

WORKING PAPER

China-Hungary economic relations under OBOR

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Abstract:

China's One Belt, One Road (OBOR) Initiative was launched in 2013, which puts the country's relations with Asia, Africa and Europe into a new wider framework. In our paper, we investigate how China-Hungary economic relations have developed under OBOR. We especially focus on the economic gains Hungary has obtained in the field of trade, FDI and infrastructure development in recent years. Initial results show that Hungary's (CEE's) geographical position (connecting Europe and Asia) has made the country (region) an important target of infrastructural development/investments of Chinese companies. China's industrial restructuring and upgrading (specified by the go global strategy, initiatives of "Made in China 2025" and "International Cooperation in Industrial Capacity and Machinery Manufacturing" in line with OBOR) have resulted in growing Chinese FDI in Hungary. In the field of trade, we can see a growing number of Hungarian companies exporting to China and agricultural/food/beverage exports of Hungarian companies showing successful expansion in the Chinese market. Technology export in the water industry and Hungarian tourism have also benefited from the social development of the most populous country in the world.

Keywords: China, Hungary, OBOR, foreign trade, FDI, infrastructure

Introduction

In our study we investigate the development of bilateral economic relations between China and Hungary and their specific overlapping economic interests from the perspective of OBOR. Of the CEE countries, Hungary is one of the most important economic partners for China: the most important destination country for Chinese FDI, and one of the largest trading partners in CEE for China. Hungary deserves to be called one of the forerunners among CEE countries in enhancing economic relations under OBOR with China. Just to mention a few examples: Hungary was the first host country of the China – Central and Eastern European Countries Economic and Trade Forum, which is the starting point of the 16+1 cooperation; it was the first European country to officially sign a MoU on the OBOR Initiative with China in 2015, and to create an OBOR working group with China etc.

Our study begins with the analysis of China's cooperation with Central and Eastern Europe under OBOR. The second part of our study focuses on China-Hungary economic relations in the field of trade, FDI and infrastructure development. The priority area of OBOR is infrastructure development which enhances and facilitates trade and FDI. OBOR is in line with China's go global strategy, initiatives of "Made in China 2025"¹ and "International Cooperation in Industrial Capacity and Machinery Manufacturing"² which support the global spread of Chinese companies and products and help the industrial restructuring (among others transfer of excessive capacities abroad) and upgrading of the Chinese economy. In this study we especially concentrate on how OBOR (and other related strategies/initiatives) affect Hungary which (like others CEE countries) was urged by the global financial and economic crises and the subsequent European sovereign crisis to reduce its economic dependence on the EU and diversify its economic relations towards Asia, especially China, and to launch the Eastern Opening policy in 2012, the main goals of which are – among others – to increase Hungarian companies' exports to and inward FDI from China (Asia). In this study we assess how Hungary's economic

¹ China's industrial masterplan "Made in China 2025" is aimed "to build one of the world's most advanced and competitive economies with the help of innovative manufacturing technologies ("smart manufacturing"). The strategy targets virtually all high-tech industries: new generation information technology, high-end computerised machines and robots, space and aviation, maritime equipment and high-tech ships, advanced railway transportation equipment, new energy and energy-saving vehicles, energy equipment, agricultural machines, new materials, biopharma and high-tech medical devices. China's leadership systematically intervenes in the country's domestic markets so as to benefit and facilitate the economic dominance of Chinese enterprises and to disadvantage foreign competitors. This is visible in smart manufacturing as well as in many other high-tech industries targeted by the strategy. The main aim of "Made in China 2025" to gradually replace foreign with Chinese technology at home – and to prepare the ground for Chinese high-tech companies entering international markets. And it also has an outward-looking dimension: the accelerating acquisition of international high-tech companies by Chinese investors. To speed up China's technological catch-up and to leapfrog stages of technological development, Chinese companies are acquiring core technologies through investment abroad" [Wübbecke et al. 2016, pp. 6-7].

² According to the guidelines of International Cooperation in Industrial Capacity and Machinery Manufacturing, China tries to facilitate cooperation in core sectors such as iron & steel, nonferrous metal, railways (e.g. high speed railway), electric power (e.g. nuclear power stations), chemical engineering, textiles, communications, construction materials, automobiles, engineering mechanics, aerospace & aviation, ship and ocean engineering, with developing countries that match China's industrial structure, as well as developed countries. The driving force and rationale of this initiative are the following: as Chinese export growth has slowed down and overcapacity needs to be released, it is encouraged to shift them abroad. Global infrastructure needs Chinese capital and technology in developing countries (e.g. growing demand on building infrastructure) as well as developed countries (e.g. facility maintenance and upgrade) [Ernst & Young 2016, pp. 13-14]. This initiative will help to restructure and upgrade the Chinese economy and develop third country industries. Much of the practical cooperation mechanisms centre on free trade zones and (sectoral specific) industrial park cooperation being built along the Belt and Road countries.

relations with China have developed in recent years by taking the influence of OBOR and the Eastern Opening policy into consideration. And finally, we close our study with some conclusions.

CEE region's relevance under China's OBOR Initiative

China's economic ascendance is prominent in every region of the world economy. In the EU old member states such as Germany, France, Italy, the UK and the Netherlands are the most important bilateral economic partners for China. CEE member countries represent only a small fraction in EU trade with China and host a tiny part of China's foreign direct investments in the EU. In 2017, the share of CEE member countries in the total EU exports to and imports from China was 4.8% and 11.9%, respectively.³ Between 2000 and 2017, only 4.5% of Chinese FDI transactions (129.4 billion euros) in the EU took place in CEE member countries, which amounted to 5.5 billion euros [Hanemann – Huotari 2018]. At the same time, it is also true that between 2000 and 2017, CEE member countries' trade with China grew faster than that of EU-17.⁴ Chinese investors have begun to explore the investment potential of the CEE region since 2005. And especially, the 2008 financial turmoil with the subsequent global economic downturn and the 2010-2011 European sovereign debt crisis have together given a 'window period' to Chinese companies to increase further their investments in the CEE region [Zuokui 2016], the economic growth of which has been traditionally dependent on the FDI from the EU-15. Many of the crisis-ridden CEE countries actively seeking for external financing, investments and export opportunities (outside Europe) positively welcomed China's approach. Cooperation between CEE countries (EU member countries plus five Western Balkan countries) and China was officially institutionalized by the launch of annual 16+1 summits in 2012 and establishment of a 16+1 secretariat under the Ministry of Foreign Affairs of the PRC. 16+1 cooperation has become an important pillar of the OBOR Initiative launched in 2013. From China's point of view, the specific role of the 16+1 cooperation under OBOR can be summarized in the following points: (1) Despite the fact that the 16+1 cooperation was established before OBOR, both share the same major goal of encouraging China's domestic products and enterprises to go abroad, and pushing forward the country's industrial transformation and upgrading in line with "Made in China 2025" and "International

³ data from Eurostat/Comext

⁴ In value terms, exports of CEE member countries (EU-17) to China grew 26-fold (7.4-fold). Imports of CEE member countries (EU-17) from China grew 10.4-fold (4.7-fold).

Cooperation in Industrial Capacity and Machinery Manufacturing”. (2) The 16+1 cooperation is an important institutional guarantee to speed connectivity (a priority area under OBOR) in Eurasia. The CEE countries lie in the hub of Eurasia, serving as the only route to enter the European market. (3) The 16+1 cooperation is an initiative for regional cooperation, with a focus on pushing forward comprehensive and balanced development of China-EU relations. CEE member countries can provide great opportunities for Chinese investments thanks to their good environment for investment in terms of manpower, capital and industry and their access to the EU’s technology and market [Zuokui 2018].

Regarding the 16+1 cooperation under OBOR, CEE countries have various economic expectations. We have already mentioned that CEE countries welcomed China’s approach during the global financial and economic crisis when they moved to diversify their economic relations to reduce their excessive dependence on the EU. In the field of trade, we can see that 70% of CEE trade with China is reported by the V4 countries [Ping – Zuokui 2018, p. 2]. CEE countries have a huge trade deficit with China. In most cases, the majority of the bilateral trade between CEE countries and China can be bound to certain products and particular transnational corporations which means that bilateral trade flows are largely dependent on the activities of global value chains [Szunomár et al. 2018, p. 48]. This is also confirmed by the research of Ando and Kimura (2013) which explains how production networks of East Asia and Europe have become interlinked through the CEE region. Beyond the dominant trade of transnational corporations we should also mention the export opportunities of CEE domestic companies to China. For these companies it is not easy to expand in China which is often called a global factory. Scholars and politicians emphasize agriculture and the food and beverages industry where CEE companies can increase their exports to the Chinese market. Some high-quality food products (e.g. dairy products, wine) have already gained popularity among Chinese customers [Ping – Zuokui 2018, p. 28]. In the field of services, tourism can also be considered as a business with a prosperous outlook for CEE, as China has been the top spender in international tourism since 2012.

In the case of investments, growing Chinese FDI and financing (state loan) & contracting for infrastructure construction in CEE have been apparent, especially since the global economic and financial crisis. China has focussed on the integrity of investment distribution and has been participating in construction of transportation networks (ports, airports, roads, railways) as well as local assembly and distribution networks (industrial parks), logistical facilities (sea transportation, container companies, telecommunication networks), and energy infrastructure (hydro/nuclear/thermal power stations). Chinese companies have picked up some key countries such as Hungary and Poland where they have started to expand their foreign direct investments,

and used them as a ‘bridgehead’ to invest in the whole region. And Chinese manufacturing companies have been using CEE countries as a springboard to enter the markets of the EU, Turkey and Russia and a place for ‘Europeanization’ of the production, sales and branding of Chinese products [Zuokui 2016].

Majority of Chinese infrastructure construction projects in the CEE region have been carried out in Western Balkans countries, such as Serbia, Montenegro, Macedonia, Bosnia & Herzegovina and Albania which are not part of the EU where “rules on state aid and public procurement has been an obstacle for the Chinese model of infrastructure financing, which involves state guarantees from the borrowing country and requires the direct award of a financed project to Chinese companies, without an open competitive tender” [Makocki 2016, p. 68]. This explains – for example – the delay in the project of Budapest – Belgrade high-speed railway construction (largely financed by the Export-Import Bank of China) which, only after an open bid was announced by Hungary in 2017, can be started in late 2020.

Infrastructure development is motivated by the desire to enhance trade links with CEE (the EU) and facilitate direct investment by Chinese companies in various manufacturing and service sectors. Chinese investments have mainly targeted the manufacturing industry (e.g. electronics, automobiles, aviation, and chemicals), energy, telecommunications, transportation, real estate, banking & finance, and agriculture in the CEE region. In addition to Chinese companies’ foreign direct investments, the China - Central and Eastern Europe Investment Cooperation Fund established in 2014 under OBOR invested 500 million US dollars in infrastructure, telecommunication, energy and special manufacturing in CEE countries (e.g. Bulgaria, Hungary, and Poland etc.) during its first phase.

CEE countries can expect further foreign direct investments and financing for infrastructure construction from China due to the country’s continuous industrial restructuring and upgrading. The second phase of the China - Central and Eastern Europe Investment Cooperation Fund and the Sino-CEE Fund will also channel new investments into the CEE region.

Under the OBOR Initiative, CEE companies also have the opportunity to further increase their foreign direct investments in China. According to the data of CIPA [2017], 1000 CEE companies are present in agriculture, the food & beverage industry, machinery (parts & components) industry, waste water treatment, biotechnology, new energy and financial services in China. FDI stock from CEE mostly originates from Hungary, Poland, Romania, the Czech Republic, Slovakia and Bulgaria, which accounts for about 90% of total CEE FDI in China [Xu et al. 2016, pp. 31-35]. Events such as China Investment Forum and China-CEEC Investment and Trade Expo launched and regularly organized under OBOR also contribute to the

development of bilateral trade and investment relations between China and the 16 CEE countries.

China-Hungary economic relations

Hungary strives to be a very active supporter of OBOR in its own home region. It has been one of the forerunners among CEE countries in strengthening economic relations with China, especially since 2009, when the global financial and economic crisis forced Hungary (as well as other CEE countries) to start actively seeking for external financing, investments and export opportunities outside Europe. In 2012, Hungary launched the so-called Eastern Opening policy to diversify its economic relations, especially towards Asia, with a priority focus on China. Hungary was the first host country of the China-Central and Eastern European Countries Economic and Trade Forum which is the origin of the 16+1 mechanism, an important pillar of OBOR. And Hungary was the first European country to officially sign a MoU on jointly promoting the OBOR Initiative in 2015, and to create an OBOR working group with China etc. Moreover, since 2017, it has elevated its cooperation with China to a comprehensive strategic partnership.

Trade

Hungary's foreign trade is concentrated on the EU. 79.5% (87.8%) of its total exports are directed to and 78.1% (84.9%) of its total imports originate from the EU (Europe)⁵. Hungary's foreign trade is significantly determined by the country's deep embeddedness into GVCs, especially the European ones. Of the CEE EU member countries, Hungary (together with Slovakia) is the most integrated into the GVCs (measured with GVC participation index). Regarding the structure of GVCs in Hungary (like in other CEE EU member countries), backward participation dominates, i.e. the country is highly dependent on the import of intermediates for the production and exports of final products. (Hungary exports more than 70% of its imported intermediates). The value of foreign value added in total gross exports of Hungary is 48.7% (2011). More than half of the foreign value added (27.7%) are from other EU member countries [Kersan-Škabić 2017, pp. 11-16].

⁵ data from Hungarian Central Statistical Office

China's share in Hungary's total trade is relatively low in comparison to the EU's share. Nevertheless, between 2000 and 2016, Hungary's imports from China grew from 0.9 to 4.9 billion US dollars, and Hungary's exports to China increased from 0.04 to 2.2 billion US dollars. China is Hungary's 13th largest export market (2.2%) and 5th largest import market (5.3%).⁶ It is Hungary's largest Asian trading partner, and like other CEE countries, Hungary has a huge trade deficit with China.

Hungary's foreign trade with China follows the pattern of the country's total trade in terms of companies engaged in foreign trade and structure of merchandise trade. Hungary's exporting and importing activities are mainly carried out by partly or wholly foreign-owned companies. They account for approximately 80% of the total trade of Hungary [Antalóczy 2017, p. 17]. Hungary's trade with China is also dominated by the activities of transnational corporations [Németh 2013, p. 20]. For example, in the case of Hungarian exports to China, transnational corporations' share exceeds 90% [Matura 2017, p. 59]. Regarding the structure of merchandise trade, statistics show that machinery and transport equipment (SITC7) have the highest share in Hungary's global trade. This group of products represent 54% of its total exports and 48% of its total imports. In the case of China, machinery and transport equipment's share in total trade is even higher, 63.5% in exports and 75.1% in imports respectively (Table 1).⁷

Table 1: Structure of Hungary's imports from and exports to China (%)

	Imports	Exports
SITC 0 - Food, live animals	0.3	3.6
SITC 1 - Beverages, tobacco	0.02	0.4
SITC 2 - Crude materials, inedible, except fuels	0.16	1.6
SITC 3 - Mineral fuels, lubricants and related materials	0.003	0.3
SITC 4 - Animal and vegetable oils, fats and waxes	0.0003	0.01
SITC 5 - Chemicals and related products	3.9	7.8
SITC 6 - Manufactured goods classified chiefly by material	7.6	6
SITC 7 - Machinery, transport equipment	75.1	63.5
SITC 8 - Miscellaneous manufactured articles	12	16.6

⁶ data from World Integrated Trade Solution, <https://wits.worldbank.org/>

⁷ data from Eurostat/Comext

SITC 9 - Commodities and transactions not classified elsewhere in the SITC	0.4	0.04
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Source: Eurostat/Comext

On the product level, we can see how production networks (in electronics, automotive industry) of the EU and East Asia have been interconnected via Central and Eastern Europe (Hungary) due to activities of Western European, Asian and other transnational corporations located in the CEE region (Hungary). Hungary's main export goods (representing 38% of its total exports) to China are (1) internal combustion piston engines and parts (12.4%); (2) measuring, checking, analysing and controlling instruments and apparatus (10%); (3); electrical apparatus for switching and protecting electrical circuits or for making connections to or in electrical circuits, electrical resistors, printed circuits, boards etc. (5.4%); (4) automatic data-processing machines and units, magnetic or optical readers (5.3%); (5) parts and accessories of motor vehicles (4.8%). Hungary's main import goods (represent 50% of its total imports) from China consist of (1) telecommunication equipment and parts (24.3%); (2) electrical apparatus for switching and protecting electrical circuits or for making connections to or in electrical circuits, electrical resistors, printed circuits, boards etc. (7.5%); (3) automatic data-processing machines and units, magnetic or optical readers (7.2%); (4) parts and components of office machines and products of group (3) (6.2 %); (5) electrical machinery and apparatus (4.5%).⁸

Hungary's trade deficit with China is mainly related to the product group of machinery and transport equipment. For Hungary, China is more important in import than in export relations. But most of the imported parts and components from China are re-exported after certain production process/assembling, so deficit becomes surplus in another direction [Németh 2013, p. 20].

In spite of the dominant role of transnational corporations in China-Hungary trade flows, Hungarian companies have several export opportunities to take advantage of the large and rapidly developing market of China. They have been supported by different tools and institutions created by the Hungarian government through its Eastern Opening policy which was launched as a part of Hungary's new foreign economic strategy in 2012 and the bilateral (China-Hungary) and China-CEE cooperation under OBOR (Table 2). The foreign economic strategy highlights the following fields where Hungarian companies can expand in the Chinese market: medical instruments and equipment, agriculture, food industry, environment and water

⁸ data from Eurostat/Comext

industry, alternative energy, production technologies, and services (tourism, fashion industry, industrial design etc.) [Nemzetgazdasági Minisztérium 2011, p. 22].

Table 2: Tools, institutions and forums for the export development of Hungarian companies

Hungarian government - Eastern Opening policy/Foreign economic strategy	export academy ⁹ , export returns home ¹⁰ , export directory ¹¹
	Hungarian National Trading House and its global network (two offices in China)
	Committee for Hungarian-Chinese Relations within the Hungarian Chamber of Commerce and Industry
	Hungarian-Chinese Joint Committee (intergovernmental organisation)
	ChinaCham Hungarian-Chinese Economic Chamber (in cooperation with Hungarian governmental institutions)
China-Hungary bilateral relations under OBOR	credit line provided by the Export-Import Bank of China/China Development Bank to the Hungarian Eximbank to finance Hungarian companies' exports to China
16+1 cooperation under OBOR	China-CEE Tourism Cooperation Centre (Budapest, 2014)
	China-CEEC Investment and Trade Expo
	China – Central and Eastern European Countries Economic and Trade Forum

Source: edited by the authors

In recent years, initial results of the Eastern Opening policy and OBOR have started to appear. At the event held for Hungarian Export Day 2017, at which China was the guest of honour, Minister of State for Parliamentary Affairs Levente Magyar announced that Hungary's total

⁹ provides training in foreign trade to SMEs

¹⁰ a programme which makes surveys on SMEs' with goods of export quality and provides a network of advisers of foreign trade to SMEs

¹¹ contains database of Hungarian exporters (to enhance business matching)

exports to China had doubled and the number of Hungarian companies exporting to China had increased by 50 percent to about 1000 between 2010 and 2016. Four fifths of them were SMEs [Hungarian News Agency 2017a]. Hungarian agricultural exports to China increased tenfold and the Asian country's huge market provides opportunities for further expansion for Hungarian companies. According to Hungarian Minister of Agriculture Sándor Fazekas, China could become the leading export market for Hungarian high quality agricultural products. It has already become the 4th largest market for Hungarian wine exports [MTI 2017].

In the field of water technology, we should highlight the activities of two companies, namely, Organica and Aquaprofit which can be considered as pioneers among Hungarian companies in China. Both of them had already entered the Chinese market before the launch of the Eastern Opening policy and the OBOR Initiative. Nowadays, Organica works as an international company in waste water treatment, operating on three different continents, and it is a world leader in Fixed-Bed Biofilm Activated Sludge (FBAS) technology. Its joint venture (Joint Venture Shenzhen Organica Environment Technology) was opened in Shenzhen in 2009. In 2010, the joint venture constructed a wastewater treatment plant with FBAS technology for Foxconn plant in Shenzhen. Since then, Organica has contracted for more than 20 plant projects in China. Aquaprofit was approached by a Chinese partner to be invited to a spa development project in China in 2005. The Hungarian company has a cooperative branch office in China and it is active in providing expertise and project consultancy in the water industry, developing special technologies for wastewater/sludge/drinking water treatment, heavy metal removal from industrial water as well as projects related to the development of tourism.¹²

A cooperation agreement between Hungarian MySpirit and Chinese Loncin Holding which was signed with the mediation of the Hungarian National Trading House at China-Central and Eastern European Countries Economic and Trade Forum in Budapest in November 2017, could prove to be a big leap forward in the bilateral cooperation in the water industry. The Hungarian company has been assigned to carry out different measurement tasks concerning the thermal fountain of the cave bath constructed within the framework of the "Healthy China 2030" development plan. The Chinese partner has also indicated that once this project is successfully implemented, further works with Hungarian experts and engineers can be expected on a thermal complex development worth over 1.2 billion euros [Hungarian National Trading House 2017].

¹² see further information at:

<http://aquaprofit.hu/Index.aspx?MN=ChineseRelations&LN=English>

Hungary's accession to the Asian Infrastructure Investment Bank in 2017 can also bring business opportunities for Hungarian companies in the water industry [Hungarian News Agency 2017b].

In the field of tourism, Hungary's economy, although relatively far from China, can also feel the impact of the rapidly increasing outbound travels of Chinese tourists. Since 2000, China has become the world's most powerful outbound market. According to the China Outbound Tourism Research Institute (COTRI) overseas trips by the country's residents will increase from 145 million in 2017 to more than 400 million by 2030 [Smith 2018]. To take advantage of this booming outbound tourism, CEE countries and China created the China-CEE Tourism Cooperation Centre in 2014 under 16+1 cooperation which is hosted by Hungary. During a short period, between 2014 and 2017, nights spent by Chinese tourists in Hungary grew from 160,000 to 371,000. In order to support Chinese outbound tourism, direct flights between Beijing and Budapest were relaunched in 2015. The launch of a direct air passenger route between Budapest and Shanghai is also under negotiation [Hungarian News Agency 2018].

Investment

As we have already highlighted, the Hungarian economy has strongly integrated into the European Union through its FDI and trade relations. According to the latest revised statistics (considering final investors) of the Hungarian Central Bank, 62% of the whole FDI stock (data of 2015) in Hungary originates from Europe. China represents only a 2.3% share in the total FDI stock. At the same time, Hungary is the leading destination country for Chinese foreign direct investment in the CEE region. According to the data of Rhodium Group, Chinese FDI transactions amounted 2.1 billion US dollars in Hungary between 2000 and 2017 [Hanemann – Huotari 2018]. Chinese investments in Hungary started to appear after the country's EU accession in 2004, but more significantly after 2009. And it is also important to emphasize that the Chinese Investment Promotion Agency (CIPA) opened its first overseas office in Budapest in 2010. And the Chinese diaspora living¹³ in Hungary has been an incentive factor for Chinese companies with limited knowledge of the Hungarian economy.

Chinese state-owned or private transnational companies have invested in several industries such as electronics, motor vehicle, chemicals, telecommunication, banking, real estate, logistics and trade etc.

¹³ approx. 19 000 people

- ***Changshu Standard Part Factory***: Changshu acquired Ongai Csavargyártó Ltd. (screw factory) in Alsózsolca in 1998.
- ***Bank of China***: State-owned commercial bank opened its first CEE subsidiary in Budapest in 2003. In 2012, its second branch was established in Budapest. Two years later, Bank of China launched its CEE headquarters in Budapest. It has been playing an important role in financing Chinese companies' activities in Hungary (and CEE).
- ***Hisense***: It belonged to the early Chinese investors in the manufacturing industry. In 2004, it launched a joint venture with Flextronics. At the beginning, Hisense flat-screen televisions were assembled at the Flextronics plant in Sárvár. In 2006, Hisense opened its own factory in the industrial park of Szombathely and continued to supply the European market. The falling European demand due to the global economic crisis forced Hisense to shut down its Hungarian subsidiary in 2009.
- ***Lenovo***: In 2004, Sanmina started to assemble Lenovo PCs at the former plant of IBM in Székesfehérvár. Since 2009, a new EMS partner, Flextronics, has been producing Lenovo PCs, servers and storages at its plant in Sárvár. This plant supplies Europe, Africa and the Middle East with Lenovo products. Lenovo has been continuously increasing its production in Hungary. For example, a new server plant was inaugurated by Flextronics and Lenovo in Sárvár in 2016.
- ***Huawei***: It is the world's largest telecommunication equipment manufacturer which launched its Hungarian office in Budapest in 2005. Flextronics and Foxconn have been assembling Huawei telecom equipment in Páty¹⁴ and Komárom. In 2009, Huawei located its European Supply Center to Hungary which has been distributing Huawei products to Europe, Russia, North Africa and the Middle East. In 2013, Huawei opened an enlarged logistics centre in Biatorbágy. It also launched an innovation centre in Budapest in 2014. It has become a supplier for the largest telecommunication service providers in Hungary.
- ***ZTE Corporation***: It established a representative office in Budapest in 2005 and a subsidiary five years later. ZTE began to operate a new European regional network operation centre (NOC) and a call centre in Budapest in 2012 and a European mobile phone repair centre one year later. Similar to Huawei, ZTE has been participating in telecommunication development projects of ICT service providers in Hungary.

¹⁴ formerly in Pécs

- **BYD Electronics:** It acquired the Hungarian plant of the South Korean electronics molder Mirae in Komárom in 2008. After the shutdown of the Nokia plant, BYD Electronics developed its Hungarian plant into its first electronic bus factory in Europe which was opened in 2017. It supplies the European market with electronic buses. In 2017, it concluded an agreement on a 20 million euro credit line with the China Development Bank which is aimed to finance the company's further development.
- **Beijing Sevenstar Group:** GreenSolar, the subsidiary of Beijing Sevenstar Group acquired Energosolar in 2009 which produced solar panels. It opened its first photovoltaic power station in Várpalota in 2017.
- **Wanhua:** It took full control of BorsodChem in 2011. (Bank of China helped to finance the deal). BorsodChem has been rescued from shutdown. As a result of the acquisition, Wanhua has become the third largest isocyanate producer in the world and realized its first investment in the European market. (Originally, Wanhua planned to build their European factories in the Netherlands and Denmark). Further investments of Wanhua in the BorsodChem plant were also financed by the Bank of China. For example, Wanhua opened its new TDI plant in 2011 and a hydrochloric acid condensation plant in 2016. Wanhua established the Sino-Hungarian BorsodChem Economic and Trade Cooperation Zone where it invested 200 million euros in infrastructure development to lure further Chinese biotechnology and chemistry companies. In 2016, Wanhua and Huawei signed a strategic cooperation agreement on developing smart manufacturing systems. In 2017, Wanhua announced that it would build a technologically advanced, environmentally-friendly chlorine plant, the construction of which would be financed through a 79 million euro credit line provided by the China Development Bank.
- **Bohong (Wescast):** Sichuan Bohong Industry Co. acquired the auto parts maker,¹⁵ Wescast Industries Inc. in 2012. (China Development Bank helped to finance the deal). Since then, it has been continuously increasing investments and the number of employees. By 2020, Bohong will invest approximately 70 million euros and increase the number of employees to 2,500.
- **Comlink:** It started to operate its first overseas production facility in Budapest in 2013. Comlink produces fibre optical cables and plugs for telecommunication companies such as Huawei and ZTE.
- **Yanfeng:** Yanfeng Hungary Automotive Interior Systems has been owned since 2015 by the joint venture of Yanfeng Automotive Interiors and Adient in Pápa, which is the

¹⁵ cast exhaust manifolds for passenger cars and light trucks

world's leading supplier of instrument panels and cockpit systems, door panels, floor consoles and overhead consoles. In 2016, Yanfeng announced that it will invest 23.8 million euros and create 450 new jobs at its Hungarian plant. 100% of their products are exported mainly to the EU.

- **Himile:** The world's largest manufacturer of tyre moulds opened its European service and manufacturing centre in Székesfehérvár in 2016.

In addition, there are some Chinese manufacturing investments in progress such as BBKA's citric acid factory in Szolnok and Tienshan Industrial Group's aircraft factory (with Magnus Aircraft) in Kecskemét. In the field of logistics, we have to mention that Inesa Europe (Shanghai Feilo Acoustics) bought a 16 000 square meter real estate in Dunakeszi in 2015 which has turned into a European distribution centre of its LED light sources and luminaries for industrial, commercial and household use. And it is even more important to highlight the establishment of the so-called Central European Trade and Logistics Cooperation Zone, which consists of Budapest China Mart (an exhibition centre), two logistics parks in Csepel Port (Budapest) and in Bremen Port, which is aimed at facilitating bilateral trade as part of OBOR. The logistics park in Csepel also serves Chinese Railway Express cargo trains which have been operating between Changsha and Budapest since April 2017. Central European Trade and Logistics Cooperation Zone will be connected to China-Europe land-sea express passage starting from China's Eastern coastal city of Shanghai/Ningbo, via Shenzhen in South China, to Piraeus port in Greece by ship, and from there all the way to Budapest by rail. For coordinating the upgrade of the Hungarian section of Budapest-Belgrade railway line, which is part of the aforementioned Silk Road, China Railway Group (85%) established a joint venture with Hungarian Railways (MÁV) (15%) in 2015. Beyond Budapest China Mart, Hungary's role as a regional distribution centre is also underpinned by other big retail and wholesale trade and business matching centres in Budapest such as Asia Centre (China Brand Trade Centre) and Budapest Fashion Centre which support the distribution of different Chinese (or other Asian) products in the Hungarian as well as CEE market. Members of the Chinese community living in Hungary often operate retail shops or restaurants located in these centres in Budapest or in other parts of the capital city or in other Hungarian towns.

Activities of most Chinese companies in the service sector (e.g. logistics, transportation, trade, banking) as well as in manufacturing sector reflect Hungary's (Central) European hub role. Market-seeking motivation behind these Chinese FDI is to supply the whole EU from Hungary or help to transfer Chinese goods via Hungary to other EU member countries. And some of these foreign direct investments (e.g. Lenovo, Huawei, Sevenstar) focus especially on trade-

substituting (tariff-jumping). These investments are motivated to avoid import barriers imposed by the EU to reduce trade surplus of China [Clegg – Voss 2012, p. 64].

According to the research of Defraigne [2017, p. 223], “efficiency seeking FDI which aims at reducing production costs by internationalizing the production process (notably of labour-intensive activities to countries with low wages and flexible labour) is only starting for Chinese companies operating in Europe. Chinese wages remain too low relatively to European ones and Chinese companies have not shown the will and capacity to regionalize their production across different EU countries.” But it is important to highlight that the localization strategy of Chinese manufacturing companies in Hungary has also been influenced by the difference in labour wages between the centre and the periphery of the European Union.

Strategic asset seeking FDI from China in the form of M&A is typically dominant in technologically developed EU member countries where Chinese companies are looking for advanced technology, brand and know how etc. In CEE countries, this type of M&A is rare. In Hungary, acquisitions of subsidiaries owned by transnational corporation originated from developed countries can be classified as strategic asset seeking investment (e.g. Bohong - Wescast), but they are preceded by a strategic decision on the global level. (Through the acquisition Bohong has obtained Wescast’s advanced technology, strengthened its R&D and broadened its sales and distribution channels [Wang – Miao 2016, p. 135]). The acquisition of Energosolar can also be considered as a strategic asset seeking investment.

According to Defraigne [2017, p. 223], “in the medium run, market-seeking and efficiency-seeking FDI from Chinese firms could be affected more by the grand strategy OBOR, notably in the Balkans and in CEE as these member states could become a gateway to Europe for Chinese exporters and investors and occupy a strategic location in a more integrated Eurasian continent. It could accelerate the capacity of Chinese firms to organize production and distribution of goods and services across the EU.” Beside these potential FDIs, Hungary can expect further investments from the China-Central and Eastern Europe Investment Cooperation Fund (second phase) and the Sino-CEE Fund which have been established under OBOR. In its first phase, the China-Central and Eastern Europe Investment Cooperation Fund invested 91 million US dollars in Hungary. Among others, it acquired the BKF University of Applied Sciences in 2013 and Hungarian telecom firm Invitel in 2017.

Since the launch of the Eastern Opening policy in 2012 and OBOR in 2013, it clearly stands out that new Chinese companies have invested in Hungary and Chinese investors have been expanding their activities in Hungary. Irregardless of this, many of them (such as Huawei, Wanhua, Yanfeng, Bank of China and Bohong) have concluded a strategic cooperation

agreement with the Hungarian government to deepen their embeddedness into the domestic economy.

From the Hungarian side, we can see that the country belongs to the biggest investors among CEE countries in China. Traditionally, Hungarian companies prefer to invest in neighbouring countries. But some of them have expanded in China in different sectors such as waste water treatment, water resource management, pharmaceuticals, construction materials, agriculture and energy-saving and environment protection [Xu et al. 2016, p. 34].

Infrastructure

Infrastructure development is designated as a priority area of OBOR, essential to enhance trade and investment relations among countries located along the Belt and Road. Chinese companies have been expansively investing in infrastructure (logistics, transportation, utilities) or taking participation in infrastructure construction in the CEE region. In the case of Hungary, the modernisation of the Budapest-Belgrade railway link can be considered as a flagship infrastructure project and an example for international cooperation in railway (construction) capacity [Ernst & Young 2016, p. 17]. This project is part of a wider corridor plan, namely, China-Europe land-sea express passage. “As sea shipping remains the cheapest route from the Far East to Europe, China plans to establish a rapid transport connection from the Greek port of Piraeus, the first major European container port for ships entering the Mediterranean from the Suez Channel, through the Balkans further to EU markets. This corridor’s Central and Southeast European part is based on the railroad from the Aegean Sea via Greece, Macedonia, Serbia and Hungary. The first operational move to realize the plan was made when the Chinese shipping giant COSCO Pacific bought into the existing Piraeus port in a 35-year concession, with the aim of turning the port into one of Europe’s top five container ports. Transit time between Shanghai (or Nigbo) and Piraeus is approximately 22 days, 10 days less in comparison to the transit time between Shanghai (or Nigbo) and the North European ports of Rotterdam and Hamburg. By shortening the delivery time between China and Europe in a significant way Piraeus could become a major penetration point for Chinese goods in Europe.¹⁶ However, to take full advantage of the port, the Chinese investors understand that investments into the transport links across the Balkans are needed, among others, into the modernisation of

¹⁶ As a matter of course, the flow of goods into the opposite direction can be accelerated as well.

Budapest-Belgrade railway link” [Levitin et al. 2016, p. 2]. Hungary, Serbia and China decided on setting up working groups on the aforementioned railway link in 2013. In 2015, China signed separate deals with Hungary and Serbia to construct and revamp a rail link between Budapest and Belgrade. China Railway Group (85%) established a joint venture (Chinese-Hungarian Railway Non-profit Ltd.) with Hungarian Railways (MÁV) (15%) in 2015 which is in charge of coordinating the project. Hungary announced an open bidding for the section within its border at CEE-China Summit in Budapest in November 2017. In Serbia, the construction of railway line could be started at the same time. The delay in the construction on the Hungarian side was caused by a preliminary infringement proceeding which was launched by the European Commission in May 2016 to clarify the details of the deal concluded by China and Hungary in 2015. The European Commission was investigating whether Hungary was complying with EU procurement rules, which require public tenders for large transport projects. In May 2017, the agreement on the relevant rail link was modified by the Hungarian Parliament and then an open bidding was announced in November 2017. The value of the modernisation of the Hungarian part of the 350 km rail link stands at 2.1 billion US dollars, 85 percent of which will be financed with a 20-year loan from the Export-Import Bank of China [Suokas 2017]. Two consortia (CRE Konzorcium, STRABAG-CCCC 2018 Konzorcium) have applied for the public tender. Both of them include Chinese partners [MÁV 2018]. Chinese-Hungarian Railway Non-profit Ltd. would like to sign the contract with the winner by the end of 2018. The completion of the construction project is expected by the end of 2023. The Budapest-Belgrade railway project will be the first cross-border infrastructure development of China in the CEE region.

Conclusions

The 2008 financial turmoil with the subsequent global economic downturn and the 2010-2011 European sovereign debt crisis have urged CEE countries, including Hungary, the economies of which had strongly integrated into the EU and been dependent on it, to actively seek for external financing, investments and export opportunities outside Europe. China’s growing interest towards the CEE region, and the country’s spellbinding ascendance in the world economy, have made the PRC an attractive partner for CEE countries. Hungary is one of the forerunners in developing economic relations with China that is proven by the launch of the so-called Eastern Opening policy and a number of “firsts” under 16+1/OBOR cooperation. Examples for the latter are as follows: Hungary is the first host country of the China – Central and Eastern European Countries Economic and Trade Forum, the first European country to

officially sign a MoU on the OBOR Initiative in 2015, and to create an OBOR working group with China etc.

In recent years, Chinese-Hungarian economic relations have become more complex and deeper. Chinese companies have invested in several industries in Hungary. Most of the manufacturing companies have been using Hungary as an export platform to the EU market. FDI in logistics (e.g. Central European Trade and Logistics Cooperation Zone), financing for infrastructure development (e.g. Budapest-Belgrade railway link), the launch of direct express cargo trains (between Hungary and China) are also aimed at helping the distribution and sales expansion of Chinese products in the EU market. In several cases, the increase of Hungarian investments of Chinese companies are financed by Chinese state banks such as Bank of China or China Development Bank. The railway project is a good example of the initiative “International Cooperation in Industrial Capacity and Machinery Manufacturing”, the goal of which is to mitigate overcapacity – among others – in infrastructure construction related industries in China. The Sino-Hungarian BorsodChem Economic and Trade Cooperation Zone is another example of international capacity cooperation in the chemical industry.

Strategic asset seeking investments of Chinese companies are rare in CEE countries. They usually concentrate on technologically more advanced EU member countries. However, the acquisition of Wecast or Energosolar by Chinese companies can be considered as this type of investment, which is encouraged by the technology acquisition goal of initiative “Made in China 2025”. First European electronic bus factory established by BYD Electronics supports the other goal of “Made in China 2025”, namely, the international expansion of Chinese high-tech companies. Huawei – Wanhua cooperation on developing smart manufacturing is also in line with the goals of “Made in China 2025”.

We can see how economic interests of China and Hungary have been overlapping each other. One of the main goals specified in Hungary’s Eastern Opening policy, namely to increase FDI from China (Asia), seems to have been fulfilled by newcomers or growing investments of those Chinese companies operating for years in Hungary and which are often underpinned by a strategic cooperation agreement signed with the Hungarian government (e.g. in case of Huawei, Wanhua, Yanfeng, Bank of China and Bohong). In the field of trade, it is obvious that China has been paving the way for Chinese products to the EU market in a comprehensive manner, but at the same time and in line with the other goal of Eastern Opening policy, the number of Hungarian companies exporting to China has significantly increased and agricultural/food/beverage exports of Hungarian companies can show up successful expansion in the Chinese market. Technology export in the water industry and Hungarian tourism have also benefited from the social development of the most populous country in the world.

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