

# GEOPOLITICAL TENSIONS IN EAST ASIA AND THE EFFECTS ON JAPANESE AND HUNGARIAN ECONOMIC RELATIONS

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**Abstract:** The paper places a strong focus on the increasing geopolitical tensions in the world and the geopolitical and geo-economic adjustment process of both Japan and Hungary to the new environment. After the introductory part (Chapter 1), which discusses the changes in the global political and economic environment, the next chapter (Chapter 2) analyses the geopolitical changes for both countries, focusing on foreign and trade policies. Chapter 3 focuses on how political and economic relations with the two major powers, the United States and Japan, have changed. This chapter also provides an overview of the possible foreign policy strategies vis-à-vis the United States and China. The last chapter tries to find the common platform on which these two countries could work together to achieve their political and economic interests.

**Keywords:** Japan, Hungary, foreign policy, trade, investment, geopolitics,

## Introduction

Despite earlier expectations, the new Biden administration did not provide a respite in the disputes that grew more and more pronounced from 2016 onwards between the United States and China. The two countries who seem to be set on a collision course became more so involved in a trade war. However, it soon became clear that the geopolitical dispute between the two countries is more about

global leadership than it is about trade, technology transfer or control over the South East China Sea. The sudden shift in the tone of bilateral negotiations can be traced back to two key factors: (1) US disillusion with the engagement policy<sup>1</sup> toward China grew and the proponents of China's containment<sup>2</sup> are setting the tone of US foreign policy; (2) After decades of the economic rise of China, development appears to have reached a certain point where the shift in economic power is bound to spill over into world politics, establishing a new balance. The clash between the rising hegemon and the declining power – the so-called 'Thucydides Trap' – seems to be unavoidable according to some analysts, although in our opinion, a predicted long-lasting economic and political dependence on both sides reduces the probability of a real cold war. In our view, there are at least three basic differences between the recent period and the Cold War period after WWII. The two countries are not involved in an ideological war, full economic decoupling is not possible given the level of current economic internationalization and the interests of multinational companies and the two countries do not lead well defined alliance systems against each other. (Christensen, 2021, March 24).

Both Japan and Hungary keep in mind the worst-case scenario which would be that of war and total economic decoupling and for this reason, they appear to avoid adopting positions in binary contentions over trade and security issues. This long-term goal is shared by the two countries.

The paper aims to give a review of the growing geopolitical tensions with special focus on the geopolitical and geoeconomic adjustment process that both countries are currently undergoing in their respective foreign and trade policy. A special focus is set on how bilateral relations might be affected by the changing political environment.

After this introduction, the second section of the paper discusses geopolitical factors that change the political and economic environment for both Japan and Hungary, while the third section of the paper focuses on those geoeconomic effects of the superpower struggle that change Japan's and Hungary's trade and foreign direct investment relations. The fourth section of the paper looks at factors that play a decisive role in both countries' policies and tries to find common platforms allowing for coordinated or like-minded policies.

## Geopolitical factors

The most radical recent change in geopolitical factors was via the new Biden administration, which appears to continue the adaptation of a containment policy towards China. It must be added that it takes place on a different basis than the previous administration's China policy. While the Trump administration criticized China because of its alleged unfair practices in trade, exchanges rates and business,<sup>3</sup> the new administration seems to return to Cold War-inspired terminology and attacks China on an ideological platform. At this point, it should be added that this is not a Cold War in its original iteration as China – in sharp contrast to the Soviet Union – does not pursue the spread of its ideology abroad, nor is it building a group of allied countries, or stationing its military in other countries.

From our standpoint, China's behavior can be more easily construed if we view China as a rising power aiming to make changes in the multilateral institutions of world politics and economy. The narrative that China aims to redesign the world order, reshape its institutions and export authoritarianism does not reflect the reality, but it sets a model for others as Campbell and Sullivan argue "U.S.-Chinese economic and technological competition suggests an emerging contest of models. But unlike the Cold War, with its sharp ideological divide between two rival blocs, the lines of demarcation are fuzzier here. Although neither Washington nor Beijing is engaging in the kind of proselytizing characteristic of the Cold War, China may ultimately present a stronger ideological challenge than the Soviet Union did, even if it does not explicitly seek to export its system. If the international order is a reflection of its most powerful states, then China's rise to superpower status will exert a pull toward autocracy." (Campbell & Sullivan, 2019)

When looking at this confrontation, the question arises as to which side smaller nations should take, if any. At this point, the Hungarian and Japanese foreign policy responses are significantly different. The following two subsections investigate how Hungary and Japan have responded to the growing tensions between the United States and China.

## *Hungarian foreign and trade policy*

During the Covid-19 pandemic, the resilience of the Chinese economy was astonishing by international standards, seeing as China's GDP – the only one among major economies – rose in 2020. Not only last year, but over recent decades, China's relevance in Hungarian trade and investment has been increasing while American economic influence has, for many years, been dwindling which means that now there is no going back to the Obama-era for Hungary's economic relations.

This rapid growth of China coincides with Hungary's need for trade and investment diversification. This need became very clear after the Global Financial Crisis (2008-2009), when the asymmetric dependence of the Hungarian economy on the West backfired and made Hungarian decision-makers aware of the threat of asymmetric dependence in terms of financing and technology. For this reason, Hungary has been pursuing a hedging strategy between China and the US, Russia, the United States and, in some cases, the European Commission since 2010.

Due to the Biden administration's new priorities, Hungary now needs to rethink its US strategy. Not only because the Hungarian government rooted for Trump in the election, but more importantly because Biden sets emphasis on so-called shared democratic values upon which Washington intends to defend against with regards to China. Based on the same logic and values, Biden is very likely to confront Hungary in the debate on the "rule of law"<sup>4</sup> between Hungary and the European Commission and choose the European Commission's side but this debate can be resolved, however, there are two - in our opinion - core questions where Hungary and the United States disagree, and solutions are difficult to find (1) energy supplies from Russia (2) growing economic relations with China.

(1) Energy supplies Hungary has been traditionally dependent on Russian energy imports for decades yet, at the same time, the United States has been pushing Hungary in recent years to decrease its traditional energy dependence on Russia due to geopolitical reasons. Hungary simply cannot follow this foreign policy 'wish' of the United States as it is difficult to replace cheap energy from Russia at this moment. The dilemma we face at

this point is why any foreign policy decision maker would follow assertive advice that goes against the country's energy security. What we can see in a broader context is that American efforts to marginalize Russia have not yielded results since the occupation of Crimea (2014). For the sake of Russia's isolation, the US needs the cooperation of its allies, but in this case the US seems willing to ask its allies to act against their own economic interests without being compensated for the economic losses.

In our opinion, the so-called 'Three Seas Initiative' could be the point at which U.S. foreign policy could compensate Hungary, but the initiative's projects require significant funding. This could be the point where even Japanese foreign policy could play a role in establishing this key infrastructure which would improve North-South connectivity in Central Europe (see the Via Carpathia project) and secure energy supplies to the region (pipelines, LNG terminal etc.).

(2) Growing economic relations with China while until 2019 Central Europe was regarded as a new fan of China, cracks in China-CE relations have appeared on the surface now.<sup>5</sup> However, Hungary is still pursuing the Eastern Opening Policy and the main reason for that is that Hungary clearly belongs to those countries in the region who benefited relatively the most from deepening economic relations with China.

The accumulated amount of FDI stock between 2005 and 2019 was 3.65 percent of Hungarian GDP in 2019. This proportion is relatively small, however, it has been growing continuously over this period. In contrast to other CE countries, the trade balance with China did not worsen between 2010 and 2018 while the overall trade balance remained positive. In other words, Hungary does not lose from deepening relations with China and trade and investment relations with China speed up the catch-up process with the West.

Special relations with China also helped Hungary when speeding up the vaccination program. The main reason why Hungary was able to surpass EU members in the vaccination of the population<sup>6</sup> is that in this case, the country was pursuing its closest strategic goal and not paying attention to the growing international tensions between the US/EU bloc and China-Russia. The success of this strategy can

be easily measured in numbers. 1.5 million Hungarians were vaccinated (dates 22-03-2021) with 700 thousand Hungarians being inoculated with Russian and Chinese vaccines (Hungarian Government, 2020).

Although trade and investments from China are still not significant in terms of volume, they have a tendency to increase, and Hungarian foreign and trade policy seems to have a long-term vision and is prepared for the time when China's intentions, like those of the US now, cannot be disregarded in any foreign policy strategy.

In summary, Hungary is 'dancing' between the United States and China, and is continuously switching between the two as shifts in power take place and as Hungary's narrow economic interests dictate. It must be admitted that this geopolitical strategy can sometimes backfire when the power shifts occur in a short period of time and swift adjustments are required. Coca describes this as the 'nonalignment problem' in the case of Indonesia: "In recent years, Indonesian leaders have sought to chart a middle path toward China, pandering to popular distrust of China while seeking Chinese investment. But that balancing act has done little to dissuade Beijing from harassing Indonesia as it does its other Southeast Asian and Pacific neighbors. President Joko Widodo, also known as Jokowi, largely eschews opportunities to speak on the international stage. His ambiguous messaging on China is becoming increasingly unsustainable as the regional security landscape changes" (Coca, 2020, December 30). We don't have to deal with this situation in Hungary's case as economic projects are more successful and due to the geographical distance between the two countries, there is no clash of geopolitical interests.

### *Japanese foreign policy – an act of recreating foreign policy*

In sharp contrast to Hungary, the rise of China has deeper meaning for Japanese foreign policy and more direct economic effects. The geographical closeness and the deeper historical relations with China that often are regarded with mixed feelings on both sides explain why that kind of hedging strategy adopted by Hungary cannot be the praxis of the Japanese foreign policy. Not to mention, the different economic opportunities Japan enjoys while Hungary's economic development is dependent on foreign capital and technology.

Japanese foreign policy actions of the Abe Shinzo era can be divided into two main periods. In the first period (2006-2007□2011-2014□2014-2017), Japan tried to systematically improve its relations with China whilst the second period (2017-2020) was more so characterized by growing concerns about China's more assertive behavior in international relations. In the first period, the attempt at warming-up relations was not only motivated by considerations regarding China's new role in the international order but by the unorthodox American foreign policy between 2016 and 2020, whose twists and turns made the alliance between the two countries fragile. Miller put this feeling this way□“The U.S.-Japanese alliance has remained on firm ground since Trump's inauguration, and Abe has developed a strong personal rapport with Trump. Yet Trump's capriciousness toward U.S. allies and his proclivity for economic protectionism have unnerved many of Washington's partners. Perhaps the most striking example of this was Trump's decision to withdraw the United States from the Trans-Pacific Partnership – a deal in which Japan invested deeply without a backup plan”.

The new Biden administration just reinforced the need for adjustment in Japanese foreign policy because the period of warming relations with China was rather lukewarm and did not result in permanent changes or satisfactory guarantees of which China does not gain a political advantage from due to its strong economic position in the region. That is why, between 2017 and 2020, the Abe administration was extremely active in forming economic integration and other regional alliances□

1. Japan became a founding country of the Regional Comprehensive Partnership (RCE) in 2020.
2. It is also the founding country of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) that evolved from the Trans-Pacific Partnership (TPP) which never entered into force due to the American withdrawal. It must be added that American participation in the original TPP was seen as a surprise due to domestic opposition from the Japanese agricultural sector and it required flexibility and initiative taking.
3. It must be underlined that Japan's active role can easily be seen in the CPTPP, where the country has a leading role in the success of the trade agreement.

4. Japan strongly advocated for the revival of the Free and Open Indo Pacific concept (FOIP) which originates from Japan and it also participated in the Quad meetings between Japan, the US, Australia and India which resulted in joint military maneuvers.

Oba argues that the original containment-style foreign policy steps of Japan were unsuccessful and, after realizing this, Japan began to take China into consideration, stating “The Abe administration also gradually reached the point of having to take China into consideration and FOIP became less concerned with restraining China, and more with exploring the possibility of Japan-China Cooperation on Third Countries, thus taking the regional order vision of the Abe administration in a rather different direction that was originally planned” (Oba, 2020 September 20).

At the same time, the flexibility and initiative taking were not sufficient in preventing rising tensions between the United States and China and now Japan seems to be torn apart by these tensions. This is the point at which even a cunning foreign policy alone is not able to stop the tectonic economic and political power shifts. The failure of Japanese foreign policy is a simple reflection of Japan’s dwindling relative political and economic power in the region and of China’s rise. Japan’s economic power has been decreasing for decades, but the turning point was not only created by the rise of China, but the dynamism of the ASEAN countries too.

Oba thinks that “Japan will increasingly have to seek influence through multilateral diplomacy and regional and global institutions. It is this recognition that should inform the foreign policy of the next administration” (Oba, 2020). However, the hedging strategy of Hungary suggests that this kind of ‘swing state’<sup>17</sup> diplomacy is more yielding to the given country than it is taking sides.

At first glance, we could conclude that Japan has chosen the reinforcement of its alliance with the United States. In 2018, Koga argued that Japan’s strategy vis-à-vis China is that of balancing against the risk of China’s rise, while Japan’s position is rather one of bandwagoning vis-à-vis the United States.<sup>8</sup>



In our view, both Hungary’s and Japan’s behavior is rather to be considered as being in-between the two extremities and can be called hedging, while Japan leans more towards balance and Hungary towards bandwagoning in the case of China. For the definition of hedging, we rely on Koga who maintains it means “an insurance policy against opportunism” (Lake 1996:15). Koga argues that a hedging strategy included deeper economic cooperation and preparation for confrontation (Koga, 2018:2). We must be aware of the recent changes in Japanese foreign policy towards China, as the emphasis has moved from hedging (preparing for confrontation) to a less cooperative attitude of balancing strategy (ready for confrontation). Japan now seems to be concerned about the attached risks from China’s rise than ever before (see table 1).

Table 1.  
Foreign policy strategies of Hungary and Japan

The chosen strategy	Japan	Hungary
vis-à-vis China	Between Hedging and Balancing	Between Hedging and Bandwagoning
vis-à-vis the United States	Bandwagoning	Hedging

Source: own compilation

The fact that Beijing is also aware of the shifts in Japanese foreign policy are shown by the latest remarks of the Chinese foreign minister, Wang Yi, who reacted to the preparations for the US-Japan meeting between the two leaders, President Biden and Prime Minister Suga. The Chinese Foreign Minister put it this way: “China hopes that Japan, as an independent country, will look at China’s development in an objective and rational way instead of being misled by some countries holding a biased view against China” (Wang Yi, cited by Sposato, 2021).

Not only the meeting itself but former statements from the Japanese side make Beijing nervous. In these statements, Hong Kong and Xinxiang are explicitly mentioned as concerns for Japan, while China considers these issues to be internal issues. Japan is also pressured by the United States to join sanctions against China due to the claims of human right violations. The awkwardness of the situation is pointed out by Reynolds, who put it this way: “Japan has found it increasingly awkward to balance its relations with the U.S., its only military ally, and China, its biggest trading partner” (Reynolds, 2021).

As pointed out earlier, China is an increasingly important trading partner of Hungary, but it is far from being the biggest one. That is why Hungary can pursue a different foreign policy strategy than Japan. Due to recent geopolitical tensions, the former Hungarian hedging strategy shifted towards bandwagoning (without earlier striking an alliance with China) and for the same reason, Japan’s hedging was moving towards balancing in the case of China. We can see in both cases that the shift in strategy positioned both countries further from hedging, however, we must also mention that the Hungarian strategy vis-à-vis China is still closer to hedging than bandwagoning, whereas Japan is closer to balancing than hedging. The more subtle change in Hungarian foreign policy can be explained by the geographical distance to China and its lesser importance in the Hungarian economy.

## Geoeconomic factors

In the next subsection, we focus on the economic ties of Hungary and Japan with the United States and China and try to give a rationale to their different foreign policy strategies and their shifts toward the two major powers.

### *The case of Hungary*

Hungarian foreign and trade policy is led by the recognition that the country’s economy relies on the West asymmetrically in terms of capital and technology. The search for a way out of this situation led

to new policies and out-of-the-box solutions in Hungary. Some argued that the measures implemented by Central European governments after the Global Financial Crisis in 2008-2019 signalled a shift towards (re) establishing a state-led capitalist model. We would rather argue that this shift of economic policy thinking brought Hungary a little bit closer to the original version of a developmental state, where the state's role in the economy is much more pronounced than in Western European or North American economies. This shift in the economic model can also be construed as a response to "dependent capitalism which evolved after the 1990s", according to Martin Myrant. Myrant points out two key factors that distinguish this version of capitalism from other forms: "... the level of development of financial systems required for a liberal market economy is absent, as are the cooperative relationships between firms and with trade unions that are at the heart of the notion of a coordinated market economy. These problems are partly overcome with the introduction of a further variety, a dependent market economy, by Nölke and Vliegenthart [2009]. In this version, the CEECs have created environments that give them a competitive advantage in attracting inward FDI by MNCs which then undertake simpler manufacturing tasks in those countries" (Myrant, 2018:294).

The shift is interpreted by many as a 'newfound love for China' and can be explained by the simple need for diversification in trade and investment ties. China's share in Hungary's trade is still relatively low, thus the increase in trade with China does not involve any significant geopolitical risks. This is why Hungary was able to launch its Eastern Opening Policy in 2011. The Hungarian initiative came at the right time as these Chinese initiatives coincided with the Eastern Opening Policy.<sup>9</sup>

Some argue that a Chinese trade surplus makes the goals of the Eastern Opening Policy questionable, but the Chinese share in Hungarian trade is not yet significant. China's share in Hungarian imports was 5.4 percent in 2018, while China's share in exports reached 1.9 percent in the same year. In other words, the turn towards Asia is still in its infancy, the trade balance deficit with China can be improved and declaring the Eastern Opening Policy based on these percentages would be precipitous. Moreover, we can see that the trade balance

with China improved in the years 2010 and 2018 which is not typical in the region (see table 2). We can add that in the world of global supply chains, bilateral trade statistics tell us less about the reality as Chinese products imported into Hungary can be immediately exported to other EU members.

*Table 2.*  
*Visegrad countries' trade balance with China (\$ billion)*

	Trade balance with China in 2010	Trade balance with China in 2018	The overall balance in 2010	The overall balance in 2018
Czech Republic	-14.1	-23.5	6.4	17.6
Hungary	-4.6	-4.0	7.3	6.6
Poland	-14.8	-28.4	-17.0	-5.8
Slovakia	-2.7	-3.9	-0.4	0.5

Source: World Bank WITS database

When it comes to Chinese FDI, we can use two sets of data: the balance of payments statistics of the Hungarian Central Bank (MNB) and alternative information sources of Chinese foreign direct investments such as the statistics of the American Enterprise Institute (AEI) or MERICS. China's share of Hungarian inbound FDI stocks was 2.7 percent based on final investor data (balance of payments approach) around 2.1 billion euros. Even if taking into account the figures from the China Global Investment Tracker (US\$5.88 billion) (American Enterprise Institute, 2020) or the MERICS data (€2.4 billion), the argument that China 'buys up' Hungary is weak (Kratz, et al., 2020).

When looking at these data, we can understand why Hungary’s position regarding a much more cooperative China-policy is understandable and logical. Moreover, narrow Hungarian economic interests dictate the implementation of a hedging strategy in the case of trade and investment relations.

When comparing the role of Japan, China and the US in Hungary’s diversification policy, we can arrive at different conclusions.

1. When it comes to foreign direct investment, according to MNB, Japan’s role as an investor in Hungary is still more significant than China’s. Japan’s share was 3.7 percent in 2018 – based on final investor data. MERICS or AEI data cannot be used for comparison as there are no Japanese FDI collections available.
5. When it comes to trade, China’s role is more significant and is still growing, while the Japanese share is more limited (see table 3). In contrast to the two Asian countries, Hungary has a trade surplus with the United States, however, the share in overall trade is small.
6. The US’s share in Hungarian FDI stock is the most significant one among the three countries, although this share has been drastically decreasing in recent years - while the American share in FDI stock was 18.68 percent in 2014, it shrank to 10.73 percent in 2018.

*Table 3.  
China’s and Japan’s share of Hungarian exports and imports  
(2018, %)*

	Import share	Export share
China	5.4	1.9
Japan	1.28	0.56
United States	1.83	2.86

*Source: own compilation based on World Bank WITS database*

### *The case of Japan*

Japan in sharp contrast to Hungary does not rely on external financing. It possesses an impressive technological knowledge base and ‘know-how’, thus it does not import technology but export it. We can generally say that Japan has great maneuvering room for choosing the right and appropriate economic policies and theories as it is less dependent on partners. However, when looking at Chinese and American shares in its trade, it is clear that the country can hardly avoid taking this aspect into consideration in its foreign policy. The two countries have equally important shares in Japan’s exports – around one-fifth (see table 4).

*Table 4.*  
*China’s and United States’ share of Japanese exports and imports*  
*(2018, %)*

	Import share	Export share
China	23.20	19.51
United States	11.17	19.05
Hungary	0.14	0.22

*Source: own compilation based on World Bank WITS database*

In table 5, we can find the main direct investors in Japan. China does not have a significant position as an investor (2019=1.56 percent), while the US’ investor role in Japan (2019=23.56 percent) might be able to sway the course of the country’s foreign policy. When looking at the share of Japanese FDI abroad, a similar close link can be found between Japan and the US (2019=28.70 percent) while the China-Japan link is weaker.

At the same time, there is one factor that we have not discussed in the case of Hungary, but it must be mentioned in Japan's context and that is the fact that Japan is within range of Chinese weaponry while Central Europe is not. We can also add other basically never-ending disputes over the Senkaku/Diaoyu islands to the list of tension-generating issues between the two countries. In other words, Hungary does not have a clash of geopolitical interests with China, while Japan is more vulnerable from this aspect. While Hungary is allied with the United States in the framework of NATO, this alliance explicitly focuses on the transatlantic region, rather than on Asia.

Japan's geographical closeness to China cannot be changed, however, its close trade ties can be loosened over time. Japan has recently called on Japanese companies to turn to the South East region and invest more there. There are significant Japanese firms where the Chinese share in trading activities is circa one-third, making these companies extremely vulnerable to geopolitically-induced shocks. As pointed out above, the Chinese share of Japanese FDI abroad is significantly smaller than the American share, however, the 7 percent can be interpreted as a geopolitical risk which has to be reduced. An Asia Fund Managers report summarizes these efforts this way: "Under the subsidy scheme, the government will cover up to half the cost of investments within the Association of Southeast Asian Nations for large companies and as much as two-thirds for smaller businesses. These subsidies are specific to products manufactured in specific countries" (Asia Fund Managers, 2020, October 8).

Table 5.  
Japanese FDI abroad and FDI in Japan (%)

	FDI stock in Japan (2019)	Japanese FDI abroad (2020)
Asia	22.11	27.78
China	1.56	7.01
Hong Kong	3.65	1.92
Taiwan	2.46	0.82
Korea	2.37	2.10
Singapore	10.52	4.90
US	23.56	28.70
Europe	43.31	29.97
Germany	2.83	2.16
UK	7.37	9.25
France	11.60	0.94
Netherlands	11.53	7.16
Switzerland	4.35	2.44
Sweden	0.92	0.42
ASEAN	12.00	14.29
EU	38.64	27.23
World	100.00	100.00

Source: JETRO, Japanese Trade and Investment Statistics



This subsidy scheme will most likely increase the effects of the Regional Comprehensive Economic Partnership (RCEP), signed in November 2020. Although the RCEP is a free trade agreement, the agreement covers topics related to FDI. The likely outcome of the agreement is that it will increase FDI flow from North Asia to South Asia, only adding to an already existing trend, thus supporting the formation of regional supply chains (FDI Center, 2020, November 20).

## Common platforms

The main common platform in the two countries' relations is their need for diversification in their trade and investment relations. In Hungary's case, diversification in both trade and investment simply means 'more Asia', while in Japan's case the 'more Asia' motto has to be rather specified as South-East Asia or, in other words, 'less China'. Given the high American shares in both trade and investment, the United States does not offer any economic relief for Japan's diversification strategy. In this case, the combination of a Taiwan-style New South Bound Policy<sup>10</sup> with increased investment in Central Europe could solve the diversification problems of Japan.

We could see that the need for diversification has different sources in Japan and Hungary. Hungary is rather motivated by the economic development needs of the country than it is by geopolitically-induced fears. The East Asian region is relevant mainly in economic relations for Hungary so the other main platform for cooperation could be enhanced investments from the Japanese side in the region of Hungary which would also offer diversification opportunities for Japan.

At the same time, we can add that it is difficult for Japan not to deepen economic relations with China as the main growth impulse still comes from China. For the same reason, it will be difficult to disentangle from China if Chinese economic growth generates growing demand for Japanese products and services. The key player seems to be the United States as it is pushing Japan to revise its relations with China on the basis of human rights and other disputed issues which are not related to economic development and business. The question is how long Japan

will be able to pursue this value-based foreign policy because its close and short-term interests would dictate otherwise. Japan's closeness to China and its strong relations with the United States seems to set Japan on a collision course with China. Hungary's room for maneuver is larger, but even in this case, growing international tensions pushes the country towards taking sides which does not stand in Hungary's interests.

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## Endnotes

- 1 The roots of engagement policy are to be traced back to the Nixon era, but to outside observers it began to take on a clear strategy in the 1990s, when the Eastern European socialist bloc and Soviet Union collapsed. The end of the bipolar world led to the reconceptualization of U.S. policy toward China. George H.W. Bush introduced the term “engagement” with respect to the People’s Republic of China (PRC), but it was not until the Clinton Administration (1993–2001) that the term “engagement policy” became associated with the idea of economic changes and reforms that were followed by political changes and democratization in China (Neil, 2019). Behind the “engagement policy” lies the expectation that only democracy guarantees long term economic rise (Lipset, 1959). However, China disproved this prophecy.
- 2 The U.S. administration under President Donald Trump (2016 and 2020) pursued disengagement from China. The intensity of the disputes reached new heights after 2017 when the Trump administration published the revision of the US National Security Strategy and the next peak came during the Covid-19 pandemic when Secretary of State Mike Pompeo, took aim at engagement policy in his speech “Communist China and the Free World’s Future.” in July 2020. The new administration did not change the main course, but the stronger emphasis on seeking allied countries and problems with human rights in China was set from 2021 on.
- 3 The irony of the criticism that exactly the same accusations were formed by the United States when Japan was on the rise. Bergsten put it this way: “To be sure, there has been fairly steady tension between the United States and Japan over economic issues ever since Japan emerged as a major industrial power. Japan’s amazing success ... has won its grudging admiration but also growing hostility as a disruptive force in American economic life and brought repeated charges of ‘unfair’ competition. Its apparent reluctance, or even inability, to expand substantially its imports of manufactured products has produced steady charges that Japan is itself highly protectionist, a ‘free rider’ on the open trading system from which it benefits so greatly but within which it seems unwilling to provide others with truly reciprocal opportunities.” (Bergsten, 1982:1059)

- 4 The 'rule of law' debate became very intense when the European Commission wanted to link EU funds to the adherence to the rule of law. The Hungarian government argues that until a clear definition of the rule of law is adopted at an EU level, this link would make countries more receptive to external pressures, which is in sharp contradiction to their sovereignty.
- 5 Kavalski summarizes it this way: "There are no future summits on the horizon. But reinforcing the view that CEE states have grown weary of Chinese promises, and wary of its bullying, only Serbia, Hungary, and Greece among all 17 CEE states agreed to take part in China's June 2020 videoconference on the Belt and Road Initiative." (Kavalski 2020)
- 6 Hungary is the 10th most vaccinated country in the world and the 2nd in the EU based on the proportion of vaccinated people to the entire population (data: 04-04-2021).
- 7 The term „global swing state' was more popular in the early 2010s, when they basically characterized four rising countries this way. Fontaine and Kliman put this: "These four rising democracies might be termed "global swing states." In the American political context, swing states are those whose mixed political orientation gives them a greater impact than their population or economic output might warrant. This applies to Brazil, India, Indonesia, and Turkey" In our case the term simply means balancing countries between the two superpowers. (Fontaine & Kliman, 2013:93).
- 8 In foreign policy, the spectrum of countries' behavior is usually put between bandwagoning and balancing, where balancing means using political, economic and military means to prevent a rising power from becoming a hegemon one, and bandwagoning means is striking an alliance with the rising power.
- 8 The strategy was revised a year later, it stresses the salience of diversifying trade and investment. The aim was to double the export of Hungarian small and medium-sized enterprises to the target regions, with China, Russia and India being the main partners of these regions. (Becsey, 2014)
- 10 The New South Policy of Taiwan was launched in 2016 and targeted 18 countries in South-East Asia. (Thailand, Indonesia, Philippines, Malaysia, Singapore, Brunei, Vietnam, Myanmar, Cambodia, Laos, India, Pakistan, Bangladesh, Nepal, Sri Lanka, Bhutan, Australia and New Zealand.) The strategy aims to achieve cooperation with the countries in trade, technology, agriculture, medicine, education, and tourism.