



EU-China Hub

Interview Series



TAMÁS MATURA

HUNGARY'S CHINA POLICY - ORBÁN'S ILLIBERAL COOPERATION
AND CLASSIFIED DETAILS OF BELGRADE-BUDAPEST RAILWAY

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EU-CHINA HUB

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Given China's rapidly rising importance on the global stage, it is now more important than ever for EU-China relations to be better understood not only by an inner circle of professionals and enthusiasts, but also by politicians, business people, and the general public.

This is especially true as Europe struggles to embrace the complexity of its relationship with China as a partner, a competitor, and a rival.

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HUNGARY'S CHINA POLICY - ORBÁN'S ILLIBERAL COOPERATION AND CLASSIFIED DETAILS OF BELGRADE-BUDAPEST RAILWAY

Edited by Grzegorz Stec and Michael Durgin

The following interview, from June 2020, is based on a podcast episode produced by the EU-China Hub as part of its on-going series. It has been edited for length and clarity.

Grzegorz Stec: Today we'll be talking about Sino-Hungarian relations. To start, let's take a look at the strategic level. Quite often debates on Sino-Hungarian relations are framed in the context of Victor Orbán's Opening to the East policy, which he announced in 2011. What was Orbán's idea for Hungary in relation with China, especially in the context of the EU?

Tamás Matura: Let me start by saying that even though this Opening to the East strategy has been mentioned frequently by the Hungarian government, it's not really a strategy. You can't find it in written form. We should instead call it the Opening to the East policy; it was actually quite a legitimate idea a decade ago. The real concept was to decrease the Hungarian dependency on the European Union when it comes to trade and economic relationships. It had been about 80% and Hungary was very dependent on the European economy. And this was right after the aftermath of the global financial crisis and around the time of the eurozone crisis. Of course, Hungary was not the only country in the EU to nurture ideas of finding new exports, opportunities, and new investment partners.

On the other hand, Hungary and other central European countries initiated policies like this merely following in the footsteps of Western European countries. For example, Germany has been in very deep cooperation with China for over 40 years. German companies entered the Chinese market in the early 1980s and Central European countries lagged behind in this regard.

Generally speaking, the Opening to the East policy was a legitimate idea to decrease the dependency of Hungary on the European Union both in economic cooperation and to utilize the rise of East Asia, particularly of China. It sought to find new economic and business opportunities for Hungary.

GS: And is this policy still helpful in understanding how Hungary sees China, especially in the European context?

TM: A huge part of this policy was intended to influence the domestic audience in Hungary. So it was kind of a political slogan connected partially to the Prime Minister, but even more so to the foreign minister, Péter Szijjártó. He was not foreign minister in 2011, but he already played a very important role in forging Hungarian foreign and economic policy. So, one important part of this policy is a political product for domestic consumption.

Another part of the policy is real business and economic cooperation with East Asia, especially China. In recent years, we haven't heard that much about this policy. I can't really tell whether it's because the policy is not that successful (as many expected), or because the government and minister of foreign affairs himself had to find some new political slogans.

GS: Talking about political slogans and politics more broadly, we've seen Hungary on multiple occasions decide to oppose or opt out of EU moves that have been critical towards China. For example, in 2016, we saw it vetoing the joint statement on activity in the South China Sea. In 2017, Hungary protested the EU petition against the mistreatment of human rights lawyers. And in 2018, the Hungarian ambassador urged the EU ambassador in China not to join the statement critical of the Belt and Road Initiative.

So if, economically speaking, the policy of opening today has not been successful, what is Budapest's motivation?

TM: First of all, cooperation between Hungary and China is more than pragmatic because the Hungarian Prime Minister has mentioned China on multiple occasions as a role model. The cooperation goes beyond business and economic cooperation. And since Viktor Orbán has been building his illiberal regime—a term he himself coined—China is a wonderful partner as a major illiberal regime in the world.

Second, the Prime Minister is highly suspicious of Western style economic development. He has labeled it as economic development based on speculation. Instead, he praises so-called “labor-based societies”, whatever that means. In that regard, China is absolutely a role model or at least tries to present itself as such since Xi Jinping came to power and China started to export its model. So there is a political and maybe an ideological part to this question: that the Hungarian Prime Minister seems to like China and the Chinese way of handling the economy and the country, even its population.

On the other hand, when it comes to real economic cooperation, Chinese-Hungarian relations are not that successful, at least in relation to trade. Every data point that we can see falls behind expectations. In 2011, the Hungarian and Chinese governments promised to elevate the level of bilateral trade to \$10 billion per year by 2015. This never happened and today it's still around 7 to 8 billion dollars, with a pretty big Hungarian trade deficit with China.

When it comes to investment, we see the same figures. Despite all the promises and huge expectations on the Hungarian side, the level and flow of Chinese investment into Hungary has been quite disappointing over the past eight years.

So, in all, the Opening to the East policy has not achieved its goals and is not a successful economic policy. Hungary's dependence on the European economy is still around 75% of our foreign trade. And the same goes for investment relationships.

However, when it comes to politics—and you just mentioned a lot of Hungarian actions as supporting China—all of these Hungarian gestures towards China are political by nature. So the Hungarian government has never done anything to harm European—and in particular, German—economic and trade interests. All of these Hungarian actions are political gestures and, in certain cases, quite symbolic. I'm not saying that European actions or European joint statements condemning the South China Sea and Chinese actions in the South China Sea or condemning the status of human rights in China are not important. Rather, the Hungarian government does not regard these as very important, and therefore it is willing and ready to offer some political gestures to China.

GS: As you said, there is this very big political, dynamic political aspect to Hungary's relationship with China. This is an argument that comes up in regard to 17 + 1, China with Central and Eastern European countries. It's an argument of politics being intertwined with economic benefits. You often hear about China's increasing influence across the region, with Hungary often cited in this regard.

But, as you say, this might be a very special relationship and it does seem that Hungary is an exceptional case. Can you elaborate on that? How would you compare the case of Hungary with other Central and Eastern European states, especially with other countries of the Visegrád format?

TM: I would say that Hungary is a special case when it comes to the EU members of the 17 Central and Eastern European countries. However, when we include non-EU member

states as well—especially Serbia—Hungary is not a special case anymore. The Serbians have been enthusiastic about Chinese help and support. Recently, we have seen billboards praising brother Xi Jinping on the streets of Belgrade, for all the help that China allegedly provided to Serbia. So, in the western Balkans, among non-EU member states, there are some similar patterns.

But when it comes to the EU member states, Hungary definitely stands out. Especially compared to the other Visegrád countries—namely Poland, the Czech Republic, and Slovakia—we see that in the Czech Republic, anti-communist, and therefore anti-Chinese government sentiments, have always been very strong, at least since the change of the regime in the early 1990s. A lot of people say that's the political heritage of late president Vaclav Havel. He was one of the most prominent freedom fighters of the Czech Republic and always a huge supporter of human rights.

So, in the Czech Republic, a major part of the political elite, the intellectuals, and the wider public support any action to stand up for human rights and to fight with China. In Poland, there is also a lot of suspicion about cooperation with China or with communists. Meanwhile, Slovakia has been keeping a low profile. It's a very small country from a Chinese point of view. Therefore, the level of relationship between Slovakia and China is not that important for either Beijing or, actually, Bratislava.

So, Hungary is a very special case because of this political dynamic and what has been going on between Budapest and Beijing. But this political cooperation between the two sides is mostly driven by Viktor Orbán, the Prime Minister himself, and not necessarily by other Hungarian political leaders.

GS: So here you have focused on differences. Can we see any similarities or commonalities among the Central and Eastern European countries towards China? Any common tendencies or common projects?

TM: I think one of the major disappointments about the 17 + 1 is that these 17 countries have never managed to cooperate with each other in their dealings with China. Even the Chinese side expected or requested Central European countries to work together to cooperate, because China is not really interested in individual countries. We're all very small compared to China. None of us can really offer businesses big enough for Chinese

companies. So China was really interested in any kind of business opportunity, especially in the fields of infrastructure investment, that took a trans-regional approach. Something like building railroads or highways from one country to another. The list of achievements of the 17 + 1 is very short. You cannot find major infrastructure investments by the Chinese in the 17 countries and, in that regard, I think the differences are more important among the 17 European countries than the similarities.

GS: Hungary—and Central and Eastern Europe as a region—have very often been a subject of criticism in Western Europe over their engagement with China. Can you elaborate a little on this? How do you see it from the Hungarian perspective?

TM: Ever since the inception of the 17 + 1—in 2011, when the very first Chinese-Central European meeting took place in Budapest, and then the first summit in Warsaw in 2012—this semi-institutionalized cooperation has been receiving a lot of criticism from Western Europe, and from Brussels, Paris, and Berlin as well. All of these critics say that China tries to use the 17 + 1 to divide and rule the European Union.

Even quite recently, Western newspapers have cited or claimed that China has built up Central Europe in exchange for the enormous inflow of Chinese money into those countries, which, in return, simply offer political gifts or gestures on a European level to China.

The problem that this is simply not true. If you look, for example, at the maps produced by MERICS about the location of Chinese investment and FDI all around Europe, Central Europe is actually almost a blind spot. The level of Chinese investment in central Europe is very low—not only in absolute terms but also proportionally—compared to Germany, the UK, France, or Italy. In the UK, the level of Chinese investment was recently over 45 billion euros. In Hungary, which takes pride in holding the largest amount of Chinese investment in the region, that figure is around 2 to 4 billion euros, roughly 1/10 of the British level. In Germany, it's about 22 billion. And in all of the other central European countries, excluding Hungary, the level of Chinese investment is well below 1 billion euros. It's peanuts, generally speaking.

The same goes for trade issues. German trade dependence on China is probably approaching 8% and that trade dependence is mostly based on huge German exports to China. Hungary has one of the strongest trade relationships with China in the region but our trade dependency on China is only around 4% and our debt and two-thirds of the trade dependency comes from imports from China. So it's simply not true. China is not important to Central European countries, to be frank.

Therefore, it's not true that central European countries make political gestures to China in exchange for economic benefits. Economic benefits when it comes to trade and investment with China are found in Western Europe, in countries that started their economic cooperation with China decades ago. Hungary started it only 10 years ago. So, when the German government says that, it is hypocrisy. There are not many times when I agree with the Hungarian government, but this is one of them.

It's really counterproductive to blame central European countries for something Western European EU member states have been doing for decades, because it distorts the discourse about how to handle China at the European level. What is the reaction of the Hungarian government or some other Central Eastern European governments? They point at facts and figures and say that the Western European claims are simply not valid. And then we cannot have a proper discussion or negotiation about how to handle China because the whole process is distorted by unfounded claims.

GS: Referring to what you mentioned, let's talk about the elephant in the room. The Belgrade-Budapest railway modernization project, the most expensive infrastructure project in Hungary today, is sending out 2.3 billion euros. Can you break down for us what has been happening in relation to this project to date? Why has it been so controversial?

TM: The whole idea emerged around 2014, when both sides pledged to finish the construction by 2017. Technically it should have been completed three years ago. Despite all the effort, it took many years to muddle through all the bureaucratic and financial issues. Three years ago the European Union initiated an infringement procedure against the Hungarian government. According to the first agreements between the Hungarian and Chinese side, the contract would have incorporated both the credit line and it would have connected directly to Chinese companies to deliver the construction. According to European public procurement regulations, this is forbidden. You can make a contract on the credit line and separately on the construction project itself, But you cannot combine them.

The European Union, therefore, started an infringement procedure. Eventually the Hungarian government found a way to tackle this problem. The procedure was closed as far as we know, because that procedure was not transparent. Two years ago, the Hungarian and Chinese governments reached an agreement but it took another two years to settle the financial agreement itself. Over the past three years, the Hungarian government has announced several times that we are on the brink of completion of the negotiation. A month ago, finally, the two sides reached an agreement and the financial contract was signed by the Hungarian minister and the Chinese counterpart.

It seems that construction is about to start later this year, although the pandemic might have had an impact and there might be further delays. But it seems that there's nothing to stop this construction from happening any time soon.

Unfortunately, the benefits of such construction are unclear. As you have just mentioned, it will be by far the most expensive railway construction in Hungary and it's actually just a renovation, because that railway has been operating for over a hundred years. Trains already arrive about once a day from the port of Piraeus in Greece.

But now they would like to reconstruct it and also to expand its capacity, which will shorten the travel time between Budapest and Belgrade from nine hours down to three hours. However, the Hungarian government is still a bit reluctant to disclose the sustainability and feasibility studies. So what we have seen so far are some estimates made by experts of logistics, transport, and trade about the feasibility of such a railroad. According to these assessments, it could take as many as 2400 years for the project to pay for itself!

Other, more optimistic estimates say it might pay for itself in 130 years. Even from that point of view, the project doesn't seem very lucrative. The government says, and I tend to agree, that when it comes to major infrastructure projects, it doesn't make too much sense to merely calculate a rate of return. Even when you build a highway, you would never make a profit on it merely based on the fees paid by those who use it. But there are indirect benefits, like more investment along the route or more trade crossing Hungary, thanks to this railroad.

However, there's another problem when it comes to the final destination, the port of Piraeus in Greece (which is in Chinese hands, actually). There are no plans to connect Piraeus across Northern Macedonia to Belgrade. There might be another section connecting Belgrade down to the southern parts of Serbia, but the very important link in Northern Macedonia is missing. As far as I know, negotiations haven't started because the current Macedonian government is not that eager to work with the Chinese.

GS: And that brings us to the details of the project, including the government's motivation. I think it links to your point about financing. On April 24, the government signed a twenty year Chinese loan, which will cover 85% of the cost of the project. And that was during the pandemic, when Orbán's government received power to temporarily rule by decree. The government decided to classify the details of the Chinese loan for ten years. On the other hand, we have the question of economic profitability, which, as you said, is questionable.

How can we interpret the government's decision to make the financial details of this project classified?

TM: I can only speculate. At least half of the project will be delivered by one of the Hungarian oligarchs. This gentleman was a childhood friend of the Prime Minister and who became the second richest person of Hungary in seven years out of nothing. He was originally a gas technician in the small birth village of the Prime Minister. Later, he became the mayor. Eventually he became the second richest guy of the country with a net worth well over 1 billion euros in seven years. This is a wonderful career, if I may say so. According to public announcement, he and his companies will have the chance to deliver 50% of this huge project, which is why many people assume that the government decided to classify the details.

The government says that the contract had to be classified for the sake of business secrets and that it's quite normal and that everything will be declassified in ten years. But we all know that within ten years the whole project will be done. So technically speaking, these are the issues circulating in the Hungarian media and the wider public. That's probably the main reason the Hungarian government decided to classify the details under the cover of the pandemic and during the rule by decree period. I think it was a very lucky moment for the government because they could use this kind of opportunity when the attention of the public was distracted by the pandemic to act and to classify all of these details for ten years.

However, to be frank, I don't really think that the Hungarian public is that eager to learn about the details, because this is not a special case when it comes to the Belgrade-Budapest railway line. Such deals happen every week in Hungary. So I doubt that the Hungarian public would have made a public outcry about this cooperation with the Chinese, even without classifying the details.

GS: And have we seen any reaction from the opposition or any international bodies?

TM: The opposition mentioned the issue in the parliament and also in the media on a few occasions. But generally speaking, nobody really cared about it as the pandemic simply occupied all the media space.

GS: Moving to another controversial issue, the topic of Huawei. Last year, reports emerged that the Hungarian government is open to using Huawei equipment and critical national infrastructure, as it has done so in its previous generation of networks. Given the just-mentioned EU 5G toolbox, has there been any change in the perception of the Hungarian

government towards the case? Could you maybe give us the idea of how the debate on participation of Huawei in Hungarian 5G looks right now?

TM: Compared to other central European countries, like Poland and the Czech Republic, the debate in Hungary is almost non-existent. Nobody really cares about it, not even opposition politicians. The reason? That's a good question and I don't really have an answer. It's indeed true that last November, the Hungarian foreign minister announced that Huawei is most welcome to participate in the construction of the 5G network of Hungary. I think the reasoning of the government is that there is no alternative, or at least there's no alternative that is fast and cheap enough to compete with Huawei. Of course the American side has tried to put pressure on Hungary, among other countries. But the Hungarian government replied that there's no real alternative, and we don't want to waste any time, as 5G is going to be the driving force behind the fourth industrial revolution we need, like all the countries in the European Union.

Hungary and Huawei signed a strategic agreement several years ago. The Hungarian government has a similar strategy agreement with over eighty companies, and Huawei has always been one of the most important Chinese investors here. They have invested over \$600 million in the past decade and a half. They not only have their regional headquarters in Budapest, they also have some manufacturing facilities in the country. And finally, I can say that it seems that Huawei was able to convince the Hungarian side that the American claims or accusations about the company are unfounded. Nobody has been able to show any real tangible evidence against Huawei.

Whether it's true or not, in the past few months the Americans finally had some tangible evidence, which they presented to Germany. But the Germans still remember that Angela Merkel personally was tracked by the American agencies, so this whole debate is going to continue throughout the European Union. But Hungary is on the side of China, as far as we know. We shouldn't forget that American diplomacy is doing its job and, finally in March 2019, Mr. Orbán was invited to the White House. We don't know about negotiations between Mr. Trump and Mr. Orbán, but I would be surprised if Hungary ever decided to turn its back on Huawei.

GS: I want to go back to the EU 5G tool box. The governments will report by the end of this month on their progress with implementation, following the advice given in the toolbox. Have we seen any impact of the EU 5G toolbox on what you called a limited debate in Hungary into public debate?

TM: I haven't seen any impact. What the government may think is another question but what I've seen so far is very interesting.

About a month ago, Hungary published its new national security strategy and referred to China for the first time ever in the history of these strategies. Part of it praised China as an important economic power and even the Belt and Road Initiative was mentioned. At the very end of the chapter about China, there was a very interesting sentence that refers to some risks. These are three important issues the Hungarian security services have to pay attention to: first, rising Chinese influence in the Central European region; second, Chinese superiority in high technology; and third, Chinese investment in critical infrastructure.

This is something of a surprise, because Hungarian official communications by the government always praise China. But now, in the national security strategy, there are three risks mentioned. It's really hard to assess whether these are a genuine concern of the government or whether they were included in the national security strategy only to please Western European or American observers. But it's novel, something we have never seen before.

GS: Considering this novelty, where does Hungary fall on the spectrum within the US-China split?

TM: Generally speaking, what we say is that most EU member states, try to find a middle ground between China and the United States of America. We tend to say that the European Union shares American concerns about China, but we do not share the means and the tools through which America tries to handle the situation. Of course, the world is waiting for the results of the American elections this November.

It will be a watershed moment, whether Donald Trump stays in the White House or Joe Biden replaces him. Either way, the whole world and the European Union and Central European countries have to rethink and adjust their foreign policy, towards China as well.

Most of the Central European countries would be happy to see a united European stance and strategy vis-a-vis China. But we have been waiting for that united European strategy about China for thirty or forty years. And I believe that the Hungarian government still thinks that to play between these three, four, or five big powers offers better foreign policy opportunities and better and a bigger space for the Hungarian government to manoeuvre.

GS: So, we see this European aspiration to create the middle ground or to pursue a "Sinatra" or "My Way" doctrine, as High Representative Borrell has recently referred to it. Part of this discussion depends on the internal exercise of coming up with a more robust China policy and a more united European policy on China.

What advice would you give to Brussels and other European capitals when engaging Hungary on shaping this more united EU strategy on China? What should they keep in mind?

TM: Well, I'm not sure it's up to Brussels. To be frank, I think a lot more depends on Berlin, especially because Hungary and most of the Central European countries are heavily dependent on Germany and the German economy. Here in Hungary, the Prime Minister listens to Angela Merkel and pays attention to German policies. So I believe that German foreign policy and German policies about China will have a bigger impact on Hungarian policy about China than anything done in Brussels.

If Germany and France can finally come to an agreement on how to handle the situation in Europe and how to handle China itself, it will have a major impact on the Hungarian foreign policy. But I don't really expect anything happening in Brussels to have a major impact on Budapest itself. The Hungarian Prime Minister really likes to play games, especially at the European level. He is a stubborn guy; the greater the pressure, the more resistant and stubborn he becomes. He understands real power and I don't think that Brussels has real power to do anything about Hungarian foreign policy, either about China or Hungarian foreign policy in general. That real power can only come from Berlin or from Washington.

GS: So you've referred repeatedly here to Mr. Orbán himself, which leads me to another question: Is Hungarian policy towards China driven by strategic interests that are likely to be resilient across governmental changes? Or is it a more personal policy that is driven purely by Victor Orbán and his own interests?

TM: I believe that for the first 4 or 5 years, between 2010 and 2015, the Hungarian government of Mr. Orbán really believed that China could help Hungary and the EU get through the financial crises they faced. However, during his second and third terms as Prime Minister, since 2015, he realized that China is not the economic savior we believed it was. Nonetheless, he also realized that China might be a very important political ally in his endeavor to build an illiberal regime in Hungary.

Therefore, I would say that Hungarian China policy today is a strategic political interest of Mr. Orbán. But I don't really see that likely to change in the near future. A change of government in Hungary is quite unlikely anytime soon, but should it change, I don't really think that Hungarian foreign policy vis-a-vis China would change significantly even under another government. I base this on interviews I've had with the most important political parties about how they see China.

Of course, a left wing government or a liberal government would not offer the same political gestures to China that the Orbán government has been doing over the past ten years. But, generally speaking, all major parties in Hungary agree that China is an important economic partner, that China is on the rise, and that China is a pivotal player in world affairs. And all agree that we have to have a very strong and lucrative relationship with the Chinese. Liberal parties are more suspicious about Chinese intentions, as are right wing radical parties, strangely enough. But they all agree that we have to maintain a strong relationship with China. So I think a turn around, like in the Czech Republic or in Poland, would be impossible in Hungary.

GS: So if the political dimension is so important within Hungary-China relations, what actual political benefits is Prime Minister Orbán getting from cooperating with China?

TM: It's really hard to tell. If the Hungarian government ever received any support from China on the international level, it probably happened behind closed doors, as usually happens in diplomacy. Besides that, we can observe that it's important to the Prime Minister to have friends all around the world.

For example, Mr. Orbán was the only European leader to attend the inauguration of the Brazilian president. Mr. Orbán also has a very strong relationship to Vladimir Putin. China is not the only important international ally of the Prime Minister. He also maintains a very close relationship to Mr. Netanyahu of Israel and also to Mr. Erdogan of Turkey. So, the Hungarian-China policy can be understood in a wider context of Hungarian foreign policy, where Mr. Orbán tries to establish and maintain strong relationships with other strong or authoritarian leaders, not only China. China is a member of the Security Council and the second biggest economy of the world, so it might offer a lot of help to the Hungarian government.

And we shouldn't forget something else that's very important: the domestic audience in Hungary. I think politicians today worldwide would be happy to take a photo and to shake hands with the Chinese Premier or with the Chinese President every year. That's one of the biggest benefits of the 17 + 1 for many Central European leaders, having a photo opportunity with one of the most important leaders of the world.

Just think about it. Without 17 + 1, how frequently could the prime minister of Hungary, Estonia, or even Poland meet their Chinese counterpart? Once in every five year, maybe once in a decade? Today they have this opportunity at least once a year, sometimes twice a year, as Mr. Orbán always attends major meetings organized in Beijing, like the Belt and Road Forum or other major events organized by the Chinese state.

GS: To wrap up, what should watch for, things that can really affect Sino-Hungarian relations in the near future?

TM: I think the most important development will be the construction of the railway between Budapest and Belgrade. Whether it goes smoothly or encounters any further delays will occur is a major question. This project has been on the table for so long that I'm not that convinced that it will go smoothly. Besides that, I think Mr. Orbán will pay attention to the results of the American elections. If Mr. Biden wins the elections, I think more attention will be paid to Hungary by Washington. In the past four years, I think Mr. Orbán was very lucky to work together with Mr. Trump, who was always less concerned about the status of democracy and other values-based issues in Hungary. Mr. Biden is expected to pay more attention to these issues. Then Mr. Orbán may have to readjust both his domestic and foreign policy.





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