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Blowing from the East

Abstract: *China is increasingly perceived in Central and Eastern Europe as a country which could bring economic success to the countries of the region through developing trade relations and growing inflow of Chinese investment. Within the region, Hungary is regarded as occupying a prominent position by Chinese people and the government for several reasons. Chinese relations have historically been good: over the past decade Hungarian governments have committed themselves to developing the relationship. This trend was further confirmed after the global economic crisis of 2008, when Hungary started looking for new opportunities in its recovery from recession. The "Eastern opening" policy was initiated after the crisis and partly because of it. Officially, this policy puts more emphasis on further developing Chinese–Hungarian relations than was previously the case, including increasing trade and investment. However, the outcomes of the policy – such as the construction of the Budapest–Belgrade railway line – can be evaluated in different ways.*

In recent years, Chinese companies have increasingly been targeting Central and Eastern European (CEE) countries, with the Visegrad countries and Romania, Bulgaria and Serbia being among the most popular. Although when compared to China's economic presence globally or in the developed world, its economic impact on CEE countries is small but has increased significantly in the past decade: trade volumes are continually growing and the region has also seen inflows of Chinese investment. This is quite a new phenomenon but not an unexpected one: on one hand, the transformation of the global economy and restructuring of China's economy are responsible for growing Chinese interest in CEE and, on the other hand, CEE represents new challenges and new opportunities for China. An additional impetus was found in the European sovereign debt crisis which made CEE governments more open to Chinese business opportunities.

Within the CEE region, Hungary's relations with China have been unique in several ways. They are unique in a historic sense, since Hungary was one of the first countries to formally recognize China, and the Hungarian government started to re-establish relations with China well before the other CEE countries, back in the early 2000s. Furthermore they are unique in a political sense, since Hungary is the only country in Central and Eastern Europe to have adopted an official government strategy towards Asia (and China): its "Eastern opening" policy. Lastly, they are unique in the sense that Hungary is the destination of the majority of Chinese foreign direct investment in the region, whilst serving as a regional hub for several Chinese companies and having the biggest Chinese population in CEE. Nonetheless – given the nature of Hungarian domestic politics – of much greater interest is the fact that relations are also unique in terms of the long-term political support Hungarian governments, regardless of political orientation, have provided over the past fifteen years as part of their commitment to developing relations with China.

As Prime Minister Orbán put it when unveiling his government's "Eastern opening" policy, "We are sailing under a Western flag, though an Eastern wind is blowing in the world economy."[1] Indeed, Hungary has achieved good results in its economic relations with China over the past decade. Nonetheless, some successful deals have led to further – sometimes excessive – expectations over Chinese involvement, particularly concerning infrastructure development and the financing of Hungarian public debt. Therefore, the aim of this paper is to analyze the nature of China's economic presence in CEE countries focusing on Chinese–

[1] P. Magyari, "Orbán: Keleti szél fúj," November 5, 2010. Available online: http://index.hu/belfold/2010/11/05/orban_keleti_szel_fuj/ (accessed on September 15, 2015).

Hungarian relations, highlighting the main motivations and Hungary's expectations and outcomes achieved.

Motivations on both sides

In 2000, the Chinese government initiated its "go global" (*zou chu qu*) policy aimed at encouraging domestic companies to become globally competitive. It introduced new policies to encourage firms to engage in overseas activities in specific industries, particularly in relation to trade. In 2001 this was integrated and formalized under the 10th five-year plan, which also echoed the importance of the "go global" policy.[2] This policy shift was part of the continuing reform and liberalization of the Chinese economy and also reflected the Chinese government's desire to create internationally competitive and well-known companies and brands.

As China's economic growth has begun to slow, the economy is facing new challenges and its economic strategy is transforming. Furthermore the country's global trade and investment position and strategies are altering as well. New challenges require new answers, particularly regarding the fact that China has chosen not to stimulate its economy by turning only inwards but by opting for diplomacy, trade and investment to broaden China's sphere of interest and business opportunities. In this way, it can promote economic relations, people-to-people links and political influence whilst strengthening the legitimacy of the ruling party and Xi Jinping. Thus the focus on new directions, referred to as Beijing's "One Belt, One Road" (*yi dai yi lu*) initiative, is the result of domestic politics, geopolitics and historical and economic reasons.

Relations between China and the CEE region date back to ancient times, when these regions were closely linked together over 2,000 years ago via the (old) Silk Road. Now, after a long break, the relationship is about to be revived through the (new) Silk Road. Naturally, there were also connections between China and CEE during the Cold War and in the 1990s. Some countries had better ties, while others were less friendly, but generally, the region had no special role from either the Chinese or CEE point of view. Attitudes gradually began to change after the millennium.

When the CEE countries became members of the European Union, China developed an interest in its strengthening ties. The CEE's growth potential, institutional stability and market size attracted Chinese companies. In fact, Beijing sees Central and Eastern Europe not only as one of its new frontiers for export expansion but also as a strategic entry point for the wider European market. It chose this region because CEE countries have dynamic, largely developed, less saturated economies directly connected to the EU common market. Chinese corporations can significantly cut business costs by setting up in CEE countries and can integrate into the EU industrial network, while there are fewer political expectations and economic complaints (or rather these are expressed more quietly) than in Western Europe.

Initially, Chinese companies used to treat the region as a "back door" to European markets but recently their motivations have expanded more towards efficiency-oriented and strategic asset seeking motives. Chinese outward investment flows and stock as well as trade volumes have steadily increased over the last decade and a half, particularly after 2008, due to the changes in global economic conditions, that is, the global economic and financial crisis. The crisis created new challenges for China and brought more overseas opportunities for Chinese companies to grow their share of the world economy as the number of ailing or financially distressed firms has increased.

[2] P.J. Buckley, J.L. Clegg, A.R. Cross, X. Liu, H. Voss, P. Zheng, "The determinants of Chinese outward foreign direct investment," *Journal of International Business Studies* Vol. 38, No. 4., 2007, pp. 499–518.

Xi Jinping's 2009 vice-presidential tour to Europe signaled a real shift in the Chinese leadership's attitude toward the Central and Eastern European region, and marked the beginning of a new stage in bilateral relations. Xi made an extended tour of Europe, visiting Belgium, Germany, Bulgaria, Romania, and Hungary (and spent longer in Budapest). The tour was framed as a visit to consolidate and develop economic cooperation between China and these five countries but Xi's visit to Central and Eastern Europe was more about China's evolving "go-out" investment strategy, indicating that the Chinese were eager to accelerate their diversification strategy through the emerging countries in the region.
If we examine the motivations of the CEE, we see that their "eastern awakening" dates back to the same time. As China became a major player in the world economy and politics, CEE became more interested in developing relations with China. The economic and financial crisis was an additional impetus as CEE governments started to seek out new opportunities in their recovery from the recession. Before the crisis, many CEE countries had had mixed feelings about closer economic ties with China. On the one hand, they actively wanted to attract Chinese investment, and were anxious about losing out on trade and business opportunities with China. On the other hand, there were fears about the reliability of Chinese firms or because of human rights. Today an increasing number of CEE countries have decided to cast aside their doubts and even the coolest relations (like Czech–Chinese relations) have entered a warmer period. However, it is true that despite all this, most CEE governments lack a unified strategy towards China or Chinese companies – Hungary is one of the few exceptions. In the spring of 2012 the government launched a new economic policy with special emphasis on its "Eastern opening" policy, formulated after and partly as a result of the crisis.[3]

Chinese–Hungarian relations: in retrospect

Hungary formally recognized the People's Republic of China on October 4, 1949. During the following decade their relationship began to develop with a large number of high-level visits followed by an improvement in economic, political and cultural ties. Although the Hungarian–Chinese relationship was basically within the Soviet sphere of interest, Hungarian foreign policy did not follow Moscow policy but diverged slightly. In international affairs Budapest cooperated closely with Beijing and supported the Chinese position on Tibet, the reunification of China ("one China" policy) and United Nations (Security Council) membership.
By the end of the 1950s, deep ideological differences began to appear between the two countries and, after the 1960s – during the Chinese "cultural revolution" – the relationship became considerably colder. Later, with the refocusing of the Chinese Communist Party in 1978 (economic reforms and opening-up policy) the two countries were brought closer together again. The Chinese leadership was genuinely interested in Hungary's experiences of its 1968 and 1984 economic reforms and so a series of expert delegations visited Hungary. In the 1980s, state and inter-party relations were normalized and high-level delegations were also reinitiated. However, this upturn did not last long, as after the democratic transition of 1989, contact between the two countries declined again, primarily as a result of the refocusing of Hungarian foreign policy, which paid greater attention to Euro-Atlantic interests. For more than a decade, contact declined to a minimum.
A new fruitful period began at the beginning of the new millennium with the 2003 visit of then Hungarian prime minister, Peter Medgyessy, to Beijing. This new wave of development was initiated independently by Hungary since the government recognized China's growing

[3] A. Éltető, Á. Szunomár, "Ties of Visegrád countries with East Asia – trade and investment," Hungarian Academy of Science, Centre for Economic and Regional Studies, Institute of World Economics *Working Paper*, No. 215, 2015.

role in the global economy and it was well received in China because forthcoming EU membership made Hungary more attractive to them. In this spirit, various gestures and diplomatic visits[4] were made and confidence-building measures were adopted. The results were almost immediately apparent: Chinese investments started to flow into the country and trade also took off (see Figure 1 and 2).

The Medgyessy government created a special envoy post within the Prime Minister's Office to develop Hungarian–Chinese relations and coordinate the China-related work of the government's institutions and public administration. Since then, Hungarian governments have usually had a commissioner or special representative to handle Hungarian–Chinese relations. The first outcomes of Hungary's new China policy were the arrival of a branch of the Bank of China in Hungary (2003), the creation of the Bilingual Chinese–Hungarian Primary School in Budapest (2004) and the launch of direct flights between Budapest and Beijing (2004). All of these were unique in the region at that time. There were many other consequences of this period – a complete list would be too long here[5] – including the establishment of a Chinese wholesale trade center in Budapest for quality Asian exporters and manufacturers, which indicate the strong renewal of the relationship.

Although China was neglected by the first Orbán government (1998–2002), it has been favored by the second (2010–2014) and third (2014–). Viktor Orbán continually emphasized the importance of the East, even during his election campaign, saying that "[…]an Eastern wind is blowing in the world economy"[6] to which the Hungarian economy needs to adapt. As a result, the Chinese–Hungarian economic relationship has been intensifying of late.

During Prime Minister Orbán's visit to China at the end of 2010, he negotiated the Chinese buyout of Hungarian biochemical giant, BorsodChem, which was purchased for 1.23 billion euros by China's Wanhua Industrial Group in February 2011. Then, in May 2011, Chinese State Councilor Dai Bingguo visited Budapest to discuss joint business deals in transportation, aviation and energy, as well as political and cultural cooperation. Then premier Wen Jiabao made a follow-up visit to Budapest in the summer of 2011. Before the visit, Hungary had already reached an agreement involving the Hungarian Railway Company (MÁV) and China Railway Construction Corporation, while Chinese telecommunications manufacturing giant, Huawei – which already operates logistics centers in Hungary – announced that it would be expanding its distribution center in the country, making it Huawei's second-largest supply center in the world. Further issues, such as financial cooperation and raising project capital, were also discussed at this time.

In 2011 Wen Jiabao's European tour involved only three countries: Hungary, the United Kingdom and Germany, and it began in Budapest. Wen's tour was organized so China could buy European debt and "help" Europe by shoring up its investments. Prime Minister Viktor Orbán signed a dozen agreements worth around 2.62 billion euros, the most beneficial set of Chinese–Hungarian economic deals to date, including plans for joint investment in a Hungarian solar panel plant; a citric acid factory; development of air, water and rail transportation; and plans to develop Hungary's Szombathely airport into a major European cargo base.[7] Finally, Premier Wen promised to purchase an unspecified amount of Hungarian debt.

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[4] In addition to the many lower-level delegations, several high-level visits took place in the early 2000s. Following prime minister Medgyessy's visit to China in 2003, there were visits by president Hu Jintao to Budapest in 2004, while in 2005 prime minister Gyurcsány returned the visit. In October 2009 vice-president Xi Jinping came to Budapest.

[5] See for example Á. Szunomár, K. Völgyi, T. Matura, "Chinese investments and financial engagement in Hungary," Hungarian Academy of Science, Centre for Economic and Regional Studies, Institute of World Economics, *Working Paper*, No. 208, 2014.

[6] P. Magyari, op. cit.

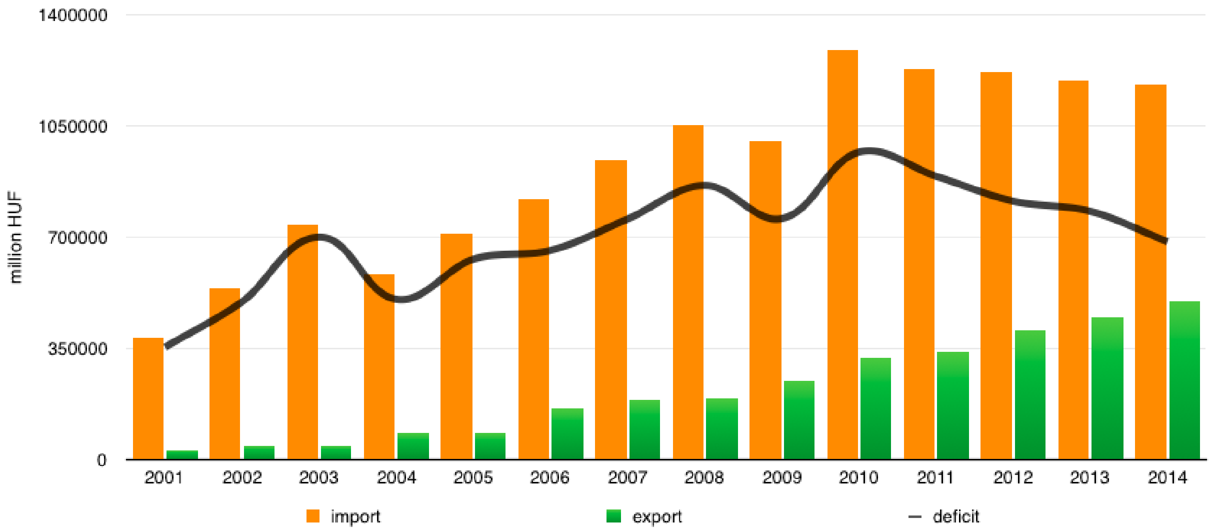
[7] In spite of the efforts, some of these projects have yet to be implemented or have been delayed long-term.

After Wen's visit, expectations on the Hungarian side were higher than ever. The domestic media echoed the importance of the country's role as a gateway to China while the international media reported on the new Chinese–Hungarian "special relationship," causing mixed feelings among Hungary's neighbors and the EU institutions. Against this background, Hungary launched a new foreign economic policy in the spring of 2012, which aimed to diversify Hungary's foreign economic relations.

"Eastern opening" strategy and Hungary's China-policy: (un)realistic expectations?

First, it has to be emphasized that Chinese–Hungarian relations have produced clear economic results. China is one of Hungary's most important trading partners in terms of imports: since 2005, it has ranked fourth (except for in 2010, when it held third place). By 2012, the Chinese share of Hungary's total imports increased by more than two-and-a-half times, and the value of imports rose more than five-fold on 2003. Between 2003 and 2008, Chinese imports increased by an average annual rate of 24 per cent. Since 2010, the value of imports has been between 3.9 and 4.3 billion euros annually. The value of Hungary's exports to China is significantly lower than its imports. Nonetheless, it has been increasing since the turn of the millennium (see Figure 1). China is Hungary's 15th most important import partner – and foremost among Asian countries, with Hungarian exports to China representing around 2 per cent of Hungary's total exports.

Figure 1. Trade between China and Hungary, 2005–2014



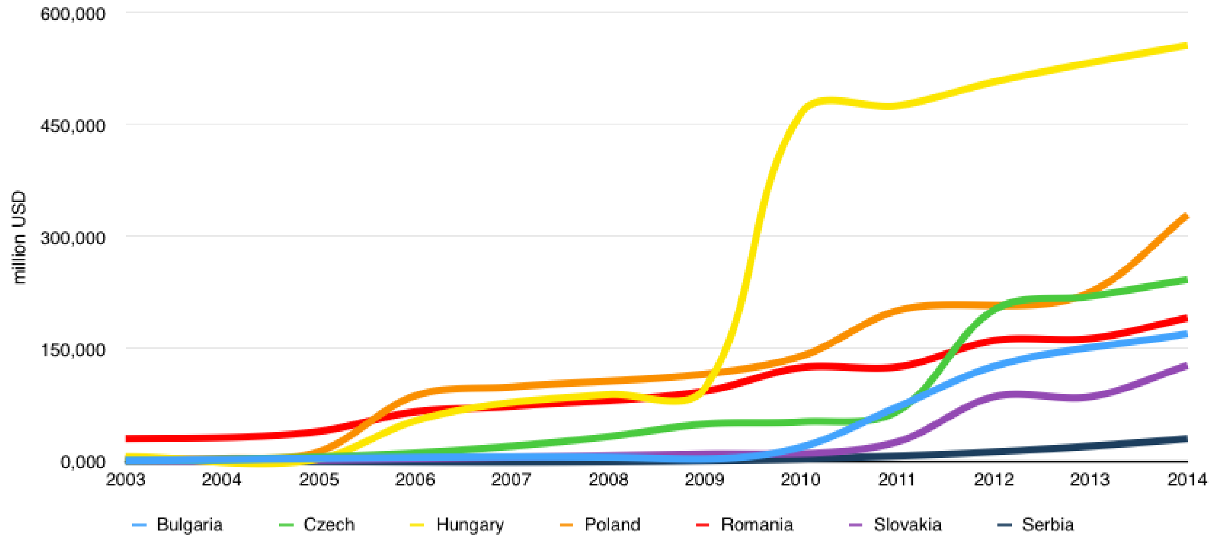
Source: CEIC China Premium Database, based on Chinese statistics

Chinese investment to Hungary started to increase significantly after Hungary joined the EU in 2004. According to Chinese statistics, it rapidly increased from 0.65 million US dollars in 2005 to 370.1 million US dollars in 2010. In 2010, Hungary received 89 per cent of the total Chinese capital flow to the CEE region.[8] By 2014, the amount of Chinese investment had further increased reaching 556 million US dollars according to Chinese statistics, which is by far the highest in the region (see Figure 2). Nevertheless, the amount is far greater when taking cumulative Hungarian data into account, since a significant portion of Chinese investment is received via intermediary countries or companies and so appears elsewhere in

[8] X. Chen, "Trade and economic cooperation between China and CEE countries," Institute of European Studies, Chinese Academy of Social Sciences, *Working Paper Series on European studies* Vol. 6, No. 2., 2012.

the Chinese statistics. According to Hungarian reports (cumulative data), Chinese investment in Hungary was about 3 billion US dollars by 2014. However, the majority of Chinese investment is connected to a handful of big deals rather than several smaller ones.

Figure 2. China's OFDI stock in CEEC, 2003–2014, selected countries



Source: CEIC China Premium Database, based on Chinese statistics

As a result of the global crisis and the recent achievements mentioned above, a new and more intensive phase has begun in Hungarian–Chinese relations. In order to help Hungarian companies benefit from the rapid growth of emerging markets, several organizations have been established and a new foreign economic policy launched in Hungary with special emphasis on the "Eastern opening" strategy. Although the Orbán government has emphasized that it would like to maintain Hungary's strong and important economic relations with its traditional Western partners, the main objective of this policy has been to reduce Hungary's economic dependence on trade with the West by improving economic relations with the East, particularly China. More specifically, the strategy aims to increase Hungary's exports to countries outside Europe to one third of total exports from just under one quarter of total exports in 2012.

In order to achieve these goals, the strategy relies on active state intervention to diversify Hungarian exports and its markets, while also developing the export capability of small and medium-sized enterprises (SMEs). The foreign economic strategy emphasizes developing trade and technology relations with China and other countries such as India, Russia, South Korea, Turkey, ASEAN member states, Arab countries and the CIS. An additional goal is to grow indirect exports to Asian emerging markets, meaning that Hungarian companies are to become suppliers of large European (e.g. German, Austrian and Scandinavian) exporters with strong positions in emerging markets.[9]

To enhance SME entry into the Asian markets, state-owned trading houses were opened to help Hungarian SMEs sell their products abroad. By creating trading houses, the government seeks to enable Hungarian companies with solid capital to enter new emerging markets. In export development, trading houses will function as mediators between Hungarian SMEs and foreign buyers. Therefore, at the beginning of 2013, the state-owned National Trading House

[9] A. Éltető, K.Völgyi, "The development of Hungarian foreign trade with Asia," Hungarian Academy of Science, Centre for Economic and Regional Studies, Institute of World Economics, *Working Paper*, No. 200, 2013.

was established and nearly 30 trading houses have been opened in countries like China, Saudi Arabia, Russia and Kazakhstan. In addition, potential cooperation with private trading houses has also been considered.[10]

The foreign economic strategy also recommends developing economic diplomacy, that is, strengthening and broadening the network of economic attachés abroad and encouraging more aligned cooperation between export financing state banks, the Ministry of National Economy and the Trade and Investment Agency. Beside these institutions, greater importance is to be attached to the different chambers, committees and business forums. As a result, new departments have been established within the Hungarian Chamber of Commerce and Industry. Moreover, the work of joint economic committees (intergovernmental organizations) has been renewed and there is a growing number of meetings between high-ranking politicians (both in Asia and in Hungary) as well as business forums underpinning Hungary's strong commitment to the "Eastern opening."[11]

In China's case, this process began well before the "Eastern opening" policy was officially announced in 2012. In 2004, the Hungarian consulate in Shanghai was reopened and in 2010, a new consulate was opened in Chongqing. Some organizations such as the Hungarian–Chinese Economic Chamber and the Chinese–Hungarian Business Committee were established to intensify bilateral business relations. In addition, for some years now Hungary has been developing its relations with China via a multilateral forum: the first China–CEE Economic and Trade Forum was held in Budapest, in June 2011. Following that, the first meeting between the leaders of China and CEE countries was organized in Warsaw, in April 2012.

Hungary's "Eastern opening" policy is not simply aimed at developing trade relations and opportunities but also at attracting investment from emerging Asian countries, of which China is considered to be an investor of growing importance. Therefore, Hungary provides state subsidies and incentives for potential investors outside the EU, including China. Back in the 1990s, Hungary's "customs free zones" proved highly attractive to greenfield foreign investors. Export-oriented automotive, electronics and other companies represented a large share of the country's foreign trade.[12] Now Hungary is the only country in the region to have introduced a special incentive for foreign investors from outside the EU, who can apply for residency visas if they fulfil the required level of investment in Hungary.[13] Moreover, Hungary has the largest Chinese diaspora in the region (around 20,000 Chinese people) which – according to the extant literature – is a known factor to attract Chinese foreign direct investment (FDI)..[14]

Given this background and all the efforts mentioned above, it is interesting that, despite the deliberate steps taken by the Hungarian government, trade volume between Hungary and China increased only moderately (since 2012 imports have decreased, see Figure 1.) and only minor amounts of fresh Chinese investment flowed in to Hungary following its announcement

[10] A. Éltető, Á. Szunomár, op. cit.

[11] Ibid

[12] Poland and Slovakia also provided corporate tax breaks and other incentives for foreign investors. For example, in Poland there are special economic zones with support services. See: A. McCaleb, Á. Szunomár "Chinese foreign direct investment in Central and Eastern Europe: an institutional perspective," unpublished manuscript, 2014.

[13] Third country nationals are allowed to acquire Hungary's permanent residency status by investing in Special Hungarian Government Bonds that have a minimum 5-year maturity. The minimum initial investment per bond holder was 250,000 euros but recently this was raised to 300,000 euros.

[14] See for example P.J. Buckley, J.L. Clegg, A.R. Cross, X. Liu, H. Voss, P. Zheng, op. cit.

of the “Eastern opening” policy[15]. The underlying reasons may have little to do with government strategies.
For example, Hungarian companies, especially Hungarian SMEs, have little impact on the development of trade relations, as trade between Hungary and China is based on business performed by multinational companies using global production networks.[16] The bulk of foreign trade between CEE countries and China is still linked to particular products and multinational companies – automotive, electronics and telecommunications. Therefore the decisions a global company takes may significantly change the trade volumes between China and another country, as was the case when Nokia relocated its plants out of Hungary in 2012 and – as a result – Hungarian export capacity to Asia decreased significantly in 2012 and 2013.[17]
Although there have been some new investment projects, since the announcement of the “Eastern opening policy” there has been expectation that high value investment projects, similar to the former investment by Wanhua or Huawei, would be announced. This setback is partly due to the eurozone crisis and partly due to some loss of trust in business circles. The reason behind this is probably the diverging economic interests of the two sides. Hungary would gladly welcome Chinese greenfield investment and cheap financial support, while the Chinese are interested in infrastructure investment through public procurement and in providing credit lines (which are not compatible with EU regulations).[18] Another explanation for the decline is that neighboring countries have became more active in building relations with China and in creating more business opportunities from which China can choose. Nevertheless, the government is satisfied with the results of its “Eastern opening”. As Prime Minister Orbán said

> With regard to the Eastern Opening, I can tell you that it has been implemented. I can say for a fact that it has been completed. The gate is open in an eastern direction, it must be passed through and we must take care to ensure that nobody shuts it.[19]

He also added that the policy had been successful as the proportion (not volume, which had actually increased) of Hungary’s exports to the EU had dropped from 80 per cent in 2009 to below 75 per cent of total exports. The main objective is still to diversify our exports and therefore to increase Hungary’s exports to countries outside Europe to one-third of total exports by 2018, he said. He acknowledged, however, that the aim to help the export capability of SMEs had not been fulfilled yet.[20]

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[15] According to Hungarian statistics, Hungary’s trade with non-EU countries declined to 25.4 per cent of all foreign trade in 2013, down from 27.2 per cent of all foreign trade in 2010, the year Prime Minister Viktor Orbán and Fidesz returned to power. Furthermore Hungary’s trade with countries in Asia declined to 8.8 per cent of all foreign trade in 2013, down from 12.2 per cent of all foreign trade in 2010.

[16] See A. Éltető, P. Toporowski, “Effects of the international crisis – development of four Central European countries’ trade with Asia,” Paper presented at the 15th ETSG conference, Birmingham, September 12–14, 2013; M. Ando, F. Kimura, “Production linkage of Asia and Europe via Central and Eastern Europe,” *Journal of Economic Integration* Vol. 28, No. 2. June, 2013, pp. 204–40.

[17] In 2012 Nokia downgraded its affiliate in Hungary, moving its assembly lines to Nokia’s plants in South Korea and in Beijing. Therefore, in 2012 the previously substantial exports of cellular phones from Hungary decreased. In 2014 Microsoft (owner of Nokia Komárom) announced the closure of the firm. See A. Éltető, Á. Szunomár, op. cit.

[18] Á. Szunomár, K. Völgyi, T. Matura, op. cit.

[19] See “Viktor Orbán’s speech at an extraordinary general meeting of ambassadors of Hungary,” March 9, 2015. Available online: http://www.kormany.hu/hu/a-miniszterelnok/beszedek-publikaciok-interjuk/orban-viktor-beszede-a-missziovezetoi-munkaertekezleten (accessed on March 9, 2015).

[20] The proportion and value of exports from Hungarian-owned enterprises to China has declined steadily in recent years, accounting for only 6–7 per cent of total Hungarian exports to China.

Budapest–Belgrade railway: potential and challenges

The project to modernize the Belgrade–Budapest rail link is a recent example of one of the successful elements of both the Hungarian government's "Eastern opening" policy and China's One Belt, One Road initiative. The aim is simple: to reduce travel time between Budapest and Belgrade to 2.5–3 hours, and to establish closer trade links by transporting Chinese goods – delivered by ship to the Chinese-run Greek port of Piraeus – to Western Europe via Serbia and Hungary. The underlying motivations and potential outcomes are, however, more complex.

The One Belt, One Road initiative is an example of economic and infrastructural collaboration covering the whole of Eurasia. In fact, the initiative is a set of instruments to facilitate connectivity in terms of trade, investment, finance and flows of tourists and students.[21] Connected to this initiative, the "New Silk Road" project – the Silk Road Economic Belt and the 21st Century Maritime Silk Road – has become the cornerstone of China's public diplomacy. The Silk Road Economic Belt provides opportunities for CEE countries that wish to participate in implementing the strategy. The railway line from the Chinese city of Chengdu to Łodz in Poland has been in operation since April 2013, while Budapest and Belgrade have also shown great interest in infrastructure building since the very beginning.[22]

The geographic positions of Hungary and Serbia mean they are suited to handling the transit traffic between China and Europe and occupy an important role in implementing the Chinese grand strategy.[23] Consequently, at the end of 2014, the prime ministers of Hungary, Serbia, China and Macedonia signed an agreement in Belgrade at the third Central and Eastern Europe–China summit on the construction of a rail link between Budapest and Belgrade. Regarding practical issues, the cost of investment for the whole section is around 3 billion US dollars, which will be financed from Chinese loans. The Hungarian section will cost around 472 billion HUF (1.67 billion US dollars/1.5 billion euros)[24]. According to recent estimates it will take between two and two and a half years to construct the track.

Figure 3. Rail route between Piraeus and Budapest, via Skopje and Belgrade

[21] T. Summers, "What exactly is 'one belt, one road'?" *The World Today* Vol. 71, No. 5, September 2015. Available online: https://www.chathamhouse.org/publication/twt/what-exactly-one-belt-one-road (accessed on October 1, 2015).

[22] Z. Liu, "Central and Eastern Europe in building the Silk Road Economic Belt," Institute of European Studies, Chinese Academy of Social Sciences, *Working Paper Series on European Studies* Vol. 8, No. 3, 2014.

[23] "China–CEE cooperation gathers momentum," *Xinhua,* June 8, 2015. Available online: http://news.xinhuanet.com/english/2015-06/08/c_134308024.htm (accessed on October 1, 2015).

[24] The Hungarian section of the railway line will be 166 kilometers long, while the Serbian section will be 174 km. According to government information, a double track will be constructed and the railway line will be electrified. Once the railway is completed, trains will be able to travel at speeds of up to 160(-200) kilometers per hour. (See "Modernisation of the Budapest–Belgrade railway line may start this year," Ministry of Foreign Affairs and Trade of Hungary, July 17, 2015. Available online: http://www.kormany.hu/en/ministry-of-foreign-affairs-and-trade/news/modernisation-of-the-budapest-belgrade-railway-line-may-start-this-year (accessed on July 17, 2015).

Source: People's Daily Online. Available online: http://en.people.cn/n/2014/1218/c90883-8824383.html (accessed on September 15, 2015).

China's motivations are easy to understand, as the New Silk Road project will allow them to expand their political and economic sphere of interest: they will be able to counterbalance the Trans-Pacific Partnership (TPP), and once the alternative transport routes are completed they will be in a more favorable strategic position, able to work off some of their industrial overcapacity accumulated in recent years. In addition, the Budapest–Belgrade railway project may provide a reference for further Chinese investment in the broader region. A more interesting question is: what is it that motivates the Hungarian (and Serbian) side?
The importance of Europe, particularly Central and Eastern Europe, to the project was emphasized long ago by China and welcomed by several CEE countries, including Hungary. Hungary was the first European country to sign a memorandum of understanding with China on promoting the Silk Road Economic Belt and Maritime Silk Road, during Chinese Foreign Minister Wang Yi's visit to Budapest in June, 2015. The Hungarian government was very keen on the railway project and when it signed the construction agreement in 2014, Prime Minister Orbán called it the most important moment in cooperation between the European Union and China.[25] Although slightly excessive, his comment reflects the country's commitment. Infrastructure development is a hot topic in all CEE countries; however, there are other resources – for example EU funds – to finance them. The reconstruction of the railway track on the Hungarian side is useful in itself, but is it worth it for Hungary, if it is financed from Chinese loans, and will mostly likely be implemented by Chinese firms? The details of the financing structure of the loan and the interest rate are not yet known but it is certainly to be repaid, while the construction work is unlikely to result in significant job creation in Hungary. For now it seems that the only benefit Hungary can expect from

[25] C. Keszthelyi, "Belgrade–Budapest rail construction agreement signed," *Budapest Business Journal*, December 17, 2014.

construction comes in the form of the transit fees which will hopefully cover the loan repayments.[26]

We do not know much about the government's further plans but it is telling that they are not advertising the additional benefits of the railway line. Being a transit country is not the only option. Hungary could build support infrastructure along the railway line to serve as a logistics and/or assembly center (since it already has experience in this field). As Matura[27] points out, by evaluating what will be delivered by rail and from where, Hungary could create factories, logistics centers and industrial or economic zones to attract Chinese (or other) investors. This strategy would not only better exploit the potential of the line but could create further jobs and manufacturing in the country.

Conclusion

As described above, Hungarian governments – regardless of political orientation – have committed themselves to developing relations with China. Hungary is regarded as occupying a more prominent position by Chinese people and the government than its geopolitical position would indicate. Hungary is open to many types of cooperation, taking every opportunity to promote economic relations, while the government supports China over many sensitive issues, such as lifting the arms embargo or granting market economy status to the country. Furthermore, the Hungarian government never meets government-level diplomatic delegations from Taiwan or Tibet and tends to remove anti-China protesters from the streets of Budapest when a high-level Chinese delegation visits the Hungarian capital. Thus, it is understandable that most Hungarian politicians strongly believe that their efforts and strong support for the “Eastern opening” policy have created an irresistible investment environment for China. Indeed, it is hard to imagine a more appealing system of incentives than the current one.

On the one hand, the results are obvious: Hungary’s efforts are acknowledged by Chinese leaders, the value of Hungarian exports is increasing year on year and Hungary has by far the highest level of Chinese investment, not only among the Visegrad Four but in the entire CEE region. On the other hand, other countries in the region have also began developing their relations with China and have achieved more success recently (e.g. Poland’s strategic partnership with China), which raises questions as to the ‘special’ nature of the Chinese–Hungarian relationship. Hungary is willing to deepen its pragmatic cooperation with China; however, for the time being this objective appears to belong more to the rhetoric and politics,[28] while neighboring countries have been more proactive recently.

A healthy balance should be sought between Hungarian needs and Chinese plans and Hungarian companies should be helped reap the benefits of greater export opportunities. Instead of pursuing excessively high demands, Hungary should be more specific and patient in its expectations, producing more initiatives on its own. The “Eastern opening” policy is unique in the region, but it is too general in terms of the countries to which it applies. Therefore, as the majority of Hungarian scholars dealing with China suggest, given its size and importance, China deserves a separate strategy.

[26] T. Matura, “Ceterum censeo: kellene egy Kína-stratégia,” *Blog of Political Capital*, March 9, 2015. Available online: http://pcblog.atlatszo.hu/2015/03/09/ceterum-censeo-kellene-egy-kina-strategia/ (accessed on October 1, 2015).

[27] Ibid

[28] Á. Szunomár, K. Völgyi, T. Matura, op. cit.

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