



Weekly Briefing

Hungary economy briefing:
The fifth annual China International Import Expo:
the “golden gate” to the vast Chinese market
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The fifth annual China International Import Expo: the “golden gate” to the vast Chinese market

The war in Ukraine, Brexit, the U.S. withdrawal from the Trans-Pacific Partnership, the trade war, and other efforts to systematically decouple China from the global economy are all factors that may slow the globalization of the world economy. Countries that overemphasize the importance of security considerations in trade and foreign direct investment are intentionally or unintentionally slowing globalization and jeopardizing global economic development because less globalization costs more, less globalization hinders access to cheaper and better products worldwide, and increases prices. The China International Import Expo (CIIE) goes against this trend and seeks to connect foreign and Chinese companies to increase trade volume and show that China is open for business.

Introduction

In general, deglobalization means higher tariffs and production costs, slower capital flows, fragile supply chains, higher prices, and growing geopolitical tensions. This is what we are witnessing in the global economy today. The globalization trend that basically started in the early 1990s now seems to have come to an end. It is ironic that it is harder to argue for globalization than the other way around, since the benefits of increasing interdependence are (relatively) evenly distributed in society, while the beneficiaries of trade protection are more easily singled out. This is one of the reasons why ideas associated with more trade protection seem to be so popular these days. The CIIE, like the Belt and Road Initiative or the China-CEE cooperation is an effort by the Chinese government to maintain and increase the openness of the Chinese economy to the world. The briefing looks at the CIIE and tries to interpret and analyze the development of Chinese and Hungarian trade relations against the background of the CIIE.

General data

The value of deals recorded this year was \$73.52 billion, reflecting an upswing in deals after the disappointing Covid years. This volume is up 3.9 percent from last year. The show featured 438 new products and technologies. The largest number of visitors came from the food

and agricultural products sector, with 1,076 visitors from 104 countries. In total, the fifth CIIE attracted more than 2,800 companies from 127 countries and regions. The data can be considered an excellent result, especially if we take into account the external environment. The war in Ukraine, the increasing geopolitical tensions in the world, the global price increase and the less predictable future business environment are not conducive to the development of foreign trade, but still the trade volume has increased. We must add that the China International Import Expo is not the only event to support the opening of the Chinese economy, but the Belt and Road Initiative the China- CEE cooperation are also pieces of the puzzle.

Trade relations between Hungary and China

Hungary's trade relations with China have intensified over the past few years. The launch of the Belt and Road Initiative and the Eastern Opening policy support bilateral trade between China and Hungary. For the Hungarian side, it has always been clear that Eastern Opening Policy serves the goal of diversifying the trade structure in Hungary. There are no hidden geopolitical goals from the Hungarian side, the project serves the goal of reducing Hungary's dependence on the West. The driving force behind this policy is the realization that Western European economic power is dwindling globally and in relative terms, which means that while the Western European region remains one of the most advanced regions, global demand growth will not come from this region, but from East Asia and later Africa. Based on this long-term trend, growth impetus will increasingly come from this region and Hungary must be prepared for this. Data from 2014 to 2021 show that China's imports to Hungary have been growing steadily during this period, while the growth of Hungary's exports was interrupted in 2018 and 2019. (See Table 1!) We also expect a further deterioration of Hungary's trade balance with China due to China's recent investment decision. Let us take the example of CATL, which not only means the largest foreign direct investment in Hungary ever but will also create around 9,000 jobs in Debrecen (the value of the investment is 7.3 billion euros). What is the connection between the trade balance and the investments? As a rule, the investment leads to the import needs of the investing company. This may be machinery and other products needed to start production. After this early phase, when production starts, the investment has a positive effect on the trade balance, as the produced goods are sold and exported to other countries.

	2014	2015	2016	2017	2018	2019	2020	2021
Balance (million, euros)	-2.221	-2.867	-2.365	-2.344	-3.405	-4.898	-6.113	-6.195
Export (year on year, %)	112.4	101.0	124.7	117.6	83.7	74.6	122.0	114.9
Import (year on year, %)	124.6	112.6	101.8	107.6	114.2	118.3	124.2	104.5
Source: HSCO data base, retrieved from: https://www.ksh.hu/stadat_files/kkr/hu/kkr0008.html								

A look at the latest data shows that Hungary's imports from China increased by 30 percent in the first eight months of 2022, while the country exported 9.5 percent more to China than in the same period last year. As a result of this process, the trade deficit grew to HUF 1,905 billion in the same period. The trade balance is significant Hungary's total trade deficit was HUF 1 953 billion in the first 8 months of 2022. (See Table 2!)

	Import (million HUF)	Export (million HUF)	Balance (million HUF)	Import (year on year, %)	Export (year on year, %)
China	2 446 544.3	540 596.1	-1 905 948.3	130.0	109.5
World	36 988 850.9	35 035 779.5	-1 953 071.4	138.0	126.4
Source: HSCO database, retrieved from: https://www.ksh.hu/stadat_files/kkr/hu/kkr0047.html					

At the same time, we must add that most of the growth in the trade deficit is due to two factors: the significantly weaker forint and robust foreign investment in Hungary, the first of which is always dominated by imports rather than exports. The third aspect we need to keep in mind when analyzing Chinese and Hungarian trade data is that most of the Chinese products imported into Hungary are re-exported to other countries. Looking back at previous years, we can see that Chinese and Hungarian trade volumes have grown significantly, contributing to a more diversified trade structure and openness of the Hungarian economy

Hungarian export to China is dominated by automobiles (2020: 14.4 percent), computers (2020: 4.44 percent), office machinery parts (2020: 3.76 percent), other plastic products (2020: 3.23 percent), and electrical transformers (2020? 3.21 percent). Chinese imports to Hungary are dominated by telephones (2020: 10.5 percent), office machine parts (2020: 6.9 percent), broadcasting accessories (2020: 5.04 percent), computers (2020: 4.01 percent), and electrical transformers (2020: 3.04 percent).

Trade openness of Hungary

	Export in terms of GDP	Ranking
Slovakia	88.44	8
Hungary	79.48	10
Slovenia	77.88	11
Lithuania	73.50	15
Estonia	71.68	16
Czech Republic	70.99	17
Latvia	60.33	23
Poland	56.18	27
Croatia	40.02	49
Source: World Bank		

In the context of CIIE, we must emphasize that Hungary, together with other Central European countries, is one of the most open economies in the world, and for this reason these countries have a great interest in maintaining and increasing the current level of globalization. There are several indicators to measure the openness of trade, but the most traditional one is the country's export in terms of GDP. A look at the table shows that Hungary ranks 8th in the world economy and the other CEE countries are also very open economies. (The only exception is Croatia, whose manufacturing sector is less developed and relies more on tourism)

Summary

The CIIE is one of China's most consistent projects to show the world that the country is not only willing to sell, but also to buy products and services from the world. The Covid years have hindered the development of the show, but the event has been able to maintain its appeal to visitors, resulting in a record number of trade agreements being signed this year. The event was opened by the Chinese president's speech, which also showed the world that China considers opening up its economy important. This sign comes at an important time, as the concept of "dual circulation" is increasingly misinterpreted in the West, with Western analysts often warning that the concept is about an inward-looking China that wants to pursue protectionist trade policies, while the concept is about an economy that needs to enter a new phase of development and move up the value chain, relying more on high value-added services and products. We have also looked at the development of bilateral trade relations between

Hungary and China. We have seen that the trade balance with China has deteriorated in recent years, and we have also claimed that it will also deteriorate in the coming years. However, this is not necessarily bad for the Hungarian economy for two reasons: (1) recent Chinese investments require imports from trade first, then the investments will improve Hungary's trade balance; (2) even in this case, trade with China will not improve because goods produced by Chinese companies in Hungary are often re-exported to the West.