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How Hungary Perceives the Belt and Road Initiative and China-CEEC Cooperation

Editor-in-chief
CHEN XIN



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INTRODUCTION

Hungary is a middle sized country either in the terms of national territorial area or in terms of population in Central Europe. However, Hungary has its special status in developing relations with China. In November 2016 when the Chinese foreign minister Wang Yi received the visiting Hungarian counterpart Peter Szijarto who is attending the first China-Hungary working group meeting on implementation of the Belt & Road Initiative (BRI), Wang said that there are a lot of Firsts which the bilateral relationship had made. Hungary is the first European country who signed the inter-governmental cooperation memorandum with China on implementation of BRI, the first country who had set up and started the working group meeting with China implementing BRI, the first country in Central and Eastern Europe (CEE) China had set up RMB clearance bank, the first country in CEE who had issued RMB Bonds, the first country in CEE China had set up tourist representative office, as well as the first European country where they run the bilingual school in their mother language and Chinese language in the national education system. All these Firsts witness the high level of China-Hungarian relationship. Last but not least, Chinese leaders had visited Hungary in recent years. Xi Jinping had visited in 2009 and Li Keqiang in 2012, as well as Hu Jintao in 2004 and Wen Jiabao in 2011. It is the only such country in CEE, nevertheless in the world.

In 2011 when Premier Wen Jiabao visited Hungary, China-CEEC Trade and Economic Cooperation Forum had been held in Budapest, which became the prelude of the China-CEEC Cooperation Mechanism that had been established one year later in Warsaw. After the official

announcement of BRI, all 16 CEE countries in the China-CEEC Cooperation Mechanism were covered by BRI. In June 2015, Hungary became the first European country who had signed the Memorandum of Understanding with China on “Jointly Building the Silk Road Economic Belt and the 21st Century Maritime Silk Road”. In November 2016, China and Hungary set up BRI joint working group and Hungary became the first European country who has the institutionalized cooperation in BRI. In 2017, China-CEEC Summit will be held in Budapest, Hungary will be the host again after 6 years cooperation and welcome the leaders of China-CEEC Cooperation Mechanism, by deepening the such cooperation mechanism and promoting the implementation of BRI in CEE region.

This Think Tank Report has a special Hungarian angle. The editor of the Report had invited the scholars from famous Hungarian Think Tanks and research institutions to drafting papers, and elaborating their understandings on BRI and China-CEEC Cooperation. The Report should be the first product on BRI from a single BRI country.

There are several significance of the Report. The first one is the Preface written by Cecilia Szilas, the Ambassador of Hungary to the People’s Republic of China. In her opinion, the world economic center of gravity is shifting from West to East, from the Atlantic region to the Pacific region with China being the focus. In 2010 the Hungarian Government decided that in addition to their traditional European markets it was necessary to put emphasized focus on developing economic and trade relations with the Eastern countries that have maintained significant growth during even the worst period of the crisis. This is what Hungary calls the “Eastern Opening” policy. The most important among them is the People’s Republic of China, the most significant trading partner of Hungary in Asia. As Hungary had opened toward the East, China had announced its own “One Belt, One Road” Initiative, to revive historical Silk Road economies and trade ties towards the West. The two policies complementing each other, Hungary, expressed its intention to contribute to the “One Belt, One Road” Initiative very early on, becoming the first “Belt and Road” Country in the European Union.

The second significance of the Report is the authorization from the relevant Hungarian authorities on the permit to include two important

speeches on BRI and Relations with China by the Hungarian Prime Minister Viktor Orban and the Governor of Hungarian Central Bank (MNB) Gyorgy Matolcsy respectively.

In January 2017, invited by the MNB, the editor of the Report had attended the Lamfalussy Conference 2017 in Budapest. Viktor Orban had delivered a keynote speech at the Conference, which had been included into the Report. In his speech, Orban points out that China's rise draws attention in Europe to a psychological problem, whether there is a willingness to accept China's rise. There is a saying that "whatever exists is possible", it applies to China, as well to the UK and USA. But the Europeans do not understand this, at least when it comes to China's rise, the Brexit as well as the "America First". Instead of trying to learn from this, they invest a considerable energy in explaining that what exists is not really there. Or if it is, then it is only temporary and without foundations. In fact, since the 2008 financial crisis, the world economy and world politics have experienced a paradigm change, from single center of power to multiple centers of power. And today the success of European countries is measured by how rapidly they have been able to implement this change: which ones responded immediately, which ones reacted more slowly, and which ones are still in the process of waking up. A necessary concomitant of any change of paradigm is that the followers of the old order must engage in fierce debate with the followers of the new order. A world order with multiple centres has great many inherent opportunities to offer. Here is China. In Orban's opinion it is clear that China is not a comet, but a fixed star, that will have a determining role in the world economy for many decades at least. With due respect it should be mentioned that in 2013 it was President Xi Jinping who launched the "One Belt, One Road" initiative, which was the first in a series which Orban believe will follow in the period ahead. Regarding Europe, Orban declares that Europe is struggling with four major crises at once, namely growth crisis, demographic crisis, security crisis as well as foreign policy crisis. Brussels has become enslaved to a utopia, and recently it has been unable to respond to any of the crisis satisfactorily. The European continent is becoming ever weaker: it has been reduced from a global player to a regional player, and soon it will be forced to struggle even for the status of a regional player. If we look to the European continent's

successful periods, we can see that Europe was never strong when it was directed by a single centre of power. We were strong when multiple centres of power existed within Europe. And today, it is policies of Brussels that transform these centres of power into a single centre of power. This answers the question of how we got to where we are today, referred to Orban's speech. Hungary has turned from a black sheep into a success story from 2010 to 2016. Orban concludes the Hungarian model consists of four parts, namely political stability, strict fiscal policy, a welfare society as well as eastward opening. At the heart of the eastward opening lies respect instead of trade, and those who do not accept that respect takes priority over ideology will never be able to open to the East, because they do not understand the peoples of the East. In this respect Hungary is luckier, because Hungarian is an eastern people which was infused with Christianity, and this gives Hungarian a special perspective, enabling Hungarian to understand all that is happening in China.^①

Another speech was made by Gyorgy Matolcsy, the Governor of the Hungarian Central Bank, who delivered at the 54th Annual Conference of Hungarian Economist on 15 September 2016. The title of the speech is "Hungary: A Key State on the Silk Road". Matolcsy started with the comparison between Hungary and Greece which went into crisis one and after another. Due to the different counter-crisis approach, Hungary is out of the crisis, therefore Greece is still suffering. The Greeks went down an orthodox, traditional, conventional path of economy policy forced on them by the "troika" (IMF, European Committee, European Central Bank). The Hungarian chose a specifically Hungarian path, focusing on structural reforms, and were able to preserve the autonomy of the economic policy. The path forced by the troika narrowed Greece's room for manoeuvre. The way we chose broadened Hungary's room for manoeuvre. The Greeks raised income tax, introduced property tax, the policy was accompanied by lay-offs and pension cuts. The minimum wage was lowered and they tried to implement privatisations. The

① Hungarian has been regarded as a nation originated from East. For example, Hungarian is the only nation in Europe who has the family name first and the surname the second.

Hungarians cut income taxes and the taxation balance was shifted to turnover and sectoral taxes. They introduced public employment and the career model. The Hungarian structural reforms were included in the first and second Széll Kálmán Plans, the national development plan. Hungary is one of the three best performers in the European Union regarding public debt reduction, and Greece is one of the five worst performers. In the second part of his speech, Matolcsy compared the economic development path between Hungary and Poland. In the past 20 years, the Polish have been the best in the European Union. With their annual GDP growth of 4% lasting for twenty years, they glided, slid over the crisis of 2008-2009 and there was not a downturn. There is a reform competition going on in the entire region. The Polish are in a better position because they introduced structural reform 10 years earlier, at the beginning of the 2000s, when Hungary indebted. The direction of the Polish reforms and the Hungarian transformation commencing 10 years later was the same. The Polish won the competition between 2000 and 2010. There are two or three similar countries in the European Union, such as Germany, where the global financial crisis did not toss the economic performance into the depth. But why had the Polish introduce the reforms ten years earlier? Because they were in a crisis then. They were motivated to the reform policy by such challenge. Hungary lost the reform competition against Poland in the 2000s, but since then Hungary have been standing firm. In the last part of the speech, the Governor had pointed out that all the schemes must be prepared concentrating on three big centres of world economy, namely Europe, North America and Northeast Asia and East Asia, especially China. Hungarian GDP is €100 billion, the Austrian is €300 billion, that of Baden-Württemberg is €460 billion, the Bavarian one is €500 billion. The difference is great, and still, it is reasonable to talk about the idea of implementing a sustainable catch-up turnaround and process in the next 30 years. The second €100 million of the Hungarian GDP can be found in Asia, especially in China. Hungary is in the globalization through German channels, now Hungary should pay more attention to Silk Road because it is where the second €100 million can be achieved. The Hungarian Central Bank had promoted the implementation of BRI in Hungary, such as currency SWAP with PBoC, Budapest RMB Initiative, RMB dominated bond purchase, Issuing Tim

Sum Bond in Hong Kong. Last but not least, BOC Hungaria Co. had been authorized as the RMB clearance center in Central and Eastern Europe.

The third significance of the Report is the invited papers by the two former ambassadors of Hungary to China. Sandor Kusai was the Ambassador to China between 2008-2014. He had personally experienced the period of the preparation and the initiation of BRI and China-CEEC Cooperation Mechanism. The transregional Cooperation between 16 CEE Countries and China went through a two-phase history of establishment, stabilization and then in-depth development within six years, and got closely interconnected with BRI. This cooperation achieved considerable results and acquired some new and unique characteristics, which provided a solid basis for its further development. The interests and motivations of its participants continue to evolve under the influence of changing regional and global environment, especially under the pressing need for an improved model of globalization. Kusai sums up some lessons of its development and identifies some major tasks for preserving its dynamism, focusing on the win-win economic cooperation, strengthening its transregional character, improving its perception in the European Union, and adapting it to the changing global environment. The accomplishment of those tasks may guarantee and improve further the bright prospects for this valuable cooperation framework.

Juhász Otto was the Hungarian Ambassador to China in 1990s. He studied in Beijing in 1950s and now continues his study on China with papers and books. The paper he submitted to the Report is “The New Challenge for EU and the New Amber Road” which is together drafted by Prof. András Inotai, who was the director of the Institute for World Economy at the Hungarian Academy of Sciences. The authors analyze the crisis and challenges the EU was facing and as one mistake induced another, the EU eventually walked into the Turkish trap. A great Hungarian poet called Hungary a “ferryboat-country”, meaning that Hungary shuttles between the Western and the Eastern banks of an imaginary river between the East and the West. Building China-CEEC relationship does not contradict or even less undermine EU solidarity, since China is obviously interested in a stronger Union

which has the capacity to become a key player and one of the centers of international politics. Ambassador Juhasz had raised the concept “Amber Road” in December 2014 in *Guangming Daily*. The antique Amber Road was an important and well-built route serving the Roman Empire. Its building started in the beginning of the 1st century. It led from the Baltic Sea to the Adriatic Sea at Aquileia. Amber was transported along this road to Rome, Greece and Egypt. Some sections were used even in the 19th century. The construction of the Budapest-Belgrade railway is a part of the “Sixteen Plus One” project. This line would only satisfy the requirements of the region and China, if it was extended to the Baltic countries in the North and to Piraeus in the South. Such a North-South transport corridor has a historical antecedent from the European antiquity, therefore it is justified to call it the New Amber Road. The realization of the New Amber Road would play an important role in the development of closer links between these countries. The authors conclude that the Western end goal of OBOR would not be an isolated CEE. The ultimate results should enrich the mutually advantageous partnerships between the whole Europe, including the whole of the European Union and China.

The following paper is prepared by Gabor Braun, a senior economist at the Hungarian Institute of Foreign Affairs and Trade, a Think Tank affiliated to the Ministry of Foreign Affairs and Trade of Hungary. In his paper “Chinese-Hungarian Economic Relations”, he argues that the ‘One Belt, One Road’ initiative provides a proper and inclusive framework for strengthening the partnership with the interested countries along the New Silk Road. Closer economic cooperation in the fields of policy coordination, trade and investment promotion, infrastructure development and financial systems may also offer solutions even to some internal economic difficulties. Nonetheless, cooperation should be realized in different levels (e.g. China-EU, China-CEECs, bilateral and inter-institutional levels) and on voluntary basis according to the particular issues. One of the best example is the so-called “16+1 cooperation”, which incorporates different mechanisms and arrangements between China and sixteen Central and Eastern European Countries (CEECs). Hungary perceives that it may have an outstanding position concerning

the China-CEECs cooperation.

The Report also includes two papers from CEE regional perspective. One is conducted by Viktor Eszterhai, who is an analyst at the Pallas Athéné Geopolitical Foundation (PAGEO) fund by the Central Bank of Hungary. In his paper titled “The Central and Eastern European countries’ attitude toward the OBOR initiative: hopes and reality”, he introduces the general situation of the China-CEEC cooperation and points out that Central and Eastern European countries have been especially supportive toward the grand vision of the Chinese foreign policy, the “One Belt, One Road”, since the region sees the initiative as a unique opportunity to strengthen their economies in order to close the gap with the Western part of Europe. He also examines the validity of the optimism in Central and Eastern European countries toward the “One Belt, One Road” by introducing both the possible positive and negative impacts of the initiative. Another paper “China and V4 Region” is jointly prepared by the researchers at the Antal Jozsef Knowledge Center (AJTK), a prominent Think Tank in Hungary as well as in V4 region. Talking about Central Europe, we cannot neglect Visegrad Group (V4), which is a sub-regional cooperation fund by Poland, Czech Republic, Slovakia and Hungary after the cold war. After the accession to the EU, it is still an important platform to coordination and collective actions among the V4 states. V4 countries take 70% of trade volume between China and 16 CEE countries. Chinese may need V4 to represent BRI’s interest on a European level. However, plans should be more transparent to European and V4 partners. V4 might also need to join big institutions coordinating the realization of the project, like AIIB, and, parallelly, create their own institutions responsible for the same matter.

The last but not least there are two papers contributed by GKI Economic Research, a prominent economic Think Tank. One is by Dr. Miklos Losoncz, a senior researcher, the other is by Andras Vertes, the President of GKI Economic Research, and once the premier candidate in 2009 in Hungary. Losoncz made a comparative analysis of the Visegrad countries concerning transfers from the European Union, and the capability absorbing funds. Vertes argues the impact of EU funds for the Hungarian economic growth and competitiveness.

The idea of this Think Tank Report is born in Budapest when I was

invited by the Central Bank of Hungary for conferences and seminars in November 2016. During the different academic activities, I got in touch with a number of Hungarian scholars and researchers, and felt the growing heat on BRI and on China-CEEC Cooperation, either from the academia or political figures. I was influenced by such a flame of friendship and made up my mind to work on editing a Think Tank Report to reflect the original Hungarian thoughts. The invitations had been sent and within two and half months, all the papers had been received. I appreciate very much for all the contributions from the authors and their hard work. Special thanks to those who had provided full support for the Report: Dr. Horvath Marcell, the director of the international cooperation at the Central Bank of Hungary; Peter Antal, director of the Antal Jozsef Knowledge Center (AJTK), as well as Adam Kegler, the deputy director of AJTK; Ambassador Marton Schoberl, director general of the Hungarian Institute of Foreign Affairs and Trade; Anton Bendarzsevszkij, director of the Pallas Athéné Geopolitical Foundation; and Tamas Veres, counselor at the Hungarian Embassy in Beijing. Last but not least, the publication of this Report had received full support from Prof. Huang Ping, secretary general of the China-CEEC Think Tank Network, and Dr. Liu Zuokui, head of the office of the Secretariat. Without those support, it is impossible to provide the Report to the respect readers.

I also would like to thank the team who makes significant contribution to the out come of Report. They are Dr. Li Danlin, the deputy director of Editor Board of *Journal of Euroasia Economy*, and Ma Junchi, a junior researcher at the Division of Central and Eastern European Studies, in the Institute of European Studies, Chinese Academy of Social Sciences. All the heartfelt thanks to their hard work.

Dr. Chen Xin

February 2017, Beijing and Budapest

PREFACE

Recently, we are witnessing more and more significant changes in the status quo of the present world order. Massive actions, events and dynamic measures in world politics with all their consequences, are forming the new political and economic landscape in the global range. We are approaching a new era of emerging and strengthening poles in the world that could lead to a truly multipolar world. A world where each nation can claim the right of putting their own interests first, also a world where nations cooperating with other nations according to their own and mutual interests.

In Hungary, we believe that there is no single policy that could be equally successful for every nation, as they are extremely diverse. We believe that the key for the development of world economy is the co-existence of dissimilar models and different approaches to economic policy. For that very reason it is better to welcome the rise of new economic poles and new political centers, rather than see them as a threat. A world with multiple centers have many opportunities to offer.

It is recognizable that the world economy's center of gravity is shifting from West to East, from the Atlantic region to the Pacific region with China being in the focus. This transition, that is happening gradually, is complex in nature but the outcome is clear: the 21st century will be the era of Asia.

After the recent global economic crisis we took the view that Europe was unable to grow by its own. In 2010, the Hungarian Government decided that in addition to our traditional European markets it was necessary to put emphasized focus on developing our economic and

trade relations with the Eastern countries that have maintained significant growth during even the worst period of the crisis. This is what we call the “Eastern Opening” policy of Hungary. On the basis of this foreign policy we strive for a harmonious and comprehensive political, economic and cultural partnership with leading countries in the region. The most important among them being the People’s Republic of China, our most significant trading Partner in Asia.

This sounds simple, but there is something that the Western world must understand: we cannot simply decide to open our economy towards other countries. At the heart of “Eastern Opening” also lies mutual respect. Understanding that mutual respect sometimes comes before ideology is the key to success in being able to open toward the East.

As Hungary had opened towards the East, China has announced its own “One Belt, One Road” initiative, to revive historical Silk Road economic and trade ties towards the West. The two policies complementing each other, Hungary, expressed its intention to contribute to the “One Belt, One Road” initiative very early on, becoming the first “Belt and Road” country in the European Union. Hungary signed the Memorandum of Understanding with China on “Jointly Building the Silk Road Economic Belt And the 21st Century Maritime Silk Road” during the official visit of Foreign Minister Wang Yi in June, 2015.

Hungary considers the “One Belt, One Road” initiative as a grand civilization project and has a similar view as China’s, that the initiative is a common aspiration to all countries along the silk routes. In addition, we firmly believe that the “Belt and Road” cooperation features mutual respect and trust, a win-win cooperation, and mutual learning between civilizations, as it is in the past served the interests and benefited both Europe and China.

It is important to underline that China’s “One Belt, One Road” and Hungary’s “Eastern Opening” strategies overlap, not only geographically but in their intentions as well. We believe that by facing towards each other, our countries will profit from the increasing interactions in this changing world.

Hungary has always been one of the most committed supporters of the China-CEEC, 16+1 cooperation. We have been constantly seeking the areas and means to extend and develop this joint endeavor. The