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Is China's rising presence in Hungary since 2012 impacting on Hungary's relations with the EU?

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Abstract
Hungary has been an active participant in China's 16+1 initiative which is a cooperation scheme launched by Beijing in 2012 to facilitate comprehensive cooperation between China and 16 Central and Eastern European countries. The relationships between China and Hungary have improved greatly since then and China's political and economic presence in the country is increasingly visible. Apart from the Budapest-Belgrade railway, the recent high-profile Chinese investment in Hungary includes a vaccine plant and Fudan University branch campus in Budapest. Since their bilateral relations have deepened, will China's political and economic presence in Hungary impact Hungary's relations with the European Union (EU) and the EU's unified stance towards China? This article evaluates the impact of the 16+1 initiative on Sino-Hungarian political and economic relations and the impact of their engagement on Hungary's relations with EU institutions and initiatives.

Keywords: 16+1 initiative, China, Hungary, EU-China relations

Introduction

In 2012, the Chinese government launched the 16+1 initiative[1] (in the further text as the 16+1). The aim of this scheme was to promote bilateral and multilateral all-round cooperation specifically with the 16 Central and Eastern European countries[2] (CEECs). In twelve policy measures, Beijing focused on offering economic incentives, such as enhancing bilateral trade volume and setting up US$10 billion credit loan to advocate the bilateral or multilateral economic cooperation between China and the CEECs to a new level (CCCEEC, 2012). Although announced earlier than the Belt and Road Initiative (BRI)[3], the 16+1 was officially incorporated into the BRI in 2013. As the BRI is a long-term national diplomatic strategy to promote regional cooperation and economic cooperation between Asia and Europe, the incorporation of the 16+1 into the BRI indicates that the 16+1 has become China's diplomatic tool in CEE to advance the objectives within the BRI. Under the 16+1, the preferential lending rate to the CEECs

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[1] Greece officially joined the 16+1 initiative in 2019 and now the initiative is also known as the 17+1 initiative (The State Council of the People's Republic of China, 2019). However, Lithuania announced its exit from the initiative in 2021, making it the 16+1 initiative again. In this article, the 16+1 initiative is utilised to refer to the initiative throughout the whole period since it was launched in 2012.
[2] The 16 CEECs are: Hungary, Poland, the Czech Republic (Czechia), Slovakia, Slovenia, Estonia, Lithuania, Latvia, Romania, Bulgaria, Croatia, Serbia, Albania, Montenegro, North Macedonia and Bosnia-Herzegovina. Among them, there are eleven EU member states and five EU candidate countries.
[3] This mega initiative includes the Silk Road Economic Belt and the 21st Century Maritime Silk Road, through which linkages between mainland China and countries in Central Asia, Southeast Asia, Central and Eastern European regions, Africa and ultimately Western European states will be established The BRI was widely perceived as the incumbent Chinese President Xi Jinping's signature foreign policy and is closely associated with the rejuvenation of the 'Chinese dream[3]' (Callahan, 2016; Sørensen, 2015).

on specified industries is at 1%-3% on the condition that 'a Chinese contractor will be included' (Ji & Liu, 2019, p.258). The majority of these loans were offered by Chinese state-owned banks and the construction work was offered to Chinese companies, usually state-owned (Markovic Khaze & Wang, 2021).

Appel and Orenstein (2018) note that the CEECs governments' perceptions towards neoliberal economic policies endorsed by the West changed after the 2008 financial crisis. Some countries, which were model economic reformers during their economic transitions, such as Hungary and Poland, turned their attention to a populist alternative. The emergence of China's development model offered fresh thinking to the governments in the CEECs that were seeking economic recovery and high economic growth rates during that particular moment of crisis. After 2012, Sino-Hungarian relations were upgraded to a comprehensive strategic partnership. Since this time, the Hungarian government has perceived China's initiatives as an opportunity to expand its overseas market, access sources of capital and as a potential bargaining chip counteracting the EU when its stance does not favour Hungary (Matura, 2017). However, in the EU the 16+1 initiative is widely considered controversial. Its overall purpose in grouping partial EU members together is opaque, with the suspicion that Chinese economic influence is being used to undermine unity within the EU, thereby potentially increasing China's political leverage (Grieger, 2018; Kynge & Michale, 2017). This paper aims to assess the impact of the 16+1 initiative on Sino-Hungarian relations between 2012 and 2021 and examine whether their engagement has impacted on Hungary's relations with EU institutions and initiatives. The following analysis focuses on China's political and economic presence in Hungary over these years vis-à-vis its relationships with the EU.

Sino-Hungary relations and their bilateral cooperation within the 16+1

Hungary and China maintained an even level of political and economic engagement during the early stage of their post-World War II relations. In 1952, China assisted Hungary with food supply when the country was facing famine caused by extreme weather conditions. Hungary offered agricultural equipment to China as technological assistance in 1955 (Embassy of the People's Republic of China (PRC)) in Hungary, 2021). Later on, in the shadow of Sino-Soviet relations, the fluctuating relations between China and Hungary started to increase after the 1970s when China actively sought to learn from Hungary's economic reform experiences (Chen & Marton, 2019; Matura, 2017). In 1984, the China-Hungary Economic, Trade, Scientific and Technological Cooperation Committee was established (Chen & Marton, 2019). The development of bilateral relations between China and Hungary slowed in the 1990s after Hungary prioritised the strategy of building ties with democratic and advanced economies, with a specific target being EU membership (Chen & Marton, 2019; Zhu & Xu, 2019). Between 1994 and 1995, the then Hungarian President Goncz Arpad and the Chinese President Jiang Zemin made reciprocal state visits (Wu, 2012). More frequent engagement followed in the 2000s, especially after Hungary's accession to the EU. During Chinese President Hu Jintao's visit to Hungary in 2004, a friendly cooperative partnership between China and Hungary was officially established (Wu, 2012).

Their bilateral relations have been expanding since 2010. Hungary has been one of the most active participants in China's 16+1 initiative among the 16 CEECs. In 2015, Hungary became the first European country to sign a Memorandum of Understanding with China on the BRI projects (Matura, 2018). The bilateral relations between the two countries culminated in 2017 when the Prime Minister Orban attended the Belt and Road Initiative international cooperation forum in Beijing. During his visit, the relationship between Hungary and China was upgraded to a comprehensive strategic partnership (Csicsmann, 2020). In 2017, Budapest successfully held the 6th heads' summit between China and the CEECs. In addition, between 2018 and 2019, President Orban met with Chinese President Xi Jinping twice in China to attend the inaugural China International Import Expo in Shanghai in 2018 (Embassy of the PRC in the Republic of Iceland, 2018) and the Belt and Road Forum for International Cooperation in Beijing in 2019. In 2019, Orban stressed Hungary's support for China and interest in economic cooperation with China within the 16+1 initiative during his meeting with Chinese President Xi Jinping (Embassy of the PRC in Sweden, 2019). As a result of accelerated cooperation, multiple trade agreements were signed between China and Hungary since 2012, ranging from bilateral currency swaps, a food safety memorandum, SME (Small and Medium Enterprises) cooperation and railway construction, to facilitate bilateral economic cooperation across diverse fields.

The relations between Beijing and Budapest continued to expand during the pandemic. Hungary was among the first group of countries to donate medical supplies to Wuhan (Matura, 2020; Moldicz, 2021). The donation of medical supplies and capital assistance also took place between regional governments of the two countries via a sister-city scheme that has been developing over the years within the 16+1 initiative (Matura, 2020). When the pandemic hit Hungary in March 2020, the Chinese government and other state-owned institutions donated medical products to Hungary to help fight the pandemic. The government also announced a plan to build a plant producing vaccines (including Chinese vaccine) in Debrecen in Hungary for 157 million euros in 2021 (Deutsche Welle, 2021). This national vaccine plant has been under construction and is scheduled to commence operations in late 2022 (Hungary Today, 2021).

Hungary's close relations with China have been largely associated with the incumbent government's support of deepening engagement (Csicsmann, 2020; Matura, 2019; Šimalčík et al., 2019). Under Victor Orban the government and the Fidesz Party perceive China as a major international power that is of both political and economic importance for Hungary (Šimalčík et al., 2019). On one hand, China can be utilised as a bargaining chip when negotiating with the EU. On the other hand, Hungary can benefit from cooperating with China through strengthened economic engagement (Matura, 2017, 2018; Moldicz, 2021).

Challenged by a series of crises in Europe and the evolving world order, Hungary sought closer relations with China as a way to advance its own national interest (Csicsmann, 2020). The shifting perception of policymakers towards the international environment and the aim to increase its state power has contributed to Hungary's policy changes, with the government continually reassessing its position in accordance with the situation in the international arena and adjusting its policy to shape a favourable environment for its own economic development. In the early 2010s, Hungarian leaders felt that their country was losing out in the world economic arena, leading to the publishing of Hungary's foreign strategy in 2011, which includes the assertion that "*the global transition and the accompanying economic crisis that is having a particularly serious effect on Europe have found Hungary in a socially and economically weakened position"* (Ministry of Foreign Affairs of Hungary, 2011, p.7). This largely explains Budapest's willingness to deepen relations with China, especially in the economic sphere.

The economic crisis in Europe influenced the Hungarian government's interest in working with China to revive its economy. The 2008 financial crisis was a wake-up call for the Hungarian government to seek ways to reduce the country's economic reliance on European markets. To achieve this goal, the government initiated the Eastern Opening strategy to help promote Hungarian exports to other emerging economies outside the EU (Nemzetgazdasági Minisztérium, 2011, p.22). In this regard, the scope of Eastern countries includes major economies such as China, Russia, South Korea, and India. The government aimed to stimulate Hungarian exports to Asian markets (Péter, 2015). To promote more exports to China and Russia, the Hungarian government set up a new department specialising in Chinese and Russian affairs in the Ministry of Foreign Affairs and Trade (Péter, 2015).

Furthermore, Hungary's motivation for building closer relations with China is not solely economic: the domestic political climate in Hungary has also played a part. In the wake of the financial crisis of 2008, the Hungarian government strengthened its control in some sectors such as the banking, retail, and utilities industries. The resurgence of post-communist traditionalism in Hungary since 2010 has played a significant part in motivating the government's rapprochement with China which has a state capitalist economy (Appel &Orenstein, 2018; Csicsmann, 2020; Csillag & Szelenyi, 2015; Šimalčík et al., 2019). As Rogers (2019) argues, the Hungarian government's invitation of Chinese investment is politically driven. While Hungarian political elites perceive China positively as an economic partner, Fidesz is the only political party that considers forging strong political relations with China equally important (Šimalčík et al., 2019). The current governing party believes that "Hungary and China do share some common values, like sovereignty" (Šimalčík et al., 2019, p.37).

Economic relations between China and Hungary

Establishing infrastructure connections between China and the CEE region is particularly significant to help facilitate economic cooperation between them. Chinese cities Xi'an, Changsha and Chongqing have all launched railway lines transiting through Budapest. In 2019, a direct freight train connecting Wuhan and Budapest was launched (China Daily, 2019). Another trade route connecting Zhejiang Province with Budapest to facilitate bilateral trade was opened in 2021 (Xinhua, 2021a). Hungary actively participated in the Belgrade-Budapest railway construction. Two Chinese national-level overseas economic cooperation zones have been established in Hungary post-2012, highlighting Hungary's geological significance for China as a transportation hub and distribution centre for Chinese enterprises entering the European single market. On the other hand, since Hungary signed the Diary Products Export agreement with China in 2016, seven Hungarian dairy production companies have been registered and received certificates from the Certification and Accreditation Administration of the PRC (Ministry of Commerce of the PRC, 2020).

Hungary has also actively pioneered the coordination and facilitation of financial cooperation between China and the CEECs. It was the second country in the CEE region to become a member of the Asian Infrastructure Investment Bank in 2017 (Maracz, 2022) and joined the China-CEE Investment Cooperation Fund as a capital provider. In 2013, the Central Bank of Hungary[4] signed the first bilateral currency swap agreement with the People's Bank of China, containing 10 billion Chinese Yuan[5] (¥)) of currency swap. The agreement was renewed in 2016 and 2020. In addition, Hungary is the sole country in the CEECs whose banks have entered the Chinese market. The largest Hungarian commercial bank, OTP bank (Országos Takarék Pénztár) (National Savings Bank), opened its first branch in Beijing in 2018 (Tan, 2017). Chinese banks also opened their own bank branches in Hungary post-2012. Sino-Hungarian financial cooperation can potentially facilitate China's strategic goal of internationalising the Renminbi. The Central Bank of Hungary specifically launched the Central Bank Renminbi (RMB) Programme and the RMB Initiative[6] in 2015 (Eszterhai, 2018). Budapest aims to become the nexus inside of the EU connecting two worlds' economic centres: the EU and China (Eszterhai, 2018).

Over the past decade, bilateral trade between China and Hungary has expanded (see Table 1). However, their trade relations are still unbalanced. Between 2010 and 2020, the value of Hungary's imports from China increased by some $1.4 billion, despite its exports to China only rising by approximately $0.2 billion. Hungary's trade deficit with China increased by some $1.3 billion between 2010 and 2020, with China becoming the third-largest imports origin for Hungary in 2018, only behind Germany and Austria.

Table 2 Hungary's trade statistics with China and the EU 2010-2020 (US $ billion)

	2010		2014		2016		2018		2020	
	China	EU	China	EU	China	EU	China	EU	China	EU
Imports	8.7	60.0	6.4	78. 8	5.9	72.9	7.6	91.1	10. 1	81.8
Share in total	9.9%	68%	6.1%	75.2%	6.3%	77.7%	6.2%	74.9%	8.8%	70.9%
Exports	1.6	74.9	1.9	88.5	1.6	83.0	1.8	102.9	1.7	94.2
Share in total	1.6%	78.4%	1.7%	80%	1.5%	81.4%	1.4%	81.8%	1.4%	78.3%

Source: IMF (International Monetary Fund) (2021)

Hungary mainly exports electrical, electronic equipment, machinery, nuclear reactors, medical apparatus, vehicles, and pharmaceutical products to China. It imports

[4] Or Magyar Nemzeti Bank (MNB)

[5] Renminbi or RMB: Chinese currency.

[6] It is also known as the Budapest Renminbi Initiative. The Renminbi Programme is part of the main pillars of the Budapest Renminbi Initiative. The main difference between the two is that the Budapest Renminbi Initiative is a multilateral negotiation platform offering participatory opportunities for parties interested in trade, finance and bilateral relations between China and Hungary (Palotai & Suto, 2018).

electrical, electronic equipment, machinery, technical, medical apparatus, and organic chemicals products from China (Trading Economics, 2021). Between 2016 and 2019, Hungary's imports of office machine parts, broadcasting equipment, integrated circuits and vehicle parts from China increased steadily; while its exported products such as electrical transformers, vehicles and vehicle parts to China grew to a much lesser degree (OEC, 2022).

Even though both parties have been making significant efforts developing economic cooperation, China is far from a dominant economic partner for Hungary. The value of Hungary's imports from the EU has been increasing steadily since 2010, contributing to over 70% of total Hungarian imports from around the world. The EU's share in Hungary's total exports climbed to over 80% after 2014. In contrast with the trade deficit it has with China, Hungary has been maintaining a trade surplus with the EU, which is overwhelmingly beneficial to its economic development. Among EU member states, Hungary has been continuously strengthening economic ties with Austria, France, Germany, Italy, the Netherlands, and Czechia in recent years. Germany was still its largest trade partner in the EU, providing 26.5% of its total trade volume in 2018. Its major export destinations in 2020 were Germany (28%), Italy (5.3%), Austria (4.3%), Slovakia (5.4%) and Romania (5.2%). China was Hungary's largest export destination in Asia. Germany (25%), China (8.0%), Poland (5.9%), Austria (5.8%) and Czechia (5.1%) were its top five major imports' origins in 2020. Vehicles, vehicle parts, engines and packaged medicaments constituted the main categories of its exported products to Germany, Romania, and Italy. Concerning its imports, Hungary mainly imported vehicle parts, vehicles, planes, integrated circuits, engine parts, helicopters, and spacecraft from Germany (OEC, 2022).

Although China promised to encourage more investment in the CEECs, Chinese Foreign Direct Investment (FDI) stock in Hungary has witnessed a marginal increase (approximately 68 million euros) between 2010 and 2019 (MNB, 2021). EU countries remain the main investors in Hungary, especially Germany, the Netherlands and Austria. Germany dominated with more than 20% of FDI in Hungary in 2019, a slight decrease from 23.55% in 2010 (see Table 2).

Table 2 The percentage of China and select EU countries' FDI stock in Hungary (%)

	2010	2012	2014	2015	2016	2017	2018	2019
China	0.15	0.07	0.09	0.11	0.21	0.23	0.16	0.20
Germany	23.55	24.94	23.08	22.17	26.77	23.25	21.17	22.08
Netherlands	17.43	12.24	14.70	27.61	15.21	18.85	18.82	18.73
Austria	12.94	11.61	10.27	16.62	10.25	10.94	11.03	11.40
Total	100	100	100	100	100	100	100	100

Source: MNB (2021) (percentages calculated by the author)

The Netherlands is the second-largest capital provider to Hungary. In 2019, investment from the Netherlands comprised 18.8% of Hungary's total FDI stock, with an increase of around 2% from 2010 to 2019. By comparison, China's share of FDI stock in Hungary only increased by 0.05% between 2010 and 2019, remaining a negligible 0.2% of the total. Among Asian countries, South Korea has the highest share of FDI stock (3% in 2018) in Hungary.

In Hungary, the manufacturing industry and services have received the most foreign capital from EU investors (Sass, 2004). As the largest source of foreign capital for Hungary, German companies are consistently contributing to the development of the Hungarian economy (Bohle & Regan, 2021; ibid, 2004). Between 2014 and 2020, 134 large scale German-backed projects invested approximately 7 billion euros in Hungary (Hungarian Insider, 2021). As of today, some 6,000 German-owned enterprises are operating in Hungary, providing jobs to around 300,000 people (Budapest Business Journal, 2021).

Chinese investment activities in Hungary since 2012 have so far focused on the energy, telecommunication and transportation sectors, fitting into China's strategic interests behind the 16+1 initiative. Some of these were Greenfield investment or acquisition projects that have contributed to Hungary's FDI stock; some projects were implemented on financial loans borrowed from Chinese state-owned banks, which cannot be categorised as FDI, such as the Chinese loan for building the Budapest-Belgrade railway.

In 2019, the Hungarian government reached an agreement with Fudan University to open a 64-acre campus in Budapest at a cost of circa $1.8 billion (more than the budget for Hungary's entire higher education system in 2019), making it the first Chinese university in the EU if the project is completed. About 80% ($1.5 billion) of the project's finance will come from a Chinese loan. China State Construction Engineering Corporation is going to undertake the construction work (BBC, 2021). Despite opposition, the bill for building the Chinese campus in Budapest passed in parliament (Vaski, 2021). A referendum on the construction of the campus will be launched but the specific date has yet to be settled (Hungary Today, 2022). Chinese private telecommunication company Huawei has expanded its business into Hungary since 2005 (Intellinews, 2020; Matura, 2021). Hungary became Huawei's largest supply centre outside China, providing services to over 50 countries (Evertiq, 2020). In 2021, China National Machinery Import and Export (CMC) built the largest solar power plant in Hungary for approximately 110 million euros to produce carbon-neutral energy (Patricolo, 2019).

The incumbent government's willingness to become a transportation hub for Chinese products entering Europe emanated from the consideration that its comparative advantage in European markets could potentially be increased (Rogers, 2019). Hungary's participation in renovating the Budapest-Belgrade railway illustrates the Orban government's intentions and is a typical example of a 16+1 transportation project supported by a Chinese credit loan.

The Budapest-Belgrade railway

The modernisation of the old Budapest-Belgrade railway is the signature project of infrastructure cooperation under the framework of the 16+1 initiative to facilitate China's grand BRI strategy in Europe. The objectives of the project are to modernise the old railway track and decrease transportation time between cities along the route (Goralczyk, 2017). However, more importantly, the railway connects the Budapest Keleti railway station with the new Belgrade Centre railway station, which is part of the planned Budapest-Belgrade-Skopje-Athens railway, also known as the Land-Sea Express Route proposed within the BRI (Voros, 2018) (see Figure 1). In 2014, the Memorandum of Understanding on the construction of the Budapest-Belgrade railway was signed by China, Hungary and Serbia (Szunomár, 2018).

Figure 1 The land-sea express route

Source: Colibasanu and Mitrescu (2021, p.16)

The Export-Import Bank of China has provided a 20-year loan of $1.8 billion to Hungary for construction of the railway (153 km) in Hungary, with the Hungarian government deciding to provide 2.3 billion forints (about $7.86 million) annually to the Sino-Hungarian joint venture company responsible for the railway construction (Voros, 2018). Together with the interest generated by the loan, it was assessed to cost Hungary about $3.7 billion to construct the railway. The project will increase the country's debt level to surpass 50% (Voros, 2018).

However, the project faced accusations and criticism from the public regarding its profitability and corruption problems behind the transaction. In 2016, the European Commission launched an investigation into the tender procedures for the project (Barisitz & Radzyner, 2017). Following the EU's investigation, the Hungarian government launched a public tender in 2017, which was won by the CRE Consortium in 2018. The majority of construction work will be undertaken by Chinese companies, with the EU's investigation into the project's public tender procedures delaying construction of the rail line. The actual construction work started in 2021 and will provisionally be completed in 2024 (Voros, 2018). In 2020, Hungary's Parliament approved the rail project for ten years to secure a loan from the Chinese Export-Import Bank for financing this project as well as relieving economic recession in the country in the wake of the Covid-19 pandemic (Reuters, 2020).

Budapest expects to receive Chinese investment instead of Chinese loans, especially of the type that will provide local jobs and add value to local economic competitiveness (Ferchen et al., 2018). Participation in this renovation project can potentially bring economic benefits to Hungary. Firstly, it may complete the development of the TEN-network in the CEE region, linking non-EU member states to EU members in the region through Chinese-funded infrastructure projects. Secondly, it may positively influence economic growth in Hungary, especially for linking cooperation networks among Slovenia, Austria and Hungary on the development of intelligent mobility devices and self-driving cars, which may add 0.01% to its Growth Domestic Product (GDP) (Rogers, 2019). Lastly, China's investment in the railway can potentially transform Hungary into a distribution centre for Chinese goods transported via the railway to the EU market and the wider European region. The advancement of the railway transportation network linking the Western Balkans to Hungary may even speed up the region's accession to the EU, which will also increase opportunities for Hungary to develop its own market and increase its comparative advantage (Rogers, 2019).

Compared with the slow process of applying for EU funding, seeking alternative capital from China is a "streamlined approval process" with China's state-owned banks supporting financing and rapid implementation by Chinese companies (Barisitz & Radzyner, 2017, p.3). This state-capitalist approach echoes the current Hungarian government's centralised political economy strategy (Appel & Orenstein, 2018; Rogers, 2019). It largely explains the Orban government's rapprochement with China and its political and economic motives in advancing China's interests in Europe. Overall, Hungary has become China's closest partner in the CEE region, with the government initiating a number of activities advancing China's interest in the region, such as developing amiable diplomatic relations with China, facilitating infrastructure construction in Hungary to facilitate the development of the BRI in Europe and establishing financial tools for economic cooperation. In the meantime, the Hungarian government is calculating its political and economic benefits. However, China's influence in Hungary is still very limited and countered by EU's regulations.

The impact of cooperation with China on Hungary's relations with EU institutions and initiatives

Since the Orban government took over, democracy in Hungary has been under attack (Ágh, 2013). The Orban government has made significant alterations to regulations, such as adopting new constitution changes and laws that threaten judicial independence, violating media freedom and human rights in the country. The amendments to the new constitution approved by the Hungarian parliament in 2012 limit the power of the Constitutional Court, lower the retirement age for judges, and only allow state media campaigning at elections, propagandising and upholding traditional values in Hungary (Drinóczi et al., 2018; Halmai, 2012). The Court of Justice of the EU ruled that Hungarian forced early retirement of judges violated EU equal treatment rules. The EU urged the Hungarian government to follow EU law and restore the dismissed judges' positions (European Commission, 2012).

The Orban government also clashed with the EU over the refugee quota assigned to the country by the European Commission during the time of the great migrant influx from the Middle East to central European EU member states in 2015 (European

Commission, 2015) The government invested over 100 million euros to construct razor-wire fencing on its southern border with Serbia and Croatia and strengthened border controls to prevent the entrance of refugees to the country (Amnesty International, 2015). It also filed a lawsuit against the European Commission regarding the distribution plan of refugee quotas. (BBC, 2016). Furthermore, the Hungarian government established a controversial transit zone for asylum-seekers on its southern borders adjacent to Serbia. According to the Court of Justice of the EU, this violated the Asylum Procedures Directive, the Reception Conditions Directive and the Return Directive (European Commission, 2021a). It also attempted to tax the funding scheme that supports immigration to block refugees' entry to the country. In 2018, the European Parliament called on EU member states to vote on sanctions against the Hungarian government for the government's erosion of democracy and human rights that were undermining the core EU values (European Parliament, 2018)

In 2019, the Fidesz Party's voting rights were suspended in the European People's Party group in the European Parliament following a call to vote against Orban's party's violation of the rule of law in the country (Rankin, 2019). The regression of human rights also included violation of lawful rights of the LGBTIQ people in the country. In 2021, the government passed new legislation forbidding LGBTIQ content in school materials and TV shows from presenting to minors (Rankin, 2021). The practice violated Article 2 of the Treaty of the European Union, which defines the core values of the EU: equality and respect for dignity and human rights. The Commission sent a formal letter of notice to Budapest regarding the government's infringement of EU laws and human rights (European Commission, 2021b). In 2019, the EU imposed a financial penalty of $1.65 billion on Hungary for mismanaging EU funds between the 2012 and 2020 budget periods, which equals roughly 2% of Hungary's annual economic output. Hungary was also identified by the Commission as the member state that has the weakest national management and control systems in 2018 (Reuters, 2019a).

These developments in Hungary have been viewed as forces of de-Europeanisation, with the Orban government gradually distancing itself from European norms and values (Agh, 2016; Hettyey, 2021; Leontitsis & Ladi, 2018; Yavuz, 2019).[7] However, de-Europeanisation has not been identified at Hungarian foreign policy implementation level (Hettyey, 2021). As an EU member state, Hungary continues to define its foreign policy priorities and interests in line with EU criteria. In its 2011 foreign policy paper, values-based foreign policy was declared to guide its external actions. However, it was also stressed that having values-oriented foreign policies did not contradict the aim of pursuing economic interest. The pursuit of economic benefits was considered a priority for sustained economic recovery and growth after the 2008 financial crisis (Ministry of Foreign Affairs of Hungary, 2011). Among other realistic concerns facing Hungary, the government prioritised pursuing regional connections with other parts of Europe, Euro-Atlantic alliance and global opening as three interconnected aspects constituting its foreign interactions.

The pursuit of economic interests has motivated the Hungarian government to become an advocate of China in the EU. This has rendered Hungary fertile ground for Chinese influence. Hungary is the only CEECs resisting the US's pressure to abandon utilisation

[7] De-Europeanisation was defined by Hill and Wong (2011, p.211) as "positively attempting to rid itself of any perceived restraints imposed by European foreign policy".

of China's 5G services (Reuters, 2019b). Hungary was one of those EU members which opposed the EU's stance of favouring the Philippines over China on the ruling from The Hague Tribunal regarding the disputed waters in the South China Sea. The EU intended to urge other Western countries to criticise China's new security law in Hong Kong for undermining democracy, rule of law, human rights and freedom in Hong Kong [8]. Hungary was the only country in the EU that voted against issuing the statement (Chalmers & Emmott, 2021). When the EU implemented its sanctions against four Chinese officials and the Xinjiang Production and Construction Corps Public Security Bureau over abuses of human rights in Xinjiang in 2021, all 27 EU member states agreed with EU sanctions against China. Hungary was the only member state to call the sanctions "pointless" and "harmful" (Xinhua, 2021b).

Although the Hungarian government favours building good relations with China for economic reasons, its structural linkage with the EU constrains Hungary's external actions and practices. Despite the fact that Hungary has established the closest bilateral relationships with China in the CEE region (with the possible exception of Serbia), its economic linkage with the EU has also been strengthened at the same time. The EU is still the most significant economic donor to the country and that brings concrete economic benefits and improves people's living standards. Although China prioritises its special credit loan towards the CEECs to support infrastructure construction in these countries, the scale ($10 billion loan distributed to the 16 CEECs) is not comparable with the EU's financial assistance and presence in Hungary. Hungary benefits from a variety of supporting policies and financial tools provided by the EU after securing membership. Between 2014 and 2020, Hungary was allocated a total budget of nearly $31 billion for investment in diversified areas with the European Structural and Investment Funds budget plan for nine national and regional projects in Hungary totalling over $28 billion between 2014 and 2020 (European Commission, 2022). Moreover, the progress of construction work of the Belgrade-Budapest railway line was hindered whereas the EU-funded railway construction work has been advancing efficiently.

Conclusion

The two governments' interactions in political and economic affairs have indeed shown that bilateral relations between Hungary and China are growing strongly. As the biggest beneficiary of the 16+1 initiative in the CEE region, the Hungarian government maintains both pragmatism and zeal in its interactions with China. The Hungarian government's willingness to forge closer relations with China is also associated with the Fidesz Party's political agenda and positive perception of China. Nevertheless, the EU is still the dominant actor sustaining Hungary's domestic economic development. This is yet to be overshadowed by China's economic influence. Hungary's economic integration with the EU countries has not been weakened by its cooperation with China.

Moreover, China's presence in Hungary is counteracted by the EU's regulatory power (such as the postponed construction of the Budapest-Belgrade railway). As an EU

[8] In 2019, the government of SAR Hong Kong introduced an amendment bill on extradition law, which caused large scale protests and demonstrations in the self-ruled region in China. The subsequent suppression of the demonstrations by the Hong Kong government further escalated the critical situation. In 2021, Hong Kong's Legislative Council passed the altered electoral system proposed by the Standing Committee of China's National People's Congress.

member state, Hungary still follows EU rules during its engagement with China. Hungary still stood with the EU to confront China to uphold key EU values, such as on the issue of human rights. Thus, it is fair to conclude that in Hungary, China's political leverage at the EU institutional level is limited. The bilateral cooperation between Hungary and China largely remains pragmatic in nature and it seems unlikely at this point that it could seriously impact Hungary's relations with other EU member states or endanger its membership status in the Union.

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