: http://index.hu/gazdasag/2017/02/08/kina_magyar_kapcsolat_orban_longform/ (Accessed: October 17, 2017)
[39] Nölke – Vliegenthart, 2009.
[40] Szanyi Miklós: "A dualitás kérdése a rendszerváltást követő gazdasági fejlődésben." Competitio, 9. (1), 2010. 71-90.

state-owned enterprise (SOE) and the market. By the beginning of the 2000s the great structural transformation of the Hungarian economy was finished, and the competitive foreign-owned sector gained dominant positions in the manufacturing industry and in many other sectors, too.

The effectivity of these foreign-owned companies has been largely connected to the global success of the German manufacturing sector. Contrary to other Western-European countries where in recent decades the service sector has become more and more important in the GDP, Germany has maintained an innovative and internationally competitive, export-oriented and globally integrated manufacture sector.[41] The success of the German manufacture sector is based on the "German Central Eastern European Manufacturing Core" (GCEMC) (or German-Central European Supply Chain).[42] The competitiveness of the GCEMC originates from its structure, consisting of three pillars. First, export-oriented multinational companies producing high-value added goods, with the well-known German global brands in the automotive, chemical and electronic sectors, which are well integrated in the global value-chain. Second, the so called "Mittelstand", highly innovative and high-value added mid-sized producers, with global access via international activities of large German enterprises. Third, CEE countries (mainly the Visegrad countries) through the subsidiaries of the German large companies (and the network of subcontractors and suppliers) provide skilled, but cheap labour force. The operation of GCEMC resulted in a complex outcome for the CEE region: from one point of view the system provided technology, knowledge, access to the global market and naturally economic growth and income of taxes. However, from the other point of view, the foreign-owned companies have become autonomous actors within the Hungarian economy, contributing to the dependent status and did not provide a positive force in the modernization of the domestic SMEs.

Comparing the structure of the Chinese manufacturing sector with the GCEMC – despite the remarkable differences in the economic development level of Germany and China –, it seems to be evident that two of the pillars show similarities. First, the large (partly state-owned) export-oriented companies, being well integrated into the global value chain, combined with the support of the huge domestic market. These enterprises have been less well-known in the global market than their German counterparts, however their global position is fast developing, mostly as a result of the advantage of their domestic market size. Second, the skilled/lower-value added, cheap labourforce based manufacturing production, by which China has become world leader in recent years (providing about the quarter of the

[41] Stoellinger, Roman – Foster-McGregor, Neil – Holzner, Mario – Landesmann, Michael – Pöschl, Johannes – Stehrer, Robert: "`Manufacturing Imperative' in the EU – Europe's Position in Global Manufacturing and the Role of Industrial Policy." Research Reports, 391, Vienna Institute for International Economic Studies October 2013.

[42]; "Staff Report on German-Central European Supply Chain—Cluster Report."IMF July 1, 2013.; Stehrer, Robert – Stöllinger, Roman:"The Central European Manufacturing Core: What is Driving Regional Production Sharing." FIW-Research Reports 2014/15 (2), February, 2015. Pepe, Jacopo Maria: "Continental Drift. Germany and China's Inroads in the "German Central Eastern European Manufacturing Core:" Geopolitical Chances and Risks for Europe." ISA International Conference, Hong Kong, 15-18 May 2017. 1-33.

global manufacturing output by value[43]). Unquestionably, the exponentially growing wages in the traditional manufacturing hubs at the coastline provinces of China effect the competitiveness of this pillar, however the central and western regions still have this advantage. It is not surprising that one of the BRI's main goal is to move labour-intensive industries to Central and Western China, combining with a modern infrastructure – established through the projects of the BRI – in order to reach the Eurasian markets.[44] Compared to the GCEMC the real difference in the Chinese manufacturing sector is the lack of the small and medium size innovative companies – the true innovative force of the cooperation –, mainly as a consequence of the less developed status of the Chinese economy. However, the lack of these companies is especially problematic, since according to the industrial masterplan of Chinese government, the "Made in China 2025"[45], the aim is to catch-up with the technological standard of the leading industrial powers and turn China into a "manufacturing superpower" in the field of innovative manufacturing technologies ("smart manufacturing") in the next decades.[46] At the current technology level of the Chinese manufacturing sector the plan seems unrealistic, however with the direct intervention of the state into the market and with foreign acquisitions the gap can be filled. That is the reason why the structure of the Chinese manufacturing sector provides a good explanation what kind of investment the Chinese companies are interested in. The main targets are the high-tech acquisitions in order to support the technological catch up of the Chinese manufacturing sector. This approach has been supported by the recent findings of Hanemann and Huotari,[47] arguing that advanced manufacturing assets have attracted most (more than one third) of the Chinese investments. The ambition of the Chinese government also explain the lack of investment in Hungary and other CEE countries, since these countries' companies have similar advantages as their several Chinese counterparts, thus making them less interesting for the Chinese capital. Moreover since the high-tech products of the near future manufacture industry, Chinese products will be less price-sensitive but more speed-dependent, where the railway-based economic corridors of the BRI initiative can be regarded as real alternatives for reaching the Eurasian markets and don't necessary have to involve the Hungarian and other

[43] "Made in China?" the Economist, March 12, 2015. URL: https://www.economist.com/news/leaders/21646204-asias-dominance-manufacturing-will-endure-will-make-development-harder-others-made (Accessed: October 17, 2017)
[44] Liu Weidong – Dunford, Michael: "Inclusive Globalization: Unpacking China's Belt and Road Initiative." Area Development and Policy 1. (3), 2016. URL: http://rsa.tandfonline.com/doi/full/10.1080/23792949.2016.1232598#.WeZOx1u0OUm (Accessed: October 17, 2017)
[45] "Made in China 2025." The State Council of the People's Republic of China. http://english.gov.cn/2016special/madeinchina2025/ , Wübbeke, Jost – Meissner, Mirjam –Zenglein, Max J. – Ives Jaqueline – Conrad, Björn: "Made in China 2025: The making of a high-tech superpower and consequences for industrial countries." Mercator Institute of China Studies, 2. December 2016. URL: https://www.merics.org/fileadmin/user_upload/downloads/MPOC/MPOC_Made_in_China_2025/MPOC_No.2_MadeinChina_2025.pdf (Accessed: October 17, 2017)
[46] The key sectors of the "Made in China 2025" program, which receive significant state subsidy, include: 1) New information technology; 2) Numerical Control tools; 3) Aerospace equipment; 4) High-tech ships; 5) Railway equipment; 6) Energy saving; 7) Power equipment; 8) Agricultural machinery; 9) New materials; 10) Medical devices.
[47] Hanemann – Huotari, 2017. 5.

regional based enterprises in the Chinese value chain. This also explains the lack of Chinese interest in the greenfield investment, despite of all the advantages of CEE region.[48]

Conclusion

The present paper examined the possible reasons for the missing Chinese greenfield investments in Hungary. The paper argues that the Hungarian government's optimism about the "16+1 Cooperation" and BRI's investment facilitator effect is not well-grounded as the economic structure of the country is not attractive enough for the Chinese investors. This does not necessarily mean that in the future no Chinese greenfield investments will be announced, but it suggests that the game-changer effect of the Chinese activism is at least overestimated. The case of Hungary, as the most successful country in the CEE region in terms of investment historically, is a lesson for the other 15 countries too. Several conclusions can be highlighted.

First, the paper points out the fact that the "16+1 Cooperation" and BRI initiative on its own cannot be seen as a solution for the region's economic problems. The implementation of the BRI will provide a fundamentally new situation for the CEE region, which at the same time is not lack of challenges too. The CEE countries must not see China and the BRI initiative just through their own hopes, but has to be more realistic. Politicization of China's issue does not help, but can be politically contra productive. This also call for a strategic thinking toward China.

Second, the dependence from the EU and especially from Germany cannot be change in a short term and simply as a result of an outsider actor's arriving. To achieve these goals serious and comprehensive economic reforms are needed. The CEE countries have to unite their voice within the EU to support this structural reform, pointing out that the core EU countries would be also beneficial of the less dependent, but more successful CEE region. Without the support of the CEE countries' economic reform the region's criticism toward the EU is legitimate, resulting a divided and weak community.

Third, the growing presence of China provide a new situation where all the European or at least the GCEMC countries have to act together and find a solution for the challenge. None of the countries can play alone, since they are part of a complex economic system. However the common reaction – contrary to the EU's new investment regulation – should not be restraint, but to accept the challenge and be innovatively competitive.

About the author

Viktor Eszterhai, Senior Researcher, PAEGO, Hungary

[48] Naturally this statement is not necessary true for all products, since there are several goods, where the distance of the market is important. In these cases the Chinese companies undoubtedly consider the investment in the CEE region.