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Rules for sale: autocratic forbearance, as a new industrial policy tool to promote the Hungarian battery hub

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ABSTRACT

New industrial policy has (re-)gained legitimacy in scholarly debates recently, as a means to boost and direct development. This article argues that autocratic leaders may exploit this policy to strengthen their domestic and international power position. By combining international and comparative political economy perspectives, we analyse the main logic, instruments, and limits of the Hungarian government's new industrial policy to promote the electric vehicle battery sector. The case study illustrates how the Orbán regime manipulated the institutional and regulatory setting and applied selective (non-)enforcement of regulations – theorised as autocratic forbearance – to create locational advantages for Asian battery firms.

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Introduction

Multiple crises have led not only to renewed state activism around the world economy but also to new disruptions and changes in capitalist development both on the global and national levels. In the face of the current hegemonic reshuffling on the global scale, non-hegemonic powers need to reposition themselves and adapt their power strategies as well as their economic and public policies. In line with this special issue, we define non-hegemonic powers as countries that hold relative (political and/or economic) influence within their respective regions but do not possess global hegemonic dominance. While these states might face structural and capacity constraints to devise autonomous and technocratic economic policies, they still often rely on (new) industrial policies to navigate domestic and international challenges (Apaydin et al. 2026).

Linking the largely separately evolving fields of comparative and international political economy (CPE and IPE, respectively) can improve the analysis of contemporary industrial policy and lead to new insights. Some attempts already exist to combine these two perspectives (Bruszt and Langbein 2020; Nölke 2023), while there is also burgeoning literature on new industrial policies (Andreoni 2019; Bulfone 2023; Chang and Aiginger and Rodrik 2020; Ferrannini et al. 2021). Still, studies aiming at combining CPE and IPE

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approaches to empirically analyse new industrial policies beyond hegemonic powers are scarce. We draw on the comparative capitalism school for the national/CPE perspective and on global value chain (GVC) analysis for the global/IPE perspective to shed light on the principal instruments, logic, and limits of renewed state activism in the field of industrial policies (IP) amidst the pressures of green transition and rising geopolitical tensions (coupled with security concerns).

Our chosen case study is Hungary, an emblematic example of the FDI-led dependent market economy (DME) and a forerunner in building an autocratic political regime within the European Union (EU). As a non-hegemonic economy, this country has a geographically central location bridging the East and West, and is deeply embedded in European (especially German) global value chains. During the last decade, under the consecutive Orbán governments (2010–2026), Hungary openly turned towards the East, especially China, strengthening political and economic ties. Against this background, we demonstrate that the autocratic Hungarian government used new industrial policy, especially the attraction of foreign investments – via direct financial transfers and indirect tools, such as autocratic forbearance – into the EV and battery sector to serve its power consolidation both domestically and internationally. Using autocratic hedging strategies (Camba and Epstein 2023) Hungary openly strived for becoming a leading regional power in Central Europe far exceeding the role its economic size would predict. Accordingly, Hungary can be considered as a non-hegemonic power within its respective region, the Eastern periphery of the European Union. The forced and state-led development of the battery sector (via autocratic forbearance and other tools) illustrates this: Hungary became a global player in this sector within a few years' time. Contrary to other Central European economies, that are also included in German automotive chains, only Hungary built up such an oversized battery sector base exclusively on Asian firms, at a price of considerable local sacrifices.

Our analysis focuses on the state-sponsored electric vehicle (EV) battery production in Hungary, with three main aims: (1) to explain the main logic and explore the main drivers of the autocratic embrace of new industrial policy; (2) to explore its main instruments and theorise autocratic forbearance as a new tool; and (3) to highlight the main limits (related risks and downsides) from a developmental and policy perspective.

We apply a single country case study design and look at Hungary, as a unique and critical case (as explained above). This enables an in-depth analysis (contextual understanding, exploratory, and explanatory insights) and might offer a powerful tool for understanding the nuances of economic governance and political behaviour, as well as to generate plausible hypotheses and illustrate these empirically, while also admitting its limitations in terms of generalization, and the need for future research to test these more rigorously on larger number of cases (Boswell, Corbett, and Rhodes 2024; Gerring 2012). In our case study analysis, we draw on descriptive statistics from various international and Hungarian sources, document and secondary literature analysis, the systematic review of Hungarian official and press sources, and company reports. To validate our findings, we conducted 20 semi-structured interviews (for details see [Annex](#)) between October 2022 and January 2026 with diverse stakeholders (company managers, engineers, chemists, experts in industrial safety and NGOs).

The main contribution of the article is to add a new analytical heuristic – combining CPE and IPE perspectives – to the study of new industrial policy in non-hegemonic

powers, with special focus on dependent market economies with autocratic political tendencies. We show that new industrial policy is shaped by both domestic and international dynamics that determine the room for manoeuvre of autocratic governments. At the same time, besides, (international and national) *economic* imperatives based on the country's insertion into the global economy and on the resulting domestic growth regime, *political* and (due to the overwhelming Chinese investments) *security* considerations have to be taken into account, as these are shaped by both global and domestic power relations (*political agency*) and their institutional embeddedness.

Our results contribute to a better understanding of how autocracies employ policy instruments that enhance comparative advantages by strategically manipulating and loosening (social and environmental) regulations and their enforcement – what we propose to call “autocratic forbearance”. For this, we apply and enhance Dewey and Di Carlo's (2022) conceptualization of regulatory forbearance as an industrial policy tool to autocratic settings. By exploring the Hungarian case, we also shed light on the domestic repercussions of autocratic industrial policy design, and highlight its downsides in both political and developmental terms.

Following this introduction, the next section takes a critical perspective on new industrial policy and highlights its political embeddedness. It outlines how domestic and international, as well as economic and political factors, intersect and might lead to the political capture of new industrial policies in dependent market economies coupled with autocratic tendencies. The third section analyses the Hungarian case by focusing on the recent boom in electric vehicle battery production. First, the main logic and driving forces of this ambitious new industrial policy are traced, then the (new) industrial policy tools are explored with special emphasis on autocratic forbearance, followed by the discussion of implications of policy capture. The final section concludes and articulates policy insights.

New industrial policy: why politics matters?

The polycrisis evolving during the last decade has led to a renaissance of state activism in general, and industrial policy in particular. We define industrial policy broadly, to encompass “*those government policies that explicitly target the transformation of the structure of economic activity in pursuit of some public goal*” (Juhász, Lane, and Rodrik 2024, 216). Two main types of industrial policy are generally distinguished: horizontal, applying to the whole economy and vertical, that are sector- or firm-specific (Foreman-Peck 2006, 38). The recent rise of industrial policy in the European Union can be depicted as a move from horizontal to vertical interventions (Di Carlo and Schmitz 2023). According to Aiginger (2012, 2018) industrial policies can promote low road or high road competitiveness, with the former focusing on cutting costs, such as low wages and taxes, leading to low value-added production. The latter, in contrast, invests in education and innovation, as well as quality infrastructure, as it strives to become the leader in new technologies, green transition, and more sophisticated quality segments of the economy. In short, the latter competes on value and efficiency and not on low costs (as the former).

Industrial policy is experiencing a resurgence in both advanced and peripheral economies (IMF 2024), characterized by significant shifts in its strategic focus: from

being an inward-looking protectionist policy, it became an open market policy tool (Bulfone 2023), from a strict focus on structural transformation it moved towards promoting green transition, good jobs, resilient supply chains, or geopolitical aims (Altenburg and Rodrik 2017; Ferrannini et al. 2021; Rodrik 2014) and from having a narrow focus on manufacturing today it incorporates innovation and services (Aiginger and Rodrik 2020; Rodrik 2022). Schlogl and Kim (2023) have analysed the difficulties and drawbacks of new industrial policy in democratic developing countries of the global South, whereas we aim to enrich related discussions by focusing on an autocratic non-hegemonic power in the global East (see also Kalanta 2024; Naczyk 2022; Naczyk and Eihmanis 2025; Toplišek 2019).

We combine comparative and international political economy perspectives to analyse new industrial policies, while looking for policy-relevant insights. Within the realm of CPE, industrial policy scholars mostly highlight developmental government structures and capacities (Amsden 1989; Wade 1990), as well as institutionalised linkages of the government and business sector (Evans 1995). Recently, the focus has shifted towards the process of policy-making and learning-by-doing (Mazzucato 2021; Rodrik 2004), as well as linkages to domestic growth regimes (Agarwal 2023; FES 2023). The move from protectionist to open industrial policy is well documented in the literature, but other IPE topics received less attention, such as the role of global value chains, interstate dynamics, and geopolitical rivalry.

Most discussions on new industrial policy implicitly assume that state-led initiatives are driven by national economic, social, or security considerations. Commitments under uncertainty in the context of GVC-based industrialisation (Andreoni 2019; Chang and Andreoni 2020; Lauridsen 2018), along with the use of a low or high road strategy to promote new industrial sectors, are discussed (Aiginger and Rodrik 2020). Yet, it is mostly neglected that in autocratic political regimes, political elites might capture the realm of new industrial policies to pursue their own (political) interests.¹ Therefore, first, the underlying political regime and its motivation shall be explored before examining the two layers of economic validity and policy implementation, as identified by Juhász et al. (2024, 18). Juhász and Lane (2024) also emphasize that industrial policy is designed and implemented in political contexts. We add that industrial policy is not only the outcome of political processes, but it might also impact future political structures and power balances.

In this vein, the starting point shall be the analysis of the *ultimate motive* beyond the state intervention. As Magyar and Madlovics (2022, 7) put it, most mainstream works implicitly take it for granted that “state is an actor pursuing the common good”, whereas in hybrid regimes, especially in autocracies, states often pursue elite interests rather than societal interests.

Juhász and Lane (2024) differentiate between *political* and *capacity* constraints, highlighting that political forces shape how and what kind of industrial policy is chosen, while state capacity affects the implementation. Nem Singh (2023) also highlights that besides the *causal* (structural) conditions, shaped by the structures of global markets and the domestic policy space, the *political* dimensions, determined by inherent political power relations and institutional arrangements, are crucial when studying new industrial policy in autocratic settings. Consequently, it has to be checked whether there is a developmental mindset, vision, and ambition (Thurbon 2016) behind the new

industrial policy or it is a purely politically motivated decision, backed up or decorated with some economic (and geopolitical) arguments or simply supported by political rhetoric, to provide the façade without entailing a real transformative character.

We apply this approach to Hungary, a dependent and autocratic market economy under the Orbán regime and show that new industrial policy was captured for political purposes and the developmentalist rhetoric merely served as a façade to hide political ambitions and overcome potential difficulties of economic justification.

The recent renaissance of industrial policy, especially new, green industrial policy, provides a particularly easy entry point for new autocrats' political ambitions, as any state interventionism can get legitimised if it is labelled "green." Green industrial policy is highly interventionist and according to Altenburg and Rodrik (2017, 11–12) has additional risks compared to old ones: the ex-ante distinction between "good" and "bad" technologies; the need to phase out and phase in technologies; the fact that entire systems need to be redesigned; the urgency to act; and increased uncertainties. What is often overlooked in existing discussions is the vulnerability of green industrial policy to political capture.

Historically and empirically strong correlation between active industrial policies and corruption was observed (Ades and di Tella 1997; Alonso-Guinea and Alañón-Pardo 2024; Éltető and Martin 2024). Kang (2002) offers a more nuanced perspective, arguing that corruption in developmental states like South Korea actually lowered transaction costs. Due to a unique, cohesive arrangement between political and business elites, this pervasive corruption paradoxically facilitated short-term economic growth. In China, in a much more multi-layered setting, a more decentralised form of corruption emerged, resulting in a relatively sophisticated system of exchanges of power and profit, where innerstate and local competition has incentivised economic growth. In contrast, Hungary's governing party established an autocratic system by capturing state institutions, cultivating a new, loyal business elite, and co-opting strategic economic sectors. This system operates through discretionary rewards and resource allocation, prioritizing political loyalty over economic rationale.

According to the proponents of classical industrial policy, risks of policy capture (ie. when business actors capture industrial policy) can be mitigated by proper policy design and implementation along the principles of embeddedness, discipline, and accountability (Altenburg and Assmann 2017; Rodrik 2014). Yet, in contemporary non-hegemonic regimes with rather unique political and business elites' configurations,² in weak and captured institutional settings, and under intense global (competitive) pressures this plays out differently: it is the political regime that captures industrial policy to pursue own political ambitions, while at the same time corruption becomes more pervasive (systemic and institutionalised) and less conducive to growth. The ultimate effects on investment and growth are nevertheless dependent on the specific political and institutional contexts, influenced either by strong politicians or big – domestic or foreign – businesses.

Our argumentation highlights that industrial policy is a *political construct* inherently lying at the intersection of CPE and IPE, as it is driven by (domestic and international) political ambitions and the unique configuration of special interests. The implicit theoretical assumption, which industrial policy promotes public goals, such as enhancing productivity, growth, competitiveness, and development, does not apply automatically,

and the domestic and international political conditions and ambitions shall be included in the analysis of the new industrial policy.

In the most often cited East Asian cases, the homegrown and domestically nurtured national champions had to prove their ability to compete in the international markets. This protectionist (classical) IP had primarily focused on the *domestic and economic* arena, in terms of its ultimate aim – shaped by the systemic vulnerabilities of the regime (Doner, Ritchie, and Slater 2005) – being the structural transformation, modernisation, and upgrading of the domestic economy thus promoting long-term economic growth by supporting domestic economic actors. Nevertheless, these (autocratic) regimes had “operated with an eye toward world markets” (Pempel 1999, 173), and international competitiveness and export performance were the main indicators of their success (Amsden 1989).

In contrast, *international* and *political* factors, including geopolitical and -strategic ones, primarily influence the design and implementation of industrial policy in contemporary DMEs under autocratic political regimes. In dependent market economies, the asymmetric insertion into the world markets and the lower-end participation in the global value chains lead to limited economic autonomy. At the same time, from the CPE perspective, the export-led growth regime also constrains the national economic policy space via fiscal constraints and the forces of path dependence (paved by the dominance of interest groups aiming to maintain the status quo). This means that there is no (or just very weak) possibility of taking the high-road strategy and pursuing an ambitious industrial policy (Aiginger and Rodrik 2020).

If we include the autocratic political regime in our analysis, we may observe some countervailing tendencies: a shift from limited economic autonomy to increasingly unlimited domestic political autonomy, resulting from the elimination of checks and balances, the capturing of institutions, the repression of civil society, and the control of the media. This leads to the emergence of an increasingly powerful (omnipotent) state, capable of leveraging industrial policy for both domestic and international political objectives, and using it as a tool to advance its own political goals, including power consolidation and regime maintenance (Figure 1). Next, we illustrate the above argumentation on the shrinking policy space for autonomous industrial policy in autocratic and dependent market economies, exemplified by Hungary.

Policy space in an autocratic dependent market economy

The insertion of peripheral economies into the global economy is often asymmetric. At the same time, their political regimes and institutional settings tend to be fragile and susceptible to capture or dismantling. In the special case of dependent market economies of the CEE region, these global asymmetries play out especially profoundly: being integrated into global value chains by specialising in low-value-added assembly activities, the autonomy of domestic economic policy-making is substantially limited by the decisions made in the headquarters of the GVCs (Bohle and Greskovits 2012; Nölke and Vliegenthart 2009). These economies compete globally, primarily based on their cost advantages, which necessitates keeping corporate taxes and wages low. At the same time, their comparative advantages are being constantly under threat from countries located further to the East and South, while their manufacturing sectors continue to have very

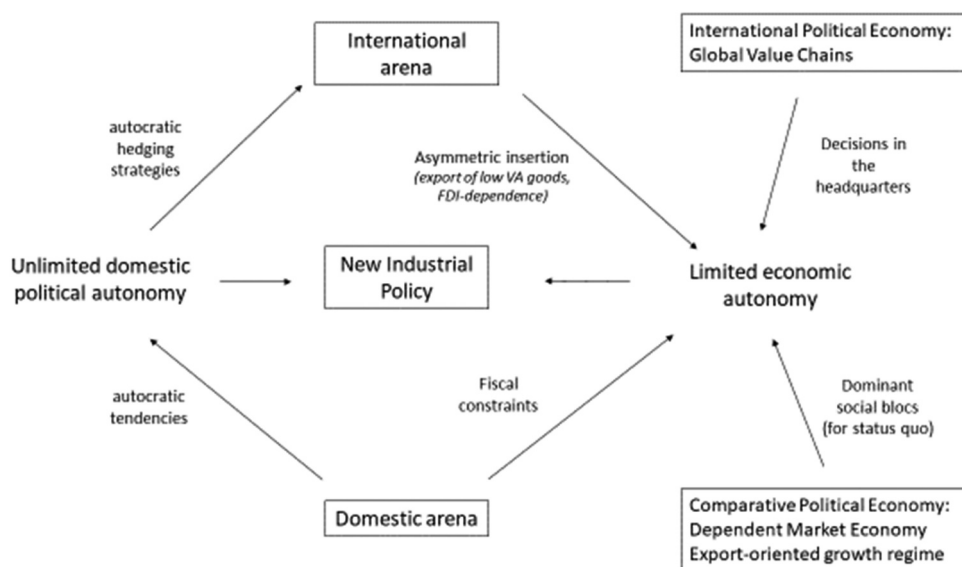


Figure 1. New industrial policy in an autocratic DME at the intersection of IPE and CPE. Source: own construction.

limited linkages to the domestic economy (Grieveson et al. 2021; Zavorská et al. 2024). Additionally, lasting economic fragmentation leads to increasing social and political tensions, and might intensify autocratic tendencies (as the Hungarian example shows).

These DMEs have become sort of global assembly platforms or factory economies (Baldwin and Lopez-Gonzalez 2015; Szalavetz 2017b, 2020), providing temporary economic growth impetus but rather limited development perspectives. It is difficult for these economies to overcome the constraints posed by limited economic autonomy and fiscal space, while the global competition for FDI is getting more and more fierce and has led to a race-to-the-bottom type of competition among FDI-dependent market economies in the CEE region. Hungary, one of the most FDI-dependent countries in the region,³ chose the easy way – the low road strategy – to outcompete regional peers by offering generous incentives to foreign investors instead of investing in other, more complex factors of the business environment (such as human capital and innovation). Furthermore, the transformation (centralization) and downsizing of the education system at all levels and the underpayment of teachers (as well as the oppression of any related protest and social movement) have been a deliberate policy of the Orbán government (Radó and Mikola 2025). Similarly, the transformation of universities and attacks against the academic research network since 2018 had a chilling effect on efficient research activity.⁴

These economic dynamics were accompanied by democratic backsliding and the rise of nationalist, populist parties in response to the increased societal disparities driven by neoliberal economic policies of the previous decades. In extreme cases, these changes have led to the rise of autocratic political regimes,⁵ with Hungary under Orbán (2010–2026) being the most emblematic case, while Poland under Kaczyński (2015–2023) showed similar tendencies. This not only led to profound institutional changes (such as

high centralization and the political capture of new industrial policy) but also increased the political room for manoeuvre for incumbent governments. In the domestic arena, with the (super-)majority in decision-making along with dismantling institutional checks and balances, capturing the domestic media, and repressing civil society, governments can enact discretionary rules and policies from one day to another without any oversight or opposition (Éltető and Martin 2024). Csanádi (2022) conceptualised this as a dynamic and evolutionary process, called diffused political capture. This network-based configuration is a systemic characteristic of the autocratic regime and the diffusion of political capture is constantly spilling over into lower levels of the institutional, economic, and social hierarchies. At the same time, the system is advanced and reproduced through foreign resources (mainly in the form of attracted FDI) that contribute to the conservation of the domestic power structures (Csanádi 2022, 17). In the international arena, the room for manoeuvre is more limited, yet strong autocratic leaders might use polyalignment strategies to improve their position in the newly emerging global economic (and political) world order (Gagyí and Gerőcs 2025).

New economic nationalism in post-2010 Hungary has been interpreted as *conservative developmental statism* (Bluhm and Varga 2020). While we contend whether it was development-oriented, it was certainly selective (Bohle and Reagan 2021), mainly focusing on sectors, where the domestic business actors could replace foreign investors, such as banking, retail, and media (Ban and Bohle 2021; Kornai 2015; Sallai and Schnyder 2021). At the same time, the export-oriented technologically intensive manufacturing segments (the drivers of the growth regime) remained largely untouched and got further subsidised by the *quiet politics* of the autocratic regime (Bohle and Greskovits 2019, 1075–76).

Despite the patriotic rhetoric, FDI dependence of Hungary seems to be a lasting feature (Ban and Adascalitei 2020; Farkas 2026; Pavlínek 2023; Szalavetz 2017a; Vukov 2023). Its inherent growth model remained the same, and the export-oriented technology-intensive manufacturing sectors remained the main drivers of growth (Toplišek 2019). Theoretically, industrial policy could be a logical choice to overcome the limitations of the FDI-led model, and some countries have experimented with this approach more recently.

Kalanta (2024) convincingly argues that Estonia's ICT-based success story was driven by vertical industrial policies, such as sectoral interventions to promote the software development sector and e-government solutions, but including also other ICT-focused strategies in terms of capital, skills and technology accumulation, and even including the e-Estonia brand, as an all-encompassing national identity. The political conditions that enabled and supported this development were, however, unique, and rested not only on a dominant social bloc led by a strong political party and including both domestic business and foreign transnational companies, but several additional conditions simultaneously applied. Most importantly, a strong upgrading ideology with national focus on ICT as the core technology for development, also driven by pre-existing capabilities, and an informal network-based structure resulting in a symbiotic socio-political alliance between the political elites, ICT business actors, and academia representatives playing a key role in designing and implementing ICT-promoting policies (Kalanta 2024, 670–671). Estonia undoubtedly chose the high road to competitiveness and enjoyed the support of a wide upgrading coalition.

This can be contrasted to the Polish and Hungarian experiences, with the former being a rather in-between case, while Hungary is an exemplary case of the low road industrial strategy (see also Polyák 2026b). In Poland, driven by comprador bankers, the bottom-up co-optation of state actors led first to the “repolonization” of the bank sector, the creation of new developmental institutions and new (vertical) industrial policies to support the growth of indigenous firms (Naczyk 2022). While the Polish experiment had limited effect on economic upgrading, it was nevertheless more development-oriented and socially more inclusive (see eg. Benczes and Orzechowska-Waławska 2024; Naczyk and Eihmanis 2025) than its Hungarian counterpart.

In Hungary, the revival of state interventionism was a purely top-down, centralised, and politically engineered process led by the governing party (Fidesz), and often by the prime minister (Viktor Orbán) himself. While allied Hungarian businessmen and institutions were coopted, the increasingly autocratic (coercive) attitude towards non-allied business has undoubtedly led to predatory state–business relations with the latter group and to the creation of a crony capitalist network with the former (Bohle and Greskovits 2019; Csanádi 2022; Scheiring 2020), leading to a new exclusive and selective type of statism (Benczes and Orzechowska-Waławska 2024) with new industrial policies serving primarily political aims and downplaying economic (upgrading) considerations, leading to a low road industrial trajectory.

In the Hungarian autocratic regime, state subsidies were given predominantly under individual government decisions on a discretionary basis. Foreign-owned companies received 80% of individual governmental subsidies between 2004 and 2025.⁶ The average direct financial support per foreign firm was twice as high as for a Hungarian company, while their additional (indirect) support was also substantial, though less visible. Indirect support materialised on the one hand in financing necessary infrastructures and additional services, and on the other hand by manipulating institutions, easing regulations and selectively (non-)enforcing these.

We theorise this latter as *autocratic forbearance*, by expanding and slightly modifying the concept of regulatory forbearance as an industrial policy tool applied by Dewey and Di Carlo (2022). They show how advanced democracies’ governments manipulate regulatory regimes and selectively non-enforce regulations to intervene in market dynamics, as a new tool in industrial policy. Three main forms are highlighted to illustrate how governments can tinker with enforcement mechanisms: 1. political leniency, 2. reduction of the stringency of existing regulations, and 3. reduction of the effectiveness of enforcement mechanisms (ibid, 931). In democratic regimes regulatory forbearance is not due to deficient institutional capacities or weak governance, but due to legal obstacles (such as EU competition policy and state aid regulations) preventing the use of conventional industrial policy tools, or when alternative forms of interventions are unviable.

In autocratic regimes, we can observe similar tactics, yet based (partially) on different motives and leading to different dynamics. Autocratic regimes, such as Hungary (2010–2026), do not adhere to rule of law principles, they capture institutions to support and consolidate their own political power (see also Gadó, Kerekes, and Magyar 2024). At the same time, autocrats apply rule by law tactics, ie. treat the law as a mere instrument for the government to promote political aims. Thus, legalistic methods are used to promote political will, often with retroactive, discretionary, or arbitrary application of the laws and

regulations or their selective (non-)enforcement to serve the autocrats interests. Compared to established democracies, autocratic governments have a greater leeway to use regulatory forbearance as an industrial policy instrument, as they can easily rely on hijacked institutions and the centralised, network-like organisational structure, that Csanádi (2022) calls diffused political capture. Thus, it is easier to enact less stringent regulations, or to discretionally (non-)enforce existing regulations as a strategic means to favour targeted sectors or companies with the ultimate aim being the maintenance and consolidation of own political power (often in conflict with or even overriding the aims of structural transformation and economic upgrading). Autocratic forbearance can therefore complement conventional industrial policy tools (such as direct subsidies and tax exemptions), and not only applied to promote industrial policy aims but also used to strengthen or reproduce autocratic political power. A typical case of such forbearance is described by Polyák (2026a), who analyses the sacrifice zones characterised by legal exemptions, environmental costs, and coercion towards citizens.

To illustrate the above argumentation, we analyse the state-led initiative to create a new EV battery production cluster in Hungary and illustrate how autocratic forbearance functioned in this case.

The EV battery boom in Hungary

The automotive sector has served as a cornerstone of the Hungarian economy since the 1990s. Foreign multinationals have realised significant greenfield investments, including Suzuki, Volkswagen, Opel, Mercedes, and more recently, BMW and BYD. Half of the state aid between 2004 and 2025 was directed to automotive-related firms.⁷ Hungary has become deeply integrated into European automotive value chains, driven primarily by German manufacturers. As these firms navigate the challenging transition to electrification, the Orbán government has provided strategic support, aligning with its domestic economic goals and geopolitical interests. The Hungarian Minister for Industry announced in 2021 that Hungary will be an EV battery “superpower”, second in the world.⁸ Subsequently, strategic industrial policies catalysed a rapid succession of announcements for new EV battery manufacturing plants, with Chinese firms leading this expansion.

Two South Korean battery companies, namely Samsung SDI and SK ON, have been operating in Hungary since 2018, and the latter company opened a third site in 2023. The production capacity of these three plants added up to 87 GWh in 2025. By late 2025, Hungary had secured the top position in Europe for planned battery production capacity through 2030, based on announced investment.⁹ Except for mining, all other segments of the battery value chain are present in Hungary, and all stages are exclusively provided by foreign producers. Of the 46 battery-related plants that are operational, under construction, or announced, only two are operated by European firms, the rest is Asian (Table 1). Twenty-three plants use hazardous materials (such as electrolyte, cathode, cell factories, recyclers, and regenerators)

The largest EV battery cell factory in Hungary is constructed by the Chinese Contemporary Amperex Technology Co., Limited (CATL)¹⁰ with 100 GWh planned capacity, to be built in three phases. The permission and building process of other Chinese cell producers like Sunwoda and Eve Power, as well as that of the cathode

Table 1. Functioning and planned companies in the Hungarian EV battery sector.

Battery manufacturing-related function	No. of plants	State aid EUR mn	Jobs (present and projected)
Raw material suppliers	14	398	5005
Spare parts manufacturers	12	67	2963
Cells, module manufacturers	6	1858	19 438
Battery assembly, part	5	50	1000
Recyclers	6	22	456
Hazardous materials warehouse	3	–	
Total	46	2395	28,870
State financed infrastructure		2452	

Source: Based on own collection and press information as of January 2026.

factory Huayou Cobalt, have also begun. At the same time, Chinese EV factory BYD builds a plant in Southern Hungary.

The only comprehensive Hungarian industrial development strategy was the Irinyi Plan adopted in 2016, however, no implementation followed. Besides the support of FDI attracting sectors, the plan targeted some other sectors with the aim (rather rhetoric) to diversify the economy. Besides the vehicle industry, specialised machine and vehicle production, the health economy, tourism, food industry, green economy, info-communication technology, and the defence industry were listed. Voszka (2019) showed that the Irinyi Plan was a mix of a horizontal and sectoral approach and included both interventionist and market-compatible elements (improving the business environment and supporting SMEs). Despite the Irinyi Plan's diversification objective (stated on paper), in reality, the strengthening of the vehicle-industry dependence took place. Around 2020, the Hungarian government bet on building an oversized EV battery sector lacking related comparative advantages: the country has no critical materials, no abundant water resources, and not enough energy or labour supply, while the creation of the required additional infrastructure is very costly (Győrffy 2024). In 2023 and in 2024, lithium-ion batteries represented 6.3% and 4.5% of all Hungarian exports, in 2025 it fell to 3.4%.¹¹ The forced enlargement of battery capacities created several domestic and local challenges and problems to be solved at high economic (and political) costs. Accordingly, the question arises, what were the motivations for such oversized ambitions?

Drivers of Hungary's EV battery push

To better understand the Hungarian ambitions to become a global player in EV battery production, one has to combine the IPE and CPE analytical angles (see Figure 1). We discuss the main drivers in four main points, along with the international/national and the economic/political divides (Table 2).

The first motive beyond the ambitious Hungarian plans is *sectoral path dependency*. This resonates with the official rhetoric of the Orbán government, and admitting its validity, we argue that it can only partially justify the large statist push and the oversized capacity targets.

Since the nineties, foreign automotive multinational companies have discovered Hungary as a close and attractive location. The Japanese Suzuki was the first, but later German OEMs and Tier 1–2 suppliers dominated the sector. Besides Volkswagen (Audi in 1993) and Mercedes (started production in 2012), BMW also announced to build

Table 2. Main drivers of the EV battery push in Hungary.

Main driver	Origins	Limits
1. Sectoral path-dependency	IPE: GVC insertion	Strategic decisions taken in headquarters, reinforcing dependency
2. Domestic fiscal and growth motives	CPE: DME model, export of low VA goods	No domestic drivers of growth, limited fiscal space for human capital investments
3. Cronyism and rent-seeking	CPE: autocratic political regime	Market efficiency losses, biased resource allocation
4. Geopolitical considerations	IPE: autocratic hedging	Extending external vulnerability and sectoral concentration leading to double dependence

Source: Own construction.

a factory in 2018 and production of its new electric model started late 2025. *“This has never happened before, so BMW has never brought a new model to a new factory abroad.”* (Interview Q)

The narrowly defined automotive industry still accounts for around 5% of the GDP in Hungary, in 2023, it accounted for 26% of the manufacturing sector’s production value, 17% of its gross value added, and 15% of its workforce employment.¹²

Electric transition represents a pressing challenge for German OEMs, and lacking European supply, the quickest and easiest way is to source technologically advanced and cheap batteries from China. Geographically close battery factories benefit German firms by reducing high transport costs and supporting nearshoring strategies. As the Hungarian Foreign Minister mentioned to CNBC *“While the German Foreign Minister speaks about decoupling, the CEOs of the German car makers usually call me to convince their Chinese suppliers to come to Hungary”*¹³. The Chinese CATL will supply Stellantis, BMW, and Mercedes plants in Europe from Hungary, and EVE Power delivers to BMW locally. *“It was BMW that approached EVE, which produces the kind of cylindrical battery cell that BMW needs. That is why the cell factory is located 50 metres from the car plant.”* (Interview P)

In short, the Orbán government’s economic autonomy was significantly limited due to its asymmetrical insertion into the global economy, and especially deep integration in the automotive global value chains. While this economic driving factor intersects the national and international arenas, as we argue below, it can only partially explain the huge scale and state-sponsorship of the recent battery boom.

The *fiscal and growth* motives represent the second major driving force. Over the recent decade(s), the Hungarian GDP growth was fuelled by the combination of incoming FDI flows, exports, remittances, and EU financial transfers. These were essential factors to maintain the “authoritarian equilibrium” as an EU member (Kelemen 2020). At the latest since 2022, the Orbán government realized that it is and will be increasingly difficult to receive enough financial transfers from the EU.¹⁴ As a consequence of helicopter money before the 2022 national elections, the state budget deficit increased and an urgent need for alternative financing and growth sources emerged. The government believed that massive inflow of Asian investments would contribute to GDP growth and improve macroeconomic numbers, such as public debt or budget deficit expressed as a share of GDP.¹⁵ Economic growth was also conceived to provide output legitimacy to the increasingly autocratic regime (Györffy and Martin 2023).

Third, we argue, that mechanisms of *cronyism and rent-seeking* also played a crucial role beyond the new aggressive industrial policy and state-sponsored push to create an EV battery cluster in Hungary. It is well documented that over the last decade, Hungary has increasingly evolved into a mafia state (Magyar 2016), crony capitalist system (Szanyi 2022; Szelényi and Mihályi 2020), a centralised authoritarian regime (Csanádi 2022), nurturing a new business elite, the politically loyal national capitalist class, which was dependent on the government (Rogers 2023; Scheiring 2020). This new type of government – business collusion led to distorted resource allocation and increased systemic risks and inequality (more on this later). Corruption has become increasingly top-down and institutionalised under the Orbán government, with a well-established company network to direct EU-financial transfers to the so-called adopted political family (Magyar – Madlovics, 2022,45), including friends, relatives, and political allies, with public procurement and overpricing being the main tools (Jancsics 2024; Tóth 2022). Providing growing rents to the cronies has become more and more difficult after 2022, mainly because of EU conditionality rules and frozen funds, so new sources were required. The solution seemed to be to look for alternative financial sources and turn to the East. The Eastern Opening policy, announced in 2011, aimed initially to compensate for the economic slowdown of the EU and diversify trade relations, yet in 2014, it was complemented with an Eastern turn in foreign policy as well. Chinese companies were attracted to the country by generous subsidies, yet the political friendship factor also played an important role (Szunomár 2020; Szunomár and Biedermann 2014; Szunomár, Mccaleb, and Chen 2018). The Orbán government, however, also benefited substantially from the more intense political and economic ties with China. The contracts with Chinese investors are usually opaque, offering ample opportunities for rent-seeking. While the building of the new EV battery cluster is based almost exclusively on Asian (South Korean and Chinese) FDI, it also requires construction works, extension of public utilities, as well as logistic and additional services, which were delivered by crony, Hungarian companies. “*Water pipelines of Samsung SDI were built by the company of Orbán’s best friend, crossing Natura 2000 areas and destroying protected plants.*” (Interview B) Battery recycling offered new possibilities for crony waste handling and transport companies.

The fourth driving force, namely *geopolitical considerations*, adds to the complexities of underlying motives beyond the state-led construction of an oversized EV hub in Hungary. This argument links domestic political interests with power strategies in the global political arena. For the autocratic regime of Orbán, doing business with international investors was a tactic of “autocratic hedging”, as it allowed “*rulers to place international capital in the service of the autocrat’s power consolidation*”, as described by Camba and Epstein (2023, 347).

Creating interdependences, in the form of connecting German car manufacturers with Asian battery producers, helped Orbán to keep his political power and re-position himself in the emerging new global hierarchy. As the Minister for Foreign Affairs said: “*Hungary has become a meeting point for Eastern and Western investment, which is a guarantee for long-term economic growth and a hedge against uncertainties*”¹⁶. Orbán truly believed that in the ongoing reshuffling of the global economy and politics, Asia is the future and the EU is the past.¹⁷ Despite this anti-EU and pro-China rhetoric, economic reality showed continuously strong bonds with Europe (more than 70% of exports and imports in 2024). Hungary’s inclusion in

the European single market is an important location factor for third-country investors. “*We have long-term contracts with European carmakers, and we want to produce close to them.*” (Interview G) Data depict some signs of the FDI realignment, highlighting how increasingly important economic ties with Asia have become over the last decade: China ranked in 13th place in 2014 as a foreign investor (according to ultimate owner) in Hungary, and climbed up to 6th place by 2023. As South Korea’s rise predated the more recent Chinese investment boom, its results are even more remarkable: it became the 4th most important foreign investor in 2023, starting from 15th place in 2014.¹⁸ In 2023, Hungary received 44% of all Chinese FDI in Europe and 31% in 2024. For China, the penetration of the EU market is very important, and it also aims to avoid import duties. Chinese-made batteries in Hungary qualify as “made in EU”.

Instruments to create locational advantages

Due to a scarcity of key inputs like water, energy, and labor, Hungary’s rapid expansion of EV battery manufacturing was largely driven by state incentives to attract battery investments. State support consisted of a variety of direct and indirect tools to provide a generous package of incentives to outcompete regional peers.

Total direct financial state aid added up to more than 2 billion euros between 2018 and 2025, on average 12% of the investment value (Table 1).¹⁹ Samsung SDI received EUR 467 million in state aid since 2018 (the largest portion in November 2025, after laying off workers and after severe pollution incidents). The SK factories received EUR 282 million altogether. The largest state aid in the Hungarian history was given to CATL (EUR 800), and another EUR 265 million was approved by the European Commission for Sunwoda. These figures are much higher than the German automotive firms have ever received in form of direct state aid.

Indirect state support has also considerably incentivised Chinese companies to choose Hungary as a prospective location for their battery investments, including the activities and services of the Hungarian Investment Promotion Agency, diplomatic ties, and Chinese banks present in the country. Additionally, the Hungarian state generously covered the costs of complementary infrastructure (such as water and electricity pipelines, roads, railways, warehouses, and industrial parks), adding up on average to approximately 10–12% of the total investment value.

Samsung SDI – struggling with sales difficulties – benefited also from the decrease in the local business tax rate in January 2025. Although the city of Göd lost several millions of revenues due to this decision, the Fidesz party-backed mayor made this favour to the factory.

An often-overlooked element of “soft” state incentives is *regulatory forbearance*. The lax regulatory conditions towards existing and incoming factories represent a substantial part of the so-called locational advantages created in the battery sector. The South Korean battery firms operating in Hungary since 2018 provide ample examples to illustrate the helping hand of authorities to support the EV sector and present how additional locational advantages were being created to attract Asian FDI.

As described in the previous section, governments might choose to manipulate institutions and regulatory regimes, as well as decide to selectively (non-)enforce regulations to provide indirect support to targeted sectors or companies. In autocratic regimes beyond industrial policy aims these might ultimately serve political considerations,

namely the autocrat's power consolidation. To present in detail how autocratic forbearance operated in Hungary we focus on the three main types (as presented by Dewey and Di Carlo 2022, 931): political leniency, reduction of the stringency of existing regulations, and reduction of the effectiveness of enforcement mechanisms (Table 3).

First, the Orbán government offered political leniency to battery firms in diverse ways (see also Box 1). Being an EU member state, Hungary has EU-conform rules on paper, these were, however, managed in very creative and innovative ways to favour large investors. Based on the misuse of the law of 2006/LIII, almost all EV and EV battery investments were classified as "*priority investments of national economic importance*" and subject to fast-track, simplified procedures and eased regulations. Thus, in these strategic cases, firms could escape the "business as usual" legal and administrative procedures, while local municipalities had no say in the decisions and no oversight of the operation (Éltető 2023). Such territories became "coercive industrial zones" (Polyák 2026a).

The Hungarian 1995/LIII law of environmental protection and the 2001/42/EU directive²⁰ require a thorough strategic environmental assessment in cases of sectors of national significance. In the case of the battery sector, no such strategic environmental assessment was prepared. The "National Battery Industry Strategy" was accepted by the government in 2021 (made public only in mid-2022). No coordination and consultation were held with trade unions, water management authorities and environmental experts.²¹ In the following years, this strategy has been mutated to a single quantitative goal: attracting as many investors as possible along the battery value chain.

Although according to the 314/2005. (XII. 25.) Government decree an overall environmental impact assessment is obligatory for the chemical and technological process applied in battery production, in reality, *no environmental impact assessment was required* for the cell plants, electrolyte, or recycling plants until 2024. According to the above-mentioned decree, all companies that use more than 200 tonnes of NMP (N-Methyl-2-Pyrrolidone) on a yearly basis are obliged to have an environmental use permit. Samsung used more than 10 thousand tonnes of this hazardous solvent per year since 2019, and it still functioned until late 2023 without an IPPC (Integrated Pollution Prevention and Control) environmental permit.²² No standard environmental procedures and permits were required for the South Korean SungEel battery recycling plants (where scandalous pollution,

Table 3. Main forms of autocratic forbearance.

Form	Examples from Hungary
1. political leniency	• extensive use of "<i>priority investments of national economic importance</i>" subject to fast-track, simplified procedures and lighter regulations • not requiring <i>strategic environmental impact assessment and IPPC permits</i> (despite binding EU and national law)
2. reduction of the stringency of existing regulations	• "<i>environmental authority contract</i>" • "de-risking" public hearings (to be held online) • lax pollution and work safety regulations, low ceilings for fines, creative tactics and tricks of the authorities
3. reduction of the effectiveness of enforcement mechanisms	• politically appointed office directors, understaffed authorities, and agencies • collusion between government agencies and companies (advanced notice of official inspection) • manipulating the timing and location of measurements

Source: own construction.

poisoning, and accidents occurred), nor for several other factories that use hazardous substances.

The second major form of forbearance is the reduction of the stringency of existing regulations. In the Hungarian battery sector, first, we can mention the *old and outdated laws* (some going back 30 years) that regulate work safety or emissions. The Government Decree 432/2023 (21.IX.) on the “*environmental authority contract*” provides another telling case. According to this regulation, it is sufficient for any polluting firm to sign a contract with the authority, and claim to try to operate according to the laws and rules in the future, during the contracted time period the firm will not be subject to any fines or suspension of its activities (Éltető 2024). This resembles “tailor-made laws”, as explained by Kiss and Sebők (2025). Beyond easing pollution and work safety regulations, de-risking and simplifying of public hearings has also favoured foreign investors. While the very low ceiling of work safety fines was raised tenfold (to EUR 250 000) in March 2024, this absolute threshold was still relatively low for large multinationals (with Samsung SDI’s revenue being around EUR 5 billion in 2023 and 2024).²³

Documented cases show that Hungarian authorities applied the existing regulations selectively, opting regularly those that favour the battery companies most. In January 2025, for example, the relevant government office provided a permit for a battery recycling company, qualifying the firm as a simple “metal waste trader”. This was the office’s way of circumventing the rule stipulating that, from September 2024 onwards, all facilities involved in battery manufacturing and waste management must undergo an environmental impact assessment and obtain an IPPC permit. Additionally, the waste permit specified a daily limit of 4.996 tons for the metal waste intended for pre-treatment and recycling. This was another trick by the government office to ensure the company can avoid the environmental impact assessment procedure, since the rule prescribes this for above 5 tons per day. The rule was circumvented by a mere four kilograms.²⁴

The third form of forbearance is the reduction of the effectiveness of enforcement mechanisms. As interviewee D pointed out, local authorities that should enforce governmental regulations are understaffed (the workforce has been systematically dismantled over the last decade²⁵) and office directors were politically appointed. The leaders of the regional governmental offices were, by all means loyal to the ruling party, leading to a mentality best described with the words of Kornai (2015, 6): “keep a low profile and obey”.

While some new regulations have been enacted, these were also selectively implemented to favour the battery factories. An amendment of the Criminal Procedure Act coming into force on 1 January 2026 provides a telling example of manipulating enforcement mechanisms. According to this act, if a defendant is in an unknown location (abroad), the criminal case cannot be heard in their absence. The South Korean foreman held responsible for a serious accident at Samsung SDI did not appear in court, and it turned out that he had left the country. Due to the new legislation, the judge suspended the proceedings, thus without the conclusion of the criminal trial, the victim cannot enforce claim for damages. Within 5 years, the case may become time-barred. The accident happened in 2022 in the Samsung factory, when a voltage of 6900 volts shocked the electrician, who spent one year in hospital after heavy burn injuries.²⁶

Accordingly, it is straightforward to see how the rules and regulations, enforcement, and institutional control were tailor-made to investors' needs, and aimed to ease their operation. This regulatory manipulation, non-enforcement, and forbearance represented a conscious strategy of the political elite, which we conceptualised as *autocratic forbearance*. In the case of Hungary, this supportive regulatory and institutional environment provided a substantial cost advantage for Asian firms as it eased their entry and operation not only compared to established (Western) democracies but also compared to regional peers (such as other Visegrad countries). This has to be contrasted with the Hungarian government's official rhetoric, which constantly highlighted the existence of strict regulations and limits, to be abided by these companies (on paper). Box 1 illustrates the above argumentation with the case of the Samsung SDI, offering an illustrative example how rhetoric and practices deviate in autocratic regimes.

Box 1: An illustrative case of forbearance: Samsung SDI

The case of Samsung SDI, the longest-running company in the Hungarian battery sector, illustrates the operation of forbearance in the autocratic regime. The experiences of its operation are well documented in the Hungarian-language investigative press, and many further details were uncovered during interviews (see also Ricz and Éltető 2025).

Starting operation in 2018 and following more than 8 years of irregular functioning, Samsung's management accumulated vast experiences and kept on assuming that irregular operation will be tolerated. Korean executives frequently received feedback that issues would be "swept under the rug," reinforcing their belief that they could act with impunity in Hungary. Due to the factory's dirty practices, numerous Hungarian middle and senior managers departed, including three top executives.

In Spring 2023, the irregular operation of Samsung SDI was discussed at a government meeting, based on a report issued by the Constitution Protection Office and the National Information Centre. The report (based on confidential documents and intelligence gathering) uncovered and documented much more serious occupational safety violations and poisoning of workers at Samsung SDI's factory in Göd, than communicated previously by the company or the authorities (a scandal erupting in January 2026). While several ministers advocated closing the factory, opponents viewed it as a mistake. Notably, the Minister of Foreign Affairs – a supporter of Samsung with close ties to factory management – opposed the suspension. The Member of Parliament for the constituency encompassing the municipality of Göd, also lobbied against the closure of the factory. Between 2022 and 2023, Samsung was in the process of building its second factory in Göd, and at the same time, it was intensively searching for a location for a third European factory. Samsung considered several locations for the investment, including the Czech Republic and Poland, therefore the closure of the Göd site threatened to prevent Samsung from choosing Hungary as the location for its third European factory. It could have also scared off other East Asian battery manufacturers looking for European locations.

Samsung SDI's minutes of management meeting later wrote about this dilemma: "*The Samsung issue came up at a government meeting, and influential politicians wanted to suspend production. At that time, we [the executives of Samsung] resolved the situation through extensive lobbying and promises.*"²⁷ As a result, the Orbán government finally – disregarding the experts' opinions – decided not to suspend the operation of the plant in 2023. This case has set a precedent for the political leniency (a form of autocratic forbearance) and is illustrative of the continued unlawful operation of battery factories in Hungary.

Regulatory forbearance – as illustrated above – served to support Orbán's autocratic political regime. Chinese companies were attracted to Hungary by generous direct and indirect support with the aims to meet German car manufacturers' demands, to improve Hungary's economic indicators, and to satisfy the crony beneficiaries through non-transparent deals and infrastructure investments. In other words, the large-scale development of the EV battery sector in Hungary was not a conventional industrial policy, focusing on structural transformation, economic upgrading or diversification, it was a politically motivated and served to consolidate the autocratic regime.

Implications of industrial policy capture

The political capture of new industrial policy represent inherent limits and risks with regard to the development trajectory of non-hegemonic economies, both in the shorter and longer run. Recent experiences from the battery sector in Hungary are illustrative. Technological problems and global overcapacities of the battery sector, as well as the green paradox of the electromobility transition are well documented in the literature (Gutsch and Leker 2024; Soeteman-Hernández et al. 2023). Less attention has been devoted to the implications of autocratic capture. We discuss these along three dimensions.

First, in *economic* terms, the forced and state-sponsored development of the battery sector led to *distorted resource allocation* and implied severe *opportunity costs*, with drastic implications for the country's longer-term economic development trajectory. Battery manufacturing in Hungary relies exclusively on foreign technology and inputs, materialising in low-cost, low-skill, and environmentally polluting assembly activities, providing low-quality jobs (with increased health risks). Additionally, such a one-sided specialisation exacerbated the country's vulnerability to fluctuations in external demand (well demonstrated by recent cyclical downturn in the sector). The large state aid (adding up to more than 4 bn EUR, see Table 1) to these factories was financed by a huge budget deficit, while important public services lack essential resources. The Orbán government systematically centralised and underfunded public services over the last decade, including public education, healthcare, and public utilities. Due to fiscal pressures, large public infrastructure investments were postponed in 2023 and 2024.

The inclusion of Hungarian firms into the battery production chain is hardly possible due to cultural and technological factors. The experiences of the South Korean factories show that they almost exclusively work with their own Asian suppliers, and the same applies to Chinese companies. Additionally, local firms lack capabilities and capacities to provide the necessary quantity and quality of the (often previously unknown) materials (Interview G).

The state-sponsored creation of an oversized EV battery production cluster exacerbated the specialization on low-cost, low-skilled, and environmentally polluting manufacturing production (resembling the low-road strategy, see Polyák 2026b) and did not contribute to transformative structural changes, such as moving towards faster-growing and more stable sectors, with higher domestic added value and more local embeddedness (see also Bethlendi and Stapenhurst 2025).

Second, focusing on *environmental* consequences, the functioning South Korean EV battery factories and recycling firms in Hungary often and repeatedly violated environmental and safety regulations. Local authorities and investigative journalists documented illegal and irregular procedures, accidents, and environmental pollution. Factories and even authorities frequently classified or delayed the release of information, and investigations were intentionally superficial, and not thorough enough – another angle of autocratic forbearance practices. Battery plants are fined with very small amounts (compared to their revenues or profits); thus, fines are not incentivising these firms to change their behaviour. Since 2018, Samsung SDI was fined 56 times, according to public data requests.²⁸ Most scandalous issues in terms of sustainability can be highlighted in the field of noise and air pollution,

excessive water needs and contamination, as well as other destructive ecological consequences of building and extending the plants of the battery factories (Interview C).

As third, we highlight the social implications of the autocratic capture of industrial policy. The massive import of Asian guest workers not only exacerbated social tensions already fuelled by decade-long nationalist and right-wing populist rhetoric but created additional demand for infrastructure spending to secure housing and other public services for the guest-worker colonies. The rapid development of Debrecen as a regional industrial hub hosting BMW, CATL, and EVE Power led to skyrocketing real estate prices, increased water demand, and other challenges, severely squeezing the conditions of locals. *“Nobody, even the very optimistic ones, thought that so much capital and so much labour would arrive in such a short time. Now the city has to respond to that, and stimulate the supply side of the market.”* (Interview Q)

Since 2010, Hungary’s top-down, centralized system has increasingly excluded local residents from decision-making, particularly regarding EV and battery factories, where impacted local communities were notified only in the last phase. Civil protests were ignored or oppressed in all sensitive cases, and rules were changed overnight (Mikecz 2022). Following a scandalous public hearing in December 2022 concerning CATL investment, the government issued a decree²⁹ in April 2023, allowing public hearings to be held without the physical participation of the public (by answering selected questions online). Since then, public hearings related to battery factories’ permissions have been held this way, favouring the factories and the authorities (ie. autocratic forbearance).

Locals and civils tried to use every legal possibility, yet referendum requests were refused by the courts in all cases. In the case of the CATL, citizens sued the local governmental office because of the environmental use permit of the Chinese firm, and the (pro-government) authority invited and included the company in the process. Thus, the local authority and the Chinese multinational, equipped with good lawyers, are acting together against local people; the process is going on for years, while the company is being built rapidly (Interview A). Similarly, in the long legal process of citizens against Samsung SDI, the company was also involved. In October 2025, the Budapest Court finally annulated the environmental permit of the South Korean company. Instead of closing it, the county office and the relevant ministry let the firm function with “restricted capacity”, without further control.³⁰ The process for requiring permission was fast-tracked. The centralised Hungarian authorities were not only permissive but, in several instances, deliberately contravened the rules to benefit the battery businesses (an illustrative example of autocratic forbearance in practice).

At the same time, a negative propaganda campaign was going on against local citizens, who opposed EV battery factories or fought against their irregular and polluting operation. These people were qualified in the government-controlled national media as liberal agents, enemies paid by foreigners, “pseudo-locals,” etc. A law proposal (Bill T/1192 on the Transparency of Public Life) aimed to further silence and eradicate any NGO (and other actors, such as media or even for-profit firms) whose activities were considered to influence public life in a way that would supposedly threaten Hungary’s sovereignty.³¹

Conclusions

The Hungarian experiment to promote the creation of a new EV battery cluster based on Asian (mainly Chinese) FDI has important implications for the study of new industrial policy in non-hegemonic economies. To start, the Hungarian case reaffirms that to grasp the underlying complex motives beyond the use of new industrial policy one has to combine the perspectives of international and comparative political economy. To fully understand the Orbán government's one-sided bet on the EV battery sector, one has to go beyond the standard economics framework of new industrial policies, as it overlooks the political dynamics (Juhász and Lane 2024). We have highlighted that in non-hegemonic economies, not only *domestic* but also *global* structural and political constraints determine the policy space to devise and implement new industrial policies.

In dependent market economies, the domestic economic autonomy is limited by the domestic growth regime and social structure (the dominant interest groups), as well as by the asymmetric insertion into global value chains. At the same time, autocratic tendencies led to increased political autonomy and increased the risk of political capture (both with regard to institutions and policies).

This article contributes to debates on new industrial policies in non-hegemonic states in two ways. First, it articulates how an autocratic dependent market economy employs policy instruments that enhance comparative advantages to attract FDI by loosening regulations and their enforcement, a new industrial policy tool we propose to call “autocratic forbearance”. Second, it elaborates on the domestic repercussions of autocratic industrial policy design, and demonstrates how an autocratic regime uses new industrial policy to pursue and realise political ambitions, while also shedding light on the political dynamics: as the regime becomes more and more autocratic, state interventions become less and less development-oriented. The downsides of the political capture of new industrial policy are also twofold. First, by contributing to the regime's power consolidation domestically and internationally, it reinforces the autocratic regime. Second, by disregarding economic, social, and environmental considerations, it compromises the long-term sustainable and inclusive development trajectory.

While at first sight Hungary's experiment to boost the EV battery sector might seem a rational choice, based on the traditional role of the automotive industry in its economy, we argued that this sectoral path-dependency only partially explains the aggressive battery push. It cannot explain either the scale of state support, the huge size of the EV battery cluster or its exclusive Asian focus, not to speak about the consequences of the autocratic implementation of this new industrial policy.

Our article showed how the – in theory, transformative, and green – building up of a large electric vehicle battery sector on such an oversized scale and in an autocratic way led to multiple negative consequences for the country's development. One major reason is the exaggerated size of the sector compared to available resources and its impacts on the financial fragility and economic vulnerability of a small open economy. Second, the exclusive Asian (South Korean and Chinese) dominance disables the evolution of domestic or European innovation or technology, as these firms cannot join the value chain, no spillover effects, or learning-by-doing occurs. Third, the autocratic regime captured institutions and implemented, forced a central will without any coordination with stakeholders and with no respect for the local economy, society, and the

environment. If economic dependency is coupled with autocratic governance that aims to keep the political power domestically and improve the position in the global hierarchy at any cost, then new industrial policy might become a political tool, instead of promoting transformative changes. The forced, oversized battery sector proved to be a political issue in the 2026 elections in Hungary. The opposition capitalised on people's discontent and information leakages took place from inside the battery factories. Autocratic forbearance became a factor in the spectacular fall of the Orbán regime.

Further research is needed to explore other non-hegemonic countries' experiences with similar settings. An interesting research avenue is the analysis of geopolitical realignments in autocratic regimes, as well as the inclusion of other sectors into the analysis. Future research should also explore similarities and differences of old and new industrial policy interventions (such as in the Hungarian case to compare the contemporary EV battery push to the earlier car-manufacturing phase) and compare the current autocratic and democratic dependent market economies' industrial strategies and policies (especially within the EV sector).

Notes

1. In the case of classical East Asian developmental states political capture has been largely avoided (at least initially) due to the very specific global and domestic power constellations, best described by the systemic vulnerability concept (Doner, Ritchie, and Slater 2005), and also driven by the Asian developmental mindset (Thurbon 2016). Both aspects are missing from the contemporary autocratic developmentalist experiments in CEE, especially in Hungary.
2. Even if more or less coherent strong states exist, state institutions tend to be more politicised and not meritocratic, than in the East Asian developmental states, while due to long time periods aiming at catching up, established interest groups and fragmented business sector (as well as deep cleavages in the society) impede the building of unified upgrading coalitions (Doner and Schneider 2016).
3. In 2023 the share of FDI stock to GDP was 56,2% (UNCTAD data). In 2022 the share of foreign enterprises in manufacturing value added was 66,2%, and in manufacturing employment 53% (Eurostat data).
4. <https://verfassungsblog.de/hungary-academic-freedom/>.
5. We use the term of autocracy according to the Hungarian economist, János Kornai (2016). See also: EP (2022).
6. Own calculations, based on the IGD list.
7. List of Individual Government Decisions, Ministry of Foreign Affairs.
8. <https://villanyautosok.hu/2021/10/03/akkugyarto-nagyhatalom-lesz-magyarorszag/>.
9. <https://battery-news.de/batterieproduktion/>.
10. In early January 2025 the US government has put the CATL to the list of firms that are allegedly working with China's military and thus doing business with these might entail severe geopolitical risks.
11. EUROSTAT Comext data on product HS 850,760.
12. <https://www.ksh.hu/s/kiserleti-statisztika/kiadvanyok/erteklanchossz-es-teruleti-koncentratsag-a-jarmuiparban/>.
13. CNBC – World Economic Forum in China, on the Minister of Foreign Affairs' (Péter Szijjártó) Facebook site, <https://www.facebook.com/watch/?v=1424599825030775>.
14. In December 2022 the EU has decided to freeze EU funds to Hungary due to rule of law and rights concerns. First access to 6,3 billion euros from the EU Recovery Fund was frozen, later additional 22 billion euros of EU Cohesion Funds were put on hold.

15. According to the Hungarian Investment Promotion Agency (HIPA) data, incoming FDI in 2023 was EUR 13 billion, in 2024 EUR 10.3 billion and in 2025 EUR 7 billion. The majority of the new investments was connected to the battery sector and came mainly from China and South Korea.
16. <https://hungarytoday.hu/electric-battery-becomes-our-number-one-export-item/>
17. See eg. <https://www.valaszonline.hu/2024/08/13/kelet-orban-viktor-eu-nato-tusnadfurdo/>.
18. Based on Hungarian National Bank's data.
19. There are some cases even with a support ratio of 20–30%.
20. <https://eur-lex.europa.eu/legal-content/HU/TXT/?uri=CELEX%3A32001L0042>.
21. In fact the Hungarian case is the counterfactual of what Ban and Hasselbalch (2025) ask for in their article on green economic planning for rapid decarbonisation.
22. https://www.kormanyhivatal.hu/download/4/e0/f5000/04968-22_2020.pdf.
23. <https://webshop.opten.hu/samsung-sdi-magyarorszag-zrt-e10480877.html>.
24. https://hvg.hu/velemeney/20250414_elteto-andrea-andrada-kormanyhivatal-trukkozestorvenyszeges-akku-akkumulator-hulladek-soskut.
25. See the analysis of Krasznai Kovács and Pataki (2021) on downsizing environmental institutions and capacities in Hungary, or the study on the illiberal sub-national governance reform in Hungary by Hajnal and Rosta (2019).
26. <https://telex.hu/belfold/2026/01/24/godi-samsung-gyar-baleset-6900-volt-aramutes-del-koreai-muvezeto-eltunt-per>.
27. <https://telex.hu/komplex/2026/02/09/szoltak-hogy-a-viktor-levette-a-vedelmet-a-gyarrol-rogan-antal-rakuldte-a-titkosszolgalatot-a-samsung-godi-gyarara>.
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30. <https://english.atlatso.hu/2025/12/15/samsungs-battery-factory-in-god-continues-to-operate-despite-court-ruling/>.
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Annex. Semi-structured interviews

Code	Field	Length (min)	Method
A	leader of a local civil organization	80	skype
B	member of local civil association	80	personal
C	member of local civil association	60	phone
D	environmental expert	30	zoom
E	energy researcher in academic sphere	50	skype
F	academic expert on water management	40	phone
G	a manager of company CATL	60	personal
H	chemistry professor at a university	60	personal
I	board member of a civil organisation protecting big lakes in the country	30	personal
J	member of local civil association	60	personal
K	a local town council member	30	personal
L	attorney at law specializing in environmental law.	40	personal
M	WWF Hungary policy officer	30	personal
N	founder of a civil nature-protective foundation	30	personal
O	president of Clean Air Action Group (founded in 1988)	40	personal
P	manager of company EVE Power	90	personal
Q	director of a municipal development and investment promotion company	90	personal
R	leader of a municipal industrial park management company	80	personal
S	researcher in a local university	60	personal
T	local ecologic economist	40	online