



BULLETIN

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They Who Sow the Wind ... Hungary's Opening to the East

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February's visit by Viktor Orbán to China and a nuclear agreement with Russia signed in January can be regarded as the effective culmination of Hungary's opening to the east. Although its main aim was economic and political rapprochement with these two regional powers, the decision-makers were involved in the development of dialogue with many other Asian countries. As a result, Hungary has managed in part to expand its economic attractiveness, though deepening the focus on economic matters in its eastern policy carries risks—as shown by Budapest's reaction to the Crimean crisis—and may also bring negative consequences not only for the country but for the EU, too.

The Eastern Winds Doctrine. Hungarian Prime Minister Viktor Orbán in 2009 expressed the need to strengthen relations in a broad sense with countries to the east, a policy known as the “Eastern winds doctrine,” which has become one of the cornerstones of the Fidesz–KDNP government's foreign policy. To this end, both Hungary's MFA and the Prime Minister's Office, including the active participation of Orbán advisor Péter Szijjártó, were important. In 2010–2014, Budapest's efforts were thus concentrated on reinforcing political and economic relations with many Asian countries, from northeast Asia, through Central Asia and Transcaucasia, to the Persian Gulf. Missions of high-level officials included visits to Azerbaijan, Kazakhstan, Malaysia, the Philippines, Saudi Arabia, Thailand, Turkey, Turkmenistan, United Arab Emirates and Uzbekistan, and multiple trips to Russia and China. Contacts with Asian partner state universities and think tanks associated with Fidesz also were built up.

This eastern opening was subordinated to the search for new sources of investment and to building business relationships. Unlike in the 1990s when Fidesz, under the influence of its own dissident experiences, placed the promotion of human rights and civil freedoms above economic interests in relations with non-democratic states, the Orbán government in its second term has favoured the latter issues, as well as non-interference in its partners' internal affairs. This can be explained by the growing importance of the east in global markets and Hungary's economic problems. It is, though, hard to avoid analysing Orbán's eastern strategy in isolation from the country's activity in the EU and its cool relations with the U.S., which did not hide its concerns about constitutional changes made by Fidesz. As far as Hungary's eastern partners were concerned, dialogue with the country was thus easier, as they neither expected specific solutions from Budapest on economic policy nor were interested in its domestic affairs.

China: Continuation. Hungary's eastern policy is largely a continuation—although set in a new geopolitical context—of the efforts of left-wing cabinets that had in 2002–2010 built up a strong network of contacts with Asian states, mainly China. Using the increasing attractiveness of the country after its EU accession and the Sino–Hungarian social relationship (Hungary is home to the region's largest Chinese diaspora, officially 10,000–15,000 people), the socialists led a revival of political, educational, cultural and economic contacts.

During the Fidesz–KDNP government, China has remained a key Hungarian partner in the east. Evidence for this may be found in the two visits by Orbán to China (including a three-day trip in February 2014 to Beijing), the first visit to Budapest since 1987 by a Chinese head of government (in June 2011), and the prime minister's cancellation of a meeting with the Dalai Lama. Hungary has maintained its position as the region's top destination for Chinese investments, the value of which is estimated at \$2.5 billion (versus \$450 million for Poland). This impressive number, though, is mainly the result of the activities of a few large companies that have been present in Hungary for a long

time, including Wanhua, which put \$1.5 billion into chemical company BorsodChem. Despite the growth of Hungarian exports (46% in 2013 compared with 2009), the effects of the cooperation with China are not, in comparison with the political activity, fully satisfying: Budapest had counted on Beijing's involvement in the construction of a railway line between the city's centre and its airport and help in saving the national airline Malév, which was declared insolvent in 2012. If, though, Hungary maintains its eastward policy, China's economic presence should continue to increase.

Russia: Friendly Pragmatism. The primacy of economic interests has also been visible in the relations between Hungary and Russia. Since Orbán's return to power, many instruments of cooperation between the two have been created or restored, including the Intergovernmental Hungarian–Russian Commission. Contacts at the highest level were also intensified, as demonstrated by the first visit since 2003 of the head of the Russian MFA to Budapest and by the four visits of Orbán to Moscow (compared to a single visit to the U.S., to the NATO summit in Chicago). As part of maintaining the good relations, the president of Hungary awarded Viktor Zubkov, the chairman of the board of Gazprom, with the Order of Merit, the highest State Order of Hungary. The investment in political dialogue stemmed from a belief that the enhanced contact would result in growth in the importance of Hungarian companies in Russia; the policy has indeed borne fruit, as between 2009 and 2013, exports to Russia increased by 22%. In turn, the Hungarian market, in which Gazprom and Lukoil already operate, saw new Russian entities appear, including Sberbank.

Hungary's friendly pragmatism towards Russia was the result not only of its overall vision of the east but also of Budapest's dependence on Russian energy resources. Moscow has played a crucial role in supplying the country with natural gas and oil, and soon—after the signing of an agreement for a loan of about €8-9.5 billion for the construction of the second block of the Paks nuclear power plant—will strengthen its position in nuclear energy, too. Prior to that, Hungary approved the construction of its section of the South Stream gas pipeline, the first EU state to do so. Budapest argues that both initiatives are beneficial for the country and can positively influence its further dialogue with Russia, for instance, the negotiation of a new gas contract to replace one that expires at the end of 2015.

However, rapprochement with Moscow also raises doubts as it increases concerns about deepening the country's dependency on Russian energy sources and the lack of transparency in contracts and their impacts on the EU. No matter the intentions of the decision-makers, it must be emphasised that Russia's aims for Hungary—confirmation of its interest in South Stream and the entrance of Rosatom to the nuclear market—have been achieved during the Orbán government. In this context, it may be said that the 2011 agreement on the sale of 21% of MOL, an oil and gas company in which the Russians had limited impact anyways, by the company Surgutneftegas to the government of Hungary for €1.9 billion, seems a small price.

Ukraine: In the Shadow of Russia. The focus on economic relations with China and Russia in Hungary's eastern policy has meant that the main aim of Budapest has been not to antagonise its partners and to avoid confrontation or intense involvement in the countries in their region. This is visible in Hungarian policy towards Ukraine: the Orbán government has developed trade relations with Kyiv (Hungarian exports have doubled in four years), but political dialogue has been limited to the issue of the Hungarian minority in Transcarpathia, thus restraining the Eastern Partnership. This primacy of non-interference in the internal affairs of a partner has been maintained even during the Crimean crisis. Hungary, which held the presidency of V4 during this time, remained tempered in formulating an opinion on Russian intervention and paid attention mainly to the situation of its own diaspora, and only after some time had passed did it call for wider EU cooperation. This cautious action, termed "impartiality" by Orbán, contributed to the nuclear agreement with Russia and to the prospects of the talks on the gas contract.

Conclusions. The main goal of Hungary's eastern opening—to grow the country's economic attractiveness—has been achieved only partially. According to Hungarian data, between 2009 and 2013, the sale of goods and services to non-EU countries increased by around 20%, which is important as Hungary has been seeking to diversify its export destinations, as 76% goes to EU Member States, with European countries outside the EU and countries from other continents accounting for 12% each. However, this increase mainly may be put down to transnational corporations based in Hungary, which have the appropriate financial and logistic potential to increase exports. Nevertheless, the central authorities' involvement should be viewed positively; in relations with eastern countries, where much depends on personal contacts, the interest of the government has contributed to building a good investment climate. In the future, this may result in new offers, not only from China but also Central Asia and the Persian Gulf.

The political benefits of the eastern opening are more difficult to estimate. From the point of view of V4 unity, Budapest's reaction to the Crimean crisis is rather unfortunate; while the same can be said about the wary response of Slovakia, the Orbán government has made past decisions that have been awkward for the Eastern Partnership. Also detrimental to its prestige was, for instance, Armenia's suspension of diplomatic relations with Budapest, which, in seeking to strengthen economic relations with Azerbaijan, released a prisoner convicted of the murder of an Armenian soldier to Baku.

The economic focus in eastern policy is also tricky as its growing disappointment with the West means Budapest's uncritical attitude to eastern countries sometimes takes the form of a radical political and economic pragmatism. Although the Hungarian authorities emphasize that this direction is not a counterweight to activity in the West, practice has shown that their choices have meant consequences for the EU. Budapest's attitude towards China and Russia is part of these countries' strategy to weaken the position of Brussels through bilateral talks with Member States. The effects may be troublesome, for instance the entrance of Rosatom to Hungary in the context of EU integration of the electricity sector will in the long run facilitate the expansion of Russia to other EU markets.