

POLICY PAPER

A Lucrative Relationship: Clientelist Corruption Underpins Orbán's China Policy

EDIT ZGUT-PRZYBYLSKA



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Policy paper

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Summary

- Hungary is a textbook case of a hybrid regime secured by the presence of informally enforced corrupt networks. External authoritarian actors, such as China, play a system-supporting and system-legitimizing role by providing lucrative business opportunities for clients, centered around the chief patron, and by helping the Viktor Orbán government to depict itself as a key global player.
- While the Eastern Opening strategy of the Hungarian government largely has not delivered the expected results and the scale of Chinese investments remains small, bilateral projects help to enrich the networks of the Hungarian Prime Minister Viktor Orbán by using procurement-related clientelist corruption to consolidate power.
- Viktor Orbán has been depicting China and Russia as alternative allies of the Hungarian government not only to counterbalance diplomatic isolation within the EU but also as a way to gain new sources of funds.
- Relations with China have been elevated to be a defining feature of the Orbán regime's identity, embedded in a deeply Eurosceptic populist narrative in which the EU represents the corrupt elite and China is even praised for its economic "efficiency."
- Hungary has become one of the most ardent supporters of Beijing's 16+1 cooperation format and Belt and Road Initiative. As the EU and key European powers' China policies have shifted to reflect the growing competition aspect of the relationship, Budapest has doubled down on its pro-China policy course, acting as a spoiler of joint EU action.
- The settlement bond scheme, Budapest–Belgrade railway project, COVID-19-related contracts for vaccines and health equipment, as well as the Fudan University project have been epitomized by non-transparency and clientelist corruption, providing lucrative business opportunities to the chief patron's clientelist network.
- The EU could not meaningfully prevent or slow down the negative trends in Hungary despite the fact that it came up with various innovative tools against corruption.
- Amid the increasing economic and political role of external actors, such as China and Russia in Europe, autocratic-minded leaders enjoy a more favor-

able environment to reverse democratization. The rise of populist politics and the proliferation of authoritarianism naturally facilitates Chinese influence in Hungary.

- In order to further cement political and economic power, the Hungarian government is likely to continue utilizing the financial opportunity structures provided by Beijing. Amid the multiple economic crises, it will deliberately strengthen ties with China to expand business opportunities for the clientelist network centered around Viktor Orbán. Hungary will also remain one of the keenest obstructionists on critical EU decisions about China.

Recommendations

- A holistic and cross-cutting approach is needed from the EU to target the informal exercise of power in Hungary, reflected in the uncodified, informally enforced exchanges of the government that create an uneven playing field to the ruling elite's benefit. The currently existing Rule of Law toolkit needs to be rationalized and further developed and should also be better linked to monitoring foreign direct investments from suspect sources for malpractice, such as monopolization.
- The Annual Rule of Law Cycle must cover the complex issues of clientelist corruption in which the Commission should monitor country-specific key issues. Despite the fact that the EU has a Single Market Scoreboard to detect systemic abuse of public funds, it is hugely underutilized. The methodology (in particular the indicators) of the scoreboard should be further developed to better detect state capture and monopolization of public resources.
- These tools should be harmonized in the sense that the Commission should include the European Single Market scoreboard in its Rule of Law Reports. It would ideally broaden the scope of the investigation and provide a window to better reflect the informal ways of monopolizing the state apparatus and skewing the playing field on various levels.
- China is a textbook example of weaponizing interdependence and using economic leverage to achieve political goals in Europe. Thus, the EU should design a more clear-cut strategic plan within its FDI Regulation for engagement with authoritarian regimes.
- In order to prevent the proliferation of the Hungarian model, more attention should be paid to the effective implementation and de facto enforcement of the EU's anti-corruption legislation. The current FDI screening mechanism should further strengthen cooperation between the EU and the national institutions in this spirit.
- The EU should reconsider its approach toward candidate states during the accession period and put more emphasis on the implementation and proper law enforcement of market and rule of law-related reforms, instead of fostering a quick 'box-ticking' method.
- The EU should promote participatory budgeting on the sub-regional level as democratic accountability mechanisms and transparency measures constrain discretionary control over public funds, which in turn limits clientelist resources.

Introduction

“We are sailing under a Western flag, though an Eastern wind is blowing in the world economy,” claimed Viktor Orbán in 2010, after his party Fidesz won a landslide victory in the parliamentary elections.¹ The Prime Minister’s words set the directions of Hungary’s foreign policy strategy for the next decade, throughout which Fidesz maintained power, winning the fourth constitutional majority in 2022.

Viktor Orbán has been seeking to diversify Hungarian foreign policy and trade relations, positioning Budapest within the ‘Moscow-Berlin-Istanbul’ geopolitical triangle. Consequently, strengthening the economic ties with Beijing became an integral part of the Eastern Opening Strategy. Its main objective was to expand trade through the introduction or increased convocation of bilateral Economic Mixed Committees with countries in Asia, the Middle East, Africa, the Caucasus, the Balkans, Eastern Europe (Russia, Belarus, Ukraine, and Moldova), and South America.

Over the last decade, all the while pivoting towards China and building a robust Eurosceptic narrative, Orbán’s government heavily tilted the playing field on the Hungarian political scene with clientelist corruption.² Besides the legal power vested in his state offices, the Prime Minister of Hungary created additional sources through which Fidesz, together with its small coalition partner, the Christian Democratic Party (Kereszténydemokrata Párt, KDNP), can cement political power in the country. In what ways does then Hungary’s political-economic relationship with China fit into the Eurosceptic populist approach of Viktor Orbán, and most importantly, how does that contribute to the financial durability of his regime, backed by clientelist networks?

To address these issues, this policy paper proceeds as follows. First, it describes the evolution of bilateral relations and the asymmetric economic ties between Hungary and China. Then it explains Hungary’s relationship with the EU in the broader context of anti-Western, anti-European politics of the ruling Fidesz party. Contextualizing Orbán’s Eurosceptic populist narratives leads to a better understanding of his approach towards Eastern autocratic powers as well. Third, the paper analyzes the nature of the authoritarian remodeling of the Hungarian government that has been defined by informal power. Finally, it proceeds with a discussion of the flagship projects through which clientelist corruption has been embedded with the help of Chinese investments.

The empirical evidence for this study was collected from various sources. The study combines extensive secondary literature, a wealth of data provided by investigative journalists and policy reports, and official documents that describe the complex political motives behind Fidesz’s approach toward China, as well as expert interviews undertaken by the author.

Fidesz's China Story

Populists employ a wide range of approaches when it comes to foreign policy, and Hungary is an exceptionally interesting candidate to study in this matter. While the Orbán government pushes a strongly Eurosceptic approach to avoid deepening EU integration, it aims to profit from changes in global politics by positioning itself as a 'bridgehead' for China in Central and Eastern Europe. Consequently, Fidesz's strictly sovereigntist discourse applies only to the West, and not to the strengthened relations with Beijing.

Hungarian-Chinese political relations developed in a promising way already when China started to set foot in Central and Eastern Europe more than a decade ago.³ This happened despite the fact that the Hungarian administration lacked an elaborate strategy on how to capitalize on the increasing presence of Beijing in the region. As Hungarian China expert Tamás Matura put it, although Fidesz spoke of an "Eastern Opening Strategy" as of 2010, the government did not release a coherent strategic document on how to meaningfully diversify Hungary's trade relations in the long run. The overall narrative behind the turn towards China was that Hungary as an "open country" was ready to engage with any external partner as long as it provides economic benefits.

Progress in bilateral relations with China under Fidesz was initially mainly achieved by utilizing the already existing relations built by the previous socialist governments. Bilateral meetings intensified on the highest diplomatic levels already between 2003 and 2010 when Hungarian prime ministers visited China often more than once a year. The visit of Chinese prime minister Wen Jiabao to Hungary in 2011 was a crucial step in terms of establishing a new level of Sino-Hungarian relations. This was also reflected in the change in Fidesz's attitude toward the human rights situation in Tibet. Although Fidesz was very outspoken on the human rights violations in Tibet back in 2008, the government did not allow Tibetans to hold a demonstration during the visit of the Chinese Prime Minister. Furthermore, a disproportionately large number of Tibetans were summoned by the Department of Immigration and Citizenship without any particular reason. Moreover, the Hungarian government made several gestures during these reciprocal high-level visits to appease China by signaling that it fully respects the One-China principle.

Orbán has repeatedly indicated that he is not perturbed by the authoritarian political system in China. In one notable interview, Orbán argued that the "old model of globalization is obsolete", that "the East has caught up with the West," and claimed that "it has become increasingly offensive that a few developed countries have been continuously lecturing most of the world on human rights, democracy, development and the market economy."⁴ Consequently, the Hungarian government remained silent about the systematic violations of human rights and kept emphasizing the positive side of bilateral relations, including the Chinese investment flowing into the country. At the first meeting of the Leaders' Roundtable Summit at the Belt and Road Forum

in Beijing, Orbán stated that the concept of the “workfare society” makes the Central European countries – including Hungary – ideal pillars for the implementation of the Belt and Road Initiative (BRI).⁵ He further argued that “the Hungarian model rests on four pillars: political stability; fiscal rigor; a work-based society; and a policy of Eastern Opening.” Thus, relations with China were elevated to be a defining feature of the Orbán regime’s identity. Budapest became one of the first and most ardent supporters of the 16+1 cooperation format⁶ in 2012 and the BRI in 2015. While the Hungarian approach towards China did not at first significantly deviate from the overall economy-first China policy pursued by the key EU partners, chiefly among them Germany, Hungary’s readiness to support Beijing became more salient as the EU’s approach towards China slowly changed.

Yet the Eastern Opening Strategy remained mostly a collection of high-level promises within the realm of Eurosceptic propaganda for the first couple of years. Despite the fact that the Orbán government aimed at selling \$5 billion of government bonds and a failed airline to China, and realizing several railway construction projects with China, none of these materialized before 2017. One of the reasons is that the inexperienced Hungarian diplomacy misunderstood the Chinese interests in CEE entirely. Instead of financially assisting Orbán amid his ‘sovereignty fight’ against the EU (see the next section), Beijing was simply interested in getting access to the European markets.⁷ The most important Chinese investments, the acquisition of chemical raw material manufacturing company (Borsodchem) by a Chinese group, and the expansion of Huawei in Hungary, were decided well before the Orbán government came to power in 2010.⁸ On top of that, by 2022, 80 percent of Hungary’s trade was still undertaken within the EU and with the US, which means that the Hungarian diversification strategy largely failed to deliver in numbers.⁹

While Beijing has announced hundreds of investments worth tens of billion euros in the past decade in CEE, there is a troubling lack of reliable data on the exact amount of Chinese investments in the region.¹⁰ According to the calculation by the Hungarian think tank CEECAS, Hungary comes second after Serbia among the CEE countries in terms of both infrastructure-related projects and FDI figures, with €5.4 billion. While Hungary became one of the most important economic partners for China among the members of the 16+1 over time, it is still insignificant in comparison to Beijing’s overall economic engagement, and especially foreign direct investment, in Western European countries. Consequently, bilateral economic relations per se would not legitimize the keen efforts of the Hungarian government to build a special political relationship with Beijing.¹¹ Altogether 7 percent of the FDI came from China in 2020, which is higher than the average 1 percent in other countries in the region, but still insignificant in comparison to the German FDI which stands at 25 percent of the total FDI flowing to Hungary.¹²

Another aspect of the asymmetric economic relations is that more than 90 percent of exports from Hungary to China are generated by large Hungarian multinational companies, therefore, the ruling elite cannot meaningfully influence the bilateral exchange which is decided mostly by foreign companies’ decisions and by structural factors. Meanwhile, Hungarian small and medium-sized enterprises (SMEs) have not yet been able to significantly penetrate the Chinese market, and in general, they do not manufacture products that would be of interest to China. While certain specific

products like Hungarian water purification systems have eventually found their way to the Chinese market, and the exports of Hungarian agricultural and food products have grown significantly in recent years, the overall Hungarian exports to China are still insignificant, as argued by one of the interviewed experts.¹³ Moreover, Hungary is not indebted to Beijing, which means that the country has no asymmetric economic dependency that would justify the scale of the pro-Chinese approach of the ruling elite.¹⁴

While there was initially a fierce competition between the Visegrád countries about who will become the bridgehead of China in the region at the beginning of the 16+1 initiative, Poland and the Czech Republic have adapted their approach over time and watered down the cooperation with Beijing. Hungary has not followed this path, and the Orbán government only further committed itself to a China-friendly policy in various areas. One of the most notorious examples is Hungary's refusal to join the US Clean Network initiative that was aimed at reversing the involvement of Chinese technology companies in the 5G buildup. After concerns have arisen about Huawei's link to the Chinese party-state and the potential of misusing its access to sensitive infrastructure and data, the US government started to lobby its allies to ban technologies produced by Huawei and other Chinese vendors' from their own 5G networks. Instead, the Orbán government provided Huawei with its largest production capacity outside of China to supply the region with 5G base stations from Hungary. What is more, the Chinese tech giant opened a new regional research and development center in Budapest in 2020.¹⁵ In the words of Szabolcs Panyi, the Fidesz government not only opened up the gates to the eastern capital but is now drawing accusations that Hungary is acting as a Trojan horse for Chinese influence.¹⁶

Eurosceptic Populism and Orbán's China Policy

Although it has been emphasized that the “opening” towards Eastern/Southern dictatorships would not undermine Hungary’s embeddedness in the West, the strategic reorientation of the Hungarian foreign policy eventually led to a profound anti-Western stance and an open conflict with Brussels. This foreign policy approach embedded itself into a robust Eurosceptic populist narrative fostered by the ruling elite for a decade. As Jacques Rupnik argued, the European Union as a liberal, elitist, supranational project is a perfect target for populist nationalists since it represents a combination of important grievances.¹⁷ What makes Central and Eastern Europe interesting in this regard is that the legacy of the opposition to an oppressive, communist regime did not only create conditions for right-wing populism to develop in CEE, but it also prepared the ground for an anti-imperialist narrative vis-à-vis the EU and the West. Within this narrative framework, the EU is criticized not mainly for its market liberalism,¹⁸ but rather for its policies that supposedly undermine the notion of national sovereignty, identity, and culture.

The Fidesz government’s ‘anti-imperialist’ notion is a result of a distinct cultural opportunity structure where heroization is used to elaborate the Hungarian communist national past. Blaming the corrupt Western elites for supposedly eroding national sovereignty and the traditional way of Hungarian life has practical advantages on the domestic level. Fidesz sought to use this accusation against the EU in order to delegitimize the criticism about the state of the rule of law in the country. Thus, the EU’s criticism has been depicted by the Hungarian government as a mere pretext for the ‘corrupt Western elites’ to attack CEE, in particular Hungary, for defending ‘traditionalist’ values while rejecting immigration and LGBTQI+ rights.¹⁹ This rhetoric went along with the increased use of the so-called Eurasianist discourse to reposition Hungary as a Eurasian rather than a European country. As Umut Korkut put it, “it has been a useful tool for the Hungarian political elite to bolster the morale of the nation by offering an alternative geopolitical affiliation with probable economic gains, even if these gains have remained mythical (i.e. never to be accrued).”²⁰

Accordingly, the Hungarian Prime Minister has been depicting the EU as “the corrupt elite” that is collaborating with the domestic opposition and George Soros to colonize CEE. The conspiracy theories around the Jewish American billionaire and philanthropists have been pursued mainly for political purposes by the spin doctors of Orbán. The recipe was tried and tested by the Republicans in the US among others, but the narrative resonated especially well in Soros’ native country where society is highly prone to conspiracy theories.²¹ But instead of advocating for leaving the Union, Orbán has rather aimed to channel his positions into the EU’s policymaking bodies and processes to change the integration from within. The Fidesz government turned to the Hungarian Constitutional Court to challenge an EU court ruling against its

harsh asylum policy in 2021. Although the bid was rejected by the Constitutional Court to avert open conflict with Brussels, the court also ruled that Budapest can act to “protect Hungary’s sovereignty.” Viktor Orbán also placed a one-pager advertisement about Brussels as a “super-state,” denouncing it as a “European Empire” in the Western media.²²

Not only does Fidesz want the term “ever closer union” to be excised from the Treaty of the European Union, but, claiming that the “European Parliament proved to be a dead end,” the government would also like to see a reversal of one of the greatest achievements of EU integration. Dissolving the only directly elected body with a strong legitimacy nicely fits the populist narrative about the ‘corrupt EU’ which operates against the principles of democracy, therefore it fails to represent the general will of ‘the people’. Having a constitutional majority, Orbán used a wide range of political and legal measures (billboard campaigns, national consultations, legal challenges, etc.) to corroborate his narrative.

Eurosceptic populism offered a fertile ground to develop a more anti-Western and pro-Chinese foreign policy approach over time. Similarly, it has also easily aligned with the Kremlin’s socially conservative values. The reasoning behind it is that conservative and libertarian Eurosceptics, who see the EU as the single most significant threat to individual freedom and free markets, tend to believe that their enemy’s enemy is their friend. Furthermore, China and Russia are being depicted as alternative allies of the Hungarian government often to counterbalance isolation within the EU. As Prime Minister Orbán aptly remarked in 2018: “If the European Union cannot provide financial support, we will turn to China.”²³

Strengthening relations with Beijing resonates well among the core electorate of Fidesz. Amid the increasing tension between Hungary and the EU, the audience of the pro-government media perceives the close ties with Beijing as a positive evaluation of the Hungarian government’s standing on the global stage. As one of the interviewees explained: “The rhetoric of Chinese friendship strengthens the Orbán regime’s internal legitimacy by indicating that Hungary is a key player in world politics, the graces of which are sought even by a superpower.”²⁴ This outlook was mirrored accurately in the polls conducted during the COVID-19 pandemic. While most Hungarians tended to view China rather negatively across the political spectrum, the most notable exception was the voters of the Fidesz-KDNP Party Alliance, among which less than 40 percent perceived China negatively.²⁵

At the same time, the Orbán government is primarily attractive for Beijing because it has potential veto power over common EU positions in the European Council. Budapest serves as a battering ram for Beijing on the European level by vetoing joint EU initiatives critical of China.²⁶ Hungary decided to obstruct the EU’s joint statement on the South China Sea with Greece and Croatia in 2016. It also blocked EU statements about Hong Kong so that the EU could not issue a resolution in favor of tortured lawyers and human rights activists in China. As for the European Parliament, Fidesz MEPs were among the few voting against freezing the EU-China Comprehensive Agreement on Investment’s (CAI) ratification process.²⁷

Although Hungary did not play a prominent role in Beijing’s regional strategy before 2015, Viktor Orbán’s embrace became highly appreciated in China over time. As one interviewee argued, “the Hungarian government is deliberately rejecting

decisions unfavorable to China without any direct pressure coming from Beijing. It is also highly valued by the Chinese government that Viktor Orbán always speaks with respect about China and avoids criticizing Beijing's oppressive approach towards human rights and democratic institutions". The Chinese Communist Party can instrumentalize such support from abroad on the domestic level, claiming that China is a respected foreign player in CEE. "This way the Prime Minister of Hungary has also gained some visibility within Chinese society. His behavior has been especially appreciated since the outbreak of the COVID-19 pandemic that negatively affected China's global reputation" – argued the same expert.²⁸

Democratic Backsliding and Informal Power

The CEE region is particularly vulnerable to authoritarian influence because its democracies are less established and the institutions are weaker.²⁹ External actors like China can use friendly political actors to disrupt the unity of the Western community and influence certain policies. Additionally, countries such as Hungary deliberately acknowledge the power of autocratic powers to reinforce their own political regimes both financially and ideologically. Robust empirical research showed that the most vulnerable EU member states to such external influence are Hungary, Slovakia, the Czech Republic, and Bulgaria.³⁰ Orbán's pivot to Beijing was also embedded into his authoritarian remodeling of the Hungarian government, during which China, India, Singapore, Turkey, and Russia were often depicted as "illiberal" model countries in contrast to the decaying Western liberal democracies.³¹ By fostering the concept of "illiberal democracy," Mr. Orbán mainly promoted China as evidence that economic growth does not need to follow the classic, Western-centric liberal parliamentary model.³²

According to the assessment of the leading democracy indexes, the quality of democratic governance has fallen the most in Hungary among all the EU countries since Fidesz came to power in 2010. Democratic deterioration took various forms as the Fidesz government employed a threefold toolkit to undermine democracy since coming to power in 2010. As a result, Viktor Orbán's regime eventually departed from the group of democracies and was classified as a hybrid regime³³ or the very first electoral autocracy³⁴ within the EU. Nancy Bermeo aptly captured this phenomenon by claiming that democracy is "a collage" that was put together piece by piece, therefore it can be taken apart in the same way.³⁵ In this spirit, the Hungarian process had several stages.

First, Fidesz hollowed out democratic institutions by rewriting the rules and by packing the court system, the state audit office, etc. with Fidesz loyalists. Consequently, the Constitutional Court has either been reluctant to make politically sensitive decisions or has made rulings that have favored the Orbán government. Furthermore, the Chief Prosecutor's Office has failed to take action or has delayed and/or eventually blocked investigations into corruption cases related to the ruling elite.³⁶ The government further restricted public access to information during the COVID-19 pandemic, with made it possible for Hungarian-Chinese economic ties to grow under a troubling lack of transparency.³⁷

Second, Fidesz captured the independent media³⁸ and sidelined the NGOs and the local opposition in the political system by using state resources against its opponents.³⁹ The government used powerful individuals and companies aligned with the government to silence media outlets critical of the ruling establishment either by closing them or turning them into a pro-Fidesz mouthpiece.⁴⁰ Furthermore, this top-down

centralized media conglomerate became the main venue for the Kremlin's narratives.⁴¹ As the Hungarian government has been following an openly pro-Chinese policy since 2010, and the bilateral relations are exceptionally good, Beijing did not need to push the envelope of spreading direct disinformation in the Hungarian media so far.⁴² The reason is that the Hungarian pro-government media outlets are deliberately disseminating pro-Chinese and pro-Russian content in the broader context of anti-Western, Eurosceptic narratives that serve the government's objectives.

While even the most repressive competitive authoritarian regimes generally avoided expelling Western universities, the Hungarian government established new requirements for universities accredited abroad and specifically targeted Central European University (CEU) – a private university founded by the Hungarian-American philanthropist George Soros. After it was prohibited from enrolling new students in 2019, CEU moved most of its programs from Budapest to Vienna. In addition to that, the Hungarian Academy of Sciences has become the subject of a structural reorganization by the government which led to the loss of academic independence for the Academy specifically and for academic scholarship in Hungary in general.⁴³

Having a charismatic, centralizing leadership style, Viktor Orbán significantly changed the nature of politics by further polarizing the Hungarian society along identity-based anxieties and anti-immigrant, anti-LGBTQI+ campaigns. These processes resulted in the triggering of the Article 7 procedure by the European Parliament in 2018. It could eventually result in the suspension of Hungary's voting right in the EU. Article 7 is, however, a political tool in a deeply legalized environment where the member states tend not to punish each other in the EU Council. Therefore, the probability of an actual suspension of Hungary's voting rights is very slight.

Thirdly, Fidesz monopolized corruption in a top-down informal way to tilt the playing field both in between and during elections.⁴⁴ Political decision-making often prevails outside the formal institutional framework with the involvement of actors without constitutional responsibility, including the family and the friends of the Prime Minister. While these decisions are often formally taken in accordance with national legislation, the Hungarian government is instrumentalizing the law to fit the authoritarian goals of the regime. The practice was not invented by the Fidesz government, only its robustness changed.

The ruling elite has built hybrid autocratic state governance in which business and political alliances are taking advantage of companies, public procurement, and investment opportunities for their own benefit. This has brought about a fuzzy ownership structure both in state and private companies and unclear interdependencies between the state and the clientele of the ruling elite. Political favoritism has become very prominent with regard to the intensifying Chinese-Hungarian joint investment projects too (see the next section).

While previous Hungarian governments have also developed their clientelist corrupt network and corruption was significant, the Orbán regime has changed this dynamic in various key aspects. The most important difference is that Fidesz weakened the rule of law and undermined all institutional checks and balances, making the state vulnerable to systemic corruption and political clientelism. In comparison to the previous socialist government, the conservative elite became genuinely centralized in Hungary, and the public administration and the public services have also undergone

a strong centralizing push. Media capture with the involvement of Orbán's allies is another systemic feature firmly anchored into clientelist corruption in Hungary. Eventually, most of the foreign media investors were replaced by domestic political investors affiliated with the ruling party, who typically used the revenues from their state-supported businesses for media acquisitions.⁴⁵

Viktor Orbán's "Eastern Opening Strategy," in particular the strengthening of economic ties with Russia and China, served the role of expanding business opportunities for the clientelist network of the government.⁴⁶ As one of the interviewees put it: "The Eastern Opening strategy eventually became an instrument for Fidesz to explore Asian markets where its cronies could expand business opportunities in a non-transparent way.⁴⁷ The members of the ruling party sought opportunities to engage with financial institutes established in Asia to run business operations under the radar of the EU."

One of the figureheads of this system is Lorinc Mészáros, the former mayor of Felcsút (the village where the prime minister grew up). He became a billionaire in 2013 by accumulating wealth at an unprecedented rate. By 2019, Mészáros topped Forbes's list of the 50 richest Hungarians with total assets amounting to HUF 381.3 billion (over €1 billion), overtaking long-time leader Sándor Csányi, the chairman and CEO of OTP Bank Group.⁴⁸ Mészáros, who explicitly claimed that he owes his fortune to "God, luck and Viktor Orbán," became the biggest player in the construction market thanks to opportunities provided by Orbán's government.⁴⁹

Mészáros' companies have successfully targeted megaprojects such as the Paks II nuclear plant financed by a €10 billion Russian credit line, among others. It is indicative of the system that Mészáros lost the case before the Budapest–Capital Regional Court of Appeals against the liberal-centrist opposition party, Együtt, which claimed that he is a proxy of the Hungarian prime minister.⁵⁰ The Hungarian oligarch's companies have won an unprecedented number of public contracts since 2010, 83 percent of which have been financed by EU-funded public procurement projects.⁵¹ The most strategic economic sectors have been captured by Mészáros and the rest of the allies of Orbán between 2014 and 2022. The family of the Prime Minister himself is among the main beneficiaries of this model. Another beneficiary of the Eastern Opening is Adnan Polat, a Turkish businessman closely related to the Hungarian Prime Minister. His solar business is being developed with strong government support and he enjoys the same privileges in the real estate business too. In addition to that, interest groups centered around Árpád Habony, the informal advisor to Orbán and András Tombor appears to have acquired Budapesti Erőmű Zrt, the largest power plant in Budapest.⁵²

EU development funds are well known to have contributed to the enrichment of Orbán's oligarchs. The CRCB center revealed that in 2010–2021, one-fifth of the public procurement contract financed by the EU were won by 42 companies that belong to 12 key economic actors allied with the Prime Minister.⁵³ EU subsidies have at least threefold perverse effects on Orbán's regime: the funds help to reduce the intensity of competition, increase the risk of corruption and lead to market distortion. These infrastructure projects regularly encounter cost overruns.⁵⁴ In fact, EU membership further helped Hungary to access financing in a more indirect sense, by encouraging the inflow of FDI, in particular from Germany. As Daniel Kelemen put it, the EU

eventually became an authoritarian equilibrium in which the West paradoxically supports the survival of authoritarian governments under its tent.

Yet the Fidesz government only further accelerated its Eurosceptic, anti-Western narratives which went hand in hand with strengthening of ties with Beijing. The rationale is influenced by the Fidesz outlook on the EU and is twofold. Firstly, the Hungarian government claims that China will prove to be the most resilient against the global economic crisis. It also expects fewer EU funds due to the ongoing rule of law procedures, therefore it seeks alternative sources to maintain the clientelist economic power structure around the chief patron.

How Beijing Feeds the Clientelist Corruption

Recent research revealed that Beijing has been using what was conceptualized as “corrosive capital” to influence decision-making in the Czech Republic and Slovakia before. Corrosive capital refers to a distinguished state or private financing that lacks transparency, accountability, and market orientation. It is instrumentalized by authoritarian regimes like China to exploit governance gaps to influence policy making in recipient countries. Chinese corrosive capital became prominent in the Czech Republic where CEFC China Energy was able to build significant links to the highest echelons of power.⁵⁵

Similar concerns have been raised with regard to the China-related projects in Hungary as well, especially as China found a willing partner on the side of the Hungarian government to establish nontransparent economic links. “While the umbrella concept of the Eastern-Opening provided an ideological underpinning to [Hungarian government’s China-friendly policies], the ruling elite considered it primarily as a business opportunity structure to accelerate wealth, argued one of the interviewees.⁵⁶ In Hungary, there have been several cases through which the government could achieve this goal, including settlement bonds, the Budapest-Belgrade Railway project, COVID-19 related purchases as well as the project of the Budapest campus of the Chinese Fudan University.

SETTLEMENT BONDS

Within the framework of the Eastern Opening, Hungary established a network of trading houses in Shanghai and Ningbo and issued five-year government bonds in 2013. As argued by one of the interviewed experts, “the Hungarian state is not only tolerating but facilitating systemic corruption through various schemes, and the settlement bond program was one creative way of doing it.”⁵⁷ Foreign citizens who buy €250,000 worth of these bonds have the right to get residency in Hungary. Despite the Fidesz government’s widely known anti-migrant stance, more than 20,000 unidentified immigrants obtained Hungarian residency permits by paying into a government-run “settlement bond program.” Most of the companies selling these bonds have links to off-shore organizations and have earned HUF 6 billion between 2013 and 2015.⁵⁸

In China, which produced the highest number of about 17,000 subscriptions for the settlement bonds, a company registered in Grand Cayman was the main broker. It turned out that the company was represented by Jonathan Chan, a Chinese banker who once booked a helicopter sightseeing for Árpád Habony, Viktor Orbán’s informal advisor, in Hong Kong. Chan’s name also appeared on one of the official documents of

the Hungary State Special Debt Fund (HSSDF) that sells the Hungarian Settlement bonds. In addition to that, he is among the owners of an offshore company registered in the Cayman Islands that deals with these bonds. Due to its non-transparent ownership, income and taxation conditions, the above-mentioned network provided an excellent instrument for the Hungarian government to redistribute part of the funds within the clientelist network centered around the government.⁵⁹ According to the calculation of Hvg.hu, the main beneficiaries of this scheme were two companies linked to Habony that generated more than HUF 80 billion in revenue.⁶⁰

THE BUDAPEST-BELGRADE RAILWAY PROJECT

While the bulwark of the Orbán regime's financial support came from previous infrastructure projects financed by the EU, the BRI framework provided the Hungarian government with new opportunities to maintain the durability of the regime. One of the BRI flagship projects in the whole CEE region is the €2 billion reconstruction project of the Budapest-Belgrade railway line, which was awarded to a consortium of Chinese state-owned corporations and a company affiliated with Lőrinc Mészáros in 2013. The most expensive railway development project in Hungarian history will serve the role of connecting the China-run Piraeus port with Western Europe, with the goal of accelerating the transportation of Chinese products to the EU. While improving the Hungarian railway infrastructure is a legitimate and long-standing objective, experts argue that the investment in this form does not provide added value for the Hungarian economy. One of the experts asserted that “there are no economic, transport, or climate protection reasons for this purely political project by which the Chinese Communist Party bought up the Hungarian ruling elite and indebted the country for a century.”⁶¹ Whereas the government argued that amid the economic crisis the investment is more important than ever, as it will provide jobs for many Hungarians, it mostly seems to be a treasure trove for the Mészáros' companies.

Although the railway will not connect any large cities and the project will not require a larger construction on the ground,⁶² the government inflated the budget to an unprecedented level of HUF 750 billion, a sum that is much higher than comparable international projects.⁶³ Given that the investment will not generate a significant increase in passenger traffic either, financial experts calculated that the recovery of the investment costs would materialize in ca 2400 years.⁶⁴ While 85 percent of the project will be financed by a loan provided by the Chinese Eximbank, the remaining 15 percent will be covered by the Hungarian state. According to the interviewees, Orbán's hybrid regime became a perfect partner to implement the renovation of the underutilized railway. This is a mutually reinforcing and beneficiary project for both sides. The Hungarian government can use it to expand the financial resources of its clientelist corrupt network. Most importantly, these business opportunities are provided by a partner who is not interested in financial transparency at all. On the other hand, the Hungarian prime minister serves the role of an agent of China who financially profits from paving the way for Chinese influence in the EU - argued one of the experts.⁶⁵

The construction of the section in Hungary (between Soroksar and Kelebia) will be done by a Chinese-Hungarian consortium that involves key companies centered around the Hungarian government. The public tender for the project was won by a company (RM International ltd) indirectly owned by Lőrinc Mészáros, in a consortium with two other companies. Three companies of these subcontractors are partially owned by Lőrinc Mészáros (R-Kord ltd; V-Híd ltd; FEJÉR-B.Á.L. ltd), and one firm is owned by his son-in-law (Vasútvill ltd). Another subcontractor is a company founded by the father of the Minister of Foreign Affairs and Trade, Péter Szijjártó, and directly co-owned by him until 2012 (Vasútépítők ltd). Based on the research by CRCB, companies from the above-mentioned consortia are within the group of firms that represented 38 percent of the total net value of Hungarian public contracts in 2019.⁶⁶

When it comes to the involvement of Viktor Orbán's friend in the construction, the government claims that “the bid had been open – everyone had had the possibility to compete, and Hungarians should be proud that a Hungarian company is in the winning consortium”.⁶⁷ However, research shows that national procurement procedures are rigged, thus the corruption is much higher in tenders won by crony firms allied with the government than in those won by ordinary companies.⁶⁸ Therefore, competition is open in theory, but companies that are not part of this clientelist ecosystem do not stand a chance.

When HVG.hu and Transparency International requested the list of subcontractors with revenue above HUF 5 million, the government denied it by claiming that it cannot disclose the information without the consent of the Chinese government. The government even classified the overall details of the project for ten years in 2020, arguing that otherwise it would affect data containing sensitive Chinese business information and could negatively affect Hungary's foreign economic and foreign policy interests. Despite a recent court decision in 2021 that the government must disclose the details of the loan agreement, it still has not fulfilled it. “The railway project is indicative of the level of democratic deterioration in Hungary. Back in 2014, the National Assembly at least voted about the Paks nuclear investment financed by a Russian loan that was classified later. This time, the Chinese project was not even put to a vote” – asserted one expert interviewed by the author.⁶⁹

The institutional environment built up by Fidesz allows for smooth sailing to proceed with such an investment and keep relevant information away from the public. Due to the weakened checks and balances and the partisanship of the Public Prosecutor's Offices, there is a lack of investigation of high-level cases of clientelist corruption. The opposition struggles to hold the executive accountable since the Constitutional Court (CC) is cautious in most cases to apply effective remedies where the stakes are high for the government. While the CC identifies no violation of freedom of information in these classified cases, there is a shrinking space to appeal for these documents. As one of the experts framed it: “Since the Supreme Court (as a Court of Appeal) is also politically captured, it can delay decision-making indefinitely about disclosing any further information on these cases.”⁷⁰

COVID-19 PURCHASES

The above-mentioned trends accelerated during the COVID-19 pandemic when the clients of the government managed to acquire other strategic sectors of infrastructure as well. The public procurement of COVID-19 vaccines was undertaken in a non-transparent and corrupt way, dominated by a previously unknown company Danubia Pharma Kft that won a purchase order worth HUF 55 billion.⁷¹ As for strengthening relations with China, Hungary bought the Chinese Sinopharm vaccines for €30 per unit, significantly higher than the market price of €13.4 in 2021. Moreover, this overpriced purchase resulted in an extra profit of more than HUF 15 billion for the intermediary company, which operated without justification.

Additionally, the Hungarian Foreign Ministry purchased more than 17,000 Chinese ventilators for an extremely high price in 2020.⁷² The purchase amounted to more than HUF 300 billion in quantities many times greater than the quantity required. The main beneficiaries of all these contracts were the suppliers linked to the brother-in-law of former deputy Minister of Foreign Affairs and Trade, László Szabó, Márk Szeverényi and his business circles.⁷³ According to one investigative journalist, the Hungarian government paid more than ten times the unit price per kilogram for the machines than what Italy paid and fifty times more than Germany.⁷⁴

THE FUDAN UNIVERSITY PROJECT

The construction of a Hungarian campus of the Fudan University is set to become the most important form of Chinese academic engagement in the whole CEE region. After the CEU left Hungary and the government restricted the functioning of the Hungarian Academy of Sciences, the construction of the Chinese campus in Budapest became one of the most controversial projects. Details of the project were revealed by the investigative portal Direkt36 that obtained the government documents including also the estimated cost of the project amounting to €1.5 billion.⁷⁵ While the government censored all politically sensitive information in the documents, the budget certainly exceeds the total amount of funds for Hungarian higher education in 2021. The investigation also revealed that the construction would be carried out largely with Chinese construction materials, by Chinese labor, and would be in large part financed by Chinese loans.

Fudan University in Shanghai is ranked 34th among the best universities in the world, but as an institution supervised by the Chinese Communist Party, it raises national security concerns as well.⁷⁶ It stems from the direct ideological influence of Beijing, exemplified by the recent scrapping of the reference to “respecting the freedom of thought” from the University’s charter. Another concerns related to the potential for the campus to aid China’s intelligence gathering efforts. As our interviewee put it: “The project might serve the role of extending China’s soft power and influence through education programs and investments that could eventually provide a window for espionage.”⁷⁷

The Fudan University initially started cooperation with Corvinus University in Budapest in 2018 with the help of the Hungarian National Bank and its Budapest

campus is supposed to commence operating in Budapest in 2024 with five to six thousand students and five hundred professors. The campus would be located on the site of the planned “Student City” (Diákváros), where Hungarian students have been promised educational facilities and cheap dormitories on Csepel island in a territory called Nagyvásártelep. In order to achieve this goal, Hungary would borrow HUF 450 billion from the Chinese Development Bank. Similar to the renovation of the Belgrade-Budapest railway project, the campus will be built within the framework of a Sino-Hungarian international agreement, in which no open competition following EU rules is necessary. According to publicly available information, the construction of a modern sports facility and a conference center for 5,000 people will also be included.

“Besides the national security issues, the most concerning part is the fuzzy financial structure of the agreement,” argued one of the interviewees. “Whereas the construction of the full facility will be financed by Hungarian taxpayers, and supposedly they will also contribute to the maintenance of it, Fudan Hungary would become a property of a private trust foundation created by the Orbán government. Once the University enters this foundation, it becomes private, and the state audit office would stop tracking these assets and keeping records of what happens to them,” the expert added.⁷⁸

Another of the interviewed experts claimed that “another argument against Fudan stems from the fear of China’s debt-trap diplomacy, meaning that if the Hungarian state will struggle to pay the loan back, Beijing can appropriate national assets in return.” However, there is a lack of consensus about the risk of such a scenario among experts on China. Tamás Matura argued that while the project carries a significant risk of corruption, and lacks transparency, the size of the loan does not justify these concerns.⁷⁹

Although formally, everything is set to establish the Fudan Campus in Nagyvásártelep, and the Student City was removed from the title of the Csepel development program, another expert argues that the construction might still be moved out of the capital.⁸⁰ After the opposition parties called tens of thousands of people to protest against Fudan, despite the COVID-19 pandemic, and the Mayor of Budapest, Gergely Karacsony renamed the public spaces around the future campus in 2021, Fudan turned out to be a PR disaster for Beijing.⁸¹ “This is a top-notch University, and the Chinese government does not need another prolonged controversy as it seeks to mend its damaged reputation after the COVID pandemic” – argued one of the interviewed experts, hinting that Beijing might eventually give up on the campus in Budapest and relocate the project to another Hungarian city that is under Fidesz administration.⁸²

Conclusion

Hungary serves as a powerful example of how the durability of hybrid regimes is secured by the presence of corruptly developed clientelist networks. External authoritarian actors such as China play a system-supporting and system-legitimizing role by providing lucrative business opportunities for clients centered around the chief patron and by helping the Orbán government to depict itself as a key global player. Viktor Orbán's top-down centralized regime is unique in the EU where both the quality of democracy and the governance have been declining in an unprecedented way. The foreign policy of the regime is embedded into a deeply Eurosceptic populist narrative in which the EU represents the corrupt elite and China is even praised for its economic "efficiency." Since Prime Minister Orbán seeks to channel his positions into the EU's policymaking bodies and reverse European integration from within, Hungary will remain one of the keenest obstructionists on critical EU decisions about China.

The main risk of some of the problematic bilateral projects between Hungary and China is that they often help corrupt political elites to consolidate power over the state and the society because they become a sinkhole for funds and lack transparency. Accelerating clientelist corruption with the help of these projects has a negative impact on the quality of governance by further undermining trust in democratic institutions and reducing accountability.

Therefore, Chinese "corrosive capital" and the deterioration of democracy in Hungary are mutually reinforcing each other. While the overall scale of Chinese investments remains small, specific bilateral projects provide the financial wherewithal to the clientelist network of the government and thus a leverage necessary to consolidate power. In effect, this exacerbates the downgrading quality of governance and provides a leeway for officials to abuse power, and makes it difficult to punish corrupt legislators by undermining the capability of voters to hold public officials accountable.

Amid the multiple economic crises of the pandemic and the war in Ukraine, the Hungarian government is likely to continue utilizing the financial opportunity structures provided by Beijing. In order to cement political and economic power, it will deliberately strengthen ties with China to expand business opportunities for the clientelist network centered around Viktor Orbán.

This paper carries important policy implications for the EU. Paying greater attention to informal power is important because the EU could not meaningfully prevent or slow down the negative trends in Hungary despite the fact that it came up with various innovative tools against corruption. Since Hungary is a hotbed of informal power, in particular clientelist corruption with which the Orbán government skews the playing field to its benefit, this threat to the EU will not disappear anytime soon. The powerful example of Hungary shows how the corrosive Chinese capital helps a hybrid regime cement power while avoiding EU scrutiny.

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About MapInfluenCE

The publication was published within the MapInfluenCE (previously known as ChinfluenCE) project, which maps China and Russia's influence in Central Europe, specifically Czechia, Poland, Hungary and Slovakia.

The internationally acclaimed project has utilized various tools such as media analysis to uncover who shapes China discourse in the Visegrád countries and why, the mapping of agenda-setters to reveal links between pro-China businessmen and local political elites, an analysis of changes in political parties' positions on China in the Czech and Hungarian Parliaments during the past 30 years, etc.

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Footnotes

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