THE PAST AND THE FUTURE OF HUNGARY'S DIPLOMATIC AND TRADE RELATIONS WITH EAST ASIA

Editor: György Iván Neszmélyi

BUDAPEST BUSINESS SCHOOL
UNIVERSITY OF APPLIED SCIENCES
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Preface

It is my sincere pleasure to recommend to you our newly published book which comprises a selection of the best papers of PhD students attending the conference on February 18, 2019 organized by the Oriental Business and Innovation Centre (OBIC) of Budapest Business School on the triple anniversary of the establishment of diplomatic relations between Hungary and Japan, China and the Republic of Korea.

In 2019 we can look back over one and a half centuries to when Hungary established diplomatic relations with Japan. In 1949, Hungary was one of the first states to recognize the People's Republic of China and in 1989, on the eve of the change of the political and economic system and just shortly after the International Olympic Games in Seoul, Hungary was the very first country of the once socialist bloc to establish a diplomatic relationship with the Republic of Korea.

Ever since the ancient Hungarians came down the Carpathian Mountains on horseback and founded the Hungarian state, Hungary has been a part of European history and has shaped the fate of the continent, sometimes with a greater, sometimes with a smaller influence. Hungary has been present on the political, economic and cultural map of Europe for 1,100 years. Hungarians have learned how to adapt to the given circumstances, and how to make progress, as well as how to give and take. Right at the beginning of their newly founded state, the Hungarians were converted to Christianity, and this provided a framework for the flourishing of Hungarian culture and intellectual life for about one thousand years.

Both in terms of political and economic life present day Hungary is fully integrated into Europe, and in 2019 we celebrate the 15th anniversary of Hungary becoming a member of the European Union and the 20th anniversary of joining the North Atlantic Treaty Organization. Hungary's main investors are European companies and nearly four fifths of Hungarian foreign trade turnover is done with European countries.

In spite of all this, Hungarians are proudly aware that their ancestors originated from Asia, and therefore feel emotionally close to Asian nations. However, not only the positive emotions but also well-defined political and economic considerations bring Hungary closer to Japan, China, Korea and other Asian nations. In terms of political goals, I think we share common responsibility for the future of mankind. Global security is undividable; therefore, we should combat together, hand in hand against climate change, trans-boundary criminality, terrorism, nuclear proliferation, illegal immigration, human trafficking and other kinds of global problems. This is the solid common ground on which we share common values and interests. On the other hand, Hungary recognizes and pays respect to the spectacular economic development and achievements of the East and Southeast Asian economies: Japan, the Asian Newly Industrialized Economies, the People's Republic of China, and most of the ten members of ASEAN. The East and Southeast Asian regions—together with India and South Asia—are not only the most populous regions of the world, but the most rapidly growing economies, where purchasing power has also been continuously growing. It is not a brand-new issue that Hungary seeks for new markets, investors, investment possibilities in Asia, moreover these endeavours have gained new impetus since 2012 when the Hungarian government proclaimed its Eastbound Opening strategy. This policy favourably coincides with our partners' interest and initiatives, like the Belt and Road global development strategy initiated by the President of China, H.E. Xi Jinping in 2013.

The horizon and the prospective of the future co-operation between Asia and Europe, including Hungary seem to be unlimited. A new generation of free trade agreements facilitates the trade between the European Union and Japan and also with the Republic of Korea, but we can also talk about new generations of professionals, including our students, who are travelling more and more to Asia or starting to learn Chinese, Japanese, Korean or other Asian languages. My vision is that in one or two decades, hundreds of Hungarian businessmen, engineers, medical doctors and other professionals will be fluent in Asian languages, not just attained to get well paid jobs at Asian companies, but they will be the catalysts of the future enhancement of the friendly relations between Hungary and Asian nations.

This book comprises seven studies covering various parts of the broad field of Hungaro-Asian relationships and co-operation. I sincerely hope that the esteemed reader will find these studies not just interesting but also beneficial. The results and conclusions may provide the reader with new ideas that could be starting points for further discussions and research.

Budapest, May, 2019

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The Growing Importance of Hungary's Diplomatic and Trade Relations with Asia

Sándor Sipos PhD – János Jákó Dr.

Abstract

The relevance of this study is highlighted by the fact that Hungary celebrates the 150th anniversary of its diplomatic relations with Thailand and Japan, the 70th anniversary with the People's Republic of China, the 50th anniversary with Malaysia and the 30th with the Republic of Korea in 2019.

The study first briefly presents the current political and economic situation and the importance of the region, as well as the history of Hungarian diplomatic and trade ties in the region. Then it examines the changes of both Hungarian domestic and foreign policy relating to the attraction of foreign investment, presents the main points behind the two 'Opening' policies and their results. Later, it also offers insight into the use of high-level visits, economic and educational cooperation and tied aid credits, then it is taking a look at two main fields of focus for Hungarian diplomacy: water diplomacy and tourism. Finally, it presents the near future of Hungarian diplomatic and trade ties with the Asian region.

1. Asia's Position and Relevance in Our World

Asia has undergone an almost unbelievable change in the last six decades. In this short span of time, the former colonies of the region have taken their futures into their own hands, underwent massive demographical and economic growth, became regional and to some extent, global players. This unprecedented change shaped global geopolitics, forcing all of the members of the international community to re-evaluate their relationship with Asian countries. Meanwhile, on other parts of the globe, we see widely accepted truths crumble: as a complete outsider, a successful businessman takes the White House, the United Kingdom leaves the European Union and perhaps the greatest war of our time is not fought on the battlefield, but through tariffs placed on the other's products. However, it must be said that Asia has seen better times. Since the Second World War, this region of the world has seen bloody civil wars, genocides, the rise of the Four Asian Tigers and the formation of megacities (Sipos, 2010).

The relevance of the region is crucial. In the foreseeable future the countries of the Indo-Pacific will produce the largest economic growth rate in the world. Based on the United Nations Conference on Trade And Development's 2018 data (United Nations Conference on Trade and Development), while the global growth rate was 3 percent, many regional countries performed much better (India: 7.2 percent Philippines: 6.9 percent, Indonesia: 5.3 percent), and even though China's economic growth is running out of steam, the figure at 6.2 percent is still well above the global average. The highly developed countries of the region, such as the Republic of Korea, Singapore or Japan each produced economic growth rates below 3 percent in 2018, but remain key players of world economics and trade. The region, together with China today produces 40 percent of the world's gross domestic product—a ten percent growth from the same figure only ten years ago. Meanwhile, Europe's and North America's share of the world's gross domestic product has decreased to about 20-25 percent. According to some calculations, China's economy has already surpassed that of the United States, and India is expected to do same by 2030 (International Monetary Fund Country Report No. 18). Indonesia is also likely to earn its place among the five largest economies by the same year, (Price Waterhouse Cooper study), while Price Waterhouse Cooper also predicts the Philippines and Vietnam to be among the top 20.

The Regional Comprehensive Economic Partnership initiative, founded by China, Korea, India, Japan, Australia, New Zealand and the members of the Association of Southeast Asian Nations (ASEAN) would form the world's largest economic bloc. As regional cooperation and innovation is relentlessly growing, the above tendency is expected to gain further impetus, giving East Asia unprecedented influence on the economic and technological future of the world. These figures clearly highlight the reason why all western nations should look east today and aim to benefit from their economic growth.

In spite of large distances, Hungary's diplomatic ties with the region have an extensive history—for example, diplomatic ties with Japan were established 150 years ago this year—our trade relations, however, were limited, especially during the Cold War era. However, 30 years ago, on February 1, 1989, Hungary was the very first post-socialist country to establish diplomatic relations with the Republic of Korea, marking a change in Hungarian foreign policy. At that time, Korean companies considered Hungary a bridgehead towards Europe, although the economic and political environment in Hungary has considerably changed since the late 1980s (Neszmélyi, 2014). Today, Hungary is a member of the European Union with its economy organically integrated in the European economy.

Since the transition to democracy—and especially since 2010—Hungary has established solid and booming bilateral relations with most Asian countries. As it shall be described in detail later, this has been achieved through mutual respect for each other's culture, political systems and governments. Today, Hungary's focus on the region is partly based on the fact that several leaders studied in Hungary in the 70s and 80s (key figures in both Vietnamese and Lao politics, for example), who—understandably—have personal ties with our country, therefore, can help to bolster bilateral relations. In a sense, the educational exchange programmes of those two decades were predecessors to the Stipendium Hungaricum Scholarship Programme, which is a crucial part of the Hungarian diplomatic toolbox.

2. The Hungarian Way – The Hungarian Model and Opening to the East and to the South

As the economic and political weight of the Asian region grew, the Hungarian government (formed in 2010) decided to pay more attention to bilateral ties with Asian countries. Hungarian tribes have originally migrated west from Asia, hence, we share cultural similarities with eastern nations. Furthermore, Hungary is geographically located between the East and the West. The combination of these factors make Hungary a bridge between Asia and the European Union, of which Hungary is a proud member state. Attracting foreign investment from Asian countries is a key priority, as their high economic growth enabled them to expand their investments abroad. In order to strengthen the relations with Asia, Hungary needs to find the best solutions both at home and abroad.

As several articles and analyses show, in 2008, the Hungarian economy was in a dreadful shape, and was cited by many experts to be on the same level as Greece's, which at the time was on the brink of state bankruptcy. The so-called Hungarian Model was introduced to aid Hungary's recovery from the global economic crisis and the fiscal mistakes of the previous Socio-Liberal regime. Since Hungary is a small, export-oriented country, it is also a natural supporter of free trade and is constantly searching for new markets for its products.

The Model is based on four pillars: competitiveness, economic environment, work-based society and identity. A major step in its establishment was the passing of Act I of 2012 of the Hungarian Labour Code, as well as several other acts establishing social reform. While maintaining the quality of higher education, the Hungarian government also chose to invest in improving vocational education and training. Working together with investors, several courses were launched that aim at training employees for companies, and a larger part was offered in the system for dual education, where while studying a certain topic, the student also works in the same field. Despite being heavily criticised by many Western economists and politicians, the success of these measures is undeniable today. The number of the employed has risen by more than 800,000 between 2010 and 2018, meaning that the unemployment rate went down from 12 percent to only 4 percent. The tight national fiscal policy enabled the country to reach a decline in both inflation and unemployment (György – Veress, 2016).

Due to these figures, the Hungarian economic environment gained attractivity among foreign investors, including Asian investors. From 2010 onwards several key players from Japan, Korea, China and India chose to invest in Hungary, with almost all investors citing the Hungarian Model as one of the main reasons behind the investment. Today, the Hungarian economic environment offers stability and security to all investors, which led to IBM's 2018 report about choosing Hungary as the seventh most popular investment location in the world (IBM Global Location Trends, 2018). In addition, companies that were present in Hungary before 2010, chose to expand their working capacities in the country, and every act of re-investment must be interpreted as a sign of renewed trust in Hungary and the Hungarian society. The Hungarian government also placed emphasis—especially from the 2015 migration crisis onwards—on protecting the Hungarian identity, an identity based on national pride, European cooperation, hard work and Christianity.

In the last thirty or so years, the Hungarian economy—that has always been and always will be export-oriented—has seen difficulties in trading with Asian countries. Of course, long distances between the countries have not changed, but while in Soviet times, Hungarian big corporations were able to sell their goods in fellow socialist countries, that was not the case in the late 2000s. The big corporations' withdrawal from the Asian markets resulted in small agricultural businesses' inability to export their products to those faraway lands, and instead they opted for selling their products in Western Europe. This tipped the balance of export and import in the bilateral trade relations between Hungary and many Asian countries—the metaphorical scale became import-heavy. This trend caused trade deficits in most of Hungary's Asian relations. The integration of foreign trade into the portfolio of the Ministry of Foreign Affairs aimed to utilize diplomacy as a tool to help Hungarian companies access markets in areas where they were previously unable to do so.

Facing abroad, the Hungarian government officially announced its Opening to the East Policy in 2010, as a reaction to the above described economic and political challenges. As stated by Prime Minister Viktor Orbán in 2010, “we are sailing under a Western flag, though an Eastern wind is blowing in the world economy” (Magyari, 2010). The policy was aimed at expanding cultural, economic and political ties with Asia, as well as with South and Central American countries. Previous Hungarian governments were mainly focused on European Integration, which on one hand led to Hungary’s accession to NATO in 1999 and the European Union in 2004, but on the other hand paid little-to-no attention to the Asia-Pacific region. Due to budgetary constraints, Hungary closed its embassies in Kuala Lumpur (2009) and Manila (1995), its consulate general in Sydney and Ho Si Minh—just to name but a few. This naturally added to the large distances between the region and Hungary and has led to the loosening in economic ties and bilateral relations, especially in Asia, where visibility can only be provided by representation on the ground.

Hungary’s Opening to the East policy contains three main steps. First, the re-opening of previous and the establishment of new embassies, consulates and other Hungarian diplomatic institutions that secure Hungarian presence in the region. Since 2010, Hungary has re-opened its embassies in Manila (2016) and Kuala Lumpur (2017), the consulate general in Ho Si Minh (2015) and the Consular and the Trade Office in Sydney (2018) replaced the previous consulate general. It has also expanded its presence in China and India by opening a consulate general in Mumbai, Chongqing, Shanghai and in Hong Kong respectively, besides maintaining the already existing embassies and other institutions in Central and South America that are also within the scope of the Opening to the East. Whilst establishing its presence, Hungary focused not only on capitals, but also on larger cities that serve as economic and business centres of their countries. This strategy, together with the growing number of Hungarian attachés, especially focusing on trade, have helped us attract an increasing number of foreign investments.

Asian societies are based on respect, hence, ground presence is a crucial first step for enjoying a good relationship with the region, especially when it comes to business. In countries like the Philippines, Japan or the Republic of Korea, where massive conglomerates are present, personal contact, trust and respect are the keys to success in numerous sectors of the economy. The next step is to fortify the contractual ties and cooperation with these countries, thereby establishing the foundations and the legal background of company-to-company businesses. With the right contractual basis, Hungary has proven to be able and willing to offer a helping hand in the modernisation of sewage and energy systems, public transport, healthcare and education, based on the needs of the partner. During the final phase, after the first two steps have already set the stage, Hungarian companies are able to enter the local market and bring know-how to region, which activity is fully supported by the Hungarian government.

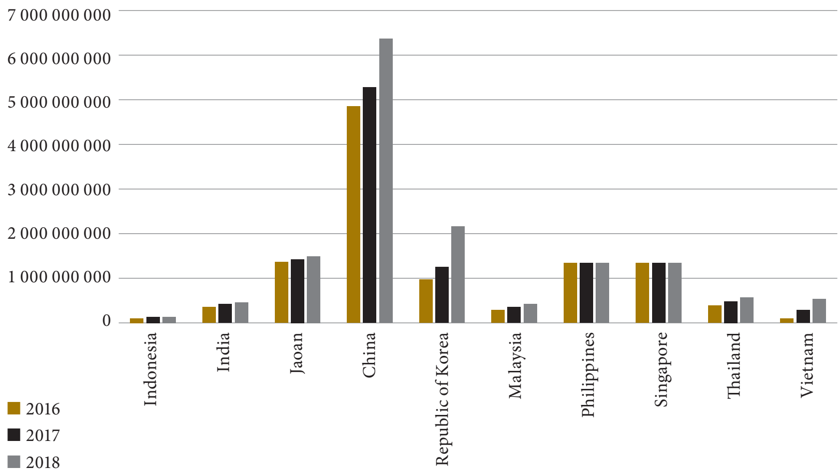
Based on the success of the Opening to the East, in 2014 the newly re-elected Hungarian government also announced its Opening to the South Policy. The policy focuses on Asian relations that were left out of the scope of the Opening to the East, such as the Lao PDR or Myanmar for example Oceania, and especially New Zealand and Africa. These countries have also shown higher economic growth than the world's average, yet they remain lesser developed. This offers Hungary the opportunity to participate in the development of these countries.

Both Opening policies can be deemed a massive success. Hungary has surpassed EUR 1 billion in terms of export for the first time in its history (it reached the same level also in 2018). 17 percent of this figure was directed to countries that were included in the framework of Opening to the East, while for countries targeted by the Opening to the South Policy, the figure is 16 percent. This was realised by 96 major investments in the country, at a total value of EUR 4.28 billion. Regional investment and country-by-country bilateral trade also reached new heights. This remarkable feat has been achieved amidst strong regional competition, since most neighbouring countries also struggle for these investments. Obviously, the credit does not go to the Hungarian side only, as Hungary's Opening Policies connected very well with strategies such as China's "go global" policy (Buckley et al., 2007), encouraging more foreign investment and business with foreign partners. In more recent years, we have seen Chinese and other Eastern Asian investors change their view of the region, as "they have used to treat the region as a "back door" to European markets but recently their motivations have expanded more towards efficiency-oriented and strategic asset seeking motives." This could naturally provide further growth in years to come.

Looking at the largest relation in the region, the volume of the Hungarian-Chinese bilateral trade was USD 7.95 billion in 2017, which means a growth of 11.9 percent compared to 2016. In the same year, the Hungarian export to China reached a record of USD 2.66 billion, which means close to 19 percent growth in year-to-year comparison. Hungary has the greatest number of export protocols to China for agricultural products from among Central and Eastern European countries. So far, Chinese companies have invested about USD 4.2 billion in Hungary, which is currently also the largest figure in the region. Besides bilateral trade, cultural, educational and technological cooperation has also been steadily growing with countries targeted by the Opening Policies. This gives Hungary greater visibility, allowing citizens of Asian nations to

Figure 1

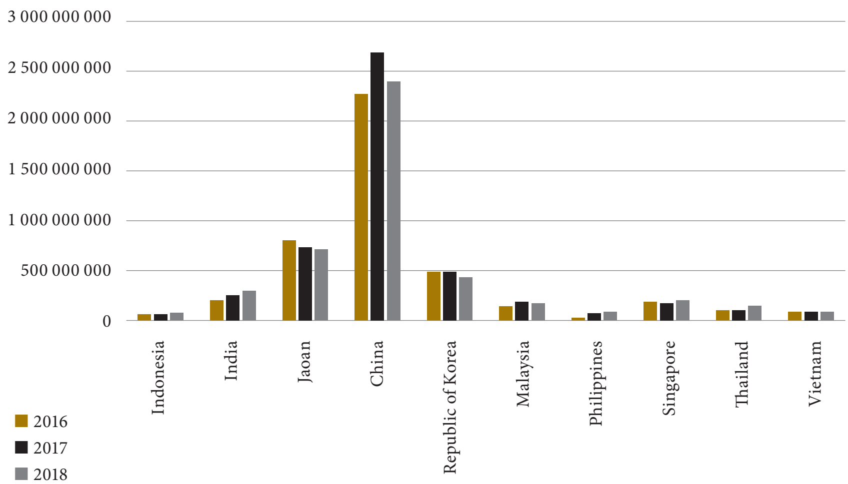
Hungarian import from the ten largest Asian economic partners in USD, 2016-18



Source: The authors' editing, based on the figures of the Hungarian Central Statistical Office (HCSO/KSH)

Figure 2

Hungarian export to the ten largest Asian economic partners in USD, 2016-18



Source: The authors' editing, based on the figures of the Hungarian Central Statistical Office (HCSO/KSH) learn about Hungarian culture, bolstering tourism and thus in several cases giving the Hungarian point of view greater attention and understanding.

3. The Tools of Hungarian Foreign Policy

Hungarian foreign policy has used four main tools in its Openings. First, high-level visits are a good way to emphasise the importance of a relation. The visits to and from Asia demonstrated the shifting focus of Hungarian diplomacy at the start of the respective Openings and enabled discussions on the highest level between the political leaders, providing opportunities to find new areas of cooperation and discuss mutually important issues. In the past couple of years, Prime Minister Viktor Orbán has visited Indonesia, Singapore, Vietnam and China, to name but a few, while President of the Republic János Áder received a visit form the Governor-General of Australia, Sir Peter Cosgrove—this visit was first of its kind. Hungary also became more active on a ministerial level, with bilateral meetings held with partners on the sidelines of multilateral meetings, such as the United Nations General Assembly meetings or EU-ASEAN Foreign Ministers Meetings.

Also, the successful cooperation between the region and the Visegrád countries—including Slovakia, Poland and the Czech Republic alongside of Hungary—with formations such as the V4+Republic of Korea or V4+Japan has encouraged regular international meetings. The importance of diplomatic anniversaries celebrating the establishment of diplomatic ties between two countries also have taken a larger significance than ever before. In 2018, Hungary held the presidency of the Visegrád group and concentrated on strengthening ties with the Asia-Pacific. In 2017, the first V4+Australia meetings were held, both at foreign and trade ministerial levels, making the Hungarian presidency the most successful in the history of the cooperation. This year, Hungary celebrates its 150th anniversary with Japan, 50th with Malaysia and the 30th with the Republic of Korea. These anniversaries not only offer a unique opportunity for both parties to organise cultural events in each other's land, but also, to hold high-level meetings.

The Memoranda of Understanding on Economic Cooperation and the Joint Commissions for Economic Cooperation are the second tool of the current Hungarian foreign policy. Hungarian diplomacy heavily focuses on signing new memoranda with partners from the region—Hungary has recently signed such documents with the Philippines and Sri Lanka, and there are ongoing negotiations with Malaysia on the same topic. Following recent changes in Malaysian politics, the new Malaysian government wished to re-evaluate all former agreements passed on by the previous administration that were yet to be signed. This clearly shows the difficulties that burden these negotiations, however, their value is usually very high in economic benefits for both countries. Hungarian diplomacy also aims to hold more sessions with countries like Vietnam or Indonesia, where the Joint Commissions for Economic Cooperation was formed already.

The Joint Commissions for Economic Cooperation offer a good platform for the parties to negotiate economy-related international agreements, such as the protection of foreign investments or the avoidance of double taxation. These agreements present better business opportunities and protection for companies from both nations when they decide to invest in a partner country. Business delegations also accompany the sessions of the Joint Commissions for Economic Cooperation, enabling them to build a network with foreign, yet like-minded businesspersons. The networking is encouraged by the sectorial panels, while the state presence offers certainty for all involved sectors that their concerns are heard and will be addressed by the government in question.

The third instrument of Hungarian foreign policy stands on the preconception that the youth of today have the responsibility to shape the future. This task is strenuous in an increasingly interconnected global context, and young people must be prepared to face the major challenges of our modern world during their university years. Identifying the present system's shortcomings, in 2013 the Hungarian government launched the Stipendium Hungaricum Scholarship Programme, setting the objective of internationalising the Hungarian higher education, whilst promoting cultural understanding, economic and political relations between Hungary and other countries—achieved by increasing the number of English-language programmes offered by Hungarian higher education institutions.

Within the framework of the programme, students can apply for curricula at bachelor, master and doctoral levels and preparatory courses as well. Apart from the tuition-free education, the Programme provides monthly stipend, medical insurance and housing allowance for the scholarship holders. Today, more than 60 partner countries of four continents are engaged in the programme, and in the school year 2018/2019 3213 students—among which 759 come from Asian countries—have gained admission into Hungarian higher education. The programme enhances and nurtures cultural ties in the era of Industry 4.0, where cooperation in the fields of research and innovation are more important than ever. Through Stipendium Hungaricum Scholarship Programme, Hungary contributes to the training of the future leaders of foreign nations, who at a young age become inadvertently ingrained in Hungarian culture.

Tied aid credits (or soft loans) form the fourth pillar of the Hungarian foreign policy. Tied aid credits are usually credits or grants that are either tied exclusively to purchases from the donor, or are tied to purchases from the donor and one or more developing countries. A number of governments combine such development aid with export credits to create "mixed credits" or concessional loan facilities. According to the OECD Arrangement, the concessionality level of tied aid for individual transactions must be at least 35 percent (in Least Developed Countries 50 percent), which level is calculated according to the weighted average of the following components: the length of the drawdown period, grace period and the repayment period, the interest rate and the amount of the risk premium which is the grant element.

The general international criteria for the provision of tied aid loans are regulated by the OECD Arrangement on the basis of the provisions relating to country eligibility (the World Bank's threshold figure determined on the basis of per-capita GNI applies in the assessment of eligibility for tied aid loans) and project eligibility. Tied aid credits should be allocated to the implementation of financially non-viable projects, whose principal output is a public good, capital-intensive projects with high per unit production costs and slow capacity uptake and/or where the beneficiary group (normally household consumers) is deemed unable to afford the output at the appropriate market-determined price (e.g. non-viable power projects, hydro-power projects, coal gasification projects, non-hydro renewable energy projects, telecommunications projects, transportation projects, manufacturing projects). At the same time, it is recognised that each project should be considered on a case-by-case basis in relation to its particular circumstances.

In Hungary, tied aid credit programmes are run by the Ministry of Foreign Affairs and Trade. The Hungarian Export-Import Bank Plc. (Eximbank) is the bank that arranges the provisions of the tied aid loan (on the basis of the intergovernmental agreement, it concludes the individual loan agreement for the financing of goods or projects supplied by Hungarian exporters, subject to the provision of a sovereign guarantee or equivalent undertaking by the beneficiary country). The Hungarian Export Credit Insurance Plc. (MEHIB) is the insurer of the tied aid loan, providing a cover of 100 percent, with no self-retention for the political and commercial risks of default by the loan debtor.

Southeast Asia is the leading geographical focus area of the tied aid credit activity of the Hungarian Government. Since 2004 Hungary has initiated 14 tied aid credit programmes and 10 of them were signed with countries from South and Southeast Asian region (Vietnam, Sri Lanka, Laos, Indonesia, Mongolia). We consider the mentioned tied aid credits successful, so it could serve as an excellent basis to evolve the bilateral political and economic cooperation in each relation. The main sectoral focus areas for Hungary's South and Southeast Asian tied aid credits are: water management, healthcare development, agricultural development and e-governance. Hungarian tied aid opportunities are well respected and accepted in the region—which is a certain sign of their success—as several of the programmes have led to the new tied aid credit programmes for the same country.

The importance and focus on water diplomacy as tool of the Hungarian foreign policy must also be mentioned, especially in the context of Asia. When in 1996 the leaders of 25 European and Asian countries together with the European Commission convened in Bangkok (Thailand) for the inaugural Asia-Europe Meeting (ASEM)[1], the focus was more on economic matters, but as the environmental aspects became more pronounced on the international agenda, ASEM initiated a genuine discussion on environmental issues.

Promoting this process, Hungary launched the initiative of an ASEM Sustainable Development Dialogue in 2012, by hosting the first event of the sequence of seminars in Budapest, with the focus on the "Role of Water in Sustainable Regional Development Strategies". The so-called Budapest Initiative enables ASEM Partners to discuss water management-related issues regularly. Participating countries agreed to reinforce collective efforts to promote the sustainable use and management of water resources. The overall objective was to ensure the right to safe drinking water and sanitation, full policy coherence and well-functioning water-related ecosystems. Sharing experience and best practices between macro-regional development strategies such as the Danube Region Strateg[2] or the Greater Mekong Subregion,[3] can provide additional benefits for other subregional initiatives by significantly strengthening interregional co-operation capacities.

1 The Asia-Europe Meeting (ASEM) is an intergovernmental process established in 1996 to foster dialogue and cooperation between Asia and Europe. The initial ASEM partnership in 1996 consisted of 15 EU Member States and 7 ASEAN Member States, plus China, Japan, Korea and the European Commission. Presently it comprises 53 partners: 30 European and 21 Asian countries, the European Union and the ASEAN Secretariat.
2 The EU Strategy for the Danube Region (EUSDR) is a macro-regional strategy adopted by the European Commission in December 2010 and endorsed by the European Council in 2011. The Strategy was jointly developed by the Commission, together with the Danube Region countries and stakeholders, in order to address common challenges together. The Strategy seeks to create synergies and coordination between existing policies and initiatives taking place across the Danube Region.
3 The Greater Mekong Subregion countries are Cambodia, the People's Republic of China (PRC, specifically Yunnan Province and Guangxi Zhuang Autonomous Region), Lao People's Democratic Republic (Lao PDR), Myanmar, Thailand, and Viet Nam.

At the 13th ASEM Foreign Ministers' Meeting in Myanmar, held in November 2017, Ministers stated their support for exchanging knowledge and best practices within the ASEM framework on key policy areas and continued engagement in the cooperation between the Danube and Mekong regions. The so-called Budapest Initiative transforms shared challenges related to transboundary water management into opportunities for inclusive growth and sustainable development. Hungary also plays an active role in the International Commission for the Protection of the Danube River (ICPDR)[4], which seeks to ensure the sustainable and equitable use of waters and freshwater resources in the Danube River Basin. This year Hungary takes over the ICPDR Presidency.

Hungary has signed memoranda of understanding with Laos, Indonesia and Vietnam. Within this framework, several projects related to improvement of sanitation were carried out. In Mongolia, International Development Assistance projects regarding integrated river basin management planning and in Myanmar the training of experts for increased preparedness against natural disasters were all financed by Hungary.

Hungary held the Chairmanship of the United Nations Economic Commission for Europe (UNECE) Water Convention between 2015 and 2018. The 7th Meeting of the Parties (MOP7) of the Convention on the Protection and Use of Transboundary Watercourses and International Lakes (Water Convention) convened in Budapest (November 17-19, 2015). In 2016, the Convention officially became a global legal framework for transboundary water cooperation available for all Member States. More than 110 countries worldwide have already participated in its meetings and activities. Its work programme covers also global issues, such as climate change mitigation, water-food-energy-ecosystem nexus which has great importance for ASEM countries as well. On the eight Meeting of Parties (MOP8) in October 2018 in Astana, Hungary handed over the Presidency of the Convention to Kazakhstan.

The 7th ASEM Sustainable Development Dialogue on "Sustainable and Integrated Water Management in the 21st century—addressing imminent challenges" organized by the Ministry of Foreign Affairs and Trade of Hungary, was held between September 11-12, 2018. The international event focused on cross-border water issues, development opportunities for river basin management and the strengthening of interregional cooperation. The conference had attendees from about 40 countries. István Joó, Deputy State Secretary for Export Development, emphasised in his opening speech that in

4 The International Commission for the Protection of the Danube River (ICPDR) as an international organisation consisting of 14 cooperating states and the European Union was established in 1998.

accordance with the Opening to the East Policy, since 2015 the Hungarian government has increased its foreign trade activity towards the Southeast Asian countries in addition to its traditional European markets. The State Secretary declared that Hungary intends to export high-level engineering know-how to the region in areas such as water management, agriculture, environmental management, construction and health.

Under the patronage of János Áder, President of Hungary, on September 12-14, 2018 the 3rd ASEM Seminar on Urban Water Management was organised around the theme of urban solutions for global challenges. The aim of the Seminar was to establish an international multi-stakeholder forum and network on sustainable water management from a European and Asian perspective, providing opportunities to discuss the challenges and best practices, exchange experiences and seek solutions.

In recent years, Hungary played a key role internationally in the implementation of the 2030 Agenda[5] to achieve the Sustainable Development Goal 6 (SDG6)[6]. The organisation of the Budapest Water Summit (BWS) in 2013 and the final document of the BWS2016 identified a comprehensive set of actions in combating water-related challenges and recognised the need for an appropriate intergovernmental platform for water and sanitation-related issues. Policy recommendations—composed in agreement with the more than 2200 participants from 117 countries of the Summit – have been provided for the implementation of SDG-6. Furthermore, in 2018, Hungary participated in the Voluntary National Review of the High-Level Political Forum, as SDG 6 (Sustainable management of water and sanitation) was one of the themes of the past year.

Another field, which also has seen big achievements in the region, was tourism. The number of Chinese tourists who visited Hungary between 2011 and 2017 more than tripled, with their number reaching almost 245 358/year by November in 2018. This means a 12.8 percent growth compared to the same timeframe in 2017. This clearly shows the market power of the ever-expanding Asian middle class.

Tourism is encouraged by the Hungarian government mainly through cultural, educational and technological ties, which, together with the opening of direct flights between Budapest and regional hubs, increase the worldwide visibility of Hungary

5 In 2015, the 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals were adopted. On January 1, 2016, the 17 Sustainable Development Goals (SDGs) of the 2030 Agenda for Sustainable Development came into force. The SDGs build on the success of the Millennium Development Goals (MDGs) and aim to go further to end all forms of poverty.
6 Ensure the availability and the sustainable management of water and sanitation for all.

and its attractions., The Budapest-Beijing direct connection by Air China opened in 2015, whilst in 2019, China Eastern is launching new flights to Shanghai and Turkish Airlines to Mumbai. Direct flights to Seoul are also under negotiation. The Hungarian government will seek to attract more and more direct flights from the region, as Budapest Airport is already one of the main hubs of the region, not only in terms of the number of passengers, but also regarding cargo as well. The expansion of the airport's capacities is in progress. Naturally, the development of the airport and direct flights also facilitate business and educational sectors besides tourism.

Furthermore, visibility can also be enlarged through governmental-level help relating to sectorial fairs, seminars and programs, such as the Asian Diplomatic Days or FOODEX. This offers small to medium-sized Hungarian companies easier access to possible partners from the Asian region. Governmental aid is important, as many businesses would otherwise be unable to find the necessary partners due to small size and/or the lack of funds, despite the fact that many of them produce high quality products that would sell well in Asia. An additional goal for Hungarian companies is to export more to emerging Asian markets indirectly, by becoming suppliers of large European (e.g. German or Swedish or other Scandinavian) exporters, who already have established positions in the targeted emerging markets.

4. What Does the Future Hold for Hungary in Asia?

Hungary will naturally seek to continue its cooperation-building with the Asian region, expanding economic, cultural and technological ties with countries from this part of the world. In this process, all four pillars of the Hungarian foreign policy will be used to the fullest extent possible. In the field of presence, Hungary has accredited a chargé d'affaires to Cambodia instead of its embassy in Hanoi. Hanoi on the other hand, will see the opening of the Hungarian Cultural House in 2020, which will be a one of a kind institution focused on showcasing Hungarian culture. Hungarian Cultural Institutes will open in Seoul and Tokyo as a part of the celebrations of the 30th and 150th anniversaries of the establishment of diplomatic relations, respectively. Hungary will persist in remaining a strong supporter of free trade and mutual cultural understanding; therefore, it will seek to further strengthen its ties with Asia.

Building on the success of the events held in 2013 and 2016, Hungary will host the third Budapest Water Summit in 2019. Under the patronage of János Áder, the conference will take place between October 15 and 17, 2019. With the motto 'Preventing Water Crisis', The Budapest Water Summit 2019 aims to promote solutions that tackle the problems of the emerging water crises arising around the issues of abundant, scarce and polluted water.

Hungary will also host the 5th ASEM Transport Ministers' Meeting in December 2019, while the opening session of the Joint Committee for Economic Cooperation with the Republic of the Philippines will be held in April of the same year. Hungary also looks to host several foreign and trade ministers, heads of governments and heads of states from the region in 2019, in the hope of deepening its ties with the East.

Hungary recognized the opportunities arising from the Belt and Road Initiative (a.k.a. OBOR) early on and joined the initiative as the first European country by signing an intergovernmental Memorandum of Understanding with China on jointly promoting the building of the Silk Road Economic Belt and the 21st Century Maritime Silk Road, as a first step towards closer cooperation and coordination. We also signed the "Cooperation Plan" with the Chinese side on the China-CEEC Meeting of Heads of Governments in Budapest in November 2017.

With the second BRI Forum held in Beijing from April 25 to 27, 2019, Hungary attaches a great importance to the "Belt and Road Initiative" that we consider as a unique opportunity for the Central and Eastern European region to attract Chinese investments. We do hope that with the successful modernisation of the Budapest-Belgrade railway line, we will be able to further strengthen the trade and economic relations between Europe and Asia.

As a conclusion, it must be stated that in the changing geopolitical climate, strengthening the trade and economic ties between the two continents is absolutely vital. Fewer obstacles in bilateral trade and the signing of more free trade agreements will no doubt greatly benefit the economies of the countries involved. Hungary will continue to respect and strive to understand the national traditions and trade needs of its partners, and as Euro-Asian connectivity holds the key to economic prosperity in the 21st century, the only way is the way forward and on the road of free trade.

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Geopolitical and Geoeconomic Position of Hungary within the "16 + 1"

Slobodan Popovic

Abstract

The main purpose of the paper is to objectively analyze geopolitical and geoeconomic position of Hungary within the China + 16 Central and Eastern European countries ("16+1") framework of cooperation. We will do this by using the content method analyses, interviews with relevant experts in the field and approaches which stem from geopolitical and geoeconomic thoughts. Primary data sources will be the official documents released and/or bilaterally signed by China, Hungary, European Union (EU) and the guidelines of the "16+1". The second source will be academic and other publications that are related to the proposed subject. The paper shall consist of three parts. The first part will tackle Chinese reasons for pursuing multilateralism and regionalism in foreign policy, as a new understanding of security architecture, geopolitical balance of power, and geoeconomic distribution of wealth. Inevitably, we must analyze the Hungarian perception of institutional and international order which China builds independently from the American one. The second part will tackle the process of 'frameworking' of the "16+1". Analyzing the Hungarian position within the "16+1", we will understand what kind of tools China uses to achieve its goals among Central and Eastern European Countries. Simultaneously, this can be helpful to see if and how China is imposing the "wall" in the Old continent. The third part will be dedicated to the Hungarian possibilities to use the trade and investment opportunities that China offers. Hungary, as an EU member state, must respect EU regulations which stipulate a different kind of business culture than pursued by China. In this part we will combine Chinese, Hungarian, V4's and the point of view of the EU.

1. Introduction

The main purpose of this paper is to analyze the geopolitical and geoeconomic position of Hungary within the mechanism of China + 16 Central and Eastern European countries ("16+1"). Analyzing this we will firstly understand the Hungarian perception of Chinese multilateralism and multipolarity. Secondly, we will understand if China boosts integration or a "divide and conquer strategy" in the Old continent. Amongst 16

European countries 11 are EU member states and 5 are in the process of accession. We will combine Chinese, Hungarian, V4's and the point of view of the EU, with the aim of making an academic conclusion. As noted by Tilman Pradt, threat perceptions are never unemotional but the result of a highly subjective estimate. They include expectations of future behavior and are therefore, like all prognoses, prone to individual misjudgments (Pradt, 2016, p. 2).

China's foreign policy is becoming more dynamic, vibrant, assertive, nationalistic, and more challengeable for existing international order. That is notable on two levels. Firstly, China on a daily level requires reformation of the institutions created and run by America. On the second level, China is creating parallel security and economic institutions, frameworks of cooperation and mechanisms guided by a different set of norms.

One of those parallel frameworks of cooperation is the "16+1" which China created amongst European states, including both European Union (EU) member and non-member states. Interpretations of this Chinese multilateral initiative are twofold. On the one side, the "16+1" has been interpreted as a tool of EU disintegration. Policy makers and academia claim that China will use its economic strength to reshape the geopolitical balance of power, security architecture and geoeconomic distribution of wealth in the Old continent. China will do that because it wants to revoke Sino-centric world order. Contrary, the history testifies that European countries colonized China and suborned it to unequal treaties. On the other side, there are insights that China, through gathering its bilateral relations with the Central and Eastern European countries into a multilateral framework of cooperation, offers new opportunities for enhancing people's living standard and quality of life. As we know, the EU still suffers the consequences of Eurozone debt crises, migrant crises, moral, social and security crises. In line with all these types of crises and with non-unanimous strategy and late reactions, the EU cannot offer the final and feasible resolution. With that in mind, China through many green field investments, loans and other financial tools is looking to maintain and reinforce the social stability of the EU. Simultaneously, Chinese companies gain the possibility to spread their financial surplus into more geographically dispersed baskets, including such attractive ones within EU, that, thanks to the debt crises, became more economically and politically accessible in the process of this "reverse FDI" process. In those acquisitions Chinese companies could gain unusual gains for the investors – to acquire the latest technology and managerial skills (Mitrovic, 2014, p. 22).

2. Chinese Search for Multilateralism

During the past, China was a closed state, in both political, i.e. security, and economic terms with unchallengeable respect for state sovereignty. In that context, its foreign policy behavior was, mostly, based on bilateral diplomatic relations. Furthermore, China was very suspicious regarding the purpose of multilateralism strategically created and conducted by the U.S. China started to change that kind of behavior after initiating the open-door policy, introduced by Deng Xiaoping (Mitrovic, 1995). This was the first step of Chinese integration, but only to a certain level, with the Westphalia international political and Breton Woods international economic order. In the first years of reforms and opening-up, China pursued bringing in strategy, as a tool for attracting foreign direct investments (FDI) and other financial packages. China's official political course in that moment was keeping a low-profile. But, after the Tiananmen incident, the Chinese Communist Party (CCP) leadership understood the following facts. First, Chinese domestic security and communist legitimacy are vulnerable. Second, its economy is not feasible and based on real assumptions. In that context, for China, it was urgently needed to change two mutually complementary perceptions. First was the perception of international affairs. Second, the perception of its position within these kinds of affairs. Instead of the abovementioned bringing in strategy, China started to pursue going out and to demonstrate its capacities regarding relational and structural power (Mitrovic, 2008; Strange, 1994). China started to be more vociferous and visible within the international institutions created by America, especially in the International Monetary Fund (IMF) and World Bank. Apart from that, China is investing a lot of resources, with the aim of establishing parallel international order, guided by a different set of norms. According to Professor Dragana Mitrovic, Ph.D., China started to create parallel order, paths and fora and mechanisms for global governance, because it faced opposition from Washington and obstructions to power sharing (Mitrovic, 2018, p. 19). In that context, multilateralism as a new trend of China's foreign policy could be viewed from the following angles. Firstly, multilateralism is a strategy of economic development in the era of globalization. Globalization is recognized by Chinese officials as one of the main features of the contemporary world. In that context, China intentionally and eagerly seeks multilateral channels as effective venues for gaining economic benefits under the new background of globalization and provides a new observation that China's participation in regional security multilateral mechanisms is also often economics-oriented for serving China's ambitious plan to economically "rise" (Lansdowne – Wu, 2008, p. 9). Secondly, multilateralism is a convenient balance against the hegemonic power. Multilateralism is here directly merged with China's effort on the promotion of the multi-polarity of world politics. In China most civilian and military analysts see the rise of multi-polarity as the "greatest check on the US quest for hegemony," so too, with multilateralism (Lansdowne – Wu, 2008, p. 10; Ministry of National Defense of the People's Republic of China, n.d.). Thirdly, multilateralism is an image-improving measure in international society. The ideological and political uniqueness, not just during the post-Cold War world, but as well during the longer history, costs China much in international relations. Beijing, therefore, makes much effort to improve its international image, particularly as a "responsible" member of international society, which will not seek hegemony. Officially Beijing, understands that suffers from lack of soft power. As it has become fully aware of the point that such an image can be crucial in this world of growing globalization to attract foreign resources, materials and beyond, to serve both the survival of the authoritarian regime and the economic development of the Chinese nation (Lansdowne – Wu, 2008, p. 11). Last, but not least, multilateralism is an effective venue to address security issues, particularly regionally. (Lansdowne – Wu, 2008, p. 11). Michel Yahuda argues three reasons why China became advocate of multilateralism. First, the continued emphasis on stability and economic development at home; second, the emergence of a less hostile international environment that was more welcoming to China's integration in the international economy; and third, the experience of multilateral consultative security arrangements in both continental and maritime Asia (Yahuda, 2003, p. 190). It is understandable that through multilateral frameworks of cooperation, arrangements, deeper networking of bilateral relations and fora China is trying to create convenient and suitable environments on regional, international and institutional levels, underlining interconnectedness between economy and security. Still there are many doubts to be answered regarding to what extent China's multilateralism will be biding for states participants if we know that officially Beijing based its foreign policy on Five principles of peaceful coexistence? However, stable environment is needed for China to accomplish Two Centenary, China Dream if it wants to sustain communist legitimacy. Consequently, Chinese leaning towards proactive and constructive multilateralism, cannot be considered as a kind of ad hoc, short-term reaction to outside stimulus. It also reflects its overall assessment of the nature and trends of the international system and the international environment, its evolving concepts of national security, and its deepening understanding of the function of multilateral diplomacy under new circumstances (Wang, 2005, p.160).

The question is why China has chosen to multilaterally gather Central and Eastern European countries? Junbo Jian argues that creating the "16+1" does not mean that more natural resources such as oil or minerals have been found in the Balkans (although these resources are now necessary to feed China's growing economy) or that the Balkan market has suddenly enlarged; instead, it means that the two sides have found more common ground for enhancing their relations. For China, the Balkans, like a bridge, are becoming increasingly important for promoting Beijing–Brussels relations and bolstering the new Silk Road initiative. For the Balkans, China is increasingly becoming one of the key investors for their economic development (Jian, 2018, p. 242). According to Ágnes Szunomár when some of the countries of Central and Eastern Europe (CEE) became members of the European Union, China developed an interest in strengthening ties with the region, attracted by CEE's dynamic, largely developed, and less saturated economies directly connected to the EU common market. China chose this region because CEE countries have dynamic, largely developed, less saturated economies, which are directly connected to the EU common market. Chinese corporations can cut their business costs significantly in the CEE countries and become integrated into the EU industrial system, but with less political expectations and fewer (or more silent) economic complaints compared with Western Europe. Of course, Beijing's growing interest toward CEE markets cannot be disconnected from some longstanding political and economic goals of China, such as ending the EU arms embargo and granting market economy status to the PRC. (Szunomár, 2018, pp. 71-77). Consequently, China is trying to give to the Central and Eastern European Countries the "hub shape" within its going out strategy and to avoid possible misunderstandings with the EU (Stevic – Popovic, 2018). With similar insights provided us by Professor György Iván Neszmélyi, Ph.D., declaring the following, because of the membership in the EU and the Single Market, access to these countries' means access to a market with around 511 million people and circa 20 million firms. Proximity to the main European markets (Germany, France) makes assembly in this region and then transport of these goods easy. The simple fact that Central Europe lies between Western Europe and China, makes the region more important than its economic power would suggest. In contrast to Russia, China doesn't have any political disputes and geopolitical conflicts with Hungary and other Visegrad four countries (Neszmélyi, 2019). In that context, it looks more realistic to conclude that China is using every open door to enter the EU, but also European market as a whole, as another global economic partner (Mitrovic, 2014, p. 20). Apart from obvious economic "because", Gabriela Pleschová puts the light on the next four reasons: a. a tradition of perceiving this region as being distinct from other parts of Europe; b. China's impression that CEE is still different from the rest of Europe; c. difficulties pertaining in EU–China relations in general; and d. global economic crisis and China's plan to curb the crisis through the New Silk Road initiative (Pleschová, 2015, p. 20). Moreover, with the aim of discovering the Hungarian geopolitical and geoeconomic position within the "16+1", we shall analyze and disclose the Hungarian perception of China's global aspirations. From our point of view, it will be useful to start with the fact that Hungary is the first European country that signed, with China, the Memorandum of Understanding (MoU) on promoting the Silk Road

Economic Belt and the 21st Century Maritime Silk Road. The MoU was signed on June 6, 2015, when China's Minister of Foreign Affairs, Wang Yi, paid an official visit to Budapest.[1] According to the Wang Yi, China is now speeding up its opening-up to the west, while Hungary is now pursuing the "opening to the East" policy, therefore, the Belt and Road will more closely link China and Hungary (MFA, PRC, 2015). Likewise, China and Hungary signed more MoUs. One of them is on joint funding to research and development projects. The MoU was signed at the Thematic Session on People-to-people Connectivity of the Belt and Road Forum for International Cooperation on the afternoon of May 14, 2017 (MFA, PRC, 2017). Another one was signed in May 2015 on nuclear energy cooperation. Furthermore, Hungary follows the one China policy, i.e. officially Budapest refuses to meet on the governmental level with diplomatic delegations from Taiwan or Tibet (Kugiel, 2016).

Consequently, the Hungarian perception of the Chinese impact on global governance and economy, represents the Hungarian Opening to the East policy introduced by Orban administration, after the Hungarian famous "NO" to the IMF, in 2010.[2] The Deputy Minister of Foreign Affairs, Zsolt Németh, explained Hungary's movement toward Asia as the result of the eastern continent's growing global significance; he noted, "the future of the world economy and politics seems to be increasingly inclined to Asia, therefore both Hungary and the European Union should consider deepening relations with this region as their primary interest" (Kałan, 2012, p. 60; About Hungary, 2018). According to some, Hungary's relationship with China is at the heart of the "Opening to the East" policy, that is, it was created especially because of China. While there are many other countries involved, surely there can be no successful eastward opening without somehow winning China over and making it a strong ally in the future (VPost, 2018). Those who were critically oriented regarding Hungarian Eastern policy, accentuated political influence and pressure that China might exert on Orban's manners of ruling the country. Hungarian liberals emphasized that China can promote the development of authoritarian political processes, because instead of value oriented foreign policy, officially Budapest selected realpolitik.

1 Here we have to be very cautious because China during the Suzhou summit signed the same MoUs with Poland, Serbia, the Czech Republic, Bulgaria and Slovakia (Tiezzi, 2015).
2 This represents a great step in boosting relations between China and Hungary, if we know that Orban has been organizing protests against the Tiananmen Square issue.

3. 'Frameworking' of the "16+1" Framework of Cooperation

The "16+1" framework of cooperation is a part of Chinese endeavors to enrich or burden international order with Chinese characteristics. Simultaneously, it is a part of China's broader geopolitical, geoeconomic, cultural and security strategy known as Belt and Road Initiative (BRI). Before analyzing summits organized by the "16+1", we have to accentuate that this framework of cooperation could not be regarded as institution guided by, allegedly, strict and undisputed EU regulations. On the contrary, it is guided by loosen regulations, non-binding guidelines, allegedly equal partnership and comprehensive and omnidirectional cooperation. The aforementioned features of the "16+1" provide us with the conclusion, that China is still searching for a feasible form of multilateralism which will be in line with its Five principles and creating convenient international environment.

During 2009, Xi Jinping, then China's vice-president paid visits to Belgium, Germany, Bulgaria, Romania and Hungary, spending the most time in Budapest. This tour was characterized as a visit to consolidate and develop cooperation in economic relations between China and the five countries, but Xi's visit to the CEE countries told more about China's evolving "go-out" investment strategy, indicating that the Chinese are eager to accelerate their diversification strategy through the emerging countries in the region (Szunomár, 2018, p. 76). Three years after, in 2012, Warsaw hosted the first summit of the "16+1". During the summit, Wen proposed 12 measures and USD 10 billion for, primarily, infrastructural development. Although, they were announced with very vociferous fanfares, concrete steps and gigantic results are still lacking. China established a Secretariat within its Ministry of Foreign Affairs, while "European 16" established or, is still establishing sub-mechanisms for achieving the objectives of the "16+1".

The second summit was held in Bucharest on November 26, 2013. As it was the first summit cooperation was emphasized in many areas, such as economy, finance, clean energy (wind, solar, nuclear, hydro), people-to-people exchange, road infrastructure (China-CEEC, 2013).

The third summit was held in Belgrade on December 16, 2014. During the summit China's Premier, Li Keqiang, pledged USD 3 billion to be injected with the aim of Central and Eastern European development. But, the main proposal of the Belgrade summit was Belgrade-Budapest high-speed railway, financed by China Railway Corporation. According to Li, this railway will link the Greek seaport of Piraeus in the south and Budapest in the North, stringing in the Macedonian capital of Skopje and

Belgrade. The land-sea express passage will further link the Mediterranean and the Danube (Cooperation between China and Central and Eastern European Countries, 2014). According to the official statement of Péter Szijjártó a double track will be created, and the railway line electrified as part of the project. Furthermore, implementing the project will enable goods trains with the heaviest axle loads to use the new track, and for passenger trains to travel at speeds of up to 160 km/h. It is estimated that it will take two to two and a half years to construct the track (Hungarian Government Website, 2015; Reuters, 2017). As the first cross-border project within 16+1 financed by Chinese capital, under business practice diverse to the European, it attracted a lot of attention not just of policy makers, but academia and citizenship as well. Also, by implementing this railway project, China will further facilitate its export to the European market. The EU has succeeded in postponing the construction of the proposed railway, due to the geopolitical, security, geoeconomic, business, administrative and reasons of transparency and procedures.[3]

The fourth summit was held in Suzhou on November 24, 2015. As well, in Suzhou guidelines the participants expressed their support for further infrastructural, financial, agricultural, energy, and cultural cooperation (China-CEEC, 2015).

The fifth summit was held in Riga on November 5, 2016. According to the Riga Declaration and the Ministry of Foreign Affairs of Latvia, the biggest attention was given to further infrastructural development and interconnectivity amongst Central and Eastern European countries. This time the focus was on development of ports. In that context leaders attending the meeting (hereinafter referred to as 'the Leaders') reaffirmed their support for the cooperation initiative involving the ports in the Adriatic, Baltic and Black Sea and along the inland waterways (hereinafter referred to as 'Adriatic-Baltic-Black Sea Seaport Cooperation'), which was put forward by Li during the 4th China-CEEC Summit in November 2015. The leaders point out that Adriatic-Baltic-Black Sea Seaport Cooperation would help widen the scope of China-CEEC practical cooperation, promote sustainable development in the long run, and contribute to greater synergy between the Belt and Road Initiative, development strategies of CEECs and the EU's Trans-European Transport Network and the EU Danube Strategy (Cooperation between China and Central and Eastern European Countries, 2016). Furthermore, during the summit, the first freight train from Yiwu, dynamic

3 Furthermore, China has been criticized by leftist that it is not respecting human and labor rights. For example, in 2011, a worker interviewed by US Radio broadcaster NPR told reporters, workers were told by supervisors to urinate into the sea, rather than taking toilet breaks. Those operating straddle carriers had to take cups up into their cabins to urinate into, and he says they were not given breaks, either, despite the clear dangers of operating at such a height for so long (Vassilopoulos, 2014).

manufacturing center in east China, arrived in Riga. He Lifeng, deputy head of China's National Development and Reform Commission, stated that the recent boom in China-Europe rail freight routes had made steady progress in the implementation of the China-proposed Belt and Road initiative. The Belt and Road initiative aims to build a trade and infrastructure network connecting Asia with Europe and Africa along the ancient Silk Road routes. Since the Initiative began to take shape, over 2000 trains have travelled from China to Europe along some 40 lines (Xinhua, 2016; Xinhua, 2018). Yiwu-Riga is not the only train that connects China with Europe.[4] In line with the abovementioned the Adriatic-Baltic-Black Sea Seaport Cooperation and the explosion of railway traffic, China wants to construct pan-European infrastructural grid, connecting water, air, and ground traffic, as one of the BRI's goals.

The sixth summit was held in Budapest in 2017. During the summit win-win cooperation, protecting environment, cooperation in energy, tourism, technology, agriculture and good relations between China and EU, were reemphasized.

The latest summit was held in Sofia on July 7, 2018. The Summit was named "Deepening open and pragmatic cooperation for inclusive prosperity". Still, it is not clear what type, form, structure and under whose auspices the inclusiveness should be achieved. The guidelines reaffirmed that the "16+1" constitutes an important positive impetus for establishing balanced relations between China and the EU. This perception was presented by Song Tao in 2012, when he pointed out that China-CEE cooperation is an important part of China-Europe relations. The increasing pragmatic cooperation between China and CEE countries will help to improve the size and quality of China-Europe cooperation, will benefit the development of China-Europe relations in a more comprehensive and balanced manner, and will help Europe to overcome the current difficulties (Embassy of the People's Republic of China in the Kingdom of Denmark, 2012).[5]

4 Besides the abovementioned freight trains, there is to Poland, Germany, Madrid, and London freight trains (Poland-in, 2018; China Daily, 2018).

5 Here is very important to accentuate that the EU, expressed great interested in working of the "16+1". For example at the Suzhou summit EU representatives such as EU Ambassador in Beijing, Ambassadors of Greece and Austria and representatives from EBRD were presented as observers. The other level was EU's strong interest into the preparation of the Summit through the acts of the member states, especially the Baltic States, although it remained unclear whether it was more their autonomous positioning ore one encouraged by Brussels. Notably, the Baltic States initiated "EU+16" narrowed preparation meetings in Beijing, before commonly agreed platform would be shared with the Chinese side. Such approach was not comfortable to the non-member states which benefit from their status (Mitrovic, 2016, p. 9).

During the Sofia gathering, the focus was on custom procedures which exist among China and Central and Eastern European Countries, China and the EU. Changing custom procedures, will allow China to be able to reach faster and easier the vibrant Western European markets. This is why, in the Sofia Guidelines we can read the following lines, China and the CEECs that are Member States of the EU will cooperate within the structures of the EU-China Agreement on Cooperation and Mutual Administrative Assistance in Customs Matters and of the EU-China Strategic Framework for Customs Cooperation. Eligible CEECs are encouraged to take part in the China-EU Smart and Secure Trade Lanes Pilot Project. China and CEECs are ready to further strengthen cooperation in customs clearance facilitation. The cooperation in customs between China and CEECs will take place within the constraints of their respective competences (MFA, PRC, 2018).

Chinese efforts to be presented amongst Central and Eastern European Countries, can be perceived as China's efforts to (ab)use them in creating better position towards a competitive EU market, surpassing high standard procedures, and anti-dumping measures. As it can be seen, for China the Central and Eastern European countries are becoming increasingly important for promoting Beijing–Brussels relations and bolstering the New Silk Road initiative (Jian, 2018, p. 242). The tools that China uses in this process are economic power, vociferously announced projects, which are, by some EU member states and further, obstructed in achieving results. Besides their economies, Central and Eastern European countries are very important in security terms for the West. Namely, this is the main NATO, (i.e. American), hub for exerting the control over the Eastern hemisphere as well. Thus, policy makers and academia have raised the question of whether China is imposing a Great wall in the Old continent? The answer to that question we will try to provide by analyzing the proposed Budapest-Belgrade high speed railway, including *pro e contra* arguments.

Professor Battisti states that basically, the Chinese are highly pragmatic; ideology is a merchandise they sell mainly in the internal political market. It is a tool they are ready to exploit, and they did it in the past, but only if it offers them the chance to enter closed economies and strengthen fruitful relationships. The unorthodox political mood in today's Hungary is somehow inviting the Chinese resourcefulness. On the other hand, don't forget the deep association between American and Chinese enterprises and the political interests of the US in the country (Battisti, 2019). Brussels is afraid that China's infrastructure projects within the "16+1" will challenge the EU position in preserving the 'controller position' of geopolitical trends, regional power relations and geoeconomic distribution of wealth in Central and Eastern European space. This could be the reason why, ostensibly, Brussels so loudly criticized the

Belgrade-Budapest railway. From the EU point of view that represents the main risk of dictating the conditions to become an EU member state. According to Sigmar Gabriel, China's rise will result in a massive shift in the balance of power. The initiative for a new Silk Road is not what some people in Germany believe it to be—it is not a sentimental nod to Marco Polo, but rather stands for an attempt to establish a comprehensive system to shape the world according to China's interests. Powers such as China and Russia are constantly trying to test and undermine the unity of the European Union (Federal Foreign Office, 2018).

On the contrary, the Chinese will to be involved in European infrastructural development and interconnectivity is positively perceived as well. One example is that the EU, troubled by many crises, can use Chinese determination to invest in such projects to facilitate the Pan-European Corridor 10 plan. The route of the Hungaro-Serbian HSR, as well as most of the other railway and road projects, support Corridor 10, a part of the network of ten planned pan-European transport corridors. China's willingness to finance and deliver these projects provides opportunities for CEE countries, especially Serbia and Hungary, to keep their economies afloat and complete strategic development projects that the EU has so far neglected. CEE countries, whose economies largely depend on cash inflows from the EU that have dried up since the onset of the Global Financial Crisis, view these projects as a valuable opportunity to close the infrastructure gap with Western Europe, and thus become more competitive with Europe and the rest of the world (Pavlicevic, 2014). Furthermore, Sofia Guidelines of the 16+1 reaffirms Chinese eagerness to cooperate with EU in enhancing infrastructural interconnectivity of poorer countries, with the aim to further boost the integration process of the EU (MFA, PRC, 2018).

Although, Hungary introduced its policy Opening to the East, it is still pursuing the strategy of balancing between east and west, because if everyone is economically in the same boat, then if China goes up, everybody goes up and if China goes down, then everybody goes down (Shepard, 2016).

4. Hungarian Search for its Possibilities between China and EU

Hungary, similar to the other "European 16", wants to become an economic, and political hub between east and west, especially after 2013, when Xi Jinping announced BRI. According to the Hungarian Investment and Trade Agency (HITA) the enterprise has a double strategic role: on the one hand, it is going to be the epitome of cooperation between the Central European region and the West Balkans; on the other hand, it will strengthen Hungary's efforts to become the main transit country of Chinese goods in the direction of Western Europe (Zsamboki, 2014). Notwithstanding, Hungary is not the only state from the V4 or wider "European 16", which is striving to become a hub between the west and the east. For example, Poland in 2008 started the Go China Policy. Also, Poland is the only European founder member of the Asian Investment Infrastructure Bank (AIIB), which was additionally supported by many bilateral agreements in sport, aerospace, culture, security, and economy.

However, the Hungarian position to use the possibilities, primarily economic, offered by China is shaped by EU regulations, business practice and standards. Hungary has a multi-layered identity. Hungary is an independent state, member of the EU and Visegrad group and close a Chinese partner. The EU is looking on Hungary's Eastern policy through a Cyclops eye. But from the other side, at the end of September 2015, the EU agreed to include China within the EUR 315 billion European Investment Plan. China, hence, became the first non-European country to be included in this EU plan (Jankovic, 2016, p. 9). The EU decision to include China in its investment policy plan, could be perceived as a Brussels' endeavor to reconfigure Chinese investment, economic and trade policies in line with Europe or as paradoxical EU behaviour. At the same time Western European states decided that they have to be more focused on the "16 region", with a special leaning towards the Western Balkan countries. In a speech on September 12, German Foreign Minister Heiko Maas told the Bundestag: It's important that we offer these [Western Balkan] countries a European perspective, and a reliable one, because otherwise they will turn to other countries, such as China. In a speech on the same day, European Commission President Jean-Claude Juncker told MEPs in Strasbourg, we must find unity when it comes to the Western Balkans—once and for all (...) should we not, or our immediate neighborhood will be shaped by others (MERICS, 2018a). It is becoming obvious that the EU would be very agile in preserving its *primus inter pares* position amongst the "European 16". The perpetuation of geopolitical and geoeconomic position of the EU amongst "European 16", represents the position of Germany which has vast interests in this region. According to the IMF, Germany amongst Central and Eastern European countries has created a "German-Central European Supply Chain Cluster". Namely, Germany, also, (ab)uses their cheap and qualified labor to produce and then re-export to the Chinese market.

Although China represents one of the major V4's economic partners, there are a myriad of risks, doubts and challenges in cooperation with China. Namely, Polish Institute of International Affairs through its survey demonstrated that China appears to be the most important partner for the Visegrad countries. This is reflected by the biggest trade volumes of the group and intensified political dialogue. Relations characterized by ideological differences and criticism of China's human rights records for much of the 1990s have undergone a remarkable shift in the early 21st century towards a more pragmatic approach now driven mainly by an economic agenda. There are also no major differences between the Visegrad members' policies towards China. The main risk for the V4 countries is their competing economic interests, especially with regards to attracting Chinese investment and increasing exports to the Chinese market (Kugiel, 2016, p. 40). But, all the V4 states record a tremendous deficit in trade relations, from as high as 1:9 for Poland to 1:3 for Slovakia. Hungary has not been the exception of this trend, although officially Budapest was very active in supporting China to obtain market status economy or lifting the arms embargo.

Hungary and China have renewed the bilateral currency swap agreement for a further three years with a maximum value of RMB 10 billion (Central Bank of Hungary, 2016). According to the Eurostat, during 2017, Hungary imported from China goods in the value of USD 374.6 billion, which consists 20 percent of the total Hungarian import. On the other side, Hungary exported to China the goods in value of USD 198.2 billion, which consists 11 percent of Hungarian export (Eurostat, 2018). It is becoming questionable, if China really helps the process of EU integration, social stabilization and economic development, if the poorer EU states suffer from a trade deficit with China. China should open its markets more, invest more, and cooperate with the EU in order to fully respect its standards. Regarding the last criteria, the EU created great potential to exert pressure on China, due to the EU-Japan economy agreement. Contrary, Italy as an important economy and political factor of the EU member states, signed the MoU on BRI with China. This Italian maneuver further undermined the EU perception of China.

Chinese investment in Hungary was about USD 3 billion by 2014. It is true, however, that the majority of Chinese investments are connected to some big deals, not a number of smaller ones. In addition to infrastructure, Chinese businesspeople are active in other areas. Chinese enterprises mainly target IT and telecommunications sectors in Hungary through main investors ZTE Corporation, Lenovo or Huawei (which recently decided to open a distribution centre for Europe in Hungary).[6] Sectors such as electronics are also popular (Hisense), as well as research and development, chemicals (Wanhua Group in Miskolc, BBCA's citric acid factory in Szolnok), and the mechanical industry (Canyi's European centre for lamp production) (Kugiel, 2016,

6 Regarding Huawei, Hungarian Government has been in very difficult position due to the American interest in controlling G5 network and tried to undermine Hungarian sovereignty by imposing logic or America or Huawei.

p. 48). Simultaneously, many of these investments saved jobs, and became international hubs of new the Chinese international role and global influence. That helped to enhance the Hungarian investment position. Although Hungary was the first country to open a branch of the Bank of China, Bilingual Chinese-Hungarian Primary School in Budapest in 2004, the Hungarian season exposition was held in China in 2008, and two countries in 2017 signed Comprehensive strategic partnership, and Hungary Exim Bank contributed with USD 30 million to the China-CEE Investment Fund of USD 500 milion, Chinese investments are still at a very low level. As noted by Tamás Matura, the lack of major Chinese direct investment inflows is in sharp contrast with the fact that Budapest enjoys relatively high Chinese political attention and that among all central European countries, Hungary has the largest population of Chinese diaspora. Although officially Budapest implemented in 2010 'Opening to the East', there are no new, tremendous Chinese investments. Even though many announcements have been made and many cornerstones have been laid, there are very few tangible achievements, and even those are investments in the range of a few million dollars (Matura, 2018). But on the other hand, Hungary has to be very cautious regarding Chinese investment, because it has to avoid violating EU regulations. One example represents, the Malev airport, after its collapsing in 2012.

While China does not challenge the EU and American geopolitical and geoeconomic leverage and position of control of cordon sanitaire (Central and Eastern European Countries), the West is fine with Chinese investments. As soon as China offers the possibility to reshape or connect focal or bridge points of landlocked Eurasian landmass, Chinese investments do not follow international standards. Does Mackinder's theory of buffer states and the fear of controlling the Eurasian landmass by some other state regain importance?

5. Conclusion

Firstly, it can be seen that for China, the region represents vibrant, dynamic, enough developed and saturated markets, and a new hub for Chinese export and regulations of overcapacity in steel, and cement industries and labor. Wang Wei underlines, because the CEE countries generally have high quality labor, the cost of investment is low compared to other areas. The laws and regulations are relatively sound. There is a great need for roads, railways, ports, power plants and other infrastructure construction, which makes those good areas for Chinese expansion (Wang, 2014). Furthermore, cooperation with China is, unlike with major Western powers, on an equal footing, with no subordinating treatment nor humiliating preconditioning. In that sense, too, all countries of the region are feeling very stimulated to deepen cooperation with China, although in some of them there were concerns that such development could harm their close ties with countries that paradoxically have China as a high priority global partner (Mitrovic, 2014, p. 26).

The blueprint of China's bilateral relations with Budapest suggests that officially Beijing has not been interested in becoming an alternative for disobedient EU states, but rather seeks to engage with stable and well-integrated countries. The EU may as well be concerned with the growth of bilateralism between individual Member States and large external powers; however, the Sino-Hungarian relationship reveals that it is the maintenance of good relations with other EU states that makes a country attractive to Chinese investment (Kałan, 2012, p. 69). In that context, the geopolitical and geoeconomic position of Hungary within 16+1, is not dramatically different, compared to the V4 or the wider "European 16". In the opinion of Professor György Iván Neszmélyi, Ph.D, the reason why Hungary doesn't differ from other V4 countries too much, is that long-term economic and political conditions of the Central European countries are the real factors shaping the geopolitical and geo-economic motivations of these countries and these are quite similar (Neszmélyi, 2019).

Nevertheless, China, also, for each European member state says that it possesses the crucial hub position, firstly between China and EU, and lately within the BRI. China's approach also determines the strategies of the "European 16" and often produces relations of competition rather than cooperative relations (Mitrovic, 2014). Gabriela Pleschová noticed the same issue stating that, the major challenge, however, remains the same both for the CEE and the EU platforms: how can they overcome the differences in member states' interests in relations with China, when member states often choose to act more like competitors than partners? (Pleschová, 2015, p. 26)

Regarding infrastructural projects, and Chinese endeavors to enter deeper into the European backyard, some of the EU reactions are understandable. Once the alternative transport routes are completed China will be in a more favourable strategic position, China will have more and more alternative transport routes, be more able to reach their target markets easier and faster and will be able to work off some of the industrial overcapacities accumulated in recent years. In addition, these projects may provide a reference for further Chinese investment in the broader region, especially in the more developed part of Europe (Szunomár, 2018a). The EU reacted so fiercely regarding the Budapest-Belgrade railway, but that kind of reaction was excluded regarding other interconnectivity projects which China is constructing directly to the EU family. Professor Battisti for those EU reactions, states that the two cases are quite different.

The Budapest-Belgrade project is internal to the EU. It would strengthen the partnership between two neighboring nations and this could trigger a drift inside the Union. Hungary is positioning itself as a "sovereigntist" country, Serbia is a candidate to the Union but maintains strong ties with Russia and at present in Brussels they are exerting pressure on Belgrade to profit from its economic weakness. From the political side, once both countries have a high-speed connection, we would experience a new territorial recomposition in Eastern Europe, inverting the trend initiated with the fall of the Soviet empire. The Union would possibly have to face within its borders a new center of power and this perspective is unacceptable to the winners of the two world wars who control the Union. As for "One Belt, One Road", the rail connections are mainly an alliance of railway societies, the new railway sections to be built are generally outside the reach of the EU. It is a matter of cooperation, of commercial agreements that may be broken at any time and do not imply the birth of new dominant positions. For the time being, moreover, the project is largely a paper one, no binding treaty has been signed. In the long run, should the railways avoid the maritime dominance of the Atlantic powers, the access to the Union would be certainly denied. The Mackinder doctrine is still in force (Battisti, 2019). Although, China and the EU signed EU-China Interconnectivity platform and strategy (separate documents), they still have different interpretations of the same terminology – interconnectivity. Furthermore, Chinese geopolitical and geoeconomic involvement in Hungary will not radically reshape the financial, trade relations and security architecture of the EU. Nevertheless, although Hungary represents the biggest receiver of Chinese investments amongst the other "European 16", when compared to Chinese investments in Western Europe, it represents small account. According to the MERICS data in 2017 the top five European destinations of Chinese investments were the UK (42.2 percent), Germany (20.6 percent), France (12.4 percent), Italy (13.7 percent) and Netherlands (9 percent) (Hanemann – Huotari, 2018). On the one side, both China and the EU will not seek to jeopardize the EU-China Comprehensive Strategic Partnership. On the other side, the upcoming global geopolitical, geoeconomic and geostrategic competetition and the world uncertainties will, surely, affect not just the future of China's foreign policy, but American, EU (Germany), and Russian too. This will, as it has been confirmed by many geopolitical theories and events, affect Central and Eastern European countries.

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Viet Nam's Importance for Hungary – Through the Glasses of Higher Education

Réka Brigitta Szaniszló

Abstract

The Hungarian People's Republic and the Socialist Republic of Viet Nam established diplomatic relations in 1950 which means approximately 70 years of high-level cooperation. The solid inter-state ties started to formulate within the frameworks of the Cold War, in the context of communism.

After the unsuccessful Hungarian revolution against the communism in 1956, Hungary was diplomatically isolated by all main actors of the Cold War because of differing reasons. One of the break-out possibilities was to establish active and fruitful relations with the communist Third World's states. The real journey of Hungary and Viet Nam has begun here. In the 1960s, Hungary provided scholarships for the higher education students of communist states thanks to which hundreds of Vietnamese started their studies at one of Hungary's higher education institutions and returned with a high-quality diploma.

Brain drain is one of today's main challenges for states which is closely related to the internationalisation of higher education. Viet Nam also has to face with the mentioned challenges. The Socialist Republic of Viet Nam announced its new higher education policy in 2006 under the title of Comprehensive Reform of Higher Education in Viet Nam in which programme the state attempts to ameliorate its higher education system, also with the tool of internationalisation.

This paper examines the educational connection between Hungary and Viet Nam and those factors, related to education, which would be able to influence the relations of the two researched states.

1. Introduction

Although thousands of kilometres separate Viet Nam and Hungary, they are also significantly different from each other in their cultures, traditions, languages; but there is still a raison d'etre to speak about Viet Nam in Hungary. The paper aims to demonstrate this raison d'etre through the presentation of the international importance of Viet Nam, the relationship-building of Viet Nam and Hungary, the development of the Vietnamese higher education and the higher educational cooperation of Hungary and Viet Nam. The paper principally focuses on the analysis of those factors, elements which define the importance of Viet Nam. What is the origin of the Hungarian-Vietnamese friendship? How can the Vietnamese higher education strategy be characterised? Why Vietnamese study and studied in Hungary? To answer the posed research questions I analysed legal documents, the relevant literature and data about international students.

2. Importance of Viet Nam

Three elements: economics, demographics and the international position of Viet Nam have to be emphasised in connection with the international importance of the researched country. However, regarding Viet Nam's importance for Hungary, we have to add some extra factors to the analysis which lie on the common historical background.

Taking a closer look at the economic aspect, we have to emphasise two crucial events that contributed to Viet Nam's incredible economic growth by which it became one of the fastest developing countries in the world nowadays.

Vietnamese reform communism, named as Doi Moi (in English: renovation), was introduced in 1986 (Werner – Bélanger, 2002). Among the trends of reform communism, the most successful is the Asian that developed from Maoism after Mao Zedong's death in China. According to Maoism, a long period in which capitalist economic conditions dominate precedes the introduction of communism. During the transition period, the role of the Communist Party is to coordinate the economy and preserve political domination. Maoism denies the need for a collective, public property of means of production during the extended transition period. Moreover, it expressly stands next to private ownership (Meisner, 1982).

After the end of nearly 40 years of continuous war, when the Vietnamese defeated the French (the First Indochina War (the colonial war) began in 1946 among France, Viet Nam, Laos and Cambodia and ended in 1954 with French capitulation (Hastings, 2018)), the Americans (the Second Indochina War (Viet Nam War) began in 1955 among the USA and Viet Nam and ended in 1975 with the American defeat (Hastings, 2018)), and the Chinese (Chinese invaded North Viet Nam (also known as the Third Indochina War) in 1979, the fights lasted 3 months (Chen, 1987)), in the early 1980s, the Vietnamese agriculture was unable to feed the Vietnamese population. Within the institutional system of the rigorously planned economy, the farms of agriculture were the farm co-operatives whose purpose was to eliminate starvation, but they failed. According to the story, one of the county secretaries noticed that the co-operative farm workers were falsifying production data in order to be able to meet the targets. He intended to find a motivation for the workers: promised the half of the supplement of the set target crop to the workers. As a result, production in that county became effective. After a brief protest, the Central Committee realised that socialism should be placed on a new foundation. The tool for change was the Doi Moi, the socialist-oriented market economy (Malјáth, 2017).

The changes generated by Doi Moi led to the second event, which significantly contributed to Viet Nam's integration into the world economy. Viet Nam joined the World Trade Organisation in 2007 (Vierra – Vierra, 2010). The economic development of Viet Nam then began to soar. Viet Nam was able to produce annual economic growth of over 6 percent even in 2008 and in the aftermath of the global economic crisis. Viet Nam's per capita GDP in 2000 was USD 388 in 2006 USD 780, while in 2016 USD 2,171, even though population growth was also significant in the period under review. Over the past ten years, 22,000 foreign direct investments have been registered in Viet Nam (The World Bank DataBank, n.d.). Furthermore, Viet Nam has signed 12 bilateral or multilateral free trade agreements since its accession to the World Trade Organisation (Viet Nam – Trade Agreements).

We also need to mention the geographical location of Viet Nam, which is of geostrategic importance. Viet Nam is located in Southeast Asia; it is surrounded in the North by China, in the Northeast by the Tonkin Bay, in the East and South by the South China Sea, in the Southwest by the Gulf of Thailand, in the West by Cambodia and Laos. China and the South China Sea have the greatest significance regarding the geostrategic importance of Viet Nam. The relations between Viet Nam and China are traditionally tense, and this tension had already emerged before the Vietnamese state was founded. The Viet ethnic group fled south of the Chinese, to today's borderline of Viet Nam and China (Balogh, 2015). Viet Nam had been in Chinese dependence or occupation for nearly two millennia (1111 BC-1860s AD), which geopolitical fear had flown over the independent Viet Nam (Szaniszló, 2018). With its long north-south extension, Viet Nam has a unique geographical link between the mainland areas of Northeast and Southeast Asia, so Viet Nam, with its major harbour network, is of great strategic importance to the great powers, especially to China and to the USA. Most of the west coast of the South China Sea belongs to Viet Nam. It cannot be a substitute for the traditional economic activity and lifestyle of the Vietnamese population. However, territorial disputes occur in the South China Sea that mainly affect three states: China, Viet Nam and the Philippines. The direct stance of the debate is the exercise of sovereignty over the archipelago, and the indirect, geostrategic stance is the exploitation of the fishing grounds and hydrocarbon deposits of the region, and the control of the longest possible stretch of maritime trade routes (Balogh, 2015).

Demographic changes also contribute to Viet Nam's international importance. The Vietnamese population grew steadily until the end of the 1990s, when the rate of growth started to decline, reaching its lowest point in 2000, when the annual population growth was "just" 1.4 percent. This means that the population of Viet Nam will double for 2050 if this growth rate remains (Haub – Thu Huong, 2003). Today, 97 million people live in the country, and the growth rate has fallen further, but it is still in the positive range. Population density and managing the problems resulting from it have always been a severe problem to Viet Nam. In 2019, the population density was 294.16 people per km^2 (World Population Review – Viet Nam). As a result, increasing Vietnamese emigration must be taken into account.

The last but perhaps most important thing to note is the role of Viet Nam in the international organisations, which reinforce its position on the international stage. The Socialist Republic of Viet Nam joined the United Nations in 1977 (United Nations General Assembly Resolution 32/2., 1977), which means that both the world's largest organisation and the international community recognised the Socialist Republic of Viet Nam as a peaceful, united, independent and democratic country. Over the past 40 years, Viet Nam has received much support from the UN and its Member States, while Viet Nam has proved to be an active and responsible member of the international community. Viet Nam has used UN membership to establish multilateral and bilateral relations with other international organisations—such as the European Union—and with other member states of the United Nations. In this context, it normalised its relations with the USA, joined ASEAN (Association of Southeast Asian Nations), signed an economic framework agreement with the EU, became a WTO member and strengthened its position in the UN (Viet Nam's 40-year UN membership). Viet Nam was already once a non-permanent member of the UN Security Council during the

2008-2009 period and maybe a non-permanent member again during the 2020-2021 period as one of the two representatives of the Asia-Pacific region (UN, 2017).

Viet Nam is more and more important in the eye of nowadays great powers mainly due to its economic growth and geostrategic position. Hungary traditionally seeks to have strong economic allies because of the size of the country. Can Viet Nam be such an ally for Hungary?

3. Hungarian-Vietnamese Relationship

In 1950, the Hungarian People's Republic and the Socialist Republic of Viet Nam established diplomatic relations (Hanoi, MFA, n.d.), with which act they mutually recognised each other as sovereign, independent states. The relations between the two countries began to tighten in the late 1950s and early 1960s. After the defeat of the Hungarian Revolution and War of Independence in 1956, Hungary suffered from international isolation: the West condemned the leadership that came to power by foreign power; the Soviet Union considered the Hungarians to be unreliable, China and Yugoslavia condemned Hungary for persisting with the Soviet socialist pattern, and the neighbouring states feared that Hungarian nationalism would cross the borders and spill over their states. Thus, Hungarian foreign policy in the early 1950s can be characterised by the paradigm of room for manoeuvre and force majeure. Regarding the Hungarian foreign policy, János Kádár moved where he was able to: towards the newly liberated colonial countries (Földes, 2017).

Ho Chi Minh proclaimed the Socialist Republic of Viet Nam's independence in the North in 1945, but it was followed by 9 years of colonial war, so at the time of the Hungarian foreign policy isolation, Viet Nam—in a modern sense—was a very young and—the most critical thing—communist state, with whom the Hungarian isolation could be eased (Balogh, 2015). The support of the Vietnamese communists was a favourable opportunity to Hungary to prove loyalty for the socialist alliance, especially for the Soviet Union (Szőke, 2001). Ho Chi Minh first visited in Hungary in August 1957, and since then, diplomatic visits and negotiations between the two states have become regular (Szőke, 2001).

In the mid-1960s, international hostility eased towards Hungary. In 1965, the Hungarian government decided on a policy of "being in the best possible relationship with everyone", in which the Hungarian party leadership decided to take the initiative to improve its relations with China, Viet Nam and North Korea. Furthermore, in

1965, the US State Department asked for Hungarian and Polish diplomacy to mediate between Viet Nam and the USA in connection with the Second Indochina War (Viet Nam and USA have been in war with each other since 1964, the so-called, Tonkin incident (Balogh, 2015). After the Vietnamese clearly expressed their unwillingness to negotiate with mediators, Kádár wrote a letter to Ho Chi Minh and Le Duan, expressing his appreciation for Vietnamese perseverance and recalling that the Vietnamese are not fighting only for themselves, but they protect the interest of all the socialist countries. Within the frameworks of the new directions of the Hungarian foreign policy, in 1966, the first Vietnamese started their higher education studies in Hungary (Apor, 2017). In 1967, the first bilateral agreement was signed between the two countries in the field of health cooperation. After that, Kádár also articulated that Hungary, in keeping with its strength, supported Vietnamese in their fights with Americans (Földes, 2017).

In 1973, the Agreement on Ending the War and Restoring Peace in Viet Nam was signed in Paris. At the same time, the Agreement set up the International Commission of Control and Supervision (ICCS), which was responsible for monitoring the implementation of the Agreement. The Commission consisted of representatives from 4 countries: Canada, Indonesia, Poland and Hungary. Thus, from January 27, 1973, when the ceasefire entered into force until April 30, 1975, after the fall of Saigon, hundreds of Hungarian soldiers and diplomats served in Viet Nam. This was the first international peacekeeping action in which Hungary was involved. However, due to the ideological differences of the members of the Commission, in a short time, the peacekeeping work has been paralysed and has entirely failed within a year (Szőke, 2001).

The wars in Viet Nam in the 20th century are of great importance for Hungary's international situation and foreign policy. From 1950 (but mainly from 1957), the Hungarian party and state leadership committed itself to the Soviet-Vietnamese communist direction until 1989, i.e. it went counter the Western bloc and China and Yugoslavia. This decision determined the position of Hungary within the socialist countries, in the eye of the West and the judgment of the members of the Non-Aligned Movement (Szőke, 2001).

Following the regime change in Hungary, relations between Hungary and the Socialist Republic of Viet Nam decreased. From 1989 to the mid-2000s, the priority of the Hungarian foreign policy was not the deepening of relations with Southeast Asia, but the integration into the Euro-Atlantic alliance (Granasztói, 2006). Hungary turned to Asia, to Viet Nam in the mid-2000s. Interstate relations began to soar again in the early 2010s. Hungary and the Socialist Republic of Viet Nam have signed 12 bilateral agreements between 2010 and 2017. The Vietnamese who studied, settled down, started to work and found a family since the 1960s, have begun to form a community in the resting period of the Hungarian-Vietnamese relations (MTA, n.d.).

In 2015, the government of Hungary adopted the document on Foreign Affairs and Trade Strategy on Southern Opening. The strategy for Viet Nam is located within the Asia-Pacific region, the highlighted Asian relations, in the ASEAN chapter. The strategy emphasises that the establishment of the ASEAN Economic Community will lead to a market that is beyond the population of the EU and the USA, with significant potential for Hungarian businesses in infrastructure development, such as water management, food industry, health or energy. The goals and priorities for the whole region are mainly focused on economic considerations, i.e. to exploit the comparative advantages of Hungarian companies. In light of this, Hungary intends to deepen further diplomatic, cultural and, of course, economic relations with Viet Nam (Department of Africa, Department of Asia and the Pacific, Department of Latin-America, 2015).

Why Southeast Asia, Why Viet Nam? The answer to this question lies in the facts presented so far. Hungary wants to diversify its range of foreign economic partners. Viet Nam is a very fast-growing economy, which can once become a great economic power with whom Hungary has a traditionally friendly relationship. Due to the very rapid development of the Vietnamese economy, there is a demand that Hungarian companies may be able to fill. In order for the Vietnamese to choose the Hungarians, it is not enough to rely on nostalgia; there is also a need for new "gestures" such as disbursement of aid loans, health and educational cooperation.

Thus, the means of realising the Southern Opening include the operation of joint economic cooperation committees, the establishment of extensive cooperation with significant investors in Hungary, the provision of tied aid as one of the types of subsidised export financing, and education as a tool of establishing contact and country image building.

4. History of Educational Development in Viet Nam – Highlighting Higher Education

In the Feudal period of Viet Nam's history, promotion of learning and respect for teachers have formulated, when the position of a teacher was higher than parents were and only lower than the king's. This concept became a traditional Vietnamese value. Therefore, being educated was a privilege. The official language of education was a mixed Chinese and Vietnamese: they wrote with Chinese letters, but they pronounced differently, in a Vietnamese way. During this period Vietnamese built and maintained the traditional Confucian-oriented education adopted by the Chinese (London, 2011).

In the 1880s, when France colonised Indochina, the traditional education system was replaced by a French, European education system which aimed to train Vietnamese to serve the colonial administration. At the most prosperous period of the colonised Viet Nam, the total number of elementary school students accounted for 2 percent of the total Vietnamese population (World Bank Group, n.d.). In this period colonial Viet Nam had only three universities (which universities were also available for Laos and Cambodia because in the two mentioned countries French did not establish universities): of Law, Medicine-Pharmacy and Sciences. They were all located in Hanoi. The total number of the students of these institutions did not exceed 1,000. During the French era, the dominant language of education was French (Ministry of Education and Training, 1996).

When Ho Chi Minh declared Viet Nam's independence from France in 1945 (Hastings, 2018) the government indicated three crucial tasks of Viet Nam among which one was the fight against illiteracy, starting a new education system to preserve independence and rehabilitate the state and population (World Bank Group, n.d.). In the light of these, the Vietnamese government adopted numerous critical legal documents such as Decree No. 17/SL: "Everyone in the country has to be literate.", Decree No. 19/SL: "For the entire country, there will be literacy classes established for farmers and workers to attend at night.", Decree No. 20-SL: "While waiting for the establishment of compulsory primary education, teaching the national language will be compulsory from now and free for everyone" (World Bank Group, n.d.). Thus, the fight against illiteracy became a national policy.

Due to the colonial war (1945-1954) Vietnamese schools were patriotic, which means that the duration of elementary and secondary school has shortened, and the teaching topics aligned with the conditions of the resistance war, i.e. national topics were included in the school curriculum (London, 2011).

Also, in this revolutionary period, the Vietnamese universities started to prepare themselves for the use of Vietnamese language as an official teaching language. For this reason, a system of terminologies in the Vietnamese language had to be developed by Vietnamese scientists. For instance, Le Khac Thien wrote "Nouns about Medical Sciences", Hoang Xuan Han developed "Nouns about Math, Physics and Chemistry" (World Bank Group, n.d.).

In 1954, after the French capitulation Viet Nam was divided into the Socialist Republic of Viet Nam (in the North) and Republic of Viet Nam (in the South, with the leadership of the USA), thus the education-system of the two state parties was different until the reunification of 1975. In the South, an education system transitioned from European and French systems, influenced by the system of the USA was established. While on the North, patriotic education has continued (London, 2011).

In 1975, after the fall of Saigon and the reunification of the country, the education system was re-unified as well. The Vietnamese education system was very similar to the USSR's. Education aimed to produce a new type of worker who was master and could improve the construction of socialism (London, 2011).

However, the Vietnamese (communist) education system always seek reform. In the 1980s, the Vietnamese education faced a severe shortage of resources because of the Vietnamese economic crisis. As a result, teachers and students left schools which consequences were the decline of education quality and the decrease in its size. The situation was critical regarding universities and colleges. They did not have enough budget to maintain their regular activities; lecturers had to fulfil additional, inacceptable jobs, graduates were not able to find employment (World Bank Group, n.d.).

The educational reform had started when the Vietnamese government changed its economic policy from a centralised planning system to socialist-oriented market mechanism in 1986. With this action, Viet Nam was able to overcome the economic crisis and start a new education policy (Vierra – Vierra, 2010).

The educational reform was adopted by the 6th Congress of the Vietnamese Communist Party, in 1986. The educational reform includes the allowance of the collection of tuition fees (ease on bureaucracy), permission to open private, semi-public and people-founded institutions, classification of schools by levels of students' abilities (George, 2010).

Before the reform of 1986, the perception that higher education is just a vocational training was spread within the Vietnamese society. To escape from this perception, Vietnamese higher education had been "liberalised". The new training programmes emphasised the importance of economic elements; rigid training programmes were alternated by flexible training programmes. The universities and colleges were not obliged to the exclusive use of the state budget (London, 2011).

The higher education had to meet the criteria of the developing Vietnamese economy. It required the expansion of student intakes, screening during the learning process and adequate evaluation of outputs (World Bank Group, n.d.).

Thanks to the reforms of 1986, in 10 years, higher education institutions were able to expand their size. Five major multi-disciplined public universities were established in Hanoi, Ho Chi Minh City, Thai Nguyen and Da Nang, and even more private universities. In 1998 the number of higher education students were 760,000 while this number raised to 1.3 million in 2004 (World Bank Group, n.d.).

In 2005, the Vietnamese government announced the Comprehensive Reform of Higher Education in Viet Nam 2006-2020 programme. The Vietnamese reform for higher education has four explicit goals grouped in 3 topics. The first is the need for highly qualified lecturers. The aim is that teaching quality has to be improved by requiring almost all higher education instructors to hold master or doctoral degrees by 2020. The second topic is the need to respond to the demand of the labour market. Here the Reform has two goals. The first is that labour force development has to be prioritised with large-scale investments in applied, employment-geared training. Moreover, the other aim is that 70 to 80 percent of the higher education students have to be enrolled in applied programmes by 2020. The third topic is the development of secondary education by reforming high school graduation examinations and university admissions (Resolution No.14/2005/NQ-CP dated November 2, 2005 by Government).

Despite the changes and development, the education system in Viet Nam still faces numerous challenges, for instance, low educational quality and efficiency, especially in higher education. Therefore, the new Minister of Education in Viet Nam, Phung Xuan Nha elected in 2016 introduced a new higher education policy: the internationalisation of the Vietnamese higher education (Szaniszló, 2018b).

The internationalisation of higher education can be approached in four ways. On the one hand, the state wishing to internationalise may encourage its students to obtain their diploma abroad and then use the acquired knowledge after they returned home. On the other hand, an internationalising state may also support international students coming to the higher education institutions in the country, but this requires high-quality education, excellent lecturers practising foreign languages. Thirdly, we can talk about instructor mobility as well, in which the state wishing to internationalise sends its lecturers abroad to gain experience or, in the fourth case, the state can receive foreign lecturers to raise the quality of higher education.

In the case of Viet Nam, three of the four options are discussed. We cannot talk about student migration (yet) that would direct to Viet Nam, due to the shortcomings of Vietnamese higher education. However, this may change in a short time.

5. Educational Cooperation of Hungary and Viet Nam

The educational cooperation of Hungary and Viet Nam had already started in the late 1950s and early 1960s, when the immigration from the Third World to Hungary intensified, the direct cause of which was the opening of the Eastern European socialist states to the former colonial states of Southeast Asia and Africa (Földes, 2017).

In 1949, the Institute for Cultural Relations was already established in Hungary to implement the scientific-technical cooperation agreements. The purpose of these agreements was to disseminate and promote the Hungarian culture abroad, to disseminate and promote the culture of other ethnic groups in Hungary and to promote the implementation of cultural agreements (Apor, 2017).

Based on the facts and events described above, we know that in the 1960s Hungary needed Viet Nam to break out of its foreign policy isolation, while Viet Nam also needed Hungary to alleviate the severe problems of its education system.

Sixty-six students from the Socialist Republic of Viet Nam came to Hungary for the first time in 1966 with a Hungarian scholarship. When the war between Vietnamese and Americans spread to South Viet Nam (1968, Tet offensive), the Hungarian government extended the scholarship programme to students sent by the South Vietnamese National Liberation Front (Viet Minh – League for the Independence of Viet Nam), thus in 1968 a total of 246 Vietnamese students studied in Hungary with a Hungarian scholarship (Apor, 2017).

In the following years, the number of scholarship holders increased steadily, but the exact figures are not known, as even the officials of the Institute for Cultural Relations were not aware of them. In the 1970s, approximately seven-hundred North Vietnamese and about seventy South Vietnamese students studied at one of the universities of Hungary. All in all, Vietnamese students have come in the highest number among the former colonies to study in socialist Hungary (Apor, 2017).

The admission of students from the Third World was part of the broader solidarity and assistance programme, which was the main form of socialist Europe turning to the former colonial world. Furthermore, this type of migration was only considered temporary, and it was not assumed that Vietnamese students would ever settle in Hungary (Apor, 2017), but they did. Today, approximately 3,500 Vietnamese live in Hungary (HCSO, 2013).

The Vietnamese living in Hungary and those Vietnamese who studied in Hungary, but returned, today have an impact on the international relations of Hungary and Viet Nam. This fact is also right to those higher education students who arrived in Hungary from a post-colonial, socialist country before 1989 (Based on the interview made with László Vasa, Chief Advisor and Senior Research Fellow of the Institute for Foreign Affairs and Trade in Hungary). As a result, the Hungarian government restarted the scholarship programme provided to students from the developing countries in the hope that these students will promote interstate relations.

The educational cooperation between Hungary and Viet Nam has restarted in the 2010s. On October 7, 2011, in Budapest, the Hungarian Minister of Education and the Vietnamese Deputy Minister of Education signed the Education Work Plan for 2011-2014. Based on the Work Plan, the Hungarian party accepted five Vietnamese scholars per year for primary and undivided training. Besides, persons recruited by the Work Plan are mutually exempt from the payment of foreigners' fees for entry and residence in the host country (Ministry of Human Resources, 2013).

The Agreement on Educational Cooperation between the Government of Hungary and the Government of the Socialist Republic of Viet Nam was signed on March 5, 2013. The purpose of the Agreement is to promote the development of educational relations between Hungary and Viet Nam. Accordingly, the contracting parties shall encourage exchanges, study tours, scientific work, participation in local and international conferences and scientific workshops of actors of higher education institutions, instructors and researchers. They also support the conclusion of separate cooperation agreements between Hungarian and Vietnamese educational institutions. The training opportunities available to the other party in the higher education institutions of the two countries will be expanded, mainly at doctoral and research levels and in the field of teacher training (349/2013. (X. 1.) Korm. rendelet Magyarország Kormánya és a Vietnami Szocialista Köztársaság Kormánya közötti oktatási együttműködésről szóló egyezmény kihirdetéséről [Edict 349/2013. (X. 1.) on the Proclamation of the Agreement on Educational Cooperation between the Government of Hungary and the Government of the Socialist Republic of Viet Nam]). To implement the provisions of the Agreement an Educational Exchange programme for 2013-2015 was signed on July 29, 2013 by the Ministry of Education and Training of the Socialist Republic of Viet

Nam and the Ministry of Human Resources of Hungary. The Exchange Programme executes the Hungarian Government's Stipendium Hungaricum scholarship programme (Hanoi, MFA, n.d.).

6. Conclusions

In the past few decades, Viet Nam became an important actor of international relations, international economy. In the past, Viet Nam could be a foreign policy tool in the Hungarian government's hand, but again, today Hungary needs Viet Nam. Therefore, it is not surprising that Viet Nam is and has to be on the Hungarian agenda. Asia became the centre of enormous economic growth where every non-Asian state tries to gain a foothold, and Viet Nam can be a bridgehead for Hungary.

The Hungarian-Vietnamese friendship lies on a sympathy originating from a similar fate. One of the most potent cooperation of the two researched states is and was education. Hungary (still) has a comparative advantage over Viet Nam in this area. Also, educational cooperation provides an opportunity to deepen inter-state, mainly economic, relations, as far as we know from the experiences of the higher education policy of the Kádár's era.

Viet Nam needs a highly qualified workforce that needs higher education institutions providing high-quality training. Until Viet Nam is not able to produce its own highly trained professionals, it needs to take advantage of the opportunities offered by internationalisation, i.e., to send its students overseas and host foreign lecturers. Hungary must take advantage of this situation until Viet Nam is on its own, to be able to maintain stable inter-state relations with Viet Nam, one of the fastest developing countries.

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Enabling Trade – A Case Study of Korea

Ágnes Zsuzsa Hrabovszki

Abstract

In the 2000s, with the slowdown in growth or later stagnation/decrease of the world's trade/GDP ratio, Korea's steep increase in trade openness was significant. The paper examines if the 27th place of Korea in the list of trade facilitating countries of the Global Enabling Trade Report 2016 (GETR) ranking is realistic, with particular regard to the country's efforts to remove tariff and non-tariff barriers.

Korea is making considerable efforts to eliminate tariff and non-tariff barriers to its international trade. The country has a leading role in the conclusion of Regional Trade Agreements, Free Trade Agreements and AEO Mutual Recognition Agreements. These bilateral and multilateral agreements help the country's exporters and importers to handle the flow of their goods as smoothly and cost-effectively as possible.

Korea's 27th position in the Global Enabling Trade Index does not reflect the real situation. The databases and methods used by the index for Pillar 2 and Pillar 3 are highly biased, placing too much weight on tariff preferences and ignoring the other benefits of RTAs and FTAs. The inclusion of indicators that are not closely related to trade will further distort the picture. The index completely disregards the AEO Programmes and MRAs, which are of primary importance for the security of the international trade and play a significant role in reducing the administrative burden, duration and costs of trading across borders. UNI-PASS provides accessible, fast and transparent customs administration anytime. Korea's leading role in MRAs and electronic customs clearance is indisputable.

1. Introduction

In 2014 and 2016, the World Economic Forum published the Global Enabling Trade Index, which ranked 136 countries in the world according to the extent to which the country's trade policy regulations and infrastructure facilitate participation in world trade.

The Republic of Korea improved its rank in the GETI from 34th in 2014 to 27th in 2016. The country achieved the lowest results at Pillar 2: Foreign market access with a rank of 105th out of 136 countries.

Korea's dependency on international trade is relatively high, therefore the unhindered trade in goods is of great importance to the country. Korea has made considerable efforts to overcome barriers to trade in the new millennium.

This paper examines if the 27th place of Korea on the list of trade facilitating countries of the Global Enabling Trade Report 2016 (GETR) ranking is realistic, with particular regard to the country's efforts to remove tariff and non-tariff barriers in the trade in merchandise goods.

2. Trade Openness

The international trade dependency of the Republic of Korea increased proportionally with the rapid pace of economic growth in the second half of the last century. In the 2000s, with the slowdown in growth or later stagnation or decrease of the world's trade/GDP ratio, Korea's steep increase in trade openness was significant.

However, this openness cannot be regarded as excessive, as it does not differ significantly from the level of the OECD countries' and cannot be considered surprising given the size, population and development of the country. It is lagging far behind the 300-400 percent level of re-export focused countries and the 100-200 percent level of countries with a small internal market. (World Bank, 2018) The value around 100 percent, however, makes the country's economy sensitive to changes in the world economy. GETI leading countries are—not surprisingly—countries that are also leading the trade openness rankings.

Table 1

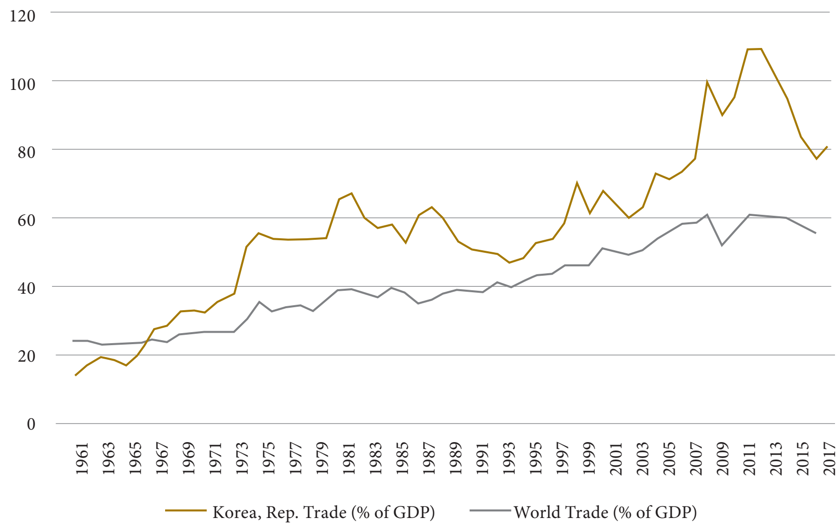
Trade openness and rank in GETI for selected countries in 2015

Country	Trade openness in percent	Rank in trade openness	Rank in GETI 2016
Singapore	329	3	1
Netherlands	156	15	2
Hong Kong, China	389	2	3
Luxembourg	410	1	4

Source: World Bank, 2018.

These countries, with some exceptions in the Netherlands, are basically re-export oriented and have become important hubs in the world trade. The Netherlands achieved its leader position by exploiting the benefits of its geographical location and by serving the world trade with high level infrastructure.

Figure 1
Trade openness of Korea



Source: World Bank, 2018.

The latest decline in Korea's openness in 2015 and 2016 can be largely attributed to a fall in global oil prices. South Korea imports crude oil that is refined in the country and is exported as petrochemical products, therefore the low petroleum prices affected the value both of the export and import of the republic. The growth of the dependency has increased the awareness thereof and consequently, the efforts to facilitate international trade.

3.International Agreements for Trade Facilitation

3.1. Regional Trade Agreements

Trade Agreements reduce barriers to exports, protect interests and enhance the rule of law in the partner country. The reduction of trade barriers and the creation of a more stable and transparent trading and investment environment make it easier and cheaper for companies to export their products to trading partner markets. Korea is one of the countries with the greatest number of regional trade agreements.

3.2. Free Trade Agreements

Free Trade Agreements (FTAs) have proved to be one of the best instruments to open up foreign markets to the exporters. Korea is obviously making marked efforts to dismantle the tariff barriers in the way of its exports. As shown in Table 1, the Republic of Korea has FTAs with 52 countries of the world. Among its most important export partners there are no FTAs in effect only with Japan and Hong Kong yet, but talks began with Japan in 2004, and in recent years, much more extensive agreements are being negotiated. The efforts made in Central America and the Middle East show that the country is trying to relieve its dependence on its largest partners and expand its export markets.

4. Foreign Market Access

The GETI evaluates the foreign market access of the countries, which theoretically could signal a country's active economic policies to facilitate foreign economic relations, and particularly its economic policies that encourage exports.
In Pillar 2 - Foreign market access GETI evaluates two indicators:

- Tariffs faced, which ranks the trade-weighted average tariff faced in destination markets, and
- Margin of preference in destination markets. This indicator measures the percentage by which particular imports from one country are subject to lower tariffs than the MFN rate (World Economic Forum, 2014).

The indicator tariffs faced is highly biased in favour of developing countries benefiting from GSP and other preferences in developed markets. However, these tariff

Table 2
FTAs of the Republic of Korea

Classification	Countries Having Concluded or Expected to Conclude FTAs with Korea	Progress Situation
FTAs having become effective (15 FTAs, 52 countries)	Chile	Became effective (April 1, 2004)
	Singapore	Became effective (March 2, 2006)
	EFTA (4)	Became effective (September 1, 2006)
	ASEAN (10)	Became effective (June 1, 2007)
	India	Became effective (January 1, 2010)
	EU (28)	Became effective (July 1, 2011)
	Peru	Became effective (August 1, 2011)
	USA	Became effective (March 15, 2012)
	Turkey	Became effective (May 1, 2013)
	Australia	Became effective (December 12, 2014)
	Canada	Became effective (January 1, 2015)
	China	Became effective (December 20, 2015)
	New Zealand	Became effective (December 20, 2015)
	Vietnam	Became effective (December 20, 2015)
	Colombia	Became effective (July 15, 2016)
Agreement reached (1 FTAs, 6 countries)	*Central America (6)	Declaration of a substantial agreement reached (November 16, 2016)
Negotiation in progress	Korea – China – Japan	10th working-level negotiation (April 2016)
	**RCEP	17th negotiation (February 2017)
	Ecuador	5th negotiation (November 2016)
	Israel	2nd negotiation (December 2016)
Creation of conditions for resuming negotiations	Indonesia	7th negotiation (February 2014)
	Japan	6th negotiation (November 2004)
	Mexico	2nd negotiation (June 2008)
	***GCC	3rd negotiation (July 2009)

* Central America: 6 countries including Panama, Costa Rica, Guatemala, Honduras, El Salvador and Nicaragua
** RCEP (Regional Comprehensive Economic Partnership): 10 countries including ASEAN, Korea, China, Japan, India, New Zealand and Australia
*** GCC (Gulf Cooperation Council): Saudi Arabia, Kuwait, UAE, Bahrain, Oman and Qatar
Source: KCS Korea Customs Service, 2018.

preferences cannot be considered as the results of active export promotion policies of the countries concerned.

Korea's 32nd place in the ranking with 3.4 percentcannot be considered to be decisive because Iceland alone is the only not privileged developing country from the 31 countries that ranked ahead of the Republic of Korea. Iceland is privileged due to its membership in the EEA.

The minimum of the trade-weighted average tariffs faced in destination markets in GETI 2016 is 2.16 percent, while the maximum is 9.62 percent with a median of 3.54 percent. However, the second highest tariff is 5.1 percent, so the real difference is less than 3 percent (World Economic Forum, 2016). This low difference calls into question the weight of the indicator in ranking.

The data of the European Union member states are completely incomprehensible regarding this indicator. In the first pillar, the indicators of the domestic market access clearly show that the countries of a customs union use the same tariff, although the rank definition is also inconsistent. In the case of the tariff rate, all EU countries were given the same rank, but when detailing the indicator, member states were ranked consecutively in seemingly random order both by tariff rates for non-agricultural products and tariff rates for agricultural products. This poses no problem during calculations, since in the evaluation the overall ranking of the indicator is counted and not the ranking of the subsets.

It is very strange, however, that even in the case of the indicator tariff in question, the values in all EU Member States are the same and the order of rank appears to be random. It is true that the member states of the customs union enjoy the same benefits on the target markets, but each member country has different target markets and the proportion of these markets in their exports are also different. Consequently, the trade-weighted duties applied to them cannot be the same.

The 3.5 percent tariffs face value does not seem to be realistic either, as these countries conduct the vast majority of their international trade within the customs union. This high tariff value is incomprehensible in Hungary, for example, due to the fact that about 80 percent of the country's exports remain within the customs union, so it does not face customs duties. 5.3 percent of exports were directed to the USA in 2015, but here the weighted applied tariff for Hungarian products is 1.92 percent, well below 3.5 percent. There is a higher duty rate in China by 10.6 percent in the reference year, although only 2.2 percent of trade was done with China; Japan has a 4.76 percent duty and 1.2 percent share. The share of other target countries in Hungary's exports remained below 1 percent, consequently they cannot be responsible for the 3.5 percent value.

The only logical explanation could be that the index does not take into account the movement of goods within the customs territory. However, this approach would be inconsistent with Pillar 3, where data clearly refer to intra-customs transfers and do not explain the same value of the indicator to all Member States.

A significant improvement is expected in Korea's performance in the next report in Pillar 2: Foreign market access by both indicators. The big difference is caused by the FTA with China, effective since the end of 2015, so its effects were not included in the GETR 2016.

In 2017, the weighted applied tariff rate for Korean products in China was 3.47 percent against the 4.68 percent MFN tariff rate. This decrease of 1.21 percent in tariff rate by 25 percent of Korea's export volume will lower the value of the indicator tariffs faced and, due to the minimal differences between countries, place Korea forward in the ranking. The margin of preference will also increase slightly, although no significant advancement can be expected here.

Margin of preference in destination markets in percentage could be a valuable indicator, but the methodology used by GETI results in stark bias and confusion.

"This indicator is calculated as the average of two components: a) the trade-weighted average difference between the MFN tariff and the most advantageous preferential duty (advantage score), and b) the ratio of the advantage score to the trade-weighted average MFN tariff level.

The aim is to capture both the absolute and the relative margin of preference" (World Economic Forum, 2014). It is not clear, how the absolute margin translates to percentage.

To remain in the first place and increase its score in this index, Mauritius only needed to export to Zambia refined petroleum for one year. The MFN tariff rate for this product in Zambia is 25 percent (Zambia Revenue Authority, 2018). Due to the participation of both countries in the Southern African Development Community (SADC) and to the fact that for Mauritius all tariffs were completely eliminated in January 2014 in Zambia, this export was customs duty free (The Mauritius Chamber of Commerce and Industrie, 2018; The Mauritius Chamber of Commerce and Industry, 2015). In the reference year, refined petroleum accounted for 73 percent of Mauritius' exports to Zambia (Atlas Media, 2019).

As a result, Mauritius has an advantage in the advantage score of the margin of preference in destination markets of the GETI, which is determined as the trade-weighted average difference between the MFN tariff and the most advantageous preferential duty: a 25 percent preference for almost ¾ of the country's exports. This more than compensates the elimination of a 12 percent advantage in Madagascar since the GETR

2014 and with the circa 35 percent advantage in South Africa, the traditionally biggest partner of the country in Africa, secures the 1st place in the rankings for Mauritius.

This highlights another potential problem in the methodology of the GETI: a one-time big shipment can distort the component and the sub index as well.

In case of the second-best, Nepal, the high advantage score is secured by India, where circa 60 percent of its exports are shipped, and the weighted MFN tariffs for Nepal's export products are about 22 percent, compared to 0 percent for Nepali products.

The ratio of the USA in the exports of El Salvador (ranked 4th) is circa 45 percent with an average advantage of 14 percent. The 5th in the ranking, Uganda has an average of 22 percent advantage in Kenya, and Rwanda (World Integrated Trade Solution, 2018; Atlas Media, 2019).

A good result can be achieved in the ranking of the indicator if there is a big difference between the MFN tariff and the preferential tariff. This is obviously not possible for products and target markets where the MFN tariff is low.

Suppliers of agricultural products with preferential treatment on the basis of a RTA or FTA will benefit from a generally higher level of duty for these products. For the same reason, those countries are preferred that export to low-income countries with a generally higher level of tariff rates. Both situations enable high preferential margins.

Consequently, poor results will be achieved by countries that supply industrial semi-finished and finished products and electronic products in high ratio of their export to high-income countries with minimum duties on these products, with or without preferential treatment, eg. Korea.

Preferential treatment helps somewhat in the second component when the low advantage score is the result of a higher rate preference from a low tariff rate. However, the b component will always be 100 percent in cases of 0 percent applied duty, which can be the result of GSP, GSP+, EBA, RTA or FTA (The European Parliament and the Council, 2012). Total release of custom duties is most characteristic in the preferential treatment of developing countries, so this component has its own bias.

In general, countries with very low participation in the world trade are at the top of the ranking and most of them are also of marginal importance on the markets of those countries that offer them significant advantages, and thus enable high ranking. It is also questionable whether foreign market access is best defined by the two indicators used by GETI.

Preferences are heavily weighted, as the first indicator of Pillar 2, "trade-weighted average tariff faced in destination markets" already covers the preferential treatment in the applied tariffs.

It is also questionable whether the one-sided preferential treatment actually improves access to the foreign market significantly, and whether it can indeed be considered as enabling trade activity. On the other side, GETI does not take into account the level of preferential trade. Export data is only used for weighting to determine the margin of preferences but it is not negligible how big a ratio of a country's trade this preference affects.

Table 3

The share of selected destination countries in Korea's export in percent (2014–2018)

	Share in value in the Republic of Korea's exports, in percent (%)				
	2014	2015	2016	2017	2018
World	100	100	100	100	100
China	25.4	26	25.1	24.8	26.8
United States of America	12.3	13.3	13.5	12	12.1
Association of South-East Asian Nations (ASEAN) aggregation	14.8	14.2	15	16.6	16.6
European Union (EU 28) aggregation	9.1	9.2	9.5	9.5	9.5
India	2.2	2.3	2.3	2.6	2.6
Singapore	4.2	2.9	2.5	2	2
Mexico	1.9	2.1	2	1.9	1.9
Australia	1.8	2.1	1.5	3.5	1.6
Turkey	1.2	1.2	1.1	1.1	1
Canada	0.9	0.9	1	0.8	0.9
Norway	0.3	0.9	0.7	0.8	0.5
Chile	0.4	0.3	0.3	0.3	0.3
Peru	0.2	0.2	0.2	0.2	0.1
Switzerland	0.1	0.3	0.1	0.1	0.1
New Zealand	0.3	0.2	0.3	0.2	0.3
Colombia	0.3	0.2	0.2	0.1	0.2
FTAs total	47.6	49.9	75.1	76.5	76.5
Hong Kong, China	4.8	5.8	6.6	6.8	7.6
Japan	5.6	4.9	4.9	4.7	5.1

Source: ITC calculations based on Korea Customs and Trade Development Institute (KCTDI) (ITC, 2019)

As shown in Table 2, in the case of the Republic of Korea, the tariff preferences already affected half of the country's exports in 2015, and from 2016 onwards, they have covered three quarters of the exports.

The GETI relies solely on evaluating tariffs. However, custom duties are not the only barriers that make the access of foreign markets harder. FTAs not only provide tariff preferences, but also include the elimination of a number of other administrative constraints, which also have a cost-reducing effect as a result of streamlining the flow of goods. Thus, the number of concluded FTA's and the number of countries affected by them should be indicators, as they clearly show the efforts of a country in enabling trade.

5. Security and Facilitation of Trade

5.1. AEO Programmes

Nowadays, the increase in international division of labour and globalization has increased the international dimension of supply chains. Raw materials, parts, semi-finished products and finished products cover many thousands of kilometres up to the point of use. Large geographical distances and cross-country supply routes have become vulnerable.

However, due to the events of September 11, 2001 in the United States, the role of terrorist acts in developed industrial countries are viewed differently. The simultaneous success of attacks on priority destinations, material damage and loss of human lives made governments realise that organized terrorism can cause enormous damage. For this reason, the security of global supply chains has become a priority, and should be evaluated as a major factor of enabling international trade.

The required safety can be achieved with increased control. However, the magnitude of world trade makes it clear that security of trade in goods cannot be guaranteed by increasing controls. Full international security controls for all international shipments would paralyze trade and would make the management of global supply chains impossible.

As the first country to face an increased terrorist threat, the United States has already responded with the launch of the C-TPAT (Custom-Trade Partnership against Terrorism) programme in November 2001. The aim of the programme is to improve the security of supply chains for economic operators in view of terrorism. The programme is provided by the US Customs and Border Protection, CBP Office. At the start, seven large companies participated in the program, and by the end of 2016, 54 percent of US imports were realized by 4246 USA importers certified under the programme (Lehmacher, 2017). In order to obtain a certificate, it is necessary for the economic operator to have a prescribed and documented procedure for identifying and addressing the risks to his international supply chains (U.S. Customs and Border Protection, 2018). Certified operators can thus be treated as low risk partners in terms of customs and border protection, so that their shipments can be admitted to the country under minimal control.

In June 2005, the World Customs Organization (WCO) published the "Standards for Global Trade Security and Facilitation" to counter terrorist threats and states in its foreword: "There is a need for a World Customs Organization (WCO) endorsed strategy to secure the movement of global trade in a way that does not impede but, on the contrary, facilitates the movement of that trade. Securing the international trade supply chain is only one step in the overall process of strengthening and preparing Customs administrations for the 21st century. Accordingly, to strengthen and go beyond existing programmes and practices, WCO Members have developed a regime that will enhance the security and facilitation of international trade. This is the WCO SAFE Framework of Standards to secure and facilitate global trade (hereafter referred to as the 'SAFE Framework')" (World Customs Organization, 2005).

The SAFE Framework aims, among others, to promote the seamless movement of goods through secure international trade supply chains and suggests benefits that Customs will provide for businesses that meet minimal supply chain security standards and best practices.

Within the SAFE Framework, a number of countries have established their AEO programme. The Authorized Economic Operator (AEO) programs transpose and standardize the objectives and basic elements of the SAFE Framework into national law. An Authorized Economic Operator is a company with a special status, who, by virtue of its special status, is seen as a trustworthy partner of the custom authorities, and therefore receives a number of concessions from the customs in the handling of its shipments.

5.2. AEO Mutual Recognition Agreements

The use of AEO programs conforming to an international standard allows countries that operate AEO or equivalent programs to recognize each other's programs, and to conclude Mutual Recognition Agreements (MRAs).

In March 2016, the World Customs Organization identified 69 operating AOE programs with 16 to be launched, as well as 39 concluded Mutual Recognition Agreements and 31 negotiated agreements (World Customs Organization, 2016). Since the publication of the SAFE Framework, the AEO programme has become the number one tool for the safe and smooth conduct of international trade.

The 2018 edition of the Compendium identified 77 Operational AEO Programs and 17 AEO programs under development, 57 MRAs concluded and 35 MRAs are being negotiated in addition to 4 plurilateral MRAs (World Customs Organization, 2018).

Table 4

Concluded AEO MRAs of Korea

2010	June	Canada, Singapore, USA
2011	May	Japan
	June	New-Zealand
2013	July	China
2014	February	Hong Kong, China
	March	Mexico
	June	Turkey
2015	March	Israel
	April	Dominican Republic
	October	India
2017	July	Australia, UAE
	October	Malaysia
	December	Uruguay, Peru

Source: World Customs Organization, 2018.

South Korea currently has the largest number of such agreements with the 17 MRAs concluded. The US has made 9, Japan and China 7, while the EU has 5 MRAs (World Customs Organization, 2018).

A significant number of MRAs are concluded with countries with FTA. It is noteworthy, however, that in case of two major trading partners, Japan and Hong Kong, although not having an FTA, Korea has quickly entered the MRA after 3 and 6 years, respectively, after the launch of its AEO programme.

5.3. Benefits from AEO Programmes and MRAs

The direct and immediate benefits for certified companies in Korea's AEO Programme can be divided into three areas:

- Simplified and less physical inspection: less physical inspection by the authority in the export and import clearance process; if inspection is required it is conducted at a place at the choice of the importer.

- Simplified procedures: customs clearance without supporting trade documents; exemption from audit, pre-clearance as well as post-clearance; Provision of convenience to AEOs' representatives in customs clearance at international ports and airports; self-determination by AEO on application of customs tariff rates, customs duty reductions and exemptions.

- Less financial burden: AEOs are exempt from the obligation to deposit collateral for import clearance; for customs duties and taxes, monthly instalment payments are possible (World Customs Organization, 2018).

This means a simpler, faster and cheaper direction of the trade flows for certified companies.

As the company's solvency is a requirement for certification and ongoing audits, as well as keeping proper records and securing the premises, an AEO is a more ideal trade partner, which enhances business and marketing opportunities.

MRAs make further simplifications and accelerations in the administration, as the company benefits not only from easy and speedy dealing with the customs authorities of its own country but also with the customs authorities of the partner country. The resulting cost reduction has an impact on the increase in trade and the direction of the flow of goods.

According to the Head of the Audit Division at the General Administration of Customs of China, Tang Qingtao, the AEO certificate can help companies to promote their competitiveness in international trade: "Since the implementation of AEO certificate between China and South Korea, the certified Chinese exporters have seen the rate of goods clearance through South Korean customs increase by 30 percent on average. For example, in Qingdao, the AEO certified exporters saw a year-on-year growth in trade with South Korea by over 20 percent" (CRI, 2015).

Chul-Hun Lee, the ACE of the Korea Customs Service and Weijian Shao ACE of General Administration of Customs People's Republic of China, presented the results of a research on AEO and AEO MRA effects conducted by an empirical study of time release measurement and by survey.

In the time release study, the time needed for customs clearance was researched by processing 30,476 data, 16,488 before MRA and 13,988 after MRA.

The research found that before MRA, the time needed to release the goods after custom clearance was shorter by AEO certified companies than by non-AEOs. After the MRA, the effect was greater from AEO export to AEO import. Import customs clearance time for AEO exporter was greatly reduced, and the number and percentage of cargo inspection for AEO companies was significantly reduced after a MRA.

All industries involved in the study benefited from the positive impact of the MRA, but the extent of benefits varied by direction and industry. The most favourable effect was experienced by steel products shipped from China to Korea in an 80 percent reduction in release time. In the other direction, the machinery industry experienced similar results.

In the survey 2,604 companies ware asked, 1,846 AOEs and 758 non-AEOs from China, Korea, Singapore, The USA, the EU, Japan, Canada and BASC.

The results have shown that the awareness of the MRA concept is significantly low, the status, utilization, and benefits are largely unknown. Only 9 percent of the certified companies state, that they are fully aware of the benefits, and an additional 28 percent are partially aware (Lee – Shao, 2014). This ignorance marks the way for the customs authorities to promote the AEO Programmes.

The survey of the University of Virginia's Center of Survey Research had very similar results after asking 3 901 C-TPAT members about the programmein 2010. It is reassuring, that the perception of the benefits increased in proportion to the duration of the membership.

The findings about the benefits of the C-TPAT membership include the decrease of the time to release cargo by CBP and in CBP inspection lines, decreased waiting time for carriers at land borders, at ports of entry and decreased disruption of the supply chain, and increase in the predictability of good flows and in security (U.S. Customs and Border Protection, 2010).

6. Efficiency and Transparency of Border Administration

In Pillar 3 – Efficiency and transparency of border administration the GETI uses the database of Trading across borders from Doing Business 2017 by the World Bank.

The Doing Business database measures the costs of logistic processes related to the export and import of goods. The data includes time and costs for crossing the border (excluding customs duty), and for obtaining the necessary documents and the administrative procedure for border crossing. The database lists the countries on the basis of a simple arithmetic average of 8 data, export and import time and expense for documentary and border compliance into the "Trading across Borders" ranking (Doing Business, 2016). The database is a niche and its significance is very high for the examination of cross-border trade in goods, but it is biased for countries in a customs union.

In the case of the European Union countries, the baseline conditions of the database on both the export and the import side have meant that cross-border trade time and costs have been measured for intra-Community trade by 17 EU countries in 2016, although the goods have remained in the customs territory, so they did not cross the border. In the report from 2017 there are more inconsistencies: for most EU member states, 1 hour appears for both export and import documentary compliance time, while border compliance time and all costs for documentary and border compliance remain at USD 0. No costs and time at the border clearly indicate that it is an intra-community trade.

The resulting USD 0 document and border crossing costs, as well as the 0-hour documentary and border crossing time in 2016, with which these countries lead the ranking of administrative costs, may be misleading. On the one hand, the data can be considered to be relevant, as these countries handle most of their international trade in goods within the EU, so they do not have to bear any customs-equivalent costs for this part of their trade. On the other hand, when it comes to actual exports and imports, that is to say, shipments cross the boundary of customs, there are more than 0 administrative costs and time for these countries also.

In the 2016 report the administrative costs of crossing the border for export are set at USD 390 for Germany, USD 350 for Malta, USD 330 for Greece, and USD 305 for the United Kingdom. Examining the export turnover of these countries, it is likely that for the data generation indicated exports were directed to China in case of Malta, and by the other three countries to the United States of America. In view of the European Union's unified export and import regulations, it can be reasonably assumed that the cost of crossing the border will be around 300-400 USD for other EU countries. On the import side, there are only three island countries with costs: Malta USD 230, Ireland USD 328 and Cyprus USD 385. On the basis of the database, these countries also buy within the EU, but without land borders, they are forced to identify sea freight as EU goods. A slightly higher cost can be assumed if non-EU goods are actually to be introduced at the border.

The documentary and border compliance costs of the Republic of Korea are USD 341 for imports and USD 196 for exports, which is comparable with the same costs of the EU countries.

Table 5

Korea's rank in Pillar 3 of the GETI

Indicators	Rank of Korea	Number of EU countries better ranked
Time to import, Documentary compliance	26	25
Time to export, Documentary compliance	18	17
Time to import, Border compliance	39	28
Time to export, Border compliance	36	20
Cost to import, Documentary compliance	32	28
Cost to export, Documentary compliance	20	18
Cost to import, Border compliance	64	27
Cost to export, Border compliance	48	21
Pillar 3: Efficiency and transparency of border administration	28	18

Source: World Economic Forum, 2016.

This rank does not mirror the real standing of the country, because the bias of the index in favour of the member countries of the customs union. The costs of trading across borders may be considered as compensation for the operation of public bodies. As long as these costs do not exceed the level of reimbursement, they cannot be considered excessive, and this is the case for Korea. In countries with higher price levels, the cost level is obviously higher.

The country's 50^{th} rank in the indicator—Time predictability of import procedures and 26^{th} rank in the indicator—Efficiency of the clearance process is surprising.

After three stages of development, the country has implemented its fully electronic customs clearance system by 2005, Korea's Custom e-Clearance System - UNI-PASS. Since 2011, the fourth generation of UNI-PASS is under development to adapt to the concept of mobility and implement the Smart Clearance System.

UNI-PASS provides a one-stop paperless service through Integrated Portal and Single Window. The web-based portal operates 24/7 and allows traders to apply their formalities anytime and anywhere. All fees, duties and taxes can be paid in a secure manner online at any time. It can provide customers with real-time cargo processing status and facilitates trade through Two-Track control management which provides automatic clearance with benefits for Low-Risk Companies such as AEOs (Korea's Custom Sevice, 2011).

In an interview with the Korea IT Times in 2011, Chung Il-sok, director general of Information & International Affairs Bureau of KCS said that with the introduction of UNI-PASS, the time required for customs clearance for export decreased from one day to two minutes and the time for import customs clearance shortened from two days to 1.5 hours.

Through the effective operation of UNI-PASS, Korea ranked first in terms of competitiveness of exports and imports customs clearance in 2009, which was appraised by the World Bank.

In its Doing Business 2010 report, the World Bank said, "Korea succeeded in saving USD 2 billion annually by using the Single Window System" (Chung Il-sok in Korea IT Times, 2011).

Between 2005 and 2010, KCS exported USD 62 million worth of its electronics customs clearance systems to six countries: Kazakhstan, Kyrgyzstan, Dominica, Mongolia, Guatemala and Ecuador.

In 2011, it concluded a contract with Nepal and Tanzania for the construction of a system for modernization of customs administration. In the latter half of this year, it also plans to sign a contract with Ecuador to build the second-phased Single Window System. "Exports of electronics customs clearance system is not a simple transfer of IT solution. To improve customs clearance environment of countries introducing the system through construction and operation of UNI-PASS, laws and systems related to the customs clearance business should be strategically improved in keeping with the IT system" (Chung Il-sok in Korea IT Times, 2011).

7. Operating Environment

In the 2016 GETR, for the first time, a 7th pillar appears in the index evaluation: the Operating environment with the following indicators:

- Protection of property
- Efficiency and accountability of public institutions
- Access to finance
- Openness to foreign participation
- Physical security

However, these indicators are not directly linked to international trade, and only by assuming a much closer cooperation can any justification be found for their assessment in the evaluation.

With the involvement of these indicators, the Enabling Trade index will move towards the Doing Business index.

8. Conclusions

It can be stated that Korea is undertaking considerable efforts to eliminate tariff and non-tariff barriers to its international trade. The country has a leading role in the conclusion of Regional Trade Agreements, of Free Trade Agreements and of AEO Mutual Recognition Agreements. These bilateral and multilateral agreements help the country's exporters and importers to handle the flow of their goods as smoothly and cost-effectively as possible.

It can be argued that Korea's 27th position in the Global Enabling Trade Index does not reflect the real situation. The databases and methods used by the index for Pillar 2 and Pillar 3 are highly biased, placing too much weight on tariff preferences and ignoring the other benefits of RTAs and FTAs. The index completely disregards the AEO Programs and MRAs, which are of primary importance for the security of the international trade and play a significant role in reducing the administrative burden, duration and costs of trading across borders. UNI-PASS provides accessible, fast and transparent customs administration anytime. Korea's leading role in MRAs and electronic customs clearance is indisputable.

As the Republic of Korea selectively protects the country's internal market with high tariffs, it cannot apply for the first place in the Global Enabling Trade ranking, but apart from this indicator, it is one of the countries which most efficiently enable trade and are undeniably among the best.

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On the Way to an EU-Japan Free Trade Agreement: Japan's Diplomatic Relations with the European Union after World War II under the Focus of Economic Competition

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Abstract

Japan started late to open up its economy to the Western world. During the 50th of the 20th century the country was still struggling with the consequences of World War II. It strengthened its partnership with the US in 1952, and became world-export-nation No. 2 already in 1968. Then it conquered step by step central industrial production areas of Western industries. Supported by MITI (Ministry of International Trade and Industry) Japanese industries had a strategic public partner to grow fast and compete successfully with the rest of the world. The financial crisis in the 90th of last century weakened the country's economic power and made it vulnerable - due to the dependency on more and more resources. In this period the European Union changed from a competitor to a partner who even supports Japan in its efforts to regain better relations with China for rearranging the supply of seldom earth resources Japans economy depends on.

By the logic of Trump's "America First" and China's Silk Road Initiative ("One Belt – One Road") it was an only a matter of time till both sides, the EU and Japan decided to open up to each other by a free trade arrangement. In the meantime, this agreement has been adopted by the EU Parliament and came into force by 2019. Which chances and what kind of consequences will this document have for Europe and Hungary specifically?

1. Introduction

As an island, Japan was depending on solid trade relations with western countries after it opened up to the world in the middle of the 19th century. After the modernization of the country in the Meiji-era the need for resources was growing as well as for any other industrialized nation. Japan became equal in its position of demand, later in the 30th of the 20th century even challenging US economic interests in China by invading the central Asian power. US boycott measures against this attack later led to Japan's war against the United States, trying to reduce trade restrictions from the US government by this.

Realizing after World War II, that military actions do not effectively support trade interests, the country started peaceful cooperation with almost all nations in the world.

This research paper analyses the development of Japan's trade relations with Europe all the way to the EU-Japan Free Trade Agreement with the key question, if there was an option for an alternative development. If not, what opportunities and what kind of consequences will this document have for Europe and Hungary specifically?

Using a historical approach, the analysis is based on secondary research, evaluating databases and magazines as well as newspapers of the last two years.

2. Japanese Foreign Policy after the Second World War within the International Structures

2.1. Japan and Western Europe as Part of the Western Community of Values

After the two atomic bombings of Hiroshima and Nagasaki in August 1945, Japan was defeated in World War II. The military government under Admiral Suzuki Kantaro resigned, and Japan's commanders responsible for the war were held accountable in the Tokyo war crimes trial. The Tenno cleared the way for a democratic renewal of the country and a close relationship with the post-war US occupation forces.

In Europe, the development was similar, though not equally for all states. The division of the continent by the 'Iron Curtain', as Churchill referred to the dividing line between the East and the West, led, at least in the western part of the continent, to a more rapid integration into the US power area, thanks to the Marshall Plan ('European Recovery Program') and the founding of NATO in 1949. Of course, this was also due to the direct confrontation between the superpowers in Central Europe.

In Japan the situation was different. Only the USA was able to occupy the country entirely or have a lasting influence on the politics of the island state.[1] Consequently, the pressure to put the land back on its feet as soon as possible was not as great as it was in the case of divided Germany. In 1949, for example, the two German states regained their nation-state status, while Japan, despite a peace agreement adopted in 1946 and

1 The Soviet Union declared war on Japan just two days after the atomic bombing of Hiroshima on the grounds that it broke the 1941 neutrality agreement and occupied some of the Kurile islands (Etorofu and Kunashiri as well as Shikotan and Habomai) without being able to influence the entire country.

the US economic aid since 1948, was not recognised until the San Francisco peace treaty in 1952. Had the Korean War not taken place in the immediate vicinity of Japan at the time, Japan's independence would probably not have been possible even then; as the US relied on a stronger military presence to relieve its own armed forces. Therefore, simultaneously with the peace treaty, an 'American-Japanese security treaty' was signed and adopted (Krebs, 2009, pp. 103-106).

Now that both regions were closely involved in the American sphere of influence, it would have been easy to develop diplomatic and economic contacts. But this did not happen: The Western European countries focused on the development of the European Community (EC) and were thus rather self-absorbed in the 1950s. Furthermore, Japan seemed too insignificant for the EC to deepen relations therewith (Hook et al., 2012, pp. 260-262). This changed only with much stronger export performance of the island kingdom, which also had an influence on the key industrial areas of the EC.

2.2. The Importance of "Export" in Japan's Diplomatic Relations

Japan's export-oriented industrialization from the mid-1950s pursued a trade and economic policy with the primary objective of promoting the industrialization of goods that have a competitive advantage over other nations. This is mostly achieved by opening up the domestic market to third-party competitors and, in exchange, gaining access to foreign markets. Emerging and developing countries, in particular, have followed this theory and thus significantly increased their wealth over a few years.

What seems logical in theory has its limitations in practice. Firstly, industry policy was not formed by an independent market but was influenced by a central coordinating body, in the case of Japan by the Ministry of Industry and Commerce, also called MITI. Here, information from around the world were gathered, processed and structured and then made available to interested companies. The advantage in knowledge that resulted was essential for the rapid and successful industrialization.

Even though the state intervenes in the market, it cannot solve all the problems in a targeted manner even by lowering tariffs or devaluing the currency. First of all, a resource-poor country such as Japan needs a solid basis for the goods to be produced for subsequent exports! These resources were mostly located in the South-Asian countries formerly occupied by Japan. Since the local people and governments could still well remember the Japanese war crimes and occupation, it was not easy for the Japanese government to negotiate good conditions in this region only ten years after the war. For example, the Philippine government demanded USD 8 billion in reparations for losses and damages, and the Indonesian government even claimed USD 17.2 billion. Although the Japanese negotiators were able to reduce these sums significantly, (Philippines: USD 550 million, Indonesia: USD 225.4 million plus waiving all claims in connection with Indonesian trade debts amounting to USD 174.5 million), this did not automatically grant free access to the raw materials of the countries. For strategic reasons, the Philippine government insisted on negotiating trade policy issues separately from reparation conditions, so that an additional treaty of friendship between Tokyo and Manila on trade and shipping had to be concluded (Kindermann, 2001, pp. 433-436). Although further concessions were to be made by Japan, the normalization of relations with its Asian neighbours was characterized by economic cooperation embedded in reparations and coupled with continuous granting of loans, which was supposed to make the countries docile to the Japanese interests (Kindermann, 2001, pp. 433-436).

Thus, diplomatic relations between the Japanese state and its neighbours formed the basis for the rapid industrialization of Japan from the late 1950s. The focus on strong export performance was supported by the Asian continent as suppliers; these countries, as far as they were close to the Western system, were willing to provide Japan, the former occupying power, with all necessary resources. This put Japan in the focus of the European Community.

The larger the island state's gross national product became, the more it was perceived as a threat, even if they did not yet have much to offer each other (Hook et al. 2012, pp. 260-261).

3. Japan's Foreign Trade Policy in the Global Context

3.1. From Development to Boom and Trade Restrictions

There were several preconditions for Japan to be able to develop into a third global economic centre so rapidly: On the one hand, industrial structures were reorganized in the 1950s (especially in the heavy and chemical industries), and on the other hand, as a result of low wages and a high work ethic, labour as an important factor in production was another favourable condition for achieving high growth rates. Moreover, with economic planning[2] and a pro-cyclical spending policy in the framework of a 'steered market economy', the state ensured the doubling of its national income (Hartmann,

2 Between 1955 and 1979, nine economic plans were adopted.

1996, pp. 253-275). This was already achieved—due to double-digit growth rates—as early as in 1965.

This boom continued until the first oil crisis in 1973. The resource-poor island kingdom had, however, no oil reserves and was completely dependent on the imports from the Gulf States. The economic collapse was inevitable. Nevertheless, the country drew the consequences from this experience: As a result, oil resources of Southeast Asia were increasingly used, and more emphasis was put on nuclear energy. As a result, the second oil crisis in 1979 did not present a major challenge for Japan. However, a large part of export income had to be used for the import of raw materials. It was therefore necessary to achieve a higher share of added value per unit of raw material, even though, due to lower global market prices, the reduction of energy intensity had to be pursued less strongly for a while (Kevenhörster et al., 2003, p. 157). Even today, the island state could be put under pressure by the disruption of oil supply routes or loss of suppliers, although its resource differentiation makes the country much more independent from individual incidents than it did 40 years ago.

From the early 1970s, Japan produced large trade and current account surpluses over four decades. It is therefore astonishing that the island kingdom still had unexhausted potential in export and import. A self-centred island culture hindered exchanges with foreign countries and the adaptation to the new era of globalization.[3] International presence with high-quality industrial goods was still far behind the national performance. Agriculture, construction, trade, transport, supply, small businesses, etc. were hardly involved in the international division of labour. So, the island kingdom took a two-track course: for exports and investments abroad there has been a strong promotion of foreign trade, while the domestic economy is protected from foreign competition with tariffs, non-tariff trade barriers as well as informal market obstacles (Hilpert, 2017, p. 19). At the same time, the country attracted a huge amount of capital due to the 1985 Plaza Accord, which resulted in the appreciation of the Yen and drove up prices in real estate and equities. This speculative bubble provided Japanese companies with a lot of cheap money to make global investments and acquisitions.[4] But again, the focus was on the US.[5] Europe initially did not play a strategically important role.

3 Specifically: Geographical distance, cultural differences in business practices, lack of English in the majority of the population, etc.

4 The resulting appreciation of the yen made the Japanese currency about 50 percent more expensive abroad (Pohl in Mayer-Pohl, 1995, pp. 321-326).

5 A detailed description of Japan's export activities to the US and the reaction of the Reagan administration is provided by Daniel Burstein (1989) in his book "Yen! The Japanese challenge." In his historical analysis, the author demonstrates the failure of applying tariffs on Japanese products: With a 3 percent increase in tariffs on

This did not change until the 'Single European Market' programme was adopted in the mid-1980s. The implied idea of a 'Fortress Europe' was an incentive for many Japanese investors to buy into the European market before the structure was completed. In particular, the European automotive industry protested against Japan's penetration into the European market, offering cheap, yet increasingly better Japanese cars (Hook et al., 2012, pp. 278-279). The European Commission's anti-dumping sanctions between 1983 and 1984 ultimately led to a growing share of Japanese car production in Europe, thus, formally turning Japanese cars 'made in Europe' into European ones.[6]

Japan was not attractive for European exports. Despite the rising consumer spending of the population due to higher living standards, the share of imported industrial goods of the gross domestic product was unusually low.[7] This also applied to the share of foreign direct investment in Japan's gross national product; it was in the lower single digits for decades, even in 2015 it did not exceed 3.7 percent[8] (Hilpert, 2017, p. 20). Clearly, investing in Japan was considerably more difficult and less profitable than in other countries. However, it is not the tariffs that, as barriers to market access, affected exports to Japan. The average customs duty for manufactured goods amounts to just 2.5 percent and is thus one of the lowest internationally. However, the agricultural tariffs are much higher. At 16.6 percent, they provide effective import protection,[9] although this does not apply to all products. 44.2 percent of all agricultural imports are not subject to customs duties (as of 2014), such as soybeans, corn and bananas. In contrast, there are high tariff peaks in rice, cereals, meat, dairy products, sugar and chocolate.

cars, Japanese managers responded with 2 percent savings. Automobile executives in the US believed they could raise their car prices by 2 percent without any problems, and then still be 1 percent cheaper on average The mathematical reality, however, has taught them a lesson.

6 In 1987, European lobbyists in the automotive industry complained that the European production facilities of Japanese car companies were doing nothing but assembling parts supplied from Asia, so that one could not speak of 'European cars'. As a result, the European Commission reduced the maximum production share of foreign parts to 60 percent, until which a car could still be regarded as European (Hook et al., 2012, pp. 279-280).

7 The imported industrial share in the gross national product does not take into account the economically significant import of energy, raw materials and agricultural products (Hilpert, 2017, p. 19).

8 Comparative data: China 10.8 percent, South Korea 12.9 percent, Germany 19.3 percent, France 25.6 percent, USA 30.9 percent, United Kingdom 56.4 percent.

9 For comparison: significantly lower rates include US 4.8 percent, EU 10.9 percent, while much higher ones are: South Korea 57.9 percent, Norway 133.5 percent, Switzerland 48 percent (Hilpert, 2017, p. 21).

Far more efficient than tariffs in Japan are the non-tariff trade barriers:

- Norms, product and process standards or labelling requirements oblige foreign competitors to carry out expensive product adaptation programs,

- Approval procedures, product certifications and approvals are hardly comprehensible for foreigners. Foreign certificates and test methods are not accepted in Japan, even though differences tend to be very minor.

- Restrictions on business activities for foreign actors (lawyers, journalists, shipowners, advertising industry, power generation, etc.)

- Limited infrastructure in ports and airports allows only limited goods handling or warehousing. In addition, the fees are unusually high.

- Non-transparent customs procedures: The island kingdom consists of nine different customs areas, the import is made more expensive by a reckless customs clearance or a non-transparent classification in the various tariff classes.

- In public tenders, foreign suppliers are disadvantaged. US companies are given preference in being awarded a contract over European companies in the defence technology and aerospace industry.

- The vertical structure of the manufacturer or customer-driven supply systems in the automotive industry discriminate against foreign competitors in research and development as well as standardization.

- The development of distribution structures is hardly possible for foreign companies, as both administrative obstacles and discriminatory regulations preclude this.

- Corporate law hurdles (cross-shareholding as well as the strong position of the banks) impede the acquisition of majority share in Japanese companies.

- Tax discrimination against foreign companies. (All aspects: Hilpert, 2017, p. 22.)

Despite these significant limitations, it must be noted that they are not atypical in size and scope. That alone cannot explain why the market penetration of imported goods in Japan is so low. It is the informal barriers that play a major role in this development: a unique business culture that requires a good command of the local language and a long period of building trust. Moreover, the quality standards in Japan is a challenge for any foreign company intending to settle there. So, in order to be successful, the companies either need to offer good value for money, or an interesting product innovation.

The insider culture of Japan makes it difficult for foreign managers to be accepted. The closed nature of the Japanese society considers every foreigner ultimately an outsider. In addition, the Japanese legal system discriminates against foreign companies. They are usually denied legal remedy. Although the Fair Trade Commission (FTC - Kosei torihiki iinkai) consistently enforces Japanese competition law and prevents cartels (Kevenhörster et al., 2003, p.148), chances of a foreign company for a successful ruling in a conflict are extremely limited. There are several reasons for this: the low number of lawyers, the usual practice of favouring out-of-court settlement, an exceptionally long duration for procedures, biased judges considering primarily individual interests, poorly developed legislative thinking and the consensus mentality of the society (Hilpert, 2017, p. 23).

Finally, costs must also be mentioned here: the high prices for land and real estate, sales and distribution costs as well as Japan's extremely high tax rates of over 50 percent, which is far higher than in other western countries. Consequently, market development and business activity in Japan results in lower returns and growth rates than in economically comparable countries.

3.2. Trade Policy Reorientation: from Multi- to Bilateralism

Until the early 1990s, the European Community pursued a confrontational policy with Japan. The so-called 'local content' conditions were increasingly demanded of Japan, above all in order to increase the unsatisfactory low portion of European parts in the Japanese production in Europe. Later, by signing a Joint Declaration in Hague in 1991, a more cooperative position was taken, especially as the EU recognised its limits of their own assertiveness (Kevenhörster et al., 2003, p. 169). For example, during a visit to Japan in November 1990, Martin Bangemann, Vice-President of the European Commission said that "the freedom to distribute Japanese vehicles of European origin throughout the territory of the EC should be guaranteed in any circumstance", and, there will be 'no restrictions' during the transitional period. However, Japanese production in Europe must be included in the total number of Japanese cars sold in the EU, so that they are treated equally with vehicles imported directly from Japan. He also added that one strives for a "delicate balance", which is in some ways "more difficult than classical ballet" (Hielscher in Maull, 1993, pp. 337-360). Ultimately, this position resulted in the call for a voluntary restraint agreement for Japanese cars, with the aim that the market share of Japanese automakers may only rise to a maximum of 16 percent by the end of 1999. With the establishment of the EC single market on January 1, 1993, the number of cars imported directly from Japan into the EC could not exceed 1.23 million units per year for seven years. After that, according to the agreement, car imports were completely free[10] (Korte in Maull, 1993, p. 258). So, it was not surprising that industries most affected by Japan, such as the automotive and electronics sectors, were already talking about "the death of global competitiveness" (Köhler in Mayer-Pohl, 1995, p. 325).

However, this proved to be less relevant. Japan slid into an economic crisis in the early 1990s, triggered by the bursting of the liquidity bubble of the 1980s. This also changed the external perspective: The US, already overcoming its recession, became a more attractive market than Europe in the second half of the 1990s; Europe, after the completion of the single market, plunged itself into recession. The "Made in Japan" industrial policy focus of the 1980s and the export success programmedissolved in a significant reduction of the bilateral deficit (Hook et al., 2012, pp. 279-280).

At the multilateral level, Japan was very cautious in the second half of the 20th century. Japan's trading partners succeeded in achieving success in their dealings with the island nation only twice: In 1988, Japan agreed to abolish the import quotas for twelve agricultural products and in 1994, to reduce tariff substantially. Otherwise, Tokyo was not prepared to make any concessions[11] (Hilpert, 2017, p. 24).

In other world trade rounds, Japan was increasingly reserved. In the 'Doha Round' (from 2002) it played only a minor role, and the agricultural compromise in Cancun in 2003 was not accepted. Tokyo therefore seemed to have lost interest in further negotiations.[12]

The foreign trade focus on the US also had consequences: The Japanese had to give in to US pressure and accept a wide range of market openings as a result of WTO dispute settlement procedures. At the same time, the ability to resolve conflicts based on objective norms was also an opportunity to save face. For even a legal defeat had the

10 An overview of the competitive conditions in the global auto industry is offeredby the book: Keller, Maryann (1994): Der Krieg der Autogiganten. VW, Toyota, General Motors: Wem gehört das 21. Jahrhundert? Eichborn Frankfurt a.M.

11 This was mostly justified by the 'multifunctionality of agriculture': In addition to food production, it was also about environmental and landscape protection, security of supply and acceptance of the fact that Japan has less geographical opportunities than the US or Australia.

12 In addition, Japan was no longer part of the WTO core group (Brazil, India, EU and US), the so-called 'Group of Four'. This significantly reduced Japan's options for influencing decisions.

advantage of being able to make a liberalization measure acceptable to internal politics (Hilpert, 2017, p. 26).

The market opening rules with the EC were more difficult to formulate. In the 'Joint Declaration of the EC and Japan' of July 19, 1991, that was concluded even before the agreement in the automotive sector, after tough negotiations, a compromise was found in the phrase "adequate access", which was a consensus with which both sides could live (Korte in Mayer – Pohl, 1995, pp. 337-350). At the same time, Japan began treating the EC / EU as a single entity. This reinforced the macroeconomic engagement of the island kingdom in the West: The export boom was followed by a surge in investment, the development of distribution networks and supplier systems as well as activities in upstream production, for example in the chemical and steel industries. This made Japan an EU Insider, because the location of the production had an impact on their orientation. As early as in the 1980s, the focus was on Great Britain, where, 35 percent of all subsidiaries were founded (Korte in Mayer – Pohl, 1995, pp. 337-350). London attracted them with state aid and potential cheap labour. However, b when the German capital was moved from Bonn to Berlin, Japan's focus shifted to the mainland. Market size and an excellent infrastructure were more convincing for the Japanese than the traditionally good conditions on the island in the North Sea. And later, when the Central and Eastern European countries of the former Warsaw Pact joined NATO and applied for EU membership, they became attractive locations for Japanese entrepreneurs, thanks to their geostrategic position and well-educated but at the same time cheap labour force. Therefore, it was relatively easy to practice export restraint, since Japanese products came from Central Europe. At the same time, punitive tariffs or import quotas were prevented. Moreover, Japan's exports lost competitiveness as a result of the Yen's appreciation. Therefore, the conflicts between the three major economic areas decreased significantly from the mid-1990s. In international organizations such as the GATT / WTO, Japan was convinced that multilateral negotiations were the only way to achieve a fair trade policy. Although it negotiated directly with the US and the EC / EU, the applicable provisions of this framework were valid nevertheless!

Then at the beginning of the new millennium, the empire turned to bilateral agreements: in 2002 with Singapore and later with the ASEAN countries, Mexico, Chile, Peru, India, Switzerland and Mongolia, which all became partners in bilateral agreements. However, the share of foreign trade that is affected by these agreements, (2013) is still relatively low, amounting to merely 18.9 percent[13] (Hilpert, 2017, p. 28).

13 All other OECD countries have a significantly higher share of foreign trade through bilateral agreements. Sometimes this is more than 50 percent.

Bilateral negotiations were carried out with countries in the Asia-Pacific, too, above all to clarify the framework conditions. These agreements are called Economic Partnership Agreements (EPAs) and are aimed at the following: trade facilitation, investment, competition, public procurement, protection of intellectual property and reduction of technical barriers to trade.

With regard to the liberalization of agriculture, Japan lagged far behind the international trends. The bilateral tariff liberalization ratio based on tariff lines are on average 85 percent lower than the OECD average (Urata, 2015, pp. 59-61).

What was the advantage of bilateral agreements? Japan's industry was able to use the sales and market opportunities resulting from these agreements quicker and in a more targeted way than through multilateral agreements. Therefore, the most important issues for Japan could be settled in the most binding way, especially as they were the economically stronger partner at the negotiating table. As a result, Japan usually succeeded in achieving the customs and trade interests of its own industry, while also eliminated the price and competitive disadvantages compared to competitors to secure the supply of raw materials in the country. Japan has always intended to use the increasing economic growth in the Asian emerging markets to its own advantage; to stimulate domestic growth through greater export opportunities. Furthermore, the pressure from foreign trading partners is often exploited by politicians to successfully enforce their own national political agenda. Thus, the economic policy structure became a successful model for the entire country, which had positive national as well as regional consequences and, above all, strengthened the trade relations of many countries with Japan.

4. The EU-Japan Free Trade Agreement in Response to New Global Challenges

4.1. The Changed Global Framework and its Bilateral Consequences

With the emergence of China in the era of globalization in the last two decades of the 20th century, Japan's role has changed significantly. From the dominant economic power in Asia, it has become a counterweight to China, at least as far as to mitigate China's influence and to stabilize the US position in East Asia. Consequently, in 2013, Japan joined the negotiations of the Trans-Pacific Free Trade Agreement (TPP) on the grounds that only "an alliance between Japan and the US" guaranteed the Asia-Pacific region a "free, fair and open trade regime" (Hilpert, 2017, p. 30). In addition, this was also supposed to strengthen the position of Japan as America's most important ally in the region.

With the inauguration of US President Trump in January 2017, however, the global trade conditions changed fundamentally. Under the motto "America First", the president has challenged the most important US agreements and had them reviewed or revised. The Trans-Pacific Free Trade Agreement negotiations were no exception. On January 23, 2017 just three days after taking office, Trump signed a decree on the withdrawal of the USA from the TPP. The remaining eleven countries decided to continue the agreement as a CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership) and signed it on March 8, 2018 in Chile.[14]

Without the commercial support of the US, the talks that Japan has had with the European Union since 2013 have become even more significant. China's urge to fully claim the Eurasian Continent's "New Silk Road"[15], posed new challenges for both sides: Europe faces increasing dependency on Chinese products and investment, while Japan could be completely excluded from Eurasian trade if it fails to maintain contact with the mainland. After the failure of TPP, therefore, the bilateral efforts to come to a trade agreement with Europe were particularly great.

4.2. The Free Trade Agreement and its Main Content

4.2.1. Definition and Importance

JEFTA,[16] or Economic Partnership Agreement (EPA), is a free trade and investment protection agreement between the European Union and Japan, which was negotiated between 2013 and 2017 under the exclusion of the public. It is the EU's most comprehensive bilateral trade agreement in the form of an international treaty. It covers 30 percent of the global gross domestic product and 40 percent of global trade. Japan's Prime Minister Shinzo Abe called it "the birth of the largest economic zone in the world" (EU-Japan Trade Agreement). The agreement entered into force on February 1, 2017, although full agreement could not be reached on investment protection.[17] For this part of the agreement, approval is needed—not only by the EU institutions in

14 The focus of these agreements is the elimination of tariffs on agricultural and industrial products.
15 Officially, the project is called "One Belt – One Road".
16 In colloquial language it is called as EU-Japan Economic Partnership Agreement.
17 As in the case of CETA, the EU insists on establishing an international arbitration court with Japan in the event of investment protection disputes, which has been rejected by Japan so far.

Brussels, as in the case for the free trade agreement—but by all EU governments, which makes it even more difficult to reach a compromise. The negotiations will continue in this area.

In terms of trade policy, the agreement does not seem necessary at first glance. In recent years, EU exports to and imports from Japan have increased significantly. The trading volume was EUR 109.9 billion in 2014, EUR 116.4 billion in 2015 and EUR 124.5 billion in 2016, making Japan the EU's 6th most important trading partner (2017). However, as foreign trade conflicts around the world are on the rise, as are the foreclosure trends, with 600,000 jobs in the EU depending on exports to Japan, and Japanese companies employing 550,000 in the EU, such an agreement is vital. (European Commission, July 1, 2017, Guidance on: EU-Japan Economic Partnership Agreements)

4.2.2. Negotiating Priorities

The agreement abolishes almost 99 percent of all European import duties on Japanese goods. Japan, however, reduced approximately 94 percent of all tariffs on European imports. This value is to be increased in the next few years to 99 percent.

In the area of climate protection, the contracting parties have undertaken to implement the contents of the Paris Climate Agreement, albeit with the restriction that "adopting or maintaining measures to implement the multilateral environmental agreements (...) provided that such measures are not applied in a manner that would constitute a means of arbitrary or unjustifiable discrimination against the other Party or a disguised restriction on trade" (Jefta Article 16.4.5).

Despite the intended cooperation in a variety of areas, the EU Commission expects the pharmaceutical industry to benefit most, as will the food industry, as well as motor vehicle and transport equipment (European Commission, 2017).

With 47 meetings, the agri-food sector was the focus of negotiations, followed by the automotive sector with 20, and mechanical engineering with 16 meetings.

4.3. Issues and their Solutions

'Jefta is bad', one could read from the EU's consumer protection advocates: First, the lengthy secret negotiations were criticized, "social, environmental and democratic standards are neglected. While open markets are enforceable, social and environmental standards cannot be legally enforced" (Giegold, 2018). Secondly, the area of water supply is highlighted as particularly at risk. Accusation: The agreement promotes the liberalization of water supply and sanitation as part of the removal of trade barriers. It was seen as an attack on the principle of subsidiarity in Europe. This could undermine the state's control of services of public interest and would restrict municipal freedom of action, as the obligation to carry out public procurement could mean that, if need be, a municipality must take some other service provider than itself.[18] However, the implementation rules are not yet defined. There is some fear that committees with regulatory rights could subsequently change the agreement—possibly without a later parliamentary vote (Reimer, 2018). The EU has made it clear: No government is forced to privatize or deregulate public services.

Does the agreement also allow commercial whaling, which is an important topic and tradition in Japan? Despite liberalization, imports of whale meat into the European Union remains prohibited (as it has been for more than 30 years now). At international level, particularly within the framework of the International Whaling Commission (IWC), the EU is committed to the continuation of the commercial whaling ban - also vis-à-vis Japan.

The Japanese agricultural lobby also exerted a massive pressure against the agreement. They saw themselves in existential danger because of the more efficient European agricultural production. Their agreement could only be achieved by offering long transitional periods until the final reduction of tariffs on agricultural products. In addition, the government in Tokyo agreed that up to 90 percent of the lost income of Japanese farmers will be reimbursed by the state.

18 In the case of a tender, the municipality is usually obliged to choose the most cost-effective provider. As a result, it may not be the cheapest provider and the service should therefore be contracted out to private companies.

5. Conclusion: Expectations and Perspectives

'Cheese against cars' is how the expectations of the negotiating parties of the JEFTA agreement can best described. The EU expects a 180 percent increase in the exports of processed foods to Japan, with an equivalent value of approximately EUR 10 billion. 85 percent of EU agricultural products are exported duty-free to Japan. Prices for wine, dairy and meat from Europe will drop and the sales will be possible without additional testing, certification or labelling. In addition, Japan recognizes 200 geographical product names (for example, 'Tyrolean bacon' or 'Parmesan'). The EU expects a total increase in exports to Japan of approximately EUR 20 billion. As a result, the gross domestic product of the EU will increase by 0.14 percent / year.

On the other hand, Japan will benefit from the exports of manufactured goods. For example, the tariff for passenger cars will drop from 10 percent to 0 percent - within seven years. Overall, the country of the rising sun should experience an increase in GDP up to 1.6 percent / year.

So much about expectations. Politically, it can be stated that barriers to market access, such as customs duties and non-tariff barriers to trade, have largely been removed. Nevertheless, the informal hurdles prevail in business dealings. For example, the insider culture and legal practice in Japan remain an obstacle to trade as well as the high costs of market development and specific business practices (see the list of trade barriers in Chapter 2.1).

Nevertheless, Europe and Japan are moving closer to each other, as the overview of EU foreign direct investment to Japan, specifically in the area of stocks, indicates (see Table 1). Therefore, in the future, it will be easier for friendly countries to support each other politically as well. For Japan, it is now a question of industrial policy survival: The supply of rare earth metals, which the country receives from China and is needed for modern industrial products, has been often blocked on the grounds that Japan pursues a culture of remembrance, which also allows an honourable memory of war criminals. In such cases, the Japanese government often turns to the political leadership in Berlin to ask them to exert influence on China so that the rare earths are supplied again. So far, this has worked successfully thanks to the important 'German-Chinese economic bridge'. And it will probably continue to be a service of friendship that Europeans will render in favour of the Japanese industry.

With the conclusion of the JEFTA agreement, Japan has ended its brief period of bilateral trade treaties (in the 21st century), for it is a treaty with as many as 27 European countries in one union. And that is not the end of the negotiations: other partner countries for free trade agreements are to be included in the EU‘s ‘circle of friends’ for bilateral agreements: Canada, Mexico, Singapore, Vietnam (among others). Free trade should also be developed with entire economic regions: the negotiations with Mercosur are already in the final phase, even though Ireland, France and some other EU states oppose the import of beef from Argentina and Brazil. (“The EU wants to conclude free trade agreements with these states” (Handelsblatt, 2018)). Thus, the message is clear: Japan and the EU are sending a clear signal for more free trade as opposed to Trump’s policy of foreclosure!

And what is the Hungarian Position?

“Rapid and comprehensive changes are going on within global politics and the global economy; old friendships are being broken and alliances of interests that previously seemed unlikely are coming into being. In such a turbulent period, it is in the interests of both the European Union and Hungary to forge alliances.”(…) “From a Hungarian perspective, the bilateral agreement will help to further increase our trade turnover with Japan, which already exceeded 2 billion euros last year” and therefore “it is in Hungary’s interests for trade to be free and fair and available to everyone with equal conditions” (Szijjártó, 2018)[19].

A clear statement in favour of intensifying the trade-relations with Japan shows Hungary’s integrated position concerning trade issues in the European Union. Victor Orban’s government has always welcomed Japanese investments in Hungary and therefore supported the idea of intensifying the relations. Despite developing Hungary’s capital city, Budapest, as a cornerstone for the Chinese “One Belt, One Road” initiative, Japan has for years been seen as the more profitable partner. However, Hungary supports the idea of free trade and takes in this a pro-European point of view.

To sum up, it can be stated that Japan and the EU have set a milestone in the global development of free trade agreements. While China and the US are still discussing their future trade regulations, NAFTA has been reorganised and TTIP never came to an end. JEFTA was a necessity for both partners to profit from the fruits of free trade, having no alternative option! In a globalized world with more and more trade barriers, which is in itself a contradictory picture, the declaration offers Japan a chance to

19 Hungary’s Minister of Foreign Affairs and Trade at a conference on the economic partnership agreement between the European Union and Japan in Budapest.

keep good and open relations with the European Union despite China's New Silk Road leading the way to Europe. For the EU the treaty is an option not to become totally dependent on China's new initiatives on one side, and, on the other, not to become too repressed by the trade barriers, the Trump administration is bringing up again and again. Therefore, JEFTA is a clear win-win situation for both partners!

Table 1

EU Foreign Direct Investment with Japan (2014-2018)

Indicator	unit	2014	2015	2016	2017	Annual average growth
stocks: inward	billions of euros	164.2	207	226.9	228.9	11.7
stocks: outward	billions of euros	73.3	85.6	100.3	99.4	10.7
stocks: balance	billions of euros	-90.9	-121.4	-126.5	-129.5	
flows: in	billions of euros	11	3.9	20.5	11.1	0.5
flows: out	billions of euros	0.1	6.9	-0.1	2.3	204
flows: balance	billions of euros	-10.9	2.9	-20.6	-8.8	

Source: European Commission, 2019.

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Railway Trade Connections between China and Hungary in the 21st Century

Attila Erdei

Abstract

For over 20 centuries, technology and politics have formed the trade across the Eurasian continent. The domesticated camels and the newly invented compass helped the emergence of the "silk routes" between 200 and 400 CE. The peaceful synergy between the Han empire and the Hellenic city-states made terrestrial trade blossom. A major break occurred in the late fifteenth century, when the invention of large ocean-going ships and new navigation methods rendered maritime trade more competitive. Since then, commerce between Asia and Europe has travelled primarily by sea. Just 10 years ago, regular freight services from China to Europe did not exist. The winds of change started to blow in 2013, when the Chinese government proposed the "Silk Road Economic Belt" and the "21st Century Maritime Silk Road" strategy (referred to as "One Belt, One Road"). The Silk Road Economic Belt covers Eurasia and North Africa, and the Maritime Silk Road covers most of the Asia Pacific region. Railway construction is an important part of this strategy. As a possible destination by this new "Silk Road" there are bright possibilities for the Hungarian economy. I give a short overview of the past and present of the Chinese railways, and the possible ways of its development. This study reviews the current and future situation of the Chinese-Hungarian railway trade connections.

1. Introduction

The ancient Silk Road started from the middle of China in the city of Changan (present-day Xi'an) and headed west across deserts to oases and over mountain passes, through the beautiful Central Asian trading cities of Samarqand and Bukhara in Uzbekistan and Merv (modern Mary) in Turkmenistan to the Mediterranean Sea. It covered about 10,000 km with lot of twists and turns. The Silk Road has been considered one of the most significant links connecting various peoples and cultures. The German geographer and explorer Ferdinand von Richthofen gave the term "Silk Road" or "Seidenstraße" refering to the route along which silk travelled from China to the West. The Silk Road was not just one path. It was made up of many trade routes that extended from eastern China to India and Egypt, through the cities of Baghdad, Constantinople and Samarkand, all the way to Moscow and Venice and other European cities. Connecting routes also extended to the north and south. The name actually covered a complex network of roads. The Silk Road ensured the exchange of the specialised products of the different regions by connecting markets and producers. The intermediate regions (e.g. oasis towns) also became rich, thanks to trade.

The two central branches of the routes stretched in the east-west direction, connecting the Mediterranean region with China, it also reached out to the Hindustani Peninsula, Central Asia and Africa (Eszterhai, 2017). It is a relatively new discovery that beside the intercontinental transport route, a maritime commercial route existed between China and the Persian Gulf, named as the Maritime Silk Road. Not only did the Silk Road have a commercial and economic role, but it also served as the meeting point of the great civilizations of the West and the East.

The Silk Road, which thrived for more than a thousand years, gradually lost its global significance during the great discoveries, and was soon forgotten. But what is behind this drastic change? According to popular opinion, the emergence of the Ottoman Empire which successfully conquered the western half of the Mediterranean region, was a decisive factor. Although the Court in Istanbul levied grave taxes on long-distance trade, it would not have caused the decline of the significance of the Silk Road. The real reason was that maritime trade grew stronger, thanks to new technologies, such as the compass, large, safer ocean-going ships, etc. The revolution of maritime navigation fundamentally reshaped the geopolitical map of the Earth. Since the late fifteenth century, commerce between Asia and Europe has travelled primarily by sea. Maritime trade could ensure the exchange of surpluses between different regions, on a global level in a relatively inexpensive manner, and in greater volumes than the Silk Road.

2. Material and Methods

In my paper, I briefly present the history of the famous, ancient "Silk road" and its importance for the world trade from 300 CE to the great discoveries in the XV-XVI. centuries. After a short overview of the history of the Chinese railway, I want to examine the past and the present internal and international railway connections of China. This railway network is currently the fastest growing fast speed network in the world. My research work shows the new "One Belt One Road (OBOR)" initiative, its actions, and the targets of the Chinese government. By the use of international scientific research results, I review and summarize the possible development concepts of the international railway freight service of China and Hungary. This paper summarizes the start-up phase, the bibliographical research of a larger volume research work.

3. Results

3.1. The Railway in China

The first railway built in China was a 600-metre long narrow-gauge demonstration line that a British merchant assembled in Beijing in 1864 to demonstrate rail technology. The Qing government was uninterested and the line had to be dismantled. The first railroad to enter commercial service was the Wusong Railway, a 12 km railway from Shanghai to Wusong, which opened in 1876 (Wang, 2015). This was built without the approval of the Qing government, which resulted in the dismantling of the line one year later. Until the defeat of China in the First Sino-Japanese War, the government remained hostile toward railway construction. Beginning in 1895, the government began to grant rail concessions to foreigners, and permitted direct railway connection to the capital Beijing (Xue et al., 2002).

By 1911, there were about 9.000 km of railroads in China, mostly built, owned and operated by foreign companies. The first self-designed and -constructed railway owned by the Chinese was the Jingzhang line (Beijing Fengtai-Zhangjiakou) built from 1905 to 1909. During the Republic of China era from 1912 until 1949, the development of the railway network in China slowed down due to repeated civil wars and the invasion of Japan in the Second Sino-Japanese War. One of the few exceptions was Northeastern China (Manchuria) where the Chinese Eastern Railway was opened by the Russians in 1901.

After the War between the Russian Empire and the Empire of Japan (1904-1905), the Japanese gained control of the portion of the Chinese Eastern Railway south of Changchun, using it to create the South Manchuria Railway Company (SMR) in 1906. During the reign of the Fengtian warlords from 1912 till 1931, several privately-owned railway companies were formed (Xue et al., 2002).

After the Japanese invaded Manchuria in 1931 and established the puppet state called “Manchukuo”, these private railways were nationalised and formed the Manchukuo National Railway (MNR). In 1935, the Japanese bought the northern portion of the Chinese Eastern Railway from the Soviet Union and merged it into the MNR. In addition to the MNR and SMR, several other railway companies were established in the Japanese-occupied parts of China, including the North China Transportation

Company, the Central China Railway, and the East Manchuria Railway. In 1945, just after the Second Sino-Japanese War, there was 27.000 km of rail in China, of which nearly half (13,000 km) was located in Manchuria (Ginsburg, 2017).

After the establishment of the People's Republic of China, the new government under Mao Zedong invested heavily in the railway network. From the 1950s to the '70s a lot of lines were expanded. In Southwestern China, where difficult terrain prevails, several mountain railways were constructed, like the Baoji–Chengdu Railway and the Chengkun Railway. The railway to Tibet, one of the highest running railway in the world, was finally completed and opened to the public in 2006. Today, every province-level entity of the People's Republic, with the exception of Macau, is connected to the railway network.

From 1990 to 2001, on average 1,092 km of new railways, including 837 km of multiple-track, and 962 km of electrified railways were opened annually. At the end of 2017, railways in operation reached 127,000 km, including 24,100 km of multiple track and 18,900 km of electrified railways.

Since 1997, train speed has been raised significantly. The top speed of express trains increased from 120 km to 200 km/h, and passenger trains can reach the maximum speed of 350 km/h on some sections of the railway network. Sixteen major rail corridors consisting of eight running north-south, called verticals, eight running east–west, called horizontals, connect 81 major cities (see Table 1).

Table 1
Main lines of the railway network of China

Horizontal lines	Vertical lines
Beijing–Tibet (Beijing–Baotou, Baotou–Lanzhou, Lanzhou–Qinghai, Qinghai–Tibet	Beijing–Harbin Railway
Northern Coal Transport Corridor	East Coast Corridor
Southern Coal Transport Corridor	Beijing–Shanghai Railway
Shanghai–Kunming Railway	Beijing–Kowloon Railway
Nanjing–Xi'an Railway	Beijing–Guangzhou Railway
Trans-Eurasia Corridor (Longhai, Lanzhou–Xinjiang, Northern Xinjiang)	Datong–Zhanjiang Corridor (Datong–Puzhou, Taiyuan–Jiaozuo, Luoyang–Zhanjiang)
Yangtze River Corridor (Nanjing–Tongling, Tongling–Jiujiang, Wuhan–Jiujiang , Changjiangbu-Jingzhou, Yichang–Wanzhou, Dazhou–Wanzhou)	Baotou–Liuzhou Corridor (Baotou–Shenmu, Shenmu–Yan'an, Xi'an–Yan'an, Xi'an–Ankang, Xiangyang–Chongqing, Sichuan–Guizhou, Guizhou–Guangxi)
Southwest Coastal Access Corridor (Nanning–Kunming, Hunan–Guangxi, Litang–Zhanjiang)	Lanzhou–Kunming Corridor (Longhai, Baoji–Chengdu, Chengdu–Kunming)

Source: The author's own work after TravelChinaGuide (2019) data

In the past decade, China has built an extensive high-speed rail grid. This grid is composed of eight high-speed rail corridors (see Table 2) with a total length of 29,000 km. Most of the new lines follow the routes of existing lines and are designated for passenger travel only. Several sections of the national grid, especially along the southeast coastal corridor, were built to link cities that had no previous rail connections (Eszterhai, 2016). Those sections will carry a mix of passenger and freight services. High-speed trains on passenger dedicated lines can generally reach 300-350 km/h. On mixed-use lines, passenger train service can attain top speeds of 200-250 km/h.

There are internal destinations like Macau, the only provincial level division of China without railway connection, where new lines are under construction.

Table 2
High-speed rail (HSR) corridors in China

		Maximal speed (km/h)	Distance (km)
Horizontal lines	Qingdao–Taiyuan High-Speed Railway	250	873
	Xuzhou–Lanzhou High-Speed Railway	350	1,363
	Shanghai–Wuhan–Chengdu High-Speed Railway	250-350	2,078
	Shanghai–Kunming High-Speed Railway	350	2,066
Vertical lines	Beijing–Harbin High-Speed Railway	350	1,700
	Beijing–Shanghai High-Speed Railway	350	1,433
	Beijing–Guangzhou–Shenzhen–Hong Kong High-Speed Railway	200-350	2,229
	Hangzhou–Fuzhou–Shenzhen High-Speed Railway	250-350	1,495

Source: The author's own work after TravelChinaGuide (2019) data

3.2. International Connections of the Chinese Railways

China is a member state of the International Union of Railways (UIC). China is also a signatory to the Trans-Asian Railway Network Agreement, which promotes the integration of railway networks across Europe and Asia.

International passenger train services are available to destinations in:

- Kazakhstan
- Russia
- Mongolia
- North Korea
- Vietnam

Three track gauge widths are in use (1,435 mm; 1,520 mm; 1.676 mm) by the Eurasian Railways. The normal, 1,435 mm track gauge is in use in China. By Kazakhstan, Mongolia and Russia there is a so-called break of gauge, which means these countries use a 1.520 mm broad gauge instead of the normal 1,435 mm gauge. In the international transportation it had to replace the bogies of the coaches at the border stations. It is one of the main reasons of the increased delivery time to Europe.

Alashankou and Khorgas are the two rail crossings on the China–Kazakhstan border, both located in the northern part of the Xinjiang Uyghur Autonomous Region. They are the only international rail connections in the western part of China (Berger, 2017).

The Alashankou rail crossing opened in 1990, forms a New Eurasian Land Bridge, allowing trains from Lianyungang by the East China Sea to reach Rotterdam by the North Sea. Khorgas (Ili Kazakh Autonomous Prefecture) is located southwest of Alashankou in the Ili Valley. The town on the Kazakh side of the border in Almaty Province, has the same name, Korgas. Here, the Jinghe–Yining–Khorgas Railway, a 286 km fork off the main Northern Xinjiang line built in 2009, meets the Zhetigen-Korgas Railway, a 239 km branch from the Turkestan-Siberian Railway completed by Kazakhstan in 2011. The Khorgas crossing, opened in December 2012, provides a more direct route from Ürümqi to Almaty. China's three rail crossings into Russia are all located along the eastern section of the border between the two countries.

The crossings at Manzhouli and Suifenhe are at both ends of the Trans-Manchurian Railway, which was a shortcut for the Trans-Siberian Railway built through northeastern China in the early 1900s. Manzhouli is China's busiest inland port. It borders Zabaykalsk (Zabaykalsky Krai of Russia's Transbaikal region) and handles the bulk of the bilateral freight trade and one of the Beijing-Moscow passenger train routes. Suifenhe, in southern Heilongjiang Province, borders the town of Pogranichny (Primorsky Krai of the Russian Far East). The rail station on the Russian's side is called Grodekovo. Freight trains from Harbin to Khabarovsk and Vladivostok pass through Suifenhe (Galuschko, 2016).

A third rail connection connects Hunchun in eastern Jilin Province to the Makhalino station on the Russian side, which is located about 41 km from Khasan. The border crossing began to operate in February 2000, and saw only a small amount of traffic. There are only two passenger trains per week in each direction between Beijing and Moscow on this border crossing. One of the trains travels 8,961 kilometres via Harbin, Manzhouli and the Trans-Siberian Railway. The other trains take a shorter route of

7,622 kilometres, through Mongolia via the Trans-Mongolian Railway. Both journeys are among the longest train services in the world.

A new link, a new Bridge on the river Amur, between China and the Russian Far-East is under construction (Transsiberianexpress, 2018).

The only rail connection with Mongolia's railways is located at Erenhot, in Xilingol League of central Inner Mongolia, which borders Zamyn-Üüd in Mongolia's Dornogovi Province. There are two trains every week departing from Beijing and Hohhot to Ulaanbaatar, along with five trains per week from Erenhot. As with rail service to Russia, trains from China need to change bogies in Erenhot, since Mongolia uses broad gauge (Transsiberianexpress, 2018).

There are rail crossings along the border with North Korea at Dandong, Ji'an and Tumen. Dandong, (Liaoning Province) is 274 km east of Shenyang at the mouth of the Yalu River across from Sinuiju in North Korea's North Pyongan Province. This is the most heavily used rail connection between the two countries. Ji'an, located in Jilin Province 400 km from Siping by rail, connects to Manpo in Chagang Province. Tumen, is located across the Tumen River from Namyang, North Hamgyong Province. There are four weekly trains from Beijing to Pyongyang, as well as a weekly carriage attached to the Vostok train from Moscow via Harbin, Shenyang and Dandong.

There are two rail connections between China and Vietnam, at the Friendship Pass and Hekou. At the Friendship Pass on the border between Pingxiang, (Guangxi Zhuang Autonomous Region) and Đồong Đăng in Vietnam (Lạng Sơn Province), the Hunan–Guangxi Railway connects to the dual gauge Hanoi-Đồng Đăng Line. This crossing, opened in 1955, is the primary rail link between the two countries. There are two trains per week from Beijing to Hanoi both going through the Friendship Pass. At Hekou, the narrow-gauge Kunming–Hai Phong Railway from Kunming, (Yunnan Province) crosses into Vietnam's Lao Cai Province. This line, also known as the Yunnan–Vietnam Railway, was built by France from 1904 to 1910 though rugged terrain. Cross-border service on this line ceased in late 2000, but freight trains have kept this crossing operational.

In recent years, China has been actively exploring and promoting the extension of its railway network to neighboring countries and distant regions including the Russian Far East, Southeast Asia, South Asia (Pakistan, India, Nepal), Central Asia (Kyrgysistan, Uzbekhistan), the Middle East (Xue, 2002).

3.3. New Policy: the "One Belt One Road" (OBOR)

The winds of change started to blow in 2013. In September 2013 the president of the People's Republic of China Xi Jinping made a speech at the Nazarbayev University of Astana during his official visit in Kazakhstan. In the speech, titled "Promote Friendship between Our Peoples and Work Together to Create a Bright Future", the Chinese president stated that "to forge closer economic ties, deepen cooperation and expand space for development in the Eurasian region, we should take an innovative approach and join hands in building an 'economic belt along the Silk Road'. We may start with work in individual areas and link them up over time to cover the whole region" (Wang, 2015, p. 93). This was the first time China presented the "Silk Road Economic Belt" initiative.

It contains two main routes, the Silk Road Economic Belt (through Middle Asia to North Africa and to Europe, comprising six development corridors) and 21st Century Maritime Silk Road (to the Asia Pacific region). They are going to connect the three continents, Asia, Africa and Europe, making easier the exchanges and movements of goods, financial services, technology, information and people. The Silk Road Zone, which includes 17 countries, is one of the most important cultural regions of our Earth (Jeney – Varga, 2017). The "New Silk Road" or "One belt one road (OBOR)" initiative has a very high importance for China, because it shall be advantageous both at the national and international level for the country. On one hand, it can help the economic and infrastructure development of some poorly developed provinces like Xinjiang, Gansu, Ningxia, Guangxi and Yunnan that are on the ideal path of the new trade route. On the other hand, it shall increase the influence of China in Central Asia, and in the Mediterranean region. The project involves such an area that covers 55 percent of world GNP, 70 percent of global population, and 75 percent of known energy reserves (Wang, 2015).

China's plan is to spend nearly USD 1 trillion of money and to lift the value of its trade with 40 countries to USD 2.5 trillion within a decade. This plan is probably one of the biggest economic projects after the Marshall Plan following the World War II.

3.4. The Action Plan for the OBOR

An important step towards the implementation of the concept was made on March 28, 2015, during the Bo'ao Forum for Asia (a non-governmental and non-profit international organization). On that occasion, China's National Development and Reform Commission and China's Foreign Ministry and Commerce Ministry presented an action plan for the OBOR, called "Vision and Actions on Jointly Building Silk Road

Economic Belt and 21st Century Maritime Silk Road". It contains and defines the main goals that the "One Belt, One Road" initiative had to achieve: "It is aimed at promoting orderly and free flow of economic factors, highly efficient allocation of resources and deep integration of markets; encouraging the countries along the Belt and Road to achieve economic policy coordination and carry out broader and more in-depth regional cooperation of higher standards; and jointly creating an open, inclusive and balanced regional economic cooperation architecture that benefits all" (NDRC, 2015).

The action plan presents many details about the OBOR project, like the description of the routes. The terrestrial route will be composed by three corridors. The first goes from China to the Baltic Europe, crossing Central Asia and Russia. The second is conceived to connect China with the Mediterranean Sea, going through Central and West Asia. Finally, the third will go from China to the Indian Ocean through South-East Asia. Concerning the second part of the "One Belt, One Road" project, the 21st Century Maritime Silk Road, it will incorporate two different paths: the first will link Coastal China with Europe, via the South China Sea and the Indian Ocean. While the second will focus on the connections with the South Pacific area, also passing through the turbulent South China Sea. In total, the OBOR project will involve around 60 countries. It was also declared by President Xi Jinping, that many governments all over the world have already declared their interests in joining the series of necessary investment projects (Wang, 2015).

Construction of railway lines is an important part of this strategy. According to Hillman (2018), it includes not only the China-Europe Railway that has already been operated through Eurasia, but also the Moscow-Beijing High-speed Railway and the Zhongjiwu Railway. It should also include the railway connection from China to Pakistan, which links China's inland and Indian Ocean coasts and covering China, India, Bangladesh and Myanmar. Trans-Asian Railways is also connecting various countries. However, it is also worth noting that China has started financing projects beyond its borders.

The Moscow-Kazany high-speed railway line is one of them. The Chinese-led consortium contracted USD 375 million worth of construction work by the construction of a 770 km long high-speed railway between Moscow and Kazany. With a total cost of USD 16.7 billion, the travel time between the two cities will decrease from 12 hours to 3.5 hours. For China, the significance of the project lies in taking part in the modernization of the trans-Siberian railway line in their northern neighboring country. This railway line can also be a competitor, but it can also be integrated into the New Silk Road project (Galushko, 2016).

The Khorgos-Aktau railway line is the most important east-west railway axis of independent Kazakhstan between Khorgos, on the Chinese border, and the Aktau port of Caspian Sea. For now, the 650 km long railway line is renewed. From the USD 2.7 billion budget, even the railway rolling stock will be replaced (Wang, 2015).

The project has much more significance for both sides. Kazakhstan gets a major east-west corridor for the development of the national economy while China can reach a port town at Caspian Sea through Kazakhstan, from where the New Silk Road Corridor can be built toward different routes:

- Volgograd-Moscow-Saint-Petersburg;

- Donyeck-Kiev-Lviv-Krakow-Berlin or Lviv-Budapest/Bratislava/Prague-to Vienna/Munich;

- on the western side of the Caspian Sea towards Baku-Tbilissi-Ankara-Istanbul;

- on the eastern side of Caspian Sea towards Tehran.

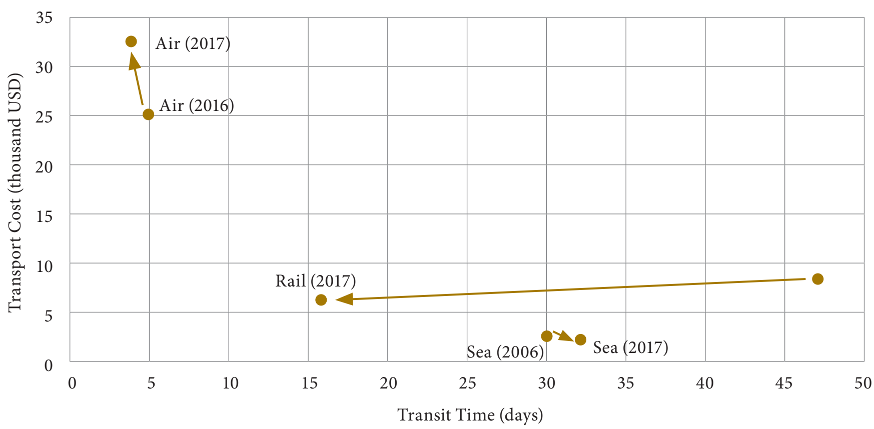
The China-Kyrgyzistan-Uzbekistan railway line should have been ready. The project has been strained due to financial and political reasons. The main bottleneck of the project was and remains Kyrgyzstan, which is characterised by a mountainous landscape. China wanted to build here a 1,435 mm railway with lot of bridges and tunnels, but Kyrgyzstan strongly opposed that idea and insisted on a broad, 1,520 mm gauge line. The main argument of Kyrgyzstan was the fear to lose transit cargo, because freight trains will run through this country without any stops if a 1,435 mm railway were to be constructed (Railfreigth, 2018). This rail line would be the connection point for the planned rail network in Afghanistan, and even the southern railroad to Tehran may join this. Here, however, there is still no word about the construction of a fast train line.

3.5. Trade on Railway

According to Hillman (2018) just 10 years ago, regular direct freight services from China to Europe did not exist. Only a few trains delivered some goods through the Trans-Siberian Railways (TSR), with long transit time and unpredictable arrival. Today there are direct railway connections between 35 Chinese s and 34 European cities, with a growing amount of delivered goods.

According to Schramm's and Zhang's paper (2018), railway services are considerably cheaper than air and faster than sea, as Figure 1 illustrates, and could provide a compelling middle option for more goods in the coming years. Rail's share of cargo by value is already growing, with an increase of 144 percent during the first half of 2017, compared to the same period in 2016. A study published by the International Union of Railways estimates that China-Europe rail services could double their share of trade by volume over the next decade (Berger, 2017).

Figure 1
Shift in Transit Cost and Time (2006-2017)

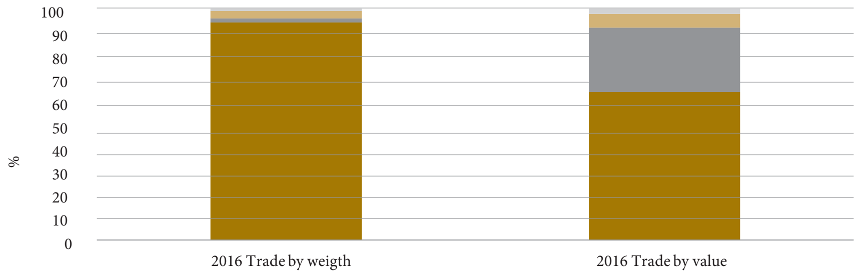


Source: The author's own work after Schramm's and Zhang's (2018) data

In 2016, only 1 percent of the delivered goods were carried by train between China and Europe by volume and just over 2 percent by value. As Figure 2 illustrates, the maritime trade remains dominant, with 94 percent by weight and 64 percent by value in 2016 of all Chino-European trades. Compared to rail, air transport carried twice as much cargo by weight and more than 13 times by value in 2016. These trends show the competitiveness of maritime shipping for low-value goods and the competitiveness of air shipping for high-value goods.

Figure 2

China-Europe trade by weight and value in 2016 (%)



	2016 Trade by weigth	2016 Trade by value
Rail	0,9	2,1
Road	3,2	6
Air	1,8	27,9
Sea	94,1	64,0

Source: The author's own calculation after Eurostat (2017) data

The new direct services (like Beijing-London, Yiwu-Madrid), have captured imaginations, but it is the secret of the future how much trade they can capture. In 2016, rail carried just under 1 percent of trade between China and Europe by volume and just over 2 percent by value.

The biggest advantage of the train route is the reduced delivery time. For example, the train covered the above-mentioned 13,000 km long Yiwu-Madrid journey in just three weeks, while the same took six weeks for cargo ships on the sea. This advantage is even more attractive, when the cargo does not need to be restowed during the journey two or 3 times because of the incompatibility of the rail gauge systems (China-former Soviet States-Europe-Spain).

In accordance with the action plan of the OBOR initiatives, three primary freight corridors between China and Europe have emerged. The northern corridor has three prongs extending from China, all of which join the TSR. The middle corridor has multiple variations, but all run from China through Kazakhstan. A nascent southern corridor could develop further in the coming years, expanding to Europe via Central Asia, Iran, Georgia, and Turkey. This line would allow European food producers to avoid Russian sanctions, but the route requires significant infrastructure (hard and soft) improvements (Galushko, 2016).

3.6. China and Hungary Train Connections

Until the recent years, direct trains for freight services were not available between China and Hungary. The breakthrough happened in April 2017, when the first direct container trains arrived to the Mahart Container Center terminal in the Port of Budapest. The 650-meter long train, carrying 41 shipping containers, travelled more than 10,000 kilometres over 17 days, passing through Kazakhstan, Russia, Belarus, Poland and Slovakia before arriving at the Mahart Container Center terminal in the Port of Budapest (BBJ, 2017).

Another connection was established in January 2018 between Xianmen (Southeast China's port city) and Budapest. The China-Railway Express operates every Friday. Its journey takes 18 days to Budapest (China daily, 2018).

Nowadays, Hungary is one of the leading trade partners of China in Central and Eastern Europe, and the trend shows continuous growth of trade between the two countries.

The most important and most decisive project is the upgrade of the rail line between Budapest and Belgrade (capital of Serbia). This line has been used by the original Orient Express, which connected Paris to Constantinople between 1883 and 1914. There are lots of pros and cons of the project. This line should give new access to the European market for the Chinese, because it connects directly the Piraeus port owned by China through Serbia, North-Macedonia and Greece. One of the main tasks of the railroad, which should be modernized with funds from Chinese loans, is to facilitate the transportation of Chinese goods from the Greek port of Piraeus, via Macedonia, Serbia, and Hungary, to Central Europe and to expand the political and economic sphere of interest. Another goal of this project for the Chinese companies is that it should serve as reference for further railway construction projects in the EU.

The refurbishment works already started on the Serbian side, while the Hungarian Government only issued a public tender for the modernisation of the line. Works are scheduled to start by the end of 2020 in Hungary. According to the plans the Budapest-Belgrade high-speed railway line must be completed by the end of 2023 at the latest. The Hungary-Serbia railway was a landmark project for China's cooperation with Hungary and Central and Eastern European (CEE) countries, as well as of great significance for the Belt and Road initiative, according to Chinese media. Under the initiative, China seeks to boost its trade links with more than 80 countries in Asia, Europe, Africa and South America (Soukas, 2018).

The main reason of the arguments against the project is the horrible cost of track building and the high cost of the credits granted by Chinese banks. According to Vörös (2018) "Hungary is going to upgrade a 152 km railway for roughly USD 3 billion, plus an interest of between USD 500 and USD 800 million, to fulfil China's economic vision, with the help of Chinese loans, with the majority of the work done by Chinese companies. According to estimates, it will take between 130 and 2,400 (!) years to make the project profitable for Hungary."

One of the main tasks of the railroad, which should be modernized with funds from Chinese loans, is to facilitate the transportation of Chinese goods from the Greek port of Piraeus, via Macedonia, Serbia, and Hungary, to Central Europe.

It is an easy task to find the reason behind the project. It is a huge opportunity for China and Chinese companies, which will get references of railway building within the European Union.

The main argument for the project is that it should reduce the travel time from 8 hours to 2.5-3 hours for the 350 km journey.

4. Conclusion

In my paper I briefly presented the history of the famous, ancient "Silk road" and its importance in the world trade from 300 BC to the great discoveries in the XV-XVI. centuries. I gave a short introduction to the past and present of the Chinese railways, and the possible ways of its development. This railway network is currently the fastest growing high-speed network in the world.

In the fall of 2013 a new initiative was born. The Chinese Government proposed a new initiative, the "One belt One Road (OBOR)", which contains two main routes for terrain and a maritime delivery channels of goods. One of them is the "Silk Road Economic Belt" and "21st Century Maritime Silk Road". The terrestrial route is going to contain three corridors. The first will go from China to the Baltic Europe, crossing Central Asia and Russia. The second is conceived to connect China with the Mediterranean Sea, going through Central and West Asia. Finally, the third will go from China to the Indian Ocean through South-East Asia. The essence of the new, OBOR strategy is to open up new economic development centres and traffic routes through the interconnection of transportation infrastructure. According to my researches, it will not be an easy task to expand the influence of China to Middle Asia, because of the sensitive and fragile political and geopolitical environment of region. There are lots of threats for the Chinese initiative, like the influence of Russia to the former Soviet states, the dictatorships in some states like Turkmenistan, etc, the emerging Islam, etc.

The new direct freight train services (like Beijing-London, Yiwu-Madrid), have captured imaginations of a lot of stakeholders, but it is the secret of the future how much trade they can capture. In 2016, rail carried just less than 1 percent of trade between China and Europe by volume and just over 2 percent by value. Railway services are considerably cheaper than air and faster than sea, and could provide a compelling middle option for more goods in the coming years. Rail's share of cargo by value is already growing, increasing 144 percent during the first half of 2017, as compared to the same period in 2016.

Hungary is the main trade partner for China in the Central and Eastern European Region. The value of bilateral trade between Hungary and China grew steadily from HUF 1.63 trillion in 2013 to HUF 1.67 trillion in 2014, HUF 1.84 trillion in 2015, HUF 2 trillion in 2016 and HUF 2.19 trillion in 2017. China thus became Hungary's largest trading partner among countries outside the European Union, surpassing Russia, with which Hungary conducted HUF 1.52 trillion in bilateral trade in 2017. The value of Hungarian exports is increasing every year and Hungary has the highest level of Chinese investment in the entire CEE region. The direct freight train services between Hungary and China started only in 2017. The modernisation of the Budapest-Belgrade railway line, which is a main link for the Chinese companies from the Piraeus port to the heart of Europe, is an important part of the business connection of the two countries.

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China-Hungary Economic and Trade Cooperation Zone

Jiandong Shi

Abstract

The friendship between China and Hungary has a long history. The two countries have frequent high-level exchanges and smooth economic and trade relations. China's "the Belt and Road" initiative coincides with Hungary's "open to the east" policy. Hungary regards China as a key development target for developing economic and trade relations with Eastern countries, and is the first member of the European Union member states to participate in the "the Belt and Road" initiative. In 2012 and 2014, under the efforts of the Chinese and Hungarian governments and the two companies, the Central European Trade and Logistics Cooperation Zone and China-Hungarian Borsod Economic and Trade Cooperation Zone were established in Hungary. This paper analyzes the development planning and current situation of the Central European Trade and Logistics Cooperation Zone and China-Hungarian Borsod Economic and Trade Cooperation Zone, and conducts an in-depth analysis of the development advantages and problems in the development of the two economic and trade cooperation zones. Finally, suggestions are made for the development of the cooperation zone.

1. Introduction

The Chinese economy has developed remarkably and its status in international markets has improved significantly through the past 20 years' of development; since China summarized the experience and lessons from the establishment, formulation and implementation of the reform and opening-up policy in 1978. Since the beginning of the 21st century, with more and more intensive economic globalization, the Chinese government has formulated a strategy combining "going global" and "bringing in", proactively encouraging enterprises, with comparative advantages at home and abroad to enlarge foreign investment and transnational operations. It has seized the developing opportunities in the tide of economic globalization and actively joined in the economic cooperation of all regions and global multilateral trade systems by using the two domestic and international big markets and resources in order to promote the development of the Chinese economy. Soon afterwards, Chinese enterprises and the government started the trend of establishing the outbound economic and trade cooperation zone to comply with the international trend of clustering enterprises. Xi Jinping, the president of China, raised the initiative of establishing "the Silk Road Economic Belt" and "the 21st Century Maritime Silk Road" successfully in September and October of 2013. "The Belt and Road Initiative" has provided opportunities for the economic cooperation among European, Asian and African countries, and it has been supported extensively by these countries; at the same time, it has also provided new opportunities for the Chinese government and enterprises to establish outbound economic and trade cooperation zones in European, Asian and African countries.

Hungary is located in the central region of Europe and has natural regional advantages; it is an important country on the Silk Road. The economy of Hungary has been stagnant since the global financial crisis in 2008 and in order to change the situation, the government of Hungary actively sought cooperative partners outside the EU and the Central and Eastern European markets and no longer limited its cooperation to within the EU and the Central and Eastern European markets. Victor Orban, the premier of Hungary, thought that the center of the global economy was turning from Western countries to Eastern countries, and Hungary should focus on China. The government of Hungary officially formulated the policy of "opening-up to Eastern countries" in 2010 and believed that China was its most important trade partner in Asian; China also started the "16+1 Cooperation" between China and the Central and Eastern European countries. The two countries happened to have the same view and further strengthened their cooperation in all areas. By the joint effort of the governments and enterprises of China and Hungary, China established the Hungary-Central European Commercial Logistics Cooperation Zone and China-Hungary Borsod Economic and Trade Cooperation Zone successively in 2012 and 2014, respectively. The establishment of the two economic and trade cooperation zones added new impetus to the further cooperation between China and Hungary.

Hungary implemented the policy of "opening-up to Eastern countries" in 2010. The Chinese enterprises located in Hungary believe that Hungary is significant for Chinese enterprises to enter into the European market and the logistics zone setup here has a large potential for development according to their commercial experience and the acknowledgement of European markets. Approved by the government of Shandong province China and wholly owned and invested in by Shandong Emgrand International Investment Co. Ltd., the Hungarian-Central European Commercial and Trade Logistics Cooperation Zone was officially established according to the unified arrangement of the National Commerce Department in November 2012; the Hungarian-Central European Commercial and Trade Logistics Cooperation Zone was examined and affirmed by the Chinese Commerce Department and Financial Department in April 2015 and became the first national outbound commercial and trade logistics cooperation zone[1].

BorsodChem (BC) was the biggest chemical engineering company in Hungary, the industrial zone of which was approved by the Hungarian government and initially established in 1997. Under the influence of the financial crisis in 2008, the product prices of BC started to fall, and there was a serious break in the chain of funding bringing it close to bankruptcy, so they decided to sell shares. Wanhua Industrial Group Co. Ltd., the biggest polyurethane corporation in the Asian-Pacific region, seized this opportunity and bought 96 percent of the shares of BC with EUR 1.26 billion, which became the biggest investment item of Chinese enterprises in the Central and Eastern European region in 2011[2]. After being purchased by a Chinese company, BC was integrated into Wanhua in all aspects, including capital output, technical support, management output and cultural integration, which has taken effect and transferred it to profit mode since 2014. Its name was changed to China-Hungary Borsod Economic and Trade Cooperation Zone guided by the Chinese Commerce Department in 2014. Shandong Yantai Xinyi Investment Co. Ltd. (a subsidiary corporation wholly invested in by Wanhua Industrial Group Co. Ltd.) was taken as an inbound implementing enterprise by the cooperation zone and established as a processing manufacturing zone oriented by enterprise development; the dominant industries included the chemistry industry, biological chemistry industry and new energy sources. China-Hungary Borsod Economic and Trade Cooperation Zone officially passed the examination of the Chinese Commerce Department in 2015.

2. The Developing Advantages of China-Hungary Cooperation Zone

2.1. An Advantageous Geographical Position

Hungary is a land-locked country in Central Europe bordered by Slovakia and Ukraine to the north, Croatia and Serbia to the south, Romania to the east and Austria and Slovenia to the west. There are many rivers in the region, including the Danube River

1 China Foreign Economic and Trade Cooperation Website. [online] Available from: https://www.cocz.org/news/content-253952.aspx.

2 The Belt and Road Website of China. [online] Available from: https://www.yidaiyilu.gov.cn/xwzx/hwxw/47168.htm.

and the Tisza River, there is also the geographical advantage of having flat plains, rather than large mountain ranges. The Chinese Commodity Trade Exhibition Center and the Csepel Harbor Logistics Park of the China-European Commercial and Trade Cooperation Zone are located in the 15th and 21st districts of Budapest respectively. Budapest is the capital of Hungary and the zone in the 21st district is located next to the Danube River which flows directly to the Black Sea, and the channel is convenient for maritime and land transportation of commodities. The China-Hungary Borsod Economic and Trade Zone is located in Kazincbarcika, the northeast of Hungary, which is about 206km from Budapest but joins seamlessly to the Hungarian railway network.

2.2. Broad Market Prospect

Hungary is located in the geographic center of Europe, which is the meeting point of Eastern and Western Europe, and also on the road from the Baltic Sea south down to the Balkans, its borders are 2,246 km long and covers an area of 93,030 km^2; the total population is 9.88 million. Hungary joined the EU in 2004 and belongs to the category of developed countries; the GDP in 2016 was USD 125.817 billion, the per capita GDP was USD 12.7 thousand, the economy increased by 2.0 percent, and its economic development level ranked at the top in Central and Eastern Europe. Hungary is not only a member of the EU, but also a member of the 16 countries in Central and Eastern Europe; at the same time, it also joined in the construction of the Central and Eastern European Free Trade Zone, which basically covers the whole European market of about 520 million people, so it has broad market prospects.

2.3. Friendly Bilateral Relationship

Hungary is one of the European countries that established diplomatic relations with China early on, the relations between the two countries have had friendly and comprehensive development since the beginning of the new era, the senior leaders have visited each other intensively and the people's friendship is constantly deepening. Hungary always supports China on serious issues and economic cooperation, trade, culture, science, technology, education and tourism. Relations between the two countries are being strengthened constantly, and many records of "the best" have been created (Table 1), which shows the high level of bilateral relations with China and Hungary. Both China and Hungary signed the 'Memorandum of understanding between the government of the People's Republic of China and the government of Hungary on jointly promoting the construction of the Silk Road Economic Belt and the 21st Century Maritime Silk Road' in June 2015, which marked the successful connection of the "opening-up to Eastern countries" policy of Hungary with "the Belt and Road" initiative, and bilateral relations entered into a new stage that added new impetus for the cooperation between China and Hungary. According to the research of the China National Information Center on the big data of "the Belt and Road", Hungary is listed as 17th on the level of country cooperation on "the Belt and Road", 16th on trade smoothness and 1st in the Central and Eastern European region; it belongs to the countries with a higher trade facilitation level. In order to strengthen the cooperation with China, Hungary has as many as 22 friendly city links with China, and it has established bilingual schools of Hungarian and Chinese to strengthen the cultivation of talent, which guarantees the talents needed by the establishment of the bilateral economic and trade cooperation zone and solves the difficulties of languages and strengthening the bilateral cooperation further.

Table 1
Record of "firsts" of Hungary with China

No.	Content
1	The first European country to sign the cooperation paper between governments about jointly advancing "the Belt and Road" with China
2	The first country to establish and start a working group mechanism for "the Belt and Road" with China
3	The first Central and Eastern European country where China set up an RMB Clearing Bank
4	The first Central and Eastern European country to issue an RMB bond
5	The first Central and Eastern European country to set up a China National Tourism Administration Office
6	The first European country to set up bilingual schools in Hungarian and Chinese
7	The first European country to sign a production capacity cooperation agreement with China
8	The first Central and Eastern European country to issue a dual-currency bank card

Source: Chen Xin. Analysis of Hungary on "the Belt and Road" and Cooperation Network of China-Central and Eastern European Countries Beijing: China Social Sciences Publishing House, 2017.

2.4. Preferential Policy Support

The establishment of the China-European Commercial and Trade Logistics Cooperation Zone and the China-Hungary Borsod Economic and Trade Cooperation Zone have been strongly supported by the bilateral governments with substantial preferential policies that make the two economic and trade cooperation zones run smoothly and steadily in Hungary. Take the China-Hungary Borsod Economic and Trade Cooperation Zone as an example, it enjoys preferential benefits of the EU and Hungary, including investment subsidies and services, investment service and consulting, as well as benefits of land and business taxes. In terms of investment subsidies, the cooperation zone is located in the inbound EU where many of the subsidy conditions of the EU are most applicable. Kazincbarcika, where the cooperation zone is located, is an area with the biggest subsidies in Hungary and enjoys many preferential policies, such as natural gas and investment subsidies. The subsidy consulting service, foreign businesses and investment, negotiation, sales channels, office facilities and security of the zone have been provided by the Hungarian Export Promotion Agency (HEPA). The land and real estate taxes levied by the government of the cooperation zone have not changed for 10 years. Since 2014, under the presupposition of the cooperation zone, existing employees are guaranteed exemption from land tax in the cooperation zone; at the same time, new investment items, and land and estate taxes for the first 3 years were free of charge, and the tax decreased by half compared to the normal levy standard after that.

2.5. Sound Financial Support Environment

Economic depression has continued in Hungary since the global financial crisis in 2008; in order to reverse this situation, the Hungarian government has begun to stimulate economic growth by loosening monetary policy since 2010. All the foreign exchange controls were abolished, it permitted inbound companies and individuals to own foreign exchange, counterparties could settle a claim by foreign exchange directly and legally, companies and individuals could repatriate their income profit to their homeland; the financing costs of foreign companies inbound to Hungary were relatively low, the strong market liquidity provided a sound financial environment for the development of inbound foreign enterprises, and the degree of accommodation of funds and financial support environment respectively ranked the first and the second place among the European countries along “the Belt and Road” in 2017. The Bank of China set up an RMB Clearing Bank in Hungary to establish the RMB clearing system in 2015 which would enrich financing choices for the enterprises of the two countries within the cooperation zone and provide lower economic and trade costs, as well as improving the operation efficiency of the two cooperation zones[3,4].

3 Big Data Center of “the Belt and Road” of SIC, Big Data Report of “the Belt and Road” (2017): [M].Beijing: The Commercial Press, 2017.

4 Ministry of Commerce of the People’s Republic of China. [online] Available from: http://www.mofcom.gov.cn/

3. Analysis of the Development Planning and Current Situation of China-Hungary Economic and Trade Cooperation Zone

3.1. The Development Planning and Current Situation of China-European Business and Trade Logistics Cooperation Zone

The China-European Commercial and Trade Logistics Cooperation Zone plans to "takeover many parks in one region, hold exhibitions and sales in two places, and have a two-way agency and linkage both inside and outside" as its operational idea, and form an international operation and management system which is physically separated but is linked through business, shares information and has a unified management. The international controlling system covers the whole of Europe and related domestic and international modern logistics industries, and extends the international service system of modern commercial and trade industries. It integrates product exhibition, trade, logistics and finance to provide a comprehensive development platform for commodity trade and logistics delivery in China and Europe[5]. The China-European Commercial and Trade Logistics Cooperation Zone covers a total planning construction area of 750 thousand km^2, with a total investment of USD 264 million, and the implementation of six parks: The Chinese Commodity Trade Exhibition Center, Exhibition Promotion Center, Commercial and Trade Center Storage Logistics Park, Csepel Logistics Park, Bremerhaven Logistics Park and the establishment of the European Commodity Trade Exhibition Center and Linyi International Storage Logistics Park at home. The initial and medium stage plans of the China-European Commercial and Trade Logistics Park mainly involve investment and M&A of relevant logistics park shares in Hungary and Germany, and the perfection of the infrastructures of every branch park as a priority. The later stages focus on constantly improving park construction and expanding new business fields and logistics commercial and trade systems (Table 2).

At present, the zone has basically completed the construction of the planning layout of "three parks in one region", including completing the construction of the Chinese Commodity Trade and Exhibition Center and Csepel Logistics Park in Budapest, and the construction of Bremerhaven Logistics Park in Bremerhaven, the second biggest port of Germany; the total area of the three parks is 98.7 thousand km^2. The Chinese Commodity Trade and Exhibition Center covers an area of 25 thousand km^2, with the double functions of commodity trade and platform exhibition; the short-term

5 Official Website of China-European Commercial and Trade Logistics Cooperation Zone. [online] Available from: http://www.cecz.org/menu_1.html.

Table 2:
Development and construction planning of the China-European Commercial and Trade Logistics Zone

Phase	Plan
Initial stage (2013-2015)	Invest EUR 73 million; acquisition of 100 percent of the shares of Chinese markets in Budapest, Hungary, adjust, remold and expand to create Chinese Commodity Exhibition Trade Center; M&A of 48 percent of the shares of Ghibli Logistics Park in Budapest and Hungary; M&A of 35 percent of the shares of ESF Logistics Park near Bremen free port in Germany; establish domestic exhibition center; perfect the electrical information platform of the cooperation zone.
Medium stage (2016-2018)	Invest EUR 160 million; M&A of 100 percent of the shares of Agrogate Logistics Park in Talent National Level Development Zone of Budapest, Hungary and extend to 210 thousand; M&A of 100 percent of the shares of Koper Logistics Park of Slovenia; extend the business range of Ghibli Logistics Park and Bremerhaven ESF Logistics Park; perfect the operation of Linyi Shopping Mall in European Commodity Exhibition Trade Center.
Long-term stage (2019-)	Centre on the main cooperation zone functions of Chinese-European commodity exhibition, trade, transport and delivery, gradually form perfect business and trade logistics industrial chains in China and Europe, and continually extend new business fields; combine the development situation of the cooperation zone, select a place to set up new commodity exhibition and logistics delivery centers, perfect and extend commercial and trade logistics systems

Source: Work Report of China-Europe Commercial and Trade Logistics Cooperation Zone

exhibition hall, perennial exhibition hall, brand exploration center, administrative trade area, trade negotiation area, and multifunctional conference room and hall have all been set in the area to provide comprehensive and matched service systems for in-area enterprises, such as information communication, trade negotiation, investment promotion, supply-chain financing and political and laws consultation. Csepel Logistics Park covers an area of 55 thousand km^2, with storage, subpackage and transfer functions of all kinds of commodities, and it can provide in-area enterprises with sea-land-air freight forwarding facing Central and Eastern European regions; at the same time, it can also provide special services of customs declaration for in-area enterprises, added-value tax storage and customs storage.

At the end of 2017, almost 300 enterprises settled in the Csepel Logistics Park, producing and operating in the China-Europe Commercial and Trade Logistics Cooperation Zone, including commerce, trade and logistics industries, and the zone also attracted purchasing agents to come and negotiate from Hungary, Slovenia, Serbia, Croatia, Romania, Czech Republic and Slovakia, whose total signed trading contract and intention volume exceeded USD 80 million in value. The logistics intention ability of the park has reached 1294.4 thousand tons per km^2 annually, and the value of cargo imported and exported has reached USD 245 million annually. The development of the China-Europe Business and Trade Logistics Cooperation Zone has demonstrated the sound demonstration effect, and its leading role has embodied the prominent industrial cluster effect that has brought a positive effect to the Chinese trade export and import transformation method.

3.2. Development Planning and Current Development Situation of China-Hungary Borsod Economic and Trade Cooperation Zone

According to the synergy and inherit effect possessed by the previous chemical industrial park, the China-Hungary Borsod Economic and Trade Cooperation Zone implements the operation mode of "one step in place and industrial integration", while promoting the further development of the current chemical industrial park, public project area and daily service area. It also helps by developing the core industries such as chemical engineering, light industry, machine manufacturing, logistics and biological medicine to form integrated industry chains with global competitiveness and to construct a processing and manufacturing park dominated by the chemical industry and biological medicine in Central and Eastern European areas. The total planning area of China-Hungary Borsod Economic and Trade Cooperation Zone is 6.15 million km^2, with USD 3 billion of investment in total, of which USD 80 million is used as infrastructural investment. At present, the cooperation zone has got 4.58 km^2 of park land and completed 2.2 km^2 of earlier exploitation and construction[6]. The cooperation zone has set up goals to realize USD 3 billion of sales revenue every year and has newly increased the number of local employees to about 1.5 thousand over 10 in-area enterprises[7].

4. Problems Existing in the China-Hungary Economic and Trade Cooperation Zone

4.1. The Geopolitics of Central and Eastern European Regions is Sensitive and Has Big Security Risks

Whether Central and Eastern European regions are stable or not always has an important effect on the development of politics, the economy and the society of Central and Eastern European countries. Whether the environment of the construction and

6 Shm.shm.com.cn-Yan Tai News network
[online] Available from: http://www.shm.com.cn/ytrb/html/2016-18/22/content_3196641.htm.
7 Bureau of Commerce of Yan Tai [online] Available from: http://www.ytboc.gov.cn/

development is peaceful and stable is critical for the China-Europe Commercial and Trade Logistics Cooperation Zone and the China-Hungary Borsod Economic and Trade Cooperation Zone and other economic and trade cooperation zones that China has set up in other Central and Eastern European countries. All kinds of economic and trade cooperation zones that China has set up in Central and Eastern European countries and the construction of the China-Europe land-sea express line have been influenced by many local factors, non-traditional security factors such as the continued risks of Greece, the political crisis of Macedonia and terrorism in the Balkans region, and factors such as the system and rules of the EU, the refugee crisis of Europe, conflicts between the political parties in Hungary and Romania. All of these influences the peace and stability of Central and Eastern European countries related to the cooperation and development of the EU and the 16 members of Central and Eastern Europe. This then affects tariffs, trade barriers and the admittance of products in cooperation zones when entering into other countries; if investment is made here, it still faces big security risks.

4.2. Intensive Competitiveness of In-Area Enterprises and the Enterprises of Western Countries

In the past 10 years, the degree of trade dependency and trade closeness of China and Hungary have been weak, and have even shown a declining tendency, only picking up in 2016. The reason for this is that the international base of China with other countries all around the world is relatively big and the trade volume with Hungary is relatively small. However, the members of the EU and the 16 countries of Central and Eastern Europe are still the main trade partners of Hungary. Most of the European countries are developed countries and have high requirements for the standard of products; old-line enterprises in Europe take an important position in the local market. When China set up the China-Europe Commercial and Trade Logistics Zone and the China-Hungary Borsod Economic and Trade Cooperation Zone, it faced a lot of pressure from Western enterprises when products entered the European market. In order to enter into the European market, it should not only trade according to the high standard of Europe, but also establish its brand awareness, so as to form competitive advantages in brand and quality and localize the product operation.

4.3. Big Cost Input and Long Return Terms

Since the first batch of economic and trade cooperation zones was set up and "the Belt and Road" initiative was brought up in China, the Chinese government and enterprises have raised the tide of establishing outbound economic and trade cooperation zones, and many types of outbound economic and trade cooperation have been in progress, such as processing and manufacturing, agricultural industry, resource utilization, capacity cooperation, and commercial logistics and technical research and development. However, as most cooperation zones have been set up only recently, the basic infrastructures are imperfect, and they face big financing difficulty and investment risk, namely, the risk of big investment and long return terms and it's hard to reach balance of payments. The China-Hungary Borsod economic and trade cooperation was defective until 2014, and then the situation began to change from losses to gains after 2014. According to the latest investigation, the profit of China-European logistics cooperation at present is normal, which mainly provides convenience and service for resident enterprises and there is no big profit point[8].

5. Conclusion and Suggestions

Hungary is an important cooperative partner of China in Central and Eastern Europe, the political and economic relations between China and Hungary are good for investing and building outbound economic and trade cooperation zones in Hungary. On the one hand, it can promote Chinese enterprises to "go out", strengthen the economic and trade relations with Hungary, improve economic development and enhance international standing. On the other hand, it can improve the development of Hungary, further promote the development of Central and Eastern European areas, and even radiate to the whole of Europe.

China has built the China-Hungary Borsod Economic and Trade Cooperation Zone and the China-European Commercial and Trade Logistics Cooperation Zone in Hungary, which are developing in an advantageous geographic site, with broad market prospects, friendly bilateral relations, preferential policy support, and a good financial environment and convenient traffic; however, the development of the cooperation zones is influenced and limited by sensitive geopolitics, high security risks, competitiveness between proposed enterprises and Western enterprises, slow substantial

8 He Jia. Ecological Investigation of Outbound Economic and Trade Cooperation Zone in 2017: the phased objectives have already showed financial channel [N] the 21st Economic Report, January 22, 2018.

development, huge capital investment requirements and long return terms in Central and Eastern European areas.

The following suggestions for the development of cooperation zones are put forward based on the research of the China-Hungary Economic and Trade Cooperation Zone: First, actively exploit the communication and bond functions of government, and develop bilateral relations with local and peripheral areas as well in order to build a good external investment environment for the development of cooperation zones; second, enterprises should build a standard risk prevention system to guarantee their benefits by insurance; third, enlarge the bilateral cooperation fields and promote trade diversification.

5.1. Use the Active Effect of Government

First of all, as the geopolitical and security issues of Central and Eastern European countries influence the sound operation and development of cooperation zones, the Chinese government should actively develop diplomatic relations with Central and Eastern European countries, and give full use to the communication and bond effect of the government, use the chances and positive effect of "the Belt and Road" initiative. Issues and conflicts should be solve with cooperation and mutual benefit in mind and promote the establishment of interconnections in Central and Eastern European countries, strengthen the cooperation with other countries and provide stable, peaceful and ordered external investment environment for the establishment and development of cooperation zones. Secondly, give full support to the actions of the government for the establishment of cooperation zones, provide necessary guidance for the planning and development of cooperation zones, avoid blindness in investment and construction of cooperation zones, combine the dominant role of the enterprises and the booster actions of the government, and jointly promote the further development of cooperation zones. Thirdly, the government negotiates and communicates with organizations like the EU by use of many methods and channels to dispel the doubt and distrust of other countries to Chinese enterprises, lower trade barriers and tariffs to seek more benefits for enterprises.

5.2. Build Risk Prevention Systems

Though the domestic political situation of Hungary is relatively stable and the investment environment and security situation are relatively good, all kinds of risks and turmoil have taken place in the neighboring markets of Hungary, which might influence the enterprises within the cooperation zones in entering into Central and Eastern Europe and the EU markets to a certain degree. There are sound and strict laws and regulations in Hungary especially for labor, which protect the priority of citizens. Those enterprises intending to invest in Hungary should do their initial research well first, including the analysis and risk evaluation of the political situation, market, trade, investment, engineering and labor, and pay attention to risk avoidance during the investment stage and build in strict risk prevention systems. At the same time, they should actively buy the relevant insurance of financial institutions, such as banks and insurance companies, ready for risk prevention and to protect legal benefits.

5.3. Deepen the Cooperative Field and Promote Trade Diversification

At present, the commodity trade structure of China and Hungary is still not very diverse and focuses on several fixed fields, the enterprises of the two countries should use the cooperative platform provided by the China-European Commercial and Trade Logistics Zone and the China-Hungary Borsod Economic and Trade Cooperation Zone, to further strengthen cooperation in new industries, such as IT and new energy source on the basis of strengthening original commodity trade and research, develop high-value-added products, optimize industrial chains and cultivate new trade growth points. At the same time, the government should encourage middle and small-sized enterprises with ability to “go out”, to actively take part in the construction of economic and trade cooperation zones and use their effect to promote the diversification of trade.

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