



Weekly Briefing

**Hungary external relations briefing:
The development of current political and economic
relations in 2024: Hungary and China**

Csaba Moldicz


China-CEE Institute

Kiadó: Kína-KKE Intézet Nonprofit Kft.

Szerkesztésért felelős személy: Ju Weiwei

Kiadásért felelős személy: Feng Zhongping

 1052 Budapest Petőfi Sándor utca 11.

 +36 1 5858 690

 office@china-cee.eu

 china-cee.eu

The development of current political and economic relations in 2024: Hungary and China

In contrast to many other European countries, Hungary has not changed its friendly attitude towards China in recent years and pursues a pragmatic approach in its relations with China. Pragmatism in international relations simply refers to a pattern of behavior in which countries closely pursue their economic and political interests and are not or less influenced by ideologies. Considering the geographical distance between the two countries, there is no real geopolitical conflict of interest or contentious issues between China and Hungary; therefore, they have been able to focus closely on their economic interests and shape their policies accordingly in recent years. Both countries have created a political framework in which they can explicitly state their intentions and interests. While Hungary launched the Eastern Opening Policy in 2011, the Belt and Road Initiative started only a few years later and the fortunate coincidence of the two policies opened up a wide space of economic cooperation between the two countries. Both policies have the common goal of diversifying trade relations, creating more trade and incentivizing the inflow of more foreign investment. While China's Belt and Road Initiative continues a policy of economic opening that began in the late 1970s and encourages Chinese companies to go abroad, Hungary's diversification policy aims to reduce the country's dependence on the West in terms of capital, technology and trade. This is often referred to as the connectivity strategy, widely promoted by Balázs Orban, the prime minister's political director. The next briefing will first focus on the political and economic relations between the two countries and try to shed light on the latest developments in bilateral relations.

1. Political relations

The honeymoon that began between China and Central- Eastern European (CEE) countries after the 2008-2009 global financial crisis did not last long in most CEE countries and diplomatic relations were soon clouded by heavy political debates. Despite the fact that other CEE countries needed more direct investment during and after the 2008-2009 financial crisis, they abandoned this policy, with the exception of Hungary. Political pressure from the European Commission and the United States certainly contributed to this rapid change in

foreign policy. In contrast to the group of Central and Eastern European countries, there was no deterioration in relations in the case of Hungary. The main reason for the stability of political relations is that Hungary strictly adheres to the principle of sovereignty in shaping the framework of its foreign policy, which allows the country to closely monitor and pursue its own interests. At this point, it is worth noting that Hungary's membership in NATO does not constitute an legal obligation for Hungary in terms of its China policy, as the treaty clearly defines the scope of the alliance and limits it to the North Atlantic region. (North America, Europe and certain well-defined regions in North Africa. See Article 6!¹)

As already mentioned, this pragmatic approach in Hungarian foreign policy aims to accelerate the country's catching-up process with the West and to remove the obstacles that stand in the way of this process. Balázs Orban, the prime minister's political director since 2021, summarized these efforts as follows: “To avoid the trap of middle-income countries in the next decade, Hungary must pursue an economic strategy based on connectivity, also known as connectivity. Hungary has never been this close to catching up with the most developed countries. To eliminate further lag, Hungary, as a small, export-oriented country, needs an economic strategy capable of coping with the challenges posed by global geopolitical changes while simultaneously accelerating Hungarian economic growth.”²

With a clear strategy of connectivity, Hungary aims to compensate for its asymmetrical dependence on the West in terms of capital, technology and trade. It is obvious that the goal is not to replace dependence on the West with another dependence, in this case over-reliance on China. At this point, it should be mentioned that relations with China are far from asymmetric. (More on this later in the next chapter!)

Another pragmatic element that we can recognize in Hungarian foreign policy is the fact that, unlike the Western mainstream, Hungary does not aim to bring about change or reform in China's political and economic system. Hungary is deeply committed to democracy, human rights and the Western-style market economy, but does not interfere in the internal affairs of other countries on the basis of the principle of sovereignty. It goes without saying

1 Article 6 of the NATO treaty “For the purpose of Article 5, an armed attack on one or more of the Parties is deemed to include an armed attack: on the territory of any of the Parties in Europe or North America, on the Algerian Departments of France 2, on the territory of Turkey or on the Islands under the jurisdiction of any of the Parties in the North Atlantic area north of the Tropic of Cancer; on the forces, vessels, or aircraft of any of the Parties, when in or over these territories or any other area in Europe in which occupation forces of any of the Parties were stationed on the date when the Treaty entered into force or the Mediterranean Sea or the North Atlantic area north of the Tropic of Cancer.”

2 <https://orbanbalazsandras.hu/mandiner-konnektivitas-a-magyar-globalizacios-strategia/>

that a Hungarian policy aimed at changing China's political and economic system would be futile. Over the past decades, Hungary's pragmatic attitude has manifested itself several times in the form of not supporting the decisions of the European Council. In many cases, the European Commission's proposals have been aimed at condemning China on several occasions.

At the same time, Hungary also supported Chinese initiatives by being the first European country to join the Belt and Road Initiative and issue so-called panda-bonds³, while China set up a renminbi clearing bank, and an office of China National Tourism Administration in Hungary.

The latest step in the cooperation was the recent visit of Mr. Ma Youxiangot, Vice Minister of Agriculture and Rural Development to Budapest. The Hungarian partner was Mr. Nagy, Minister of Agriculture, and the visit took place on January 25, 2024. During the negotiations, the Hungarian minister commemorated the 75th anniversary of the establishment of Sino-Hungarian relations, which is also a good opportunity to review and work on the development of agricultural cooperation.

Mr. Nagy emphasized that Hungarian agricultural products cannot compete in terms of quantity, but that the quality of Hungarian products is above the global average and this is a clear selling point for Hungarian products. As an example, Mr. Nagy mentioned foie gras, Tokaji wine, Mangalica pigs and feathers. He also pointed out that our country has the most export licenses to China among Central European countries for various product categories, pork, goose, duck, beef and rabbit meat, as well as live horses, milk and wheat.⁴

We should add that cooperation in agriculture is one of the areas in which Hungary's trade balance with China can be significantly improved, as China, with around 20 percent of the world's population, has access to only 12 percent of the world's arable land. We think that these unfavorable circumstances predestine China for netimports of agricultural products. There are also two elements that make the import of Hungarian agricultural products desirable for China: (1) Hungary strictly adheres to GMO-free production of agricultural goods, which means that the production of genetically modified products is not allowed and animals must

3 Panda bonds are Renminbi-denominated bonds issued by a foreign bank or corporation but sold in China. The market was launched in 2005 with the first issues of panda bonds by the Asian Development Bank and International Finance Corporation.

4 <https://magyarmezogazdasag.hu/2024/01/25/erosodo-agrarkapcsolatok-kina-es-hazank-kozott/>

not be fed with these products. (2) The other element is that Hungary will most likely ban the production of lab-grown meat, following Italy's example. With these two elements, Chinese consumers can buy safe and high-quality products from Hungary.

As we could see from the above paragraphs, relations between the two countries are very much focused on economic relations, as the partners adhere to the principle of non-interference in internal affairs and do not engage in criticizing the partner on issues that belong to the core area of sovereignty.

2. Economic relations

For many years, the Hungarian Eastern Opening Policy was heavily criticized by the Hungarian opposition because the policy did not seem to work and was not capable of being attractive in terms of foreign policy, they argued. The irony of the situation is that the criticism has now turned into the opposite, with the opposition claiming that the influx of Chinese direct investment (such as that of CATL and BYD) would create economic dependence on the Hungarian side. In fact, it is worth noting that China's share of foreign direct investment in Hungary will be 9 percent by the end of 2023. On the one hand, this figure is a success story, as the Chinese share of Hungary's foreign direct investment stock was a meager 1 percent ten years ago. On the other hand, the figure is still too low to create a dependence. (South Korea or Austria have a higher share of Hungary's FDI stock than China)

The other criticism - often heard from the opposition - is that the added value of Chinese investment, especially that of CATL and other lithium-ion battery production, is low. The problem with this argument is twofold. The percentage of domestic value added is not a fixed number set in stone, but can change over time, depending on the business environment, cooperating Hungarian companies and investment, which can lead to a spillover of technology, management skills and knowledge, etc., which in turn leads to a higher share of domestic value added. The other problem is of a political nature. The Hungarian opposition has never argued in the case of German, Dutch, American or other European investors that the share of domestic value added is low and therefore we should not support the investment, as this is very often the case in these relationships. Therefore, we can say that this is a clear case of double standards.

A new development in Sino-Hungarian economic relations is the investment by Chinese car manufacturer BYD in the southern Hungarian city of Szeged. With this investment, BYD,

the world's largest electric car manufacturer, is building its first factory in Europe. (In the last quarter of 2023, the Chinese manufacturer BYD overtook the leading Tesla in global sales of electric cars) According to the plans, the investment will create thousands of jobs in Szeged and the surrounding region. BYD's investment will create the fifth factory in the Hungarian automotive sector, so the distribution of investors is geographically balanced, as three investors come from the West, Germany (Mercedes, Audi and BMW) and two from the East (BYD and Suzuki). The Hungarian government will support the investment financially, although the extent of the state subsidy is not yet clear. The Hungarian Foreign Minister said in this context: "The Hungarian government will naturally provide financial support for this, the extent of which will be finalized through negotiations with the European Commission." As far the criticism is concerned, the minister explained: "Here in Hungary, the interdependence between the Eastern and Western economies is clearer than ever, as well as the fact that everyone can benefit from the cooperation between the Eastern and Western economies."⁵

We should add that the importance of the investment for the Hungarian economy is clear and it fits into the government's long-term strategic economic development plans. Since 2018, Hungary has been among the top 20 exporters of automotive products, after the production value of the sector increased three and a half times.

According to media reports, there were three reasons why Szeged was finally chosen as the location for the new BYD car factory. Firstly, the 300 hectares of industrial land made available by the municipality was an important point in the negotiations. Secondly, the quality of vocational training made the city an ideal place for the investment, and thirdly, the Szeged university as a scientific base and cooperation partner was also an important aspect.

In contrast to Debrecen, where CATL met with local resistance to the investment, BYD will most likely be warmly welcomed by the locals in Szeged. According to a survey conducted by "21 Kutatóközpont", 85 percent of respondents are in favor of the investment, while the proportion of those who are rather opposed to the establishment of the car factory in Szeged is only 10 percent. (The percentage of those who did not want to answer or did not know the answer was 5 percent. Between January 18 and 23, 2024, 750 residents of Szeged were interviewed by telephone. This sample reflects the feelings of the entire voting

5 <https://www.vg.hu/auto/2024/01/szegedi-byd-gyar-a-magyar-gazdasagtortenet-egyik-legfontosabb-beruhazasa-alairtak-a-telek-adasveteli-eloszerzodeset>

population of Szeged, with a margin of error of ± 3.5 percent).

54 percent of respondents felt that the greatest benefit of the investment was the creation of local jobs, 17 percent mentioned the importance of the economic upturn in the city, 12 percent highlighted the importance of keeping young people in the city and 11 percent stressed more tax revenue generated by the investment as an aspect to consider.⁶ When asked about the disadvantages of the BYD investment, 32 percent of respondents were unable or unwilling to give an answer. The two most frequently mentioned disadvantages were the influx of foreign labor and environmental pollution. At this point, we can see that the central government and local people strongly support the BYD investment. Nevertheless, we can assume that local politicians will criticize the investment, but we can rule out a negative impact on the way the investment will take place and what results it will have on the Hungarian economy.

It is ironic that the European Commission's clear anti-China stance may have accelerated BYD's decision to invest in Szeged, as there is a clear possibility that the European Commission will impose additional tariffs on BYD's exports to Europe and these moves would not affect assembly in Hungary. This situation may have prompted BYD to accelerate the construction of its Hungarian plant. By November 2023, BYD had already sold 13,250 cars on the European market. Even before the plant is fully operational in the next two years, BYD will be able to achieve more and continue its brand building efforts.

On February 1, 2024, the Minister of National Economy, Mr. Nagy, highlighted further aspects of Sino-Hungarian economic cooperation, thus expanding the picture:

1. In Hungary, the share of foreign direct investment from the East was 18.8% in 2014 and has now reached 34%.
2. Like the Hungarian Foreign Minister, he also emphasized that Hungary's goal is to become an attractive meeting point of Eastern and Western economies and technologies, where the country's favorable geographical advantages can be exploited.
3. He added that the center of the world economy is shifting to Asia, with China playing an increasingly important role in the global economy.

4. The Minister of National Economy explained: "China is the ninth most important trading partner for Hungary, accounting for more than 4 percent of Hungary's total foreign trade.
5. China is now Hungary's largest trading partner outside Europe. The 380 Chinese companies operating in Hungary employ 16 000 people, and in 2023 Chinese companies brought the most foreign capital to our country among foreign investors.
6. The Minister of National Economy added that Hungary is currently China's most important investment partner in Central and Eastern Europe. As part of the Belt and Road Initiative program, around 890 billion euros have flowed into the world since 2013, of which around 40 billion euros have arrived in the Central and Eastern European regions.⁷

Summary

In this briefing, we have discussed Hungary's pragmatic approach to its relations with China, focusing mainly on political and economic aspects. We have come to the conclusion that Hungary's attitude towards China is in contrast to many other European countries, as the country prioritizes its own economic and political interests without trying to change China's internal systems.

In terms of political relations, we have also argued that Hungary is taking a pragmatic stance, adhering to the principle of sovereignty and not interfering in China's internal affairs. This approach has ensured stable political and economic relations despite tensions between China and other Central- Eastern European countries. Hungary's engagement with China primarily revolves around economic cooperation, as evidenced by its participation in the Belt and Road Initiative and support for Chinese initiatives such as Panda Bonds and tourism development.

In economic terms, Hungary's Eastern Opening Policy aims to diversify its trade relations and reduce its dependence on the West. Chinese investment in Hungary has increased significantly, although there has been criticism from the opposition regarding the potential dependence and added value of the investments. In particular, the investment of the Chinese car manufacturer BYD in Szeged represents a significant development, creating thousands of jobs and contributing to the Hungarian automotive sector.

⁷ <https://hirado.hu/belfold/cikk/2024/02/01/nagy-marton-kina-fontos-gazdasagi-partnere-magyarorszagnak>

Despite concerns about potential drawbacks such as the influx of foreign labor and environmental issues, the BYD investment is strongly supported by both central and local authorities. In addition, the European Commission's anti-China stance may have accelerated BYD's decision to invest in Hungary, possibly due to customs concerns.

On February 1, 2024, Minister Nagy discussed various aspects of Chinese-Hungarian economic collaboration, noting

- the significant increase in investment from the East in Hungary,
- Hungary's strategic goal of building a bridge between Eastern and Western economies by taking advantage of its geographical location,
- the growing importance of Asia in the global economy with China's prominent role,
- China's position as Hungary's most important trading partner outside Europe,
- and Hungary's role as China's most important investment partner in Central and Eastern Europe under the Belt and Road Initiative, which highlights significant investment flows to the region.

Overall, Hungary's pragmatic approach to its relations with China prioritizes economic interests while preserving political sovereignty and stability. And it is best contextualized by the connectivity strategy popularized by Balazs Orban. The strategy emphasizes the importance of global access to resources, technologies, capital and the expansion of trade opportunities for Hungary. This aspect can be a guiding principle in a world where the emergence of trading blocs threatens and limits the catch-up opportunities of small and medium-sized economies.