

WORKING PAPER

The Comparative Analysis of the Visegrad Countries Concerning Their Integration in the European Union

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A Geo-political Score Table for Poland and Hungary and its consequences for the 16+1 Cooperation

Introduction

In the 1990s, Central Europe seemed to be a region where major powers would compete for spheres of influence in the future, however, the region became swiftly ‘abandoned’ by major powers after the countries of the region completed their reintegration process in the European political, economic and military frameworks. These countries joined the NATO, became full members of the European Union and the OECD. In other words, their integration process seemed to be finished in the early 2000s, once and for all.

However, the Great Recession (2008-2009) and the ensuing eurozone crisis (2010-2012) adversely and deeply affected the economic and political integrity of the European Union. (Moldicz, 2011) This uncertainty in the political and economic development of the EU, the rise of other political and economic powers (China, Russia) and the changing approach of the current American administration to its global role in world politics created a juncture in Central Europe (re)evaluating the region.

Central European countries responded to these shifts in world economy and world politics differently, however, they share one element in common as to their reactions: they realized the decreasing importance of Western European economies and political powers in the long-term. (The best example is the formulation of the Hungarian Eastward Policy in 2011. See more in detail at Becsey 2014!) Still, there is a long way to go, until political and economic reality will change in Central Europe, since looking at basic economic and political indicators, these countries are deeply imbedded in the European institutional frameworks. On the other hand, though globalization decreased the costs for economic and political actions, geography still matters, proximity to major European markets will link Central Europe with Western Europe (in particular Germany) in the future as well. And it is needless to say that Hungarian and Polish firms are deeply embedded in the regional global supply chains that also adds to the asymmetric dependence of these countries.

1. Our first and basic assumption in this paper that long-term economic and political conditions of the Central European countries are the real factors shaping the motivations of these countries in foreign policy, trade and investment policies. Different governmental policies and the difference among them might be of relevance in the short and medium term. But – as James Carville, the campaign strategist of the successful Bill Clinton campaign put it in 1992: “It’s the economy, stupid!” (Hart, 2017) – real (economic and political) benefits are the long-term factors in this context.

2. The second assumption of the paper is that mapping these interests is necessary regarding the forecast of future of the 16+1 cooperation, since this transregional cooperation framework is also deeply influenced by the players' long-term political and economic motivations.

3. In our analysis, we are aware of the fact, that there are two limitations of this paper:

a. Chinese interests must be considered when outlining an evaluation of the 16+1 cooperation. Later works must include this aspect as well.

b. The other constraint of this paper is, that it only attempts to depict the interests of two Central European countries; Hungary and Poland by using a score table. The reason why the papers only focuses on two countries of the 16 countries is easy to understand if considering the diversity of 16 countries of the cooperation.¹

c. The third assumption used by this paper, is that we extend the scope of the paper to other major political powers. China's role in the region is being evaluated in this paper, however in order to understand the effects of the growing economic cooperation between the two Central European countries and China, one has to include other major players of the region. In our understanding there are four major players in this region, who shape the future of these countries in political and economic terms. This group of countries consists of China, Germany, Russia and the United States.

d. The paper doesn't include the European Union as a player on its own, since it is not. However, policies related to China, and disputes of Poland and Hungary significantly influence the future of the 16+1 cooperation. Thus, when looking at the different and common long-term political and economic interest, a special section deal with broader questions of the European integration.

The goal of the paper is to systematically analyze the long-term political and economic motivations of Poland and Hungary including the intentions of the four major powers. The paper is divided in the following chapters:

— Chapter 2. The long-term political interests of the players;

— Chapter 3. Degree of economic cooperation with other EU-countries, China, US and Russia (FDI, trade).

— Chapter 4. The Central European Attitude to the European Union

— Chapter 5. Summary

1. The long-term political interests of the players

In this section, the focus is set on long-term political interests, partly stemming from shared past, partly current trends in the world economy and politics. The main question is what the political interests and policies of the four main players are (China, Germany, the Unites States, and Russia) and how the two Central European countries in question respond to these policies. To have a more systematic approach, the paper discusses the political strategies of the four players separately.

¹ The 16+1 cooperation generates a new layer of complexity by putting sixteen countries into a transregional platform where eleven countries are EU-members, four countries are candidate countries and two only potential candidates of the EU. To make things more complex, the Brexit itself shifts the center of the EU towards Central and Eastern Europe, while the 16+1 cooperation could be a platform of similar effects.

(1) China. China traditionally doesn't have deep political interests in the region, since economic, thus political power of the small CEE countries has been insignificant on the global stage, at the same time the region never belonged to the so-called center of the world, thus few benefits could be reaped from economic cooperation – at least compared to advanced economies of Western Europe. At this point it is worth referring to Wallerstein's world system theory. (Wallerstein, 1976: 229) According to this theory, Central and Eastern Europe belongs to the periphery or semi-periphery that is dependent on the core regarding technology and capital throughout the history. It must be added that Belt and Road Initiative (BRI) – if implemented properly – is able to put Central Asian and Central/Eastern European regions more in the core of world system since the BRI is about the global division of labor!

However, the semi-periphery position of the countries didn't change too much, but there are two significant changes that took place over the last fifteen years that allow for more cooperation between China and Poland/Hungary:

1. Because of the membership in the EU and the Single Market, access to these countries' means access to a market with around 511 million people and circa 20 million firms. Proximity to the main European markets (Germany, France) makes assembly in this region and then transport of these goods easy. The simple fact that Central Europe lies between Western Europe and China, makes the region more important than its economic power would suggest. In contrast to Russia, China doesn't have to deal with a super power who would have real ambitions in the world politics, therefore China doesn't have any political disputes and geopolitical conflicts with Hungary and Poland.

2. The economic rise of China theoretically sets the stage for deeper economic cooperation; with region however, until now the potential of cooperation has been far from being used adequately. Later data will show China's relative position exactly – compared to Germany, the US, and Russia, but it can be presumed and argued that Chinese economic presence in Poland and Hungary is below the level of Germany, and the US. Still it can be stated the cooperation with China has been portrayed negatively in global and European media outlets in recent years, mainly accusing the Chinese for having hidden political ambitions in the region. The question is who the player is who could lose most from improving relations between China and Poland, Hungary. (Later, the paper will return to this question.)

(2) Germany. After the collapse of communism in Central and Eastern Europe and the reunification of Germany, the country fixed its economy by modernizing East-German economy and allocating manufacturing capacities to Central Europe. The allocation helped German firms find skilled and cheap labor and low-cost local resources. At the same time, these firms opened up the Central European markets, acquired technologies and gained strategic benefits by buying up state-owned enterprises (land, property, popular local brands, copy-right etc.)

This strategy was successful in order to restructure German economy and get support for unpopular economic reforms in Germany, mainly dismantling former generous social measures in the labor market. (Here reforms were called Hartz-reforms.) (Knight, 2013) On the other side, this invasion of German firms was accepted in these countries and seen as a form of economic

development strategy, since they created new jobs, recapitalized these economies, provided modern technologies. (At the same time, they (re)created asymmetric dependencies, typical for the era before WWI.)

The period between 1990 and the early 2000s was the era when advanced countries, among them Germany were the clear beneficiaries of the economic globalization, however, the tide turned after 2005 when the BRIC countries became the main beneficiaries of the same process. That is the very first time after WWII, Germany might be tempted to wield its political power to influence and reverse worsening economic conditions. Basically, Germany's past and the successful strategy, that let Germany focus on rather economic than geopolitical issues until now, make difficult for Germany to directly influence China-policies of Central and Eastern European countries. Therefore, this should not come as a surprise that Germany tries to use the EU as a proxy in its struggles for spheres of influence in Central and Eastern Europe. That might be the reason why Germany and EU are often used interchangeable in the present political discourse – German interests are often referred as to EU interests or Single Market rules, but we must be clear these are not the same, and interchangeable. At the same time, there might be common long-term political interests in the EU, but for the time being the EU finds hard expressing its geopolitical interests due its diversity and heterogeneity.

(3) The United States. When analyzing the American approach to Central and Eastern Europe, the first step is to analyze the American approach to Europe which obviously was downgraded after the collapse of the communist regimes in Central Europe and the Soviet Union. (Magyarics, 2015) The new challenges were located in the Middle East and the East Asia. In particular, Clinton's article "America's Pacific Century" signaled a definite turn of American foreign policy in 2011, when she wrote "*The future of politics will be decided in Asia, not Afghanistan or Iraq, and the United States will be right at the center of the action.*" (Clinton, 2011) The interests, US is having in Central and Eastern Europe, are clearly linked to the ambiguous relationship with Russia. The cancellation of the planned missile system, the never fulfilled promises to lessen Central Europe's strong energy dependence on Russia, and the de facto abandoning the case of Crimea clearly mark the declining role of the region in American politics, which is compounded by the recent American trade isolationism. (The term 'trade isolationism' is used by the author, because it doesn't mean that the US would not use military intervention as a solution when it fits its purposes. About the negative effects of the trade isolationism see more at Anoba, 2017).

It is very obvious that the US is much more successful in creating a pro-American bloc in the North of Central Europe (Baltic-countries, Poland), where anti-Russian sentiment is strong due to negative experiences with past Russian political and military actions. The present doesn't provide a more secure environment to these countries. Gera puts this: "*Across Lithuania, Latvia and Estonia, fears are intensifying that Moscow, after displaying its military might in Georgia, Ukraine and now Syria, could have the Baltic states in its sights next. Russian President Vladimir Putin has warned he wouldn't hesitate to defend Russians wherever they live, words that feel like threats since significant numbers of ethnic Russians live in the Baltics.*" The quote also demonstrates how intimately domestic

issues and foreign policy questions are linked with each other in these countries. The United States is considered by Poland and the Baltic countries as a strong military power that is able to counterbalance Russia. However, not only the US but China can also be given credit for enhancing stability of the region. There is convincing evidence that in 1956, one of the reasons why the Soviets did not interfere in Poland – in contrast to Hungary – were their strong Chinese ties that were able to counterbalance the Soviet Union in this critical moment of history.

The Hungarian experiences are more mixed with Russia, anti-Russian sentiment is not that strong, so the fear of the Russians is not part of the daily politics, at the same time reactions of the Hungarian upper-politics and the responses of the ordinary citizens can be very different in regard to economic and/or political cooperation with the Russians. But the relatively positive attitude to Russian ties can also easily change, as the latest NATO summit shows (June, 2018), where the Hungarian prime minister said “threats from the east and the south are very different in nature; the one from the east is called Russia while the southern one is terrorism”.² (The two last visits of Putin and the public reaction in form of protests stand in a very sharp contrast with a calm reaction to visits of Chinese politicians in Hungary.)

(4) Russia. On the one hand, energy dependency is still a very strong element of the political puzzle in the bilateral relations between Russia and Poland/Hungary. At the same time, the Germany-led EU has stakes in this context as well, and as a result Hungary, though hesitantly, imposed economic sanctions on Russia. So, this is a clear case where the value-based foreign policies of other EU countries stand in striking contrast with a more economic benefits-focused Hungarian approach. As a result thereof, the state of democracy, human rights, rights of different minorities, the case of Crimea and Eastern Ukraine are all questions fiercely debated or criticized by EU-countries, though Hungary tries to keep low-profile, and maintain good relations with Russia.

To sum it up, it is very obvious China is the only player among the four main powers, who have stuck to political tools in achieving deeper cooperation with Poland and Hungary, therefore its foreign policy with these countries, and the 14 other countries of the 16+1 group can only rest on a win-win situation. While the rest of the group, in particular Russian and the United States can exert serious military influence in the region as well, although the American willingness to interfere in any context has dwindled over the last two decades, while the Russian were willing to intervene in Georgia (2008), Crimea (2014) and Eastern Ukraine (2015). The Syrian war also shows the assertiveness of the Russian foreign policy, that has been growing over the last 10 years.

The clear difference between Russian and American military leverage in the region is that Poland and Hungary are members of the NATO, thus allies with the US. After 2017, the new American administration signaled that is not willing to pay more, but it requires more spending from the European members in the future, therefore it can be argued, that the dwindling American willingness or capability to be active in the region, along with growing Russian assertiveness make uncertainty, a

² <https://dailynewshungary.com/nato-summit-hungary-one-of-safest-countries-globally-says-orban/>

vacuum of power, that Germany is not capable to fill, politically and militarily alike. Germany still struggles with the past, that has forced the country in the decades after WWII to focus on economic issues rather than political and military questions. Obviously, the American withdrawal from the European continent is a wake-up call to the German politicians to alter the traditional course of foreign policy and shape a new one, in which Germany using EU-level framework assumes a more active role in shaping Central Europe.

In the following tables, various aspects of political and military leverage are being summarized; military leverage, institutionalization of political ties are considered the tables.

Table 1. Institutionalization of political ties				
	China	Germany	US	Russia
Poland	2	4	2	2
Hungary	2	4	2	2

Source: own compilation. Ranking from 0 to 1 shows the institutionalization of the political ties, where 4 stands for institutions (EU, OECD), 3 for regular political dialogue (f. ex. 16+1 cooperation), 2 other channels means (WTO), 1 ties are not institutionalized.

Table 2. Institutionalization of military ties				
	China	Germany	US	Russia
Poland	0	4	4	0
Hungary	0	4	4	0

Source: own compilation. Ranking from 0 to 1 shows the institutionalization of the military ties, where 4 stands for military alliance, 3 for regular military dialogue 2 other channels 1 ties are not institutionalized.

3. The Central European Attitude to the European Union

Over the last couple of years, it became increasingly obvious that Central European attitudes regarding the future of the EU, and their EU-policies clearly differ from those of the Western European countries. Explanations of these differences usually focus on certain politicians, or adverse effects of the Great Recession (2008), however, this aversion of the CEE countries is much deeper, than one would first assume, history helps us understand these differing attitudes. It must be added as well, that the future of the 16+1 cooperation can be framed more easily if EU policies of these countries are included, in particular, as it is mentioned above Germany along with France shaped the policies of the European Commission very much and they utilize the European framework, the European Commission as a pawn to get their wishes through without having direct conflicts with China.

A few words about the historical background must be added in this context. Central European countries have always lagged behind the West in the past centuries although several attempts have been made to close the gap between the two parts of Europe. These countries performed poorly in the past compared to the more advanced regions. The most notable one of the concepts to explain this puzzle of Central Europe is that of the two ‘Europes’ explanation marked by the name of Leopold von Ranke, who stressed the importance of the delayed development of Central and Eastern Europe, which – in his opinion – had been caused by the late state- and nation building processes in this region.

(There are also other new and important insights provided by other researchers from an historical perspective and Berend (2011) provides a comprehensive literature review on the topic.)

The paradox which most European countries now face, originates from circumstances shaped by globalization, since globalization and the need for regional economic integration would logically push these countries forward on the road to closer integration, but most of the Central and Eastern European nation states that emerged in the last two centuries resist further integration, mostly because national identity had been forged by the nation- and state-building process of the 19th and 20th century. The concepts of “national identity” and “nation state” cannot be separated from each other in Europe in most of the cases. This fact has two consequences: first, some of the European nations (especially the small ones of Central and Eastern Europe) are reluctant to go further into regional integration. Secondly, when analyzing the EU, we have to accept the existence of different political and economic regimes in the long run. There is no linear convergence of Central Europe to Western Europe, moreover, in different epochs, convergence can be reversed and the need for decoupling from the West becomes stronger.

Before 2004, there was no disagreement on the economic and political benefits of the European project in these countries. Although in terms of EU-funds, every new member country benefited from EU-membership, the signs of public disappointment had been palpable in some of the new countries already before 2008. Yet the real disillusion came in 2008, when the financial crisis struck the world economy and hopes of rapid convergence with the West had vanished. Moreover, in some of the countries, problems of external financing led to a new wave of economic crises in Central Europe.³ The economic reasons for doubts can be easily understandable if considering that these Polish and Hungarian economies are basically foreign-owned economies, as the famous French economist, Thomas Piketty concluded in a blog post the 16th of January 2018, while comparing EU-transfers to the Central European countries with the capital transfers from these countries and drawing the conclusion that these countries lost more than they benefited from the EU membership.⁴ Without going into details, it is clear the EU membership was not able to lessen the asymmetric dependency of Poland and Hungary on the Western European countries. And this conclusion has clearly shaped the political attitudes of these countries toward the EU in recent years.

4. Degree of Economic Cooperation

This chapter looks at the FDI and trade (export, and import) shares of the four major political powers regarding Poland and Hungary. The basic assumption is the higher shares can be showed, the economic leverage of the given country (Germany, the United States, Russia and China) is higher. Since FDI data are show the FDI stock end of 2016, the picture is static (see table 3), and they don't

³ The picture, however, we can get of the region is more complex. There have been visible fault lines within the Central-European region itself with regard to EU-policy and the appropriate economic policies. The reasons for their better or poorer performance are different. (See Novak 2014 in detail. Novak 2014: pp. 3-10.)

⁴ This blog post triggered a heated debate in Hungary, the left-leaning economist surely cannot be accused of being nationalist or having protectionist views on the economy thus his post provided the Hungarian government with good arguments in the coming debate on the EU-budget and the Hungarian economy model. (Piketty, 2018)

reveal too much about the trends, however, they can help to figure out who is the country having highest leverage and probably pulling the strings in the economies of these countries.

	Germany	Russia	US	China
Poland	29.239	270	4.433	123
Hungary	18.387	37,4	1.629	159.8
Economic leverage: FDI Poland	4	2	3	1
Economic leverage: FDI Hungary	4	1	3	2

Source: Central Bank of Hungary and National Bank of Poland

Obviously and not surprisingly, Germany has the highest stakes in the regional economies, and the United States is the second major investor in Poland and Hungary among the four analyzed countries. (It must be mentioned, that even the second country, the United States lags behind some European countries, such as the Netherlands, and Austria.) When it comes to Russia and China, they are different positions in Poland and Hungary. China ranks third in Hungary, while it only has the fourth position in Poland. Despite the ranking given in the table, we must draw attention to that proportions are not mirrored in the ranking, in other words Russia's and China's relative position would be worse in case that the ranking reflected the scales of FDI investments.

When it comes to trade relations with the four major political powers, the two countries, Poland and Hungary show different features, however, Germany is by far their most important trade partner, and China is the second if considering the aggregate trade-turnover. At the same time, the US is the second most important export destination country for both Poland and Hungary which shows that China's exports in these countries overweight the import, creating a positive trade balance for China in both cases. (It must be added, that trade relations are much more balanced in the case of Hungary, where the gap between Chinese export and import has been closing over the last years.)

	Germany	Russia	US	China
Hungarian export to	28.351	1.599	3.554	2.246
Hungarian import from	24.343	2.631	1.969	4.868
Polish export to	53.033	5.787	4.810	1.385
Polish import from	43.177	11.536	5.504	23.477
Economic leverage: Export Poland	4	1	3	2
Economic leverage: Import Poland	4	2	1	3
Economic leverage: Export Hungary	4	1	3	2
Economic leverage: Import Hungary	4	2	1	3

Source: Word Bank, WITS database

5. Summary

The above-outlined concept of political and economic indicators (ranking and scoring) needs obviously further fine-tuning, f. ex. credits facilitated by the major political powers and energy

dependency can also be considered in the extended model, however, the general conclusion based on these rough data, can be considered as substantiated.

The main conclusion – a political and economic dominance of Germany – can be easily drawn from these data, and it might not come as a surprise. The dominance of Germany is palpable in almost every aspect of the analyzed indicators. The only dimension, where Germany is behind competing powers in the region, is an aspect, not analyzed in the paper, it is the military power. Clearly, Germany is aware of this deficiency and without expanding the army it won't be able to ensure stability and the protection of its core interests in the long run. That might be one of the reasons why in 2016, the Germans announced the first time after 25 years that they intend to increase military expenditures. However, there is clear dilemma, whether European or German frameworks should be preferred. Braw puts this: "Germany may not yet have the political will to expand its military forces on the scale that many are hoping for — but what it has had since 2013 is the Framework Nations Concept. For Germany, the idea is to share its resources with smaller countries in exchange for the use of their troops. For these smaller countries, the initiative is a way of getting Germany more involved in European security while sidestepping the tricky politics of Germany military expansion." (Braw, 2017)

Therefore, our conclusion is that Germany despite the potential won't be able to fill the vacuum of power left behind by the United States, nation states of the region (Poland and Hungary) must rely on their own capacities to defend themselves in the long-run and they have clear maneuvering room in forging new alliances.

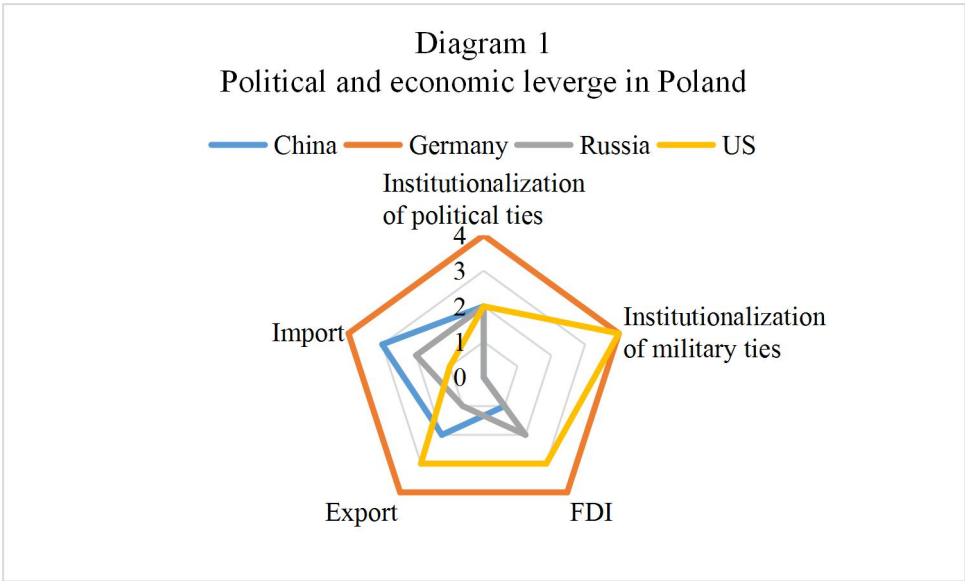
Despite its slow withdrawal from the region, the United States is still very strong at FDI, export and the military dimension but it obviously lacks the long-term commitment to engage in regular political dialogue with the region. The weak commitment to the region is not new, not only typical for the Trump-administration. If there is any reason to keep the Americans in the region, this must be the strategic containment of Russia, which seems to be important today, but given the country's economic weakness the Russian expansion in the region cannot be sustained in the long-run.

Russian weaknesses are trade (both export and import) and the institutionalization of relations with Poland and Hungary. At the same it must be underlined, that our assessment of the political and economic situation doesn't include the possible impact of credits facilitated by Russia and China to the two countries which obviously give leverage to Russia and China over these countries.

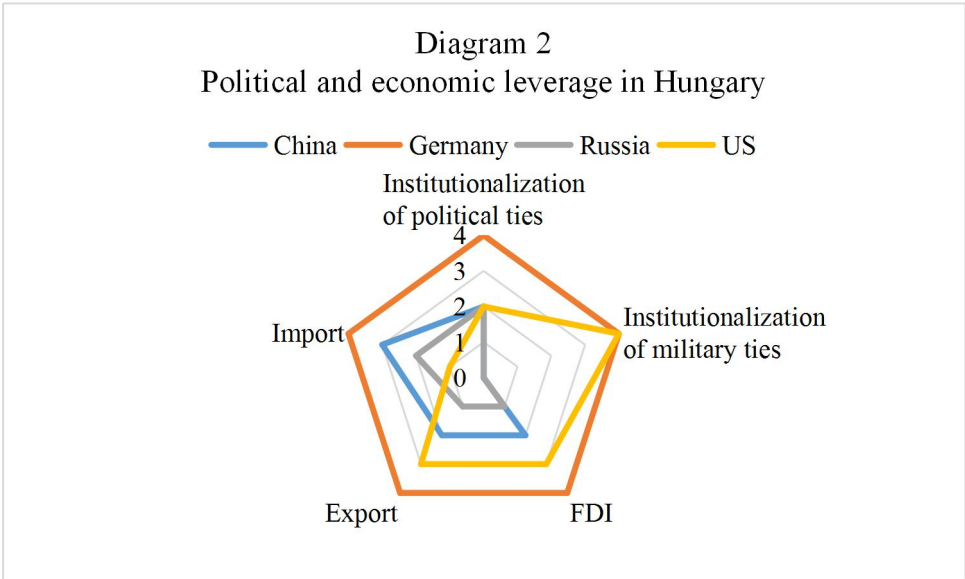
However, there is a significant difference between Chinese and Russian leverage in the region; there is no historical evidence of Chinese efforts to increase its political influence, not speaking of its military clout in the region. As the radar image (that summarizes the tables of the paper) below demonstrate, that China's strengths lie in trade and FDI, and in recent years China has established the 16+1 cooperation which is an important initial step in the institutionalization of political ties with these 16 countries.

Looking at the radar image, it is very clear that China can boost its relations with Poland and Hungary, and the other 14 countries by establishing and institutionalizing its political ties to the region. In our opinion, the institutionalization would help in outlining an agenda, clarifying the goals of the

16+1 cooperation. This way, European, in particular German fears could be dispersed or German attacks could be averted more easily. Our analysis clearly shows that the country that could lose most from a growing political and economic presence of the Chinese in the region, is Germany and the United States, and those who cannot lose anything from this trend are Poland and Hungary. FDI and trade data clearly demonstrate that fears about ‘selling Central Europe to the Chinese’ are exaggerated and politically motivated.⁵



Source: own compilation



Source: own compilation

⁵ The best example of the recent weeks is a paper, supported by the National Endowment for Democracy. The paper was titled “Central Europe for Sale: The Politics of China’s Influence” (Karásková – Matura – Turcsányi – Simalcik, 2018)

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