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CHINESE INVESTMENTS AND FINANCIAL ENGAGEMENT IN HUNGARY

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Chinese investments and financial engagement in Hungary[1]

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Abstract

The paper analyses the partnership between China and Hungary and gives a thorough overview of Chinese investment in Hungary before and after the crisis, with a special focus on Chinese financial engagements and promises in this regard. The authors examine the realized investmentsas well as the reasons for failure or non-realization of Chinese financial involvement in Hungary. Finally, they conclude their investigation by arguing that although Hungary currently receives the majority of Chinese investments within the Visegrad region, it can easily lose this position.

JEL: F21, O16, P33

Keywords: outward foreign direct investment, financial engagement, China, Central and Eastern Europe, Hungary, Chinese OFDI

1. Introduction

Hungarian-Chinese relations are historically good: over the past decade, Hungarian governments – regardless of political orientation – have committed themselves to the development of the Chinese-Hungarian relationship. This trend was further confirmed after the economic crisis of 2008, when Hungary started to look for new opportunities in its recovery from recession: the so-called "Eastern Opening" policy was initiated after – and partly as a result of – the crisis. Officially, compared to previous years, this

[1] This paper is part of the Standard Grant Project „Chinese financial assistance in Visegrad countries: myth or reality?" (No. 21320107), financed by the International Visegrad Fund.

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policy puts more emphasis on the further development of Chinese-Hungarian relations, including the increase in Chinese investments.

Chinese foreign direct investment (FDI) to Hungary started to increase significantly after the country joined the EU in 2004. According to Chinese statistics, in 2010, Hungary itself took 89% of the whole Chinese capital flow to the Central and Eastern European (CEE) region (Chen, 2012). The amount of Chinese investment in Hungary has continued to increase and reached 2,5 billion USD cumulatively by 2013, which is by far the highest in the region. These results have led to greater expectations: infrastructure development and the financing of Hungarian public debt are just some of the areas where Chinese involvement is expected in Hungary.

The aim of the paper is to analyse the partnership between the two entities and describe the main factors, which brought them closer to each other. The study will give a thorough overview of Chinese investment in Hungary before and after the crisis, with a special focus on Chinese financial engagements and promises in this regard. The paper will describe and analyse the realized investments, while also examines the reasons for failure/non-realization of Chinese financial involvement in Hungary.

After the introductory section, the *second chapter* briefly presents the history of Hungarian-Chinese relations, including a short examination of trade data. In the *third chapter* the issue of Chinese investments will be detailed, relating its main characteristics, realized and non-realized investments in Hungary. The *fourth chapter* will be devoted to outlining the main factors determining the development of the relationship, including Chinese opinions on Hungary as an investment destination as well as Hungarian political and social attitudes towards China. Finally, in the *fifth chapter* the authors will conclude their investigation by arguing that although Hungary currently receives the majority of Chinese investments within the Visegrad region, it can easily lose this position. Based on analysed patterns and observed preferences, the authors will try to formulate policy recommendations for the attraction of both state-related and private Chinese investors.

The authors conducted a series of interviews with representatives of government and investment institutions of Hungary (government officials responsible for China and/or the Eastern Opening policy, or investments in general) as well as relevant institutions and companies from Chinese side. These interviews were anonymous, the information provided therein are – in most cases – confidential, therefore we won't publish the full versions here.

The authors will usually take into account foreign direct investment by mainland Chinese firms,[3] unless marked explicitly that due to data shortage or for other purposes they deviate from this definition. Since Hungarian and Chinese data show significant differences, the two data sets will usually be compared to point out the potential source of discrepancies in order to get a more complex and nuanced view of the stock and flow of investments.

2. History of the relations

Hungary formally recognized the People's Republic of China on 4th October 1949. During the following decade the relationship began to develop with a huge number of high-level visits followed by the improvement of economic, political and cultural ties. Although the Hungarian-Chinese relationship was basically within the Soviet sphere of interest, Hungarian foreign policy did not follow, but rather differed a bit from the policy of Moscow: in international affairs Budapest cooperated closely with Beijing and supported the Chinese position on Tibet, the One China Policy and the United Nations Security Council membership from the very beginning.

By the end of the 1950s, deep ideological differences began to appear between the two countries and in the wake of the 1960s - during the Chinese "cultural revolution" - the relationship became increasingly colder. Later on, with the reorientation of the Chinese Communist Party in 1978 (economic reforms and opening-up) the two countries were brought closer together again. The Chinese leadership was genuinely interested in the experiences of the Hungarian economic reform process of 1968, therefore a series of expert delegations visited Hungary in this spirit. In the 1980s, state and inter-party relations were normalized and high-level delegations were reinitiated, too. After the democratic transition of 1989, the level of contacts between

[3] FDI from Hong Kong Special Administrative Region (SAR), from the Macao SAR, from Taiwan or from any offshore tax haven will not be taken into consideration.

the two countries declined again, primarily as a result of the reorientation of Hungarian foreign policy, as more attention was given to Euro-Atlantic interests. For more than a decade, the degree of contact declined to a minimum, however, the relations were still free of tensions, within the framework of cordiality.

A new fruitful period began after the turn of the millennium, after the Hungarian Prime Minister, Peter Medgyessy visited Beijing in 2003. The new wave of development was initiated independently by Hungary as the government recognized that China is an unavoidable player in the global economy and international politics, while EU membership made Hungary more attractive to China as well. The government took several confidence-building measures and gestures towards China, including the creation of a new special envoy position within the Prime Minister's Office for the development of Hungarian-Chinese relations and for the coordination of the China-related work of governmental institutions and the public administration[4]. The first results of the new policy were the arrival of a branch of the Bank of China to Hungary (2003), the creation of the Bilingual Chinese-Hungarian Primary School in Budapest (2004) and the initiation of a direct flight connection between Budapest and Beijing (2004). Cultural contacts have deepened as well: the first Confucius Institute was established in Budapest in December 2006[5] and a programme series called "Hungarian Season" was held in China in 2007-08.

Although China was neglected by the first Orbán government (1998-2002), it is glorified by the second (2010-). Viktor Orbán kept emphasizing the importance of the East even before the elections and said that although Hungary's "ship is sailing in Western waters, the wind blows from the East." Prime Minister Orbán visited China at the end of 2010. In Shanghai, Viktor Orbán negotiated a Chinese buyout of the Hungarian biochemical giant, BorsodChem, by China's Wanhua Industrial Group in February 2011. This meeting was returned by Premier Wen Jiabao's visit in Budapest

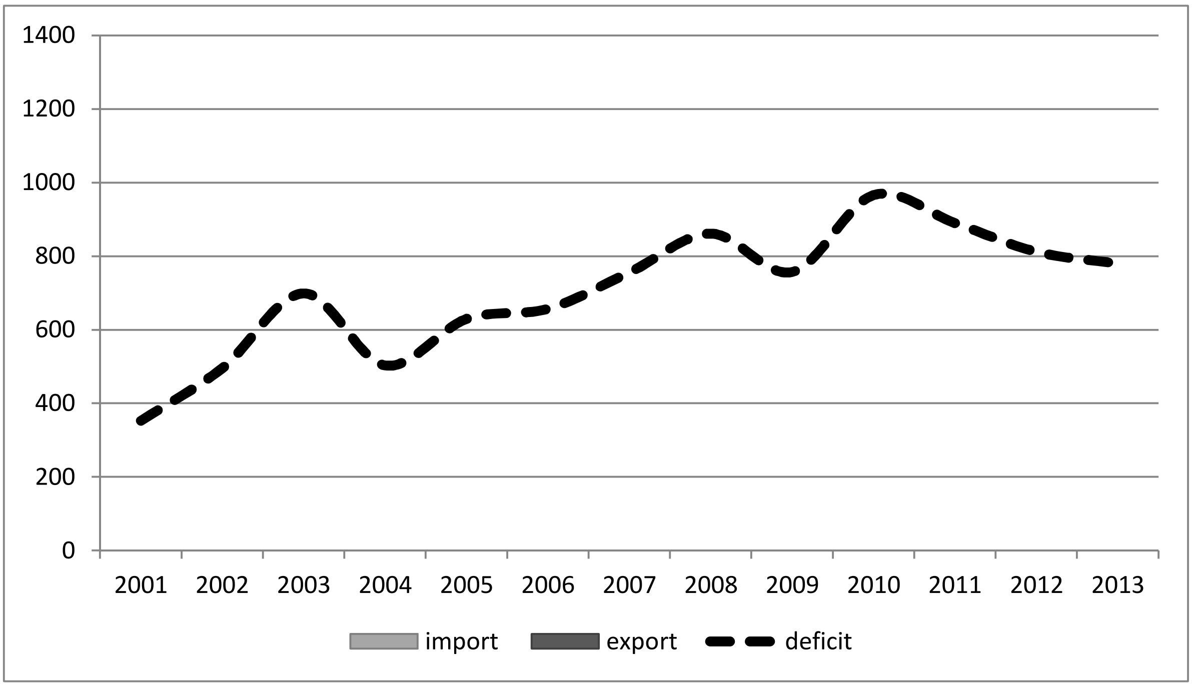
[4] After PM Péter Medgyessy's journey, Chinese President Hu Jintao visited Budapest in 2004. In 2005 PM Ferenc Gyurcsány returned the visit. In October 2009, Vice-President Xi Jinping came to Budapest for an official visit.

[5] Since then, there are two more Confucius institutes: the second one was opened in Szeged in 2012, while the third one was opened in Miskolc in 2013.

in the summer of 2011[6]: Wen made a European tour to three countries only: Hungary, Great Britain and Germany. His journey was started in Budapest and was designed to buy European debts and "help" Europe by shoring up its investments.

The results of this successful relationship-building became almost immediately apparent in the form of economic indicators too. The intensification of trade relations illustrates the success of this period (see *Figure 1*.), however, the import increased to a much greater extent compared to exports, that is, Hungarian foreign trade deficit vis-á-vis China improved impressively[7].

Figure 1. Hungary's trade with China, 2001-2013 (HUF billion)



Source of chart data: Hungarian Central Statistical Office's (KSH) STADAT database, available at http://www.ksh.hu/stadat_eves_3_5

Regarding imports, China is one of Hungary's most important trading partner: since 2005, it is fourth in the ranking (except for 2010, when it held the third position). By 2012, the Chinese share within Hungary's total import increased by more than two-

[6] Before Wen's visit, in May 2011, Chinese State Councilor Dai Bingguo visited Budapest and met with Hungarian President Pál Schmitt and Prime Minister Orbán to discuss joint business deals in transportation, aviation and energy, as well as political and cultural cooperation.

[7] Before Central and Eastern European countries joined EU, Hungary was China's biggest trading partner in the region. Several years later it was replaced by Poland. Since 2010 Hungary is down to the third place.

and-a-half times, while the value of import rose more than five-fold compared to 2003. Between 2003 and 2008, Chinese imports increased dynamically by an average annual rate of 24 per cent. Since 2010, the value of import is between 1200 and 1300 billion Hungarian forints (3934-4261 million euros)[8].

The value of Hungary's export to China is significantly lower compared to the import, however, it shows an increasing trend since the turn of the millennium: it was 412.2 billion Hungarian forints (1351 million euros) in 2013, which is more than ten times the value of Hungarian export to China in 2003. China is the 15th most important partner – and the first out of Asian countries – in the ranking of countries importing from Hungary. Hungarian exports to China represents around 2 per cent of the total Hungarian exports[9].

3. Chinese investments and financial engagements in Hungary

Although Hungary is not a priority target of the intensive Chinese FDI outflows of recent years, since the turn of the millennium Chinese investments show a growing trend here. Chinese investment to Hungary started to increase significantly after the country joined the EU in 2004. According to Chinese statistics, it means a really rapid increase from 0.65 million US dollars in 2005 to 370.1 million US dollars in 2010. In 2010, Hungary itself took 89% of the whole Chinese capital flow to the region (Chen, 2012). By 2012, the amount of Chinese investments has further increased and reached 507 million USD according to MOFCOM data, which is by far the highest in the region. Nevertheless, this amount is far greater when taking into account cumulative Hungarian data, since a significant portion of Chinese investment is received via intermediary countries or companies, therefore it appears elsewhere in Chinese statistics. According to Hungarian reports, Chinese investment in Hungary by 2013 was about 2.5 billion USD, or more[10]. More than 1.5 billion USD from that is the investment

[8] Since 2004, machinery and transport equipment accounts for around 85-90 per cent of Chinese import, while processed products constitute around 10-14 per cent.

[9] A significant share, around four-fifths of Hungarian exports to China comes from the sale of machinery and transport equipment, while manufactured goods constitute around 17 per cent of total exports.

[10] Some of the interviewed Hungarian officials claimed that the stock of Chinese investments in Hungary has already reached 3 billion US dollars.

of the Chinese chemical company Wanhua, which acquired a 96 per cent stake in the Hungarian chemical company BorsodChem through its Dutch subsidiary in 2010 and 2011. This subsidiary also made some investment for the development of BorsodChem later. It is the largest Chinese investment in CEE so far.

In addition to the chemical industry, the investment of Chinese companies in Hungary covers industries such as manufacturing, telecommunications, trade, wholesales or retails, banking, hotels and catering, logistics, real estate and consultancy, etc. According to the data of the Hungarian Investment and Trade Agency (HITA), more than 5000 Chinese companies operate in Hungary, including several multinationals, but most of them are small businesses operating in the service or retail sector: restaurants, perfumeries, and so called 'Chinese shops', selling bargains everything from shoes and clothes to plastic toys. According to the Hungarian Central Statistical Office, the number of Chinese-controlled foreign affiliates increased steadily between 2008 and 2010 and then decreased slightly in 2011. However, the Chinese-controlled companies – with the exceptions of TNCs – typically employ a few people, while their economic performance is also below the average of other foreign subsidiaries (KSH, 2014).

In addition to Wanhua, major investors are Huawei, ZTE Corporation, Lenovo, Sevenstar Electronics Co., BYD Electronics and Comlink. Regarding entry mode, there are examples for quasi-greenfield[11] investments (Huawei, ZTE, Lenovo), as well as M&As (Wanhua) and joint ventures (Orient Solar, BBCA). While Hungary would prefer greenfield investments (as they create jobs), Chinese investors tend to choose the forms of mergers and acquisitions and joint ventures when investing in Hungary.

Hungary is a country where the combination of traditional economic factors with institutional ones seems to play an important role in attracting Chinese investors. As mentioned above, Hungary has had historically good political relations and earlier than other CEECs, since 2003, intensified bilateral relations in order to attract Chinese FDI. Hungary is the only country in the region that introduced special incentive for foreign investors from outside the EU, which is a possibility to receive a residence visa when

[11] Parent companies of Huawei, ZTE or Lenovo haven't built up new operational facilities (as they chose the form of contract manufacturing) but created new long-term jobs by hiring new employees.

fulfilling the requirement of a certain level of investment in Hungary[12]. Moreover, as will be mentioned later on, Hungary has the largest Chinese diaspora in the region which is an acknowledged attracting factor of Chinese FDI: in relevant literature that is a relational asset constituting a firm's ownership advantage (e.g., Buckley et al., 2007). An example is Hisense's explanation of the decision to invest in Hungary: besides traditional economic factors, it was also motivated by "good diplomatic, economic, trade and educational relations with China; big Chinese population; Chinese trade and commercial networks, associations already formed" (CIEGA, 2007).

With qualified population and a lot of Chinese living here, Hungary is considered as preferential partner (Liu, 2013) but there are some further factors, which seem to be favourable for Chinese companies. Chinese experts often mention Hungary's geopolitical position, that is, it is located in the junction of roads and railways, therefore both Eastern and Western markets are easily accessible from there. *Chen* mentions some additional competitive advantages of Hungary, such as Hungary's successful integration in the world economy, better utilization of foreign investment in regional comparison and development advantage over neighbouring countries, including educational system, the potential for innovation and the corporate efficiency of international companies settled in Hungary (Chen, 2009).

3.1. Chinese FDI in Hungary

In terms of size, Chinese companies located in Hungary can be divided into two major categories: transnational corporations (TNCs) and small businesses linked to the Chinese diaspora living in Hungary. Chinese state-owned or private TNCs have been operating mainly in the following sectors: electronics, chemical and pharmaceutical industry, telecommunication, banking and trade.

- One of the early arrivals was *Hisense*. Initially, Flextronics – one of the world's leading EMS (Electronics Manufacturing Services) providers – assembled Hisense's flat-screen televisions for the European market in its factory in Sárvár. In 2006,

[12] Third country nationals are allowed to acquire Hungary's permanent residency status through investing in Special Hungarian Government Bonds that have a minimum 5-year maturity. The minimum initial investment by each subscriber is 250,000 EUR.

Hisense opened its own factory in the industrial park of Szombathely. Some years later, in 2009, Hisense closed its assembly plant due to decreasing European demand caused by the global economic crisis.

- Unlike Hisense, other Chinese TNCs in the electronics and telecommunication sector have had ambitious plans regarding their presence in Hungary. *Lenovo* bought IBM PC Division in 2004 and started to assemble PCs in the factory of Sanmina[13] in Székefehérvár. In 2008, Lenovo decided to finish assembling activities in Székesfehérvár and move to a newly built own plant in Poland. This plan ultimately failed and Lenovo found a new EMS partner – Flextronics – to continue assembling in Hungary. In 2009, Flextronics opened a new plant in Sárvár and started to produce Lenovo PCs, servers and storages. The Sárvár plant is the only facility in Europe where Lenovo brands are produced. This factory supplies the whole European continent. In 2012, Lenovo extended the production agreement with Flextronics and in 2013, as we mentioned before, Lenovo decided to expand its production.
- The world's largest telecommunications equipment vendor, *Huawei* is also about to expand its production in Hungary. Huawei opened its Hungarian office in Budapest in 2005. For some years, Flextronics[14] in Pécs and Foxconn[15] in Komárom assemble Huawei telecom equipment, while in 2013, Huawei also opened an enlarged logistics centre in Biatorbágy.[16] These four units constitute Huawei's European Supply Center, the company's second largest supply centre in the world, which distributes Huawei products to Europe, the Middle East, Russia and North Africa. In Hungary, Huawei also involved in network development for the two major ICT providers (Vodafone and Magyar Telekom). By 2015, Huawei would like to expand the range of products assembled in Hungary and double the number of (direct and indirect) employees from 1500 to 3000. So far, Huawei has invested 200 million US dollars in Hungary.

[13] In 2003, Sanmina bought the former plant of IBM in Székesfehérvár to provide electronics manufacturing services.

[14] Firstly, Elcoteq assembled Huawei products in Pécs, but the company went bankrupt in 2011.

[15] Huawei changed Nokia in the position of the most important partner of Foxconn in Komárom.

[16] The former transportation and warehouse units in Üllő, Budapest and Biatorbágy have been integrated and transferred to this enlarged logistics centre.

- *ZTE Corporation*, another major player of global telecommunications equipment market, is also present in Hungary. The state-owned ZTE[17] opened a representative office in Budapest in 2005 and a subsidiary in 2010. In 2012, ZTE started to operate a new European regional network operation centre (NOC) and a call centre in Budapest. In recent years, ZTE constantly expanded investments in Hungary, which are expected to reach 13.8 million US dollars soon. In 2013, ZTE decided to open a European mobile phone repair centre in Budapest. Like Huawei, ZTE cooperates successfully with ICT providers in Hungary: it is involved in network development for the third biggest ICT provider, Telenor.
- Among Chinese TNCs, *Wanhua* is the biggest investor in Hungary. This state-owned chemical company[18] acquired a 96 per cent stake in BorsodChem for appr. 1.7 billion US dollars in 2010 and 2011. Wanhua rescued BorsodChem from the shutdown.[19] As a result of the acquisition, Wanhua has become the second largest isocyanate producer (after Bayer) in the world. BorsodChem is Wanhua's first step to establish a production base in Europe to manufacture and sell its products.
- In 2009, Energosolar, which produced equipment for solar industry, was closed due to the negative effects of the global economic crisis. Its business and 70 per cent of its employees were taken over by *GreenSolar*, which is a 100 per cent subsidiary of the Chinese *Beijing Sevenstar Group*.
- In 2008, the Chinese mobile phone manufacturer *BYD Electronics* bought the Hungarian plant of the South Korean electronics molder Mirae for 2.14 million US dollars in Komárom.
- In 2013, one of the most important suppliers of Huawei, *Comlink* invested 1.38 million US dollars in Hungary and started to produce fibre optical cables and plugs for telecommunication companies. The company rents a production hall in Szerémi Business Park in Budapest.

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[17] The state-owned Shenzhen Zhongxingxin Telecom Equipment Co. Ltd. is the largest shareholder of ZTE.

[18] The majority owner of Wanhua Industrial Group is Yantai Municipal Government of the PRC.

[19] The global economic and financial crisis hit BorsodChem – the most important employer in Kazincbarcika and the surrounding area – badly. Wanhua helped BorsodChem to get rid of its huge debts and to start restructuring.

Beside these investments listed above, we can find Chinese investors in non-manufacturing sector as well.

- In 2003, *Bank of China*, which is one of the four big state-owned commercial banks of the PRC, established its first CEE subsidiary in Budapest. Its main aim is to play an intermediate role in developing Chinese-Hungarian economic, financial and trade relations. In 2012, Bank of China opened its second branch in Budapest. The Hungarian subsidiary of Bank of China would like to extend it activities throughout the CEE region in the future.
- *Tiens Biotech,* a big Chinese conglomerate based in Tianjin opened its first European office in Budapest in 2000 to sell traditional Chinese medicines in the Hungarian market.
- In 2010, unknown Chinese investors bought Hotel Tisza (Tisza Szálló) in Szolnok, which is a historical building including spa, restaurant and hotel.

In spite of the efforts and supports of the Hungarian governments, unfortunately, there have been some unrealized Chinese investments, including the following examples:

- The environment-friendly packaging manufacturer *Livan* failed to open a factory in Alsózsolca in 2007.
- Due to the global economic crisis, the Hungarian-Chinese joint venture *Orient Solar* failed to open a solar cell and solar panel plant in Berettyóújfalu.
- For some years, there have been negotiations on the building of a citric acid factory (*BBCA*) in Szolnok. According to the latest announcement of the local government of Szolnok, the construction is expected to be started in 2014. The 100-150 million US dollar investment will be financed by China BBCA and the Hungarian Development Bank. However, according to our governmental source requesting anonymity, this investment will not be realized either.

FDI stock in Hungary was around 111 billion US dollars at the end of 2013, based on this and according to our calculations, Chinese investments represent around 2-2.5% of Hungary's total FDI stock.

To summarize the above, in Hungary, most of the significant Chinese TNCs operate in the manufacturing sector and have started to increase their investments in Hungary in the last few years. Chinese TNCs' investments in Hungary are usually not greenfield investments: Chinese TNCs have bought plants of other companies or replaced former partners of EMS providers. Although Chinese TNCs represent a relatively small share of total FDI stock in Hungary, they have saved and/or created jobs and contributed to the economic growth of Hungary with their investments and exports during the crisis. Furthermore, many of them (e.g. Lenovo, ZTE, Huawei, Bank of China) have turned their Hungarian businesses into the European regional hub of their activities.

Hungary's importance as a regional distribution centre can be observed in the field of trade, too. Some big retail and wholesale trade, as well as business matching centres in Budapest – e.g. Asia Center, China Brand Trade Center, Budapest Fashion Center, Budapest China Mart[20] - support the distribution of different Chinese (or other Asian) products[21] in the CEE region and also supply Hungarian customers. Several retail shops run by the Chinese community can be found not only in these centres, but also throughout Budapest and other Hungarian cities and towns. Besides retail, Chinese immigrants often choose to operate restaurants in Hungary.

3.2. Chinese financial engagement in Hungary

As detailed above, since 2004, Hungarian-Chinese political, economic and cultural relations have become even stronger. Several meetings of high-ranking politicians have been organized to promote bilateral relations. The global economic and financial crisis, which has severely hit the Hungarian economy, has opened a new and more intensive phase in Hungarian-Chinese relations. In this new phase, several organizations (e.g. Chinese department of the Hungarian Chamber of Commerce and Industry, ChinaCham Hungary, Hungarian-Chinese Business Committee) have been established and a new foreign economic policy has been launched with special emphasis on the so-called 'Eastern opening'. China has been playing a central role in this strategy since it is

[20] Asia Center and China Brand Trade Center are owned by Strabag SE. Budapest Fashion Center and Budapest China Mart are owned by Chinese investors.

[21] e.g. entertainment electronics, household electronics, IT products, bags, gifts, crafts, accessories, jewellery, shoes, footwear, textile, home textile and garments, etc.

considered as an alternative source of external financing when Hungary is still struggling with the lingering effects of the global economic crisis. Hereinafter, we will primarily deal with bilateral agreements signed during the meetings of high-ranking politicians in the last few years.

In 2011, when the Chinese Prime Minister Wen Jiabao visited Hungary, several agreements were signed (see the box below), which had been prepared and negotiated during the Hungarian politicians' previous visits to China[22]. Officially, the extensive agreements were worth around 3.6 billion US dollars, however, most of them have never been realized.

1. Agreement on the development of air and river transport:

In 2011, the Hungarian government negotiated with HNA Group about a possible investment in MALÉV. Unfortunately, the deal did not realize and MALÉV went bankruptcy in 2012. The planned building of an airport near Vát and Porpác also failed to realize.

2. Agreement on the development of railway transport:

Hungarian State Railways (MÁV) and China Railway Construction Co. agreed on the construction of a downtown-to-airport high-speed train connection in Budapest. The building has not started yet. The realization of this investment is unlikely because of the shutdown of Franz Liszt Airport Terminal 1 after the bankruptcy of MALÉV.

3. Agreement with Huawei on the creation of its European Supply Centre in Hungary:

As mentioned above, this investment was successfully realized.

4. Financial agreement between BorsodChem and Bank of China

The Bank of China agreed to provide 1.5 billion USD to finance the long-term development of BorsodChem owned by Wanhua.

5. The China Development Bank offered 1.38 billion USD credit for Hungarian–Chinese development plans.

In November 2011, Minister of National Development Tamás Fellegi visited China to negotiate on the potential projects (Orient Solar solar cell and solar panel factory in Berettyóújfalu, BBCA citric acid factory in Szolnok, downtown-to-airport high-speed train connection). None of these projects have come true.

6. China promised to purchase a certain amount of Hungarian government bonds.

In October 2011, it was announced that China had started to buy Hungarian government bonds in small amounts.

In 2012, Chinese Vice Premier Li Keqiang visited Hungary. During his stay, seven bilateral agreements were signed. Most of them only confirmed former agreements of

[22] Such negotiations took place when the Hungarian Prime Minister Viktor Orbán visited China in October 2010, or when the Minister of National Development (also the Special Government Commissioner of Hungarian-Chinese economic relations) Tamás Fellegi visited China in December 2010 and April 2011.

2011 and – as analysed above – the planned infrastructural development and joint venture investments (e.g. Orient Solar, BBCA) have failed to be realized ever since. The realization of Chinese investments can only be observed in case of TNCs, however, their investment decisions are usually independent from bilateral meetings of high-ranking politicians. Nevertheless, the Hungarian government tried to strengthen these companies' commitments to Hungary by concluding official bilateral agreements with them.[23]

In April and November 2013, State Secretary of Foreign Affairs and External Economic Relations, Péter Szijjártó – also Government Commissioner for the development of Hungarian-Chinese economic relations – travelled to China to negotiate on further development of bilateral economic relations. Among others, he negotiated the construction of the so-called 'V0 rail cargo ring', a ring rail line around Budapest, as a possible infrastructural project, which could be financed from China Development Bank's 1,38 billion US dollars credit line.

In 2013, new Chinese financial sources were opened for Hungary. In the framework of China–CEE cooperation, Hungarian Eximbank and its Chinese counterpart concluded an agreement on a 138 million USD (100 million euro) credit line for export financing. The amount was doubled later. According to the original plan, this credit line will allow Hungarian SMEs to export to China, while it will also help Chinese companies operating in Hungary to access preferential export financing[24]. A 500 million US dollar "Chinese – Central Eastern European Investment Fund" was also established, to which Hungary will contribute with 30 million US dollars. In return, it can channel 100 million US dollars from the Fund into investments in the field of infrastructure, telecommunication, energy and manufacturing. During the China–CEE summit of 2013, in Bucharest, China, Serbia and Hungary also reached a tripartite agreement on the Budapest-Belgrade railway modernization. This investment is planned to be financed from the above mentioned Chinese – Central Eastern European Investment Fund.

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[23] In the framework of the new foreign economic strategy, the Hungarian government has started to sign 'strategic cooperation declarations' with 40 TNCs to reinvest their earnings in Hungary, develop R&D activities, increase their participation in vocational trainings and strengthen supplier relations with Hungarian SMEs.

[24] BorsodChem (Wanhua) has already signed an agreement on a 96.6 million USD credit with Eximbank.

In 2014, the Hungarian Prime Minister Viktor Orbán visited China, accompanied by a large delegation of both politicians and businessmen. In the bilateral economic negotiations, Chinese TNCs operating in Hungary played a central role again, while there were no progress in the field of financial issues, except that Prime Minister Orbán and the President of Bank of China negotiated the establishment of a branch network of Bank of China in Budapest to finance Chinese companies' activities in the Central and Eastern European region.

Although we have no information about the exact amount of Hungarian bonds purchased by China, we can state that China's 'helping hand' could not save Hungary from turning to IMF for financing at the end of 2011. On the other hand, according to media reports, hundreds of Chinese citizens purchased the special bonds offering permanent residency in Hungary for 250 000 euros. Some unofficial sources mention more than 400 Chinese applicants[25].

4. Main factors determining the development of relations

When it comes to investment issues, Hungary ranks first by far among CEE countries. As it has been mentioned several times above, the cumulative value of Chinese investments in Hungary is probably more than the rest of the region combined, and although precise statistics are not available, according to estimates its amount is somewhere between 2.5 and 3 billion US dollars. Therefore it is natural to raise the question whether political relations and the Chinese perceptions of Hungary or the Hungarian attitudes towards Chinese do affect investment relations, or not.

4.1. Chinese opinions on Hungary as an investment destination

Unfortunately it is hard if not impossible to find reliable and scientifically valuable sources on the Chinese sentiment about individual CEE countries; therefore we have to rely mostly on interviews or the communication of Chinese politicians, businessmen and scholars. However, even interviews and other types of Chinese sources might be

[25] The Program was officially launched and opened to applicants from China on 18th April 2013 in Beijing.

misleading, since the Chinese side tends to repeat slogans of potential fields of cooperation, which have originally been created by CEE countries themselves. For instance, Hungary has been advertising itself as a „hub" or „centre" for China in the EU, and polite Chinese sources like to repeat this idea, basically without any certitude, since Beijing probably does not need any „hub" or „centre" anymore in the Union.

Fortunately, there are some real features of Hungary mentioned by all Chinese sources as attractive forces of the country:

Excellent political relations - Chinese diplomats, politicians and businessmen always start their speech with the glorification of bilateral political ties. Indeed, Budapest and Beijing nurture one of the most pleasant high level political relationship compared to other European capital cities. As mentioned earlier, the dawn of the new era began in 2003 when the Hungarian Prime Minister visited Beijing for the first time after the political transition of the country, while during the next decade almost every Hungarian PM paid visits to China, some of them even multiple times. The appointment of a special government commissioner for China and the announcement of the Eastern Opening Policy were also well received in Beijing, perceived as a clear sign of Hungarian political will to boost bilateral relations. This perception was further strengthened when the Hungarian PM refused a meeting with the Dalai Lama in 2010, and when authorities made it impossible for the World Uyghur Congress to convene a meeting in Budapest in 2013. Some Chinese sources regard the latter one as a great gesture of the Hungarian government to Beijing, since Chinese diplomats in France were not able to prevent the convention there.

EU membership - It is obvious that Hungary, along with other V4 countries enjoys the benefits of its EU membership. Chinese activity has increased significantly in Hungary since its accession to the Union, however the WTO accession of China and its new "Go Global Strategy" might have played an important role in its opening to the CEE region as well. Meanwhile the EU membership has its dark side as well from the Chinese perspective. On the one hand Beijing and different segments of the Chinese population have downgraded the EU's general assessment since the Eurozone crisis, while on the other hand, EU regulations are major obstacles of Chinese involvement into public procurement projects. Given the fact that one of the major goals of Beijing is to win infrastructure tenders in the region, the EU seems to be the main barrier.

Favourable geographical location of the country - Without any doubt Hungary stretches out in the heart of Europe, important EU transportation corridors cross the country and Hungary enjoys close relations with the CEE region. Therefore it provides an excellent platform for product distribution and other services. Hungarian governments have tried their best to advertise the country as a hub, centre or bridge for China in the EU. As it has been mentioned before, the Chinese side is always polite enough to repeat such slogans, however it is not clear whether they also believe in it or not. According to interviews with experts, China does not need such a hub or centre in Europe, since it is already present almost everywhere. However, Hungary's advantageous location is a recurring element of Chinese communication with regard to the attractiveness of the country.

Bank of China - It is clear that the setup of the first regional branch of the BoC in Budapest was originally the result and not the source of Hungarian attractiveness. Still, ever since its opening, it has always been a major symbol of the success of Sino-Hungarian cooperation and its spillover effect influenced the arrival of other Chinese companies in the region. According to recent negotiations between the Hungarian PM and the Chairman of the Board of Directors of the BoC, it seems probable that the bank will upgrade its current presence to the status of a regional headquarter. Both the Chinese and the Hungarian sides emphasize that this step is not only an obvious sign of Chinese trust in Hungary, but it is an opportunity as well to attract even more investment into Hungary from the Middle Kingdom.

Chinese diaspora – Most likely there is a strong relation between the success of the Chinese-Hungarian relationship and the Chinese population in Hungary. The fact is that within Central and Eastern Europe (CEE) the highest Chinese population can be found in Hungary: there are around 15 000-20 000 native Chinese living here[26]. This

[26] The majority of this population arrived in the early 1990s, after a Hungarian-Chinese consular agreement of 1988 abolished visa requirements between the two countries. In 1990, 11 000 Chinese people arrived to Hungary, while in 1992 the number was even higher, 27 000. Overall, in the 1990s Hungary had a Chinese minority of approximately 40 000, while the number of Chinese people living in Hungary was only a few hundred in the 1980s. After 1992, the Hungarian authorities re-introduced the visa requirement. Some of the original Hungarian Chinese population left the country, went home or moved to other countries in the following 5-10 years, but close to 30 per cent have stayed, supplemented

population is certainly one of Hungary's biggest advantages when building economic, political and cultural relations with China as confidence and good impressions are of particular importance for Chinese people. Today, members of the second generation with good command of Hungarian and Chinese are already setting up their own businesses and they provide a potential pool of human resources for mainland Chinese investors. Obviously it is nearly impossible to scientifically measure and evaluate the exact role of this minority in Chinese investment to Hungary, still, as we know it well, *guanxi* does matter.

Bilingual School - The establishment of the Chinese-Hungarian Bilingual Elementary School in Budapest in 2004 was also a significant milestone of bilateral relations. The original aim of the school was to provide educational opportunities for children of the Chinese diaspora, therefore, among the first students there were 90 Chinese and only a dozen Hungarian. Not surprisingly, Hungarian parents have soon realized the potential of such a school, thus 70 per cent of the kids are already Hungarian today. The school might be an important pulling factor for Chinese investors, since it is the only institution in the region which provides proper education for expat's children.

4.2. Hungarian political and social attitudes towards China

Although the Hungarian political arena is rather divided, Sino-Hungarian relations enjoy a privileged position on all major parties' agenda. The second and third Orbán administrations not only continued the efforts of their predecessors but even increased them in order to forge excellent political relations with Beijing. No matter how fierce the domestic political debates are, none of the parties question the importance of China. This attitude might have some roots in the generally favourable views of Hungarians about China.

The main goal of Hungarian governmental policies towards China has always been economic in nature since 2003. Good political relations were and are the tool and not the purpose. The purpose has been the boosting and possibly the restructuring of

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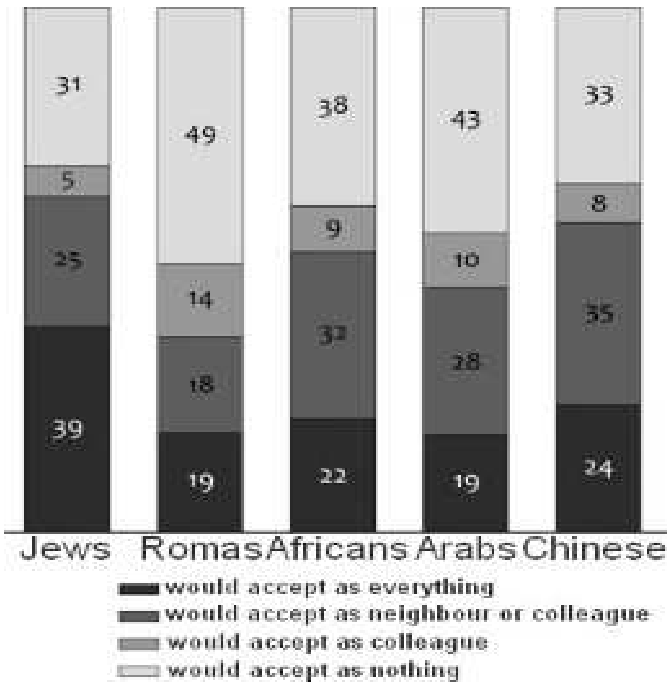
over time by a small number new arrivals – for the most part relatives of the Chinese already living in Hungary.

bilateral trade, the relative reduction of the trade deficit and the inflow of Chinese FDI to create jobs. Recently a pure political factor has been involved as well, since the potential Chinese support might have provided political capital to the Hungarian government during its clashes with the EU. Generally speaking, the impression is that in their public communications Hungarian politicians tend to overestimate the significance of the Chinese involvement in the country, and they generate exaggerated hopes and expectations in the society as well. What is for sure, is that the important player of the political arena embrace a rather pragmatic stance with regard to China, i.e. possible political concerns are overruled by potential economic gains. When citizens criticize this pragmatic attitude, politicians usually point at Western examples, saying that major EU members do not really care about political issues either.

The attitude of the Hungarian society is complex and hard to evaluate. On the one hand, compared to general xenophobic tendencies, the level of tolerance towards Chinese people is fair enough. According to surveys, the level of their acceptance is much better than sentiments towards Arab, African or Roma people.

Figure 2. Social distance towards ethnic groups in Hungary



Source: Simonovits-Szalai, 2013

Still, this result cannot be evaluated as a clear sign of Hungarian openness towards

Chinese people. However, according to other opinions, Hungarians are more tolerant to immigrants from the Middle Kingdom, since during the severe downturn of life quality in the first decade after the transition, the low prices of Chinese markets and restaurants helped the mitigation of the shock to some extent. It also counts that the Chinese diaspora has always kept a low profile, major conflicts or criminal activities have been rarely publicized, and the overall image of Chinese immigrants can be described as 'diligent and humble'.

However, despite all efforts of modern media and the three Confucius Institutes in Hungary, misconceptions are still alive. The most common perception of the Chinese people and China is about poverty, low quality products, environmental degradation and cheap restaurants. It is only a recent development that people have started to realize the modern and rapidly changing side of China. Unfortunately public opinion surveys aimed specially at Hungarian attitudes towards the Chinese are not available, therefore we have to rely on interviews and personal impressions so far.

5. Conclusion and policy recommendations

As described above, over the past decade, the Hungarian government – regardless of political orientation – has committed itself to the development of its relations with China. And Hungary indeed occupies a prominent place among Chinese people and government compared to its geopolitical position. When considering the reasons for choosing Hungary instead of other countries within the region, several factors may be taken into account.

Many Central European countries have mixed feelings of closer economic ties with China: they fear of the reliability of Chinese firms, don't want to lose trade and business opportunities, or they simply have reservations about the lack of democracy in China and sensitive to human rights issues (Russell-Matthews, 2011). Hungary is more lenient in this field, open to many types of cooperation, takingevery opportunity to promote the bilateral trade and economic relations with China. In fact, the government itself is very cooperative: they support China in many sensitive issues such as lifting the arms embargo or granting market economy status to China. Besides, the

Hungarian government never meets diplomatic delegations on governmental level from Taiwan or Tibet and also tends to remove anti-China protesters from the streets of Budapest, when a high-level Chinese delegation visits the Hungarian capital.

Hungarian politicians strongly believe that the above mentioned factors and the strong support of the Eastern Opening Policy create an irresistible investment environment for the Chinese. Indeed, it is hard to imagine any system of incentives more sophisticated than the current one. In fact, Hungary has by far the highest level of Chinese investment not only in the V4 but in the entire CEE region. However, if one takes a closer look, it becomes clear that the majority of Chinese investment is connected to one single deal, the already mentioned acquisition of BorsodChem by Wanhua. It means that the success of Hungary as an attractive destination for Chinese FDI is questionable, since the company had been sold to foreign investors well before of the arrival of Wanhua, and the main aim of the Chinese side was to acquire the isocyanate production capabilities. Thus, the acquisition had almost nothing to do with the Hungarian investment environment or with the Chinese perception of Hungary. Although it might be true that the Hungarian government played an important role during the decision to sell the chemical factory to the Chinese.

Another interesting detail is that not even a penny of fresh Chinese investment has arrived to Hungary since the announcement of the Eastern Opening Policy. This is partly due to the Eurozone crisis and partly due to some loss of trust in business circles. Though it is remarkable that despite the strong, high-level support from both Budapest and Beijing, businessmen have not found real opportunities. The reason behind might be the diverging economic interest of the two sides. Hungary would gladly receive Chinese greenfield investment and cheap if not free financial support. Meanwhile the Chinese are interested in infrastructure investment through public procurement and in providing credit lines which are not compatible with EU regulations. According to in depth interviews, there are some miscomprehension as well on the Chinese side with regard to Hungarian needs. It seems the Chinese believe that Hungary desperately needs their capital, which is not true. In fact Budapest will never risk the billions of Euros of the EU funds, in exchange of a much smaller and much more uncertain inflow of Chinese capital.

As detailed above, Hungary is willing to deepen a pragmatic cooperation with China, however, for the time being this objective appears rather in the field of rhetoric and politics, while the economic results lag behind in recent years. *Liu* argues that Hungary had developed an advanced and comprehensive strategy towards China because of strategic considerations: to mitigate the lash caused by its uncomfortable ties with the EU (Liu, 2013). In fact, the Hungarian government proudly repeats its forerunner role in the region and its intention to be the bridgehead of the China-CEE cooperation, however, other countries of the region also began to develop their relations with China and achieved more success recently (e.g. Poland's strategic partnership with China), compared to Hungarian-Chinese relations.

In order to attract more Chinese investment, the Hungarian government should find a balance between Hungarian needs and Chinese plans to avoid miscomprehensions mentioned above. Hungary should offer more opportunities and incentives for potential Chinese investors while authorities should also help them to familiarize with laws, regulations and business habits in Hungary. Simultaneously, the Hungarian (business) society should learn more about China and Chinese business practices.

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