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**The Changing Dimensions of the post-2010 Hungarian
Political Economy and the Emergence of Hungarian
Authoritarian Populism**

Samuel Rogers

A dissertation submitted to the University of Bristol in accordance with the requirements for award
of the degree of Doctor of Philosophy in the Faculty of Social Science and Law

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Abstract

This thesis is concerned with the nature of Hungary's governments since 2010. Winning an unprecedented three consecutive elections, the dominant member of the coalition governments, Fidesz, has operated to entrench its power by means of transformations in domestic governance, international economic policy and appeals to xenophobic nationalism. A widening scholarly literature has sought to account for the nature of the post-2010 Hungarian regime by focusing largely on the domestic changes, the country's relationship with the European Union and what these mean for Hungary in a regional context. In contrast, this thesis blends Stuart Hall's work on *authoritarian populism* and the *Varieties of Capitalism* tradition with a concern for Hungary's changing external economic-political relations. The result is a model that is both post-structural and institutional in approach and this effectively captures the specifics of Fidesz' self-reproduction.

The thesis' principal argument is that the Hungarian government has developed two methods to service this objective. First, the subsumption of domestic business through the creation of a local, politically-loyal network of cronies who safeguard national capital. Second, the stimulation of transnational capital linked to ideologically similar regimes from 'the East': Russia and China. The outcomes of these endeavours, the thesis argues, strengthens the hybridised nature of the Fidesz regime and its potential for proliferation to regional neighbours, particularly Poland.

Empirically, this research analyses infrastructure projects financed by state loans from Russian and Chinese entities, with a particular focus on the Paks II nuclear power plant extension and the upgrade to the Belgrade to Budapest railway line. It uses a Qualitative Case Study Analysis approach to qualitative data collection, conducted during fieldwork in Budapest in 2017. Additionally, it draws on specialist publications that contain otherwise inaccessible datasets on the relevant investments and infrastructure agreements.

Author's declaration

I declare that the work in this dissertation was carried out in accordance with the requirements of the University's Regulations and Code of Practice for Research Degree Programmes and that it has not been submitted for any other academic award. Except where indicated by specific reference in the text, the work is the candidate's own work. Work done in collaboration with, or with the assistance of, others, is indicated as such. Any views expressed in the dissertation are those of the author.

SIGNED: Samuel Rogers

DATE: 11th September 2018

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I was fortunate enough to undertake four visiting positions during the course. The first was a three-month position as a Visiting Researcher at the Central European University (Budapest) in late 2015. I returned there in early 2017 for a second stint to find a brand-new building funded by George Soros, the Hungarian government's latest pariah. I could not have achieved such hospitality without the generous assistance of Mike LaBelle at the Department of Environmental Sciences and Policy and the Department of Economics and Business. For this I am in his debt. I am very grateful to Csaba Makó for his kind help in providing me access to the library at the *Magyar Tudományok Akademia* and his company at a lively lunch discussion about banking and national banks in the canteen of the Hungarian National Bank. "No names, no names!" I am also grateful to Katalin Ertsey who put me in touch with some of the interviewees I met during this research. Her inside knowledge of the parliament and personal connections to MPs was extremely helpful. The second was a Visiting Scholar position at the Harriman Institute, Columbia University (New York) in summer 2016, a fantastic opportunity to engage with experts *on* the post-Soviet space. For this, I acknowledge the kind help of Tim Frye. A final Visiting Researcher post at the Higher School of Economics (Moscow) in summer 2017 provided me the opportunity to be *in* the post-Soviet space and encounter a truly unique institution. I am grateful to Andrei Yakovlev for helping me achieve this.

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I first visited Hungary in April 2006, two weeks before a national election that was to be the first time the incumbent had remained in government since the systemic change in 1989. It was also the last non-Fidesz victory. I went to the polling station with my host family; it was a calm and optimistic moment. Five months later I witnessed rioting and wild street protests against the publication of a leaked, expletive-ridden recording of the then-Prime Minister who had admitted lying to be re-elected. The next month was the fiftieth anniversary of the Hungarian Revolution. More demonstrations: police, blood, a tank. This was clearly a political place. I lived in Miskolc and Debrecen, experiencing provincial Hungary before relocating to Budapest. I began to understand how important history and politics is for Hungarians and how divisive history and politics can be for them. I have returned to Hungary for different periods of time almost every year since I moved away in 2008 and there have been lots of changes. Those who only visit the tourist sites of central Budapest may see improvements and shiny lights but that is mostly a mirage. The changes to the country as a whole have been crippling. Thousands of educated people have left, poverty has rocketed, corruption proliferated. It is a sad story that seems set to continue. I am thankful to Hungary and the Hungarians for their hospitality and openness. I cannot recall a moment when they were unduly unkind. They inspired me to write about their country and I hope to do so again.

I dedicate this thesis to all those from broken homes; the good watchers and the quiet voices.

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List of Acronyms

| | |
|-----------|--|
| AP..... | Authoritarian Populism |
| BBRU..... | Belgrade to Budapest Railway Upgrade |
| BRI..... | Belt and Road Initiative |
| CA..... | Charismatic Authority |
| CEE..... | Central and Eastern Europe |
| CEU..... | Central European University |
| CME..... | Coordinated Market Economy |
| CMEA..... | Council for Mutual Economic Assistance |
| DME..... | Dependent Market Economy |
| EC..... | European Commission |
| EU..... | European Union |
| EUR..... | Euro |
| FDI..... | Foreign Direct Investment |
| GDP..... | Gross Domestic Product |
| GW..... | Gigawatt |
| HAP..... | Hungarian Authoritarian Populism |
| HUF..... | Hungarian Forint |
| IAEA..... | International Atomic Energy Agency |
| IC..... | Institutional Complementarity |
| IFDI..... | Inward Foreign Direct Investment |
| KN..... | Keleti Nyitás (Eastern Opening) |

| | |
|-----------|---|
| KSH..... | Hungarian Statistics Office |
| LME..... | Liberal Market Economy |
| LMP..... | Lehet Más a Politika |
| MC..... | Main Category |
| MNB..... | Hungarian National Bank |
| MNC..... | Multinational Company |
| MSzP..... | Magyar Szocialista Párt |
| NEM..... | New Economic Mechanism |
| NGO..... | Non-governmental Organisation |
| NPP..... | Nuclear Power Plant |
| O&M..... | Operation and Maintenance |
| OECD..... | Organisation for Economic Cooperation and Development |
| OFDI..... | Outward Foreign Direct Investment |
| OLAF..... | European Anti-Fraud Office |
| PRC..... | People’s Republic of China |
| QCSA..... | Qualitative Case Study Analysis |
| R+D..... | Research and Development |
| REKK..... | Regional Centre for Energy Policy Research |
| ROI..... | Return on Investment |
| SC..... | Subcategory |
| SME..... | State-permeated Market Economy |
| TIH..... | Transparency International Hungary |
| USD..... | United States Dollar |

USSR.....Union of Soviet Socialist Republics

V4.....Visegrád Four

VoC.....Varieties of Capitalism

**Part I: Understanding the nature of the contemporary
Hungarian political economy**

Introduction

This thesis investigates the development of the Hungarian political economy since 2010, the year Fidesz were re-elected to government for a second term in office.¹ The timing of this study is significant because the continued electoral success of Fidesz and Prime Minister Viktor Orbán – a historically unprecedented three consecutive victories (2010, 2014, 2018) – is underpinned by changing dynamics within the Hungarian political economy. Principally these involve increased democratic backsliding (e.g. Sedelmeier, 2014) i.e. an undermining of the democratic principles, which emerged following the cessation of state-socialism in 1989 (Kornai, 2015) and the establishment of a national bourgeoisie (Szelényi, 2016). The latter is an outcome of a partial nationalisation programme, which has rendered domestic capital more loyal to the Fidesz regime. Additionally, since 2010 Fidesz have orchestrated a broad turn to the East, ostensibly to secure investment flows and bilateral economic relations with a group of countries that share ideological values (Csillag and Szelényi, 2015). Tangible results from these nascent transnational capital flows are beginning to emerge and this research argues they are highly significant because they are designed to reproduce the Fidesz regime. These developments attest to the importance of creating a research project that aims to investigate the underlying causes of these developments.

The Hungarian government is the standout case of one dominant party instigating critical internal and domestic changes to its national political economy in the Central and Eastern European (CEE) region. Significantly, there is the potential for this trend to permeate neighbouring countries due to Fidesz's continued success at self-reproduction. The economic status quo that emerged during the 1989-2010 period – characterised by the high foreign ownership levels of previously state-owned sectors, privatisation, and multiple dependencies on multinational companies (MNCs), *Mittelstand* firms and the European Union (EU) – has been diluted by a resurgent political agency via the partial nationalisation programme, noted above. While Hungary's status as an assembly platform for medium quality goods remains (Nölke and Vliegenthart, 2009), new politically-induced international capital inflows,

simulated since 2010, have the potential to generate significant changes to internal and external orientation of the Hungarian political economy.

1.1 Principal arguments

This research proposes eight principal arguments that will be addressed throughout the thesis:

1. The Fidesz government has developed a unique form of populism – a system of governance with a combination of democratic and autocratic constituents (Petrov *et al.*, 2013) – with specific characteristics best captured as “authoritarian populism” (Hall, 1979; 1988 [1980]; 1985; 1988 [1987]).
2. The Hungarian regime has created a national bourgeoisie that has subsequently subsumed domestic business. National capital has consequently become more loyal to the regime, creating opportunities for the governing party to self-reproduce.
3. Fidesz has initiated new transnational capital dimensions to stimulate inward financial flows from ideologically-similar countries located to the East of Hungary.
4. These networks create the opportunity for investments to be generated with entities that are less concerned with democratic principles, offering Fidesz and its supporters the prospect of accruing capital while simultaneously continuing the process of democratic backsliding.

5. The agreement to construct large-scale infrastructure projects with Russian and Chinese state-owned entities reflects these trends.

6. From the Varieties of Capitalism (VoC) (Hall and Soskice, 2001) perspective, Hungary may be diverging from the Dependent Market Economy (DME) advanced by Nölke and Vliegenthart (2009) to resemble another model within the VoC tradition: the State-permeated Market Economy (SME) (Nölke *et al.*, 2015).

7. The analysis developed in this thesis may have relevance for other countries in the Visegrád Four (V4) region, particularly Poland.

8. A “development of underdevelopment” (Frank, 1966) may emerge in Hungary, but with ‘Eastern’ characteristics.

1.2 Sections and chapters

This thesis is divided into four parts, which in turn contain six chapters, including this introduction, a section entitled antecedents and a conclusion.

1.2.1 Part I: Understanding the nature of the contemporary Hungarian political economy

Following this introductory section, I include a brief section entitled **Antecedents**, which creates a background understanding of the key components with which the thesis engages. Included in this section are data to demonstrate the dynamics of the Hungarian political economy before 2010. Next, **chapter one** generates a theoretical approach to understand the nature of the contemporary Hungarian state. By drawing on the work of Stuart Hall (1979;

1988 [1980]; 1985; 1988 [1987]), I build a model to account for the type of populism the Hungarian regime espouses, labelled Hungarian authoritarian populism (HAP). This advances recent studies that have sought to explain the post-2010 Hungarian regime (e.g. Bozóki and Hegedűs, 2018; Enyedi, 2016; Pappas, 2014; Szelényi, 2016). The key components of HAP are: first, a conjunctural terrain, developed from Gramsci (1971 [1937]) to account for the historical moment during which authoritarian populism can emerge. Second, a set of ‘moral panics’ which are stimulated by the regime in an effort to generate ‘common sense’ reactions, thus maintaining and embedding support. Third, changes to the ‘balance of forces’, which materialise from the domestic changes e.g. policy changes. Fourth, prebendalism, a Weberian term used to describe the relationship between the ruler and staff, and which captures the nature of the loyal domestic oligarchy that has developed to dominate national capital for the regime. Finally, HAP seeks to attract economic agreements with ‘Eastern’ regimes with ideological congruence because this creates enhanced conditions for self-reproduction.

This chapter continues by developing the HAP framework through a harnessing with the VoC tradition. In doing so, it claims that by binding post-structural and institutional approaches to understanding capitalist development, observers of the Hungarian case will be in an improved position to understand the type of capitalism that is in emergence. Principally, this is because the politically-induced changes to the Hungarian political economy that have occurred since 2010 require research to generate a stronger emphasis on the role of political agency as hitherto approaches typically lack this mechanism. Focus centres on the potential for Hungary to deviate from one type of model within the VoC tradition, namely the DME model (Nölke and Vliegenthart, 2009) to resemble the SME model (Nölke *et al.*, 2015), as noted above. Here, four capitalist institutions are identified as potentially under duress from political agents for purposes of self-reproduction and which may generate a more attractive investment environment for SME cases, specifically China. This theoretical framework advances not only the VoC tradition but also paves the way for researchers in the fields of comparative capitalisms and (comparative) political economy to diverge from focus on Eurozone members and/or ‘advanced’ economies and conduct analysis in emerging markets.

1.2.2 Part II: Methodology

Chapter two details the methodological approach this research has taken to collect data during the empirical investigation of the research, namely a Qualitative Case Study Approach (QCSA). This chapter unites the theoretical approach developed in chapter one to the research questions and subsequently discusses the research strategy taken to address them. Following a discussion on the chosen methodological approaches, I detail the logistical issues of conducting qualitative research in Hungary, with a focus on gaining access and to the interviewees who agreed to contribute to this research and why they were selected as appropriate candidates. During an extensive period in Budapest in 2015, I laid the groundwork for a successful period of data collection. The empirical data was collected while on fieldwork in Budapest in 2017, with a total of twenty-seven interviews conducted. In the post data-collection phase, this research details how the interviews were transcribed and how a coding system was developed for the purposes of data-harvesting.

1.2.3 Part III: Hungarian authoritarian populism at work: internal and external considerations

Chapter three is the first of three chapters with an empirical focus, centring on an investigation of the internal dynamics of HAP. Here an analysis of Fidesz since electoral defeat in 2002 uncovers trends within the party that became stronger throughout their time in opposition (2002-2010). During this period, the foundations were laid for an anticipated sustained tenure in government. This chapter investigates the emergence of prebendalism in Hungary, finding that the critical characteristics of the post-2010 Hungarian oligarchy are its loyalty to the regime and that there is limited possibility that an enriched actor will rebel against the government or achieve a position from which to challenge Fidesz's power. When this has occurred, Fidesz has move quickly to undermine (potential) anti-regime action. This chapter discusses the Fidesz party in the international context finding that it has moved to operationalise new capital dimensions with countries located to the East, specifically Russia and China. Advancing these bilateral relations demonstrates that Fidesz is attempting a recalibration of capital inflows for the purposes of self-reproduction of the regime.

Chapter four is the first of two empirical sections that concentrate on the exterior dynamics of HAP. Focus is placed on economic engagement with Russia and the agreement to extend the Paks II nuclear power plant, mostly financed by a loan from a state-owned bank. The chapter proceeds by discussing Fidesz motivation for engaging more closely with Russian entities, finding a *volte face* in attitudes towards Russia appealing from the Fidesz perspective given that capital flows are less likely to be accompanied by certain stipulations typically associated with investment agreements with MNCs based in the EU (e.g. adherence to democratic practices etc.). Further, Hungary's dependence on Russian energy deliverables creates the possibility to work with Russian suppliers to agree a discounted pricing structure. This assists with political capital for the Hungarian government due to the relatively higher cost burden for Hungarian households for domestic energy consumption.

Analysis of the Paks II deal is divided into three chronological subsections, with focus paid to the project during the preconstruction, lifecycle and decommissioning phases. This is followed by the identification of a list of benefits to Hungary from the agreement. Before the chapter reaches its conclusion, there is a brief discussion on the nuclear lobby in Hungary and the importance of the key actors who helped to broker the contract.

Chapter five empirically engages with the economic agreements that have been orchestrated between Hungary and China since 2010, with a particular focus on the Belgrade to Budapest railway upgrade (BBRU); an agreement scheduled to be mostly financed by the Chinese EximBank. This chapter contains analysis on both China's strategies in Hungary and simultaneously, Hungary's stratagem for its attempts to attract Chinese capital. Results from Chinese inward investments into Hungary have been mixed, reflected by empirical data. A subsequent investigation analyses the role of actors within the prebendal constellation who operate to assist the Fidesz regime (i.e. as the guardians of Fidesz-dominated capital, and also to stimulate the 'moral panics' that form HAP). Analysis of the BBRU also demonstrates that

while this project has potential economic benefits to Hungary, ultimately it is designed to help stimulate further inward Chinese capital and subsequently reproduce the Fidesz project.

The chapter continues by investigating the potential outcomes from closer Sino-Hungarian economic engagement from the VoC perspective. The post-2010 changes to the Hungarian political economy have the capacity to affect four of the capitalist institutions shared by the DME and SME models and present an opportunity for Hungary to diverge from resembling a DME case to more closely align with the characteristics of an SME case. Should this outcome materialise, the “development of underdevelopment” (Frank, 1966) may proliferate in Hungary as employment conditions worsen (e.g. wages), which could result from a period of prolonged longevity for a Fidesz government enriched by capturing segments of Chinese capital inflows.

1.2.4 Part IV: Conclusion

Chapter six delivers the concluding section. Here the whole body of research is retrospectively summarised, answering the research questions posed in chapter two. The conclusion reflects on the theoretical contributions made by the thesis, namely the construction of the HAP approach to account for the nature of the Hungarian regime since 2010 and its harnessing to the VoC tradition to further understanding into the potential for Hungary’s institutional divergence from one model within the VoC literature, to another. Stemming from this, there is a brief discussion of a ‘development of underdevelopment’ given the domestic changes made by the Hungarian regime and the external dimensions of the political economy. This in turn feeds into an analysis of the *longue durée* of Hungarian development with a focus on the effects of HAP, the views from Moscow and Beijing and the relationship between capitalism and democracy in Hungary. Poland is identified as the most likely country to host similar developments in the region (i.e. the emergence of a Polish variant of authoritarian populism and potentially a subsumption of domestic Polish business by the domestic political regime).

In the final section of the conclusion, I produce a list of research limitations the thesis was unable to address principally due to matters of focus and spatial and temporal restrictions. This is followed by the recognition of areas where future research could add to the results of this investigation either through supplementation or via the initiation of nuanced research foci e.g. the potential for authoritarian populism to emerge in Poland and what this might signify for the Visegrád Four (V4) countries and the wider Central and Eastern European (CEE) region.

Antecedents

This chapter constructs a background understanding of the principal themes of this body of research, developing a deeper comprehension of the dynamics of the Hungarian political economy and the reconfigurations it has experienced in the last half a century. This broad historical account focuses on the foremost actors and mechanisms, which have influenced these changes and in doing so, covers five general areas: (i) Hungary before 1989; (ii) Hungary's association with Foreign Direct Investment (FDI); (iii) Hungarian politics during the 2000s; (iv) Hungary's relations with Eastern states before 2010; (v) the Varieties of Capitalism (VoC) tradition and its application to the Hungarian case.

A.1 Hungary before 1989: the state-socialist story

A defeated power in 1945, Hungary became a socialist country with a planned economy and a centralised political elite. The 1956 Revolution was crushed by the Soviet military and a change of leadership ensued, with approximately 200,000 people emigrating to the West (BBC, 2006). From an economic perspective, Hungary differed from many of its socialist neighbours and particularly the Soviet Union by implementing an economic reform package, the New Economic Mechanism (NEM)¹ in 1968, designed to encourage a more consumer-oriented economy with limited worker autonomy (Burawoy and Lukács, 1992) thereby graduating from the more stagnant and inflexible command economies of the Soviet Bloc, which had led to economic crises in the 1960s (Green, 2014). The NEM did not reform the economic situation in Hungary sufficiently, however, and this led to another round of reforms in the early 1980s with the objective of further developing market conditions from which to

¹ For a more comprehensive breakdown of Hungarian economic reforms during the socialist period, see Hare *et al.*, (1992)

foster a new private sector (Bauer, 1990) and which had the outcome of influencing foreign economic policy (Comisso and Marer, 1986).

One of the principal legacies of the NEM reforms was to offset the necessity of any form of 'shock therapy', which occurred elsewhere after 1989,² making Hungary's economic development path more 'gradualist' (Kornai, 1996), an anomaly in the CEE region.³ Hungary's gradual transition away from state socialism in the 1980s – known colloquially as *Goulash Communism* – avoided the emergence of larger movements that opposed socialism, as had occurred in other socialist countries e.g. Poland, eventually leading to a considerably more stable political party environment than other countries in the region after 1989 (O'Neil, 1996).

A.1.1 The growth of debt in the 1980s

Towards the end of this decade, Hungary had a large external debt (\$20bn) and the highest *per capita* debt figure for the region (\$1,950),⁴ which led to the emergence of domestic pressures that other countries did not experience, namely (a) policy choices regarding the debt; (b) trade policy following the breakdown of the CMEA⁵ system; and (c) the higher expectation of better-quality living standards that became consolidated following a period of rising conditions during the decade (Hare *et al.*, 1992). The emergence of these debt trends can be traced back to the early 1970s in the first instance and the attempted insulation of the Hungarian economy from exterior shocks due to the inflation of energy prices, recession and stagflation in the OECD (Oblath, 1993). Subsequently, there developed in Hungary a private market economy under socialist conditions as early as the late 1980s (Fábry, 2018), which fuelled an explosion of domestic small and medium-sized enterprises, rocketing from 451 in

² Perhaps the most well-known example of this economic doctrine was implemented in Russia from January 1992 by Yegor Gaidar

³ Another CEE economy to adopt the gradualist approach after the cessation of state-socialism was Slovenia (Rojec *et al.*, 2004)

⁴ For further selected debt indicators, see Salamin and Floro (1993)

⁵ Council for Mutual Economic Assistance, also known as COMECON. This was a Soviet-led economic organisation, which covered most European socialist states from 1949 to 1991, with non-European membership extending to Cuba, Mongolia and Vietnam

December 1988 to 5,978 twelve months later (Böröcz, 1993: 90). The effect of this was to foster a climate of private ownership, in places compensating those who lost property⁶ during the transition to socialism four and a half decades earlier (Böröcz, 1993).

The legacy of the debt that Hungary had accumulated during the 1980s has been debated. Table A.1 below demonstrates the levels of gross⁷ and net debt⁸ that Hungary experienced in the second half of the decade.

Table A. 1: Gross and net Hungarian debt (selected years)

| | 1985 | 1987 | 1989 |
|-----------------------------|------|------|------|
| Gross debt (USD bns) | 13.8 | 19.6 | 20.6 |
| Net debt (USD bns) | 11.5 | 18.1 | 19.4 |

Source: Adapted from Hare *et al.*, (1992: 240)

A.2 Hungary in the 1990s: the FDI story

The unprecedented events of 1989⁹ brought capitalism and democratisation, two phenomena that had, with limited exceptions, not been experienced in tandem in CEE.¹⁰ A

⁶ At the 1994 national elections, the *Történelmi Független Kisgazda Párt* (The Historic Independent Smallholders' Party) campaigned on this single issue. The party received 0.03% of the vote

⁷ Outstanding government debt

⁸ The difference between Hungarian hard currency liabilities and assets. For more detail on Hungarian debt liabilities, see Bartlett (1996)

⁹ In the sense that the end of state socialism in CEE surprised all observers, both from the East and West, despite certain economic and political trends e.g. increased indebtedness of some CEE states and the lack of will of some eastern bloc would-be leaders to maintain the status quo

¹⁰ An exception here is the Czechoslovak Constitution of 1920, where democratic institutions were established and modelled on Western states such as France

unique set of challenges presented themselves to Hungary at this time, not least the questions over ownership, macroeconomic stabilisation and the relationship between economy and politics (Kornai, 1990). With the withdrawal of Soviet influence, the emergence of free elections and the establishment of a market economy, Hungary changed radically in this period, particularly in the first years following the change in system (e.g. Bohle and Greskovits, 2012; Böröcz, 1992; Eyal *et al.*, 1998; King and Váradi, 2002; Myant and Drahokoupil, 2011; Stark and Bruszt, 1998). One of the most significant and impacting changes in Hungary – and the wider CEE region – in the 1990s was the shift from a centrally-planned to an open market economic system (Petrovic, 2013) and the subsequent management of the external debts accrued before 1989, outlined above.

To offset these levels of debt, two initiatives were implemented. First, the creation of a series of banking reforms, particularly surrounding enhanced clarity and harmony between the Hungarian central bank and parliament. Second, building from these changes to banking procedure, an objective of stabilising the net debt, rather than decreasing the gross debt was established. The effect of this was to initiate a culture of FDI to create sufficient capital inflows (Bartlett, 1996); transnational dimensions that originated primarily from Western European firms, particularly in the automotive, manufacturing, electronics and banking sectors.

Successive governments in the 1990s sold large segments of Hungarian assets to foreign buyers, mostly Western multinational companies (MNCs)¹¹ and foreign companies geographically divided the country along national lines e.g. German firms concentrated in the North-West and French companies in the Southern region of the Great Plains (Kiss, 2007). The level of FDI into Hungary during this first decade of the post-socialist period far outweighed any of its CEE neighbours, including Poland with a population approximately four times higher than Hungary and in fact, Hungary became a leading FDI recipient on a global scale (Hunya,

¹¹ Despite the radical changes in firm ownership, however, organisation structures and firm strategies endured (Czaban and Whitley, 2000)

2000). Table A.2 below illustrates the accumulated stock of FDI in Hungary vis-à-vis a selection of CEE and post-Soviet states in 1996.

Table A. 2: Accumulated FDI stock in selected post-socialist states (1994)

| | Total FDI stock (USD mns) | FDI stock as % of 1994 GDP |
|-----------------------|----------------------------------|-----------------------------------|
| Hungary | 10,634 | 30 |
| Poland | 6,459 | 7 |
| Czech Republic | 3,996 | 13 |
| Russia | 3,900 | 1 |
| Romania | 1,101 | 3 |
| Ukraine | 950 | 1 |
| Kazakhstan | 719 | 4 |
| Estonia | 646 | 14 |
| Slovakia | 483 | 4 |
| Slovenia | 438 | 2 |
| Bulgaria | 397 | 4 |
| Latvia | 323 | 5 |

Source: Szanyi (1998: 31)

One of the core legacies to emerge from these inward capital flows was the emergence of an environment of sectoral ownership¹² dominated by foreign firms. Table A.3 below illustrates this control in the Visegrád Four (V4) countries: Czech Republic, Hungary, Poland and Slovakia (Nölke and Vliegthart, 2009: 683).

¹² Certain sectors e.g. automobiles had negligible production history in Hungary (this is discussed in more detail in the empirical chapters of this thesis).

Table A. 3: Foreign sectoral ownership of V4 countries (%)

| | Automotive | Manufacturing | Electronics | Banking |
|-----------------------|-------------------|----------------------|--------------------|----------------|
| Hungary | 93.2 | 60.3 | 92.2 | 90.7 |
| Czech Republic | 93.1 | 52.6 | 74.8 | 85.8 |
| Poland | 90.8 | 45.2 | 70.3 | 70.9 |
| Slovakia | 97.3 | 68.5 | 79.0 | 95.6 |

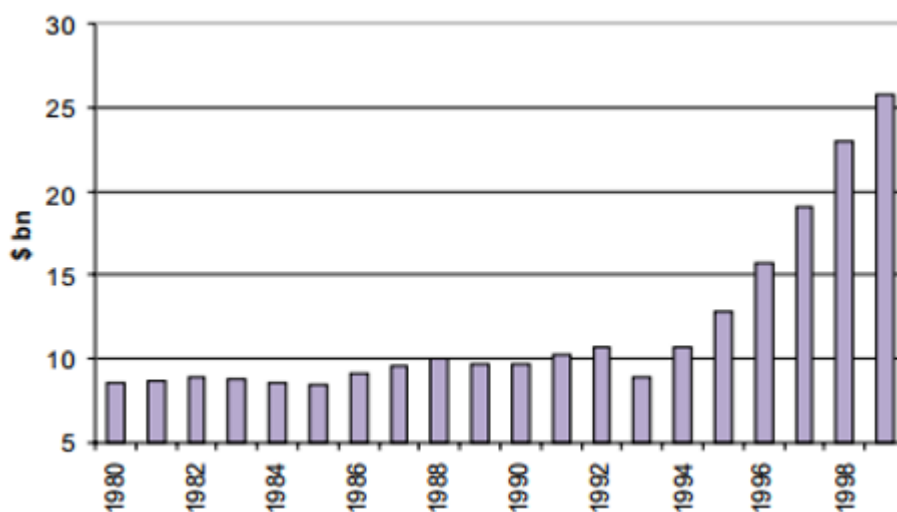
Source: “data for 2004, based on OECD.stat database, measured as a percentage of turnover; banking data for 2002, based on Mérő and Valentinyi, 2003” (Nölke and Vliegthart, 2009: 683)

In some sense, this phenomenon revived the historical empires that were prevalent before the First World War in the broader CEE region (Bohle, 2017), whereby national entities from wealthier European countries and regions e.g. Austria, Bavaria, Sweden etc. retook command of key institutions. In this case, firms (particularly state-owned enterprises (SOEs) and banks) in the V4 countries and the Baltic states, were taken over by MNCs from Western Europe and Scandinavia.¹³

In Hungary, a significant outcome of the culture of foreign ownership was an increase in exports, primarily to Western Europe and to a lesser extent Japan and the USA. Figure A.1 below reflects the boom in Hungarian exports in the first decade following the transition to a market economy. This development re-established the historical destinations for the Hungarian export market e.g. the economically more advanced countries and regions to the West of the country, principally Austria, Bavaria and the rest of Germany, contrasting starkly with the destinations for goods before 1989, which were dominated by the Soviet Union under the auspices of the CMEA (Kőrösi, 2009).

¹³ This analysis also includes Greece and its ownership of entities in the Eastern Balkans and Finland’s economic interaction with Estonian firms

Figure A. 1: Hungarian exports 1980-1999 (USD bns)



Source: Mihályi (2001: 123)

Resulting from the advent of huge FDI inflows was the emergence of multiple dependencies on the firms that had subsidiaries operating in Hungary, and the remaining three V4 countries. Industrial relations in particular became effectively decided in the boardrooms of Western MNCs with interests in the Hungarian market. These developments were successfully captured by the Dependent Market Economy (DME) model (Nölke and Vliegenthart, 2009) - an extension of the Varieties of Capitalism (VoC) institutional approach (Hall and Soskice, 2001), discussed below – which isolated five institutional complementarities (ICs) to explain the comparative advantages the four cases possess e.g. skilled yet cheaper labour, relative to their Western European counterparts.

A.2.1 The Bokros Package¹⁴

Concomitantly with the influx of FDI into Hungary and the wider region, a neoliberal agenda emerged in Hungary with the onset of the economic and political reforms that began after

¹⁴ Named after Lajos Bokros, Hungarian Minister of Finance 1995-1996

1989, characterised by reductions in social spending transfers e.g. maternity benefits and sick pay (Kiss and Szapáry, 2000). The Bokros Package implemented in 1995, was an austerity plan executed ostensibly to address a series of macroeconomic issues. For example, the 8.4% government deficit of GDP, 88% of public debt to GDP, 18.8% inflation and 11% unemployment rate (Žídek, 2014: 66). These statistics were partially consequences of the 1980s debt levels, described above.

The story goes back deeper into the pre-1989 period, however. It may not be surprising that neoliberal policies were implemented so quickly¹⁵ – just under five years since the first democratic elections – given that classical economic texts from prominent free market advocates had been published in Hungarian translation from the 1960s and one leading Budapest university¹⁶ was typically the *alma mater* of the economic elites where such texts were disseminated (Phillips *et al.*, 2006). This thinking corresponds with earlier analysis that argued the rapid adoption of neoliberal economics throughout the post-socialist region was the result of the influence of a decades-old actor-centred transnational network of American and East European economists where the approval of such policies had been discussed during the Cold War period (Bockman and Eyal, 2002).

It is somewhat ironic that this bundle of economic reforms was implemented by a socialist government – Magyar Szocialista Párt (MSzP) – the first since the systemic change in 1989.¹⁷ However, this can be understood within the context of the rise of the fiscal deficit in the early 1990s, which was not curtailed, and which led to a consensus on the necessity to instigate the austerity programme (Kiss and Szapáry, 2000).

¹⁵ This varied across the wider CEE region, with some countries initially more reluctant to implement neoliberal reforms e.g. Slovenia while others were more enthusiastic in the immediate years after 1989 e.g. Poland

¹⁶ The Karl Marx University, renamed the Budapest University of Economic Sciences and Public Administration and subsequently, Corvinus University

¹⁷ The first MSzP government (1994-1998) was led by Gyula Horn, also the last Foreign Minister of the state-socialist period

What were the effects of the Bokros Package? In the first instance, the Hungarian Forint (HUF) lost 9% of its value, an 8% surcharge was applied to imports excluding investment goods and energy, a crawling peg was introduced, and real wages plummeted by 12% (Heinrich Böll Stiftung, 2012). However, the real ‘breakthrough,’ at least from the perspective of the initiators of the package was the improvement in the balance of trade, reduction in foreign debt liabilities, and an increase in public finances (Heinrich Böll Stiftung, 2012). The international legacy of the Bokros Package was to create a more fertile environment for an export-oriented economy to emerge (reflected in Figure A.1 above) following the stimulation of significant FDI inflows, principally from Western Europe and was effectively the beginning of the neoliberal boom in Hungary. The sectors that became targeted by these capital streams were primarily: telecommunications, electronic goods and automobiles – the latter of which had a negligible history of production in Hungary, as noted in a footnote above. These sectors became dominated by foreign ownership as shown in Table A.3 above.

A.3 Hungary in the 2000s: the political story

After the MSzP lost the 1998 national elections to Fidesz, due in part to their unpopularity from the Bokros Package and its subsequent impact on the Hungarian political economy, a rise in rancorous politics ensued, described elsewhere as a “vicious cycle of low trust and poor growth performance” (Gyórfy, 2008: 13). This was accelerated after Fidesz marginally lost the 2002 election after four years in power. This culture of ever nastier and vociferous attacks between the two main parties – Fidesz and the MSzP – spilled out into the streets in September 2006 following the leaking of a private meeting¹⁸ where then-Prime Minister Ferenc Gyurcsány¹⁹ admitted lying on a series of economic issues²⁰ to be re-elected in May of that year.

¹⁸ This came to be known as the Ószöd Speech

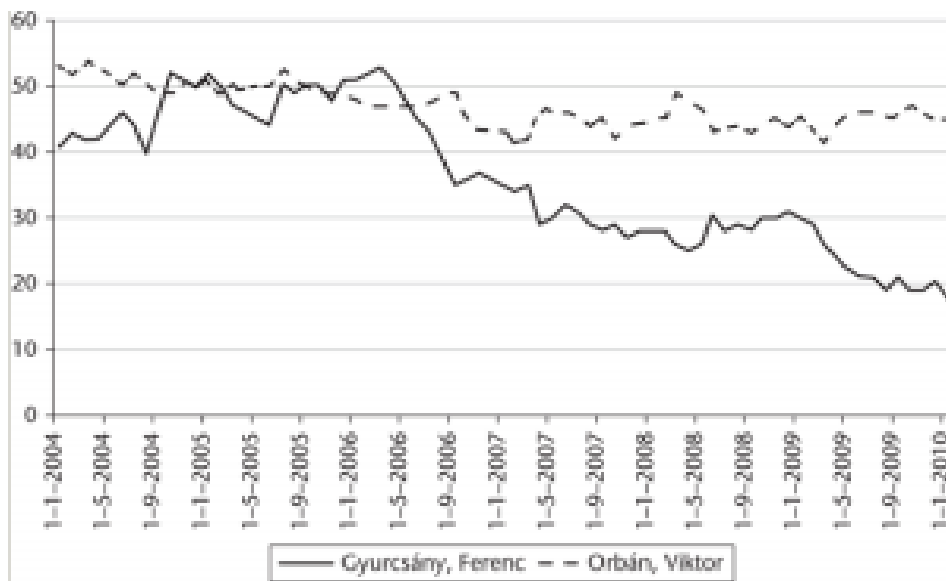
¹⁹ Prime Minister 2004-2009

²⁰ These included new investment, the creation of 200,000 new jobs, tax cuts, state pension increments and reductions in contributions to social security (Körösenyi *et al.*, 2017: 91)

The backdrop of this scene was the emergence of an environment of political promises based on poor readings of Hungary's economic situation. These two principal domestic political parties tried ever harder to outdo the other (Bohle and Greskovits, 2012) with assurances of a stronger safety net and improved living conditions e.g. the introduction of a thirteenth salary cycle and increased pension rates. Emerging from this was a deepened ideological divide, where Fidesz framed the MSzP governments as indifferent to national interests, resulting in the EU becoming a divisive centre point for the wider national question (Fox and Vermeersch, 2010). From electoral defeat in 2002, Fidesz changed internally, created a new ideology and generated a strategy for an extended period in government, while the MSzP (self-) capitulated, accelerated primarily from the fallout from the Ószöd Speech (Lendvai, 2017). These developments are discussed in more detail in chapter three.

From September 2006, the MSzP government became ever more unpopular, which was successfully exploited by Fidesz leader Viktor Orbán and the party itself (Körösényi *et al.*, 2017). This was compounded by the government's acceptance of an international bailout package of €20bn in October 2008 following the onset of the Global Financial Crisis (GFC). Figure A.2 below illustrates the popularity ratings of Gyurcsány and Orbán, with the former unable to recover in the polls following the Ószöd Speech, despite a slight spike in 2008.

Figure A. 2: Popularity ratings of Ferenc Gyurcsány and Viktor Orbán (2004-2010)



Source: Körösényi *et al.*, (2017: 91)

After Gyurcsány lost a no-confidence vote in March 2009, Gordon Bajnai²¹ was asked to head a caretaker government for the remainder of its parliament; a technocratic provisional government, which steered Hungary away from national bankruptcy via the adoption of emergency loans (Dénes, 2012). When the 2010 national elections arrived, Fidesz were in an enormously strong position, having built on the demise of the MSzP and the nationwide loss of respect for Gyurcsány. Orbán was in the luxurious situation of knowing that “an increasingly frustrated electorate [was] left with the choice between voting nationalist, extreme right, or not at all” (Bohle, 2010: 12). The 2010 national election provided Orbán with Hungary’s first so-called supermajority – at least two thirds of the parliamentary seats – enabling him to enact alterations to the constitution without the legal requirement for cross-party consensus; a power Fidesz wasted little time exploiting, discussed further in chapter three.

In the 2000s, a new radically-right wing and ultranationalist party – Jobbik – emerged, which began to gain significant electoral momentum in the two years leading to the 2010 national

²¹ Prime Minister 2009-2010

election, following the fallout from the 2008 Global Financial Crisis. In contrast to more single-issue nationalist parties, Jobbik's success in 2010 and beyond²² is anchored in its focus on economic issues and its opposition to inequalities that arise from capitalism (Varga, 2014). The party even mobilised a paramilitary wing to appeal to the nationalist cause, though this was disbanded in 2009 as Fidesz sought to outflank the party on the terrain of the Hungarian right in preparation for the 2010 national election. Jobbik have been a relatively successful nationalist party and much of their support comes from people aged under 30, which points to potential sustained period of longevity (Pirro and Róna, 2018).

A.4 Hungary and the East: pragmatic relations

During the first two decades of the post-socialist period, Hungary's principal political and economic focus was to develop the country's political and economic turn to the West. The materialisation of the neoliberal characteristics hitherto discussed in this chapter left little room for advancing relations with states located geographically to the East of the country. The influx of new industries from Western Europe, particularly from Germany, upgraded the industries that had shaped Hungary's manufacturing landscape in the state-socialist era. Concurrently, Russia as the main successor state to the Soviet Union was enveloped by an oligarchic subsumption of domestic politics in the 1990s²³ and an assured, though shaky pro-Western outlook from 2000 with no particular emphasis on increasing engagement with Hungary.²⁴ Regarding China, Hungary was the first CEE country to meaningfully re-engage with the country after 1989, following a high-level meeting in 2003, with bilateral relations experiencing increased quality from this point.

²² Jobbik won 16.6% of the vote at the 2010 national election and 47 seats. Despite winning higher percentages of the vote at the 2014 and 2018 national elections, their number of MPs was reduced due to earlier implemented parliamentary reform. In 2018, the party came second to the Fidesz-KDNP coalition, pushing the MSzP into third place. At the time of writing (mid-2018), the two parties with the largest representation in parliament are either national conservative or radically nationalist (159 of a total of 199 seats)

²³ For more detail on the role of oligarchs in 1990s Russia, see Guriev and Rachinsky (2005)

²⁴ Russia was concerned by NATO's expansion to incorporate Hungary and other CEE states in 1999, however

Relations with Russia and China were never hostile during the 1990s and 2000s, but rather based on a pragmatic approach to maintaining positive relations with two major countries in the world economy. These developments and others concerning contemporary and historical relations between Hungary and Russia and China are discussed in detail in chapters four and five, respectively.

A.5 The Dependent Market Economy model

Part of the theoretical framework used to inform this research is an institutional approach, which accounts for the type of capitalism that is under development within a given state.²⁵ The authors describe it thusly: “[the] *varieties of capitalism*²⁶ [VoC] approach to the political economy is actor-centred, which is to say we see the political economy as a terrain populated by multiple actors, each of whom seeks to advance his interests in a rational way in strategic interaction with others” (Hall and Soskice, 2001: 6). The VoC approach initiated what has become a sustained debate within the scholarly communities of economic sociology, political economy and social geography (to name a few) since its publication with offshoots stemming from the original two models envisioned by Hall and Soskice,²⁷ pertaining to account for variants of capitalism in diverse regions of the global economy, namely Latin America (Schneider, 2009), Central and Eastern Europe (discussed below) (Nölke and Vliegenthart, 2009), and more recently, the economies of Brazil, China and India (Nölke *et al.*, 2015). The approach has been described as “distinctive, original and enormously ambitious” (Howell, 2003: 105). Elsewhere, it has been stated that “there is not nearly enough variety in the model, nor is it really about capitalism” (Streeck, 2016: 247b). Such varying descriptions denote the approach arrives with a controversial baggage. On the one hand, it remains

²⁵ A second theoretical strain used in this thesis is Stuart Hall’s (1979; 1988 [1980]; 1985; 1988 [1987]) post-structuralist approach to account for populist development, namely ‘authoritarian populism’. This is discussed in detail in the next chapter

²⁶ Italics in original

²⁷ Namely, Coordinated Market Economies (CMEs), for example, Austria or Germany or, Liberal Market Economies (LMEs), for example Ireland or the United States

effective, on the other incapable. The following chapter unpacks some of these components in more detail.

The DME model was an extension of the parsimonious Varieties of Capitalism (VoC) tradition (Hall and Soskice, 2001), which theorised the types of capitalism that had developed principally in the industrialised countries of Western Europe, the US, Japan and the Antipodes. The model successfully captured the trends described above, namely the high levels of foreign ownership, the FDI inflows and the emergence of multiple dependencies within the four cases isolated as those that most closely resemble the ideal types, theoretically constructed by the model: Czech Republic, Hungary, Poland and Slovakia (also the V4 countries). The authors described the types of capitalism that these developments had produced as dependent on the investment decisions made by MNCs, headquartered in the territories of cases that most closely match other ideal types within the VoC tradition. This model concluded that the four countries had essentially developed into assembly platforms for the “production of relatively complex and durable goods” (Nölke and Vliegenthart, 2009: 672).

The DME model underscores the shift in Hungary’s economic and industrial relations. Within two decades, Hungary had performed a remarkable economic and political turn westward.²⁸ Moreover, the structure of the Hungarian political economy altered radically in terms of foreign ownership, the primary means of raising investment, corporate governance, industrial relations, education and training systems and innovation systems, the five institutional complementarities identified by the authors of the model (Nölke and Vliegenthart, 2009).

Analysis in chapters one and five investigates the continued validity of the DME model in its application to the Hungarian case. Due to politically-induced changes to the internal and external dimensions of the Hungarian political economy, this research claims that Hungary may be moving away from resembling a DME case, to more closely resembling another model within the VoC approach, namely a State-permeated Market Economy (SME) (Nölke *et al.*,

²⁸ This includes accession to international institutions, NATO in 1999 and the EU in 2004.

2015), a further extension of the VoC tradition, which describes Brazilian, Chinese and Indian capitalism.

Chapter one

Theoretical engagement: Harnessing Authoritarian Populism and the Varieties of Capitalism

The post-2010 Hungarian government – Fidesz – has received considerable attention both domestically and internationally (e.g. Heller, 2017; Jenne and Mudde, 2012; Kornai, 2015; Magyar, 2016; Sedelmeier, 2014), perhaps the most in the Central and Eastern European (CEE) region. Few other relatively small countries receive such consideration. What is it that generates such sustained interest in the Hungarian case? Broadly, concerns centre around the backsliding of democratic principles (e.g. Müller, 2011; Scheppele, 2013), which have followed Hungary’s declining economic performance since the turn of the century (Andor, 2009). Only Poland has been analysed in a similar way (Grudzińska-Gross, 2014). More implicit, however, is the continued success of the Fidesz government and Prime Minister (PM), Viktor Orbán (Lendvai, 2017), which shows no signs of diminishing.²⁹ Three consecutive election victories – historically unprecedented in democratic Hungary – underscored by supermajorities³⁰ on each occasion, have catapulted Fidesz to a position not replicated elsewhere in CEE because those other regional leaders that are categorised as backsliders or underperformers do not enjoy a record of electoral success comparable to Orbán. This has led commentators to compare the Hungarian PM with other so-called ‘strongmen’ who enjoy longer-term stays in power e.g. Erdoğan and Putin (Csaky, 2019).

Domestically, Orbán has created a national bourgeoisie via a nationalisation programme since electoral victory in 2010 enriching local, loyal oligarchs who operate to consolidate wealth in *de facto* Fidesz hands (Csik *et al.*, 2015; Szelényi, 2016). Fidesz power has become so

²⁹ Orbán was returned to office in April 2018 for a third consecutive term

³⁰ Two-thirds of the parliamentary seats, permitting the government to legally alter the constitution without consultation

consolidated and consistent, Orbán has effectively decided when he will step down – in 2030 – in three elections’ time.³¹ To put this into perspective, should this materialise, Orbán will have spent 24 of 40 years of post-socialist Hungarian history as PM,³² four years more than Putin in post-Soviet Russia. But leaders in other countries have also been in power for long periods of time. Thatcher was British PM for eleven years, Kohl was Chancellor of West – and later, unified – Germany for sixteen years, Berlusconi, PM of Italy on three, non-consecutive occasions. In other countries, single parties have dominated politics, with the Japanese Liberal-Democratic Party and the Swedish Social Democratic Party, two standout examples of post-Second World War democratic politics. Longevity, therefore, is not the principal concern. For many observers, post-2010 Hungary has taken an unexpected turn for the worse, chiefly via the broad label of “democratic backsliding” (Sedelmeier, 2014). Apprehension is compounded by anticipation that Orbán’s success could be replicated in other CEE states, particularly Poland (Rupnik, 2016), but also throughout the wider region (Cianetti *et al.*, 2018).

Fidesz has consistently criticised the EU, of which Hungary has been a member since 2004, comparing Brussels to a dictatorship (Financial Times, 2018a). This generates connotations of colonisation; a sensitive subject given Hungary’s history of subjugation by exterior powers. Simultaneously, the Hungarian PM has declared himself more at home in autocratic states that do not share similar values to the EU e.g. the rule of law, recognition of human rights etc.³³ The traditionalist party has operated with consistency in three other broad areas, too, namely Hungarian identity – described in this chapter as otherness – immigration and through the identification of specific threats (to the regime), each designed to strengthen its position. Fidesz has regularly attacked particular targets in this regard e.g. individuals or organisations that it perceives as inauspicious or has identified as a potential zone of conflict from which to generate political capital. These areas are discussed in more detail below.

³¹ Orbán stated in May 2018 that he intends to be in government until 2030 as the period 2010-2030 constitutes a “unified era” (Euractiv, 2018)

³² Orbán was first Prime Minister between 1998 and 2002

³³ In a 2015 visit to Kazakhstan, Orbán, heading a business delegation, stated “[w]e are equal in political terms in the European Union, but genealogically we are different. When we go to Brussels we do not have any relatives there. But when we come to Kazakhstan we have close people here” (Plenta, 2016)

Significantly, (attempted) changes to the externalities of the Hungarian political economy have also been engendered by Fidesz. Internationally, Fidesz has embarked on a broad foreign policy initiative, labelled the *Keleti Nyitás* (KN),³⁴ ostensibly designed to increase trade flows with states located to the East of Hungary. While these endeavours have produced limited results in terms of tangible outcomes, the intent nonetheless demonstrates that part of Hungary's focus is to develop significant partnerships with non-Western, non-EU countries, a phenomenon with little traction before 2010. This thesis empirically investigates examples of these interactions in chapters four and five.

Fidesz has made significant changes in Hungary since 2010 and these have been well-documented (Kornai, 2015; Müller, 2011, 2017; Scheppele, 2013). They include changes to the constitution – a legal possibility that accompanies a supermajority – tobacco licensing (Kornai, 2015, Szelényi, 2016), education (Müller, 2017), increased clashes with the EU (Bozóki and Hegedűs, 2018), creating the potential for geopolitical realignment (Jacoby and Korkut, 2015). Government-initiated alterations have been so far-reaching that returning to a pre-2010 Hungary has become unrealistic. This means that it has become crucial to understand the continuous changes in Hungary and what this might mean for the Hungarian political economy, the trajectory of Hungarian economic development and the potential for these trends to materialise across the CEE region, particularly in the V4 countries and most prominently, Poland, as noted above.

The purpose of this chapter is to develop a framework to more effectively account for post-2010 Hungarian populism and the trajectory of the Hungarian political economy. While Fidesz has been consistently labelled as a populist party, it remains nominally democratic given that it contests regular national, local and European elections. The term populist has become a buzzword in the 2010s and is used consistently without much analysis as to what constitutes the term and what does not, creating confusion with historical examples (Tamás, 2017). In

³⁴ Translation: Eastern Opening

other words, by describing Fidesz as a populist party, while it may maintain some accuracy, it does not necessarily separate it from other parties across the CEE e.g. the *Ano* party in the Czech Republic, the wider EU, for example *Legia Nord* in Italy, or even the incumbent US President's Republican Party. Furthermore, populist parties are not confined to the Right, with examples of so-called Leftist populist parties, victorious in recent elections e.g. The National Regeneration Movement in Mexico (2018) and Syriza in Greece (2015).

There are challenges in accurately describing populist regimes. The post-2010 Hungarian case has become a standout case of a populist regime amongst its CEE peers, which has resulted in the interest, described above. Further, a group of populist regimes has emerged in CEE, particularly since the 2008 Global Financial Crisis (GFC), and it has become unrealistic to categorise them under a neat, one-size-fits-all descriptive label. No two CEE regimes look the same, either in their domestic or external policy and relations and Hungary has unique features that have made it a standout case (Bozóki and Hegedűs, 2017). This thesis uses Stuart Hall's (1979; 1988 [1980]; 1985; 1988 [1987]) conception of "Authoritarian Populism" (hereinafter, AP) to create a new theoretical approach to understanding the nature of Hungarian populism. By doing so, it is anticipated that an alternative way of framing Hungarian populism will emerge, which builds on conceptualisations recently developed to explain developments in the post-2010 period.

The significance of this approach in understanding Hungarian development is to graduate away from the those biased towards an emphasis on institutional complementarity, with the accompanying assumption there is a static nature to such a phenomenon (Hall and Soskice, 2001; Nölke and Vliegenthart, 2009) and consequently a lack of capacity to acknowledge the multiple roles of political agency. Hungarian populism since 2010 has clearly shown that such an approach is insufficient to alone account for such a phenomenon and increased analysis is required to build a new theoretical framework to understand this development, not least because this will help to advance a more historical knowledge of contemporary Hungarian capitalism and how the authoritarianism, which has emerged since 2010 may endure or breakdown (Levitsky and Way, 2016).

This research does not consider the VoC framework to be redundant in accounting for capitalist development, however. To complement this proposed approach to understanding Hungary in the post-2010 period, this research harnesses AP to the VoC literature, specifically a model within this tradition, the Dependent Market Economy (DME) model (Nölke and Vliegenthart, 2009). This institutional approach, which followed other attempts to apply the VoC framework to the post-socialist European capitalisms (Lane and Myant, 2007) remains helpful to understand capitalist development in Hungary despite its detractors (e.g. Bohle, 2017). This is because it can help researchers observe potential for institutional harmonisation with considerably larger market economies located to the East of Hungary, notably China (Rogers, 2019), which have been attributed their own 'variety' within the VoC tradition (Nölke *et al.*, 2015).

While AP is an approach with strong emphasis on political agency, this strain within the VoC tradition views institutional firm-firm arrangements as the core components of Hungarian (and the remaining V4 members') capitalist formations. Because Hungary remains highly dependent on exogenous firms, particularly from Western Europe, the DME model maintains efficacy as its principal attention is focussed on the critical role FDI plays in the V4 economies' dependency. Where it has been weakened is as a standalone approach for explaining Hungarian capitalism. Consequently, it is vital for it to be assisted by other approaches that graduate beyond its positivist characteristics and pay increased attention to political agency as the core driving force in post-2010 Hungary. Due to the politically-induced changes to the internal and external dimensions of the Hungarian political economy, in Hungary, "politics remains in control" (Mihályi, and Szelényi, 2019: 80). This chapter contains analyses of these approaches, discussing tensions and potential fusions between them, and justifies their harnessing as a method to understand post-2010 developments to Hungarian capitalism.

1.1.1 *Exceptionalism to potential leader in Central and Eastern Europe*

Hungary's populism has the potential to travel within the CEE region, with Poland the notable possible destination for any export of this form of governance. Though the incumbent Polish government has not replicated the electoral success that Orbán enjoys in Hungary and foreign policies differ – particularly in relation to relations with Russia – similarities are nonetheless identifiable. For example, from an ideological perspective the Polish state bears resemblance to Hungary, espousing a traditionalist mantra that draws on the reframing of patriotism (Koczanowicz, 2012). This is compounded by reactionary changes to legislation,³⁵ which reflect the broad democratic backsliding also present in Poland (Kelemen, 2017; Kelemen and Blauburger, 2017). Orbán's success has become a beacon of conservative values, which regional governments with cognate ideological outlooks are looking to emulate.³⁶ There may be parallels between Hungary and Poland in this regard. Therefore, it will be useful to investigate the extent to which trends that have emerged in Hungary since 2010 have the potential to spill over to Poland as this will have impact on states in the wider CEE region, affecting the political economies of Hungary and Poland in the first instance and potentially beyond. By creating a theoretical approach to help explain changes to the post-2010 Hungarian political economy, observers of Hungary and those concerned with the V4 and CEE regions more broadly, will be in a better position from which to frame outcomes and development trajectories.

This chapter proceeds with a review of the extant literature that accounts for populism in post-2010 Hungary. The principal components of these works are then collated in a table for ease of comparison. Next, I investigate two classical approaches to the political economy,

³⁵ A standout example here is the recent (July 2018) decision by Polish legislators to reduce the mandatory retirement age of judges from 70 to 65 (European Commission, 2018a), effectively removing approximately one third of Supreme Court membership. While there were protests within the country, Poland may lose its voting rights within the EU because of legal action from the European Commission, a move Hungary says it will veto

³⁶ This may not be limited to the CEE region with components of other European governments e.g. Italy seeing Hungary as a fountainhead for right-wing politics. The Italian coalition is not durable, however, and may collapse due to internal ideological differences

which have been applied to the Hungarian case, again followed with a table highlighting the key features of these works followed by a discussion on these approaches' limitations. Next, an overview of AP helps to show the critical components of Stuart Hall's work and lays the groundwork for its application to Fidesz. This is followed by a discussion on AP and its relationship to capital and a third table highlighting its main components. After a brief overview of recent works' use of the approach for varying global cases, I apply Hall's work to the Fidesz case, determining it to be a 'form of hegemonic politics'. The following section discusses potential changes and continuities within the Hungarian political economy. The next section uses the Varieties of Capitalism (Hall and Soskice, 2001) theoretical approach to consider to what extent Hungary may be diverging from one case within the tradition to another. Within this segment, there are discussions on DME-SME interactions and possible convergence, the tensions and fusions that result from harnessing post-structural and institutional approaches and how these might be well-equipped to understand Fidesz strategies for self-reproduction. This is followed by a table that delineates the key components of what is labelled as 'Hungarian authoritarian populism.' Finally, a concluding section reflects on the components of the chapter.

1.2 Current descriptions

Because post-2010 Hungarian politics has attracted considerable attention from a variety of observers, outlined above, there are various academic works that have investigated the type of regime that has emerged – or more accurately – is emerging in Hungary. Helpfully, Bozóki and Hegedűs (2018: 4) summarise the various labels that have been attributed to, first populism in the CEE e.g. "illiberal populism" (Smilov and Krastev, 2008) and then Hungary, including "populist democracy" (Pappas, 2014) "paternalist populism and illiberal elitism" (Enyedi, 2016), as well as their own analysis where the authors categorise Hungary as an "externally-constrained hybrid regime" (Bozóki and Hegedűs, 2018: 11), with the constraint developed from Hungary's relationship with the EU. Examining the influence of exterior actors is an important dimension because this helps to locate zones of contention that help Fidesz

to self-reproduce and this research will produce an investigation to this end in chapters four and five.

This section evaluates some of the types of regime that Bozóki and Hegedűs (2018) discuss as this will set the tone for demonstrating the approach this research suggests may be more useful to understanding the nature of the Hungarian regime since 2010. In total, I analyse four categorisations of the type of regime Hungary has become in the post-2010 period. In place of Smilov and Krastev's work, I incorporate Széleányi's (2016) model on the "illiberal prebendal" type because it investigates Hungary since post-2010, whereas the former analysis studied CEE states before the 2008 Global Financial Crisis, with no particular emphasis on Hungary.

First, Pappas's (2014) article employs the term "Populist Democracy" to categorise post-authoritarian Greece and post-communist Hungary. Comparing these two countries may seem challenging at first glance, given their dissimilar historical development, something the author notes, but similarities are identified in both cases because, along with the ruling party, "at least the major opposition party (and even other minor parties) are also populist" (Pappas, 2014: 1). This work sees the emergence of "Populist Democracy" as contingent on a three-fold structure, developed from the stage of nascent political liberalism, namely (a) populist opposition; (b) populism's ascent, and; (c) populism's contagion (Pappas, 2014: 5) with the final node reflected by the proliferation of populism into the major parties, as identified by the model. In the Hungarian case, after the cessation of state-socialism, political pluralism emerged, with parties populating a broad spectrum of conservative, socialist and liberal positions. This diverse political environment became diluted during the 1990s and 2000s with populism emerging as the *modus operandi* of choice for Fidesz³⁷ based on the calculation that it was "far more electorally rewarding than any other option available to them" (Pappas, 2014: 8). Concomitantly, populism spread to the principal opposition party – the MSzP³⁸ – which mimicked Fidesz, adopting two main approaches to politics, namely: absolute

³⁷ Fidesz is one of the oldest conservative parties in the CEE region, established in 1988

³⁸ The descendent of the Hungarian Socialist Workers' Party, the governing party between 1956 and 1989

ideological rejection of Fidesz and an overemphasis on generous welfare prospects, with both parties making unrealistic promises to secure votes, described elsewhere as the “politics of outbidding” (Bohle and Greskovits, 2012: 240). The “Populist Democracy” label is fairly robust in most areas, with the critical drawback being that it sees this form of populism as unstable. In Hungary, the Fidesz regime shows little sign of slowing down, with the most recent electoral victory (April 2018) returning Fidesz and Orbán to power with a historically unprecedented third consecutive tenure in government and another supermajority, as noted above. Therefore, this trend of political stability calls into question the efficacy of this label in its application to Hungary. Further, due to the disintegration of the Hungarian Left, it has become increasingly unclear which party is the main opposition party. This is compounded by the post-election leadership change in the Jobbik party, which won over 20% of the seats and came second at the 2018 national election.

Second, Enyedi’s (2016) article focuses on addressing the phenomenon of elitism and how it can be attributed to the development of an “overall populist appeal” (Enyedi, 2016: 9). This work investigates Fidesz and the radical far-right nationalist, xenophobic Jobbik party, because it managed to not only survive, but advance its influence following the GFC. Before returning to government in 2010, Fidesz “conducted an orthodox populist strategy” (Enyedi, 2016: 12), which ties in with Pappas’s descriptions, outlined above. However, in the years since 2010, on the back of widespread domestic support, power has become so concentrated in the Prime Minister’s hands that Hungary’s “regime is centralised to a level that is unknown in Europe” (Enyedi, 2016: 13). The tag of elitism, which accompanies this type of populism is attributed to the rise in poverty that has developed as a result of Fidesz’s reduction in welfare payments, the government has penalised those who do not fit into certain ideological brackets i.e. those who have “exhibited anti-communitarian behaviour” (Enyedi, 2016: 14), creating a regime that unambiguously discriminates against the lower classes. This form of populism stands out from more regular forms because of its paternalism, which “rejects the political correctness of the ‘inorganic’ establishment but considers people insufficiently mature to participate autonomously in decision-making” (Enyedi, 2016: 21). This description is useful as it analyses the standout mainstay party (Fidesz) in CEE politics. Particularly helpful

is the analysis on the elitist nature of Fidesz and the downgrading in economic standing of many Hungarians because this raises questions over how to best explain Fidesz and Orbán's continued popularity despite the lack of material benefit for most Hungarian citizens. By employing nationalist rhetoric, Fidesz has been able to offset opposition to lower welfare provisions to Hungarian citizens, which Enyedi (2016: 20) suggests may be due to Hungary's "historical trajectory." Whatever the case, this work is important because it highlights some of the standout characteristics of the Hungarian regime, namely paternalism, elitism, social obligations and national homogeneity. Further, this may be a useful approach to understand other cases in CEE that bear resemblance to the post-2010 Hungarian regime and therefore could be expanded in its application.

Of particular significance is Szélényi's (2016: 23) assertion that Hungary, along with other post-communist countries, notably China and Russia, but also Eastern Europe, broadly defined, "may be converging on an illiberal, prebendal system", which has emerged from legitimacy issues that arose following the collapse of communism in these states and regions. Anchored in Weber's (1978 [1922]) work on the three ideal types of domination – including a fourth type, which is typically overlooked – Szélényi (2016: 22) analyses the relationship between ruler and staff. To do so, he applies the Weberian terminology 'prebendalism', which is described as "the making of a class "serving nobility"" where a wider oligarchy of more concentrated wealth is diluted and reorganised, enriching the incumbent government with the principal result being the development of a loyal bourgeoisie. In this sense, these changes are akin to the differences between the Russian oligarchy in the 1990s, whose members enjoyed considerable political influence and their subsequent subordination after Yeltsin left the Presidency on the eve of the millennium. While developments in Hungary since 2010 have generated widespread interest from observers, mentioned above, Szélényi (2016:18) notes how (perhaps these same) observers of the developments in 1990s CEE typically "over-idealize" the period as one of great, progressive change particularly as many members of the population in these countries were sceptical of the seemingly altruistic overtones of emergent political parties. This is underscored by the habitually low voter turnout during the first wave of democratic elections and questions over the "most vulnerable component of this [type of]

liberal-democracy ... the legitimacy of private ownership” (Szelényi, 2016: 18). This form of regime emerges from the Weberian notion of *Herrschaft*³⁹ (1978 [1922]), and according to Szelényi (2016: 23) Orbán has “a dose of charisma.”⁴⁰ The importance of this analysis, for the purposes of this research, however, is the acknowledgment of the emergence of prebendalism as a core feature of the Hungarian regime. To understand the post-2010 Hungarian regime, it is critical to investigate the ownership of capital and how capital can be coerced into remaining loyal to the regime – in this case, Fidesz – for it to be able to reproduce itself and continue its success. The nationalisation programme introduced by Fidesz after 2010 was designed to radically reduce the presence of foreign ownership in particular sectors, notably banking, energy, retail and utilities. Simultaneously, corrupt practice in post-2010 Hungary has increased dramatically, with Hungary positioned in 27th place (above Bulgaria) in the CPI⁴¹ score of EU member states (at 2017 levels). This drastically contrasts with its position in 2004 – the year of EU accession – when it was identified as the third least corrupt country amongst its post-socialist peers⁴² who also joined the bloc in that year (Transparency International Hungary, 2018). The natural question to emerge from this data is: to what extent has Fidesz used big capital to cement its position in power? Prebendalism as a nascent phenomenon helpfully captures these trends.

Fourth, Bozóki and Hegedűs (2018) make an important distinction from the abovementioned works in their analysis of Hungary, by producing a description based on the country’s relations with exterior actors, describing it as an “externally-constrained hybrid regime”. By incorporating an external dimension, the authors’ model diverges from the other types discussed, which are principally domestically-focussed studies in the sense that they place emphasis on the development of national factors to account for the given type of regime they seek to explain. Bozóki and Hegedűs, however, demonstrate that Hungary’s development is in part resultant from a specific externality, namely: its relationship with the EU, which “does

³⁹ This is a challenging term to translate into English, but is commonly described as ‘legal domination’

⁴⁰ This is a reference to one of the three ideal types of domination as categorised by Weber (1978 [1922]), namely *charismatic authority*

⁴¹ Corruption Perceptions Index – the measurement by which Transparency International gauges how corrupt a given country’s public sectors are understood to be

⁴² Czech Republic, Estonia, Latvia, Lithuania, Poland, Slovakia and Slovenia. Cyprus and Malta also became members at this time but have no history of state-socialism

not only fulfil system constraining functions regarding the Hungarian regime, but performs system support and system legitimisation functions as well” (Bozóki and Hegedűs, 2018: 1). This is a crucial feature because the characteristics of all regimes – particularly those that operate in countries that are land-locked, relatively small and members of multiple international institutions, as Hungary is – are highly contingent on external factors. Developing this point, the authors highlight two reasons why Hungary has emerged as a unique case (2018: 3-4). First, Hungary is the first and only example of a state that has achieved Western liberal democracy and subsequently developed into a hybrid regime. Second, Hungary has emerged as the sole “completely developed hybrid regime within the EU,”⁴³ contradicting the EU’s own legal stipulations for the accession to the bloc after 2004 e.g. liberal democracy conditionalities. In this regard, the EU is critical to the running of Hungary’s hybrid regime, performing a trichotomy of roles, defined as: “(1) a systemic constraint; (2) a supporter; and (3) a legitimiser of the regime” (Bozóki and Hegedűs, 2018: 6). The authors’ outlook of these developments between Hungary and the EU are not particularly positive, as they identify (2018: 10) two ways in which this hybrid regime could gravitate towards authoritarianism. First, considerable drawdowns in the EU Cohesion Fund⁴⁴ could lead to a decoupling of the Hungarian regime and the EU⁴⁵ and a consequent move away from the normative roles the EU plays in Hungary and which are typical of Western liberal democracies e.g. rule of law. Second, the EU’s constraining methods may be undermined should it become less able to function as an institution built on “mutual values and interests,” with the result that Hungary may further drift away from these values it developed after its own accession in 2004. By investigating Hungary’s relationship with the EU, this article demonstrates the critical importance of external actors in understanding the nature of the Hungarian state since 2010.

⁴³ The authors consider Poland as a possible future addition to this categorisation

⁴⁴ The EU Cohesion Fund delivers financial flows to member states whose Gross National Income per person is less than 90% of the EU average. Hungary has received two tranches to this end, with the second due for expiry in 2020

⁴⁵ Since this article’s publication (early 2018), the EU has announced that it will indeed reduce the finance levels available to Hungary – and other CEE states e.g. Poland – from the Cohesion Fund from between 23% and 24% of their pre-2020 levels, by relocating capital to Southern European members. This structural adjustment has resulted in part from the Brexit situation, which has seen a 10% budget reduction for the EU due to anticipated loss of income from the UK

These analyses on developments in Hungary, underscore how 2010 has become a watershed moment in post-socialist Hungarian history. The four models put forward by these authors demonstrate the importance of investigating the type of regime that has emerged in Hungary because of Fidesz's continued success and its evolution. Significantly, while there is agreement that developments in the country have standout features vis-à-vis ostensibly cognate regimes, each model offers different accounts to explain such developments, highlighting unique features that are not necessarily congruent with one another. Further, in two of these cases, these models are applicable to countries other than simply Hungary, which allows for a comparative analysis and implies that the post-2010 Hungarian regime may not be an outlier. Furthermore, there are differences in the authors' acknowledgement of the origin of the causal mechanisms that have helped to develop Hungary's regime. Undoubtedly, all authors are aware of the importance of exterior actors in forming the post-2010 regime in Hungary, though only the final study analysed above reflects this by placing the EU at the forefront of its investigation. As chapters four and five demonstrate, this is a critical recognition because by addressing the role of exterior actors, a deeper understanding can be developed as to the nature of Hungarian populism and developments in the contemporary Hungarian political economy.

To give an overview of the four types of regime discussed above, Table 1.1 summarises their key components, highlighting the unique features of each type, their application in terms of geographical area and political party and the origin of structural support.

Table 1. 1:⁴⁶ Four types of regime

| Type of regime | Key features | Application: ⁴⁷ State / (party) | Domestic / International ⁴⁸ |
|--|---|---|---|
| Populist Democracy (Pappas, 2014) | Twopartism; highly unstable | Hungary and Greece (single party) | Domestic |
| Paternalist Populism and Illiberal Elitism (Enyedi, 2016) | Collective interest, social obligations; ethnocultural similarity and conscience | Hungary (multiparty) | Domestic |
| Illiberal Prebendal (Szelényi, 2016) | Class of “serving nobility”; Impressions of security and welfare provision | Post- communism: China, Russia and CEE (single party) | Domestic |
| Externally-constrained Hybrid Regime (Bozóki and Hegedűs, 2018) | Liberal democracy to hybrid regime convert; fully-developed hybrid regime, systemically- assisted by EU | Hungary (single party) | Domestic and international |

Source: author’s own compilation

⁴⁶ This is not an exhaustive list. I have selected these works because they have been written to account, at least partially, for the Hungarian state in the post-2010 period

⁴⁷ This refers to (a) the states and/or areas to which the authors apply their models, and (b) how many parties are identified as fitting the types of regime described, within the given geographical zone

⁴⁸ The authors’ identification of domestic and/or international factors as critical for the given type of regime’s creation, development and deterioration

This table demonstrates that there are different ways of interpreting the post-2010 Hungarian regime. Their standout commonality is that they are all recent studies and base their approaches on contemporary historical trends. The potential exception is Szelényi's model, which develops from the classical work of Max Weber. The next section discusses the application of classical works by producing a brief overview of Weber's and Karl Polanyi's approaches to political economy to add more depth to the analysis.

1.2.1 Classical approaches

Two approaches to understanding the nature of the post-2010 Hungarian regime are identified here as they contain analyses that has a broad application to accounting for political agency and its interaction with the political economy. First, Max Weber's charismatic authority (CA), is part of a trichotomy of forms of *Herrschaft* analysed in *Economy and Society* (Weber, 1978 [1922]). The two other pure types of authority theorised by Weber are (a) rational-legal authority where there is an understanding that there are persons legally positioned to execute rules, typically reproduced in representative democracies, and (b) traditional authority, where those executing rules do so, based on the inviolability of "immemorial traditions" (Weber, 1978 [1922]: 215), which may be demonstrated in cases of monarchical command. CA is actor-centred and legitimate in terms of the leader/follower dichotomy, which evokes "archetypes of heroic warriors, prophets, magicians [creating an authority to] accumulate political capital" (Jentges 2014: 33). Once mobilised, CA is proliferated and reproduced. This phenomenon typically emerges in times of crisis, arising as the spirit within which to counter – or more dramatically – transcend the given crisis. As a methodological mechanism, it is a "force for change ... in direct contradiction to the logic and laws of the rational-legal and the traditions and inherited status of the traditional" (Conger, 1993: 278). CA is a reaction inspired by a problematic situation, that necessitates extraordinary leadership as the vehicle from which to transcend it. According to Friedland (1964: 18) "charisma appears in situations where (a) leaders formulate inchoate sentiments deeply held by masses; (b) the expression of such sentiments is seen as hazardous; (c) success-as defined by the relevant social groups-is registered." The components of a charismatic

leadership are threefold according to Weber. There is necessarily a strong leader, bestowed with charismatic qualities, supported by followers and staff who are the principal agents in the generation of charisma, which then becomes institutionalised as an instrumental method with which to govern. Crucially, it is the latter two of these three components, namely the followers and staff, that have the capacity to withdraw charismatic authority from the leader.

Why might charismatic authority be a possible analytical tool with which to understand the nature of the post-2010 Hungarian regime? In the first instance, as a reaction to the economic configuration that emerged during the first two decades of post-socialism, characterised by privatisation and high levels of foreign ownership, as outlined above and in the previous chapter, deep-seated national grievances have been evoked and pinned to economic concerns by Fidesz; one of the seven potential outcomes to the introduction of capitalism and democracy in the CEE region after 1989 described by Offe (1991: 886-887).⁴⁹ This has led to Fidesz – and in particular, Orbán – to become the principal agent for voicing these concerns on behalf of the Hungarian nation at the domestic and international levels.

Regarding the mobilisation of a staff for the production of CA, Orbán and Fidesz have skilfully created a national bourgeoisie (Szelényi, 2016), which in return for bounty (capital), is politically-loyal and sycophantic. Importantly, as charismatic leadership is idolised, and momentum grows or is maintained, it does not necessarily have to remain confined by national borders. Bozóki and Hegedűs's (2018) work, analysed above, warns us that Poland has become the main country where Orbán's and Fidesz's political successes could be replicated. The potential for it to spill over into neighbouring countries, particularly where similar concerns have materialised increases because there may emerge a correlation between charismatic leadership success in one location and the continued desire to replicate

⁴⁹ The other six possible results put forward by Claus Offe were: (i) a distortion of privatisation and marketisation by democratic politics; (ii) the failure of a graduation from privatisation to marketisation due to cartels and monopolistic structures; (iii) the obstruction of democratic politics by privatisation; (iv) the undermining of democratic politics by non-democratic social relations i.e. ethnic, territorial or minority conflicts; (v) uneven marketisation, and; (vi) demands for marketisation *without* private property, or a regression to state ownership due to frustrations from the abovementioned potentialities. For more information, see Offe (1991: 886-887)

it in another. This is compounded by the similar pre and post-1989 histories the V4 countries have experienced where they “[absorbed] new values and experience[ed] ugly new phenomena instead of sailing into an imagined paradise” (Berend, 2010: 250). Followers and staff, then, have the potential to engender CA in other, non-Hungarian regional leaders, particularly in Poland, though its structure may be short-lived should followers not begin to receive material gain and given Poland and other regional states maintain regular electoral cycles, despite “democratic backsliding” (e.g. Cianetti *et al.*, 2018).

Second, Karl Polanyi’s *The Great Transformation* (2001 [1944]) analysed the phenomenon of the double movement, a reaction against free market fundamentalism. This work offers a useful method to comprehend the ostensible post-2010 countermovement against the economic status quo that developed during the 1989-2010 period, characterised by foreign ownership and external dependencies (Nölke and Vliegenthart, 2009). However, identifying anti-neoliberal trends can be problematic in the sense that “a countermovement is the short answer, but plotting its coordinates is no simple task” (Dale, 2012: 12). Counter movements can populate a spectrum of alternatives that range from the fascism of the 1930s, to the New Deal of the same era – both reactions to the free market, as categorised by Polanyi. This approach identifies the fictitious commodities of land, labour and money (Polanyi, 2001 [1944]), which serve to squeeze populations by affecting societal relations, detrimental to social stability as the core reasons for the wide applicability of the countermovement thesis. Twenty-first century examples may be no different in this regard, which underscores the recent re-emergence of attention to Polanyi and his work on the political economy (e.g. Clark, 2016; Dale, 2016; Hann and Hart, 2009).

Polanyi’s analysis was used by Bohle and Greskovits (2012) to analyse capitalism on Europe’s periphery i.e. post-socialist Europe. This was a helpful framework with which to understand capitalism in CEE as the authors recognised the importance of “bringing politics back in [to measure] post-socialist success in capitalist democracy” (Bohle and Greskovits, 2012: 16). Significantly, in their comparative investigation, the authors emphasise (2012: 258) that it is

in Hungary where “embedded neoliberal capitalism⁵⁰ and democracy now face the greatest danger of being dismantled.” This approach placed emphasis on the general problem of the decoupling of capitalism and democracy in the region and it was noteworthy to identify Hungary as the principal case where this trend is materialising, a phenomenon the models presented in Table 1.1 underscore.

An important outcome of reverting to Polanyi’s analysis is that it allows for more attention to be placed on national characteristics and subsequently how any reaction to the free market might be framed or operationalised by domestic political actors in Hungary. As discussed by the authors identified earlier in this chapter, the Hungarian government produces consistently hostile rhetoric against what it perceives as a form of colonisation of Hungary (by Western entities, particularly the EU). The chief outcome of these reactions is the demonstration of the fragility of the democratic institutions, which developed after 1989. For example, Fidesz continually call for inter-regional dialogue and co-operation, but this is to be done on local terms, thereby sidestepping what is increasingly viewed as an overarching EU-inspired subjugation of the will of local (CEE) peoples, described elsewhere as Western hegemony that filled the vacuum left by the downfall of state-socialism (Janos, 2001). From a regional perspective, this speaks to Szűcs and Parti’s (1983: 135) ‘three Europes’ where “East-Central Europe became squeezed between” Eastern and Western Europe, following great expansions in the sixteenth and seventeenth centuries, leaving Hungary and its neighbours unsure where they really belonged. This analysis produced “an avalanche of debates” (Péter, 1999: 109) around the location of Hungary and whether Central Europe existed at all.

In this sense, Polanyi’s analysis remains useful as it helps to situate Hungary’s ostensible countermovement against neoliberal free market forces within the nation state itself. Further, Bohle and Greskovits (2012) have shown that it offers a broader framework for investigating a wider trend within the CEE region: the increasingly unamicable relationship between free market capitalism and liberal democracy, both of which were adopted

⁵⁰ In an earlier work, the same authors attribute this label to the V4 countries (Bohle and Greskovits, 2007)

throughout post-socialist Europe – in different forms and at different rates of embeddedness – fewer than three decades ago. Table 1.2 summarises the principal components of both approaches discussed in this section.

Table 1. 2:⁵¹ Weberian and Polanyian approaches

| Classical approach | Key features | Application⁵² | Domestic / International |
|---|---|---------------------------------|--|
| Charismatic Authority (Weber, 1978 [1922]) | Institutionalised, instrumental method of governance | Leadership and regime | Domestic and international ⁵³ |
| The Great Transformation (Polanyi, 2001 [1944]) | Reaction to free market fundamentalism / fictitious commodities | Countermovements | Domestic and international |

Source: author’s own compilation

It is critical for any attempt that theoretically accounts for national capitalism to pay greater attention to domestic political agency and in this sense, “bring politics back in” (Bohle and Greskovits, 2012: 13). This assertion becomes more pertinent when discussing post-socialist European countries, because in the first instance, capitalist and democratic institutions are relatively newer and therefore more vulnerable to shocks, already witnessed through the process described as “democratic backsliding” (e.g. Mechkova *et al.*, 2017), discussed earlier

⁵¹ This table produces an overview of the unique features, application and origin of structural support of these two classical approaches, similar to Table 1.1

⁵² This column refers to the entity or trend for which the authors’ works are designed to account

⁵³ This has international features because it may not be limited to one ethnicity i.e. the CA of Napoleon and his foreign ventures, and if it is, those populations may reside outside a given state’s borders

in this chapter. Indubitably, this is a complex process, reflected by the variation in efforts to approach this problem. For this reason, a series of limitations are identified below, which demonstrate why it is important for Hungary to be further analysed in order to create an improved approach to understanding the nature of the Hungarian regime in the post-2010 period.

1.2.2 Limitations to these approaches

The first four models discussed in this chapter have been successful in their analyses of the contemporary Hungarian regime, with the additional two classical approaches also demonstrating their efficacy in at least partially accounting for the type of capitalism that has been developing in Hungary since 2010. These six models, however, contain limitations for different reasons, which are outlined in this section.

The studies included in Table 1.1 do not fully capture the nature of the Hungarian regime and subsequently the contemporary Hungarian political economy (though this was not explicitly their remit) because – with the exception of the work on the “externally-constrained hybrid regime” – their dimensions are typically inward-looking and underplay the external dimensions of post-2010 Hungarian politics, which enlarge the “ever-widening grey zone” (Bozóki and Hegedűs, 2018: 1) between democracy and dictatorship. This is a crucial observation and this thesis agrees that it is critical for any approach attempting to understand the Hungarian state in the post-2010 period to emphasise the importance of external factors that affect the type of regime developing in Hungary. Regarding the final study listed in Table 1.1, rather than describe a limitation, this work will build on the authors’ investigation of the connection between Hungary and exterior actors in chapters four and five, demonstrating the importance of Hungary’s relations with Eastern states since 2010 and the subsequent emergence of nascent transnational capital dimensions and their implications for the Hungarian political economy.

Weber's charismatic authority is not wholly applicable to the Hungarian regime for three reasons. First, Hungary remains a democratic country, with national elections held in four-year cycles; an institution in operation since 1990. Importantly, this diverges from Weber's ideal type, which is typically concerned with describing the emergence of charisma in non-democratic hierarchies. Second, the wider institutional context in which Hungary is now enmeshed (e.g. the EU and NATO) arguably constrain the possibilities of CA fully developing. Third, the followers that Weber discusses as critical for the production and maintenance of charisma must be reciprocated with material benefits if the leader is to remain in a charismatic state. Strikingly however, Hungary has the fifth worst minimum wage in the EU at approximately €400 per month at 2018 levels (Eurostat, 2018) with average salaries the second worst in the OECD (above Mexico) (OECD, 2017a). These statistics come despite Hungary's average gross wage increase of 13% with net wages growing at the same rate year-on-year to November 2017 (Budapest Business Journal, 2018a); considered a result of labour shortage.

Polanyi's analysis of the countermovement implies that there is a disconnect between proponents of the market and society. In contemporary Hungary, however, despite the nationalisation programme fostered after 2010 for the purposes of reducing foreign ownership in certain sectors, multiple dependencies on Western MNCs, *Mittelstand* enterprises and the EU remain. Further, firms with operations in Hungary continue to engender flows of foreign direct investment (FDI), a key component of the neoliberal political economy that developed after 1989. Indeed, inward FDI stock as a percentage of GDP (at 2015 levels), is approximately 65% with non-Hungarian firms accounting for 25% of private sector jobs (OECD, 2017b). These statistics demonstrate the critical importance of foreign firm presence for the Hungarian economy. Hungary remains highly dependent on foreign capital, and consequently, embedded neoliberalism continues to operate under a Fidesz government. Therefore, Polanyi's approach is unable to account for the maintenance of extant Western-induced value chains that constitute the bulk of the Hungarian economy with these structures labelled elsewhere as institutional complementarities (Nölke and Vliegenthart, 2009). Further problems with Polanyi's approach concern self-determining models because they can lead to

teleological understanding of social change (Vandergeest and Buttel, 1988), thereby diluting societal initiations to a goal-seeking sphere of activity. Elsewhere, Polanyi's work has been accused of enacting a teleological approach (Burawoy, 2003) because of the author's assumption of inevitable outcomes for industrialised societies in terms of overcoming the self-regulating market (Dale, 2012).

Finally, Polanyi's analysis of the double movement does not contain a technical account of the mechanics of capitalism e.g. accumulation, competition etc. (Dale, 2015), therefore, it will not have the capacity to identify and investigate much smaller-scale and time-specific phenomena that combine to interact to operationalise the components of a given national capitalism. In this sense, it lacks the theoretical tools to produce more intricate analysis that digs deeper into the machinations of capitalist institutional frameworks. Further, this research agrees that the double movement may not be a good "strategic guide" (Dale, 2015) because the binary nature of one movement countered by another cannot necessarily account for the emergence of anti-market protests, in the broad sense.⁵⁴

Hungary is a unique case in CEE in terms of continued single-party dominance within a nominal democracy and observers are right to concern themselves with its development. Importantly, Hungary may develop from an exceptional case within the CEE region, to a leading example i.e. a regime that others may work to emulate, particularly given Orbán's continued electoral success. The following sections therefore focuses on developing a framework to account for the Hungarian regime by fusing Stuart Hall's notion of Authoritarian Populism (1979; 1988 [1980]; 1985; 1988 [1987]) to the VoC framework. By applying Hall's work, I make a further contribution to the already rich collection of investigations that focus on the nature of the Hungarian regime in the post-2010 period. To paraphrase Hall (1979: 14), hitherto analyses while important contributions to understanding contemporary Hungarian

⁵⁴ To highlight this, Dale gives the example of the Gezi Park incident in Istanbul in 2013 where demonstrators' objection to the park's proposed demolition is one form of counter movement (anti-market movement), but so too was the reaction of the incumbent Justice and Development Party, who crushed the protestors. In this sense, the Polanyian theorisation may be overly parsimonious for the fast-paced virtual and non-virtual organisational structures that are rapidly assembled and liquidated.

populism, do not capture the “full dimensions.” I consider the application of Hall’s Authoritarian Populism an important move forward in formulating an improved interpretation of the Hungarian regime.

1.3 Authoritarian Populism

“Authoritarian populism” was originally coined by Stuart Hall (1979) and emerged from earlier work that conceptualised the “authoritarian state” (Poulantzas, 1978) and draws from Gramscian approaches to theorising the state and hegemonic blocs (Gramsci 1971 [1937]). Essentially, Gramscian hegemony refers to how a ruling class (or dominant elite) maintains control not merely through coercion, but mainly through cultural practices and the communication of ideologies that legitimate and justify their rule (Gramsci, 1971 [1937]). Hall’s approach was applied to understanding authoritarian and/or populist regimes, beginning with the onset of what he himself dubbed ‘Thatcherism’ from the late 1970s. Hall (1979: 15) defines AP as “an exceptional form of the capitalist state, which, unlike classical fascism, has retained most (though not all) of the formal representative institution in place, and which at the same time has been able to construct around itself an active popular consent.” Hall (1985: 119) developed his work to offer “only a partial explanation” for the emergence of Thatcherism in the late 1970s and early 1980s. In doing so, he produced a more holistic, historically-embedded and deeper (organic) account of the components of Thatcherism and how it accrued continuous electoral success for over a decade, echoing Gramsci’s call to create analysis that is more historically-sensitive (Landy, 1986). Indeed, Hall’s approach was distinguished from other accounts of the period that attempted to account for the rise of Thatcherism as they typically focused on specific arenas of content that a broad move to the political Right entailed in Britain on the advent of Thatcherism e.g. industrial and economic policies that were symptomatic of economic crises and the establishment of the xenophobic National Front as a viable political movement (Hall, 1979). The result of this was to create an encompassing, historically-grounded approach that detailed the strengths, consistency and popularity of Thatcherism and how it was able to overcome adversity despite

the crushingly detrimental effects on British society such as widening inequalities, which reverberate today (Jessop, 2015).

Part of AP's success in accounting for Thatcherism emanates from its roots in the "Gramscian terrain of struggle" (Hall, 1988 [1980]: 131), which seek to understand the relationship between the conjunctural i.e. the historical moment in which a shift towards AP is in effect and the 'organic' elements i.e. the depth of the crisis. By following this Gramscian path, a more profound understanding of the wider plateau of components becomes visible. The legacy of this approach, in part, is to understand more thoroughly "a new balance of forces, the emergence of new elements [and] a new historical bloc" (Hall, 1979: 15).

A Gramscian focus here is important, not least because for Gramsci himself, "the state is not an end in itself, but an apparatus, an instrument" (Bobbio, 1979: 24). Therefore, political actors have the potential to use their agency to affect the state, to manipulate state institutions for the purposes of self-perpetuation; a fundamental acknowledgment for this research. Hall's analysis of the "Gramscian terrain" was published at a similar time to other scholars' work which sought to develop theoretical approaches to understand the social from post-Marxism to post-structuralism (e.g. Laclau and Mouffe, 1985) and this acted as a strengthening force for post-Marxist approaches (Leggett, 2013: 300) despite substantial disagreements between them (Wood, 1998). Indeed, it is on the Gramscian terrain that "cultural mobilisations of consent across diverse social sites amount to important consolidations of political power" (Wood, 1998: 401). Such an observation acknowledges the width of analytical scope afforded to social studies through the incorporation of a Gramscian approach and signifies strong potential to capture various tropes associated with political power that infiltrate state structures, for example discursive practice (Barrett, 1991); a critical component of any (authoritarian/populist) regime.

To empirically-bind his approach to understanding what he saw as the critical components of Thatcherism, Hall identifies four primary areas where the phenomenon manoeuvred on the

conjunctural terrain to operationalise its ideology, namely: crime, welfare, the treatment of women and race (Hall, 1988 [1980]: 144-146). These 'moral panics' (Cohen, 1972) were explored earlier by Hall *et al.*, (1978). They are typically promoted by moral entrepreneurs e.g. politicians and journalists (Moore and Forkert, 2014) to exaggerate phenomena in societies such as immigration or specific events – for example, an isolated criminal action – through the attachment of negatively-loaded descriptive tags e.g. 'skiver' (Moore and Forkert, 2014). The outcomes for those categorised in such ways are: criminalisation, demoralisation and scapegoating (Hall and Scraton, 1981). 'Moral panics' emerge from the configuration of power dynamics i.e. those who *can* place blame on another, which stems from structural crises in capitalism "rather than [as] just symptomatic of inevitable social change" (Moore and Forkert, 2014: 499).

By identifying these areas, Hall demonstrates that AP becomes hegemonic because it infiltrates multiple layers of society by stimulating a two-pronged structural support network, partly originating from 'below' through its "wide appeal and common touch" (Hall, 1988 [1980]: 141) and partly promoted from 'above' by the "ventriloquist voices" (Hall, 1979: 18) of selected loyal media in order to reproduce itself and increase its relative power against the backdrop of those zones of conflict. Though not without challenges, Thatcherism moved deftly to (attempt to) achieve hegemony, creating itself as an under challenged or even, unchallenged bloc with which to enact social change.⁵⁵ The four areas identified by Hall, above, barely left anyone outside the reach of AP and while those zones of conflict may have changed since the 1980s, successive British governments have not withdrawn from the neoliberal ideology, which thrived under Thatcherism, with the Welfare State its biggest victim (Hall, 2011).

What is re-emphasised at this point is the importance of locating AP within its historical moment. By accentuating the nature of understanding the forces that combine to formulate

⁵⁵ The term 'there is no alternative' (TINA), while used by Thatcher to rule out any substitution for the free market, aptly captures this process and helped to strengthen the Gramscian terrain on which it operated because it effectively undermined opposition to the establishment and stimulated the proliferation of neoliberalism

AP, Hall was able to successfully capture the beginning of the phenomenon of Thatcherism, identifying its creation as the time when Thatcher herself rose to the Tory leadership in 1975 (Hall, 1988 [1987]). By locating Thatcherism's nascent moments during Conservative opposition, Hall was able to avoid the potential mistake of viewing it as an open-shut singularity, wedged between the two dates that bookended Thatcher's time in office, 1979-1990. This would have been an arbitrary plotting of the nodal points of AP and would have overlooked the importance of determining AP's genuine roots and therefore would not have been able to theorise the fundamental aspects of Thatcherism. What Hall accomplished was to inform us of the importance of keeping Gramsci's onus on history at the forefront of observation. For this reason, "we ... have to take seriously Hall's insistence on analyzing periodized relations of force, including culture and communication" (Harsin and Hayward, 2013: 204).

1.3.1 Authoritarian populism and capital

One of the most significant changes in the "balance of forces" (Hall, 1985: 116) during the development of AP in 1970s and 1980s Britain, was the emergence of neoliberal economics, defined in the British context as:

"(a) the privatization, deregulation and commercialization of the state sector; (b) promotion of the City as the centre for international financial capital; (c) the reinforcement of market forces by encouraging inward and outward investment and promoting the small business sector; and (d) the enhancement of capitalist 'flexibility' through legislative restraint of trade unionism, increasingly coercive 'training' schemes, a market-oriented social security programme, and various low-cost schemes aimed at helping business to help itself." (Jessop *et al.*, 1990: 89).

Thatcherism unshackled capital's potential with the embedding of neoliberal economic principles – primarily deregulated capital markets – graduating from the three decades of

Keynesianism and its emphasis on welfarism that followed 1945.⁵⁶ This surge towards a capital-driven economy was based on a fundamental misreading of the structural economic issues that plagued the British economy at the onset of Thatcherism, however. Thatcherism (mis)identified a crisis which was wrapped up and marketed as “a crisis of ungovernability and overload, a crisis of an overextended state” (Hay and Smith, 2013: 296). This crisis subsequently required addressing by Thatcherite policies, according to its architects. The effects of neoliberalism in Britain were manifold and its core economic policies were extended even after the Conservative party were ousted from government (Hay, 2004).

Hall considered Thatcherites as being “at the forefront of what they [thought was] the new global expansion of capitalism (Hall, 1988 [1987]: 172). Given the longevity and seeming indestructibility of neoliberalism (Crouch, 2011; Gamble, 2013), this is an appropriate summation. The promotion of the necessity for crisis management by Thatcherism was part of the change in the “balance of forces” developed from the ‘moral panics’, which are critical to the expansion of AP, discussed above. Indeed, it is precisely these developments – moral panics and subsequent emergent forces – that construct the conjunctural terrain (Gramsci, 1971 [1937]), from which AP crystallises and consequently subsumes society through ‘common sense’ thinking i.e. demonstrating that this form of political organisation is the principal method with which to overcome and exit crisis.

According to Jessop *et al.* (1985), Hall’s work on AP worked along two fundamental strains: the emphasis on ‘common sense’ and the changing ‘balance of forces’. These authors are critical of this approach principally because they see it as overlooking the necessity to investigate the structural economic issues that underpin the emergence of AP. In relation to capital, however, these key areas of foci for Hall are replete with the capacity to account for Thatcherism’s self-reproduction and aptitude for withstanding crises to legitimacy from

⁵⁶ The extent to which Britain ever adopted or experienced Keynesian economic policy in the post-war period has been debated (e.g. Schott, 1982)

within the party i.e. resignations and from exterior circumstances e.g. questionable takeovers⁵⁷ (Jessop *et al.*, 1990: 84).

Hall does not pay considerable attention to the economic elements of AP (Jessop *et al.*, 1988), though he does not overlook them. He does not see the emergence of AP as exclusively wrought by the Right, but rather as a shortcoming of social democracy (Hall, 1988 [1980]: 126). Further, democratic components have been corroded because of the importation of 'big capital' in place of social democracy, which was unable – or perhaps incapable – of managing economic and political battles (Hall, 1988 [1980]: 126). Revealingly, it cannot be coincidental that AP was developed as an approach to understanding forces that were moving to the political Right at almost the exact same time as neoliberalism was surfacing as the fundamental mode of economic governance, which continues to shape the global political economy today.

The harnessing of 'big capital' at the expense of, or against the downgrading of labour (Rogers, 2014), was a critical component of Thatcherism. Therefore, to understand the content of AP, it is essential to pay attention to the capital relations that develop to form the conjunctural terrain from which it operates. More prosaically perhaps, it is paramount to comprehend how capital is used by the AP regime as this creates the bedrock of power from which the regime that uses AP is able to proliferate and reproduce its successes. The subsumption of business(es) big and small, to the will of AP is an important consideration. In the Thatcherite case, this was part of the ideology of AP, which also greatly appealed and consequently could consistently count on the support of the middle and sections of the working classes (Fuchs, 2016). Finally, Hall informs us of the importance of 'the moment' in terms of a regime achieving AP:

“the moment when you can get sufficient power in the state to organize a central political project is decisive, for then you can use the state to plan, urge, incite, solicit and punish, to

⁵⁷ For example, the Westland Affair (Overbeek, 1986)

conform the different sites of power and consent into a single regime. That is the moment of ‘authoritarian populism’—Thatcherism ‘above’ (in the state) and ‘below’ (out there with the people)” (Hall, 1988 [1987]: 168-169)

Table 1.3 below captures the principal components of AP discussed so far and also lists the typical policy strategies of AP.

Table 1. 3:⁵⁸ Components of Authoritarian Populism

| Type of populism | Key features | Application: State / (party) | Domestic / International | Policy Strategies⁵⁹ |
|-------------------------------------|---|-------------------------------------|---------------------------------|--|
| Authoritarian Populism (Hall, 1979) | Conjunctural terrain; moral panics; change in the balance of forces | UK (single party) | Domestic | Centralised power; deregulation; flexible labour market; free market; low taxation; privatisation; restrained unions |

Source: author’s own compilation

⁵⁸ This table follows from Table 1.1 to highlight the key components of AP

⁵⁹ These cover Thatcherite policies in a broad sense. In the British case, these policies were mostly continued by Thatcher’s successors (Major (1990-1997); Blair (1997-2007) etc.), notwithstanding the change in governing party. In other cases where AP may be in operation, policy content may be variegated to suit local conditions. For example, in the Hungarian case, one of the first post-2010 policy strategies were to nationalise swathes of specific sectors with the objective of forming a government-loyal national bourgeoisie. This is discussed in more detail in chapter three

1.3.2 Contemporary applications of authoritarian populism

AP has recently been applied to a diverse range of cases. For example, Arat-Koç (2018) discusses contemporary issues in Turkey around the political issues of national myth-creation and the delineation of citizens who *belong* to the national discourse and those who do not, generating societal shifts designed to strengthen the position of the ruling party. In Gramscian language, this has created a conjunctural terrain on which to operationalise the nodal points of conflict, offsetting perceived threats to governmental hegemony in the early 2010s. In Canada, Carlaw (2017) identifies a specific move towards AP, whose origins he locates as originating during a steep move towards neoliberalism in the 1980s. In the first half of the 2010s, AP manifested itself within the governing party with the development of explicit forms of antagonism towards immigration, Muslims and even temporary workers, via “creative outreach and forms of disciplinary politics and social exclusion” (2017: 782). In this case, the ruling party created a ‘moral panic’ – race – which AP was able to exploit and subsequently generate success in reproducing power. Petkovski (2016) uses AP to explain the success of the Macedonian governing party between 2006 and 2015. By engaging in discourse analysis, the author demonstrates the then-PM mobilised consistent support by creating an imagined concept of what it is to be Macedonian, promoting symbolism and emotional connectivity with historical representations to acquire widespread backing. By spreading these social constructs, nationwide support was created, which opposition parties could not match, to the detriment of the country’s nascent democratic structures. Finally, Chacko and Jayasuriya (2017) see the emergence of AP in the Trump era US as emanating from both Left and Right-wing discontent with the Obama years (2008-2016). The authors outline some potential outcomes for US policy in Asia “as the new administration seeks to reconcile the interests of transnational capital with its support base” (2017: 125). This is an important recognition as the significance of (transnational) capital to the success of AP as a method of governance i.e. with the ownership of ‘big capital’ hegemony is more effectively achieved and maintained, allowing further space into which to reproduce the successes that AP generates.

These contemporary applications of AP demonstrate at least two immediate things. First, Hall's work is applicable to a variety of locations, which have diverse political economies, demonstrating its global relevance. Second, AP is an appropriate theoretical approach to revisit at this historical juncture. The trends running through these analyses include: the emergence of AP against the background of struggles for the appropriation of (transnational) capital; the mobilisation of national xenophobic symbolism to create a 'right' set of supporters from both the Left and Right and simultaneously subdue challenges to the emergent hegemony; the insertion of AP into politics from above e.g. the state, and politics from below e.g. civil society.

This research sees the applicability of Hall's approach in generating further understanding of the post-2010 Hungarian state. The continued success of Fidesz and its nationwide – and increasingly international – support and appeal has stimulated much commentary, noted above. By using Hall's work, and elements of the models created by Szelényi (2016) and Bozóki and Hegedűs (2018), discussed earlier in this chapter, I develop a nuanced framework for understanding the Hungarian regime.

1.3.3 The origins of Hungarian authoritarian populism

The politics of Fidesz has become extremely powerful. Its continued electoral success means it has become the standout traditionalist/conservative political party in the CEE region as other similar parties have not been able to replicate its achievements in terms of longevity. The result of this is to effectively disable any meaningful attempt to dethrone Fidesz at national elections.⁶⁰ AP helps to situate explanations for this dominance of the political landscape because a political entity that moves towards this phenomenon makes changes to the hegemonic structures, to an extent that other political actors (parties) within a given

⁶⁰ Fidesz has lost local elections however, most significantly losing its supermajority at a 2015 by-election, which meant it was subsequently unable to pass legal changes to the constitution without parliamentary debate

political sphere must react to the government's strategy to survive (Hall, 1988 [1980]). This means that opposition parties focus most of their resources on attempting to counter Fidesz moves, rather than cooperate with them,⁶¹ which continues a trend of almost arbitrary ideological opposition, discussed above. This restricts any significant challenge to the emergent hegemonic bloc.

The principal political result of Fidesz's dominance of Hungarian politics has been the development of hegemonic politics. With no effective alternative, Fidesz – much like Thatcherism in 1980s Britain – has developed into a form of Gramscian hegemon, undermining the democratic achievements of the post-1989 period. To accurately locate these developments in their historical moment, it is important to revert to 2002 – the starting point of what I categorise as Hungarian authoritarian populism (HAP). Orbán's victory in 2010 did not instigate HAP, rather it was electoral defeat in 2002, which sowed the seeds of this development in Hungarian politics. An ideologically-different Fidesz had been in power for four years and were confident of becoming the first incumbent to retain office since democratic elections began in 1990. When defeat occurred in 2002, Fidesz moved to create the conditions that would avoid a repeat of this outcome. Initially, a broad movement to consolidate conservative media was instigated by the party to counter what they viewed as a liberal media bias. This was helpfully wrapped into primarily one bundle of TV stations and radio outlets, handled by a trusted university friend-turned billionaire, and complemented by other allied takeovers meaning that there were now no remaining conservative media institutions that were critical of Fidesz (Heinrich Böll Stiftung, 2017). This assumption of media influence occurred during a time when civil society activity increased, particularly on the Right and extreme Right, which has had effects on the quality of Hungarian democracy (Greskovits and Wittenberg, 2016). This environment created the ground work for the exploitation of a series of crises that continues today, and which helps to propel HAP and maintain its relevance. Two crises are identified here that helped to accomplish the supermajority victory in 2010.

⁶¹ Fidesz has been in coalition since 2010 with the KDNP (the Christian Democratic People's Party), a right-wing conservative, Christian party. However, the KDNP's influence is negligible and one senior Fidesz politician has even stated Fidesz is not in a coalition

First, the (self) capitulation of the MSzP party from May 2006 (Lendvai, 2017). Four months after electoral success – the first time in post-socialist Hungarian history a government had won consecutive mandates – the government was attacked by Fidesz through the stimulation of violent protests following a leaked recording⁶² of then-Prime Minister Ferenc Gyurcsány leading to “political chaos flood[ing] the country” (Berend, 2013: 43). Second, in the aftermath of the GFC, a long-attacked Gyurcsány – increasingly vitriolically (Frič *et al.*, 2014) – still as Prime Minister was again successfully exploited by Fidesz at a time (2009) when 23% of the population viewed membership of the EU as “a bad thing,” which then dropped to 15% by the election year of 2010 (Molnár, 2016: 72).

The 2002-2010 period of opposition was a time of foundation-laying for an anticipated period of prolonged governance for Fidesz. While nothing was guaranteed from 2010, the crushing of the MSzP, the emergence of an extreme Rightist political faction – the nationalist Jobbik party – and the 2008 GFC created a fertile platform from which Fidesz has launched itself to two further national election successes as well as regional and European election victories. This was compounded by the large-scale political capital accrued during this period from the Civic Circles movement, designed to extend the political Right’s network across a variety of social institutions (Greskovits, 2017). This research claims that from 2002, HAP began to develop within the Fidesz party, echoing the emergence of what came to be known as Thatcherism before the Conservative party won the 1979 General Election. From this starting point, Fidesz identified a path that would help it achieve and embed the objective of securing a sustained period in government. Orbán has dominated Fidesz since its inception in 1988. He has dominated Hungarian politics since 2010, building on a successful popularity-harvesting time in opposition for eight years after 2002. Of the V4 countries, Hungary has the most dominant and successful governing party, which reflects the success of HAP in creating the conditions for longevity.

⁶² In May 2006, MSzP Prime Minister Ferenc Gyurcsány (2004-2009) gave a confidential speech, which came to be known as the Őszöd Speech, whereby he admitted lying to be re-elected the previous month. The recording was taped and leaked to the media in September of that year, leading to mass demonstrations and riots in Budapest. Gyurcsány remained PM until he resigned in March 2009 following a vote of no confidence

1.3.4 Fidesz as a “form of hegemonic politics”

Had Fidesz remained loyal to its pre-2002 democratic principles – although a centre-right party, its ideology was considerably more liberal-democratic during this period – AP may not have been developed in Hungary, at least by Fidesz in any case. Hungary’s post-2010 ideology of “post-communist traditionalism/neo-conservatism” (Csillag and Szelényi, 2015) has created a platform necessary for the effective identification of ‘moral panics’, discussed above as one of AP’s three main strains and the subsequent change in the balance of forces and materialisation of AP. These changes in dynamics represent what Hall describes as a “fundamental shift in the modalities through which ruling blocs attempt to construct hegemony in capitalist class democracies” (Hall, 1985: 117).

In similar vein to the AP that emerged from Thatcherism, the post-2010 Hungarian government has successfully identified critical nodal points on the ideological terrain that have been instrumental in securing its longevity. Hall’s identification of the four moral panics onto which Thatcherism operated to exercise its populist appeal and achieve hegemony, outlined above helped to locate the zones of success where AP was able to progress. In the Fidesz case, this research also outlines four areas of conflict (moral panics) that have assisted in Fidesz acquiring hegemony.⁶³ These are briefly discussed here and investigated in more detail in chapter three.

First, colonisation. Verbal attacks against the EU are consistent and come despite the continued acceptance of structural funds and subsequent dependency (Miklóssy, 2018; Nyssönen, 2018). Paradoxically, Fidesz was the party that signed the bulk of the agreements necessary for EU accession during their first period in office (1998-2002), which underscores the depth of the ideological shift that has taken place since that period. By framing the EU as

⁶³ Another dimension where Fidesz have developed their ideology is in gender relations. For an account of this regarding Hungary and Poland, see Grzebalska and Pető (2018)

an actor that operates against Hungary's best interests Fidesz generates antipathy against the bloc (moral panic), which in turn creates a zero-sum playing field i.e. the Hungarian nation vs the colonising power, stimulating a 'common sense' reaction amongst followers. Further, this evokes areas of national memory that are adorned with the idea of Hungary as the perennial victim of exterior aggressors and occupiers (Hoensch, 1988; Lendvai, 2003; Molnár, 2001; Zimányi, 1987).⁶⁴

Second, otherness. Hungarian exceptionalism is nothing new (Pethő, 2004). Where it has contributed to generate HAP after 2010 is for it to be promoted by the incumbent government across the political spectrum to create the 'right' Hungarian, much like in the other contemporary cases of AP, discussed above. Orbán and Fidesz have created a discourse around the greatness of the Hungarian nation rather than the Hungarian state regarding Hungary's exceptionalism in that it is in the West but has roots in the East, described elsewhere as "self-Orientalism" (Rac, 2015: 198). The mobilisation of semiotic symbols for example Turanism and the introduction of Runes in signage⁶⁵ has further strengthened the narrative around Hungarianness.

Third, immigration. This moral panic expands on the previous point but is more of a latecomer to the post-2010 HAP. It was not utilised with regularity until the so-called migrant crisis in 2015. From this point onwards, it has taken centre stage. Orbán and other Fidesz representatives, particularly Foreign Minister Szijjártó consistently cite immigration as one of the biggest threats to the Hungarian nation and Christian Europe. In turn, this rhetoric has become "hitched to the nativist cause" (Fekete, 2016: 39) forming a platform from which to project Fidesz's ideology further through increased identification of Hungarianness. It has become 'common sense' in Hungary to associate immigrants with criminal activity

⁶⁴ Particularly this refers to the lost lands and population following the Treaty of Trianon (1920) after Hungary's defeat in WWI; a national trauma that remains prominent in the Hungarian national psyche

⁶⁵ Turanism identifies Hungary as an Asian culture rather than occidental and is widely supported by rightist and extreme rightist factions, whereas Runes are used in an ancient (predominantly pre 12th century) writing system that 99.9% of Hungarians cannot understand (Heinrich Böll Stiftung, 2014)

(Thorleifsson, 2017), based on a perceived understanding that their presence in Hungary is a threat to the economic wellbeing of the average citizen.

Fourth, specific threats e.g. Soros, Central European University (CEU).⁶⁶ This final moral panic is operationalised to keep HAP on track and Fidesz relevant. By pinpointing confrontation in different areas, the previous three moral panics are reinforced. For example, the recent attacks on George Soros – the Hungarian-born US billionaire – extend from the above-identified issue with immigration. Disturbingly, the shadow element of attacks against Soros is anti-Semitism, a hostility with a significant history in Hungary, highlighted by the country's Axis status during the Second World War and anti-Jewish laws under the Horthy Regency. According to Fidesz, the 'Soros Plan' is an attempt to settle migrants in Hungary, and wider Europe, without the consultation of national governments. As a reaction, Fidesz launched a 'national consultation',⁶⁷ which though premised on democratic tradition i.e. asking the population their opinion of the given subject, the biased questioning functions to reinforce decisions already taken (Bocskor, 2018). Another example where targeted attacks are made is with the CEU, a US post-graduate institution in central Budapest, founded in 1991 by Soros. By working against a foreign institution – regardless of its location in Hungary – Fidesz have demonstrated their mistrust for intellectuals, or simply those they consider threatening to the region e.g. Soros. Because of the party's widespread support and success, and stimulation of this 'moral panic,' it subsequently becomes 'common sense' to reject the CEU's presence in Hungary.

Taken together, these components combine to enable Fidesz to 'change the balance of forces'. Like the four 'moral panics' identified by Hall, Fidesz's mobilisation of these key areas have created continued success, keeping the party relevant. Additionally, because of the government's domination of the media, loyal capital (discussed below) and their

⁶⁶ This list could include: homosexuals, ideologically-opposed actors e.g. the MSzP, Roma etc. and therefore is not exhaustive

⁶⁷ The seventh such initiative since 2010 where every Hungarian household receives a letter from the government asking questions on a given topic. Previous examples of 'national consultations' include questions posed on terrorism and immigration

parliamentary supermajority, few people remain unaffected by the continued exploitation of these areas, further reproducing Fidesz’s success and bolstering their support. The four ‘moral panics’ outlined in this section are summarised in Table 1.4 below including their typical protagonist and the ‘common sense’ reaction executed by Fidesz and approved by supporters.

Table 1. 4: The ‘moral panics’ of Hungarian authoritarian populism

| Moral panic | Typical protagonist | ‘Common sense’ reaction |
|--------------------|----------------------------|--|
| Colonisation | EU | Anti-EU rhetoric |
| Otherness | <i>Hungarianness</i> | Promotion of <i>Hungarianness</i> and exhumation of xenophobic historical characters |
| Immigration | Middle Eastern migrants | e.g. Border fence |
| Specific threats | Soros, CEU etc. | National Consultations / threat of university closure |

Source: author’s own compilation

1.4 Balance of forces and the Hungarian political economy

This section focuses on both internal and external continuities and changes in the Hungarian political economy since 2010 arguing that through the changes that have occurred, a new pattern has emerged where the state is subsuming domestic business to dominate national capital, creating a ruler-staff relationship captured as prebendalism, discussed above. Included in this section are discussions on the continued relevance of the application of the VoC tradition to the post-2010 Hungarian case and the potential for a convergence of ideal types, namely the DME and SME models and how this might help explain institutional change. Limitations to the VoC approach are discussed before a sub-section on potential Fidesz strategies demonstrates how it is helpful to harness these theoretical components to explain such possible outcomes. The penultimate sub-section isolates tensions and fusions around the harnessing of these theoretical strains before producing a table that delineates the core features of HAP. Finally, a concluding section summarises the key findings of the chapter.

1.4.1 Continuities in the political economy

Transnational capital flows remain critical to the continuation of the Hungarian regime. Hungary remains highly dependent on FDI from (mostly) Western firms and the extant value chains that were developed in Hungary during the first two decades of post-socialism (Nölke and Vliegenthart, 2009). In the post-2010 period, despite the drawdown on foreign ownership, FDI continues to drive Hungary's export-oriented economy, principally in the automobiles and manufacturing sectors. By maintaining this economic arrangement, the owners of firms with operations in Hungary – principally German entities – have not stringently questioned the political changes that have occurred in Hungary, discussed more in chapter three. Ironically, the development of HAP is therefore partially financed by the type of economic frameworks that were established during the period when liberal democracy was

in its nascent moments. Hopes for a prolonged period of liberalism and the extension of the liberal global order into Hungary – and the wider CEE region – have been curtailed however, though this was anticipated in earlier works (e.g. Offe, 1991; Ost, 1993).

Bozóki and Hegedűs's (2018) work and its emphasis on the role of Hungary's externally-constrained conditions is important because it sheds light on the continuities of the Hungarian political economy in the post-2010 period. Hungary remains constrained by the multiple dependencies that have been in effect for over two decades. These economic conditions continue to shape the Hungarian political economy in terms of sectoral employment and product manufacturing, for example. Simultaneously, wages remain among the lowest in the EU, as noted above. This creates a paradox whereby financial inflows remain but the Hungarian public – by and large – are not receiving the benefits. To put it another way, the value chains are not being upgraded as they have been in other cases of middle-income countries e.g. in East Asia, a process that would see Hungary's economic standing improve.

1.4.2 Changes in the political economy

Defeat in 2002 made Orbán realise he had made the critical mistake of failing to develop his own bourgeoisie (Szelényi, 2016), which meant there was little domestic capital loyal to him. By nationalising segments of the economy and increasing Hungarian ownership – since return to office in 2010 – Orbán has avoided repetition of this critical missing link to continued longevity. This research agrees with Szelényi (2016) (discussed earlier in this chapter) and his application of the term 'prebendalism' to partially account for the emergence of a cadre of politically-loyal actors in Hungary since 2010. This is appropriate as it has become one of the drivers of Fidesz's ideology (Csillag and Szelényi, 2015). Reflecting the definition of AP given earlier, Hungary, with the adoption of prebendalism and the tight control of loyal capital (Magyar, 2016), has become "an exceptional form of the capitalist state" (Hall 1985: 119).

Fidesz has institutionalised the means of accumulating capital, creating new nodal points of ownership (loyal oligarchs) for the purposes of continued self-enrichment and self-reproduction (Magyar, 2016). In this sense, Fidesz has engaged in a struggle for hegemony (Hall, 1979: 16), formulating a new Gramscian bloc with the explicit ambition of dominating the liberal politics that was typical of the 1989-2010 period and assuming control of a broad spectrum of the Hungarian Right, which began in the 2000s with the implementation of civic institution-building designed to develop nationwide grassroots support (Greskovits and Wittenberg, 2016), noted above. The post-2010 nationalisation programme has diluted dominant forms of foreign ownership that became prevalent in sectors such as automobiles, banking and manufacturing. By expropriating wealth, the new national bourgeoisie has reclaimed assets from Western multinational companies (MNCs) that entered Hungary during the privatisation boom of the 1990s and 2000s, outlined in the previous chapter. A brief example of this process is given here: in 2014 Hungary nationalised MKB Bank, the country's fourth biggest commercial bank, buying it back from Bayerische Landesbank, headquartered in Germany. In 2017, 49% of the bank was acquired by Lőrinc Mészáros, the Mayor of Orbán's home village. These processes are discussed in more depth in chapter three.

By creating these changes to the domestic dimensions of the Hungarian political economy, the Fidesz regime has created new conditions on the Gramscian conjunctural terrain. The emergence of prebendalism in Hungary has reinforced Fidesz's staying power significantly to the extent that hitherto models that sought to explain Hungarian capitalism before the 2010 period (Nölke and Vliegenthart, 2009) are weakened rather substantially due to their (over)emphasis on firm-centric institutions in delivering outcomes. By dominating national capital, Fidesz has created a network of loyal cronies who operate in the government's interests in return for contracts. By diluting the more concentrated capital ownership the party adopted in 2010, Fidesz's relationship with national capital bears resemblance to the changes in state-oligarch relations in post-2000 Russia. Chapter three will elaborate on the interior dimensions of HAP and demonstrate how the state is subsuming domestic business to extend HAP and the Fidesz project.

1.4.3 Changes in the external dimensions of the political economy

Significantly, the emergence of HAP and its stimulation of 'moral panics' have formed a base from which the balance of forces change not only domestically, but also internationally. The domestic changes the Fidesz regime has instigated have created the conditions for a reconfiguration of external economic relations, with Russia and China in the first instance and subsequently, alterations to the externalities of the Hungarian political economy. Since 2010, Orbán has made it his explicit intention to increase economic engagement with countries located to the East. What might this mean for the trajectory of Hungarian economic development given that opportunities for occupants of the capitalist semi-periphery,⁶⁸ as Hungary is typically described as being since the 1990s, are "constrained by developments at the centre" (Bartha, 2013: 83)?

Fidesz's turn to the East to generate new transnational capital dimensions is highly unlikely to see Hungary's economy graduate from any semi-peripheral position in the capital world economy. Rather, it may engender an additional external constraint, supplementing Hungary's relationship with the EU as discussed by Bozóki and Hegedűs (2018), particularly given the potential for financial exposure and risk burden, analysed empirically in chapters four and five. In turn, this could create a situation where Hungary's development achieves new 'Eastern' dimensions, potentially attractive for the Hungarian political elites as capital inflows could arrive in Hungary detached from the Western focus on adherence to democratic norms. In other words, the prebendal network can advance accumulation methods and consequently more deeply cement its position, producing a more embedded position for Fidesz and Fidesz-loyal actors. It is undetermined whether new forms of dependency will develop between Hungary and its Eastern partners – particularly given Hungary's extant dependencies on Western entities such as MNCs and the EU noted above – but should this outcome emerge, it will have been stimulated by the Fidesz regime and HAP as an attempt at self-reproduction.

⁶⁸ For an analysis of Hungary and the wider CEE region at the socialist semi-periphery, see Böröcz (1992)

1.4.4 The Hungarian political economy and its external relations: the VoC perspective

To formulate increased understanding into the changing external dimensions of the Hungarian political economy, this section draws on the VoC literature to discuss the interactions and subsequent convergence of two models created within this tradition, namely the Dependent Market Economy model (DME) (Nölke and Vliegenthart, 2009) and the State-permeated Market Economy model (SME) (Nölke *et al.*, 2015). In doing so, this section argues that the VoC approach maintains relevance as Hungary might be diverging from a DME case to increasingly resemble an SME case because the capitalist institutions the models describe have been changing in the post-2010 era; changes that are driven by political agency.

By undertaking this analysis, this research further demonstrates the importance of the earlier cited study on the “externally-constrained hybrid regime” (Bozóki and Hegedűs, 2018) in terms of its focus on exterior factors, which operate to reproduce the Fidesz regime. By focusing on the SME model, this thesis is influenced by these authors’ work, extending analysis to the East. Fidesz, may not necessarily be seeking to maintain the post-1989 neoliberal developments in Hungarian politics e.g. deregulated markets and an emphasis on investor relations with Western MNCs. While capital remains critical to the continued success of the Fidesz regime, by manoeuvring to develop new capital streams originating from Eastern countries, Fidesz is operating to change the externalities of the Hungarian political economy with the principal purpose of regime self-reproduction.

1.4.5 Limitations of the Varieties of Capitalism approach

Bohle and Greskovits (2012: 15) argue that each capitalist economy faces a threefold challenge: (i) the balancing of markets; (ii) management of social cohesion, and; (iii) the issue of political legitimacy. Such tasks, however, cannot be addressed, yet alone overcome, via a theoretical approach that emphasises a static, business-induced institutional apparatus as the principal driver of development. Principally, this is because such capitalist arrangements

overlook the importance of historical backgrounds, broadly defined, but which are unique to given states and sub-state regions. In terms of the CEE region, this is compounded by an unprecedented and unexpected set of policy choices which necessitated delivery after 1989, hampered further still due to the unstable institutional terrain of the day (Feldmann, 2019: 179). Further, across the post-socialist European region, the successes and stabilities of post-1989 capitalist institutions vary considerably (Baboš, 2010; Dudziak, 2014; Lane and Myant, 2007).

While the DME model is unambiguous in its rationale to forge an additional 'ideal type' within the VoC logic, with its emphasis on FDI as a critical factor for the emergence and maintenance of external dependency in the V4 region, it is perhaps unsurprising why the ICs that populate the model were not attributable to other post-socialist European market economies e.g. the Baltic states, and why subsequent investigations into capitalist development in the region stressed the importance of understanding different strands of emergent capitalism (Bohle and Greskovits, 2012). That is to say, the region contains a highly complex set of historically-rooted characteristics, which are overly challenging to capture within one model, a factor compounded when certain social institutions are typically underrepresented in the VoC approach. Indeed, the original literature (Hall and Soskice, 2001) overlooks (at least) two societal dynamics, namely labour and the state, viewing them to be "passive agents" (Kang, 2006: 11). Within the DME model, it may be argued that there is an even more restricted space for such agency to play a role in capitalist development, compounded by the cases' dependent status.

The efficacy of the DME model may continue to dissolve during the coming decade (2020s) when Fidesz strategies become clearer. That said, Hungary remains highly dependent on the model's identified externalities e.g. FDI, outlined above and Fidesz is keen to maintain positive relations with Western businesses. This institutional approach, however, is undermined by less positivist approaches e.g. AP, as this is more readily capable of creating space for an approach to incorporate more focus on political agency. Simultaneously, Stuart Hall's work contains analysis of both formal (e.g. the police) and informal (e.g. 'moral panics') institutions.

This speaks to an approach with an institutionalist radar, which at the same time demonstrates the limitations of the VoC tradition and justifies its theoretical harnessing to better understand Hungarian capitalist development.

1.4.6 Harmonisation of the AP and VoC approaches

This research claims by combining the AP and VoC approaches, enhanced understanding of Hungarian capitalist development is produced because it places observers in a stronger position from which to view both increasingly important political elements, and extant institutional arrangements, which may be under duress from political actors. Nonetheless, challenges for theoretical harmonisation remain and this sub-section identifies both tensions and potential areas of fusion between the two approaches discussed in this chapter.

(a) Tensions

In the first instance, the two theoretical approaches discussed in this research originate from different starting points, drawn from variegated philosophical traditions. The core differences here are that Stuart Hall's *Authoritarian Populism* is understood to be a post-structural approach (though differentiations between this theoretical strain, structuralism and cultural studies – where Stuart Hall was most prominent – are challenging to navigate (Barker, 2010)) whereas the VoC is institutional. Post-structuralism is a tradition that “questions the key underlying notion of any postulation of ‘progress’ and ‘optimism’: the assertion of stability embodied in the concept of structure” (Strohmayr, 2005: 7). Perhaps it is unsurprising that the core writers on post-structuralism were most prominent in the twentieth century; a time of pessimism vis-a-vis the optimism of the nineteenth century (at least in the Eurocentric world of political science). Perhaps most notably, Derrida, Foucault and Lacan were amongst the key thinkers of this epoch, though later writers expanded the post-structural tradition e.g. into discursive practice (Doel, 1999) and critical geographies (Thrift and Williams, 1987).

The VoC tradition as an institutional approach seeks to analyse its objects through an onus on structure and the visible, 'categorisable' world.⁶⁹ Proponents of an institutional approach to politics and (comparative) political economy see such structures as influencing policy-making, policy outcomes and interests (Hall, 1986) with attention paid to mapping institutional change over time (North, 1990); a clear divergence from any post-structural approach. The tradition has longevity and has been invigorated through the development of nuanced formats e.g. 'new institutionalism' (Powell and DiMaggio, 1991) and 'historical institutionalism' (Steinmo *et al.*, 1992). Indeed, there have been a plethora of descriptive variants within institutional theory (Hay, 2006: 56-57), which denotes not only a lively active debate within the tradition but also the presence of tensions amongst proponents and detractors of the approach and subsequently, how any such variant may be conjoined with other traditions e.g. constructivism, rational choice etc. within the broader fields of political science.

Criticisms of each approach as isolates are forthcoming. For example, institutional approaches, in general, have been critiqued by scholars for their overemphasis on "self-reinforcing historical paths, promoting deterministic explanations" (Larsson, 2015: 184; cf Schmidt, 2008). Post-structuralism, more broadly suffers from itself in some sense, as noted by White (1988: 187) as it can become attacked through its own logic from within a "cognitive machinery" whereby the very theoretical approaches it endeavours to critique, perform an about-turn and charge it with being aloof, and subsequently force upon it a demand to conform to the "implicit authoritarianism of Western 'logocentric' thinking" (White, 1988: 186), thus evoking an imperialist tendency. In other words, it can be attacked by the object of its own subjective choosing.

More widely, recent discussions have engaged with the problem of how actors might understand the structures around them within a given social reality and what this means for discourse and ideas (Hay, 2017; Larsson, 2015; 2019; Schmidt, 2017). Here the central claim

⁶⁹ Jacques Derrida, however, emphasised the post-structuralist tradition was also able to categorise both the present (positive) and the absent (negative) world, and therefore forge full understanding between them. For a discussion on this, see Strohmayer (2005)

of post-structuralism is defined as the necessity for “social inquiry [to] recognise the causal power of both observable and unobservable entities” (Larsson, 2019: 328). On the surface, this appears as an unworkable approach for any institutional ‘-ism’, but this thesis claims that there are areas of collaboration.

(b) Fusions

Initially, areas of theoretical collaboration emerge because actors engaged with institutions will think about them differently, have varying competences within them and subsequently variegated possibilities and limitations for interaction in terms of orchestrating institutional change in the first instance. For example, the two potential Fidesz strategies outlined below can be explained by a theoretical harnessing not least because populism is “chameleon-like, ever adapting to the colours of its environment” (Bugarić and Kuhelj, 2018: 22).

As the CEE capitalist institutions are commonly regarded as weaker vis-à-vis variants in Western Europe (Farkas, 2011), how durable are the nascent institutional changes affected by HAP? How might these changes deliver tangible alterations to the external orientations of the Hungarian political economy? The VoC approach can provide a focus as to which institutions may be more susceptible to politically-induced modifications and concomitantly, allow observers a privileged position from which to analyse how far such a regime may be working towards institutional harmonisation with states within the KN grouping and subsequently, what impact(s) this will have on the trajectory of Hungarian economic development.

From a broader perspective, authoritarian populism as defined by Stuart Hall and the VoC approach – specifically for the purposes of this research, the DME model – both place emphasis on the importance of external dimensions. This relates to the importance of external capital and ‘moral panics’ in the case of AP, and the function of external dependency

in the DME case. Therefore, while this research does not add to the DME model e.g. by attributing a further institutional complementarity or by forging a new ‘variety’, it stresses the significance of external features in Hungarian development; a dimension for which both theoretical strains can account.

This thesis claims that theoretical harnessing on this occasion opens avenues for future research to graduate from recent analysis within the field of comparative capitalism, which have hitherto placed their focus on Eurozone members and/or the so-called ‘advanced’ economies of Western Europe (Baccaro and Pontusson, 2016; Nölke, 2016) and subsequently to engage with investigations that centre more on emerging markets. While recent studies have ventured in this direction (Bohle, 2017; Bohle and Jacoby, 2017; Rogers, 2019), such an initiative would allow those concerned with these trends, opportunities to analyse capitalist development in populist settings. Continued studies of the Hungarian case are important because of the apparent contradictions in nationalist ideology and continued dependence on exterior (Western) markets (Johnson and Barnes, 2015), which leads the nationalist elites who espouse anti-dependency rhetoric to “walk a thin line, as dependency is also the resource on which their economy survives” (Bohle, 2017: 249).

By harnessing these approaches, comprehension of both political and economic steering is augmented.⁷⁰ This is because, broadly speaking, Stuart Hall’s AP approach places stronger emphasis on politics *per se* – as outlined in detail above – while the VoC approach has traditionally been one that analyses economic (institutional) actors in terms of affecting political change e.g. firms. A combination of such elements, then, necessarily broadens the scope of analysis, advancing both post-structural and institutional approaches to understanding capitalist development in a highly unique case.

This theoretical harnessing offers a method to investigate comparative capitalism more closely at the political level. By focussing on oligarchic elites in Hungary, this research adheres

⁷⁰ I owe this point to Noémi Lendvai-Bainton (University of Bristol)

to recent calls to place increased emphasis on political agency and graduate away from privileging firm-firm interactions and subsequent outcomes within a given polity to understand capitalism (e.g. Streeck, 2010). This is important because earlier work noted how Hungarian capitalism may have been destined for a form of authoritarianism from its earliest post-socialist beginnings (Greskovits, 1998; Przeworski, 1991) and therefore this may not be wholly surprising particularly given that, according to the latter author, while Kissinger's 'domino theory' was successful, "all he missed was the direction the dominoes would fall" (Przeworski, 1991: 3). Despite this, Hungarian capitalism is not necessarily naturally malevolent; authoritarianism not inevitable (Arato, 2016) and it remains perhaps one-dimensional to assume that had Fidesz not developed as it has since 2002, another entity would have taken the lead in stimulating these outcomes.

1.4.7 The DME and SME models: a convergence of ideal types

As part of the empirical focus of this research an investigation is conducted regarding the increased economic interaction between Hungary and China (chapter five). Therefore, by discussing the impacts of what might occur when DME and SME cases economically interact, the trajectory of Hungarian economic development and the type of capitalism which Hungary is developing may be more thoroughly understood, particularly in reference to the efficiency of the capitalist institutions that typically concern the VoC tradition. Moreover, it is a useful pursuit to study potential outcomes of the DME-SME interaction for at least three reasons. First, it extends previous research I have conducted (Rogers, 2019) i.e. the potential realignment of a case from one model to another. Second, while DME-SME interaction is negligible relative to CME-LME,⁷¹ or more relevant to this research, LME/CME-DME economic engagement, connections between countries described as close to ideal types by these models persist and are increasing with emergent tangible outcomes, which have the potential to alter the political economy of some of the (DME) cases, due to their size. Third, this may

⁷¹ The Coordinated Market Economy model, typically ascribed to countries such as Austria and Germany and the Liberal Market Economy model, commonly applied to countries such as Ireland and the US. These models formed the original VoC framework (Hall and Soskice, 2001)

act as a springboard for future research for those concerned with the political economies of the DME and/or SME cases as well as those working with the VoC tradition, more broadly.

External dimensions, as noted above, play a crucial role in Hungary and the importance of the EU is fundamental in understanding outcomes in Hungarian capitalism (Bohle and Greskovits, 2018), not least because the supranational institution acts as an external constraint on the Hungarian regime (Bozóki and Hegedűs, 2018). Largescale IFDI from Western firms remains – and has been proliferated in the post-2010 period (Éltető and Antalóczy, 2017) with three types of incentive identified (Bohle and Greskovits, 2018: 8-9), namely (i) cash grants; (ii) low corporate tax rates, and; (iii) additional tax incentives. The continued dependency on financial inflows points to Hungary retaining some of the features that signify its status as a DME case but with changes to the underlying political structures that operate to maintain this description and simultaneously slowly alter the internal (domestic) capitalist institutions, which may denote a turn away from the DME ideal type to one closer to the SME variant. More prosaically perhaps, the Hungarian regime is both (a) maintaining Hungary’s dependent status, and; (b) morphing the institutional complementarities – particularly “coordination mechanism” and “corporate governance” – to more closely align with an SME ideal type.

1.4.8 Why might increased interaction occur?

In the first instance, this is characterised by bilateral agreements. The infrastructure of the V4 group of countries – also the four DME cases – requires upgrading across a range of areas e.g. transport infrastructure. Extant funding designated for such projects via the EU Cohesion Fund, described above, is due to be decreased from 2020. With financing streams reduced, rational economic actors will turn to alternative sources, particularly given that infrastructure upgrades have been targeted by China as an area of policy focus, amongst others (Jankowiak, 2017). Indeed, of all the SME cases, China has the most grandiose and advanced ambitions to enter the CEE region, penetrating the DME cases’ economies with demonstrable consistency

and success. This is perhaps best displayed by the annual 16+1 meetings,⁷² with all four of the DME cases as members. Some projects promoted under the auspices of the 16+1 forums are beginning to transpire into tangible outcomes (empirically analysed in chapter five).

This research identifies two areas that may be appealing to Hungary regarding increased interaction with SMEs. First, China has the stated ambition to initiate advanced financial flows into Hungary via FDI and fixed interest loans, in the first instance. This becomes more attractive given the post-2010 emergence of HAP, which has established a national bourgeoisie and the subsequent development of prebendalism, outlined above because any contracts between Hungary and China will likely be given to Hungarian-based firms loyal to the regime to keep any capital inflows under Fidesz control i.e. a combination of state-subsumption of domestic business and state-influenced changes to the externalities of the Hungarian political economy. Second, SME cases are considerably less likely to call for the upholding of democratic and social norms that typically characterise EU-V4 dialogue, creating increased space for the incumbent political elites to operate in Hungary – and internationally – with accelerated impunity, increasing the potential for a prolonged period in government.

1.4.9 Impact of DME-SME interaction

This potential convergence may reflect Fidesz's increased capacity and will to take important economic decisions, which after the cessation of state-socialism "were effectively removed from the arena of electoral politics" (Krastev, 2016: 94). An emboldened regime may be warping the institutional complementarities that combine to create the DME model, rendering it a less effective approach to accurately capture the complexities of Hungarian capitalism, as a result. This means within the restrictions of the VoC approach, Hungary may be moving away from being close to an ideal type of the DME model to more closely resemble an SME case.

⁷² An institution inaugurated in 2012, ostensibly to increase economic cooperation between China and sixteen post-socialist European countries: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia

This research identifies four of the six SME capitalist institutions that offer a ‘good fit’ and potentially sound basis for successful interaction. Table 1.5 below shows four capitalist institutions that characterise the DME and SME ideal types. Cases identified by the relevant authors, which resemble these ideal types are given at the bottom of the table.

Table 1. 5: Capitalist institutions of the DME and SME models

| Variety of capitalism / institutions | Dependent Market Economy (DME) | State-permeated Market Economy (SME) |
|---|---|---|
| Coordination mechanism | Dependent on intra-firm hierarchies in multinational corporations | Interpersonal reciprocity, loyalty and private–public alliances |
| Corporate governance | Control by headquarters of multinational corporations | Control by national capital, not by transnational investors |
| Corporate finance | Foreign direct investments (FDI) and foreign-owned banks | Family capital and state-owned banks, low foreign finance |
| Domestic market and international integration | Very open for imports, dependent on external actors | Large domestic markets, selective internationalization |

Source: adapted from Nölke *et al.*, (2015: 546). DME example cases: Czech Republic, Hungary, Poland, Slovakia. SME example cases: Brazil, China, India.

While dependence on CME/LME-based firms remains in Hungary, local political elites may be repositioning the economic institutional set-up to attract the SME cases. The extent to which this may be successful from their perspective remains unknown, however. Four areas of cooperation following the data produced in table 1.5 are identified. First, while this may be offset via the continued presence of CME/LME-based MNCs that espouse the hierarchical intra-firm organisational structure captured by the DME model, Hungary may be aiming for a closer fit to the SME model's coordination mechanism, highlighted by the emphasis on loyalty and interpersonal alliances. Second, the nationalisation programme in Hungary with the stated targets of the banking, energy, retail and utilities sectors explicitly reneges on the institutional area of corporate governance as captured by the DME model. According to Nölke *et al.*, (2015: 544), in the SME cases, "most major companies ... are usually controlled by well-connected families or the state." Fidesz may be operationalising a similar variation of corporate governance, creating space for easier access to financial inflows from alternative sources to the Western MNCs i.e. Chinese state entities, which would offer a potentially attractive fit given the ideological similarities between the two countries (Csillag and Szelényi, 2015). Third, the reduction in foreign ownership of banks in Hungary since 2010 creates symmetries with the SME model. While high levels of FDI continue to arrive from CME/LME-based entities, this shift in institutional arrangement allows more leverage in terms of creating domestic financial agreements and downgrades the high level of externally-sourced capital flows, at least from Western firms. This may create space for a prolonged period in government due to an anticipated proliferation of crony capitalism, should this eventuality materialise. Fourth, Hungary remains open to imports, and its increasingly pro-Chinese position (discussed in more detail in chapter five) may complement China's 'selective internationalisation' as China views Hungary as a reliable partner with which to strengthen ties.

1.4.10 DME-SME interaction in context

“DMEs have almost no potential to challenge existing global institutions and ... SMEs are the only candidates to put liberal hegemony into question” (Nölke *et al.*, 2015: 545). An alliance between cases that are considered close to ideal types, however, may accelerate detrimental outcomes for the liberal hegemony, while altering the political economy of the DME cases. Moreover, should Hungary’s economy be changing from a DME case to an institutional arrangement that increasingly resembles the SME ideal type, then this will not be an alliance but rather a subsumption of one model into another. Significantly, these potential changes graduate from the status quo of the 1989-2010 period when MNCs successfully penetrated the markets of the V4 countries,⁷³ creating dependency and extending the liberal, Western global order to the region.

While this section has briefly analysed what might happen when DME-SME cases intersect, it will not be a sufficient approach on its own to account for the Hungarian political economy. It is critical to focus more on national characteristics that affect capitalism as a whole; that is, as a complex system of stake-holding social actors with different interests and requirements, perched on the foundations of a myriad of intricately interwoven descriptive memories and experiences; something “*historical* rather than *functionalist*”⁷⁴ (Streeck, 2009: 19). For this reason, the application of AP to understanding the nature of the Hungarian state is relevant as it situates the Hungarian regime within its historical moment; its conjunctural terrain.

DME-SME convergence and interaction can explain the changes invoked in the Hungarian political economy by political actors. In this sense, it points to the fertilisation of the capitalist institutions of the SME model, from within Hungary (a DME case), principally “coordination mechanism” and “corporate governance”, noted above. In non-technical terms, the increased significance of loyalty within the politico-oligarchic nexus in Hungary speaks to a shift in the

⁷³ This happened much later for Slovakia, however (Bohle and Greskovits, 2012: 179-181)

⁷⁴ Italics in original

former institution. In terms of the latter, the emergence of a national bourgeoisie that has come to increasingly dominate national capital has necessitated a reduction in the control of governance by MNC headquarters and a subsequent increase in domestic business subsumption. Further, for HAP to continue to be reproduced and subsequently implement/continue with one or both potential strategies identified in the next sub-section, rigid discipline is paramount i.e. a collective will to execute such potential strategies where individuals do not deviate from their designated roles. This speaks to the ousting of formerly loyal/potentially rogue actors within the regime who pose perceived and/or actual threats to it and therefore HAP as a method of governance (e.g. the case of Lajos Simicska, discussed in chapter three).

1.4.11 Potential Fidesz strategies

How can the core motivation of the Hungarian government e.g. the maintenance and development of the Fidesz project be fulfilled? In other words, how can Fidesz maintain power for the longer term in a nominally-democratic political system with high exterior dependencies on foreign (Western) MNCs, *Mittelstand* enterprises and the EU? The answer, this research contends, lies both in the political and economic spheres and two principal areas are identified.

A first identified strategy pertains to the individual interests of regime-loyal oligarchic actors. Given this form of tight-knit politically-loyal prebendal network has emerged as a core component of HAP, and indeed post-2010 Hungarian governance more generally, this potential strategy also demonstrates the capacity to harmonise the AP and VoC strands of literature. If maintaining and even strengthening and deepening this form of crony capitalism is a core motivation of the Hungarian government then this again speaks to the potential to understand outcomes surrounding the post-2010 politically/prebendal-induced changing externalities of the Hungarian political economy through the lens of the VoC tradition, specifically in relation to the agreements around incoming Chinese capital (chapter five) as the capitalist institutions that constitute the SME cases (e.g. China) (Nölke *et al.*, 2015) may

have common components with the capitalist institutions under development in post-2010 Hungary (Rogers, 2019). Such institutional change offers attractive prospects to the Hungarian political elites, not least because significant portions of capital inflows can be readily captured and recalibrated within the prebendal network for the purposes of regime-reproduction.

In the second potential strategy, Fidesz may be implementing an exit from the DME 'trap'. Specifically, this motivation offers the opportunity for Hungary to graduate away from its conveyor belt-type status and potentially create an institutional environment within which (theoretically) higher quality goods may be produced e.g. those more typical of CME and LME cases, according to the original VoC literature (Hall and Soskice, 2001). However, establishment of an institutional environment that resembles one of the original parsimonious ideal types (CME/LME) remains highly limited due to Hungary's continuing multiple dependencies and lack of adherence to the suggestions on policy recommendations made by the DME authors e.g. to invest in education and training, in the first instance.

If graduation away from the dependent capitalism as captured by the DME model emerges as a strategic option from an institutional standpoint, how might this development be understood? From the VoC perspective, evidence suggests that if Hungary were to graduate away from the institutional complementarities that populate the DME model, then the government is steering it towards the capitalist institutions of the SME model (Nölke, 2018; Rogers, 2019), discussed above. Further, the domestic developments in Hungarian capitalism, which have culminated in a Hungarian version of AP – categorised in this work as HAP – suggest that potential for authoritarian tendencies within the Hungarian political economy is stimulating the development of capitalist institutions, which more closely resemble the SME ideal type as opposed to the CME/LME types, and over time, could see this model depopulated by (some of) its current occupants (V4) and a possible subsequent repopulation by other cases that may more closely resemble this archetype within the VoC literature; in other words, market economies with high levels of external dependency but with lower levels

of extant authoritarian politics, though this remains limited given the DME type developed in post-socialist institutional settings.

HAP, precisely because of its flexibility – and continued governance success – offers the opportunity to travel both paths. This does not necessarily offer any guarantees as to one or the other, nor does it point to a privileged emphasis on the part of Fidesz. Chinese FDI remains minute in Hungary (Jacimovic *et al.*, 2018) as does its Russian counterpart (Kalotay *et al.*, 2016) and consequently, it remains premature and inaccurate to deliver any teleological forecasting.

An alternative method for understanding the second potential Fidesz strategy discussed in this sub-section is the discontinuation of the DME model altogether as an approach to understanding Hungarian capitalism. This research claims, however, that by withdrawing the VoC perspective, observers may undermine and possibly forego the potential to formulate deeper comprehension of the trajectory of Hungarian economic development in terms of its nascent transnational capital inflows from Eastern states within the KN remit and any subsequent institutional harmonisation between Hungary and such states, notably China.

Conversely, by incorporating the VoC approach in its investigation of Hungarian capitalism, this research opens the door for researchers to place onus not simply on the (re)politicisation of Hungarian development, but to keep attention focused on institutional change. Concomitantly, by using Stuart Hall's AP to inform observers of the internal developments of Hungarian populism, an acknowledgement of the historic is provided, complementing institutional approaches to capitalist development. Given Hungary's highly unique developmental path since 2010, in terms of the success of what this research has categorised as HAP, this thesis asserts that theoretical harmonisation is an important way to understand the potential Fidesz strategies identified above.

1.4.12 Hungarian authoritarian populism: a summary

Table 1.6 below creates a summary of the principal components of HAP, which have emerged in post-2010 Hungary. Included in this abridged description are prebendalism and the international factors that are critical to the reproduction of the Hungarian regime. As noted above, chapters three, four and five elaborate on these components with empirical investigations. Policy strategies of the post-2010 period are included in the final column to demonstrate similarity and difference with AP's equivalent strategies, given in Table 1.3 above.

Table 1. 6:⁷⁵ Hungarian authoritarian populism

| Type of populism | Key features | Application: State / (party) | Domestic / International | Policy Strategies |
|----------------------------------|---|------------------------------|----------------------------|---|
| Hungarian Authoritarian Populism | Conjunctural terrain; moral panics; common sense; change in the balance of forces; prebendalism | Hungary (single party) | Domestic and international | Centralised government; flat tax; partial nationalisation; social benefit reduction; stimulation of new economic partnerships |

Source: author's own compilation

⁷⁵ This table follows on from Tables 1.1 and 1.3 to highlight the key components of Hungarian AP, proposed as a model to account for the post-2010 Hungarian state

1.5 Conclusion

This chapter has proposed a framework for understanding the nature of the Hungarian regime and subsequently trajectories within the internal and external Hungarian political economy in the post-2010 period. By using Stuart Hall's work on authoritarian populism and its grounding in Gramscian analysis, this chapter has demonstrated the parallels between Hall's original application of the concept to partly account for Thatcherism and the post-2010 Hungarian regime. Like Hall's work, this chapter also offers only a partial explanation of the phenomena described above, but by applying his approach, I have developed an additional framework, which complements those described within this chapter by drawing on parts of their content. Specifically, by incorporating Szelényi's (2016) use of prebendalism to describe the relationship between the ruler and the staff and Bozóki and Hegedűs's (2018) emphasis on the importance of exterior dimensions, an approach has been constructed, which I have labelled: Hungarian authoritarian populism. This framework offers an account of contemporary Hungarian populism.

This chapter has suggested that the Hungarian government has created its own conjunctural terrain and subsequently altered the balance of forces. This (partially) accounts for Fidesz's continued success and dominance of Hungarian politics. The party has infiltrated multiple segments of society and specifically, this chapter discussed its role in initialising civic movements, control of the media and domination of national capital, which has proliferated its influence via the subsequent formulation of a loyal network of prebendal actors. From this position this research claims the government has identified four areas to create a series of 'moral panics', namely colonisation, otherness, immigration and specific threats (e.g. Soros, CEU). By stimulating these zones of conflict, the Hungarian regime has created a culture of 'common sense' reaction; specifically, how people should react to these 'moral panics'. This partially accounts for Fidesz's consistent support and for the expansion of HAP as a method of governance. The principal result of these developments is that Fidesz has emerged as a hegemonic force in domestic Hungarian politics.

Analysis conducted in this chapter demonstrates that AP is a helpful way to explore the nature of the post-2010 Hungarian regime in more depth. First, this approach helps to position the emergence of Fidesz's hegemony through its emphasis on the historical. This chapter discussed the change in Fidesz ideology after electoral defeat in 2002, after which the party moved towards more traditionalist and neo-conservative tendencies. By reverting to this date, rather than taking 2010 as a starting point, this approach is similar to Stuart Hall's work in the sense that he looked to the mid-1970s to formulate the roots of AP's development. Adding more depth to analysis results in a more organic understanding of the Hungarian regime.

The emergence of a tight group of loyal oligarchs who work for governmental interests in return for lucrative contracts has helped Fidesz dominate national capital. From this has emerged a national bourgeoisie and a network of loyal crony capitalists, well-captured by the Weberian term, prebendalism (Szelényi, 2016). Because Fidesz now has more concentrated influence over the political economy than pre-2010 governments, it has an increased capacity to manipulate the trajectory of Hungarian development, empirically investigated in chapter three.

In the post-2010 period, Hungary's political economy has developed important external dimensions particularly with countries geographically located to the East and this is stimulated by political agency rather than firm-centric institutions. Chapters four and five investigate these aspects with empirical case studies of projects principally financed by Chinese and Russian state loans.

Such institutions remain a critical feature of Hungarian capitalism, however. Recognition of the continued – though much weakened – efficacy of the VoC approach, specifically the DME model for accounting for contemporary Hungarian capitalism in this chapter affords observers of Hungarian development the capacity to understand changes at the institutional

level, which is particularly important given the upswings in economic interaction with large, institutionally-diverse market economies to the East of Hungary, most notably China and the continued presence of Western firms in Hungary. Through engagement with the DME-SME models, in comparative capitalism terms, increased understanding of any institutional harmonisation between cases that populate the models is stimulated.

Importantly, fusion of the AP and VoC approaches engenders the possibility for new research initiatives to investigate capitalisms in emerging markets. This theoretical binding potentially offers researchers who focus on the CEE region, or who are concerned with (comparative) international political economy more broadly, the opportunity to investigate cognate regimes – where core components of HAP (as theorised in this chapter) such as prebendalism, and the encouragement of ‘moral panics’ – e.g. Poland, determine how capitalism develops in populist or so-called ‘illiberal’ settings. Furthermore, such a theoretical application to similar regional cases may inform knowledge as to what motivates regime strategies, and how they might relate to each other e.g. the presence of prebendalism or patrimonialism and which domestic sectors they may privilege and – from an institutional perspective – how far increased economic engagement with considerably larger exterior actors e.g. China and India might impact local capitalist institutions.

What might these observations mean for Hungary? Given the drawdown on the forthcoming EU Cohesion Fund tranche (2021-2027) and the low levels of inward capital flows from SME ideal types e.g. China, exiting the institutional arrangements described by the DME model may be an unrealistic prospect. Therefore, Hungary’s development into an even more highly corrupt prebendal regime is a feasible development for the 2020s, particularly given this forms the second half of Orbán’s “unified era”. The second option identified as potential government strategy for the Hungarian regime may be waiting in the wings while the first is consolidated throughout the coming decade. These trajectories are a viable outcome – though a substantial time-lag stunts the speed of graduation away from the DME model’s institutional complementarities for the time being – rendering these components of the wider VoC approach useful to understand contemporary Hungarian capitalism.

This research claims Hungary has become too small for Orbán and Fidesz in terms of self-reproduction. To achieve a greater amount of hegemony the Hungarian government has identified a turn to the East to initiate financial flows as this will stimulate capital inflows that are not necessarily bound by the same normative and legal stipulations that EU-sourced transnational capital is. Such initiatives will pave the way for Fidesz to achieve the longer-term period in office that Orbán has explicitly declared as an objective. Concomitantly, the oligarchic network of loyal prebendal actors will likely extend well into the 2020s and perhaps grow, should this eventuality materialise. With Fidesz's continued electoral dominance, it is challenging to envisage any redistribution away from the loyal prebendal actors, described elsewhere as a mafia state (Magyar, 2016). In this sense, Fidesz places capital at the forefront of its own reproduction, as Thatcherism did in 1980s Britain. Indeed, to balance the support of big capital, Fidesz maintains many of the extant FDI streams from Western entities that originated after 1989 and simultaneously dominate domestic business. To complement these economic arrangements, Fidesz has begun to look to the East to supplement financial flows. Such arrangements have the capacity to be replicated in neighbouring countries, particularly Poland, given Hungary has become a beacon in ideological terms in CEE in the 2010s, vindicated by its continued electoral successes and thriving prebendal network.

The contribution of this thesis is to shed light on the external, changing dynamics of the Hungarian political economy and this apparent turn to the East.

Part II: Methodology

Chapter two

Methodological Approach: A Qualitative Case Study Analysis

This chapter functions in three ways. First, it connects the discussion on the theoretical framework developed in the previous chapter to the methodological approach designed to empirically ground the arguments of the research. This framework helps to understand the two methods – identified in this thesis – Fidesz have employed to acquire capital to self-reproduce, namely, (a) the subsumption of domestic business via the establishment of a prebendal structure designed to dominate national capital; and (b) a turn East under the auspices of the *Keleti Nyitás* (KN) programme in order to stimulate new transnational capital inflows, which further enhance the potential to enrich the regime via the siphoning of significant portions of capital. The methodological approach used in this research is a Qualitative Case Study Analysis (QCSA) and a second section discusses this research strategy, which is designed to generate the empirical information that justifies the claims of the thesis and which answers the research questions. This section is broadly delineated between two phases: (i) pre-data collection, and; (ii) data-collection. This section includes a discussion on the reasons this approach has been selected, its pitfalls as well as country-specific issues. A third section presents data on the interviewees who agreed to contribute to this project and the logistical matters encountered during this process. Included in this section is a discussion on the issues I encountered when selecting interviewees, how I gained access to them, the technologies used to generate data and the problems involved in this process.

2.1 Connecting the theoretical approach and emergent research questions

Chapter one formulated a nuanced theoretical framework, designed to account for the nature of the Hungarian regime in the post 2010 period. The key components from the foregoing chapter are summarised in the following points:

- The development of HAP as a framework with which to understand the nature of contemporary Hungarian populism. This is a nuanced approach inspired by Stuart Hall's work on authoritarian populism (1979; 1988 [1980]; 1985; 1988 [1987]).
- The core features that constitute HAP are: (i) conjunctural terrain; (ii) 'moral panics' and subsequent reactions of 'common sense'; (iii) change in the balance of forces; and (iv) prebendalism (a Weberian term that describes the relationship between ruler and staff, (Szelényi, 2016; Weber, 1978 [1922])).
- Fidesz uses two broad methods to reproduce itself, executed in two areas. First, nationally through the state-subsumption of domestic business (i.e. the creation of a form of capital accumulation labelled here as prebendalism), and second, via the stimulation of new transnational capital dimensions from countries located geographically to the East of Hungary. These attempts at self-reproduction mean HAP has both internal and external components that have been identified as significant for regime reproduction and survival.
- Via reference to the Varieties of Capitalism (VoC) literature, this research claims that as a result of politically-induced changes to the internal and external components of the Hungarian political economy, Hungary may be developing from a Dependent

Market Economy (DME) case to more closely resemble a State-permeated Market Economy (SME) case.

- The harnessing of these two theoretical approaches – AP and VoC – provides opportunities to investigate politically-induced change to Hungary’s capitalist institutions. Further, it advances the VoC tradition as applied to the CEE region, and Hungary more specifically, because it can be applied to a highly unique case. Additionally, it also allows observers of Hungarian development and other CEE states the opportunity to develop research agendas within the spheres of comparative capitalism and (comparative) international political economy because it graduates away from previous research that has typically privileged observations of Eurozone members and/or so-called ‘advanced’ economies (Baccaro and Pontusson, 2016; Nölke, 2016).

2.2 Research questions and hypotheses

Fidesz was elected for a second time in 2010, though its ideology had evolved considerably since its first period in office, 1998-2002 (discussed in more detail in chapter three). Since 2010, the party – in coalition with the KDNP – has won two further elections (2014 and 2018). This research claims its domestic political dominance can be explained by the formulation of a ‘new’ method of governance, constructed in a holistic, country-wide and society-wide Gramscian conjunctural terrain with history-specific domestic and international factors, outlined above, labelled as HAP. Investigations have concluded that since 2010, a nationalisation programme has assisted in creating a national bourgeoisie by transferring ownership of Hungarian assets back into Hungarian hands, stimulating a culture of crony capitalism (e.g. Berend and Bugarič, 2015; Kornai, 2015; Szanyi, 2016b; Szelényi, 2016). This forms the domestic ‘leg’ of Fidesz’s drive for self-reproduction, analysed in chapter three. Externally the initiation of new dimensions of transnational capital flows has the potential to

further enrich the Hungarian regime as domestic members of the prebendal constellation envelope inflows via the bilateral agreements of contracts for political loyalty. To demonstrate these external developments, a Russo-Hungarian agreement to extend the Paks nuclear power plant complex and a Sino-Hungarian deal to upgrade the Belgrade to Budapest railway line, are investigated in chapters four and five, respectively.

Additionally, this research suggests Hungary's capitalist institutions may be evolving due to these developments. Therefore, the previous chapter discussed the fusion of the VoC approach to Stuart Hall's work on authoritarian populism, noted above. From the VoC perspective, I compare four capitalist institutions of the DME and SME models using empirical evidence to intimate that Hungarian capitalism may be now better captured by the SME model than the DME model. This may be helpful analysis for observers of the V4 countries (all DME cases), those involved with institutional approaches and those concerned with the VoC tradition, more broadly. With the fusion of these theoretical positions, comparative capitalism analysis may extend to emerging markets, which builds on nascent literature (e.g. Bohle, 2017) that explores the potential to apply such approaches to CEE arguing that two different forms of growth regime have emerged in the region due to EU integration. The advantage of a framework constructed from post-structural and institutional approaches or more specifically, one gravitated towards the study of politics and political agency within cultural study and one with a stronger emphasis on economically-induced outcomes, the Hungarian case – and potentially others with similar ideological and institutional arrangements, particularly Poland – may be explored in more depth, increasing understanding into (a) the trajectories of economic development; (b) political strategies vis-à-vis prebendalism or patrimonialism; (c) changes to capitalist institutions, in the first instance.

The research questions that have arisen from these discussions are:

1. How far has the Hungarian regime subsumed domestic business?

2. How does Fidesz's stimulation of new transnational capital dimensions function to reproduce the Hungarian regime?
3. How far might Hungary be diverging from a DME case to one more closely resembling an SME case?
4. How important have Russo-Hungarian and Sino-Hungarian relations become since 2010?

These questions will be answered by the empirical investigations conducted in the following three chapters.

2.2.1 Hypotheses

Emerging from these research questions, three hypotheses have been developed:

1. The Hungarian regime is subsuming domestic businesses for the purposes of self-reproduction
2. Sino-Hungarian relations are more important in the post-2010 period than before 2010
3. Russo- Hungarian relations are more important in the post-2010 period than before 2010

2.3 Research strategy

This research project relies principally on a qualitative approach to data collection, using semi-structured interviews undertaken with a variety of personnel including academics, economic specialists, former ministers, sitting politicians, and an investigative journalist. Some of these interviews are categorised as ‘elite interviews,’ discussed in more detail below.

While some sections of this research do contain quantitative data, this is primarily drawn from works already in the public domain, or specialist journals and as such, any empirical evidence in this regard was not collected specifically for this work. For example, I have drawn on some specialist publications that refer to the Russo-Hungarian Paks II agreement (investigated in chapter four) because some of that content is case-specific with nuclear energy-related technicalities and costing efficiency calculations, to which I would not otherwise have access. For example, the publication “Budgetary policy aspects of the Paks II project” (Romhányi, 2014) provides valuable graphics and datasets that would be challenging to produce due to knowledge gaps and access to data. Accessible sources with data sets that reflect some of the changes to the Hungarian economy since 2010 – the date this research takes as its principal starting point of enquiry – were also used. For example, online public archives such as the OECD⁷⁶ or World Bank databases, contain relatively recent macroeconomic data on trends that affect the political economy e.g. GDP growth, capital productivity and poverty etc. These have been used to complement the qualitative data captured during the interviewing phase.

Between October and December 2015, I was a Visiting Researcher at the Department of Environmental Sciences and Policy, Central European University (CEU) in Budapest. During

⁷⁶ The Organisation for Economic Cooperation and Development. Hungary has been a member since 1996

this period of tenure, I formulated a detailed strategy for conducting interviews for this research. With help from my position at the university, I contacted relevant people who I identified as potential interviewees for the project. While not all people contacted were willing to communicate with me or agree to be interviewed, this approach was successful in that it laid the ground work for a return visit to the CEU in January and February 2017. Many of the potential interviewees I contacted were helpful, often assisting me by offering additional candidates and/or informing me of personnel who I had not encountered through preliminary research. Between my two positions as Visiting Researcher at the CEU, I maintained contact with those individuals and further enlarged my pool of relevant personnel.

To help acquire information relevant to answering the research questions outlined above, I specifically targeted a broad area of individuals who were connected to the empirical foci of this project directly and indirectly. My strategy was to avoid discrimination in terms of the interviewee's position. For example, it was beneficial to contact personnel whose area of expertise may not have been firmly rooted in my area of focus but who nonetheless had access to other individuals who were more relevant. This strategy proved successful and I was able to create a broad list of candidates from a range of offices, occupations, political positions and specialist expertise.

All interviews were done in Budapest in January and February 2017. A total of twenty-seven were conducted with twenty-five interviews carried out in English and two in Hungarian due to participants' language constraints. Almost all the candidates agreed for the interviews to be recorded, which helped capture more data. Where such agreement was not forthcoming, I was assisted by departmental colleagues and translators at the CEU to comprehend the broader content of the interviews, discussed below.

2.4 Methodology: A Qualitative Case Study Approach

This section contains an analysis of the type of methodology used in this thesis and a justification of why certain techniques have been selected. This research uses a Qualitative Case Study Approach (QCSA) to data analysis (Baxter and Jack, 2008; Schreier, 2014; Stake, 1995; Thomas, 2006; Yin, 2003), as the method identifies a group of categories, which subsequently guide the research trajectory (Gilgun, 2014: 668); helpful in this case because of the relatively large amounts of text data that have been captured, discussed below.

QCSA has been defined as “a method for systematically describing the meaning of qualitative data” (Schreier, 2014: 170), which is appropriate given this research project relies principally on an inductive approach to qualitative data to inform its theoretical framework. Analysis of case studies is an “intensive study of a single unit for the purpose of understanding a larger class of (similar) units ... observed at a single point in time or over some delimited period of time” (Gerring, 2004: 342; quoted in Baškarada, 2014). Such a methodological approach contains a variety of practices and strategies for capturing data and is not necessarily limited to qualitative evidence e.g. ethnography, survey-analysis etc. but extends to quantitative approaches, too (Yin, 1981). Further, ‘behind’ any strategy adoption lies the ‘type’ of case study that is to be conducted e.g. illustrative, exploratory, critical instance, programme implementation, programme effects and cumulative (GAO, 1990: 37-62). Therefore, there are a number of strategies from which to select an appropriate, project-specific methodological approach.

This research has elected to use semi-structured elite interviews as its principal method to capture data to reinforce the empirical elements of the thesis (discussed in the next subsection). The primary influence for this selection is simple, perhaps obvious, but important: humans are “conversational creatures who live a dialogical life” (Brinkmann, 2014:

278). The transactional element of any interview is language, and within this sociological reality are actors' views on individuals, events, the subsequent effort to create meaning, identity and recognition (Schostak, 2006: 26-48). This acknowledgment is helpful because many variants within language can be captured in interview format, analysed and subsequently presented within the research e.g. anecdotes, facts, opinions etc.

To more effectively answer the research questions and address the hypotheses given above, I have chosen to interview professionals who work within different spheres of Hungarian public life (see Appendix 1.1 for a list of interviewees who contributed to this research) because I consider their viewpoints able to offer improved empirical evidence due to their access to personnel (e.g. government) and operating experience in certain areas e.g. business, foreign policy etc. Indeed, one of the principal functions of an elite interview is "to provide the political scientist with an insight into the mind-set of the actors who have played a role in shaping the society in which we live and an interviewee's subjective analysis of a particular episode or situation" (Richards, 1996: 200).⁷⁷ Because of the unique case Hungary has become in the 2010s vis-à-vis other CEE states, my objective was to capture data from individuals with deeper access to knowledge and machinations at the political and economic levels. This is a sharp distinction from conducting non-elite interviews. Indeed, elite interviews differ from 'regular' interviews quite distinctly and have been defined in the following way by Kezar (2003: 397):

1. The interviewee is known to have participated in a certain situation
2. The researcher reviews necessary information to arrive at a provisional analysis
3. The production of the interview guide is based on this analysis
4. The result of the interview is the interviewee's definition of the situation

⁷⁷ The author notes how epistemological questions are necessarily raised by such a purpose, however (Richards, 1996: 204)

I have taken the elite interview strategy to be the most comprehensive approach within QCSA for this project for reasons outlined above. Subsequently, I have tailored the approach to consist of actors with expertise on the core components of this research. While I did not intend to necessarily privilege non-governmental/anti-regime actors, the direction the interview phase took meant that Fidesz and/or Fidesz-related actors did not respond to the opportunity to contribute to the data-collection phase of this research. Therefore, pro-regime perspectives are not given emphasis.

More broadly, the QCSA methodology provides high levels of flexibility for researchers in terms of the objects they seek to study (Dawidowicz, 2011). This is important because semi-structured interviews generate a flexible arena for data-collection, due to their onus on pragmatic questioning. Such a method is rich in influences, which include hermeneutics, phenomenological and ethnographic (Roulston, 2014) and this creates a more fertile ground for the data-analysis phase of the QCSA and the subsequent theoretical development.

QCSA is helpful for research projects that contain 'how' and 'why' questions (Yin, 2003). The four research questions given above are all 'how' questions, which further renders the choice of QCSA justified. Necessarily, questions framed in such a way are likely to influence a wide and diverse set of answers from an already diverse set of interviewees (Appendix 1.1). By using QCSA, this research avoids narrow methodological approaches that investigate causality or correlations between two or more variables treated as variables (Dawidowicz, 2011: 8), allowing the research project the tractability to proceed away from these restrictions. The outcome of such 'methodological freedom' is the potential to more fully handle issues around *exegesis* and generate a 'true meaning' (Wernet, 2014).

Baxter and Jack (2008: 545) identify three further reasons why QCSA is a useful methodology: (i) the behaviour of participants cannot be manipulated; (ii) the research aims to discuss contextual conditions due to their relevance to the study, and; (iii) it functions when the boundaries between the phenomenon and context are not clear. Each of these considerations

is relevant for this research. In this sense, the project is one informed by inductive reasoning because theory is anticipated to develop from the data-collection phase of the project. Indeed, “[i]n its purest form, qualitative analysis is led by an inductive approach” (Srivastava and Hopwood, 2009: 77). Consequently, it is not desirable, and even detrimental, for interviewees to be restricted i.e. channelled towards one theoretical assumption or another, not least because “[t]heories are ... *explanations of data*”⁷⁸ (Kelle, 2014: 561). Qualitative data analysis, then, is benefitted from analysis *as the project progresses*.⁷⁹ This helps the researcher to “generate an emerging understanding about research questions, which in turn ... informs the questions asked” (DiCicco-Bloom and Crabtree, 2006: 319). The aim of the data-collection phase of the research project, in other words, is to develop a theory from the captured data. To assist with this, it is important for the qualitative researcher to be on alert for changes in direction during enquiry (Lloyd-Jones, 2003), which can in turn lead to a blurred distinction about who may be in control of a situation e.g. during semi-structured interviews (Hammersley, 1992).

To summarise, the principal steps employed during this QCSA are simplified as follows: (i) identify interviewees; (ii) arrange interviews; (iii) conduct interviews; (iv) transcribe data; (v) develop a coding system; (vi) induce theory. The QCSA approach allows the researcher to analyse a given quantity of data, through the isolation of key themes, with the objective of strengthening the empirical investigations. These processes are discussed in this chapter.

2.4.1. Disadvantages of chosen methodology

While one country has been selected as the base of analysis – Hungary – empirically, the research focus progresses beyond this singularity, conducting investigations into three broad empirical areas (chapters three, four and five). These observables do not necessarily share the same structures, given that one dimension addresses the phenomenon of the state-

⁷⁸ Italics in original

⁷⁹ Italics added

subsumption of domestic business, and the following two investigations concern international business agreements mostly financed state loans from Russia and China. In other words, the empirical components of this research are not easily comparable and consequently do not neatly fit into one category of object, constituting a “small-*N* problem”⁸⁰ (Rueschmeyer, 2003: 305). This issue becomes compounded because typically, small-*N* case studies have been deliberately selected and can lead to “false inference” (Ebbinghaus, 2005: 133).

A further criticism of a small-*N* pool arises around selection bias (Geddes, 1990) whereby the research may be undermined due to conscious exclusion of data that may influence the type of data collected (either positively or negatively). By employing a small-*N* QCSA, case-selection necessarily becomes extremely important, not least because “they are about something larger than the case itself” (Seawright and Gerring, 2008: 294). Therefore, following these authors’ discussion of five different methods for case-selection, I have opted for what they describe as a ‘typical case’⁸¹ because this type of “study focuses on a case that exemplifies a stable, cross-case relationship” (Seawright and Gerring, 2008: 299).

In terms of the planning stage, knowledge on strategies for conducting a QCSA is not abundant (Thomas, 2006) and can often be conflated with other research methodologies such as Grounded Theory (Cho and Lee, 2014). Indeed, “the role of the case study has been obscured for years” (Hall, 2003: 395) because confusion has arisen over cases and observation. Therefore, it is critical to follow a reliable guideline for a successful application of the QCSA and this is discussed below.

As with any data-collection technique, there are logistical pitfalls. First and foremost, these concern the perils of interviewer behaviour during the interviewing phase. These centre

⁸⁰ For an extended analysis of the advantages and disadvantages of both small and large-*N* analysis, see Ebbinghaus (2005)

⁸¹ The remaining four methods are: ‘diverse’; ‘extreme’; ‘deviant’, and; ‘influential’ (Seawright and Gerring, 2008: 296-304)

around the ability for the interviewer to separate fact from opinion, be wary of false testimony and avoid his/her own theoretical assumptions or political beliefs from clouding the interview (Rathbun, 2008). To some extent of course, these elements are unavoidable given the researcher is the ever-present actor, and therefore these drawbacks are not specific to the QCSA as they may occur in other forms of qualitative research practice e.g. Grounded Theory.

2.4.2 Interview technique: semi-structured interviews

The type of interview selected as most effective to achieve desired outcomes was the semi-structured interview (e.g. Galletta and Cross, 2013). Some of the interviewees who agreed to contribute to this research work in information-sensitive sectors of government and/or operate in areas that can influence policy-making and therefore are classified as elites.⁸² Other interviews based on their occupation and status are not categorised with such distinction. By conducting elite interviews, this research has been able to collect data from people involved in the political process (Beamer, 2002); beneficial because it increases leverage (Collier, 2011) to available statistical data, in the first instance. Because these individuals had either privileged access to information crucial for this research project or were aware of the processes of government due to personal or and/or professional experience, this strategy proved extremely constructive.

When conducting interviews with personnel that may possess sensitive information or may be reluctant to share facts or opinions with the researcher, it was essential to take into consideration several factors including how interviewees felt, cultural differences, the length of the interview, the possibility of audio recordings, fatigue and challenging questions (Harvey, 2011). While it can be challenging to carry out interviews in some post-socialist countries, particularly Russia, recipients in Hungary are more open to interviews (Laczik,

⁸² For a detailed discussion on Hungarian political elites, see Körösényi (1999)

2006), which may explain how and why I was able to conduct 27 interviews in a restricted time period.

2.4.3 Rationale for using semi-structured interviews

The semi-structured interview technique avoids the rigid question/answer system and assumption that all interviewees are somehow on the same level of the structured interview and the loose and highly subjective format of the unstructured approach, allowing a “continuum of structure” (Galletta and Cross, 2013: 72) to develop, where improved results are anticipated. Further, the semi-structured interview is compatible with formal settings (Fontana and Frey, 1991) and is a reliable approach because it focuses on a reduced set of outcomes, meaning that while the emphasis is on seemingly minor elements, the end results produce implications that can travel far (Rubin and Rubin, 1995). The principal consequence of a semi-structured approach is a resultant inductive research method, which permits the research design to account for “unobservables” (Gauch, 2003: 219), producing more space within which to manoeuvre. Essentially, this allowed the research to generate supplementary data that would otherwise not have been produced had the other approaches to interviewing, outlined above, been selected.

By focusing on a semi-structured approach, the research design becomes iterative in the sense that each time an interview is conducted, a clearer outline of the studied phenomena becomes apparent (Rubin and Rubin, 1995). Furthermore, because of the sensitive political characteristics of the research project and because of the variety of personnel who were interviewed, there is no clear linear relationship between the *explanans* and the *explanandum* (Anderson *et al.*, 1986) i.e. nothing is obvious. Because theoretical frameworks can be extrapolated from interviews (Rubin and Rubin, 1995), this work begins from the starting point of the *unaware researcher*. Within this space rises the potential for new ideas to be harvested during the interview process, which could enrich the research.

An additional benefit of using the semi-structured interview technique is that, unlike focus groups which could be dominated by stronger voices and undermined by the lack of input from weaker participants (Smithson, 2000), the research is benefited by paying continuous attention to the interviewee throughout the duration of the time together with the researcher. It is also more practical and realistic to organise one-to-one meetings with people within these job brackets due to time constraints and potential conflicts of interests.

As outlined, the content of some of the interviews is sensitive and therefore it is important to consider issues such as gaining trust, self-presentation, and respondent management questions (Harvey, 2011). Further, these interviews are elite interviews in some cases, as noted above, which means an approach is required that differs from other interviews conducted for this research e.g. with academics. An important issue to consider is that “it is not the obligation of a subject to be objective and to tell ... the truth” (Berry, 2002: 680). Therefore, it is critical to work with flexibility. The tractability of the semi-structured interview method allows for a more open mind and a wider harvesting of data, which can subsequently be analysed with account of the abovementioned issues of objectivity.

2.4.4 Disadvantages of using semi-structured interviews

Any qualitative methodological approach contains pitfalls about which the researcher must be aware. For example, the semi-structured interview method is time-consuming, labour intensive and requires interviewer sophistication i.e. a level of knowledge capable of carrying out an interview for the allotted time and the capacity to be sensitive, pragmatic and quick-thinking (Adams, 2010). This is reflected in the period of preparation time I spent in Budapest (three months) where I fostered a network of (potential) interviewees, acquiring their confirmation. Members of political or business elites typically do not wish to be restricted with close-ended questions (Aberbach and Rockman, 2002). Therefore, it is important the researcher employ a certain level pragmatism, noted above, to offset interviewees’ concerns that may arise during or before the meeting.

In the pre-interview phase, interviewees can cancel agreed meetings at any moment due to busy schedules, for example, therefore, it is important to maintain flexibility, particularly should they offer an alternative timeslot for a meeting. During an interview, question-formulation can become problematic, particularly if interviews are suddenly curtailed i.e. an interview can be 'wasted' and an opportunity lost if the targeted questions are not posed within the agreed or reduced timeframe, or if a 'clash' in terms of (re)scheduling materialises.

The question of access is critical for this type of research design. Typically, elites maintain some form of gatekeeper, which can be challenging to overcome. This can be lessened should the researcher possess some form of personal connection with the targeted individual (Reeves, 2010) and behave in a non-threatening way but challenges nonetheless remain. The issue of access partly underpinned the rationale for becoming a Visiting Researcher at the CEU on two occasions. These efforts were justified as issues of access were relatively benign and a level of trust was generated between the researcher (me) and the objects (interviewees).

2.4.5 Conducting qualitative research in Hungary

In Hungary, researchers had typically used quantitative methodological approaches to the social sciences though this began to change during the 1990s when results for the qualitative researcher began to become more forthcoming (Laczik, 2006). Conducting qualitative research in Hungary bears little resemblance to doing so in the other two countries of focus for this thesis, namely, Russia, with the challenges of access, power balance and openness (Voldes *et al.*, 2014) or with China where specific cultural layering require adaptation to garner success e.g. *guanxi* and *mianzi* (Zhou and Nunes, 2013). Furthermore, Hungary has a longer history of qualitative, interview-based methodological research than other post-

socialist countries, with studies on business networks and subsequent relationships dating to the early 2000s (Ivanova-Gongne *et al.*, 2018).⁸³

Based on this information, the research design was aimed at individuals working in Hungary and with Hungarian nationality, in the first instance. Informally, I had been in contact with colleagues and other researchers who had undertaken similar research projects in Hungary e.g. with elite interviews, who informed me Hungarian interviewees are typically accommodating, helpful and provide rich data. Conversely, speaking to researchers who had worked in Russia, their answers were quite different. For example, by way of trial and error, I travelled to Moscow in February 2015 to meet with members of the Faculty of World Economy and International Affairs, at the Higher School of Economics who informed me that Russian individuals targeted for interview for qualitative research projects based in Russia, rarely provide information to the Russian researcher, and almost certainly not to one from Western Europe. In China, the climate is even more extreme in part due to access issues characterised by cultural elements, noted above. For these reasons, I subsequently modelled my research project to harvest data specifically from Hungary, thus hopefully bypassing these issues and creating a greater chance to achieve access to sources.

This approach was vindicated by the diverse range of personnel who agreed to partake in this research, presented in Appendix 1.1. Furthermore, my final question to each interviewee was: “Could you provide details of other individuals who might benefit my research and be willing to be interviewed?” This produced results that often enhanced access capacities as I was frequently given direct email addresses and on occasion, telephone numbers. My lack of experience in carrying out qualitative data collection in other post-socialist European countries means I am unable to confirm if this a Hungary-specific phenomenon, though I have been told informally that these outcomes are not uncommon. To complement the list of interviewees given in Appendix 1.1, I have compiled an interview schedule (Appendix 1.2), which details their timings and locations.

⁸³ Earlier qualitative works prelude 1989, however (e.g. Haraszti, 1977)

2.4.6 Reflexivity statement

Reflexivity “involves turning back on oneself in order that processes of knowledge production become the subject of investigation” (May and Perry, 2011: 109). Ultimately, any researcher cannot avoid bringing his/her own life assumptions and histories into any given arena of data-collection; we are ongoing participants within the social world. Necessarily, this has an unavoidable impact on the research. In other words, our nature and our own thought is important as it influences the way we research (Evans *et al.*, 2018). Reflexivity, then, poses an epistemological challenge to both the researcher and the research being conducted as it generates a friction between the knower and the known.

One way of engaging with this issue is through the practice of hermeneutics (Wernet, 2014), which can close the gap between these two positions. By doing, so the researcher might aim for a “genuine epistemology” (cf Bourdieu, 2004; May and Perry, 2014: 111) and this can help us to forge nuanced meanings of the social world. Bauer (2008: 191) accepts that subjectivity affects perception and instead seeks to advance study into how subjectivity *frames*⁸⁴ perception. To do so, she addresses the subjectivity problem of what she translates to be ‘perspectivity’ (*Perspektivität*). This is important because all forms of research depend on interpretation, regardless of its qualitative or more ‘value-free’ quantitative type (Stake, 1995). Therefore, during this QCSA, I pay special attention to reflexivity by maintaining awareness of my own subjective position and how it unavoidably will influence the trajectory of the research.

Reflexivity in this research project could be considered even more appropriate given that it is connected to the field of Cultural Studies, of which Stuart Hall was a key twentieth century proponent.⁸⁵ This is because there is often a “struggle for the meaning of presented events”

⁸⁴ Italics added

⁸⁵ For a detailed analysis of Cultural Studies and its relationship with qualitative research, see Winter (2014)

(Winter, 2014: 253). Indeed, as a non-positivist approach, it is critical to recognise that the subject is distinct from the object it wishes to observe and subsequently, meaning and knowledge is warped.

2.5 Ethical Considerations

Before traveling to Hungary to conduct the interviews I completed the necessary procedures to comply with the university's Code of Practice on Research Ethics. This included information security regarding the handling of research, personal and sensitive data and a questionnaire on how I would practise data maintenance. Additionally, I completed a questionnaire on general ethics followed by an outline of my research schedule during my two periods of stay in Budapest. This contained information on the meetings I had already agreed, those I intended to organise and auxiliary plans for my stay during my time at the CEU. Finally, I completed a Risk Assessment Form, outlining the various potential risks to my safety during the period of fieldwork, such as 'risk of physical threats or abuse'. Here I included details on my host institution (CEU), the proximity of health facilities, my local knowledge of the city and language and accommodation arrangements. During the course of data collection, I agreed, by way of the above bureaucratic procedures, to abide by the stipulations of the ethical code of practice. This included providing a detailed schedule of my proposed movements during my interview timeframe (Appendix 1.2) – the time from leaving and returning to the department – to my host supervisor at the CEU, Dr Michael LaBelle (Associate Professor, Department of Environmental Sciences and Policy and Associate Professor, Department of Economics and Business) and provision of relevant storage facilities for collected data. These procedures were developed to create the best possible empirical data to answer the research questions posed above.

This research project connects with a variety of personnel with intimate governmental knowledge and experience. While several of them were formerly in positions of government,

their future career trajectories may involve a return to ministership. This entails the possibility of sensitive information being discussed during the interviews. Therefore, it was critical to adhere to the protocols outlined above and to guarantee participants that the content of the interviews would remain confidential.⁸⁶ While some research can be “emotionally draining” (Wiles *et al.*, 2004: 8), it is critical that participant loyalty remain in place because this could expose contributors through their connections with my research. Further, collected data may become compromised and therefore redundant, creating adverse problems for the research project.

2.6 Logistics of interviews

As described above, I spent three months in Budapest in late 2015, laying the groundwork for a productive period of data collection. I am confident that had this Visiting Researcher position not materialised then the quality of the empirical data I collected would have been weaker. This is for two principal reasons. First, I was able to familiarise myself more intimately with relevant local institutions and candidates (potential interviewees), creating a broader scope with which to collect information. Second, I built a small-scale though privileged network of contacts in my host department. Because of their more contemporary knowledge of the local political environment, they were able to generally assist me by providing candidates’ details (names and affiliations) I may otherwise not have considered. The remainder of this section details the various stages of the logistics of the interview process.

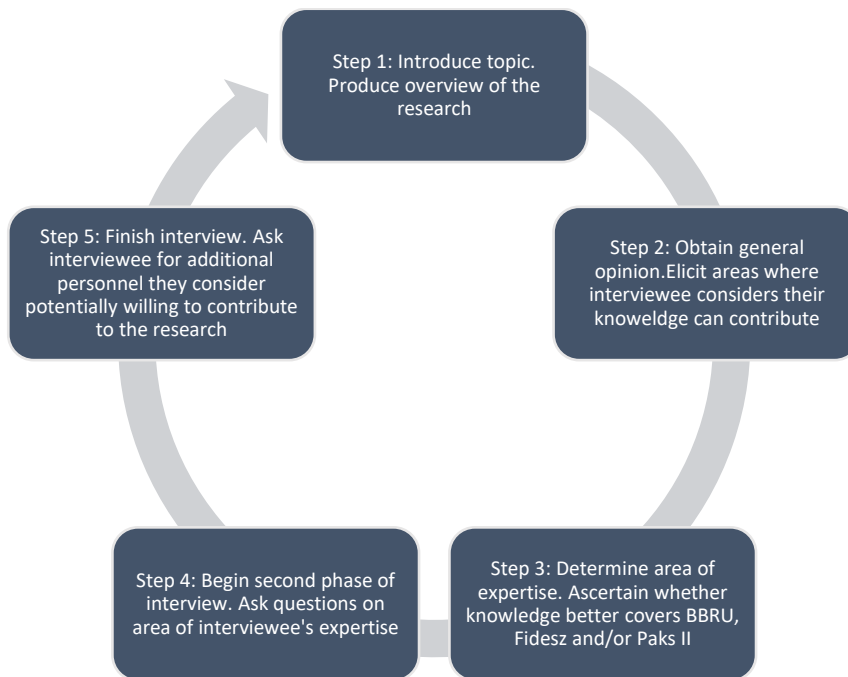
2.6.1 Iterative interview process

This research follows an iterative process in its data-collection phase (interviews) because this can help to foreground and background the principal elements of the research (Paulus *et al.*,

⁸⁶ For a list of potential ethical concerns during qualitative inquiry, see Padgett (2017)

2010). Figure 2.1 below conceptualises the five step iterative process that was taken during the data-collection phase of the research.

Figure 2.1 Iterative protocol during interview phase



Source: author's own compilation

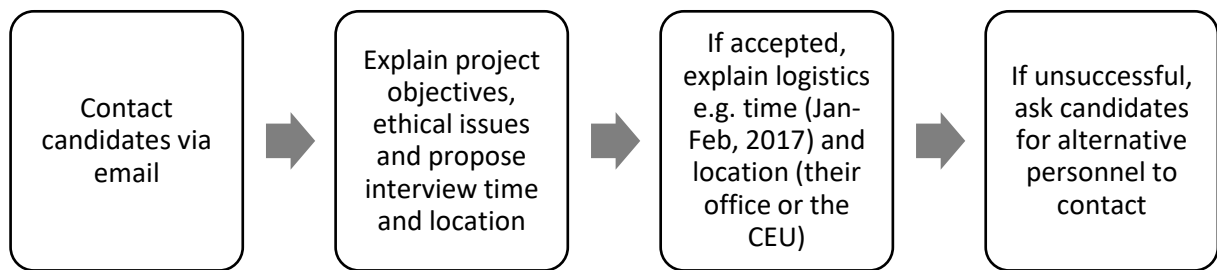
2.6.2 Access

The method for gaining access to interviewees principally began during my first period of tenure at the CEU, detailed above because this created a 'core' base of participants who stated they were happy to provide information on my scheduled return to Budapest in 2017. Shortly before I resumed my position at the CEU, I contacted them using the same channels (mostly email) and we were able to arrange a convenient time and location to conduct the meeting. Typically, this was at their office, though where this was not possible, we arranged to meet at the CEU due to my access to the facilities and the university's central location. On one occasion, an interview was arranged for a public place due to the interviewee's concern over physical safety. See Annex 1.2 for the interview schedule.

For candidates I had not contacted during my first stay at the CEU, I emailed them approximately two to three weeks before my arrival (December 2016) as this was a more practical approach for assuring a meeting. Those who replied were typically forthcoming and offered a time and place to convene. This was frequently quick and unproblematic to arrange, and interviewees mostly adhered to the pre-arranged schedule despite the potential for relative power differentialities between researcher and 'elite member' to hamper the research (Monahan and Fisher, 2014). My final question to interviewees, as noted above, was always to ask for a recommendation of additional personnel. In most of the cases, this technique resulted in privileged access to sources because I was given direct contact information and permitted to mention the name of the previous interviewee as a means to further ease access issues.

In terms of accessing sitting members of parliament, I was able to obtain the details of targeted candidates through my Budapest-based network. I achieved access to two MPs from two different opposition parties, which in turn, led to securing an interview with an MP from a third opposition party. To complement these achievements, I aimed to acquire access to a member of the Fidesz party, though this emerged as problematic; no Fidesz members responded to the opportunity to be interviewed. Meeting the MPs was the only access point where it was necessary to pass a security checkpoint. The office building these MPs occupy is approximately 250 metres from the parliament and therefore movement is more restricted. To gain access to the building, interview scheduling details had to be provided to security personnel at the checkpoint prior to arrival who crosschecked my details and performed the necessary protocol. This did not present any issues as my information was accurate and possessions non-threatening. Figure 2.2 below gives the process used to achieve access during my first period of tenure at the CEU (October to December 2015).

Figure 2.2: Access protocol during first period of tenure at CEU (preparation phase)

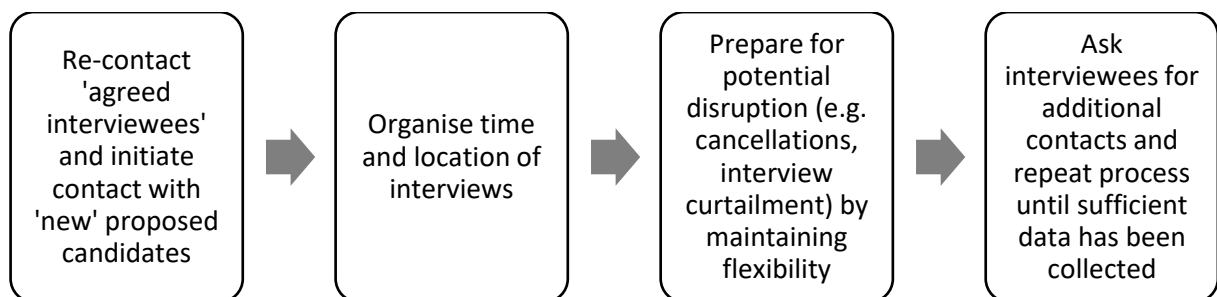


Source: author's own compilation

This process was successful in regard to (a) securing meetings with relevant personnel; (b) creating access routes to alternative sources, based on recommendations; (c) fostering a local network of informers who became aware of my project and whom I could re-contact closer to the interview period, with prior agreement; and (d) broadening my target area in terms of position, and sector of the potential interviewee.

During my second period of tenure at the CEU (January to February 2017) I developed from the process given above to maximise access to candidates for interview and to increase the level of quality of the data by focussing on whom I identified as the most useful interviewees for data collection. Figure 2.3 demonstrates this secondary process.

Figure 2.3: Access protocol during second period of tenure at CEU (interview phase)



Source: author's own compilation

Taken together, these two protocols were successful in achieving access to the best possible sources who were available during each phase. While not all respondents were willing to contribute to the data-collection, the structure of these processes meant little time was lost in seeking alternative candidates and I was able to harvest rich data to bolster the research.

2.6.3 Location

As discussed above, I selected Hungary as the country to conduct a QCSA. Because of Hungary's uneven urban development, there is only one major city in the country and therefore all interviews took place in Budapest between January and February 2017 (see Appendix 1.2) and were conducted during working hours and on weekdays. Further, most interviews were completed in the offices of interviewees, rather than in public places. This created a more professional atmosphere and one more congruent with data capture from the use of recording materials as there was less chance of interference. Where interviews were undertaken in public places, this was due to interviewees' specific choice or lack of alternative. Here, I carefully identified locations that would not compromise the interviews in terms of threats i.e. a safe, central and quiet location was selected where we would not be disturbed, and the quality of data not undermined.

2.6.4 Interview length

When contacting participants, it was suggested interviews would be approximately thirty minutes in duration, to which all participants agreed. Because the interviews were semi-structured, there were occasions when meetings continued for longer and sometimes were under this allotted period. This did not cause any particular issues and where interviewees had to terminate the meeting due to other prearranged commitments, the data I intended to acquire had already been captured. Conversely, where interviews were less temporally-rigid, I was able to acquire supplementary data because the semi-structured interview technique permitted a pragmatic line of questioning to develop. This was beneficial to the research as it

enriched output, created rapport and strengthened the level of trust between researcher and interviewer. On occasion, this led to the acquisition of other candidates' details, bypassing the access issues and processes outlined above.

2.6.5 Recording

Most interviews were recorded with specialist recording equipment for the benefit of post-interview note-taking and analysis. This also helped the research avoid missing anything. All interviewees were asked for their permission to be recorded to conform with ethical guidelines and where interviewees declined for the meeting to be recorded, I was able to use notes instead. During the meetings, I used specialist recording equipment and placed the device between me and the interviewee to offset the chance of data being lost due to audio interference. Once the interviews had concluded, I returned to my office at the CEU to recover the data i.e. transfer the audio files to a storage system. During transit, I made the necessary arrangements to conform with my ethical responsibilities as laid out in the ethical guidelines specifically to inform my host of my movements and transport the data in a secure manner. From this point, I duplicated the data and stored it on a secure, secondary device to lessen the possibility of any loss or file corruption. During the interviews, I also took detailed notes in a bespoke field diary. This technique allowed me to refer to answers given during the interviews and readdress them for clarity and question-formulation if necessary (Pickard, 2013). By maintaining an accurate field diary, I was able to keep data in shorthand; useful for quick access and crosschecking with audio records once I had returned to the CEU. As with the audio data, I maintained the field diary according to the ethical guidelines to offset the chances of compromising the records.

2.6.6 Language

As discussed above, the majority of interviews were conducted in English with the remaining two carried out in Hungarian. Interviewees who spoke English were extremely competent and

often use the language for day-to-day professional purposes and therefore, there were no issues with language barriers or missed understanding. Moreover, due to their superior level they could inform me of specific examples, offer anecdotes and help with the ease of building and maintaining rapport, outcomes that enriched the quality of data capture. Where interviews were conducted in Hungarian, interviewees felt more comfortable and were able to express themselves more fluidly as their competency in English was relatively weaker than other candidates. This was not overly problematic given my competence in the language (B1)⁸⁷ and the generous assistance of CEU faculty members who helped me to translate some of the content due to my own proficiency shortcomings.

2.6.7 Logistical Problems

No logistical problems were faced before, during or after interviews. Because locations and times were prearranged, travelling to and from participants' offices – or the other arranged locations – was unproblematic because of the central location of the CEU. This was helped by knowledge of the local language and city and the excellent public transport system in Budapest. Communication with participants was easy, with most correspondence occurring via email or telephone. Access to the internet to facilitate this was also unproblematic because of my position and access to the facilities at the CEU. The most problematic issue during this period was the extreme weather conditions. Temperatures were consistently below -15°C and therefore it was occasionally challenging to travel to destinations with longer travel times and this caused one interview to be postponed.

2.6.8 Transcriptions and coding

All interviews were anonymised, which has resulted in the reduced risk of participant identification. An important distinction between anonymity and confidentiality, is that

⁸⁷ This is according to the Common European Framework of Reference for Languages (CEFR), with B1 classified as an independent user of the language at a lower intermediate level. The CEFR ranges from A1 (beginner) to C2 (mastery)

“anonymity is one form of confidentiality – that of keeping participants’ identities secret” (Saunders *et al.*, 2015: 617). Though true anonymity can never be guaranteed (Scott, 2005), I considered this an important ethical factor given participants’ roles in civil society, outlined above and in Appendix 1.1. Subsequently, at the beginning of each interview, I informed participants that data would be anonymised.

On return to my home department at the University of Bristol, I immediately began the process of transcription. Principally, this was to ensure I was able to rely more on my own memory to maximise the data-collection process. Because the number of participants was under thirty ($n < 30$), I opted against employing a specific software platform to transcribe the data e.g. Nvivo.⁸⁸ I am familiar with this programme and consider it a more helpful method if $n > 40-50$ as this can assist with time-keeping issues. Therefore, I chose to transcribe all interviews by hand using the audio and field diary records I had collected in Budapest. This process took between two and three weeks and was helpful because I became even more familiar with interviewees’ responses, putting me in a stronger position from which to identify and select appropriate data for use in the empirical sections of the thesis.

Once each interview had been transcribed, I embarked on construction of a coding frame. Here I take Saldaña’s (2013: 3) definition of coding: “a word or short phrase that symbolically assigns a summative, salient, essence-capturing, and/or evocative attribute for a portion of language-based or visual data”. This sentence accurately captures the essence of what I aimed to achieve through this process. Once the transcription process had been completed, the coding segment of the research project was ready to commence. I had a wide collection of data from multiple sources (27 interviewees), which need to be handled and therefore, I employed an approach borrowed from previous work as a guideline. For this, I broadly followed Schreier’s (2014: 174-178) helpful method, which consists of (i) selecting material; (ii) structuring and generating; (iii) defining, and; (iv) revising and expanding. These steps are contiguously expanded in more detail below.

⁸⁸ Windows software designed for qualitative researchers to handle rich text-based data

To begin, '(i) selecting material' was important to avoid "cognitive overload" (Schreier, 2014: 175), which can occur when handling multiple pages of text data (Roulston, 2014), as was the case in this research project. Therefore, it was helpful to breakdown these larger data into more manageable segments. The next step, '(ii) structuring and generating' pertains to the development of the two main categories (MCs) and five subcategories (SCs) (given below) that will form the spine of the coding. It is important that the MCs are *unidimensional* and that SCs are mutually exclusive according to Schreier (2014: 175) as this overcomes any contradictory elements e.g. an outcome being both positive and negative. Following this, '(iii) defining' was a helpful step as it was designed to concretely categorise SCs. This step helps to overcome any ambiguities around the construction of the SCs, particularly where one segment of text may be attributable to more than one SC. The final step in this process, '(iv) revising and expanding' is in essence, a form of quality control whereby the researcher takes time to revise the coding construction thus far and subsequently edit and/or withdraw erroneous elements e.g. where one SC may be much broader than another and therefore considerably more data will be coded within it.

The following MCs and SCs were delineated:

Main categories:


- (MC1) Hungarian economic development
- (MC2) Interaction with Chinese and Russian entities

Subcategories:

- (SC1) Opinions of Hungarian economic development
- (SC2) Facts of Hungarian economic development
- (SC3) Specificities of the prebendal network
- (SC4) Specificities of Russo-Hungarian interaction
- (SC5) Specificities of Sino-Hungarian interaction

The table below visualises the coding process described above.

Table 2.1 Coding process

| | | | |
|--|----------------------------|---------------------|------------------------|
| Selecting material | Structuring and generating | defining | Revising and expanding |
|  | | | |
| Many pages of text | Many segments of text | 15-20 subcategories | 5 subcategories |

Source: adapted from Thomas (2006: 242)

2.6.9 Interviewees

A comprehensive list of interviewees is given in the appendix, at the end of this thesis. It shows the interviewees who agreed to discuss their viewpoints and give expert knowledge on the subjects of this research. All interviewees' names have been anonymised and instead, where appropriate, an affiliation, job title or former job title have been given. Each interviewee is designated "I" for "interviewee" and the corresponding number according to the chronology in which they were interviewed. Throughout the empirical chapters, this method will be used to identify interviewees: e.g. I10 = Former Minister for Education.

These personnel were selected principally because of their privileged access to policy circles in previous governments from 1990 onwards e.g. a Former Prime Minister of Hungary (I26). I attempted to broaden this scope by including former ministers of different governmental departments and governments (I1, I4, I10, I18, I20, I23) and three sitting members of parliament (I9, I12, I15). Specialist economists (I2, I5, I7, I11, I13, I14, I17, I24) with different foci of expertise helped to provide insight into the financial agreements implemented since 2010 and a broad understanding of the trajectory of Hungarian economic development since the state-socialist period. An interview with TIH and an investigative journalist (I3, I6) helped to uncover information about the prebendal network in Hungary. Finally, a range of academics (I8, I16, I19, I21, I22, I25, I27) with different specialisations e.g. Sino-Hungarian

relations, Russo-Hungarian relations, political economy etc., offered me privileged access to datasets, publications and thinking that illuminated the general direction of the analysis conducted in this thesis.

2.7 Conclusion

This chapter discussed the research methodology employed by this thesis, namely the Qualitative Case Study Approach (QCSA). This method was selected because it is helpful for engaging with the type of research questions that have been raised in this chapter, specifically 'how' questions. It is posited that this thesis will benefit from such an approach because it is able to follow a clear method to capturing and analysing data. Because the principal methodological approach used in this research is qualitative, the key steps embedded within the QCSA have been appropriate to follow. These are broadly delineated into three categories: pre data-collection, data-collection and post data-collection.

First, this chapter contained discussions on the QCSA including the disadvantages of the approach and the importance of reflexivity during qualitative methodological research. Second, there was a detailed account of the interview process both in the preparatory and execution phases. Finally, the logistics of transcription and the construction of a coding frame were given. This was critical because through selection of adequate coding format, the research will be more privileged as data can be harvested more effectively.

The next chapter is the first of three empirical chapters and focuses on the internal dimensions of Hungarian authoritarian populism and how the state subsumes domestic business.

Part III: Hungarian authoritarian populism at work: internal and external considerations

Chapter three

Fidesz: the state subsumes domestic business

The focus of this chapter is to apply the theoretical framework developed in chapter one to the domestic changes that have occurred to Hungary and the Hungarian political economy since Fidesz were elected in 2010. To do so, this chapter is organised into six areas of analysis that reinforce the claim that the contemporary Hungarian regime has developed the components of Hungarian authoritarian populism in order to reproduce itself. First, within this introduction, a brief overview of authoritarian populism (AP) in the Hungarian context summarises the framework that is applied to Fidesz in the post-2010 period and asks how Hungarian politics has developed to contain only one party that is realistically capable of winning power. Second, an internal change within the Fidesz party following loss of government in 2002 and the subsequent exploitation of a series of crises to increase support determines the origins of HAP. Third, the emergent culture of crony capitalism, which operates to subsume domestic business – captured as ‘prebendalism’ (Szelényi, 2016), which describes the type of relationship between ruler and staff – and the analysis of four individuals who demonstrate this system. Fourth, the ‘moral panics’, which have been identified by Fidesz to form HAP and how they help to reinforce domestic political support for the party. Fifth, the results these domestic dimensions for Hungary’s post-2010 initiation of a project that seeks to operationalise new transnational capital flows from Eastern entities is discussed. Finally, a section asks what kind of state Hungary has become since these changes have been implemented.

The changes to domestic ownership structures and the subsequent subsumption of domestic business by the Hungarian regime have been hugely successful for the incumbent political elites in terms of proliferating their dominance over domestic politics. These changes reflect the emergence of HAP as a dominant method of governance within the Fidesz party. Stuart Hall’s AP approach has been modified for understanding the post-2010 Hungarian regime by

fusing it with Széleányi's (2016) discussion on prebendalism, which puts this research in a stronger position from which to more accurately frame the dominance of Fidesz in post-2010 Hungary. In turn, this creates a platform from which research can catapult understanding into the changes enacted on the Hungarian political economy and the trajectory of Hungarian economic development.

By using HAP as a starting point – the key features of which were outlined in chapter one – this chapter investigates the post-2010 subsumption of domestic business by actors loyal to the governing elites. From here, it is anticipated that observers of Hungary will be in a more informed position from which to understand who (what) Orbán is to Hungary and why he has become so successful in operationalising and institutionalising his objection to the 1989-2010 politico-economic status quo as a desired system. This is crucial because while some analyses identified Hungary as the most likely CEE state to regress to authoritarianism (Bohle and Greskovits, 2012), other accounts of Hungarian capitalism place more focus on economic structures rather than political agents as determinants of economic outcomes e.g. the DME model (Nölke and Vliegenthart, 2009).

How is it that one political party has become realistically the only likely winner at national elections in Hungary? After all, the country is described as a liberal democracy, runs open and free elections every four years with results returned having adhered to international electoral standards.⁸⁹ The mobilisation of critical segments of society has emboldened Fidesz and helped them to achieve unprecedented success. Orbán's power has become so dominant that *"Since 2010, politics is also regaining lost territory – not that it was completely lost because Hungary was never really a liberal democratic capitalist country and the government played a larger role in the distribution of public goods. It was however drifting towards a liberal, capitalist mode; that is to say economics would have been in command. Now, nothing important can happen in Hungary unless Orbán wills it"*. (125). This is a significant divergence from the culture of politics that emerged after 1989 with few other EU and NATO members

⁸⁹ A recent analysis identified eight reasons to challenge this assumption, however (Heinrich Böll Stiftung, 2018)

possessing this kind of power concentration. To describe post-2010 Hungary as exuding a form of unique fascism is overly one-dimensional. Orbán's cynicism and objective for prolonged political reign is more of an "omnipotent authority" (Jasper and Demszky, 2014: 10). Despite the triple supermajority outcome won by Fidesz since 2010, country-wide support does not reflect these outcomes.⁹⁰

The populist label has been widely attributed to Orbán and Fidesz since 2010 (e.g. Berman, 2017) and this may be accurate. The focus here however, is not to add to the literature on populism, but rather to empirically-demonstrate the method the incumbent political elites in Hungary have developed to subsume domestic business. This is significant given the potential that Fidesz and Orbán will remain in power perhaps until their desired target of 2030 (Berlin Policy Journal, 2018), as discussed in chapter one. A prolonged period in office is expected for Fidesz, not least because *"Fidesz is able to mobilise their own voters and demobilise the opposition voters. Orbán being paternalist to pensioners helps Fidesz's cause because it helps to keep pensions at a good level. Flat taxes also help to raise the middle classes. For the lower classes they [Fidesz] offered a reduction in utility bills. For the rest: very strong nationalistic propaganda. Always finding an enemy has helped the Fidesz cause, for example the vilification of migrants and Brussels. Brussels is the real enemy, driven by 1968 liberal causes."* (14). This reflects not only Fidesz's political skill but also its ruthlessness of power maintenance; no other CEE country has achieved such sustained electoral success.

Orbán has morphed from *primus inter pares* to the informal centre of power, where loyal cronies blindly approve the leader's decisions often designed to curtail the efficacy of democratic mechanisms (Bozóki, 2012) and a "pyramid-like hierarchy has emerged and solidified, with Orbán at its summit" (Kornai, 2015: 36). Indeed, Orbán "has no other project

⁹⁰ The voting system that Fidesz introduced in 2011, strongly favours the victor in terms of representation in parliament. At the 2018 election, Fidesz received 49% of the vote and 67% of the seats. This is compounded by the ethnic Hungarians living in bordering countries who have been franchised to vote in Hungarian elections, 90% of whom vote for Fidesz (Ośrodek Studiów Wschodnich, 2018)

than to maximize his own power, whatever it requires” (Heller, 2017: 543).⁹¹ During Fidesz’s first year back in government from 2010, the constitution was amended on twelve occasions with the purpose of weakening the institutions designed to implement checks and balances established after regime change in 1989 (Bánkuti *et al.*, 2012). Fidesz has orchestrated other structural changes including: media law amendment, judicial reforms, fiscal control increases, electoral boundary restructure etc., which combine to entrench their position in government (Johnson and Barnes, 2015). Fidesz has mixed anti-market initiatives (e.g. renationalisation of pensions) with neoliberal policy (e.g. social benefit reductions), leading to what has been described as “a kind of ‘authoritarian neo-liberalism’” (Lendvai and Stubbs, 2015: 455), a development with strong xenophobic content given its focus on anti-Roma initiatives (Fekete, 2016). Taken together, these developments reflect the ambition of the Fidesz project, which is willing to manoeuvre along unorthodox lines (nationalisation programmes are typically associated with Leftist entities) in order to accrue political capital.

Fidesz’s strong position is compounded by the fragmented Hungarian Left, which has not recovered from the fallout from the Ószöd Speech, outlined in chapter one and the Global Financial Crisis in 2008. Since 2010, some prominent MSzP members have left the party to form other political parties, which have little traction or popularity.⁹² *“2010 was very unique as the Hungarian Left had totally collapsed for at least three reasons. First was the Global Financial Crisis and Hungary was overly dependent on the EU and Western Europe, leaving it more exposed to certain shocks to the economy. Second, the socialist party [MSzP] was very strong and had been in government for 12 out of 20 years, an unprecedented amount. MSzP had kept control of media, business, security, armed forces since 1989 and so it was an overdue collapse. Despite Orbán not being an outstanding candidate or one who was in great shape, the total collapse of MSzP offered him, as the alternative, a landslide victory. MSzP fragmented leaving a host of leftist entities who have been unable to capture the public imagination [and] as time goes on and he controls more institutions and the media, it will*

⁹¹ In November 2017, Orbán received a unanimous 1,358 votes from the Fidesz Congress to be re-elected as the Party’s chair.

⁹² Gyurcsány himself has formed his own opposition party: *Demokratikus Koalíció*. The party won 5.38% of the vote at the 2018 national election.

become harder and harder to get rid of [Orbán]” (120). With weak political opposition, Fidesz and Orbán will unlikely be usurped. While the crystallisation of a skilful Hungarian Left may have the possibility of challenging Orbán, this outcome remains unlikely given the current political climate and Fidesz’s continued popularity. The following sections reflect how HAP has been established as an instrumental method with which to govern.

3.1 Fidesz 1988-2010

The historical accounts of the Fidesz party are well-known (e.g. Fowler and Cass, 2004; Janke, 2013; Lendvai, 2017; Oltay, 2013) and there is little to add. After coming close to victory in 1994, Orbán became Prime Minister in 1998 and it was under his premiership that Hungary joined NATO in 1999 and signed most of the agreements that formed the necessary frameworks for EU accession in 2004. Throughout the 1990s and Fidesz’s first term in government, the party’s ideology was mixed (Bozóki, 2008) and less traditionalist/conservative compared with what has emerged in the post-2010 period. Since its foundation in 1988, Fidesz has never been a fringe party simply keeping the extremities of the political spectrum at bay, but rather a consistent player in mainstream Hungarian politics (Batory, 2015). In the wider CEE region, Fidesz is unique in that it is the oldest centre-right party and contrary to its Polish counterpart, remained intact following its loss of office in 2002 (Fowler, 2007); a major turning point in Fidesz’s history. At this moment, Fidesz effectively decided that this outcome would never happen again. *“Defeat in 2002 taught them [Fidesz] the wrong lesson; rather than be better prepared for next time, they decided there would be no next time. Orbán has very close allies like the Bullingdon Club,⁹³ though it is a cultural thing to integrate and assimilate effectively within a new institution such as the EU. That is to say, Western states had many decades of practice and experience whereas the new CEE/Baltic states have undergone a shock. Therefore, it is easy for Orbán to criticise the EU and its bureaucracy – and he may have good reason to do so – but he is not necessarily culturally*

⁹³ A highly exclusive, all-male social club for undergraduates at Oxford University. Alumni are numerous and often enter British politics and business at influential levels. Other notable attendees include members of the Royal Family and nobility

assimilated to it and Western institutions as much as the EU 15 are, for example.” (I20). Electoral defeat after one term in office was an outcome that Orbán simply could not accept (Rupnik, 2012). The language of the elite members changed from the inclusivity of plural pronouns, to one of common nouns, with a reliance on the evocation of history (Szilágyi and Bozóki, 2015). Fidesz began to prepare for what it hoped would be an extended period in power.

To help operationalise this ambition, a broad movement to consolidate conservative media was initiated by Fidesz to counter what it viewed as a liberal media bias. This was helpfully wrapped into primarily one bundle of TV stations and radio outlets, handled by one of Orbán’s university friends-turned billionaire Lajos Simicska (discussed in more detail below) and complemented by other allied takeovers, meaning that there were now no remaining conservative media institutions that were critical of Fidesz (Heinrich Böll Stiftung, 2017a). This assumption of media influence occurred during a time when Fidesz’s civil society activity increased, particularly on the right and extreme right, which has had effects on the quality of Hungarian democracy (Greskovits and Wittenberg, 2016). This environment created the groundwork for the exploitation of a series of ‘moral panics’ that continues today, and which help to propel HAP and maintain its relevance. Four ‘moral panics’ were identified in chapter one that help to continue political domination and these are discussed in more detail in this chapter as they demonstrate the way in which Fidesz is able to reproduce itself and maintain its position in government.

3.2 Crony capitalism: the emergence of prebendalism

A tight clique of loyal yes-men and yes-women in and around the party has become a critical component of Fidesz’s continued political domination in Hungary. The successes of the 2010s have become possible thanks to an enriched group of cronies. Because the main motives for Fidesz’s post-2010 political goals are cynical. *“Contemporary Hungary is a mafia state. Fidesz*

has organised a series of oligarchs who organise capital dominance and obscure his property. Orbán is a cynical authoritarian. The main motives of Fidesz are: power concentration and personal and family enrichment.” (I10), the creation of a loyal Weberian-style staff is essential for their realisation.

A critical development has been the establishment of a national bourgeoisie,⁹⁴ which remain loyal to the government.⁹⁵ For Orbán, the Western developmental model, which emerged after 1989 does not allow long-term control and to build on the work done in opposition in the 2000s. By nationalising strategic sectors in the Hungarian economy, local actors have retrieved industries from foreigners, expanding a national bourgeoisie. *“Maybe there were too many illusions regarding FDI and this is a legacy of the Kádár regime i.e. there was so much national debt that Hungary had to sell it to investors. This is a policy of the Orbán regime: retrieve the industry from the foreigners and put it in the hands of Hungarians thereby creating a national bourgeois, which contradicts the neo-liberal ‘borderless economy’ thinking.”* (I4). While it is rational to offset the exposure to the same markets that stimulated the effects of the 2008 Global Financial Crisis on Hungary, which resulted in a €20bn international bailout,⁹⁶ by placing more ownership into Hungarian hands, a culture of crony capitalism has been the principal outcome of this economic arrangement in Hungary. This is partially captured by Clift and Woll’s (2012) “economic patriotism”, though their concept is broader in scope. A more succinct approach to understanding these developments is the term prebendalism as proposed by Szelényi (2016), which describes the relationship between ruler and staff and which forms part of the framework of HAP, developed in this thesis.

⁹⁴ A non-profit organisation – Direkt36 – focuses on producing reports on the corrupt practice of post-2010 Hungarian crony capitalism. The group’s research projects include: (i) the business of Orbán’s family; (ii) Russian connections; (iii) state bond business; (iv) blackholes of EU funds; (v) hidden assets; (vi) offshore secrets; and (vii) advisors of the state. (Direkt36, 2018)

⁹⁵ The Fidesz-loyal business elite mostly receives state contracts for its operations, of which the EU funds approximately 60% (Financial Times, 2017a)

⁹⁶ The IMF contributed the bulk of this loan (€12.5bn), with the EU (€6.5bn) and the World Bank (€1bn) providing the remainder of the total

“Hungarian government changes regulations not to attract foreign capital but to push it out from the country. For example, they wanted half the banking sector to be in Hungarian hands. After the end of state-socialism, foreign ownership was approximately 80%, now it is 50% - so it was government policy to promote Hungarian ownership of banks. The Hungarian government has developed a system of crony capitalism and so many of the cronies have been handed assets to manage. It is not about attracting foreign capital but giving opportunities to Hungarian cronies. Therefore, regulatory changes have been designed to favour Hungarians. Once they own them, even competitive negotiations favour the cronies” (15). By developing a culture of prebendalism, Fidesz’s HAP is strengthened as it becomes abler to proliferate its success on a nationwide level through a network of loyal guardians of capital who are rewarded with contracts in return for political devotion.

Such ownership readjustment to national capital is in harmony with the post-2010 importance Fidesz has placed on national sovereignty. This in turn, connects with the ideological formation that Fidesz has espoused since its return to government categorised as “post-communist traditionalism/neo-conservatism” (Csillag and Szelényi, 2015). With its emphasis on the values of patria, religion and family, Fidesz ideology has become the antithesis of much of the gains of the post-1989 era e.g. liberalism, pluralism freedom of speech etc., which has sponsored the dilution of democratic institutions (Bánkuti *et al.*, 2012).

3.2.1 Prebendalism

This description captures the method of national capital domination since 2010. This refers to a situation where Hungarian oligarchic actors have come under political domination and subsequently, domestic capital has been more closely aligned to the government. This term also means that ‘rogue’ or politically-independent oligarchs cannot effectively operate their businesses or work towards their interests of accumulation because it has become antithesis

to the interests of the top levels of the Fidesz hierarchy, similar to post-2000 Russia.⁹⁷ I have refrained from calling this phenomenon “Putinist oligarchy” because the characteristics of contemporary Hungarian and Russian national capital relations differ in their structure and any comparison is beyond the scope of this research. More components of this form of oligarchy were discussed in chapter one.

Corruption broadly defined, has become such an issue in post-2010 Hungary that it outranks all three of the remaining V4 countries in terms of people who feel powerless against it (22%) compared with 12% in Slovakia, 9% in Czech Republic and 7% in Poland (Transparency International Hungary, 2016). This culture of corrupt practice has the potential for continued longevity as it has become more challenging to reverse due to the dilution of the weak civil society institutions that characterise the CEE states, described above. *“The controlling stakes and checks and balances have been largely eliminated. This is not possible in Western countries. But, this has been prevalent in Hungary since 2010. An important exception are the Law Courts (judges) which are independent. Prosecution is totally subordinate to the government and judiciary is partially captured. It is important to note that the institutions are not captured entirely (50% or more, apart from the judges). This is significant as there is no control of the executive power. The State Audit Office, National Bank, State Competition Office, and the judiciary were established to control the government but here they don’t control the government but are instruments of the government. Corruption cannot be tackled because the controlling institutions don’t work and the judiciary cannot/doesn’t fulfil the role of combatting corruption”* (13).

More succinctly, *“Orbán and his cronies have developed a technique on how to steal money. Clearly there is an affinity to Orbán to authoritarian leaders”* (14), which has become hugely successful. This has proliferated throughout the country and *“today there is a political network, which dominates the whole country including rural areas. That is to say, sudden*

⁹⁷ Perhaps the two most well-known cases in the Russian context are Boris Berezovsky, who lived in exile in London until his death in 2013 and Mikhail Khodorkovsky who spent over a decade in a Siberian jail and – at the time of writing – lives in exile in Switzerland. Both had political ambitions that were not seen as congruent with Russian politics in the post-2000 era by the Russian government

increased wealth is expropriated by the state” (123). The immediate repercussions of this culture of crony capitalism is that it drastically influences the trajectory of the Hungarian economy. “This new type of corruption very much puts constraints to the development of Hungary; it is an impediment to Hungarian development. Crony and insider state capitalism is a very big impediment to Hungarian development” (13).

This capital that has been siphoned off via corrupt practice for the enrichment of loyal cronies, while not feasible to accurately calculate, had been allocated for developmental purposes. Principally, the first two seven-year tranches of the EU Cohesion Fund⁹⁸ (2006-2020) – earmarked for pan-European transport upgrades and energy-related projects with an environmental focus – will not be repeated. Recent EU budgeting for the 2021-2027 period has resulted in a drawdown in allocated funds for CEE states, including Hungary (Financial Times, 2018b). There is scheduled to be a 24% reduction in funding allocation vis-à-vis the previous tranche of the Cohesion Fund stream.

This is detrimental for Hungary’s development. *“There is also a heavy dependency on EU transfers. €23bn in a three-year period, which would mean €3bn+ on average or 3% of Hungarian GDP. What happens to this money? If the Hungarian economy does not grow at all (0%), then logically there should be a 3% increase in growth. Where is the growth, in fact? Particularly when we know annual distribution is very uneven. In 2014/5 €5-6bn entered Hungary annually; what has happened to this money? This dependency will be stopped by 2020 because the EU budget will be smaller, or not increased, regardless of Brexit. Budget negotiations begin in 2017 but the structure of it will be completely different e.g. much less money for cohesion and regional fund and much more for competitiveness. The form of the transfers will not be unilateral and one-way cash payments to beneficiary countries but will be transferred into long-term credits, which will require repayments. Between 2006-2020, two seven-year financial framework programmes have been in operation, where the historical*

⁹⁸ For the 2014-2020 period, €63.4bn was allocated to fifteen member states, including Hungary (European Commission, 2014a)

opportunity to modernise the country was not taken. Most of the money has not been used for this priority and this will never again happen” (I27).

By disseminating funds to a loyal staff, crony capitalism has stifled the potential for Hungary to improve the quality of its capitalist institutions and subsequently graduate away from status as an assembly platform of medium-quality goods (as described above). *“2010 is a turning point in Hungarian economic policy. The government is complicit in what is happening and in what they are doing. The use of the European fund was impractical and this is because the neighbouring states, who receive a similar level of EU capital inflow are performing better than Hungary on macroeconomic gauges. Comparisons are interesting to form with the surrounding countries to Hungary, in terms of development. When big money is involved in any deal there is always the temptation for corruption, though the level in Hungary does not differ significantly than in other states – it is about the same. Therefore, it is not strong enough to disadvantage the economy. The government has a clear and well-expressed policy of restructuring Hungarian society, at least the mid and higher echelons of it and to create a new national aristocracy. It uses the EU funds to a great extent for this purpose. More correctly would be to say it provides an opportunity to help this plan” (I24).* This suggests that Fidesz has used incoming capital from the EU to bolster its own political ambitions. It remains unclear – and perhaps unidentifiable – how much of this capital may have been acquired by Fidesz. Despite scheduled reductions in EU funding, there is no signal that Fidesz will reduce this method of accumulation.

One significant method for helping to achieve such a plan is to obfuscate the financial flows that run between the new (post-2010) owners or guardians of domestic capital and political actors; though the borders between these groupings are opaque, as outlined below. *“Tax has become a flat 9% for all firms. Down from 10% on firms of income of less than €1.6mn and down from 19% on firms with income over that threshold. This means this is the lowest in the EU and is a definite way to attract foreign investment. Government publication of investment incomes used to be published regularly and therefore open to scrutiny, however, this seems to have changed and there don’t appear to be any particular rules governing that” (I17).* It is

therefore ever more challenging to locate capital flows from investments and their destination and pricing breakdown. This lack of clarity helps to service Fidesz's success in maintaining power. *"Fidesz has organised a series of oligarchs who organise capital dominance and obscure its property"* (13). Again, this is an important distinction vis-à-vis other regimes that operate with oligarchic networks i.e. the prebendal network is state-induced and actors are politically-loyal. Corruption therefore, differs from pre-2010 Hungary where it was more a "dysfunction of the system" (Financial Times, 2018b) as it has now become institutionalised and seemingly dominant within domestic business.

Here, four⁹⁹ contemporary examples of Hungary's post-2010 prebendal network are given to demonstrate the wide-ranging nature of its domestic operation and the sectors that have been (partially) subsumed. Their relationship to Orbán is also given. These cases of prebendal activity offer an insight into the remarkable level of oligarchic corruption in Fidesz Hungary. Clearly this is a very different story to Thatcherite Britain, which is why HAP is a modified version of what Stuart Hall captured in the 1970s and 1980s.

First, Lajos Simicska, described as an "inner-circle oligarch" (Magyar, 2016: 77) is perhaps the most significant example in terms of demonstrating the extent to which prebendalism has consolidated itself in Hungary since 2010. Simicska and Orbán have known each other since being roommates at college in the 1980s. Simicska's loyalty was unquestioned until after the 2014 national election before which he was the owner of significant assets including media interests and construction companies.¹⁰⁰ Because Simicska's empire was so vast and was populated by loyal constituents on a nationwide scale, few political decisions could be taken without his consent. His concentration of power transformed him into a threat to the regime – most importantly, to Orbán – making him more problematic than the EU or the MNCs (Magyar, 2016: 83) because of his access to and knowledge of Fidesz. Further, his domestic power base had the potential to challenge Fidesz at the economic and political levels, given

⁹⁹ This list could become a research project of many volumes. For a detailed account of the corruption and capital ownership aspects in post-2010 Hungary, see Magyar (2016)

¹⁰⁰ In 2013, a firm held by Simicska won 17% of the public tenders issued by the National Development Authority

his wealth and media assets, respectively. This emerged as a potential risk to Orbán's authority and had the potential to undermine the PM's power; Simicska had to go. The long-term friendship was severed and Simicska's business interests were subsumed. This included the absorption of many employees whose loyalty was realigned to focus on Fidesz and Orbán.

Second, Lőrinc Mészáros is a former Mayor of Orbán's home village. His growth in wealth is extraordinary. In 2010 he owned one company and by January 2018, this had leapt to 203 (Index, 2018). His business interests cover a variety of sectors, including insurance, media, tourism and energy, with indirect ownership of a lignite-fired power plant, all of which have combined to position him as Hungary's second richest man (Napi, 2018). This remarkable growth in wealth began when Mészáros began winning state contracts in the early 2010s with the result, control of domestic businesses and a monopoly of assets loyal to the Fidesz regime. While Simicska was a pre-2010 oligarch, Mészáros has principally accumulated his capital since Fidesz returned to government, demonstrating the importance Fidesz places on applying its authority within the national bourgeoisie.

Third, Antal Rogán is the Head of the Cabinet of the Prime Minister and therefore has an official political title. He has been responsible for orchestrating the implementation of the anti-Soros posters that were erected prior to the 2018 national election. To do so, Rogán's department spent a reported €8.1mn between December 2017 and January 2018 (Átlátszó, 2018a) thus stimulating one of the 'moral panics' of HAP (specific threats). No individual would be given Rogán's position without the quality of loyalty. While Rogán's personal wealth is considerably less than the two above-mentioned actors, he is included because of his insider-political ties. In this sense, he acts as an interconnector between national capital and the 'moral panics' that form HAP.

Fourth, István Tiborc – Orbán's son-in-law – owns a company that was under a two-year investigation by the European anti-fraud office (OLAF). His firm won a number of tenders to upgrade electric lighting in municipal areas between 2011 and 2015. OLAF found that

Tiborczy's firm was effectively the sole bidder on many of the procurements as it had outmuscled competitors, therefore undermining the opportunity for rival bidders with relevant expertise to enter proposals. This constituted fiscal fraud under Hungarian law, though elsewhere this has been investigated as part of an organised crime ring (24, 2018). Tiborczy's family connections to the PM demonstrate the importance in proximity the post-2010 Fidesz regime places on the prebendal structures it has fostered and reflects the element of loyalty and reduced threat-potential evident in the other cases outlined above.

3.3 Moral panics and how they help to subsume domestic business

How can such a transparent scene of corrupt practices emerge when even oligarchs themselves fall victim to regime-driven corrupt practice? How can it be that there is limited, or at least subdued protest against these developments when the democratic achievements of the post-1989 era are (relatively) fresh in the collective, national memory? The stimulation of 'moral panics' have assisted Fidesz in anaesthetising antagonism against their dominance over national capital. As outlined in chapter one, these are: (i) colonisation; (ii) otherness; (iii) immigration; and (iv) specific threats (e.g. Soros, CEU etc.). These 'crises' are identified by Fidesz as a stimulant for anticipated reactions of 'common sense' on the part of supporters (much of the population). This method of governance forms a component of the type of regime and subsequent populism that has developed since 2010, namely HAP. To echo Stuart Hall's work, these 'moral panics' converge to manufacture a conjunctural terrain from which Fidesz's relative power increases, resulting in a progressively stabilised 'hegemonic' position, which opponents e.g. opposition political parties, (potentially) rogue oligarchs etc. have a progressively diminished chance of challenging.

The type of capitalism that emerged between 1989 and 2010 has been reacted against by Fidesz and has become a popular trend. *"Many people feel that Hungarians are colonised in their own country which gives the opportunity for far-right groups to gain political ground;*

Particularly as a reaction to company culture, for example Japanese and Chinese firms who operate in Hungary.” (I4). In this sense, Hungarians may have an ambivalent attitude towards capitalism (Bod, 2011) reflecting other analysis that anticipated Hungary as the most likely CEE country to regress to authoritarian tendencies despite its earlier position as a regional leader in a host of categories e.g. democratic consolidation and welfarism (Bohle and Greskovits, 2012: 258). The principal associated actor for this ‘moral panic’ is the EU, which has been consistently attacked by Fidesz since 2010. The increase in national ownership following the partial nationalisation programme after 2010 is sold as a form of nationalist triumph i.e. the transfer away from Western MNCs to domestic actors.

The government has mobilised elements of Hungarian history, awakening historical traumas and grievances and exhuming ideologically-relevant historical characters, critical to stimulating the ‘moral panic’ of otherness set out in chapter one. By employing the politics of memory (Benazzo, 2017), specific historical figures involved with arts and politics have been rehabilitated who typically express anti-Semitic sentiment (Kurimay, 2016). More generally, Fidesz has reinvigorated the irredentist story of Great Hungary,¹⁰¹ which while never exiting the collective national memory, has been graced with more importance since 2010 (Antonsich and Szalkai, 2014). These developments form the backdrop of a redesigned ‘Hungarianness’ that sees Hungary as history’s perennial victim. The ‘us vs them’ mentality has, in similar vein to the above-mentioned zone of conflict, strengthened Fidesz’s position regarding the subsumption of domestic business. The advances in Hungarian ownership appeal to Fidesz and other traditionalist/conservative voters as it complements the antipathy towards the dominance of foreign ownership. This may explain why blatant corruption is mostly overlooked.

A third moral panic is stimulated regarding immigration; a classic go-to topic for conservative and traditionalist parties. In 2015, Orbán’s popularity was beginning to wane, so *“after the Charlie Hebdo march, he realised that Islamophobia was a big political card. Extreme*

¹⁰¹ A revisionist term that politicises the loss of territory and population following the Treaty of Trianon (1920)

brainwashing began in the lead up to the referendum¹⁰² – a xenophobic build-up denigrating the other – maybe this was his strongest card, but he cannot repeat it as there are no migrants in Hungary, which is merely a conduit. [Former Jobbik leader] Gábor Vona is similar to [former leader of the Italian Alleanza Nazionale party] Gianfranco Fini,¹⁰³ in terms of moving further to the centre to counter Fidesz’s move to the right on immigration. Orbán is in a comfortable position however, as there is a fragmented Left and far-right who do not wish to collaborate.” (14).

Whilst not being able to repeat it, he is able to connect it to the previous two ‘moral panics’, via consistent rejection of EU-imposed refugee quotas and subsequent costing, and through the promotion of Hungary’s place in Christian Europe vis-à-vis the non-European, non-Christian immigrant who ‘belongs’ elsewhere. Fidesz’s publicly xenophobic activities and rhetoric offer a veneer, from under which Fidesz-loyal prebendal actors operate to accumulate and safeguard capital for the reproduction of the regime.

Questions over colonisation, otherness and immigration are not new, nor are they unique to Hungary. Where they fit into the Fidesz story is that they have been institutionalised to become an instrumental method with which to augment power through self-reproduction. They are complemented by a broader fourth moral panic of specific threats, where Fidesz isolate a group, individual or organisation, framing them against one or more of the first three moral panics in order to gain leverage. For example, the attacks on George Soros, described in chapter one. These confrontations in effect act as a form of distraction mechanism, functioning to cloak an increasingly prebendal system of national capital dominance. More prosaically, the identified targets are relatively benign and not a potent threat to continued Fidesz governance. Nevertheless, the government has isolated them to increase leverage and

¹⁰² A referendum on the question of the EU’s ability to mandate obligatory resettlement of migrants returned an overwhelming rejection of the EU’s position, but voter turnout was under the threshold required for legal validity

¹⁰³ For an account of Fini’s political career in Italian post-fascist politics, see Fella (2006)

subsequently strengthen its position due to its access to sustained political capital from its core voter base.

The appeal of the 'moral panics' is widespread and occupies a stable seat in the mind of the conservative Hungarian voter. From their position in the public discourse, their narratives contribute to the formation and strengthening of the Gramscian conjunctural terrain as laid out by Stuart Hall and discussed in chapter one. The success of the instrumentalisation of crises comes in their organic depth and consequently, it becomes 'common sense' to react against the 'moral panic' in the prescribed, managed way. Fidesz can reach into the collectors' book of historic ills that Hungary has experienced, and which typically populate the national psyche. From this position, the stimulation of the 'moral panics' – greatly assisted by Fidesz's media dominance – results in an almost free-hand to influence domestic business via the mobilisation of a constellation of loyal, prebendal actors.

3.4 Hungarian Authoritarianism Populism going global

Fidesz has reached into the international arena to generate alternative (non-EU/non-Western) material resources from ideologically-similar political regimes, namely Russia and China, two of the target countries that fall within the ostensible purview of the KN. In this sense, Orbán has 'gone global' rather than 'gone (Western) European' as was the case for Hungary after 1989. This foreign policy drive, discussed in more detail in the following two chapters, (and to a much lesser extent, the *Déli Nyitás*)¹⁰⁴ despite limited success, is supposedly designed to establish economic agreements. This research agrees that Hungary has become too small for Orbán (Foreign Policy, 2015). From the Fidesz perspective, it has become necessary to internationalise support to create the conditions for the reproduction of the Fidesz project, particularly with countries located to the East because they typically

¹⁰⁴ Translation: Southern Opening. A similar idea to the KN project but with its focus on African and Latin American countries with successes considerably more limited

espouse similar conservative values and an apparent political *vertikal*.¹⁰⁵ To offset the dependent capitalism Fidesz assumed from 2010, a partial nationalisation programme was initiated, which increased domestic actors' ownership, described earlier in this chapter. From an international perspective, Fidesz wasted little time in stimulating its ambitions to alter relations with Eastern countries, placing a strong emphasis on the role engendering new business connections. *"Politicians acting as businessmen is a factor. Foreign policy means foreign economic ties. Orbán had instructions to raise trade, though even the direction goes in the opposite direction. He firmly believes that the EU is declining, dependency on the EU is a bad thing. He has the EU money, he believes also it is good to have more dependency on extra EU states such as Russia, China, Turkey, Arab states [Keleti, Déli Nyitás]. When [Foreign Minister] Szijjártó arrived [in 2012], the Hungarian embassies worked practically as chambers of commerce; instructions to the ambassadors were to generate investments, create trade with the given country. Essentially, Orbán decided to centralise foreign economic relations, bringing them closer to control. This is an institutional story. Orbán decides personally about projects, including infrastructure and he meets Putin every year to do this."* (122). While tangible results are incomparable to investments originating from Western Europe and multiple dependencies on Western entities remain, nascent transnational flows from 'Eastern' entities are beginning to come to fruition.

"The KN is not a real economic process, merely something political. These are authoritarian governments which suits Orbán. However, balance of payments (with the exception of Russia) makes it appear as not a genuine economic policy. For example, the KN refers also to Turkey but investment from Turkey is almost zero" (15). While longer-term outcomes of the KN project remain unknown, this recognition contradicts the rationale given by Fidesz: to develop bilateral relationships anchored in trading interests (Jacoby and Korkut, 2015). This points the way to the potential development of patronage relationships with certain countries within the KN target group, specifically Russia and China. This may not be altogether surprising given

¹⁰⁵ This is a phrase used to describe the type of political power developed in Russia during the Putin period. For more analysis, see Monaghan (2011)

forecasts on global capitalism have suggested patrimonial capitalism is an anticipated outcome in the twenty-first century (Piketty, 2014).

“Orbán hopes to keep the door open for Eastern-based firms. There are a lot of strategic agreements with firms like Huawei, for example. Most of the bigger Chinese investors have state support and state agreements, meaning if they require something, they can contact government personnel on a bilateral level – basically, direct contact with the government” (121) even though *“for the fundamentals of the economy not very promising to work together with China”* (124).

“There remains also, a lot of personal and private interests. Personal-political and personal-financial interests abound such as murky dealings with Russia and China. The Paks deal is a case in point. 30% of the Paks plant is to be Hungarian-based construction firm work. However, Orbán’s oligarchs – himself – now control all the construction firms in one way or another. Settlement bonds are also a big scandal. Antal Rogán is clearly identified as a potential beneficiary of this scheme. They [Fidesz] are practically using the state as a tool for private profit and this is much easier to do with Eastern states than with the EU because there is no Foreign Corrupt Practices Act” (126). Though this makes for a cynical reading of developments in post-2010 Hungary, it simultaneously has the capacity to transform the Hungarian political economy.

“The sharp pro-Russian Fidesz U-turn is politically motivated rather than economic. It is the most nationalistic party in Hungary for decades. Fidesz likes the EU when the money is flowing but is looking to hedge its bets in terms of political and policy actions. Without EU funding, there wouldn’t have been GDP growth. Hungary was the worst performer in the CEE region. Excessive Deficit Procedure (EDP)¹⁰⁶ has only been realised because of EU funds. That is to say, the budget deficit would have been higher than 3%. The most important element for Hungary

¹⁰⁶ EU budgetary policy aimed to ensure member states avoid excessive government deficits (European Central Bank, 2011)

in the medium term is the EU, not China and Russia. Until 2020, the situation is fairly clear. All in all, there shouldn't be an effectual Brexit, which may not affect EU very much. EU funding in Hungary is much higher than in the other V4 countries. The real question is: what will happen after 2020 as this will be a new Europe? There are many unanswered questions for this period e.g. Scotland, Greece, UK etc. EU leaders may not have predicted the extent to which a member state would hurt the economic rules as much as Hungary has done" (I13). Given this insight, what might the ramifications for extant MNC-Hungarian relations be?

Despite the reduction in foreign ownership of key sectors of the Hungarian economy, MNC presence remains constant and capital inflows continue to enter Hungary, with investment deals sought and signed. "Of all the post-socialist European states, Orbán is the most anti-EU leader. Germany is the major economic imperial power in Hungary, however, and this is why Orbán needs to be a little careful with his rhetoric. It is important to realise that MNCs are not fearful of political relations because Hungary continues to work in firms' interests" (I25).

To counterbalance criticism of domestic Hungarian issues such as the 2016 referendum on migrant quotas, regulatory frameworks have been modified to maintain Hungary's attractiveness for Western business. "This is done on a case-by-case basis. A case in point being the 'tax credit for growth' meaning those companies that can generate huge growth in revenues will have huge tax credits from Hungary. The very next day [after implementation] GE¹⁰⁷ chose to relocate a significant part of their operations to Hungary. It was one of only a few firms, which received this credit. This strategy is designed to complement others that seek capital from alternative sources. Hungary clearly attempted to attract investment from the Far East a few years ago. This as the result of slight tension with the EU and Western countries. Fidesz announced a new wave of investment but it never materialised according to their hopes. Conversely, considerably more capital from China is flowing into the Czech Republic, which is a much bigger economy than Hungary and the investment environment is much better than in Hungary" (I14). HAP therefore does not necessarily discriminate on an

¹⁰⁷ General Electric, a US MNC with a \$122bn revenue at 2017 levels

East/West axis when it comes to securing inward capital and is prepared to create flexible regulatory structures for larger portions of Western FDI.

The most dominant Western force in the Hungarian economy remains Germany, however and this comes despite the politically-induced changes to the Hungarian political economy since 2010. Pragmatically, foreign firms have even begun to adapt to the new local conditions. *“An obvious political role is to redress the asymmetry created in Hungary since 1990 where all the strategic positions in Hungarian economy are controlled by foreign MNCs. They [Fidesz] perceive this as a huge loss of agency as far as the country is concerned and a drain on the resources of the state. One of the stated goals was to turn the tide of foreign influence; help local and small companies as opposed to larger firms. A lot of the regulations point in this direction. Because of a discretionary approach, they [Fidesz] are much more prone to taking a company-by-company approach. Therefore, from the MNCs perspective, it is better to sit down with the government and discuss things bilaterally. There may be a little rent-seeking on the part of local actors such as building construction and local football club assistance etc. and this has been considerably more overt since 2010. All the larger firms operating in Hungary have tried to find their place within this new framework. This is true for domestically-owned firms, who are more exposed, but also to the foreign firms, too. Germany has a special place here, not only because they’re the largest EU state, investor etc. but politically, they’re the largest bastion of defence for the Orbán government”* (I19).

Indeed, German Chancellor Merkel and German business are not typically critical of Orbán (Politico, 2018) because deals continue to be signed and German firms maintain operations in Hungary. Further, Germany sees Hungary as a politically stable and (German) business-friendly ally, which reflects German business objectives in CEE (Heinrich Böll Stiftung, 2017b). The dominant position of MNCs in the Hungarian economy make it challenging for Fidesz to rebel too openly against their presence, and in this regard, Western capital contributes to the stabilisation of HAP.

Zones of tension may arise however, over more practical issues, for example labour shortages resulting from the emigration of Hungarians to Western Europe and the slowdown in immigration, which has the potential to offset this trend. This could see German firms exit the Hungarian market if these patterns continue (Deutsche Welle, 2018a). This remains to be seen though, given firms' ability to alter internal structuring to offset exterior factors in the past e.g. the reaction of component suppliers in Hungary after the Global Financial Crisis in 2008 (Rugraff and Sass, 2016).

These developments in Hungary's global outreach demonstrate a partial divergence from pre-2010 relations with international business. The Hungarian political economy is experiencing changing external dynamics on the back of a radically-altered domestic economic arrangement. Tangible results from the KN are in their early stages and much of the extant (pre-2010) Western MNC presence and subsequent value chains remain and have expanded through modification e.g. new factory construction, stimulated by continued high-level FDI volumes. However, Fidesz has been working to formulate agreements with Eastern entities that would generate additional inward capital flows, but with very different caveats and which may have widespread implications for the trajectory of Hungarian economic development and potentially other countries in the V4 grouping and wider CEE region.

3.5 Conclusion

To create a better understanding of the nature of the Hungarian regime in the post-2010 period, this chapter has demonstrated the presence of HAP as a method of governance, with Fidesz operationalising its primary components. This approach is an illuminating method for understanding the core components of Fidesz's and Orbán's strength, hitherto longevity and future trajectory. By analysing the core components of HAP, this chapter pins their values to specific areas of Fidesz's development, demonstrating that applying Hall's and Széleányi's works captures the changes within the party. This sociologically-nuanced approach is an

improved method for understanding the wholesale dominance of Hungarian politics and the political economy by one party. This research locates 2002 as the date when HAP began to develop because the first Fidesz government (1998-2002) had a more diverse ideology to the post-2002 era, despite being governed by the same leader and core personnel. This earlier starting point – similar to the early stimulation of Thatcherism’s Authoritarian Populism in 1975 – permitted the construction of strong political foundations from which Fidesz was able to catapult itself to a landslide electoral victory in 2010 and two similar victories in 2014 and 2018.

The emergence of prebendalism has seen Fidesz generate a considerable economic underpinning via the establishment of a clique of loyal networks, favoured with contracts in return for political support. The formation of a national bourgeoisie, stemming from the post-2010 nationalisation process has partially diluted the culture of Western FDI-led development and the foreign ownership of Hungarian assets that flourished during the first two decades of the post-socialist period. This form of crony capitalism – described in this chapter as prebendalism because of its descriptive value in accounting for ruler-staff relations – is well-managed from the core political actors whose positions are unlikely to be challenged by the new-found loyal domestic owners of Hungarian assets, negating the prospect of the emergence of a Russian-style oligarchy that emerged in the 1990s. Increased corrupt practice has been identified by Fidesz as a necessary method to help reproduce itself.

This chapter identified four actors who have played different roles in the development of prebendalism in Hungary, reflecting the state’s subsumption of domestic business. The hidden price of this, perhaps unsurprisingly, is a lack of material gain for most of the Hungarian population, best highlighted by the fall in living standards, widespread emigration and increase in poverty, sending Hungary plummeting to the lower reaches of EU member state poverty charts.

Fidesz has used its political capital, well-established since its period in opposition after 2002 to manufacture and operationalise 'moral panics,' which typically tap into deep-seated national and historical traumas, subsequently helping to keep the governing party a relevant political force. By identifying a selection of crises, Fidesz and Orbán have maintained a culture of Hungarian victimhood, positioning themselves as the only viable option to offset these crises identified by this research as: colonisation, otherness, immigration and specific threats. By playing continuous political cards, Orbán keeps himself as the standout leader for the domestic audience.¹⁰⁸ These developments are captured by the HAP framework, discussed in detail in chapter one.

By skilfully identifying areas of concern, sensitive to followers, Fidesz has been able to increase its appeal and support, ideologically infiltrating zones of society most critical for achieving sustained success. Simultaneously, by offering little material benefit to supporters and in fact, creating the conditions for increased poverty, HAP is further suitable for understanding the type of regime whereas other approaches may not well-capture these developments e.g. Max Weber's charismatic authority, given that charisma can only be maintained if staff and followers receive material benefit. In Hungary, only the staff receive consistent, tangible benefits and the extent to which benefits are enjoyed or whether these actors are merely subservient yes-men is the subject of debate (Magyar, 2016). Importantly, Orbán's successful recruitment of loyal supporters runs parallel to his effective demobilisation of opposition voters, which leaves the Hungarian electorate with little viable political alternative to his party.

The advent of this form of governance was not inevitable however, (Arato, 2016) and there remains scope for optimism (Kornai, 2015). This said, the Hungarian political elites have been able to use HAP as an instrumental tool of governance and subsequently institutionalise it through legal amendments and the changes to the political economy such as constitutional

¹⁰⁸ A case in point here was the deployment of a group of border guards named *Határvédszok* (border hunters), a reference to a Second World War military brigade with a remit to pursue Serbian insurgents. The rationale for this was that was anticipated to appeal to Jobbik voters. For more on this, see Haraszti (2015)

adjustments. With the widespread prebendal system that has developed in Hungary since 2010 and the subsequent concentration of national capital through the subsumption of domestic business, the Hungarian regime's project looks set to continue. With the proliferation of its ideology, Fidesz, the oldest centre-right/traditionalist party in the CEE region, as noted above, has become a beacon for regional cognate traditionalist/conservative values and its successes may spill over into the remaining three V4 countries, particularly Poland, whose government has a similar ideology, though with different descriptions (The Conversation, 2018).

This has been transferred into continued success for Fidesz at the ballot box and the legal ability to continue altering the constitution. To illustrate this success, over 350,000 more people (almost 4% of the population) voted to re-elect Orbán in 2018 than at the previous election in 2014 (Political Capital, 2018) and this was dominated by rural voters. The high support for Fidesz may appear surprising given the well-accounted corruption stories¹⁰⁹ and the fall in living standards. For example, one third of the population are living in a state of 'deep poverty,' the fourth highest in the EU after Bulgaria, Romania and Greece (Budapest Business Journal, 2017a). This creates a paradoxical situation, given that mobilisation and propaganda campaigns are typically not enough to maintain power alone and material benefit should be provided. To overcome this issue – at least at the time being – *“Orbán offers the idea of Grand Hungary, [meaning] the idea that the Hungarian nation is bigger than the state. At one point however, he may wish to move away from the Prime Minister's office to Presidency if he feels he could genuinely lose. Making Hungary a presidential system would require a referendum, however. This said, if he does make himself President then someone with very low charisma would likely take over the leadership of Fidesz and this would be akin to what happened in Russia in 2008 when Medvedev was handed the Presidency”* (14).

In this regard, there does indeed exist a “dose of charisma” (Szelényi, 2016: 23) in Orbán. Fidesz's appeal and subsequent support are present regardless of the decline in material

¹⁰⁹ Perhaps the most striking example is the 2014 construction of a football stadium in Orbán's home village with a capacity of 3,800, more than double the settlement's population

benefits in terms of salaries and living standards, which come despite the relatively stable growth rates.¹¹⁰ Voters are selecting to make themselves relatively poorer for the sake of perceived benefits brought about by the Hungarian regime, specifically in this example, the ostensible glory of the Hungarian nation. In this sense, material benefits are considered as relatively less important – to the Fidesz voter at least – than the general perceived improvement in the quality of life, resulting in a victory for ideology over economic rationality. However, this is unlikely to be sustainable for the longer-term; material benefits must follow at some point during Fidesz's time in office and the party's dominance is not guaranteed while Hungary remains a nominally democratic state.

3.5.1 Implications

The subsumption of domestic Hungarian business by the state has been helped by the development of a prebendal system of loyal capital guardianship. Through careful management and the post-2010 nationalisation programme, a new dominant national bourgeoisie has emerged which is dedicated to the reproduction of the regime. While MNC presence persists, particularly in the automobile, banking and manufacturing sectors, Fidesz has engendered a situation in which it has become the principal actor in national capital management and subsequently, has increased its political longevity. The subsumption of domestic business has become a countrywide phenomenon and reversing these advances is unlikely in the near future e.g. during the 2020s, given the forecast for a longer-term period of Fidesz government. It is anticipated that Fidesz will continue in its position in government because of its unabating domestic support and its abilities to develop and sustain political capital. In this regard, international actors can rely on an anticipated projection of Fidesz and 'Orbánite' power. From a domestic political perspective, it remains unclear which actors can realistically challenge Orbán to become Prime Minister. *“What is the strategy of Hungary? There was a good start until accession to the EU [in 2004]. Then the strategy ceased. The strategy was the objective itself. It was big mistake believing that the EU brings the objectives*

¹¹⁰ Hungary's GDP growth pattern is similar to two of its V4 counterparts (Czech Republic and Slovakia) year-on-year from 2010 to 2017 (World Bank, 2018)

and the money. The EU is an externalia, adds some reasonable objectives: good model regulations and additional sources of financing. But Hungary itself should discover its path – there is no blueprint. Estonia – even Slovakia – had better ideas than Hungary. What Hungary do we envisage? Where should we put the emphasis in the production of goods? In the service sector? Then how to maintain the traditions of Hungarian education? The excellent healthcare system, agriculture, machinery production, pharmaceuticals – where has this tradition gone? Hungarian opposition parties are still diverging rather than converging, like the effects of the Big Bang. They commonly find arguments to avoid cooperation rather than work together to defeat Orbán” (I18).

This is a trend that has continued since 2010. Further, because Orbán has been so successful in his time in power, removing him becomes increasingly more challenging. *“As long as Orbán doesn’t have proper opposition, there is little that will change the political landscape in Hungary. As time goes on, he is able more and more to put his stamp on the country e.g. controlling institutions, such as media. Therefore, it will become harder and harder to rid Hungary of him. This is all very hard to put into a rational model. East European game is more personal, less reference to higher values, transactional. This is why the news of Trump was very valued in the CEE region. Hungary is always compared to Austria; Budapest with Vienna. Never for example, with Serbia. This all begins with the monarchy. The gap between these countries has always been the same, ever since 1867¹¹¹” (I20).*

HAP has the prospect of becoming *the* legacy of the early twenty-first century Hungarian politics, principally because there are limited – if any – viable options for Hungarian voters to elect and/or who can challenge for government. In this sense, HAP may to an extent, replicate the legacy of Peronism in Argentinian politics, which has been consistently characterised by Peronist or anti-Peronist governments since the 1940s or perhaps more appropriately for this research, the legacy of Thatcherism and its continuing line of descendants in the UK (Jessop,

¹¹¹ The year of the Austro-Hungarian Compromise where Habsburg and Hungarian territories were reorganised under one common entity, the Austro-Hungarian Empire

2015). What might this look like? With the emergence of a neo-Horthyist¹¹² climate in Hungary, anti-Semitic literature is promoted, 'Great Hungary' and the trauma of Trianon have been exhumed, Christianity as the religious umbrella has targeted education and xenophobic nationalism has been promoted. "[A] period of intellectual hoax" (Krausz, 2017: 33) has developed where research and thinking have become the biggest victims. Other issues include the potential return of the death penalty¹¹³ and the establishment of Roma school segregation (Verfassungsblog, 2015). Though this forecast may be somewhat gloomy, Hungary is not in a similar situation as Germany in the latter days of the Weimar Republic period. HAP in this sense helps to keep the more extreme nationalists – MIÉP¹¹⁴ in the 1990s, Jobbik, since the 2000s – at bay, though it remains to be seen how this trajectory can be maintained, especially given Fidesz has seemingly swallowed the far-right vote, particularly following the 'moral' crises discussed in this chapter that have helped secure votes.

Hungary may be heading towards a scenario of a "development of underdevelopment" (Frank, 1966), where the Hungarian government supports the inflows of Western capital – and financial flows from other origins – but maintains the newly-created bourgeoisie, to access those funds keeping larger portions of capital under Fidesz dominance. This outcome will likely see the continuation of more highly educated and skilled Hungarians leaving the country,¹¹⁵ principally for opportunities in Western Europe, while alternative labour sources are located. *"If Fidesz remains in power, Hungary will become a very Eastern European country. It will not be able to retain intellectuals or skilled labour. These will be replaced by relatively cheaper labour from Ukraine and Nepal. Left wing parties have too many problems to unite against Fidesz. Jobbik also has large internal problems – in essence it has polarised. Old style parties have no future in the 21st century."* (I12). This outcome would contradict

¹¹² Miklós Horthy, Regent of the Kingdom of Hungary (1920-1944) whose tenure was typified by irredentism, fresh from the territory and population losses wrought by the Treaty of Trianon (1920). Hungary became an ally of the Axis powers during the Second World War

¹¹³ This remains a highly unlikely outcome given that no EU member state can legally practise capital punishment

¹¹⁴ Hungarian Justice and Life Party, a radical nationalist precursor to Jobbik. MIÉP only had MPs during the first Fidesz government. In 2005 the party and Jobbik formed a short-lived alliance, dissembling after the 2006 national election

¹¹⁵ In 2012, Hungary had the second lowest "negative natural increase" in the EU with -4.7 people per 1,000 exiting the country with most them educated/skilled younger people (Budapest Business Journal, 2014)

Orbán's stance on immigration, however, and Ukrainian migrants have recently relocated to Poland for labour opportunities as social disadvantages are less severe than in other EU countries (Sokołowicz and Lishchynskyy, 2018). Accompanying this anticipated outcome will inevitably be the continuation of lower wages vis-à-vis Western European countries, lack of spending on R+D and education and training, as identified in the literature on the DME model as policy implications, and ultimately the maintenance of Hungary's place on the periphery of global capitalism. It is paradoxical to comprehend the potential for longevity of this trend if *"Hungary is not in love with capitalism on the periphery. Hungarians are capitalists but don't like it, which speaks to a cognitive dissonance. Catching up [with the West] has stopped, bringing frustration to the elites and middle classes, hence this mess"* (120). This reflects the success of HAP in dominating Hungarian politics. The regime has partially managed to maintain its dominance of domestic politics with the subsumption of domestic business.

Orbán and Fidesz have inverted modernity and rejected the 1989 consensus (Krastev, 2016), except for permitting extant MNCs to continue operations in Hungary. This may be the case of post-2010 Hungary creating its own variety of *Sonderweg*¹¹⁶ – a space between (Western) capitalism and socialism in which the mechanisms of HAP, described in this chapter and chapter one, are able to flourish. If this is the case, HAP may become a longstanding trend in Hungary, maintained and potentially proliferated by the legacy described above. This has the capacity to be replicated within the CEE region, particularly given the history of Hungary and Poland as the developmental drivers in central Europe.¹¹⁷ The principal outcome of these trends is likely to be the continued downgrading of democracy and the institutions that emerged in the 1990s and 2000s, described elsewhere as "democratic backsliding" (Sedelmeier, 2014).

This chapter has demonstrated how Fidesz reproduces itself and its HAP domestically. The following two chapters examine how Fidesz manages this with exterior actors, namely Russia

¹¹⁶ The German word for 'special path', where German exceptionalism was the backbone for the transition from aristocracy to democracy

¹¹⁷ Notably, the Hungarian Revolution in 1956, *Goulash Communism* and the opening of the Austrian border in 1989; in Poland: the Solidarność movement of the 1980s

and China, respectively. The next chapter focuses on the Russo-Hungarian agreement to extend Hungary's sole nuclear power plant.

Chapter four

External dimensions part I: economic engagement with Russia and the Paks II nuclear power plant extension

This chapter focuses on the agreement between the Russian and Hungarian states to extend the only nuclear power plant (NPP) in Hungary, at Paks,¹¹⁸ known as Paks II. The project is estimated to have a final cost of €12bn, with an agreement in place for state-owned Russian bank Vnesheconombank to loan the Hungarian state €10bn for a thirty year-period, with Hungary accounting for the remaining €2bn.¹¹⁹ This extension is investigated because it reflects Fidesz's turn to the East to attract inward capital flows, which run concomitantly to the extant economic arrangements between Hungary and Western MNCs, and the post-2010 state-subsumption of domestic business, discussed in the previous chapter. This research claims that Hungary's turn to the East is aimed at reproducing the Fidesz project as capital is channelled from deals agreed with 'Eastern' entities can be captured by Fidesz-loyal actors and consequently, strengthen HAP. Such agreements may be even more attractive given that stipulations differ from those promulgated by Western institutions e.g. the EU's emphasis on Rule of Law and competition etc.¹²⁰

Paks II is not a typical case of Russo-Hungarian interaction, rather it is idiosyncratic because it is not reflective of Russian involvement in Hungary. Most financial inflows into Hungary

¹¹⁸ Named after the closest settlement, the town of Paks in central Hungary, approximately 100km south of Budapest

¹¹⁹ Interest rates for the project are staggered in four stages. The first period will be fixed at 3.95% until 2026 – the date the first block is scheduled to be commissioned. Subsequently, the rate will rise to 4.5%, 4.8% and finally 4.95% at seven-year intervals

¹²⁰ This outcome echoes some African countries' preference for Chinese capital over Western institutional sources (e.g. the World Bank), due to the lack of political conditionalities that accompany Chinese investment (Power *et al.*, 2012). In the Hungarian case, this scenario is likely to be similar vis-à-vis Russian – and Chinese – capital

originate from Western Europe, particularly Germany¹²¹ and this trend has not altered since 2010. By contrast, Russian interaction with the Hungarian economy is negligible, making this project the standout case of Russian involvement in Hungary because of its cost and timeframe in the first instance. The Paks II agreement demonstrates how Russo-Hungarian relations have become more important since Fidesz were elected in 2010. For example, Fidesz may have the possibility to further entrench their position with the emergence of deeper informal networks that have the prospect of siphoning off significant portions of capital from the Paks II¹²² (Fazekas *et al.*, 2014).¹²³ This results in externally-sourced capital assisting with the maintenance of HAP, reflecting the importance of external dynamics for the regime, discussed in chapter one. Additionally, a closer relationship with Russia may secure cheaper energy deliverables, as has been achieved elsewhere, such as the CIS (Nygren, 2008), creating country-wide political capital due to a reduction in household utility bills, discussed in more detail below.

To investigate the rise in economic ties between Hungary and Russia since 2010, this chapter analyses the energy sector – the primary means by which Hungary is dependent on Russia (Ámon and Deák, 2015) – specifically, the Paks II project. Emerging from this case study, this research demonstrates the rationale of Paks II is political, in the first instance, with economic considerations less influential. This reflects the underlying reason for the Hungarian state to sign the deal, namely to create more capital inflows from ‘Eastern’ actors in order to leverage its position and help reproduce HAP.

The chapter is divided into six sections. First, a historical overview of Hungarian relations with Russia is presented. This is designed to introduce the subject and provides outlines of the

¹²¹ Germany has been the dominant importer of FDI stock into Hungary since at least 1998 (KSH, 2018)

¹²² Nuclear power plant construction projects typically carry a higher risk of capital loss through corrupt practices than other energy projects (Energiaklub, 2017)

¹²³ These authors list ten specific risks regarding corrupt practice from Paks II: (i) asymmetrical relationships between constructor and customer (the Hungarian government); (ii) budget overruns; (iii) contractual shortcomings (e.g. lack of additional work clauses and the question of penalties); (iv) environmental concerns; (v) legal disputes; (vi) licensing scandals; (vii) new technology implementation; (viii) poor project management; (ix) reduced security, and; (x) social losses – estimated to be in the (HUF) hundreds of billions in gross terms

backdrop to the historical connection that was created in the twentieth century. Second, Fidesz's reversal in its attitude towards Russia. Third, a section on the KN discusses Russo-Hungarian economic and political relations, underscoring the negligible Russian investment levels in Hungary and the areas targeted in which to increase capital volumes. Fourth, the section dedicated to the Paks II project first analyses the reasons behind the agreement and subsequently, the stipulations of the deal itself. The remainder of this section is divided into five subsections: (i) an overview of the project; (ii) issues and costs at the onset of the project; (iii) issues and costs during the project; (iv) issues and costs at the end of the project, and; (v) benefits from Paks II to Hungary. Fifth, an analysis of the power of the Russian nuclear lobby in Hungary before the chapter reaches its conclusion.

4.1 Historical overview of Russo-Hungarian relations before 1989

Since its earliest recorded beginnings in 894-95 CE,¹²⁴ Hungary's external relations were primarily with the peoples, countries, empires and institutions by whom it was surrounded, particularly with Austria, Bavaria and Northern Italy. The connections between Hungary and Russia are relatively recent¹²⁵ and have been contentious throughout their history. For example, during the 1848-1849 Revolutions Russian forces, following payment from their Habsburg Allies, crushed Hungarian resistance to the Habsburg Dynasty and the resistance leaders' aim to create an independent Hungarian Kingdom. In the twentieth century, the installation of the post-Second World War socialist leader Mátyás Rákosi by the Soviet Union (USSR), the 1956 Revolution against Soviet rule, its subsequent suppression and the establishment of the Soviet-allied Kádár regime, accompanied by decades of Soviet military occupation (Győri *et al.*, 2015; Juhász *et al.*, 2015), combined to create a historically negative attitude towards Russia, which remains prevalent today.¹²⁶

¹²⁴ This is when Hungarians entered and occupied the area of the Carpathian Basin, which loosely fits around modern Hungary's international borders

¹²⁵ However, hostilities between Hungary and Kievan Rus date to the eleventh century

¹²⁶ According to a 2015 survey, when asked "Which country should Hungary choose to have closer ties with?", only 25% answered with "Russia" (Győri *et al.*, 2015: 54)

Hungarian relations with Russia before the end of state socialism in 1989 were multifaceted and complex. Relations were both economic and political, which aggregated to deeply impact Hungarian culture and society, so much so that a clear economic and political dependence emerged and characterised the partnership. Devastated by a second military defeat in under thirty years, in 1945 Hungary became an occupied territory. During the first years of Soviet occupation, radical land redistributions, led to the loss of position of up to 400,000 families (Berend and Ránki, 1974). More positive changes also occurred, however. For example, large-scale social mobility and proliferation of high-quality education combined to fundamentally alter Hungarian society (Berend, 2011). These post-war examples came as a result of Hungary's adoption of state-socialism under the Soviet-backed Hungarian Workers Peoples Party¹²⁷ and reflect the radical nature of the transition to planned economy and socialist republic.

A non-Soviet republic, in the later state-socialist period, Hungary had relatively freer choice over its domestic politics, described in the West as *Goulash Communism* (e.g. Kornai, 1996). Despite politics being dominated by Soviet influence and instruction, it has been argued an interdependence emerged between the USSR and Eastern Europe covering “political fortunes and economic performance, and between control over political power and control over economic resources” (Bunce, 1985: 5). By the late 1970s, dependence on the USSR from the Eastern Bloc was lessening as the former was essentially paying a high price for isolating the region from the global capitalist system (Zimmerman, 1978); a development which caused the CEE states – including Hungary – to look to the West for economic assistance (Berend, 1986).¹²⁸ This trend became the pretext for the political and economic conditions that emerged at the end of the 1980s with the collapse of state-socialism.

¹²⁷ The Hungarian Workers People's Party was in power from 1948-1956. Following the forced resignation of Rákosi, the party was changed to the Hungarian Socialist Workers' Party, which governed Hungary until 1989, with János Kádár as the General Secretary until his retirement in 1988

¹²⁸ In Hungary's case, this was primarily in the form of borrowing, as discussed in the Antecedents chapter.

Economic relations centred around importation of raw materials from the USSR, particularly energy, under the auspices of the Council for Mutual Economic Assistance (CMEA). The CMEA pipeline network constructed during the Cold War across CEE is still used today as the primary means of delivering oil and gas from Russia. The standout example of this is the *Druzhba*¹²⁹ pipeline – the world’s longest – inaugurated in 1959 to service the Eastern Bloc countries. This network initiated an energy dependence in CEE that continues today. Dependence on Soviet energy importation became skewed around 1980, however, as reliance on Soviet-style industrialisation and its energy-hungry sectors e.g. metallurgy, had exhausted the natural reserves in Hungary¹³⁰ and beyond – particularly coal – and in effect generated an illogical dependence on the importation of Soviet energy to maintain production levels (Gustafson, 1981).

Until 1989, Russo-Hungarian relations had been strained historically and this was compounded by dependence on Soviet energy, which can be characterised in two distinct ways. First, economic growth in Hungary was contingent on oil supplies from the USSR. Second, there was no alternative to Soviet extractive or nuclear energy (Gustafson, 1981). This contrasts most Western states¹³¹ and some European socialist countries e.g. Albania, which obtained their energy from other sources. Hungary was therefore locked-in by the USSR and had it been desired, there was limited potential to break this monopoly.

Regarding nuclear energy, Hungary’s sole plant consists of four reactors that came online between 1982-1987.¹³² It was designed and constructed by Soviet technology and was the largest investment in Hungary in the twentieth century (MVM, 2017) underscoring the significance of the project. By generating almost half of Hungary’s electricity needs, the

¹²⁹ Translation: friendship

¹³⁰ Hungary’s natural resources include bauxite, coal, petroleum, natural gas, manganese, uranium and iron ore. However, these reserves are negligible in comparison to other CEE countries, such as Poland or Romania and the quality is often poor

¹³¹ Finland is a notable exception here. It imported 100% of its oil and gas from the Soviet Union, and today does so from Russia

¹³² In the 2000s the Hungarian parliament overwhelmingly voted to extend the reactors’ lifespan by a further two decades and they are now due to expire in the 2020s. The NPP in its current capacity generates approximately 45% of Hungary’s required electricity

importation of this technology has been a noteworthy development in Hungary's contemporary energy portfolio make-up and demonstrates an ideologically committed development path vis-à-vis nuclear energy (Valentine and Sovacool, 2010).

Between 1989 and 2010, less strategic importance was placed on Russo-Hungarian relations as Hungary's development path had taken a new turn, principally engaging with Western European institutions.

4.2 Turnaround in Fidesz-Russian relations

The ideological shift that has occurred amongst the Hungarian political elites (e.g. Enyedi, 2016; Kornai, 2015), makes a clear break from the first two decades of post-socialism. Elements of Fidesz's ideology include a more conservative approach towards the EU and the liberal democratic norms that prevail within its framework. This comes despite Orbán's claim that the era of ideologies is over (Bozóki, 2012). An outcome of this change has been closer relations between Hungary and Russia, which is *"much more political than economic and this is the case of both sides"* (I24). Emerging from the ideological shift is the agreement between the two countries on the NPP extension, which continues the historical relationship between Hungary and Russian nuclear energy, begun in the twentieth century.

To highlight the ideological shift against the backdrop of Russo-Hungarian energy relations, it is helpful to understand the situation before 2010. Throughout the 1990s and 2000s there was consistent, cross-party consensus towards moving away from dependence on Russian energy. Regarding extractive energy, attempts were made by the three MSzP governments (2002-2010)¹³³ to diversify in three areas. First, by establishing an alternative route e.g. the South Stream pipeline, designed to transit energy through the Balkans to Hungary.¹³⁴ Second, through alternative sources e.g. from Azerbaijan. Third, a combination of the two e.g. through

¹³³ (i) Péter Medgyessy (2002-2004); (ii) Ferenc Gyurcsány (2004-2009); (iii) Gordon Bajnai (2009-2010)

¹³⁴ This would have generated more security in delivery following the Ukraine Gas Crises in 2006 and 2009

high-level meetings aimed at establishing a Liquefied Natural Gas terminal in Croatia with the objective of servicing Hungary and the wider region.¹³⁵ Diversifying energy importation was a key economic and political aim of these governments and reflects the ideology of the 1989-2010 period i.e. liberal, free market capitalism with emphasis on European markets. High levels of energy inflows from Russia remain, however. At current rates, Hungary imports approximately 80% of its natural gas (European Council on Foreign Relations, 2015) and 44% of its oil (International Atomic Energy Agency, 2014) from Russia.

The above-mentioned options were not controversial, not least because there has been consistent political capital in Russia-sceptic or even anti-Russian policy and rhetoric in Hungary since 1989. This relates back to historical events outlined above. Before 2010, this occurred across the political spectrum against the backdrop of economic and political (re)integration to the West, highlighted through the influx of Western FDI and accession to international institutions such as NATO and was compounded by each country's adoption of contrasting development paths from 1989 (Dinello, 2002).

While relations were never hostile, the Hungarian electorate – particularly those from the centre-right – often welcomed actions and policies that did not necessarily favour Russia. For example, it was common for Fidesz to chastise the MSzP governments in the 2000s for their supposed pro-Russian energy policies e.g. signing the South Stream deal, which would have established an alternative route for Russian gas into Hungary and the wider CEE region, meaning Russia would have remained the dominant supplier of extractive energy. Fidesz voiced concerns over Russo-Hungarian relations, raising the matter of Hungary potentially becoming dominated by Russia through a “stronghold of economic positions” (Orbán, 2007). This may have been a way to lure voters during the opposition years as MSzP supporters were typically more loyal, which meant the rightist parties had to rely on populist economic positions to attract backing (Tavits and Letki, 2009).

¹³⁵ This information was shared by a political expert during fieldwork for this research

Fidesz had always been sceptical of Russian influence, dating back to the late 1980s when Orbán was a dissident student, protesting Soviet occupation of Hungary (Szilágyi and Bozóki, 2015). After 1989, Fidesz's anti-Russian sentiment was typical of many CEE countries, characterised by reservations rather than hostility. When Fidesz won a two-thirds majority in parliament at the 2010 national election, an unprecedented change of ideology occurred vis-à-vis Russia (Ámon and Deák, 2015). The showcase for this U-turn was the launch of the KN.

Fidesz has begun to view Russia as a strategic partner; a surprising change in outlook given that *“during the 1998 - 2002 Orbán government, the vast bulk of EU accession stipulations were created. Since 2010 he [Orbán] has made a clear break from the EU. However, it is unclear the extent to which this is a strategic plan with an end goal. Perhaps he sees the EU as a hindrance to his desired type of governance e.g. less democratic/more autocratic. He's clearly made a strategic decision to find other options – a plan B – for Hungary. This is the rationale for the KN and the rapprochement with Russia, which electorally costs him; cosyng-up to Russia is not a popular thing for a Hungarian right-wing voter at all. Russia can also be counted on to support all kinds of domestic goals, which may be more challenging to support with EU funds. This could realistically include secret service support (spying) and monetary support that is siphoned into irregular activities. It is not clear how this will play out. There are rumours that Putin promised a section of the Ukraine to Orbán, but this remains folklore”* (I19). This creates a paradox whereby the scepticism of the Hungarian electorate – particularly those who have traditionally voted for Fidesz¹³⁶ since the cessation of state socialism – is quite suddenly not reflected by the political party that has consistently been the voice inside parliament for those viewpoints. Why is the turnaround in Russo-Hungarian relations politically viable despite Russia-sceptic public opinion? Why have the traditionalist and conservative incumbent government in Hungary risked potential loss of political capital in favour of closer relations with Russia?

¹³⁶ Or other centre-right parties, most notably the *Magyar Demokrata Fórum* (translation: Hungarian Democratic Forum), which won the first democratic elections in 1990. The party was founded in 1987 and dissolved in 2011

The immediate answer is that it has become immaterial because Fidesz keep winning elections, vindicated by three consecutive supermajorities. Because of their similar ideologies (Csillag and Szelényi, 2015), the development of HAP and the execution of 'moral panics', 'common sense' reactions have framed increased economic engagement with Russia as less threatening even for the typical conservative/traditionalist Hungarian voter. This creates a subsequent change in the balance of forces, positioning Fidesz and Hungary closer to Russia. Fidesz's search for capital flows from Russia complements the shared ideology between the two countries and this is not necessarily only found in the Hungarian case. *"Undoubtedly Vladimir Putin has a dreams to rebuild the Russian empire. Putin's dream is not to rebuild the Soviet Union but a great Russia like during the times of Tsar Nicholas I. He does a lot to distance himself from his former KGB role such as fraternising with Orthodox priests. For him, a weak EU is important though building bridges with Europe is also important. There is a zone in post-socialist countries who are also ideological traditionalists and are looking to Putin as a big brother. These include: Bulgaria, Czech Republic, Hungary, Serbia, Slovakia"* (124). Ideology forms part of the underlying rationale for Fidesz to more closely engage with Russia. The Hungarian regime is unable to survive or maintain itself without some form of exterior ideological alliance, however under-established.

What makes a relationship with Russia more attractive to Orbán and Fidesz however, is its financial component. *"Hungary's development depended too much on imported capital and FDI, [it] was overly dependent on EU/Western Europe, leaving [it] more exposed to certain shocks to the economy. Orbán's courting of Putin is not a Hungarian issue but one for the political elite. There are two drivers for this. From Putin's standpoint, it is not just about retaining sovereignty from the 1990s chaotic Yeltsin years, but also taking back the power from oligarchs. Orbán knows he needs oligarchical support but also that they must be kept at bay. Putin is so central that no oligarch can influence politics. There is probably a personal (perhaps financial) deal between Orbán and Putin, which I think is a corruption case. The Soviet secret service has always been very active in Hungary so there may be some blackmail issue."* (120).

Nationalising certain sectors, therefore, reduces exposure to financial risks from Western Europe. These could be considered a rational approach to managing exterior economic relations in order to avert a repeat of the effects the Global Financial Crisis bore Hungary. Nationalisation also reverses the privatisation trends and influx of neoliberal policies that emerged after 1989.

Through the addition of a long-term – and expensive – loan, the Hungarian state has agreed a questionable arrangement, discussed in more detail below. The importance of advancing relations with Russia is that it generates an external component that is critical to the continued success of HAP. This agrees with Bozóki and Hegedűs's (2018) acknowledgement of the decisive importance of this factor in regime maintenance. As outlined in chapter one, while the authors' work emphasises the role of EU-Hungarian relations, this work demonstrates how relationships with 'Eastern' actors have begun to strengthen the Fidesz project.

4.3 Keleti Nyitás (Eastern Opening)

Fidesz have initiated and promoted the KN programme ostensibly to generate increased flows of capital and goods between Hungary and Eastern countries. Outcomes of this programme have been questionable in terms of results, and the original rationale of the project has been compromised in favour of developing an ideology, in line with so-called illiberal democracies to the East (Juhász *et al.*, 2015). The KN is part of the wider post-2010 Hungarian ideology and forms one of the principal exterior dimensions of HAP. The Paks II agreement is designed to generate financial inflows to Hungary that subsequently enter the hands of domestic Fidesz-loyal actors i.e. owners of local firms that may be contracted to undertake construction duties of the plant itself and its wider necessities, discussed below. In May 2018 János Süli, Minister without portfolio in charge of the project met with Rosatom representatives in Sochi to discuss contracts and permits with potential construction firms. According to the Minister,

eighty buildings will require construction including accommodation, a school and a nursery school as well as healthcare facilities for the construction workers (Kormany, 2018b).

The KN has graduated from the diplomatic and rhetorical levels and has begun to create tangible outcomes, most strikingly Paks II, discussed in detail in this chapter. While Hungary was the largest recipient of Western FDI in the 1990s of all the CEE countries (Kaminski, 1999),¹³⁷ Fidesz has attempted to reduce these capital flows in certain sectors – specifically, utilities and energy – through a programme of nationalisation, which has the potential to create ‘space’ for Hungarian entities to emerge as more dominant forces within these sectors or for alternative non-Western actors to enter the Hungarian market. For example, in 2014 the Municipality of Budapest and the Hungarian State jointly repurchased German-owned shares of the Budapest Gas Works (Orbán, 2014).

In terms of alternative exterior actors, possibilities to enter the Hungarian market are limited because financial inflows into Hungary remain dominated by Western-based firms with Russian FDI negligible by comparison (Weiner, 2017). Table 4.1 shows the principal countries with FDI stock in Hungary in percentage terms for 2016, with Germany the biggest investor. Russia’s inward FDI flows are typically “paved with failures” (Weiner, 2018: 42), which also attributes to its miniscule level. Furthermore, imports and exports between Hungary and Russia have dropped significantly since the beginning of the conflict in Ukraine in 2014 (Deák and Weiner, 2016).

¹³⁷ However, there were brief periods when Poland surpassed Hungary as the largest recipient of FDI in CEE, though Hungary remained the standout case throughout the decade, especially given its population relative to Poland

Table 4. 1: Leading sources of FDI stock in Hungary, plus Russia

| Main investing countries | 2016 (%) |
|--------------------------|----------|
| Germany | 26.7 |
| Netherlands | 15.5 |
| Austria | 10.0 |
| Switzerland | 6.4 |
| Luxembourg | 4.3 |
| UK | 3.9 |
| France | 3.4 |
| Italy | 3.3 |
| Russia ¹³⁸ | 0.06 |

Source: Santandertrade (2018)

Despite these recent trends in Russo-Hungarian economic relations, Russian economic presence in Hungary persists.¹³⁹ To demonstrate Russian presence in Hungary, which is typically opaque and challenging to measure accurately, Table 4.2 below details how ownership is structured within the principal Russian investments in Hungary. Examples listed here include cases where an external firm with a Hungarian subsidiary was acquired by a Russian owner; “cascading investments” that can potentially disguise the nationality of owners, and; joint-stock companies in Hungary that are not legally obliged to declare their ownership structure (Weiner, 2015).

¹³⁸ This data is taken from Weiner (2017)

¹³⁹ Another Russo-Hungarian business deal, which is interesting to detail, is the case of the upgrades to the Russian-made metro cars on one of the Budapest metro lines. Despite its inferior technology and higher cost vis-à-vis at least one rival bidder, the Russian firm *Metrovagonmash* won the tender to modernise the metro cars originally built in 1978, rather than deliver new models (Napi, 2015)

Table 4. 2: Ownership structures of Russian investments in Hungary (2014)

| Hungarian investment | Activity | Share (%) | Immediate investing company | Immediate investing country |
|--|---|-----------|-----------------------------------|-----------------------------|
| <i>1. Immediately owned by Russians (i.e. captured by the Hungarian FDI statistics as Russian FDI)</i> | | | | |
| Panruszgáz Gas Trading Zrt. | Gas intermediation | 40 | Gazprom Export | Russia |
| | | 10 | Centrex Hungary ¹⁴⁰ | Hungary |
| Ganz Engineering and Energetics Machinery Kft. | Manufacture and installation of hydro machines ¹⁴¹ | 51 | Rosatom's TsKBM | Russia |
| <i>2. Immediately owned by individuals with Russian nationality but Hungarian residency</i> | | | | |
| Kafijat Investment and Asset Management Zrt. | Investment and asset management | 100 | Ruslan and Timor Rakhimkulov | Hungary |
| <i>3. Portfolio investment, ultimately owned by Russian nationals but Hungarian residents via a Hungarian-registered company</i> | | | | |
| OTP Bank Nyrt. | Banking | 8.9 | Rakhimkulov family ¹⁴² | Hungary |
| <i>4. Ultimately owned by Russians, but the immediate investor is a third country company</i> | | | | |
| Sberbank Hungary Zrt. | Banking | 99 | Sberbank Europe AG | Austria |
| ISD Dunafer Zrt. | Production of flat-rolled products | 98.29 | Steelhold Ltd. ¹⁴³ | Cyprus |

¹⁴⁰ Owned by Austria's Centrex Europe Energy & Gas AG, controlled by Russia's Gazprombank

¹⁴¹ Activity also includes: nuclear power station machinery and oil drilling equipment etc.

¹⁴² Via the Hungarian-registered Kafijat Zrt.

¹⁴³ Belongs to Ukraine's ISD, 50% controlled by Russian investors

| | | | | |
|--|--|------|---|-------------|
| Vogel & Noot Mezőgépgyár Kft. | Production of agricultural machinery | 100 | Vogel and Noot Landmaschinen GmbH & Co KG | Austria |
| Vogel and Noot Talajtechnika Kft. | Production of agricultural machinery | 100 | Vogel and Noot Landmaschinen GmbH & Co KG | Austria |
| Centrex Hungary Zrt. | Gas trading | 100 | Centrex Europe Energy & Gas AG ¹⁴⁴ | Austria |
| MET Hungary Zrt. | Gas trading | 12.7 | Switzerland's MET Holding AG ¹⁴⁵ | Switzerland |
| WIEE Hungary Kft. | Gas trading | 100 | Wintershall Erdgas Handelshaus Zug AG | Switzerland |
| RAG Kiha Kft. | Oil and gas exploration and production | 50 | Serbia's NIS ¹⁴⁶ | Serbia |
| Pannon Naftgas Kft. | Oil and gas exploration and production | 100 | Serbia's NIS ¹⁴⁷ | Serbia |
| Mechel Service Hungary Kft. | Selling Mechel's steel products | 100 | Mechel Service Global B.V. | Netherlands |
| <i>5. Potentially Russian-influenced or supposedly partially owned</i> | | | | |
| Normbenz Hungary Kft. ¹⁴⁸ | Retail and wholesale of oil products | 100 | Hungary's Norm Benzinkút Kft. ¹⁴⁹ | Hungary |

¹⁴⁴ Controlled by Russia's Gazprombank

¹⁴⁵ Ilya Trubnikov, a Russian-Canadian businessman is a 12.7% owner of the MET Group

¹⁴⁶ 51% owned by Gazprom's GazpromNeft

¹⁴⁷ 51% owned by Gazprom's GazpromNeft

¹⁴⁸ Lukoil's former petrol stations in Hungary

¹⁴⁹ Owned by Hungary's IMFA Petroleum Kft., created by a former Hungarian representative of Yukos and the Belize-based Normeston Trading Ltd.

Source: adapted from Deák *et al.*, (2017: 69-70)

These obscurities mean it is challenging to precisely determine the extent of Russian economic presence in Hungary and the capital flows that may result from FDI. More broadly, this opacity means determining the impact of the KN (in relation to Russia) on the Hungarian political economy and what this might signify for Hungarian capitalism is challenging. In the wider region, Russian FDI accounted for under 1% of the total of the V4 countries' total received FDI, with the Czech Republic as the standout recipient (Andreff and Andreff, 2017). Table 4.3 below, demonstrates this and shows that Hungary is not even the largest recipient of FDI in the V4 region and in fact placed in eleventh place from sixteen CEE countries (Weiner, 2017). Given the data in Table 4.3, the Paks II agreement with its projected €10bn Russian bank loan is set to substantially increase the figures in the final three columns, in respect of the Hungarian case.¹⁵⁰

¹⁵⁰ For a discussion on FDI flows from the V4 countries into Russia, see Kuznetsov and Nevskaya (2017)

Table 4. 3:¹⁵¹ Russian inward and outward FDI stock in V4 countries (2013)

| | Total inward FDI stock of host country (million) | Total Russian FDI stock in host country (million) | Russia's share (%) | Russia's outward FDI stock (USD mns, 2012) |
|----------------|---|--|----------------------------|---|
| Czech Republic | 103,455 (EUR) | 311 (EUR) | 0.3 | 1,585 |
| Hungary (2012) | 78,488 (EUR) | 27 (EUR) | 0.06 (2016) ¹⁵² | 106 |
| Poland (2012) | 728,749 (PLN) ¹⁵³ | 2,092 (PLN) | 0.3 | 596 |
| Slovakia | 42,660 (EUR) | data unavailable | -- | 78 |

Source: adapted from Liuhto and Majuri (2014: 223-224)

The KN acts as a conduit for increased economic and political relations between Hungary and countries to the East. The closer relationship between Hungary and Russia since 2010, and

¹⁵¹ Dates are for 2013 unless otherwise stated

¹⁵² This data is taken from Weiner (2017), replicated in Table 4.1 above

¹⁵³ EUR 1 = PLN 4.18 (Polish Złoty) at time of article publication (2014)

the frequent reciprocal visits by the main two political actors – Orbán and Putin – reflect the emergence of something deeper than a pragmatic relationship between two sovereign states.

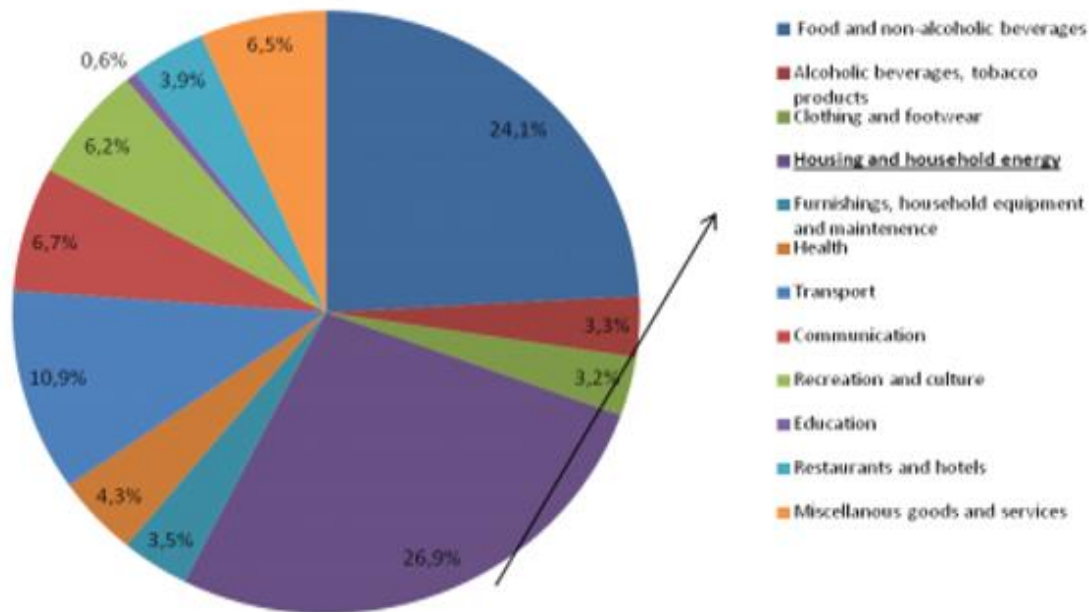
As outlined in chapter three, Hungary is in the process of receiving the second of a two-part financial allocation agreed by the EU (the EU Cohesion Fund) but this is scheduled for reduction after 2020. Fidesz will have been in government for much of this period and have effectively captured portions of this capital to develop its own project. Because the Cohesion Fund is due for capital reallocation after 2020, Fidesz must determine alternative sources of capital to sustain its project. This is not merely a practical matter but an endeavour that helps with the reproduction of HAP. The attraction of capital flows from ‘Eastern’ countries is high for the Hungarian regime. Fewer questions will be asked regarding Fidesz’s domestic economic structures i.e. the prebendal network discussed in chapters one and three.

“Orbán wants to pull his country away from the Western hemisphere because Western normative values include human rights, checks and balances, constitutionalism. Western control comes with an ideological, political expectation. Whereas, he believes relationships with Eastern countries will only be profit-based. In other words, the politics is somehow removed from the relationships. He knows that he cannot let loose all his ideas until he has secured alternative financial streams. A deeper strategic opinion is that he has visions of Europe becoming some sort of Mad Max-style environment. He thinks the new emerging powers in the East will outgrow EU’s share and be more dominant” (126).

While the growth of deeper economic links is the ostensible *raison d’être* of the KN project, this research claims the establishment of new transnational capital dimensions with common ideological characteristics is a key goal. This justifies the KN remaining a viable vehicle for managing foreign relations, from the Fidesz perspective. The KN as an exploratory force is the conduit for capital flows from ‘Eastern’ origins that Fidesz envisages will offer it the opportunities to embed itself as the long-term governors of Hungary principally through increased opportunities for self-enrichment and subsequent proliferation of HAP.

Russia cannot offer goods and services that match the quality of those that originate in the West, it cannot inject FDI to rival MNCs already present in Hungary, nor can it hope to achieve parity with Western firms in terms of import and export levels. The most important commodity Russia possesses, and which is typically politicised in terms of delivery and pricing, is extractive energy, on which Hungary remains dependent, as outlined above. Working together with Russia to negotiate pricing for energy deliverables and subsequently a reduction in Hungarian household utility bills may become a realistic option for Fidesz to stimulate political capital, particularly given the high portion of household expenditure energy liabilities constitute. One quarter of household expenditure in 2011 as Figure 4.1 below indicates was spent on housing and household energy. The reduction in utility bills for Hungarian households has been a government energy strategy since Fidesz's election in 2010 (About Hungary, 2016). In 2013, there were allegations that Orbán's policy of utility bill cuts for households was supported by Russia through a large discount on gas pricing (Deák, 2017). Russian discounts of energy pricing make it an attractive go-to partner for advocates of populist energy policies and following Fidesz's purchase of the wholesaler company, which held the long-term contracts for Russian energy deliverables from E.ON in 2013, pricing concessions from Gazprom immediately followed (Ámon and Deák, 2017).

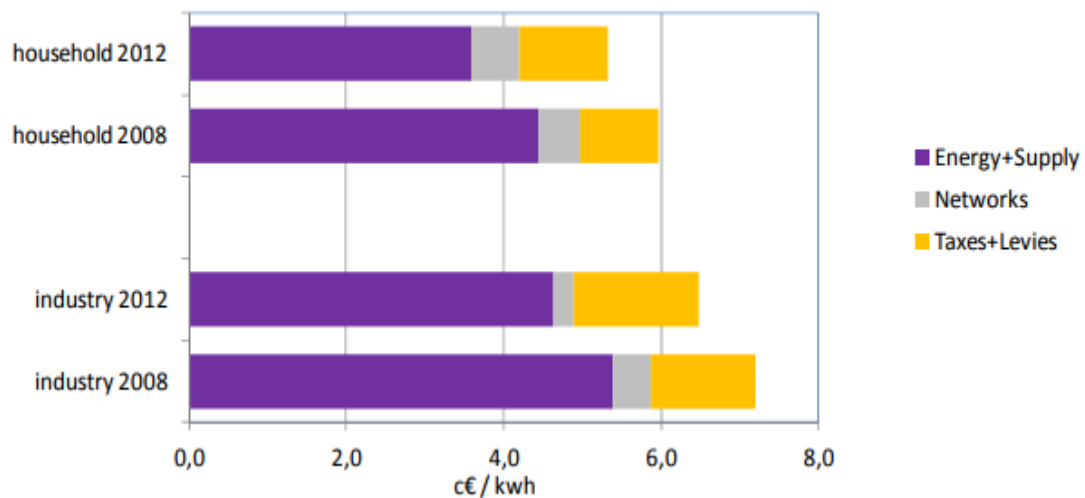
Figure 4. 1: Structure of expenditures of Hungarian households (2011)



Source: Hungarian Ministry for National Economy (2015)

Additionally, Fidesz has reduced gas costs to Hungarian households and industry as Figure 4.2 below illustrates. The partial nationalisation of the utilities sector – a reversal of the privatisation drive of the 1990s – helped to reduce energy costs for households and industry, altering the pre-2010 price structuring. This became a central pillar for Fidesz campaigning for the 2014 national election, assisted by reduced rates from the Russian parties, as outlined above, without which this proposed policy would have been unsustainable (Ámon and Deák, 2017).

Figure 4. 2: Changes in energy rates to households and industry (2008 and 2012)



Source: European Commission (2014b)

Fidesz has been able to negotiate reduced rate energy deliverable with Russian suppliers for political gain, this demonstrates that under the auspices of the KN, Fidesz has achieved a comparative advantage vis-à-vis what opposition parties might be able to offer, namely, a reduction in household expenditure; the polar opposite of the austerity programme introduced by the MSzP government following the Global Financial Crisis in 2008 and understandably very favourable to those households with high expenditure on utility bills. This also shows that stronger political relations with an ideologically-similar state actor had helped to maintain the Hungarian regime before the Paks II agreement was signed in January 2014. This means post-2010 Russo-Hungarian relations may be better understood predicated on political arrangements rather than those more strongly based on economic structures, most notably Western MNC relations with Hungary, as captured by the DME model (Nölke and Vliegenthart, 2009).

Much like the Russian class formation since Putin assumed power in 1999 and consolidated it from 2000, in Hungary since 2010 the Orbán government has been “trying to establish a new rank order based purely on political loyalty” (Szelényi, 2014: 22), theorised by this research as HAP, a form of populism with specific components; an organised method for the state to

subsume domestic business, which contradicts the typical democratic values that were adopted after 1989 of accountability and Rule of Law etc. The Paks II deal has allowed Russian state-owned Rosatom to increase its presence externally to Russia for the second time in the EU.¹⁵⁴ This creates large revenues for the Russian state in relation to the payment structure, outlined above potentially delaying Russia's need to diversify its own economy away from energy exports.

4.4 Paks II: the reasons

For the purposes of self-reproduction, Fidesz have identified Eastern-sourced capital as a helpful component. Complementing extant capital inflows from Western European MNCs and the subsumption of domestic business by a prebendal network, outlined in chapter three, Fidesz is in the process of developing a third point of origin for capital it envisages will help maintain HAP. This may be a motivation on the part of Fidesz, but this research does not claim there is any attempt by the Hungarian government to reduce dependence on Western entities for dependence on Eastern actors. In any case, such a form of dependence would not conform to classical analyses (Cardoso and Faletto, 1978) because Hungary's GDP *per capita* is higher than Russia's.

Increasing capital inflows from Eastern countries – Russia in this case – has the potential to alter the make-up of the Hungarian political economy, particularly in the energy sector; the empirical focus of this chapter. Due to the high financial figures involved in Paks II, this research has identified five ways in which the Hungarian political economy is exposed to structural change.

¹⁵⁴ The other case is the planned Hanhikivi NPP in central Finland

First, because of the forecast of an extended Fidesz reign in Hungary,¹⁵⁵ there is likely to be a deeper entrenchment of the Fidesz-approved businesses run by loyal oligarchs (Sallai and Schnyder, 2015), which will, in turn, service Fidesz objectives in their respective sectors of operation, namely, capital acquisition. This narrowness in competition will likely further stifle political pressures on Fidesz because of the sectors in which they are dominant e.g. the media. Fidesz has had the capacity to decide who gets rich in Hungary since 2010 and recipients of financial benefits are expected to remain loyal to Orbán (Lendvai, 2017). This may see a continuation of pro-market and anti-market policy (Lendvai and Stubbs, 2015; Toplišek, 2019) in connection with the project, given Fidesz's pragmatism in seeking political capital opportunities. For example, deeper nationalisation could occur in the energy sector, or sectors related to Paks II e.g. construction, in order to strengthen the Fidesz-loyal prebendal network.

Second, the debt levels accrued by Paks II and the repayment timetable creates a disproportionate amount of risk for the taxpayer. Currently, 29% of government debt is denominated in foreign currencies, allowing space for further risks that result from exchange rate movements¹⁵⁶ (European Commission, 2017b). In this regard, the project becomes unwarranted. *“Hungary as well as other countries in the region have been historically attached to the COMECON network of pipelines and it is expensive to construct any alternative to the pre-existing structure. While there have been some ideas on how to do this, none of them reached a phase of construction, such as the South Stream; Nabucco etc. The only thing to have changed were the interconnectors and these are with Romania, Slovakia and partly with Croatia, which is a good start in terms of reaching various seaports, mainly the Adriatic Sea, importing liquefied gas; Świnoujście in Poland; and eventually the Black Sea. However, transporting liquefied gas these short distances is not good business because transforming gas into liquid consumes 10% of the price (dependent on price), then there are the facilities required on two fronts (a) to liquefy the gas and (b) to revert it back to gas (the second would be cheaper) and then put into pipelines. For a landlocked country like Hungary, these*

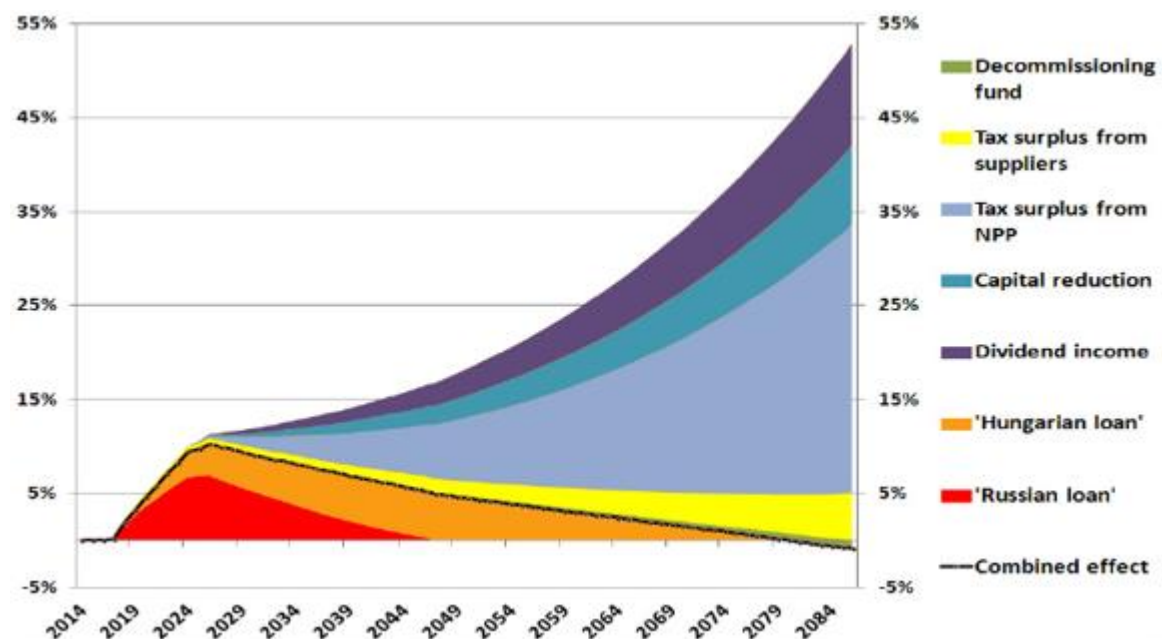
¹⁵⁵ A long-fragmented opposition provides Fidesz with a higher chance of continued electoral success

¹⁵⁶ The exposure to exchange rate fluctuations will reduce if Fidesz meets the plan to reduce the level of government debt to 20% by 2021

interconnectors are of importance, which alone do not constitute any alternative to Russian-based pipelines. The big strategic mistake of Orbán was to add to the high degree of dependency, namely Paks II. This occurred without any political consideration and is therefore quite simply, not reasonable to duplicate the same kind of dependency; any other source would have been more advantageous to Hungary, to balance this situation” (118).

This research understands ‘political consideration’ to be public debate and the production of detailed accounts of the financial and environmental ramifications of such a project. Such opaqueness is much more difficult to achieve with Western firms and helps to obscure the actual financial stipulations of the agreement e.g. to where capital is ultimately transferred. To present an overview of the risk to the taxpayer, Figure 4.3 below shows the project’s impact on public debt.

Figure 4. 3:¹⁵⁷ Total effect of Paks II on public debt as a percentage of GDP



Source: Romhányi (2014: 20)

¹⁵⁷ This assumes electricity prices at 2014 levels (€43 per MWh)

This graphic demonstrates that the debt ratio continues to increase even after the final repayment instalment in 2046. It also shows that an approximate return of 0.5% of GDP will have accumulated by the anticipated lifecycle end date of 2086. This accrument can be used until the decommissioning date to reduce gross public debt though by this time it must be paid and therefore cannot be considered for any return on investment (ROI) figure (Romhányi, 2014: 20), rendering the impact negligible.

Third, energy is a bedrock sector on which others rely. Without the electricity generation from the NPP, factories and transport systems would experience reductions in power or perhaps fail to function unless an alternative source was established. High-impacting energy loss has a historical precedent in the region, highlighted by the gas disputes between Russia and Ukraine in 2006 and 2009 when Russian exporters dramatically reduced deliveries. While Paks II operates in the nuclear sector, Hungary remains disproportionately dependent on Russian extractive energy as noted above.

Fourth, Paks II has the prospect of transforming Hungary into a net exporter of electricity for the period when the new blocks' life cycles coincide with those of the existing blocks for up to twelve years from 2024 (all six blocks will function together between 2026-2032) according to forecasts. This eventuality could have the capacity to create and expand markets, particularly in the Western Balkans creating competition with Slovakia, which also has the facilities to export electricity from its two NPPs. However, Hungary is unlikely to be able to sustain itself as an energy exporter because of domestic demand. The two blocks scheduled for construction will not have the capacity to generate electricity surplus to Hungary's domestic requirements. This will lead to a reversal of fortunes and a return to net energy importer status.

Fifth, the Paks II agreement may be a strategic plan and potentially part of a wider approach to manage Western dependence. *“Orbán made a speech where he explicitly listed the key industries where he wants to turn back the tide. [They were:] banking, energy and retail”* (I19).

It is not merely Fidesz who may be in favour of these outcomes. Certain business interests centre on the continuation of nuclear energy use in Hungary because it is the choice of a model. *“This has strong justification in the business elite. Dependency on Russia is not simply a geopolitical choice – it is a choice of model, that is to say, for the nuclear industry, it is a matter of survival. If you want to conduct individual tests in Hungary after 2013, then you must build nuclear reactors – the only choice is the Russian choice; a rational and reasonable choice. The same is true for the gas industry. MVM [the state-owned electricity operator and owner of Paks] has a huge portfolio in the country, which is also part of the vision – Orbán wants one national champion selling gas to everyone. What is the alternative to the Russians? The main one is the European, liberalised, fragmented market where anyone can import gas from the pump. This will lead MVM to lose its market share, and in turn in order to retain its market share, it will have to deal with Russia and keep long-term contracts intact. Russia’s conservative vision is very popular for contractors in the energy sector. This is a matter of reform and adaptation. For corporate actors this is understandable. This is not geopolitical but economic rationality. Therefore, this type of dependency is not exclusively from Russia nor is it political. This has to be a descriptive, analytical story rather than a methodological one based on statistics because there do not exist, single figures or charts for this”* (122).

One investigation has uncovered a web of payments from MVM to oligarchic and political (prebendal) actors to “expand communication and monitor its social acceptance in the 2014-2016 period” (Átlátszó, 2018b). Tellingly, the largest portion of the 1bn HUF pay-out went to a media firm owned by Lajos Simicska, one of the four prebendal actors discussed in the previous chapter. This funding stream was terminated on almost exactly the same day as his public spat with Orbán (Népszava, 2017). These developments show the Paks II project, even in its earliest stages has begun to benefit firms with positive government connections, and concomitantly, discriminate against those who do not.

The push for Paks II suggests an approach that privileges statism¹⁵⁸ for selected sectors like energy, but not others such as automobiles. This indicates the government has aimed to monopolise sectors, where 'Eastern' entities have a higher potential to become significant components in stimulating capital inflows and where Hungary could foster export markets for energy deliverables, principally in the Western Balkans due to transmission rights (Isaacs and Molnar, 2017). Concurrently, it could mean Fidesz is wary of entering certain sectors too deeply, potentially based on risk calculations that could undermine its anticipated longevity in power due to firm-withdrawal and a subsequent reduction in revenues that could damage the longevity of the regime.

A more general rationale to generate closer economic relations with Russia and reduce dependency on Western entities is the pre-2010 exposure to clustered market forces that affected Hungary significantly after the 2008 GFC. What is not evident is why the energy sector has been identified as a target for nationalisation because effects of the GFC on energy pricing structures was negligible, with deliveries unaffected. Because the Hungarian government has chosen to nationalise segments of the energy sector, opportunities have arisen to politicise pricing for advantageous results e.g. the utility bill reduction, which became a key part of Fidesz's campaign for the 2014 national election, discussed above. Based on a shared ideology, Hungary has developed closer relations with Russia, from which Paks II has been sanctioned. This agreement will further permit politicisation of energy pricing because of the levels of electricity that will be generated by the NPP (40% of Hungary's domestic demand), with the aim of creating further political capital.

¹⁵⁸ For a discussion on the Hungarian government's activities in the energy sector, see Isaacs and Molnar (2017)

4.5 Paks II: the agreement

“[T]he crown jewel of Russian energy influence in Hungary is the Paks nuclear deal” (Deák *et al.*, 2017: 65). This statement is supported by the two most important statistics accompanying the deal. First, the size of the loan: €10bn, approximately 10% of Hungary’s GDP;¹⁵⁹ second the estimated time-scale: construction on the extension scheduled to begin in 2018, though exact dates remain undetermined, with the two new blocks due to come online in the mid-2020s and commence commercial operation in 2025 or 2026 (Reuters, 2015a) reaching life-cycle end in the mid-2080s. These statistics are only applicable as a forecast as many NPP projects overrun in both time and cost variables, for example the Olkiluoto 3 NPP in Finland. The decommissioning and deconstruction of the current four blocks is also part of the deal and is expected to be accomplished by 2037. The agreement will see 80% of the project financed by a €10bn loan from the Russian state-owned Vnesheconombank, with the remaining 20% borne by the Hungarian state.

This research claims Paks II is the standout achievement of the KN and is ultimately designed to service Fidesz and Orbán’s longevity because it helps to further enrich Fidesz-loyal actors, creating more positive conditions for the reproduction of HAP. The project exemplifies Fidesz’s turn towards the East to stimulate new capital inflows. To extend or withdraw from nuclear energy in Hungary is broader than simply choosing which development path the state wishes to travel. More, it is a watershed moment in which to become less dependent on Russian energy resources. Fidesz has disregarded a list of factors, described above, to sign a deal with the Russian state-owned nuclear energy agency. Ignoring the possibilities of using other sources has created domestic political tension in Hungary.

“Russian influence is very dangerous. It is in the media and is used as information, which is misleading and has the potential to undermine democracy. It is very dangerous that this

¹⁵⁹ Total costs are anticipated to amount to €12bn, with the Hungarian state providing the remaining €2bn

information goes to the public. TV channels, which are dominated by Fidesz, use this misinformation as genuine information, which is fully unacceptable. We can see this problematic plan at Paks. There were no other considerations of using other firms or countries other than the Russians. We, at LMP say that nuclear energy is very dangerous – even when it works properly. [This is because of the] nuclear waste coming out of the big power stations and we can't do anything with that. They, [Fidesz] insist on having nuclear energy and to have it from the Russians. This was clearly a politically-managed barter between Putin and Orbán. Orbán even went to Moscow and they signed the contract. Since that, the EU will not show the red light to this project either. We can see that business interests are involved in this project. We can see that if Western companies can be part of this project, then the whole project becomes more acceptable to the Western world. We counted on that because we know this is how business works. One of my first statements was that the Hungarian people need to elect a different PM – we know we won't receive any external help on this” (I12). Fidesz also declined to offer public tenders on the project and did not host a public debate on the issue.

Despite these concerns, with Fidesz firmly in control of many institutions and much of the media, there is little that has occurred in terms of popular protests. *“People understand it's a crime, but with a two-thirds majority, [it is hard to challenge]; it's very hard to take people to the street to demonstrate for windmills.” (I20).*

This comes despite the paradox between support for Fidesz – a conservative political party, which espouses traditional values e.g. anti-Russian sentiment – and the party's closer relations with Russia and its pursuit of Russian credit lines and technology to extend the Paks NPP. The previous section acknowledged the importance of Paks II for enriching prebendal actors close to the deal, though according to one expert, there is something more personal involved. *“Orbán is doing this because he is also anti-Europe. Putin is his mentor. What happened in 2010 election is a carbon copy of Putin; he is playing from the script of Putin. This is much more of an ideological political development: Putin is an ally in his fight against EU and for Putin, Orbán is an ally to weaken the EU” (I25).* These claims of course would be hard

to prove. Nevertheless, it is clear that Putin's ideology (Csillag and Szelényi, 2015), longevity and own prebendal network (Szelényi, 2016) is something Orbán is striving towards.

Analysis of Paks II is presented here in three stages: pre-construction; during the plant's lifecycle; and the decommissioning stage. At each phase, I investigate current and projected issues and costs associated with the project, emphasising the claim that this is a political deal designed to reproduce the Hungarian regime.

4.5.1 Issues and costs at the onset of the project

Since the deal was signed between Hungary and Russia in January 2014, criticisms have been consistent from a variety of origins. Most notably from domestic opposition political parties, academics, proponents of alternative energy supplies, ecologists, economic experts, and the European Union.¹⁶⁰ The widespread scepticism to the deal broadly centres around six issues. First, the cost of the project, outlined in Figure 4.5 below in terms of interest and repayment to the lender (Romhányi, 2014). For its part, Russia will finance 80% of the €12bn project with the Hungarian government accounting for the remainder, noted above. The Russian side is prepared to finance the whole deal, should it be required (Tass, 2017), however, which would increase repayments and perhaps extend the timeframe of repayment. The current repayment schedule creates an asymmetrical relationship between Russia as supplier and Hungary as recipient as a "sectoral influence" (Deák *et al.*, 2017: 72) may be established because of the increase in the capacity to coerce the recipient, namely: Hungary. This leads to the capability of exercising an undue advantage on the part of the Russian parties over Hungary, underscored by the current repayment timeframe of 30 years (2016-2046). The energy relationship between Hungary and Russia is uneven, primarily because of the restrained capacity for bargaining power on the part of the Hungarian side (Deák *et al.*, 2017).

¹⁶⁰ Opposition to the deal from the EU was later withdrawn after receiving assurances that the project will be part-financed by state aid, which agrees with the stipulations concerning EU competition laws

Second, some have criticised the project from the perspective of energy alternatives for Hungary. Expert publications have argued that Paks II is unnecessary in terms of meeting Hungary's energy requirements for the period envisaged (Romhányi, 2014; Sáfián, 2015). Potential alternatives include: rationalising energy consumption through development of energy efficiency, decentralising the energy system and, increasing the capacity of renewable energy.¹⁶¹ However, for these alternatives to be realised, investment, increases in R+D, the raising of awareness, and political commitment would be required (Csanaky and Varga, 2011), creating additional challenges for the energy sector.

Third, potential for ROI remains unclear. Four separate publications have created different conclusions regarding ROI. A REKK¹⁶² study (2013) concluded "the power plant faces a cumulative discounted cashflow loss of around HUF¹⁶³ 110 billion"¹⁶⁴. A government-backed investigation surmised the period of repayment of the Russian loan will entail large cost pressures on the NPP (Aszódi *et al.*, 2014). A third study found that power prices will be required to increase dramatically for the project to pay off from an investors' perspective (Romhányi, 2014). Finally, a fourth investigation detailed that for the agreement to be profitable, "wholesale power prices should undergo a stable increase of 75% at constant prices" (Felsmann, 2015: 8), which the study's author notes, is considerably more than the European Commission's forecast of a 25% increase in real value by 2026. These conclusions produced by analysts that range from critical to pro Paks II (pro government) positions reflect the uncertainty of the project in terms of ROI forecasting.

"The life cycle of the plant has been known for a time. A strategy has to be developed to guarantee Hungary's energy sources and determine the percentage make-up of energy types. A study into this has never been published, however. Alternative energy solutions are developing fast. There is also a lot of room for gasification. What is the strategy for distribution of the 40% of electricity produced by Paks II? Perhaps an extension of three decades isn't

¹⁶¹ For further reference to these alternatives, see energiaklub.hu

¹⁶² A *Regionális Energiagazdasági Kutatóközpont*. Translation: Regional Centre for Energy Policy Research

¹⁶³ Hungarian Forint, the official currency of Hungary

¹⁶⁴ Approximately €353 million/\$410 million

necessary to do due to upgrades in technology. There is no competition, no political debate, very little transparency, public consultation. [The deal] doubles the nuclear capacity of Paks and therefore, of electrical output, which assumes Hungary will be able to sell the excess energy. This is a very questionable forecast. Even if this is true, it should be done through correct channels, such as strict tenders because there are rumours of massive corruption” (127). This is a significant observation as the \$120 benchmark has not been reached since 2014, with prices fluctuating at levels below \$70.

Fourth, a result of the deal is the drawdown of investment into the Hungarian energy sector from major Western firms e.g. E.ON, EDF etc., which has the potential to create an atmosphere of implicit hostility felt by such companies leading to a reluctance to engage in business operations in Hungary in the future (Ámon and Deák, 2015). The withdrawal of Western firms operating in the energy sector in Hungary, due to cost pressures, means investment in the electricity and gas sectors has dropped substantially from 0.9% of GDP in 2010 to 0.44% of GDP in 2014 (Deák *et al.*, 2017), paving the way for Paks II to not only fill this gap left vacant by Western investments but to more than double Hungary’s electricity generation capacity by 2026 – the year the first new block is scheduled to become commercially operable. (Deák *et al.*, 2017).

Fifth, according to one report, there are significant possibilities for endemic corruption during the construction period. At least 5% of the project value (€600mn) carries an exposure to corruption risks (Fazekas *et al.*, 2014). This money would be a loss for the taxpayer, in the first instance and has the potential to flow into the pockets of Fidesz-loyal oligarchs or small and medium enterprises involved in the project. Fidesz is surrounded by a tight network of politically-minded, loyal oligarchy that is prepared to operate within “dirty business” alongside Russian counterparts e.g. surrounding the Paks II deal (Hegedűs, 2016). Elsewhere, it has been suggested that the private interests of the Hungarian oligarchy and politicians are becoming “dangerously intertwined” (Magyar, 2016: 167) with Russian geopolitical interests. This potential outcome would be highly favourable to the proponents of the prebendal network in Hungary and would serve to reinforce the hegemonic status of HAP. The

stimulation of transfers of ‘easy money’ in this regard would be much less likely from Western operators and therefore points to the (partial) reason for selecting Russian bodies to execute the Paks project.¹⁶⁵

Finally – though not the least important – there are concerns surrounding potential ecological dangers. All NPP projects carry the heavy burden of environmental issues with the potential to induce massive catastrophes, perhaps most famously highlighted by the 1986 Chernobyl disaster, approximately 600 kilometres from Hungary’s North-Eastern borders. Recently, a report (Átlátszó, 2017a) claimed that the Paks site is situated on a geological fault-line, contravening the International Atomic Energy Agency’s recommendations that no NPP should be constructed on a tectonic fault-line that has generated surface movement in the last 100,000 years. A geological report has claimed that there has been tectonic activity at the site in the last 10,000 years (Budapest Beacon, 2017). It has been recommended the site be relocated 100 metres to the north to avert catastrophe from tectonic activity, however remote the possibility (Átlátszó, 2017b). This proposal has been ignored by the site’s developers, however.

Despite these concerns, the Fidesz position is that Paks II is justified on the grounds of the energy situation, supply security and considerations of national security, according to the Minister in charge of the project (Kormany, 2018a). This may appear immediately paradoxical given the NPP extension will create increased dependency on Russian energy suppliers, thus potentially undermining national security, despite the ownership of Paks remaining in Hungarian hands. Support of this position, however, is demonstrated by the country’s need to import 50% of its electricity for household deliveries during extreme temperatures in winter (Kormany, 2018a). The Hungarian energy gap is discussed in more detail below.

¹⁶⁵ The principal reason the EC finally removed objections to the Paks agreement was the acknowledgement of ‘technical exclusivity’ i.e. that only Rosatom could perform the necessary technicalities. Rival firm Westinghouse has disputed this, however, and tabled a bid to handle the project. When the EC permitted Rosatom to construct the NPP extension, Westinghouse VP of Strategy and External Relations stated: “We never received any questions about technical issues or concerns after two years of intense technical exchange” (Politico, 2017)

4.5.2 Issues and costs during the project

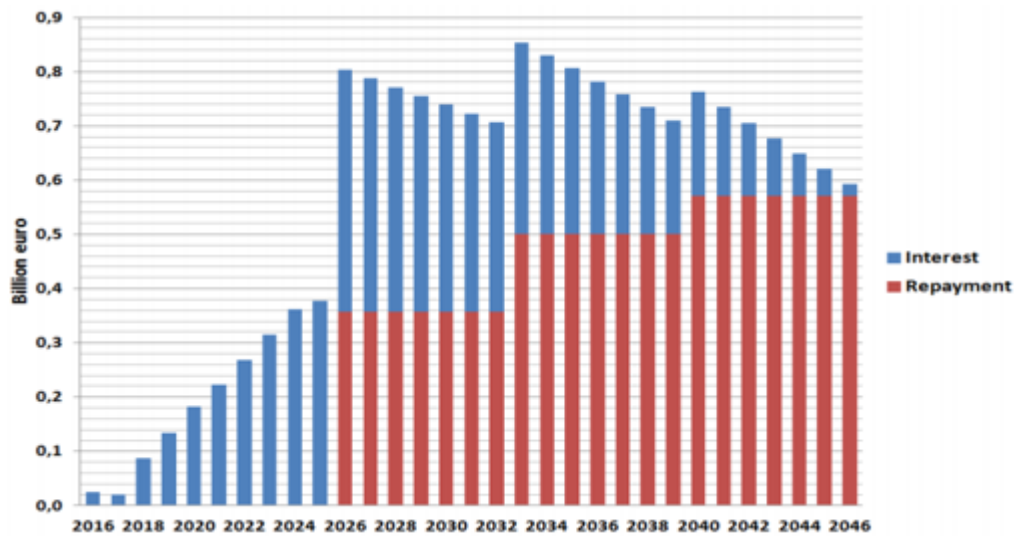
Construction of the two new blocks at Paks began in May 2018,¹⁶⁶ and will be completed between 2025 and 2026. The four existing blocks have been granted a lifecycle extension, due to be decommissioned between 2034 and 2036. These details assume no delays in the project. This means the existing blocks and the new blocks' operation will coincide for up to eleven years, creating excess electricity supply and adding to the issues of waste management (Romhányi, 2014). Additionally, "substantial fiscal adjustments will be required in the investment period covering the first ten years, irrespective of electricity prices, to compensate for the increase in the debt ratio" (Romhányi, 2014: 23). From beginning to end of the repayment schedule, the risk burden lies squarely with the Hungarian taxpayer (Romhányi, 2014). This contrasts other NPP schemes where the risk is outsourced to the private firms conducting the construction and running of the projects e.g. Hinkley Point in the UK.¹⁶⁷ Another variable that Paks II effects is employment as NPP projects typically employ fewer workers than other energy initiatives – particularly renewable energies – though this in turn relies on other factors e.g. labour intensity, cost increases, availability of investments, skills etc. (Lambert and Silva, 2012).

At its peak in 2033, the combined total of Hungary's repayments and interest will be equivalent to approximately 10% of Hungary's GDP, at 2018 levels. A significant knock-on effect of this financing structure is the increase in public debt, which will be borne by the owner of the plant i.e. the Hungarian state, and in turn this will likely mean an increase in the tax burden for Hungarian citizens (Felsmann, 2015). Figure 4.4 below charts the loan and interest repayment schedule for the 30-year liability period.

¹⁶⁶ Construction of a transformer station for the staging area began on 31st May 2018. It is not clear if this is deliberate or coincidental, but this is Orbán's birthday

¹⁶⁷ This is not to say that this example is risk-free. Because the risk is attributed to the constructors in this case, the price burden for household consumers, necessarily increases. A governmental equity stake of 50% may have halved the power price, thus limiting utility costs

Figure 4. 4: Paks II loan and interest repayment schedule



Source: Romhányi (2014: 16)

For two decades from 2026, the sum of repayments and interest will fluctuate between 6% and 9% of Hungarian GDP, creating enormous exposure to the Hungarian state. This is compounded by the issues surrounding management and risk-share between parties, as well as delays, which regularly accompany NPP projects undertaken by Rosatom (Deák *et al.*, 2017). Taken together, these financial stipulations produce a staggering amount of risk for the Hungarian tax payer.¹⁶⁸ Whilst the interest rate is fixed, which negates any volatility in markets e.g. currency exchange, the repayment programme will last for over a generation, a time-period that may see energy technology enter the market that is yet to be conceived and political parties enter and leave power.

¹⁶⁸ This is not the first time the Hungarian public have been exposed to high risk finance. Notably, during the 2000s, Hungarian householders were encouraged to take out mortgages in foreign currencies, mainly Swiss Francs, which created an extremely risky situation where mortgage-holders were on the receiving end of currency exchange rate fluctuations, which ultimately left them in an unsustainable position almost overnight after the effects of the Global Financial Crisis. For a detailed study on this and its ramifications, see Bohle (2014)

4.5.3 Issues and costs at the end of the project

Decommissioning costs create a further burden on the taxpayer. While the current forecast is for a final figure of HUF 288bn (approximately €915mn) per reactor (at 2014 prices), it is unrealistic to accurately gauge a projected cost seventy years ahead. Further, final costs are dependent on the nominal interest rate,¹⁶⁹ which could vary significantly in the period until the decommissioning dates. Table 4.4 below illustrates the required level of provisioning for decommissioning costs at 2014 prices as a function of the real interest rate, revealing the wide margins into which the final costs will occur and again reflecting the cost-volatile nature of this project that is planned to stretch until the 2080s. Analysis reveals, however, that by the time the last plant is to be decommissioned in 2086, the project for the state will break even, though the return for the investor will be negative (Romhányi, 2014).

Table 4. 4: Paks II real interest rate and decommissioning costs

| Real interest rate (%) | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---------------------------------|------|------|------|------|------|------|------|------|------|------|------|
| Decommissioning costs (HUF/kWh) | .588 | .427 | .302 | .208 | .140 | .091 | .059 | .037 | .023 | .014 | .009 |

Source: Adapted from Romhányi (2014: 12)

With such a low potential for ROI from Paks II, together with the lack of necessity to extend the lifecycle of the project by constructing new blocks and the enormous costs involved – which are likely to increase as the project develops – it is logical to question why this deal has been sanctioned by the Hungarian government. This is compounded by the lack of public debate on the deal before it was signed and as with all NPP projects, there is the potential for environmental disaster however many risk assessments have been conducted. From this

¹⁶⁹ The sum of inflation and real interest rates

evidence, it is unsurprising there has been widespread indignation, stretching from expert NGOs to cross-party domestic politics and international institutions, notably the EU.

Why would the Hungarian government decide to implement the project, particularly when there is so much risk to the Hungarian state? It has been commented that “Orbán’s turn to Russia must have a strong economic justification” (Deák *et al.*, 2017: 70) – but what might that be, if statistical data point to an unprofitable result for the owner (the Hungarian state), after a seventy-year period; a heavy burden for the taxpayer; a lack of employment opportunities vis-à-vis other energy sources; the withdrawal of Western energy MNCs from Hungary; the potential for ecological disaster; and, the likelihood of cost-project overruns? This research asserts that given these details, Paks II is principally a political deal, designed to create new flows of inward capital from ideologically-similar countries with an anticipated outcome of extending the Fidesz project and HAP.

4.5.4 Benefits from Paks II to Hungary

This research has identified nine areas where the Paks NPP extension may bring advantages to Hungary. First, the possibility that Hungary could become a net-exporter of electricity during the period when the six blocks are online together (2026-2032) has the prospect of being an income-generating sector despite the accumulation of outgoing costs during the project’s lifecycle (Romhányi, 2014: 17-19). This remains dependent on European market developments. For example, Hungary’s natural market for electricity sales is the Western Balkans. To prepare for such an eventuality, strategically, Hungary has consistently blocked construction of cross-border high-voltage transmission lines from Slovakia, which could transport electricity generated from its Mochovce NPP, into the Western Balkans (Slovak Spectator, 2016). This may be an attempt to obstruct competition and dominate the future market. However, for this outcome to be realised, it will be essential to increase transition capacities into the region as continuing imports at current levels will not shift Hungary’s CEE price zone status (REKK, 2008).

EU commission rules state that for the project to go ahead, Hungary is obliged to sell a minimum 30% of the plant's electricity output on the open market (Financial Times, 2017b). However, it is not clear how this might be achieved in terms of strategy. Questions arise over the potential for increased electricity generation from Paks II. For example, does Hungary have a long-term strategy to sell electricity in the region? How will Hungary compete with the four reactors in neighbouring Slovakia in terms of electricity sales within the CEE region? How much capital will be recouped? Where will capital accrued from sales be deposited or distributed? Will Hungary aim to become a dominant force in energy supply in a regional (CEE, V4, Western Balkan) framework? Little is clear in this regard. Because the Hungarian government offered no public debate before signing the deal with Russia in January 2014 (Reuters, 2015b), little is known about projected strategies. Economic risks are not limited to these. They include: the volatility of electricity price over time; loan repayments (the ability to pay is important to consider here as the interest rate is fixed); attraction for investors; cost and time overruns; environmental safety; waste management; low employment vis-à-vis other forms of energy production, and; decommissioning costs (Romhányi, 2014). Paks II could transform the electricity segment of the Hungarian energy portfolio, creating space for Hungary to briefly become a net exporter, discussed above. Eventually, this generates the prospect for contracts with buyers of Hungary's surplus production and could alter the political economy of energy in the region and particularly the Western Balkans – Hungary's target recipient of electricity exports.¹⁷⁰

Second, despite the potential loss of political capital from striking a deal with Russian state agencies, the risk generated by Fidesz's decision may be offset by the lower utility prices that will emerge from Paks II (Deák *et al.* 2017).¹⁷¹ According to State Secretary, Attila Aszódi, the

¹⁷⁰ Foreign Minister Szigjártó has consistently called for more integration of the Western Balkans into international organisations such as the EU and NATO, ostensibly assist with migrant issues, which have been politically divisive in the region since 2015

¹⁷¹ This is significant as 58.8% of Hungarian households are in arrears on utility bills – the highest in the EU, 53% of dwellings have leakages and damp walls, also an EU-wide high with a final energy poverty indicator – inability to keep home adequately warm – at 33.9%, the eighth highest in the Union (Buildings Performance Institute Europe, 2014). For a detailed analysis of Hungarian energy poverty, see Bouzarovski *et al.*, (2016)

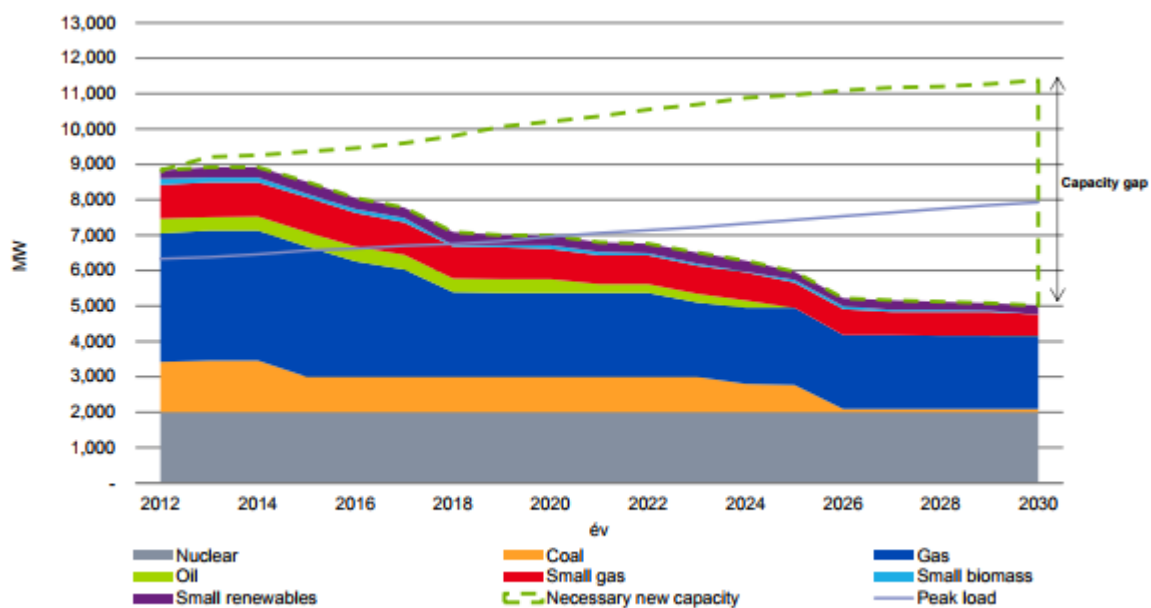
government minister responsible for Paks II, the extension is crucial because without it, the only option for Hungary to satisfy its energy demand would be to increase gas imports once the existing four blocks come offline in the 2030s (Politico, 2016). This is a dubious calculation, however given the continued reduction in cost and improvement in quality in the renewable sector (Sáfián, 2015).

Third, the EU has backed the deal despite initial scepticism amid allegations that it did not adhere to EU competition rules. Originally, the European Commission (EC) had raised concerns that illegal state aid may have been part of the loan agreement, though these were later rescinded. This decision provides institutional legitimacy, allowing Hungary and Russia to continue with project. This assessment was reinforced by an influential report (Rothschild, 2015) reinforcing the Hungarian government's claim that Paks II is economically viable, lending increased international justification for the project to proceed.

Fourth, in terms of risk to Hungary's energy portfolio, nuclear energy has the capacity to reduce the dependence on "more expensive and price-volatile energy sources" (Rothschild, 2015: 5). In the first instance, this relates to Russian supplies of extractive energies (oil and gas), reflecting the broader dimension of the historical dependence, discussed earlier in this chapter. However, the volatility of these types of energy is an international phenomenon and not restricted to country-of-origin status, meaning it would be offset by the extension of the Paks NPP. In other words, if the Hungarian state was to continue partial ownership of its own means of energy production, it would be less susceptible to the shocks that international extractive energy markets can experience that affect pricing and subsequently imports and exports from the source country. Furthermore, this may to some extent mitigate against any future energy transit disputes, which have affected the Russian energy export sector, most notably the Ukrainian Gas Crises of 2006 and 2009, discussed above. This leads into the question of energy security, significant given that Ukraine and Hungary share a border and the high import figures of Russian extractive energies, provided earlier in this chapter.

Fifth, a 2014 study by MAVIR, a subsidiary of MVM found that by 2030 – a year when the four existing blocks and the two planned blocks will coincide in their operational roles – Hungary will have an energy capacity gap that can only be overcome by the extension of the Paks NPP. Figure 4.4 reflects this lacuna by illustrating the drawdowns that will occur in six other energy sources: coal, gas, oil, small biomass, small gas and small renewables.

Figure 4. 5: Hungary’s anticipated energy capacity gap (2012-2030)



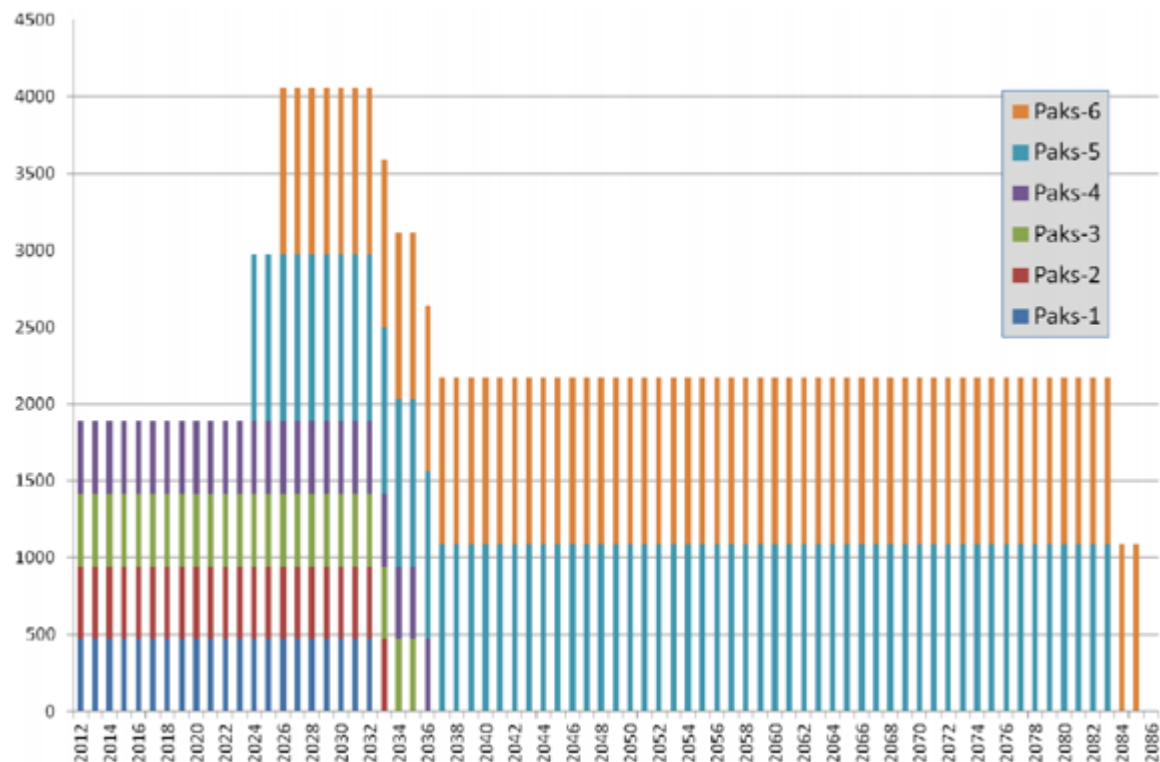
Source: Rothschild (2015: 34)

These forecasts calculate the six energy types outlined in the previous paragraph coupled with increased demand will create a capacity gap of 7.3 gigawatts (GW)¹⁷² by 2030. While the project will be able to account for much of this shortfall in electricity, due to the proposed model’s higher quality of output vis-à-vis the existing blocks’ archaic technology, even these proposed additions may struggle to fulfil the requirements by the end of the period illustrated by Figure 4.5. This chart offers projections until 2030, only, therefore, it is not clear from these figures what might happen in relation to the forecasted growth in demand and the drawdown on the highlighted energy types, when the existing blocks are decommissioned in the 2030s and the two planned blocks become the sole blocks at Paks. The electricity generation

¹⁷² 10⁹ watts

capacity of the planned blocks will outperform the existing blocks only marginally. Figure 4.6 reflects the changes in terms of GW output, with Paks-1, Paks-2, Paks-3 and Paks-4 the existing blocks and Paks-5 and Paks-6 the planned blocks.

Figure 4. 6: Paks NPP generation capacity (GWs) (2012-2086)



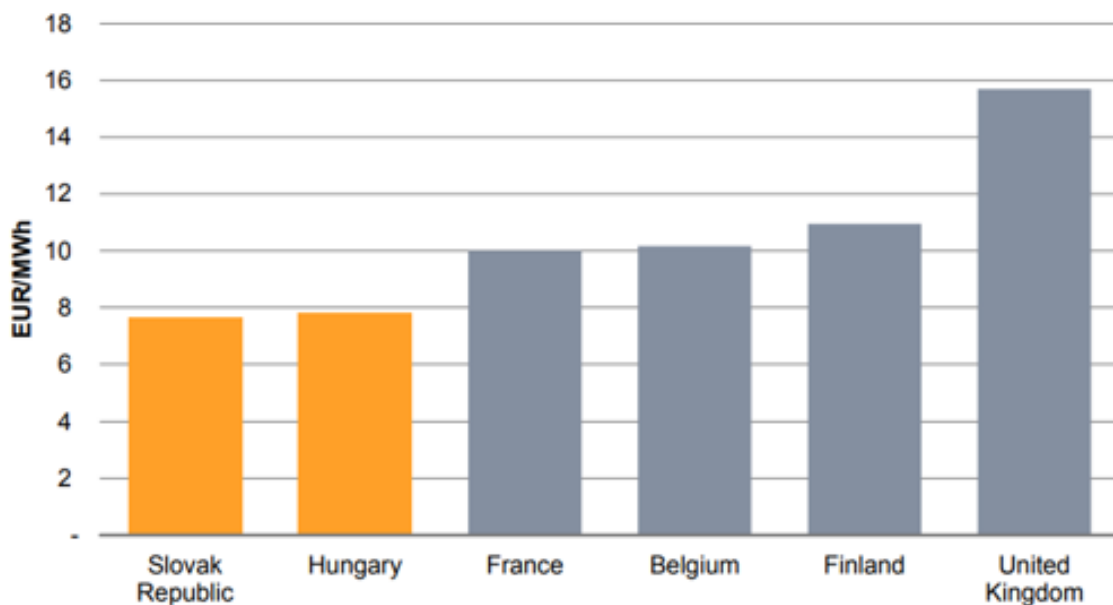
Source: Aszódi (2014: 11)

While 2030 is one of the seven peak years according to this data in terms of power generation from the combined output of the blocks at Paks, it is not clear how demand and relevant falls in other energy supplies will be accounted for after 2037 when generating capacity plateaus for almost half a century. This leaves open the possibility for renewable energies to become more prevalent in the Hungarian energy mix.

Sixth, despite the relatively large construction costs that any NPP entails, operating costs are negligible. If the initial forecasted costs of €12bn are divided by the projected lifecycle of the two new blocks (sixty years per reactor), a crude average sum of €100mn per reactor, per

year results. Once the timetabled repayment and interest payments have been settled on the part of the Hungarian state in 2046, the NPP will operate for four decades with no external payments due. Furthermore, there is the possibility for the new blocks to be granted a lifetime extension of 20 years each, should there be sufficient safety and economic rationale at that time (Rothschild, 2015). An additional factor to consider here are the levels of operation and maintenance (O&M) costs, which include those costs required for the daily running of the NPP, excluding fuel. O&M outgoings for Paks II are forecasted to be significantly lower than those NPPs in Western Europe and similar to the Slovak NPPs' O&M. Figure 4.7 illustrates the projected O&M at €7.8 per MW, over 20% less than the next most expensive, with the United Kingdom as an outlier.

Figure 4. 7: Paks II projected electricity generation costs



Source: Rothschild (2015: 48)

This may be complemented financially through the possibility for Hungary to become a net exporter of electricity to neighbouring countries – particularly in the Western Balkans – given Hungary is obliged to sell 30% of the electricity output on the open market, as outlined above. This is the expected outcome from the timing of the project, though substantial grid upgrading is required in the region and Hungary will return to energy importer status once

the original Paks blocks have been decommissioned in the 2030s and the new blocks become the sole units at the NPP (Euractiv, 2017). Importantly, the figures associated with Paks II remain provisional because of the tendency for NPP project costs to increase beyond initial estimates.

Seventh, in terms of environmental concerns, which regularly accompany NPP plant construction and operation, nuclear energy is carbon-free vis-à-vis more traditional forms of energy, such as fossil fuels. Opposition to so-called 'dirty energy' e.g. coal is offset by nuclear energy, which is clean. Moreover, Hungary has extremely limited coal reserves, outlined above, meaning coal importation would be required, creating tensions with the EU over climate and energy policy goals for 2020 and 2030 (European Environment Agency, 2017). Therefore, while other clean energies such as solar and wind are not yet ubiquitous in the European energy markets, the extension of the Paks NPP is a rational choice in this context, given that carbon-free emissions are desired.

Eighth, the original agreement signed between Russia and Hungary in 2014 stipulated that 40% of the project's construction will be undertaken by Hungarian firms (Ośrodek Studiów Wschodnich, 2014). This leads to the potential for the NPP to create employment opportunities for approximately 1,000 employees and stimulate productivity for local small and medium enterprises. Additionally, there is a forecast that local wages are set to increase by approximately 15% on average because of local job procurement, connected to the plant, which could become stable because of the long lifecycle. More broadly, the project will likely see supply chain opportunities for local firms, which may allow for knowledge transfers, from the Russian partners, thus potentially upgrading the quality of the local supply chains (Paks2, 2014).

Finally, Paks II does not have the potential to overwhelmingly dominate the Hungarian energy mix. The two planned blocks will continue to generate electricity at similar levels to the existing blocks i.e. approximately 40% of Hungary's requirements, leaving space in the energy

portfolio for other energies to be used, particularly renewables, despite their lack of capacity to cover a large proportion of the energy mix, at the time of writing. The costs of renewable energy types have been tumbling in recent years, and even since the original deal was signed in January 2014 the potential for renewables to enter the Hungarian market more prolifically has become more realistic.

The benefits that Paks II will and could potentially bring to Hungary are not insignificant, despite widespread domestic and international opposition to the project. The decision by both Hungarian and Russian governments to sign the deal has been reinforced in two important areas. First, the EC, after initially opening infringement proceedings against the Hungarian state in 2015, concluded that the deal does not violate competition rules and includes state aid. To achieve the EC's consent, the Hungarian government have committed to three stipulations: (a) to avoid overcompensation of the operator of Paks II; (b) to avoid market concentration, and; (c) to ensure market liquidity (European Commission, 2017b). The EC's acceptance of the deal was an unusual move according to one commentator (EU Observer, 2017a), not least because it allowed a member of the investigated state's government (Hungary) to announce the result of the investigation, instead of an EC representative. Ultimately, the EC – reinforced by the arguments of State Secretary Aszódi – cited “technical exclusivity” (EU Observer, 2017a) as one of the reasons to accept the deal i.e. only Rosatom is technologically capable of providing the hardware and expertise to realise the project design.

4.6 The power of the Russian nuclear lobby

The wider nuclear lobby remains powerful and has the capacity to embark on new projects despite enormous project costs and time-spans. The nuclear industry typically delivers NPPs that are extremely expensive and often overrun in terms of cost and time schedules. Not only has this in part led to the unpopularity of nuclear plants through lack of trust, particularly in

Europe but the nuclear sector is threatened by the ever-increasing reliability and cost-effectiveness of renewable energies as well as more traditional solutions such as coal and gas. Rosatom is a case in point. The state-owned firm's recent strategy has been to invest in wind energy despite its potential to tap into Western markets (Financial Times, 2017c). This leads to the understanding that Paks II could be to some extent one of the last throws of the dice in terms of NPP construction for Rosatom. Simply put: NPPs are becoming rapidly less financially viable, putting the nuclear sector itself in increased jeopardy in terms of competition from rival firms in adjacent energy sectors – particularly renewables.

The Russian actors who brokered the Paks II deal with the Hungarian parties had to cooperate with a broad range of state institutions, Rosatom subsidiaries and a large association of R+D companies to reach an agreement and these were anchored in three specific interests: (i) energy business and associated profits; (ii) modernisation of the Russian economy, and; (iii) foreign policy interests, stymied by Western sanctions (Aalto, *et al.*, 2017: 386), though Rosatom itself and the wider Russian nuclear sector are not directly affected by sanctions (Aalto and Forsberg, 2016). It may be the case that Russia has pushed for Paks II because of the wider effects Western sanctions have had on advanced technology transfers, a critical component for accelerating development (Gurvich, 2017).

Other factors point to a broader and more institutionalised power within the nuclear lobby. The EC performed a *volte face* on the deal and rival firms (to Rosatom) were overlooked, noted above. Further, Rothschild, the powerful financial advisory group produced an influential and strong case for the viability of Paks II despite the project's clear shortcomings (Rothschild, 2015). Finally, one investigation (EU Observer, 2017b) has found that before the contract was signed with Rosatom, Orbán hosted the firm's CEO in Budapest in late 2013; a meeting orchestrated by one of Germany's top business 'fixers', Klaus Mangold. The latter individual has had personal relations with Putin since 1993 and had dealings with the first Fidesz government (1998-2002) where he offered the opportunity to upgrade the Hungarian military's MiG-29 fighter jets to become compatible with NATO requirements before accession in 1999. On that occasion, Hungary opted against Mangold's proposal and relations

turned dormant. In 2012, he came to work for the Hungarian government and has been on the payroll since. Mangold has close ties to the Rothschild organisation and travelled with EC member Günter Oettinger to Budapest on the former's private jet (EU Observer, 2016). With Mangold – a member of a broader European business elite – “a solution satisfying Russian, German, French, EU and Hungarian interests must have been found” claimed Green MEP Benedek Jávor (Direkt36, 2017).

The Paks II agreement is a political rather than economic arrangement. It is political because for the Russian parties it allows an extension of Rosatom's portfolio in Europe and simultaneously interests of the Hungarian political elites are strengthened via the establishment of a new dimension of capital accumulation that helps to reproduce the Hungarian regime. Clearly, the origins and negotiations of the agreement have been complex, and solutions have been sought on an international level. While it is beyond the scope of this research to study the nuclear lobby and its power vis-à-vis the European Commission, investigations into this may yield positive results for those concerned with these institutions and the Hungarian energy portfolio.

4.7 Conclusion

Hungarian Authoritarian Populism has become the underlying rationale for Hungary to direct efforts to the 'East' to create positive conditions for self-reproduction. This method of governance has manifested itself within the decision-making processes connected to the Paks II agreement. The project is not necessary for Hungarian energy needs despite arguments to the contrary from powerful advocates. HAP is strengthened from the project through corrupt practice surrounding the deal and the anticipated cycle of 'easy money' targeted for capture by the prebendal network. From the earliest moments of the deal e.g. the meeting between Orbán and the CEO of Rosatom, transparency on the particulars of the agreement has not been forthcoming. This has set the tone for the potential for corrupt practice, which has

already begun. At the time of writing, twenty-eight years of repayments to the Russian lender remain¹⁷³ and therefore it is too challenging to gauge the extent to which corruption will proliferate, which actors will benefit, and which sectors may be exposed to these activities.

HAP has become dominant enough for Fidesz to perform an abrupt turn and advance economic relations with Russian actors, without significant loss of political capital; a significant change to the balance of forces. It is unlikely that such a large-scale deal will be repeated between Russia and Hungary in the near future, particularly given Russia's lack of presence in other sectors, but also because the Paks II agreement is large enough to service the Fidesz project's objective of self-reproduction as it strengthens the prebendal network.

It could be argued that the decision to commission the Paks extension may be a conservative approach to energy policy on the part of the Hungarian government with diversification of the energy portfolio a missed opportunity i.e. decision-makers have overlooked the decreasing costs and subsequent investment rationale of renewable energy technologies, which have the potential to service Hungary's energy requirements. However, this thesis claims that the Paks II project is much more political than economic in scope – as it has been described by the Hungarian government – because of the possibilities for regime reproduction.

4.7.1 Implications

Russian investment is unable to meaningfully penetrate the Hungarian market due to the extant MNC operations dominant in sectors such as banking and manufacturing and a dearth of *Russophilism* in the Hungarian sectoral elites has further prevented deeper Russian influence, which is more prevalent in the Western Balkans, for example (Deák, 2017). This results in a form of semi-cold relations, whereby Orbán can arrange closer relationships with

¹⁷³ The terms of the deal are much less favourable than similar deals made between Rosatom and other countries e.g. Belarus and Vietnam (Deák, 2014).

Russia, be openly verbal in his stance against Western-led sanctions, and invite Putin to the EU, but Putin cannot do much more than touch ground; he cannot embed himself or wider Russian economic interests in Hungary (Deák, 2017). From the Russian perspective, Orbán, Fidesz and Hungary more broadly are a good fit for a pragmatic strategy with the EU. Whilst other post-socialist EU and non-EU states offer other certain benefits to Russia and are to some extent compliant with Russian institutions e.g. Belarus, Bulgaria and Serbia, Hungary as a richer country in terms of GDP *per capita* is an attractive partner. While it is beyond the capacity of this research to undertake a more thorough analysis of the Russian parties' perspectives in relation to Russo-Hungarian relations, Paks II and the wider strengthening of bilateral relations with Hungary may be an attempt by Russia to operate at the periphery of the EU and particularly with one country who has been a historical leader in generating change in the region.

Neither Orbán nor the ruling Fidesz party have crossed any so-called 'red lines' set by the EU either formally or informally in relation to Russia. While Paks II was subject to scrutiny and criticism from the EC, it was found ultimately to abide by the institution's rules and was therefore deemed acceptable. Further, while Hungary has criticised the continuation of Western sanctions on Russia, which were implemented in 2014, this has not graduated from the rhetorical level to become anything practical, though this standpoint may weaken the legitimacy of the EU and NATO (Financial Times, 2017d). However, while Hungary continues to accommodate Western – particularly German – industrial presence, Orbán remains a welcomed man in Brussels.

A potential change to Hungarian energy portfolio structuring due to surplus electricity production from Paks II may briefly transform Hungary into a net exporter of electricity with the most likely market to be fostered in the Western Balkans. Because of the scheduled closure of the existing four blocks after a period of up to twelve years of simultaneous operation with the two planned blocks, should this possibility materialise, Hungary will return to energy-importer status, as Paks II will deliver approximately 40% of Hungary's electricity requirements. Therefore, any change in importer/exporter status will be short-lived.

From the Russian viewpoint, financing Paks II has the potential to produce some positive outcomes. For example, stronger connections with Hungary – particularly a binding financial contract of three decades – works simultaneously to build a bridge between the EU and Russia and to possibly weaken EU institutional drives e.g. the EU’s push to expand the renewable energy sector, an area that may undermine the present structures of EU-Russian energy relations based principally on extractive energy (oil and gas) deliverables. Further, the deal increases the viability of Russian-built NPPs in the EU, strengthening Rosatom’s project portfolio and the wider nuclear lobby. By signing the deal, Rosatom achieve another long-term contract in an EU country, which may be one of the last nuclear projects.¹⁷⁴

The next chapter extends the empirical investigation into external dynamics of HAP with analysis of investment projects between Hungary and China. This additional example of Hungary’s ‘turn to the East’ is another way for the Hungarian regime to reproduce itself through economic engagement.

¹⁷⁴ I owe this comment to Paul Dorfman (Energy Institute, UCL)

Chapter five

External dimensions part II: economic engagement with China

This chapter demonstrates how Fidesz is opening a second dimension of inward transnational capital flows from ‘Eastern’ sources, to maintain Hungarian Authoritarian Populism. Through the (attempted) stimulation of investment projects with the Chinese state, Fidesz is targeting finance streams that offer significant potential to strengthen the prebendal network that has subsumed domestic business, discussed in chapter three. This advances the change in the balance of forces, a critical outcome of HAP, building on observations made in the previous chapter.

Empirically, this chapter focuses on (attempted) Chinese investments in Hungary, demonstrating that these deals are executed in a way that strengthens the Hungarian regime and subsequently the reproduction of HAP. Attention is paid to the Belgrade-Budapest railway upgrade (BBRU), a planned refurbishment of an existent railway line between the two capitals, scheduled to be financed by a Chinese state loan, accounting for 85% of a total cost of €3.2bn.¹⁷⁵ This project is designed to reduce journey times from 8.5 to 3 hours and form the final segment of the track from the majority Chinese-owned port at Piraeus, in Greece. The primary function of the BBRU is to transport Chinese-manufactured goods to Hungary with the intention of onward delivery to locations throughout CEE in the first instance.

Hungary’s continued economic engagement with China has the potential to unlock the prospects of Chinese capital affecting the Hungarian economy at a more accelerated rate. The timing of these engagements coincides with the pending drawdown of the Cohesion Fund, discussed in earlier chapters, which will reduce inflows from the EU and the post-2010 partial

¹⁷⁵ This is the estimated final cost including interest repayments (Reuters, 2017)

nationalisation, increasing Hungarian ownership of certain assets. Chinese investment in the CEE region has become an important point of discussion (Szunomár, 2017) and Hungary is at the core of this. The 2010s could be characterised as a critical juncture in post-socialist Hungarian history, as the multiple dependencies that emerged in the 1990s and 2000s become diluted or potentially transformed at a sectoral level.

The chapter proceeds by discussing the historical overview of Sino-Hungarian relations as this provides a historical depth to the analysis, why these interactions are important for the political economy of Hungary (and the wider CEE region) and what they might mean for the trajectory of Hungarian development. Next, a section discusses China's strategy in Hungary, noting how while there is no geopolitical shift, China has made efforts to increase engagement. Following this, an analysis of Hungary's strategy with China includes a discussion on the KN and its role in connecting with China. This is followed by an investigation into the results of Sino-Hungarian economic engagement. The examination of the BBRU agreement presents the core data available and four advantages that may result from this project for Hungary. Finally, from a VoC perspective, I analyse the potential for Hungarian (and therefore the remaining V4 countries) divergence away from the DME model towards the SME model, which extends discussions from chapter one. This outcome may occur due to the changes that are in effect within the capitalist institutions in Hungary as a result of the domestic factors outlined in chapters one and three, namely the emergence of prebendalism and the alterations to Hungarian capitalism that result.

5.1 Sino-Hungarian relations before 2010

Hungary officially recognised the People's Republic of China (PRC) in October 1949 and bilateral political relations remained positive with reciprocal visits between political leaders commonplace until the early 1960s when relations deteriorated due to increased ideological divergences, mostly related to Soviet-Chinese tensions (China Daily, 2004). Hungary became

an important country for China, particularly after the 1956 Revolution where Premier of the PRC, Zhou Enlai played a critical diplomatic role with visits to Moscow and Budapest throughout late 1956 and early 1957; this had a long-lasting effect on the new General Secretary of the Hungarian Socialist Workers' Party, János Kádár (Vámos, 2006). Later during the Cold War period, the processes of Chinese economic reforms were analogous to those executed in socialist Europe, and as a result similar issues were encountered e.g. the budget and trade deficit, inflation and unemployment (Vámos, 2017).

According to one source, "China liked Hungary very much as it saw it as a small-scale model for a testing ground for using a market economy under planned economy conditions. That privilege faded away with the systemic change as now Hungary is more or less a real market economy. However, since the 1968 New Economic Mechanism (NEM)¹⁷⁶ reform which was a half-hearted market-based reform and considered a big relief after the 1956 Revolution, Hungary was balancing between the very rigid frameworks of the Soviet type and some market elements; a bit of pluralism. Some early relations with the West entailed and this was mainly done by Hungary and Poland. Then a lot of Chinese emigrated to Hungary. China found it to be very inspiring. Then right after the change (in 1989), China decided to reactivate GATT¹⁷⁷ membership in approximately 1990, they then were among the first to enter Hungary to learn more about GATT from authentic sources" (I18).

This comment attests to the influence Hungarian economic reforms – the NEM – had on Chinese economic reforms from the late 1970s (Árva and Schlett, 2012). This demonstrates two things: first, the KN may not be a new endeavour, as something similar existed during the socialist period. Second, it points to the possibility that the Chinese attitude towards Hungary as a "testing ground", may not have diminished and this may be the underlying rationale for the recent, post-socialist attempts to stimulate investment in Hungary discussed below. Despite large historical and cultural differences between the two countries and the

¹⁷⁶ The NEM was introduced on 1st January 1968 to generate more flexibility in the Hungarian economy. For more detail, see Balassa (1983)

¹⁷⁷ General Agreement on Tariffs and Trade established in 1947, a precursor to the World Trade Organisation. The GATT was designed to promote international trade through the reduction on tariffs and customs barriers

dominance of the Soviet Union in Hungarian domestic affairs, from the earliest socialist beginnings, a certain proximity was established.

In terms of societal connections, Chinese migrants were encouraged to enter Hungary and establish themselves towards the end of the 1980s; a migratory pattern that is considered critical to China's preference towards Hungary in the CEE region, as opposed to the Czech Republic or Poland, where this phenomenon is unmatched (Szunomár, 2011). During this period, approximately 20,000 Chinese emigrated to Hungary. Whereas in North America, Western Europe and South East Asia, Chinese migrants arrived via family sponsorship or to other wealthy regions as students e.g. Australia and Japan, the establishment of Hungary as a destination for Chinese labour was based on a demand for cheap consumer goods and a weak regulatory environment (Nyíri, 2011).

Following the collapse of state-socialism and the ensuing Westernisation of the Hungarian political economy, Sino-Hungarian relations became overlooked in favour of increasing the quality of relations with Western states. In 2003 however, bilateral relations between the two countries were re-emphasised through a visit to China of MSzP Prime Minister, Péter Medgyessy¹⁷⁸ who "created a new special envoy position within the Prime Minister's office for the development of Hungarian-Chinese relations and for the coordination of the China-related work of governmental institutions and the public administration" (Matura, 2015: 42). These efforts to engage with China have been instrumental in underpinning contemporary Sino-Hungarian relations and builds on the importance of historical interactions, discussed above.

"The rationale for the KN is to lessen dependence on Western European firms. The KN is not completely new – it was begun in 2002/2003 with Medgyessy's visit. He was the first from the CEE to begin the opening. This was highly appreciated by the Chinese side and means Hungary is in a good position with China as the connections are the longest in the region. This means

¹⁷⁸ Prime Minister of Hungary 2002-2004

Hungary can be more successful. Orbán has simply rebranded it. Dependency on western firms was only partly successful and was heavily impacted by the Global Financial Crisis. What is new on the KN is that there is a new title and strategy. Exports are growing towards East Asian nations and imports have also grown year-on-year from that region. An effect of this is to generate more pressure on the institutions dealing with these areas and they should in turn work efficiently” (I21).

Statistical data given Table 5.1 below, reflect Hungary’s favoured position vis-à-vis the remaining three V4 states for FDI during the period 2000-2011 and shows the importance China placed on Hungary as an investment destination during this period.

Table 5. 1 China’s FDI into the Visegrád Four countries 2000-2011

| Visegrád Four | Investment value (USD mns) | Number of greenfield projects | Number of acquisitions |
|-----------------------|---------------------------------------|--|-----------------------------------|
| Hungary | 2,085 | 14 | 4 |
| Poland | 190 | 15 | 1 |
| Czech Republic | 76 | 10 | 1 |
| Slovakia | -- | -- | -- |

Source: adapted from Jacoby (2014: 201)

Hungary is a good fit for China for a list of reasons (Szunomár, 2011; Szunomár *et al.*, 2014) covering economic, political and emotional factors and this suggests Hungary may have emerged as the most favoured country within the CEE (Kowalski, 2017). The most significant

deal between Chinese and Hungarian entities during these years was Chinese chemical firm Wanhua's purchase of BorsodChem, a chemical company in Northern Hungary from a Dutch subsidiary for \$1.5bn in 2010 and 2011. This is the largest Chinese investment in CEE to date (McCaleb and Szunomár, 2014) and skews the results in the data above, making Hungary the largest recipient of Chinese capital in the CEE region (Szunomár *et al.*, 2014). China's attention on Hungary stretches beyond the boardroom, too. Hungary occupies an important place in relation to China's strategic interests in Europe.

"Most deals are greenfield or Merger & Acquisition. There are two major ones. First is from Huawei. They arrived in 2004/2005 and are keen to remain in Hungary. They have a distribution centre in Hungary, which services the MEA markets. Hungary always wanted to be a bridgehead for China. Second is Wanhua (BorsodChem), which was already in foreign investors' hands [mixed foreign and Hungarian], meaning this was not a huge amount of money to the Hungarian state. However, BorsodChem was in a crisis because of the Global Financial Crisis and so Wanhua gave a helping hand. Therefore, perhaps without China, this firm may have gone bankrupt. This may have meant a knock-on social impact due to employee figures. An effect of this was to make Hungary the most popular investment location in the region. On the other hand, it helped to save a lot of jobs" (I21).

The Chinese entity bought the Hungarian firm to offset the social risks that can be borne by such plant closures, namely redundancies and the subsequent hike in unemployment – significant given the region where BorsodChem operates has one of the highest levels of unemployment in Hungary. This demonstrates Hungary's importance for China as the latter is willing to limit potential risks through financial intervention.

2009 was the final full year of eight years of MSzP governance and therefore it is unlikely Fidesz played any instrumental role in the BorsodChem deal.¹⁷⁹ For most of the 2000-2011

¹⁷⁹ The deal was agreed during the Bajnai government (2009-2010) and completed between 2010 and 2011 after Fidesz had returned to government

period, Fidesz was in opposition, therefore the KN is not necessarily a new idea, rather it has been attributed new descriptions and rebranded. In this sense, Fidesz has extended Sino-Hungarian relations in the post-2010 period with the 'establishment' of the KN, which has helped to continue a culture of positivity regarding bilateral relations.

From the establishment of the PRC in 1949 until the present day, Sino-Hungarian relations have oscillated in proximity, drifting from ideological alignment in the early 1950s; a distancing during the 1960s; the re-establishment of closer economic relations in the 1980s and a dilution resulting from the post-1989 importance Hungary paid to opening to the West. Finally, since 2003, high level interactions have re-emerged, leading to the initiation of the KN. Hungary has become an important country for China, much more so than the newer CEE states such as Slovakia or Slovenia¹⁸⁰ who have negligible history of relations with China. The data above show Hungary's importance vis-à-vis the remaining V4 countries also.

5.2 Chinese strategy in Hungary

China is a standout country to investigate in relation to Hungary because of its Belt and Road Initiative (BRI)¹⁸¹ designed to expand Chinese economic flows through the reopening of classical trade routes e.g. the Silk Road and the establishment of new trade corridors such as the Maritime Silk Route.¹⁸² BRI has been described as "a strategic vision of 'cooperative development' consonant with the imperative that economic globalisation move into a new stage" (Bijian, 2017: 30). Where does Hungary fit into this plan? CEE has become an increasingly important zone for China, and Hungary has a privileged position amongst the CEE states demonstrated by its status as the largest recipient of Chinese FDI in the region, shown

¹⁸⁰ Neither country had ever been a sovereign nation state before 1993 and 1991, respectively

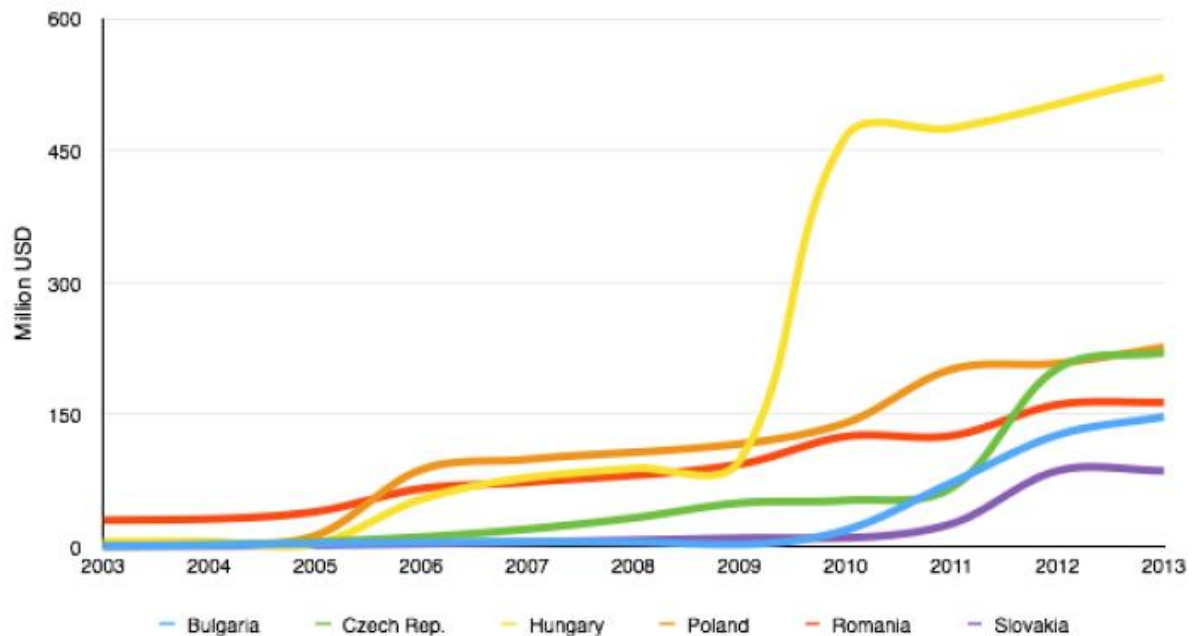
¹⁸¹ There is some confusion as to the difference between BRI and the One Belt One Road (OBOR) projects, which are often used interchangeably. I have chosen to use BRI in this research because OBOR is misleading in the sense that economic flows are expected to traverse more than one route

¹⁸² Trade routes from China to Eastern Africa and Europe, across the Indian Ocean.

in Figure 5.1 below. From the Chinese perspective, the geographical location of Hungary within CEE is paramount to realising the objective of establishing an entry point for Chinese goods into the EU market (Kowalski, 2017). The BBRU is a critical step within this arrangement and is not unusual in that China’s direct investments with BRI countries are typically large infrastructure projects (Zhai, 2018).

While the BorsodChem sale was strategically important for the Hungarian chemicals sector, it was a more economically-oriented transaction (Szunomár *et al.*, 2014), in the sense that it was bought from non-Hungarian entities and Wanhua was considered a rival of BorsodChem (Financial Times, 2011). Figure 5.1 demonstrates the significance of this deal in terms of Chinese outward foreign direct investment (OFDI) into selected CEE states, including the remaining V4 countries and how it manipulates the results of Chinese OFDI into the wider CEE region.

Figure 5. 1: Chinese FDI into selected CEE countries (2003-2013)



Source: McCaleb and Szunomár (2017: 33)

The sectors in which the dependency-creating MNCs operate are typically manufacturing, banking and automobile, presence against which China is unlikely to compete successfully in the near term. Chinese strategy in Hungary and the wider CEE region is to compete with the EU rather than Western firms with extant operations in the region. China is adept at exploiting those areas on the map where projects (e.g. infrastructure) are required or desired and thereby, to some extent, China neglects the existence of the EU and then competes with some EU projects. This has the potential to create multilateral friction or (semi) cooperation between four overlapping areas, namely, Hungary, China, the EU and firms with extant operations in Hungary.

From the Chinese perspective, becoming more economically engaged with Hungary and the CEE region may allow for further transfers of technological knowledge from the EU. Outcomes of the effects on the EU in terms of Chinese OFDI into the region could create centripetal or centrifugal influences as results from Chinese investments into the EU remain unknown in terms of their effects on policy making, EU-wide cohesion and developmental outcomes (Meunier, 2014). EU strategy in this regard is incoherent, varying from member to member. China may be working to exploit these incoherencies.

“The strategy of China is very interesting. There is one negotiation directly with the EU for some framework arrangements and about some EU-import regulations for light industry products such as textiles and shoes, then handling the necessary procedures. China can handle the EU level talks. Apart from this, they much prefer to talk bilaterally with individual countries rather than with the EU as a bloc. For approximately a decade, China calls together the new member states, creating meetings in Bucharest, Warsaw etc. High-ranking officials from the new members do attend. This is a case of dividing the EU internally as the EU – officially-speaking – is not present, jut the new members’ leaders. It neglects the existence of the EU and then competes with some EU projects” (I18).

From the Fidesz perspective, this has the potential to strengthen HAP's leverage as it may benefit from this form of Chinese anti-EU discrimination. Even if Hungary is not the most important linkage on the BRI initiative, Chinese capital via infrastructure development has the capacity to reproduce the regime, given the high likelihood of prebendal capture, discussed in more detail below.

How important is Hungary to China? On one hand, despite the ambitions of the KN programme, Hungary's importance as a destination of Chinese capital may be offset by policy community steering (Zeng, 2017: 1163), which may mean China could look elsewhere to establish networks in CEE e.g. the Czech Republic.

"The BorsodChem investment makes Hungary appear as the largest recipient of Chinese FDI in the region, but this skews the results somewhat. That is to say, it is the Czech Republic, which now receives the bulk of this. Chinese Leader Xi visited the country in May 2016, during which he promised many investments there, mainly infrastructure and real estate such as shopping/office centres. These began immediately afterwards. Commonly the commodities are overvalued but China pays anyway. They don't necessarily get the best investments. Parallels with Chinese investments in Africa e.g. buying up next to everything in order to create a presence. Why? From an economic perspective, there is clearly capital flight in China due to deep economic issues in the country. This capital flows globally outwards. There are also capital restrictions. The Chinese state would also like diversification. From a political perspective, they would like to be a political and economic power in the region.

Hungary clearly attempted to attract investment from the Far East a few years ago. This as the result of slight tension with the EU and Western countries. Fidesz announced a new wave of investment but it never materialised according to their hopes. Conversely, considerably more capital from China is flowing into the Czech Republic, which is a much bigger economy than Hungary and the investment environment is much better than in Hungary" (I14).

On the other hand, as Szunomár *et al.* (2014) argue, Hungary maintains a pivotal position for China and its strategy for Europe. Hungary is in competition amongst the V4 countries, and others in the wider CEE region in terms of attracting Chinese capital, with the Czech Republic as a significant competing candidate to lure Chinese OFDI. In contrast to this, the Hungarian Investment Promotion Agency (HIPA) has argued that Sino-Hungarian relations are in some sense on a course towards stronger and more entrenched interaction, whereby Hungary can act as a gateway to the European Union for Chinese investments (HIPA, 2016), though this is an ambitious prognosis.

Hungary's strategic geographic location in the centre of Europe offers China the opportunity to create a bridgehead on the continent, which has created a series of market-seeking FDI projects (Dunning, 1977). Specifically, this is in line with the longer-term endeavour of establishing a foothold in the CEE region to distribute and sell Chinese-manufactured goods and exploit market potential (Liu, 2014). Results of this strategy remain undetermined. FDI stock in Hungary is still dominated by Western entities and therefore infrastructure has been targeted as the principal sector to host increased economic engagement. At this stage, there is no sign of a geopolitical shift from West to East, as some have seen as a potential outcome from increased Sino-Hungarian cooperation (Jacoby and Korkut, 2015), nor has this been declared as part of a wider strategy for China in Europe.

5.2.1 Chinese soft power

Hungary's ideological shift and stimulation of closer ties to China has produced space for China to extend its cultural presence in Hungary. There have been three Confucius Institutes established in Hungary, located in Budapest, Miskolc and Szeged (Szunomár *et al.*, 2014) with a fourth added in 2017 (China Daily, 2017). Further, Hungary is the only CEE country to possess a bilingual primary school, which teaches in both Mandarin and the vernacular. The inauguration of these facilities increases the quality of Sino-Hungarian relations, keeping the

momentum within the bilateral framework that was reinvigorated in 2003. Further, cultural interactions between Hungarians and Chinese are favoured by both the Hungarian and Chinese elites, reflecting the continued importance both countries place on the relationship (Xinhuanet, 2017). China's soft power reflects an additional dimension to the bilateral relations and is congruent with the states' shared ideology (Csillag and Szelényi, 2015).

5.3 Hungarian strategy for economic engagement with China

It is important for CEE to receive investment for infrastructure projects, as the region lags behind Western Europe in this regard (European Parliament, 2016). One interpretation of this might be that the region requires investment from areas exterior to its own geography – particularly given the drawdown in the EU Cohesion Fund stream after 2020 – and this will likely originate in Asia, and specifically China. Hungary is preparing for a new era of Chinese capital inflow though it may be argued that this began as early as 2003 when Medgyessy visited China, discussed above.

The development of HAP as a method of governance since 2010 has the capacity to increase the quantity and rapidity of Chinese capital inflows into Hungary as Fidesz seek to augment investment under the auspices of the KN. Orbán and Fidesz have decided that a push in the direction of increased Chinese capital flows to Hungary is necessary, not only for the above reasons of infrastructural development and to offset the pending reduction of funding from the EU Cohesion Fund, but because this ultimately serves to enrich their cronies and reproduce the Fidesz project. Fidesz has played on the broader Sino-Hungarian narrative, emphasising Hungarian exceptionalism in Chinese engagement. During a 2014 visit to China, Orbán stated:

“the friendship between Hungary and China is not stimulated by the economic success of China, and similarly Hungary did not become China’s friend or recognise China when the Asian state turned into a determining state of the world economy, but [their friendship] started decades ago before that. The Hungarian and Chinese relations stem from hearts, build on common sympathy, for the Hungarian people primarily all about historical, spiritual and cultural accomplishments [of the Chinese nation].” (Jacoby and Korkut, 2016: 502)

Orbán has developed an extremely pro-Chinese position, coinciding with the timetabled reduction of capital inflows from the EU after 2020. Citing the dearth in infrastructural quality in CEE, Orbán stated via his Press Secretary that “Central Europe has serious handicaps to overcome in terms of infrastructure; there is still a lot to be done in this area ... If the European Union cannot provide financial support, we will turn to China” (Budapest Business Journal, 2018b). Hungary suffers particularly amongst the CEE region from lower quality infrastructure. In terms of transport infrastructure for example, in its regional areas Hungary has the widest gap in GDP per capita between urban centres and rural areas of all EU states (Péli and Neszmélyi, 2015). This statistic compounds the typical problematic characteristics of such areas (settlements with a population under 1,000) e.g. depopulation and produces detrimental effects such as “widening territorial disparities” (Péli and Neszmélyi, 2015: 70), which enhance wealth inequalities. When EU funding reduces by between 23% and 24% of its current levels after 2020, there will be a significant shortfall in the financial capacity to prevent further spatial inequalities between Hungary’s larger urban centres and the peripheral, more sparsely populated regions. Orbán has recognised the pending lack of access to EU capital in terms of infrastructural development and was keen to welcome Chinese Prime Minister, Li Keqiang’s plan to import up to \$8tn worth of products into CEE as part of the BRI, saying “[t]he world is changing. China has the resources to enable developments that would be impossible with EU funding alone” (Irish Times, 2017).

If Hungary does not see the EU as a continued source of capital for the specific purposes of infrastructural upgrading, why has Hungary chosen Chinese money to modernise Hungary’s infrastructure, particularly when there are other regional actors who have the expertise to

undertake these projects e.g. Siemens in Germany.¹⁸³ Hungary has become more selective and bypasses European firms and other forms of national capital e.g. German capital, in favour of Chinese inflows because the Hungarian regime is seeking alternative methods for self-reproduction. Despite these developments, however, long-term replacement of Western-owned entities in operation in Hungary remains unlikely.

Western-focused business interactions with Hungarian entities remains critical to the make-up of the Hungarian economy. For example, Szanyi (2016b: 8-9) states that the American, British and German Chambers of Commerce, the Hungarian-European Business Council and the Joint Venture Association remain “the most influential organisations” and this situation is reinforced by foreign embassy diplomats who have created significant lobbying organisations and pragmatically accept Hungarian firm integration. It remains to be seen whether there is sufficient space for Chinese entities to establish themselves within this group. This may depend on whether a disposition of *Sinophilism* exists within the Hungarian sectoral elites,¹⁸⁴ or whether there may be nascent trends in this regard. While this research does not concern itself with this avenue of investigation, it may be useful for other observers of Hungary, or Chinese presence in the region to engage in an analysis into these developments.

This emerging culture of enticing Chinese capital is creating space to create a third ‘leg’ of capital inflows, complementing the Western MNC-led FDI trends begun in the 1990s and the Fidesz regime’s domination of national business, discussed in chapter three. While it is fortuitous that China has the capacity to deliver on investment promises e.g. the \$8tn outlined above, it is attractive to Orbán that China also has a lack of culture for human rights, checks and balances etc.

¹⁸³ The firm celebrated 130 years of country presence in Hungary in 2017 and employs 3,500 people (Budapest Business Journal, 2017b)

¹⁸⁴ Sectoral elites “are very difficult to challenge, not least because they are only semi-visible, and their definitions of reality can only be unpicked by a kind of critical intellectualism which has few funders” (Bowman *et al.*, 2013: 27). In this sense, they differ from the elites conceptualised in an earlier classical work (Mills, 1956)

Increased activity with 'Eastern' entities is attractive for Fidesz. HAP has the potential to be reproduced via closer engagement with analogous ideological regimes. By opening a second external dimension to stimulate inward capital flows, the Hungarian regime has identified an additional method to assist self-reproduction. The attraction of this arrangement is compounded by the likelihood that these regimes, targeted under the auspices of the KN, overlook Fidesz's domestic politics, which have come to be consistently criticised by some Western media and institutions e.g. the EU.

5.3.1 Keleti Nyitás

A key outcome of Fidesz's ideological change has been the introduction of the KN foreign policy drive within which China is a critical nodal point. China's resources, notably its enormous population, increasing financial capacity, will to invest – particularly in infrastructure projects – and crucially, because Hungary geographically intersects with the BRI, contribute to this approach. Recent agreements such as the BBRU reflect the capacity for China to increase its presence in Hungary, suggesting that Sino-Hungarian relations have become more important since 2010. Orbán realises attracting Chinese investments into Hungary is an important step for him to accrue capital and critical financial tools. According to one expert interviewed for this research, *“there have been lots of attempts to attract Chinese capital”* (I26). In this respect, Orbán is developing a longer-term – though self-interested – strategy, which diverges from the post-EU accession dearth in strategic planning when the Hungarian elites understood joining the EU to be an end in itself as noted in the previous chapter. The HAP project is not designed to be short-term. The Fidesz leadership recognises the importance of its own historical (organic) moment and therefore has targeted Chinese capital as an important method to achieve its objective of strengthening its power base and proliferating its influence.

Because of the longer history of Sino-Hungarian relations, compared with other CEE states, Hungary may stand in a positive position to assume any (additional) favourability from Chinese entities e.g. selecting Hungary ahead of other V4/CEE states. However, despite

Hungary's optimistic outlook, successful deals from China have been relatively few (Matura, 2017). Moreover, any developments along these lines may have the effect of continuing an emergent trend identified in the political economy literature, namely the advent of a new global phase of organised capitalism where national forces are working to counter the liberal capitalism model that suffered from stagnant revenues and austerity following the 2008 Global Financial Crisis (Nölke, 2017).

Whatever the case may be, if the KN is to materialise into a trade and investment platform, it is critical that Fidesz produces tangible results for the Hungarian economy. The KN cannot be a one-way street; if it is to become a package for future initiatives going beyond the BBRU agreement – and other successful investments detailed below – reciprocal flows of goods and services should be forthcoming.

“The largest Chinese investment in CEE is in Hungary (BorsodChem) and this was business-sense as the Chinese lacked the plant for their chemical industry. There are a number of other smaller Chinese investments in Hungary such as Huawei. Altogether, the picture doesn't not differ from any other new EU member; this is one outstanding investment only. As with Russia, there is a significant trade imbalance with China. Hungarian exports amount to approximately €1.5bn, which has increased slightly, though this can be attributed to the exports of two or three MNCs operating in Hungary. 90% of Hungarian exports to China are represented by this trend. This is in spite of the onset of Keleti Nyitás. The question surrounding the KN is: how can this be filled with content? There are very few Hungarian firms capable of covering the transportation, logistical, financial costs of establishing a company in China and becoming a sustainable exporter i.e. long-term. To establish factories in China, Hungarian companies lack, in the first instance, capital and commonly the market knowledge except some special cases e.g. vineyards and the service sector. Therefore, possibilities exist but based on the capacity of the Hungarian firms, form and content are widely different.

China is by far the largest (non-EU) supplier to Hungary – more than Russia – despite the declining oil prices. Chinese exports to Hungary have three purposes: (a) to supply the Hungarian consumer market – this creates a negative public opinion of China regarding the monopoly of market by Chinese goods. However, this is a very important element of keeping prices low, particularly for consumers with middle or low incomes; (b) a second type of export also exists, known as re-exporting. Hungary acts as a regional distribution hub for products to be disseminated throughout the region. This is why Hungary is analysed by China in terms of transport connections, logistical capabilities and infrastructural development, and; (c) Chinese exports used in Hungarian manufacturing production, mainly MNCs. Therefore, there is a high level of Chinese input – but there is no company, which would disclose this data. It remains clear that the €4-5bn imports from China consists of these three constituents” (127).

Hungary is a small, open market economy in Central Europe with an approximate population of 10 million; it is therefore not a natural ally of China and maintaining pragmatic relations with other European countries is paramount. Benefits from closer Sino-Hungarian relations may include improved infrastructure quality and value chain upgrades etc., though the KN is not realisable as an economic partnership. Closer economic ties with China, stimulated by Fidesz’s HAP and the subsequent KN programme are designed to reproduce the Hungarian regime and reinforce the structures created by HAP, this research claims, rendering the KN a politically-motivated initiative with economic outcomes very unlikely to compete with trade and capital flows from Western Europe, the US and Japan.

The anticipated lack of reciprocity from the KN programme with China highlights Fidesz’s rationale for making concerted efforts to attract Chinese capital, namely an attempt to increase its longevity through the creation of an additional exterior dimension. The KN as an external dynamic of the Hungarian political economy could lead to a Chinese-sourced environment of dependent development, offsetting or undermining the multiple dependencies on Western MNCs that emerged after 1989. This eventuality would see HAP create a new ‘balance of forces’, though it is unclear how this could materialise logistically given China’s relatively nascent presence vis-à-vis Western entities. Further, Chinese focus on

Europe framed as a “new type of Great Power relations” (Zeng, 2017: 1166) is currently under established, meaning there is the potential for fracture within this informal relationship, particularly given that ‘Europe’ is not one voice: policy choices, development paths and wealth concentration vary across the continent.

Hungary has worked hard to develop bilateral opportunities with China, particularly in terms of infrastructure upgrades. For example, the location for the potential distribution centre that could complement the BBRU investment, has been fought between Hungary and Croatia, with the latter enjoying the comparative advantage of sea access (Total Croatia News, 2017). One expert interviewed for this research identified three potential infrastructure projects that Hungary and China have worked towards in recent years. The first was a planned high-speed railway connection between Liszt Ferenc Airport¹⁸⁵ and the Nyugati Pályaudvár¹⁸⁶ called ‘Ferex’.

“Starting in 2011, a project was established called “Ferex” – was supposed to be a high-speed railway between the Nyugati and the Ferihegy Airport. Chinese wanted to build it and Hungarian government was open to it being established. China, was supposed to finance and construct it. Over two years of negotiations, 5 Memorandums of Understanding (MOUs) were signed. It didn’t happen for several reasons. First, by the end of 2011/early 2012, Malév¹⁸⁷ went bankrupt, so the level of passengers at Ferihegy dropped dramatically making it unfeasible. Second, it goes against EU regulations on public procurement. In 2011 Wen Jibao visited Hungary, announcing that China is ready to finance construction and investment projects in Hungary up to €1bn. This was a huge misunderstanding. The deal Wen initiated was that the €1bn was set aside for projects, of which at least 85% would be done by Chinese construction firms. Of course, this goes against every EU regulation and the Hungarian government tried. The Hungarian government did not understand why the Chinese didn’t give them the money. But the Chinese government reiterated that the money was only available if

¹⁸⁵ Called Ferihegy Airport when negotiations began in 2011

¹⁸⁶ Western railway station in central Budapest

¹⁸⁷ The Hungarian national carrier between 1946-2012

the Chinese firms were to be involved. This is similar to the Marshall Plan in that the Chinese finance the construction in order for the Hungarians to pay. The Chinese therefore don't finance Hungary, but finance construction. There is then a two to three-year period where they do not have to repay and then repayments begin. They therefore finance their own companies and make money on the interest.

Second, was the V0 (Vasút¹⁸⁸ 0) railway line – a ring around Budapest meaning all transiting trains are able avoid entering the city and this would have been similar to the M0 motorway. The project was shelved for similar reasons to the above.

The third project is the Budapest-Belgrade railway upgrade, which began in 2013 at least. There are inter-governmental agreements on this between Hungary and China and also Serbia and China. So far however, there is no final financing agreement partly because there is no agreement on the levels of interest to be paid and EU regulations have slowed it down. A joint-venture has been formed between the Hungarian state railways and the Chinese railways, which is supposed to issue the public procurements but so far this hasn't happened" (I17).

These three deals are detailed in Table 5.2, below. Another interviewed expert discussed an additional infrastructure upgrade that may be realised in Hungary, this time in connection with air transport.

"There were already Chinese plans to upgrade airport facilities close to the Western border. The problem with this project was that the Chinese side was not ready to guarantee a certain minimum traffic and all the risks were to be placed with the Hungarian partner, which was of course, not acceptable. Our group of companies [Granit Polus] already has a project, which may include a Chinese investor, and which is related to the former Soviet military airport of

¹⁸⁸ Translation: railway

Tököl,¹⁸⁹ which has a runway of 2.5km, is located on the banks of the Danube and is connected to the M0 rapid highway line. Yes, I think that it may lead to airport upgrades. [However] we have to be mindful of the fact that if you transport something with a cargo plane from China to Hungary, that product must be very expensive otherwise it is not warranted by the shipping costs” (I2). This is a significant potentiality for Chinese investment, particularly given the broader aviation sector is seeing increased activity with Chinese entities, for example the (re)establishment of direct flights between Budapest and Beijing.¹⁹⁰

China would like to increase its position in CEE significantly, perhaps best illustrated by the regular 16+1 meetings (Song, 2018) and the BBRU has the potential to become a significant step in a process of redesigning Hungary as a bridgehead of Chinese interests in Europe, as outlined above. In this sense, while it is important to avoid placing a premature emphasis on the outcomes of the KN, it does have the potential to offer some form of critical juncture for the trajectory of Hungarian development. However, a significant question surrounding the KN remains: how can it be filled with content?

The KN as a policy designed to engage more deeply with China (and other countries within its purview) generates a higher likelihood of local (Hungarian), loyal (to Fidesz) crony capitalist networks being strengthened, therefore any content will likely be monopolised by Fidesz-loyal prebendal actors and subsequent revenues subsumed by the regime. Results from the scheme have been mixed since its inception and its longer-term future as a viable method to ostensibly increase bilateral trade remains unknown. This is compounded by recent data that demonstrates the Czech Republic has overtaken Hungary as the largest recipient of Chinese capital amongst the V4 countries due to its “geographical location, industrial tradition and subcontracting production network with EU states” (Fürst, 2017: 41).

¹⁸⁹ Located on the banks of the Danube, connected to the M0 rapid highway line and approximately 15km from Budapest city centre. It has a runway of 2.5km, long enough to accommodate larger aircraft such as the Airbus series

¹⁹⁰ The flight from Beijing has a brief stopover in Minsk, so only one direction is serviced by a direct flight

5.4 Results of Sino-Hungarian economic engagement

The BorsodChem agreement represents one of the successful outcomes of Chinese financial penetration of the Hungarian market but is only one success story amongst many attempted agreements between Hungary and China. Table 5.2 below demonstrates that Wanhua's success in securing investment in Hungary is not typical of attempted Chinese investments in Hungary in terms of outcome. According to this data, only three of eleven attempted investments in the post-2010 period are described as 'successful' with three 'still in progress' – including the BBRU – one 'likely failed' and the remaining four, 'failed'. When calculating total sums of estimated value, the pre-2010 quantity equates to €1.96bn while the post-2010 total is €2.2bn, again according to this data. This does not represent a sizeable jump between the two periods.

Table 5. 2: Chinese investments in Hungary since 1997

| Company | Sector (target company) | Mode of investment | Year of first mention of investment | Total estimated value (€ millions) | Result |
|--------------------------------|--|--------------------|-------------------------------------|------------------------------------|----------------------------|
| Changsu Standard parts Factory | Screw factory (Ongai Csavargyártó Ltd.) | Acquisition | 1997 | n/a | Success |
| Yanfeng Automotive Interiors | Automotive | Greenfield | 2004 | 25 | Success |
| Hisense | Electronics (joint venture with Flextronics) | Joint venture | 2004 | 3 | Success but closed in 2010 |
| Huawei | ITC | Greenfield | 2005 | 300 | Success |

| | | | | | |
|-----------------------------|------------------------------------|---------------------------|------|---------|-------------------|
| ZTE | ITC | Greenfield | 2005 | 15 | Success |
| Lenovo-Flextronics | ITC | Greenfield | 2009 | n/a | Success |
| Sevenstar | Solar energy (EnergoSolar Ltd.) | Acquisition | 2009 | n/a | Success |
| Wanhua Group | Chemicals (BorsodChem) | Acquisition | 2010 | 1,600 | Success |
| Comlink | ITC | Greenfield | 2012 | n/a | Success |
| BYD | Electric buses | Greenfield | 2016 | 20 | Success |
| China-CEE Fund | Telecommunication (Invitel) | Acquisition | 2017 | 200 | Success |
| BBCA | Citric acid factory | Greenfield | 2012 | 80-200 | Still in progress |
| China Railway Group | BBRU | Infrastructure investment | 2015 | 1,500 | Still in progress |
| Tianshen Industrial Group | Aviation | Joint venture | 2016 | 30 | Still in progress |
| RZBC | Citric acid factory | Greenfield | 2014 | 100 (?) | Still in progress |
| HNA Group | Aviation (Malév) | Greenfield | 2004 | n/a | Likely failed |
| Livan Biodegradable Product | Biotechnology | Greenfield | 2007 | 18 | Failed |
| Shanghai Construction Group | Cargo Airport | Greenfield | 2009 | n/a | Failed |
| Orient Solar | Solar energy | Greenfield | 2011 | n/a | Failed |
| Canyi | Lighting | Greenfield | 2011 | 30 | Failed |

| | | | | | |
|--|----------------------|---------------------------|------|-----|--------|
| China Railway Construction Corporation | Rail (airport link) | Infrastructure investment | 2012 | 150 | Failed |
| V0 | Rail (Budapest ring) | Infrastructure investment | 2013 | n/a | Failed |

Source: adapted from Matura (2017: 77-78)

Matura (2017: 79) paraphrases an oft-posed question on Sino-Hungarian investment patterns: “Will the significant amount of Hungarian international political capital invested in China ever pay off for the economy, or does the government regard China primarily as a political ally rather than an economic one?” The author continues by outlining Fidesz’s political opponents’ view that the government’s aim is to undermine the EU and that increased cooperation with China has set a precedent amongst Hungary’s CEE neighbours (Matura, 2017: 79).

This research argues however, that the Hungarian regime attempts investment flows with China to help reproduce the HAP method of governance and subsequently strengthen its network of loyal capital-guardians within the prebendal arrangement. This approach to (attempted) self-reproduction is reflected in the details of the investments shown in Table 5.2. To underscore the depths of the prebendal network and its primacy within post-2010 Sino-Hungarian economic relations, three of these agreements have been analysed further:

First, the Tianshan Industrial Group’s 2016 investment in the aviation industry was an investment in a firm called Magnus Aircraft, a Hungarian aircraft manufacturer. This deal covers the construction of an airfield, “assembly and maintenance plant and the Magnus Pilot Academy pilot training centre network” (Budapest Business Journal, 2016). The local firm was also provided with an HUF 2bn government grant with Foreign Minister Szijjártó announcing the agreement anticipates the export of aviation products to the Chinese market (Hungary Today, 2017). The President of the company Gábor Tarány is also the CEO of a firm called DAK

Acélszerkezeti Kft a 100% Hungarian-owned entity that produces galvanised steel parts, primarily for roads. In 2015, DAK undertook work to implement steel fence posts on the Hungarian-Serbian border at the height of the so-called migrant crisis. To do so, DAK employed a workforce of about 500, a third of which constituted inmates from a local prison. Tarány stated that his firm was not interested in politics because an “order is an order” and “there’s no emotion in steel; we build things and don’t ask or care what it’s used for” (Reuters, 2015c). It is revealing that the CEO of a Hungarian-owned firm would be obedient enough to provide labour and products for a policy-driven implementation, designed to generate political capital through the stimulation of one of the ‘moral panics’ identified in chapter one, namely immigration, and shortly afterwards be rewarded with a politically-induced finance package from the Chinese state.

Second, analysis of the failed 2011 greenfield investment by Orient Solar reveals the Hungarian CEO of the joint venture, Ferenc Galló later became CEO of Berettyóújfalui Kft., a powered milk producer, which was reopened during the 2014 national election campaign following its closure in 2012 after 55 years of continued operation. The new firm proposed to sell products on the Chinese and Russian markets and employ 200 people. However, after the election it was almost immediately discontinued due to lack of state funds. The company was liquidated, the board resigned, and ownership was transferred. Finally, the site was transformed into a public park (Hír TV, 2018) with the pre-election promise to create employment literally buried. In this case, Fidesz-loyalists went to lengths to reopen a firm ostensibly to demonstrate the party’s focus on improving employment conditions in the region during the election campaign. The CEO’s affinity with the two firms both of which have been unsuccessful reflects the characteristic of loyalty that is paramount for the regime in the prebendal network.

A third example – Canyi – was a failed 2011 attempt to establish a light bulb factory in central Hungary. This agreement, signed in an elaborate ceremony in front of Orbán and then Chinese Premier Wen Jibao in 2011 (YouTube, 2012), is part of a growing Fidesz influence in the

lighting sector.¹⁹¹ According to one investigation (Index, 2016), a co-holder of software ventures with former PM Gyurcsány in the 1980s, who was declared bankrupt in the 1990s, Imre K. Szabó was put in charge of upgrading street lighting in Dunaújváros, a small town approximately 60km south of Budapest. Despite Szabó's connections with the former PM, he became favoured by the Fidesz regime based on his relationship with Csaba Paróczai, Director of the Government office in Fejér county¹⁹² from 2010 and from 2013 Vice President for General Affairs at MEKH,¹⁹³ and therefore, permitted a role in the Fidesz-sponsored business network. Through Paróczai – a Dunaújváros resident – firms connected to Szabó are continually promoted to undertake work on the settlement's lighting upgrades. This points to another example of sectoral statism, building on analysis of the energy sector in the previous chapter. This example shows the breadth of the Fidesz regime's loyal connections and how they can dominate domestic business. Had the planned investment from the Chinese firm materialised, this could have led to increased capital entering the sector with a resultant proliferation of Fidesz influence. The Canyi story also demonstrates the pragmatic approach Fidesz take to proliferate HAP. Szabó's previous connections to the hated Gyurcsány have already been overlooked in return for loyalty.

5.5 Belgrade-Budapest railway upgrade

The BBRU will be funded by a loan from the Chinese EximBank for 85% of the project value, coinciding with the loan from the Russian state for Paks II. The ostensible rationale is that the project is designed to increase China's economic presence in Hungary and the wider CEE region and expand markets for the dissemination of Chinese-manufactured goods. The BBRU is not necessarily an idiosyncratic case, as Paks II was found to be, particularly given other transport infrastructure project proposals outlined above. The international connections with Serbia – but eventually connecting with North Macedonia and Greece – make the agreement

¹⁹¹ Chapter three detailed Orbán's son-in-law, István Tiborc's business connections in the lighting sector

¹⁹² Dunaújváros is the biggest town in Fejér county

¹⁹³ The Hungarian energy and public utility regulatory authority

a historical precedent as it is the first 16+1 project to cross an international border (Global Construction Review, 2018) and a critical development project for Chinese politico-economic aspirations in the twenty-first century.

The agreement includes upgrading the railway to a double-track mainline capable of supporting train travel at 160kmph and a design speed of 200kmph (International Railway Journal, 2017). The construction of 374kms of track, 18 grade-separated and 89 level crossings, 590.4 metres of bridges and the refurbishment of 444km of overhead electrical lines and supply wiring is also included in the deal (Budapest Business Journal, 2017c). Following the signing ceremony between the Hungarian and Chinese parties in November 2017, Foreign Minister Szijjártó opined the importance of Hungarian small and medium enterprises becoming involved in China's increased dealings in the CEE region, operating as suppliers in the first instance. Tellingly, he explicitly outlined the specific sectors where Hungarian firms may be able to operate with Chinese entities: the food industry, IT and water management (Hungary Matters, 2017), thereby signifying the areas where Fidesz may intend to dominate domestic business.

Map 5.1 below shows the planned railway route from Piraeus, the majority Chinese-owned port in Greece, to Budapest with the focus of this research on the final segment between Belgrade and the Hungarian capital and specifically, the Hungarian portion of that section. The proposed railway upgrade does not service many large towns; the largest has a population of approximately 27,000 meaning traffic is usually limited. The link is parallel to the extant M5 motorway, which runs between Szeged – a border city with Serbia and Hungary's third largest settlement – and Budapest, which also has very low traffic levels. While this *"raises questions over whether it makes sense"* (11), these concerns are offset if the BBRU is a project primarily designed to transport freight.

Map 5. 1: Planned route of the Piraeus to Budapest railway line



Source: FT research (Financial Times, 2017e)

In the first instance, the BBRU project demonstrates the Chinese emphasis on investing in CEE countries' infrastructures, a fundamental zone of interest for all parties. Not only is Hungary in need of investments in its infrastructure – a common feature of the CEE economies as discussed above – but China is prepared to inject capital into the region for these purposes. This has become a strategy in terms of Chinese OFDI into the CEE region as China's direct investments into countries on the BRI routes are principally large infrastructure projects (Zhai, 2018).

The estimated cost of the project is expected to be €3.2bn, with the Hungarian section totalling €1.68bn. As noted above, the Hungarian portion is to be 85% financed by the Chinese Exim Bank, and the remaining 15% by the Hungarian state-owned railway company, MÁV (Budapest Business Journal, 2017d). Should these costs be accurate, the construction of both the Hungarian and Serbian sections of the line would more than double the capital outlay

Chinese parties made in order to purchase the BorsodChem plant in 2009 (approximately USD 1.5bn) – China’s largest investment in CEE to date.

Significantly, the Hungarian state is acquiring two large loans simultaneously to finance projects under the auspices of the KN – one with the Russian state and one with Chinese state. While the loan from the Chinese state for the BBRU is considerably less than that agreed with Vnesheconombank (€10bn) – as outlined in the previous chapter – it nonetheless increases Hungarian exposure to exterior creditors by almost 17%, with the provisional loan total estimated at €11.68bn, approximately 11% of Hungary’s GDP at 2018 levels.

The repayment timetable between the Hungarian and Russian parties is due to expire in 2046 following a staggered annual interest rate schedule of between 3.95% and 4.95%. For the BBRU, the interest rate will be an annual 2.5%, fixed for between eighteen and twenty years (Budapest Business Journal, 2017c; See News, 2018), though it remains unclear when this schedule might commence. Hypothetically, should the repayment timetable be activated in 2020, Hungary would be obliged to spend €126mn p.a. (€2.52bn) based on a repayment period of twenty years plus the approximate €13.2bn¹⁹⁴ owed to the Russian state during the same period. While the loan to the Chinese parties does not add much exposure to the Russian total, Hungary’s obligations to exterior, non-EU state actors doubles for a two-decade period, creating large risks to the Hungarian taxpayer should payment stipulations not be met.

¹⁹⁴ Based on crude calculations of available data from the sources relating to the BBRU and Paks II financing, given in chapter four

Table 5. 3: Combined financial stipulations of the Paks II and BBRU projects

| | Total cost (€ bns) | Loan (€ bns) | Hungarian contribution (€ bns) | Loan repayment period (years) | Interest (%) | Interest (value/€ bns) |
|----------------|-----------------------|-----------------|-----------------------------------|--|------------------|------------------------------|
| Paks II | 12 | 10 | 2 | 21 | 4.5 (average) | 7.45 (estimate) |
| BBRU | 1.68 | 1.43 | 0.25 | 18-20 | 2.5 | 2.52 |
| Total | 13.68 | 11.43 | 2.25 | -- | -- | 9.97 (estimate) |

Source: based on author's calculations

Despite the potential financial predicament that may envelope Hungary, this BBRU agreement is not an outlier in terms of infrastructure upgrades in the country and therefore potentially not as controversial as some have described it e.g. the EU, which initially blocked the proposed construction work, citing infringements to EU law as no open tender was held by Hungary (EU External Action, 2017). However, the project has sceptics in terms of its economic viability.

"The only significant Chinese investment in Hungary was Borsodchem. Wanhua is the owner. This is the only one. There have been a lot of negotiations, but little has materialised. The only deal that has been signed is the Belgrade-Budapest railway upgrade. However, there is no traffic. The Chinese, however, have bought the Piraeus port [share majority]. It will be

Hungarian borrowing and Chinese financing, meaning an unequal shared risk. I don't think it will be profitable in 1,000 years. Therefore, it is highly unrealistic. There could be some Chinese investments along the line, for example, within Hungary, but these are not likely to be robust" (113).

Should the BBRU be realised according to the plans outlined to date e.g. loan size, construction timings and interest repayment schedule, China could be about to execute another significant step towards establishing an entry point for its products into the European market and the BBRU may simply be one segment of much larger plans (Szunomár *et al.*, 2014: 14). This generates the possibility for some European-wide tension to emerge, compounding emergent concerns between European and Chinese economic actors, which have begun to materialise. For example, in the case of German industry, the President of the Federation of German Industry recently lamented “the growing influence of the Chinese Communist Party on individual companies” (Deutsche Welle, 2018b). Increased Chinese entry into Europe and potential transfers of EU technology to China is becoming a concern for the EU and gives rise to the possibility of friction between Hungary and the Western European ‘core’ nations as information leakage to Chinese entities could harm their business operations.

5.5.1 Benefits from the BBRU to Hungary

Four broad benefits to Hungary are identified, which have varying significance. First, this project may influence railway developments in the region, which could have positive results for pan-European transport networks. For example, an EU initiative called the Trans-European Transport Network (T-ENT)¹⁹⁵ designed “to close gaps, remove bottlenecks and eliminate technical barriers that exist between the transport networks of EU Member States ... contributing to the creation of a single European transport area,” (European Commission, 2018b) has within its remit the objective to improve railways in EU member states. However,

¹⁹⁵ The Trans-European Transport Network is a European Commission policy directed towards the implementation and development of a Europe-wide network of roads, railway lines, inland waterways, maritime shipping routes, ports, airports and rail-road terminals (T-ENT, 2018)

this does not extend to non-EU members e.g. Serbia and North Macedonia, through which the Piraeus-Budapest line is scheduled to pass. From this arises a Chinese strategy in relation to railway infrastructure upgrades in CEE.

First of all, there is the trans-European networks (TENs), which is a very major EU framework programme, very reasonable, well-organised and quite well financed. China competes with this in the following way: they do not communicate with those people managing the T-ENTs, but try to find some 'white spots' on the map e.g. the Budapest-Belgrade railway upgrade and then they offer some complimentary financing frameworks, which doesn't directly compete. It is not the very same line the EU is financing but very near to it. In turn, it then attracts the attention of those CEE countries. This already competes at the level of capacity as a country like Hungary has a given capacity for dealing with railway development issues. So, if China blocks part of that capacity, for example, consumes a relative part of it, there are fewer people available to deal with the EU lines. This therefore, already creates a type of competition" (I18).

CEE states may find engagement with China attractive as it presents alternative finance plans on a bilateral basis, which means the absence of the rigorous and complicated regulatory frameworks with which the EU obliges member states to comply. Though the full stipulations of the BBRU agreement remain unknown and access restricted, dealings are likely simpler and more attractive for the Hungarian government i.e. there is less 'rigour' than from Western entities, which enhances the possibilities of further prebendal enrichment.

The BBRU development demonstrates that Chinese financial packages offer what the EU does not. Specifically, while most European railway networks run between the East and West, only two lines of significance have been constructed between North and South. The first between the UK and Spain, the second between Scandinavia and Italy with an obvious third between the Baltic or Poland to Greece, yet to be completed. *"There have been plans that china would invest in infrastructure and this was connected to the New Silk Road plan. The Belgrade-Budapest railway upgrade has very limited importance unless it is considered as part of the*

third North-South railway network in the EU between Piraeus and the Baltic Sea in Poland. Most European networks are East-West in orientation. Of the nine big infrastructure projects financed by the EU, only two are vertical and both of these are in Western Europe [first UK-Spain; second Scandinavia-Italy]. The third is definitely missing and this would be between the Baltic and Aegean Seas. Initiatives have not been forthcoming. This may be the historical heritage of not looking at the map. The Chinese have looked at the map. However, the BBRU will only be of significance if the whole Baltic-Aegean line is implemented. The Chinese had been looking at Montenegro as an alternative but the capacity is very modest, more time would be needed, and transportation costs would be excessive. Otherwise, Chinese credits and loans have not been used by Hungary. the only European country that received a \$1bn Chinese trade loan was Belarus” (I27). In this sense, the Chinese offer an opportunity to Hungary to improve its transport infrastructure and develop into an important stop on the line given its central European location.

Second, the possibility for the BBRU to stimulate some complementary economic initiatives, becoming a segment of future value chains. One example of this potential may interconnect with the recent (March 2018) MOU between Austria, Hungary and Slovenia, which aims to develop joint infrastructure and communication networks for the development of intelligent mobility devices and self-driving vehicles (Visegrád Group, 2018). This envisaged cooperation is ostensibly centred around another of Hungary’s comparative advantages: the opening of a self-driving car test track in Zalaegerszeg, a Western Hungarian town approximately 50km from the Austrian and Slovenian borders and could add 0.01% to the Hungarian GDP and a subsequent 0.3% for every HUF 100bn in investments, it attracts according to the Hungarian Minister of National Economy (Budapest Business Journal, 2017e). These potential business ventures are significant for two reasons. First, the BBRU may be used to transport Chinese-manufactured parts to the Hungarian section of the value chain, thereby undermining the value chains between Hungary and Western European firms. Second, potentially an

opportunity has presented itself to upgrade production networks within the automobile sector, with enhanced technology, namely electric car production,¹⁹⁶ outlined above.¹⁹⁷

Third, the BBRU could act as a catalyst for EU accession for Serbia, North Macedonia and potentially other Western Balkans countries, a key foreign policy objective of Hungary. Because it is not subject to EU regulatory frameworks, Serbia has already commenced construction on its sector of the BBRU, which is longer than the Hungarian portion. The immediate benefit of bloc expansion for Hungary will be for it to develop its markets in the region, again with the capacity to create new value chains. The BBRU with Serbia (and North Macedonia and Greece) creates the possibility to establish new(er) institutions with the Western Balkans. This could generate added value in terms of harmonisation of member states' investments in transport and the development of cross-border railway lines that complement extant interconnecting national sections e.g. the T-ENT network, as described above. This complements analysis in the previous chapter, which discussed the scenario of the Western Balkans as the anticipated short-term destination for any Hungarian electricity sales from Paks II.

Fourth, the expected construction of the distribution centre in Hungary for the onward dissemination of Chinese-manufactured goods into the wider CEE region would further strengthen Sino-Hungarian ties and build on a historical precedent of Hungary as 'regional leader' in attracting Chinese investment (Szunomár *et al.*, 2014). The Sárvár plant is the only facility in Europe where Lenovo¹⁹⁸ goods are produced (Szunomár *et al.*, 2014), which permits China a foothold in the European market and reduces the transport costs involved with shipping from China. Figures regarding the construction of an anticipated distribution centre in Hungary remain unknown however, and this extends to: location (though this is likely to be in central Hungary, in close proximity to the railway line); potential for employment, with

¹⁹⁶ Significant given the pan-European emphasis on electric car development

¹⁹⁷ Hungary's history of automobile production only began after the systemic change in 1989. During the state-socialism period, Hungary mainly produced buses (Ikarus) for the COMECON countries and beyond, while other countries focused on automobile production, such as Czechoslovakia

¹⁹⁸ Headquartered in Hong Kong and owned by Legend Holdings, which is headquartered in mainland China

much of this dependent on the size of the centre; necessary training costs; ownership and management structures etc. It is therefore premature to forecast what kinds of effects this project will have on the Hungarian political economy though it is highly likely it will be managed in a way that benefits the Fidesz-loyal prebendal network in order to strengthen HAP through capital capture. However, with increasing Sino-Hungarian economic relations and because the Hungarian political elites are working towards greater levels of interaction with China and Chinese capital, it is valuable for future research to investigate these trends.

5.6 DME-SME convergence: potential outcomes from closer Sino-Hungarian economic engagement

The upswings in Sino-Hungarian and Russo-Hungarian economic activity since Fidesz's return to government have bearings on how successful hitherto theoretical models are in their efforts to account for contemporary Hungarian capitalism.

The DME model's use of dependency as a key characteristic of the types of capitalisms that crystallised in the V4 states after 1989 is a less gloomy forecast than the classical dependency theories of the twentieth century (e.g. Baran 1957; Cardoso and Faletto, 1976; Evans, 1979; Frank, 1975; Prebisch, 1950). The DME authors prescribe increased investments into education, training and research as potential policy choices that could alleviate certain pressures and offset firm-relocation threats, but the authors simultaneously conclude that "a growing dualism" (Nölke and Vliegthart, 2009: 696) is materialising in the four cases, essentially between those who benefit from the export-focused industries and those who do not. These conclusions are more positive than the classical dependency theories that consistently described a locked-in, core-versus-periphery situation in which the dependent constituents were destined to eke out their existence as the material producers for the consumers who populated the core.

However, with increased economic engagement with China, this external dimension of the Fidesz project has the potential to expand the development of underdevelopment where semi-peripheral states – Hungary in this case – appear to develop in the manner of the core capitalist states but this process is “satellite development, which is neither self-generating nor self-perpetuating” (Frank, 1966: 31). Engaging more closely with Chinese capital does not offer an obvious path for Hungary to graduate from the multiple dependencies that have emerged since the cessation of state-socialism. There is little evidence to suggest that (attempted) stimulation of Chinese financial flows will somehow alleviate Hungary’s domination by Western capital.

Since 2009, Chinese FDI stock in Hungary has increased dramatically, as demonstrated by Figure 5.1 above, though these results are skewed by the large BorsodChem investment in 2009. Table 5.4 below shows Chinese exports, imports and total trade with the V4 countries at 2016 levels. The data show the V4 group dominate the share of each of these variables within the wider CEE region¹⁹⁹ and points to a broader potential for the capitalist institutions of the four DME cases (outlined in chapter one) to be realigned to offer more attractive prospects for Chinese capital to enter their markets.

¹⁹⁹ For an analysis of Chinese OFDI push and pull factors into the V4 region, see Heiduk and McCaleb (2014)

Table 5. 4: Chinese exports, imports and total trade with the V4 (2016)

| Country | China's exports to V4 | | China's imports from V4 | | China's total trade with V4 | |
|--|-----------------------|-----------|-------------------------|-----------|-----------------------------|-----------|
| | USD mns | (%) share | USD mns | (%) share | USD mns | (%) share |
| Total 16²⁰⁰ CEE states | 44,016 | 100 | 14,890 | 100 | 58,907 | 100 |
| Poland | 15,247 | 34.6 | 2,531 | 17.0 | 17,778 | 30.2 |
| Czech Republic | 8,055 | 18.3 | 2,947 | 19.8 | 11,002 | 18.7 |
| Hungary | 5,425 | 12.3 | 3,463 | 23.3 | 8,887 | 15.1 |
| Slovakia | 2,868 | 6.5 | 2,407 | 16.2 | 5,275 | 9.0 |

Source: HKDTC (2018)

To repeat an earlier question surrounding FDI destinations: “what ... are the unique location-bound advantages ... which a particular country or region can offer both existing and potential foreign investors seeking to advance their own strategic goals?” (Dunning, 2005: 62). In the first instance, Chinese FDI is attracted to lower wages, which makes Hungary a good ‘fit’ for China in its efforts to establish a market, or at least access one. Hungary, as a DME case typically has lower wages than its CME or LME counterparts, which makes it an attractive destination for Chinese OFDI from China’s perspective, with the remaining three DME cases and the wider CEE region possessing similar institutional attraction.

²⁰⁰ The same sixteen CEE countries that form the 16+1 group

Will Hungary (and the remaining three DME cases) lose its (their) competitive advantage as “assembly platform[s] for semi-standardised industrial goods”? (Nölke and Vliegenthart, 2009: 679). This remains to be seen because (a) Western firms – particularly in the manufacturing sector – remain dominant in Hungary and persist with investments, with deals continuing and dependence on this form of external capital remaining; (b) a distribution centre for Chinese goods established in Hungary is not anticipated to be characterised as an assembly platform as goods are unlikely to be cars or other medium quality products but rather pre-fabricated items, awaiting outward dispersal and subsequent point-of-sale.

As suggested in chapter one, the VoC tradition remains an applicable approach to understanding contemporary Hungarian capitalism. The prospect of increased cooperation between DMEs and SMEs is realistic, and the two ideal types’ institutions as given in the literature attest to their potential for successful outcomes (specifically, China and Hungary for the purposes of this study). It is clear what happens when CMEs/LMEs interact as those interactions are essentially what set aside the DME model as a third archetype in the first place.

DMEs and SMEs have commonalities that spill out into the capitalist institutions that create the ideal types, according to the literature and this research identifies four areas of similarity. These were outlined in chapter one and repeated here for clarity. First, ‘coordination mechanisms’ where DMEs can attempt to replicate the SME culture of “interpersonal reciprocity, loyalty and private-public alliances” (Nölke et al, 2015: 546). Second, ‘corporate governance’; the nationalisation programme in post-2010 Hungary is an attempt replicate the SME institutional variant of “control by national capital, not by transnational investors” (Nölke et al, 2015: 546). Third, ‘corporate finance’ is an institution that offers positive relations on the basis that Hungary has an established culture of IFDI, which SMEs (particularly China, but increasingly India) are keen to continue, with flows described as ‘market-seeking,’ as outlined above. Fourth, ‘domestic market and international integration’ has the potential to become harmonised within DME-SME relationships because DMEs’ dependence on external actors

and readiness for goods importation naturally ‘fits’ the SMEs’ process of “selective internationalisation” (Nölke *et al.*, 2015: 546).

More prosaically, an alliance between DMEs and SMEs is attractive from the perspective of the SME cases because (a) spending on R+D is relatively limited, at least to the typical CME/LME case; (b) DMEs are very open to IFDI and there is little regulatory restriction; (c) there is some parity with wages, albeit DMEs have typically higher wages than SMEs; (d) there is already a culture of foreign ownership in the DME cases, and; (e) in the Hungarian case, the Hungarian regime is working hard to attract Chinese FDI with mixed success and this is the case across the remaining DME cases, as demonstrated by Figure 5.1 and Table 5.4. Additionally, from the DME perspective, as was identified in chapter one there are two areas of appeal: first, China’s will to invest in the region, which may soon be accompanied by increased Indian market presence; second, it is unlikely that governments in SME cases will apply similar pressure on the governments in DME cases regarding their domestic political record, as, for example, the EU has done in the case of the Polish government’s decision to reduce the retirement age for judges (European Commission, 2018b).

To more inclusively assess the emergent trend of increased cooperation between the DME and SME cases within the VoC literature, this research suggests future studies investigate the zones of potential cooperation and conflict, an endeavour that is beyond the scope of this thesis. For example, questions emerge such as: how might the extant institutional complementarities (ICs) that interact to create the DMEs i.e. the cases’ dependent characteristics, be affected by growing interactions with SMEs? DMEs are dependent because of the CME/LME nexus, therefore, any alteration to the extant IC make-up that emanates from CME/LME-based firm presence in the DME cases would have ramifications for Hungarian capitalism (and those of the remaining three cases). In turn, SMEs’ interest in the DME cases may be affected, though conflict with CMEs/LMEs is unlikely desired by the SME cases, which leads to the potential for a “development of underdevelopment” to emerge as ‘Eastern’ ownership of DME assets increases, adding to existent Western MNC presence and – in the case of Hungary – the state subsumption of domestic business.

Should the nascent trends of Chinese market-seeking FDI into Hungary continue, (partial) ownership of Hungarian entities be transferred, and the lower wages continue to stagnate, a “development of underdevelopment” has the prospect of proliferating e.g. within the remaining DME cases, particularly Poland. This projected aspect of the contemporary Hungarian political economy may potentially create a situation where the dimensions of external dependence are altered.²⁰¹ Either way, the trajectory of Hungarian economic development will be affected.

The VoC approach to capitalism in CEE maintains relevance, despite (recent) detractors (Baccaro and Pontusson, 2016; Streeck, 2011; 2016b) as it can help to identify outcomes through the convergence driven by domestic politics between the cases that make up the DME and SME ideal types; Hungary and China, for the purposes of this research. It has been argued that the institutions, which these two cases typically contain may experience (politically-induced) convergence, making their interactions more compatible. As the authors of the DME model insist, politics must be given more focus (Nölke and Vliegenthart, 2009: 694) not least because of the exposure to political influence of typically-weaker post-socialist institutions in comparison with the Western countries e.g. CMEs/LMEs, where institutions are much more rigid, successful and less vulnerable to the potency of political agency (Kopecky and Spirova, 2011).

Conclusion

This chapter has examined a second dimension of the Hungarian regime’s ‘turn to the East’. Analysis in this section of the thesis demonstrates that the Hungarian government’s attempts to stimulate inward Chinese investment is a logic designed to reinforce their method of

²⁰¹ For an analysis of Hungary’s changing dependencies, see Bank (2017)

governance, theorised as Hungarian authoritarian populism by this research. The results of Sino-Hungarian investments in the post-2010 period are mixed, with some successes and failures while others are yet to mature. Simultaneously, where data has been forthcoming, there are unambiguous examples of (attempted) Chinese investments in Hungary that have been managed by the prebendal network Fidesz has developed; the critical method to capture and subsume capital. The Belgrade to Budapest railway upgrade is a venture that does not present clear economic advantages to Hungary in the short term and contributes to Hungary's exposure to lenders within the remit of the KN programme when combined with the repayment obligations of the Paks II agreement with the risk placed on the Hungarian taxpayer.

Finally, a discussion on the potential for Hungary's economy to diverge away from resembling a DME ideal type towards an SME ideal type noted how this may occur due to the manipulation of four of the capitalist institutions the VoC literature has presented as constituting the Hungarian case. Should this transfer materialise, Fidesz may be able to operate with increased freedom from the conventional Western norms associated with capital streams, particularly from EU countries. A more flexible licence for Fidesz's domestic politics may stimulate outcomes that are consistent with the "development of underdevelopment" thesis (Frank, 1966) e.g. neo-colonialism; a paradoxical potentiality given HAP's focus on colonisation as a 'moral panic'. This could realistically lead to a prolonged period in office for Fidesz and stagnation of Hungary's development, compounding its place on the capitalist semi-periphery.

Part IV: Conclusion

Chapter six

Hungary and authoritarian populism

The purpose of this research has been to investigate the nature of the Hungarian regime since 2010. To do so, this thesis has constructed a new approach to conceptualising the Hungarian regime, labelling it Hungarian authoritarian populism (HAP). Subsequently, the shifting dimensions of the Hungarian political economy were studied along two broad dimensions with both initiatives designed to reproduce HAP. First, the state subsumption of domestic business. Second, nascent transnational capital dimensions from Russia and China. The thesis has demonstrated that Fidesz has internationalised HAP by stimulating financial inflows from ideologically-similar states. With every passing year since its return to government, Fidesz has embedded itself further into the position of governors of Hungary through legal amendments to the constitution, the purchasing or liquidation of media outlets and self-enrichment operations amongst other methods (e.g. Kornai, 2015). Each of these has been designed to expand the Fidesz project. The processes studied in this thesis have been used by Fidesz to achieve continued success, which is built on countrywide domestic support and a burgeoning international network of admirers of Fidesz's staying power and its traditional, conservative ideology.

Fidesz has recently (April 2018) secured an unprecedented third consecutive supermajority at the eighth national election since the adoption of parliamentary democracy in 1990. It will hold this majority until at least the next scheduled national election (2022) – and quite possibly beyond. Nationally, a steadfast network of Fidesz-loyal cronies has emerged to create a national bourgeoisie, labelled prebendalism (Szelényi, 2016) by this research, resulting from a nationalisation programme that targeted assets in the banking, energy, retail and utilities sectors in order to increase domestic ownership. Ideologically, Fidesz has proliferated its values across a range of institutions – business, educational, judicial – fostering a culture of

obedience, captured by Csillag and Szelényi (2015) as “post-communist traditionalism/neo-conservatism”.

The two principal infrastructure projects that form the empirical investigations of the external dimensions of HAP are both in the nascent stages of construction. First, the project to expand Hungary’s only nuclear power plant – Paks II – has recently begun (May 2018), though cost overruns have already been encountered (Hungary Matters, 2018). Second, construction of the Belgrade to Budapest railway upgrade (BBRU) has begun with rapidity on the Serbian side of the border, with the Hungarian section still in the planning stages.²⁰² While (further) delays and cost overruns are expected, particularly in the case of Paks II, it is anticipated that both projects will be implemented. These deals were selected for analysis because they are the largest to be agreed with Russian and Chinese state-owned entities in terms of cost and size since 2010. They have the capacity to affect the trajectory of Hungarian economic development because of the cost and repayment schedules with contracts stipulating a fixed-rate loan repayment timetable to state-owned lenders equating approximately 11-12% of Hungary’s GDP at 2018 levels with staggered interest rates until 2046. One ramification for such investment agreements is that the risk will be borne by the Hungarian taxpayer. Despite the fixed-rate interest rates, the repayment schedule exposes a generation of taxpayers to the potential for default.

The incumbent Hungarian political elites have reacted against the neoliberal economic developments of the 1990s and 2000s, characterised by sector-wide privatisation and high levels of FDI that radically changed the landscape of the Hungarian political economy. Fidesz’s ambition has not been to dilute foreign ownership and subsequently transfer increased levels of capital to augment spending on R+D and/or education and training as was recommended to Hungarian (and the remaining V4 countries’) policymakers (Nölke and Vliegenthart, 2009: 696) and consequently upgrade extant value chains dominated by (mostly) Western European MNCs. Rather more cynically, Fidesz has developed Hungary into a hybridised regime – a

²⁰² In a June 2018 meeting in Beijing, Foreign Minister Péter Szijjártó stated that an agreement with Chinese entities had been signed pertaining to the timetabling of the BBRU, but no additional details were forthcoming

governmental system that melds “democratic and authoritarian elements” (Diamond, 2002: 23) – intent on maintaining momentum through domestic business subsumption, proliferation of ideology and the stimulation of inward capital flows from ‘Eastern’ states. The post-2010 dominance of national capital and the support for ‘Eastern’-sourced financial inflows have complemented an already robust support base at home and in neighbouring countries with sizeable Hungarian populations who typically vote for Fidesz.²⁰³ The Fidesz-induced capital dimensions with Russia and China are particularly attractive given those regimes are highly unlikely to contest Fidesz’s domestic agenda as has happened with Western European states and the EU.

The remainder of this conclusion is divided into six parts. First, I discuss the concept of Hungarian authoritarian populism, an approach to explain developments in post-2010 Hungary; a nuanced, post-structural framework developed in chapter one. Second, there is a discussion on the Varieties of Capitalism institutional tradition and its continued application to the Hungarian case. Third, I discuss how far a ‘development of underdevelopment’ might be occurring in Hungary due to politically induced decision-making. Fourth, there is a discussion on the *longue durée* in the Hungarian context. This section asks how the Hungarian situation may look from the Russian and Chinese perspective and about the condition of the capitalism-democracy nexus in Hungary. Fifth, I produce a list of limitations to the research. Sixth, I make suggestions for future research initiatives.

6.1 Hungarian authoritarian populism

As discussed in chapter one, Hungary has become a point of great interest for academic and other specialist observers. Principally, commentators are concerned with what they see as

²⁰³ Leaders of ethnic Hungarian parties in Romania, Serbia and Slovakia – the countries with the largest number of ethnic Hungarians – unanimously congratulated Orbán after electoral victory in April 2018 (Daily News Hungary, 2018)

one of the CEE region's former beacons of performance (Andor, 2009) renege on its newfound democratic principles via a process of "democratic backsliding" (Sedelmeier, 2014) and subsequently disintegrate into an authoritarian (e.g. Scheppele, 2013) and hybridised (Bozóki and Hegedűs, 2018) regime. Further, within this sequence, a xenophobic nationalism has become extremely electorally popular (Fekete, 2016; Thorleifsson, 2017; Wilkin, 2018).

Part of the contribution of this thesis has been to create a theoretical framework that digs deeper into the underlying politics of the Hungarian regime. To do this, I have incorporated Stuart Hall's work on authoritarian populism to create a theoretical innovation that helps to explain the strategies Fidesz has adopted in order to sustain its project through self-reproduction. Rather than placing emphasis on a particular element of the post-2010 Hungarian regime e.g. "illiberal" democracy (Palonen, 2018), the HAP approach is wider in scope as it analyses Fidesz as a 'form of hegemonic politics'. This theoretical contribution is an original framework that captures the fundamental stratagems Fidesz uses to maintain its position in power. By framing the Hungarian government this way, my approach is able to explain the continuation of Fidesz's support and critically, its methods of self-reproduction, identified here as its control over national capital and its broad turn to the East to stimulate new capital inflows. The outcome of this analytical framework is to generate a deeper (more organic) understanding of the post-2010 Hungarian regime.

The first principal argument of this thesis outlined in the introduction was that Hungary has become a populist regime that places the importance of its own longevity above the national interest. As noted above, this research isolated five key features that constitute this form of governance I have labelled HAP. This method of governance has developed to create a hegemonic platform from which Fidesz has the capacity to expand its influence and further undermine the democratic gains of the 1989-2010 period, specifically through alteration and manipulation of institutions that are typically weaker than the more established and embedded variants in Western Europe. The HAP approach informs observers of the Hungarian regime and political economy and is a relatively robust framework to explain these phenomena after 2010.

An additional strength of the HAP model is the recognition that its roots emerged not when Fidesz won the 2010 national election but at the beginning of their period in opposition from 2002, which echoes Hall's (1979) identification of AP's nascent stages in 1975 when Thatcher became leader of the Conservative party, also then in opposition. Any government is to some extent reliant on historical fortune. Fidesz was close to winning the 2006 national election, the first in democratic Hungary to return an incumbent to government. The extent to which the Ószöd Speech (discussed in chapter one) was a Fidesz plot is unknown (Kósa, 2016) though former PM Gyurcsány claims he is "99% sure" who leaked the recording.²⁰⁴ Additionally, it remains speculation to consider how the 2008 Global Financial Crisis could have affected a Fidesz government and how it may have managed negotiations with creditors and any austerity programme. The Crisis was uneven in its effects as not all European countries received an externally-induced bailout and different countries' financial institutions, debt obligations and bond markets etc. possessed varying levels of exposure, which may explain why some incumbents were returned to office at the subsequent respective national election and others were dismissed from government.²⁰⁵ In any case, between 2002 and 2010, Fidesz laid the groundwork for a prolonged period in office by developing the key features of HAP.

The most important components of HAP for domestic consumption are the four 'moral panics' of 'colonisation', 'otherness', 'immigration' and 'specific threats'. Fidesz's inducement of these zones of conflict has been remarkably successful, helping to maintain the party's relevance and offset complaints over the clear corrupt practice and lack of material benefit for most of the Hungarian population, best indicated by lower salaries vis-à-vis other CEE

²⁰⁴ In 2016, Gyurcsány gave an interview to journalist András Kósa on the Ószöd Speech, in which he discussed its impact on Hungarian politics and the extent to which it contributed to Fidesz's electoral dominance. For a three-part translated transcript, see Hungarian Spectrum (2016)

²⁰⁵ There are no uniform results in this regard. If September 2008 (the month Lehman Brothers ceased operations) is taken as the date of the Global Financial Crisis in Europe, the Czech Republic (another V4 country), France, Italy, Spain and the UK are notable countries where the incumbent government lost the next post-Crisis election. This list also includes the US. Contrastingly, in Germany and the remaining two V4 countries – Poland and Slovakia – the governments survived the Crisis and were subsequently re-elected

countries. Moreover, these 'moral panics', accompanied by protagonists selected to animate their rationale, generate a resultant 'common sense' reaction detailed in chapter one.

The most significant outcome of the successful execution of the 'moral panics' is a subsequent capacity to change the balance of forces and therefore generate increased pro-government dimensions on the conjunctural terrain. It could be argued that these changes to the balance of forces include many of the Fidesz-induced alterations to Hungarian politics writ large e.g. the constitutional amendments, which cements the government's political dominance and may explain why opposition political actors use most of their resources in attempting to dethrone the government rather than work in unison. This research however, isolated the changes and continuities within the Hungarian political economy that have been affected by HAP. Most significantly, HAP can explain the development of a prebendal network, developed from Szelényi's (2016) analysis of post-communist regimes.

The Hungarian regime has identified alternative methods for self-reproduction, which are not necessarily congruent with the economic arrangements of the pre-2010 period, characterised by the multiple dependencies on the decisions taken in the boardrooms of Western MNCs (Nölke and Vliegenthart, 2009) and the dominance of foreign ownership. Fidesz has identified two alternative routes towards this cause. The first is a tighter control over domestic actors tasked with guarding national capital. The creation of a network of loyal oligarchs has led to the subsumption of domestic business across a variety of sectors, discussed in the empirical chapters of this thesis.

The second is the launch of the KN; a disguise for the initiation of external capital streams from ideologically-cognate regimes to the East of Hungary. The longer-term outcome of investment flows, trade deals or loans remain too challenging to accurately gauge because many variables are out of Fidesz control, in the first instance. What is clear however, is that HAP stands a stronger chance of survival with capital injections from Russia and China because – as outlined in chapters four and five – investments are often 'captured' in various ways by

actors within the constellation of the prebendal network, which subsequently strengthens the regime. Additionally, as noted above, financial inflows from these entities come attached with ideologically-similar values and therefore are far less likely to challenge Fidesz's domestic politics.

Through this institutionalisation of the methods of accumulation, Fidesz has developed a sophisticated approach to securing longevity while maintaining the institutions of a nominally democratic state. The monopoly of domestic business has become instrumental in assuring dissent remains secluded and does not gather momentum capable of challenging the regime to any meaningful level. Changes to the 'balance of forces' in the international sphere remain in their nascent stages. Hungary is one of a multitude of countries working hard to attract Chinese capital and the Paks II project continues the legacy of Russian nuclear expertise in Hungary. However, rather than seek to upgrade Hungary's economic standing with such agreements, it is the self-reproduction of HAP that forms the underlying rationale for engaging in these projects.

These developments are significant for at least three reasons. First, they are – if only minimally at this stage – generating changes to the external orientation of the Hungarian political economy. This is an important feature of post-2010 Hungarian development as it contrasts with the core developmental focus of the pre-2010 period, characterised by the stimulation of FDI inflows from and a robust export market to (mostly) Western European firms, outlined in the previous chapter. Second, such developments are politically-induced, rather than resultant of firm-firm interaction. Recognition of the increased capacity of the Hungarian regime to engender such developments enhances comprehension of development trajectories. This means that hitherto institutional accounts of Hungarian capitalism, while not redundant as discussed below, are unable to explain such agency-driven agreements. Third, increased engagements with often state-owned entities based in countries that fall within the purview of the KN, particularly Russia and China, may serve to alter Hungarian capitalist institutions, manipulating them for the advancement of the prebendal network – principally through accumulation and favoured contracts for government-loyal firms – with

the outcome that the Hungarian regime becomes more embedded. The HAP approach developed in this research can help to understand the successes of the politically-induced changes described here. To complement this, a harnessing with the VoC tradition helps to attest to the institutional changes that result from the motives and actions of political agents.

6.2 Varieties of capitalism

This thesis has also analysed the trajectory of Hungarian economic development from a VoC perspective. In doing so, it has found two broad outcomes. First, despite the tradition's detractors (e.g. Ebenau, 2012; Herrigel and Zeitlin, 2010; Streeck, 2011; 2016b) the identification of four capitalist institutions of both the DME and SME models offer a snapshot of the potential trajectory of Hungarian economic development and subsequently the remaining DME cases, should investments increase in size and importance from the SME cases. By isolating overlapping complementarities, this thesis argued that this may be a helpful method to conceptualise segments of Hungarian capitalism, particularly given the increases in Chinese IFDI. Despite the mixed successes of Chinese capital penetration of the Hungarian economy, Chinese investment flows into the V4 countries (DME cases) dominate China's investment portfolio in the wider CEE region as detailed in chapter five.

Second, stemming from this potential convergence, this research posits that should the Hungarian political economy and those of the remaining three DME cases indeed be altered due to domestic policy to more resemble the SME cases, then the potential for an "alternative to the liberal economic order" (Nölke *et al.*, 2015: 540) may assume new dimensions and accelerate, though this is by no means guaranteed. Such predictions remain extremely premature and as such, this is merely a suggestion based on the reading of the literature.

The politically-induced changes to the Hungarian political economy since 2010 are affecting the four capitalist institutions that are shared between the two models, this research claims, building on my previous work (Rogers, 2019). The critical feature of the DME model is its emphasis on the external dependency that has come to strongly influence the development paths of the four cases. This thesis does not claim that dependency on the decisions taken in the boardrooms of Western MNCs has been increased, lessened or relocated. An important outcome of the analysis of Hungary's capitalist institutions from a VoC perspective has been to adhere to the model's authors to "include a more political account of these institutions" (Nölke and Vliegenthart, 2009: 694) and subsequently demonstrate that HAP is the catalyst for any convergence from the DME to the SME model.

Despite the partial nationalisation of certain sectors after 2010, Hungary's dependency on Western MNCs remains and its longer-term location on the semi-periphery of capitalism is unlikely to change, compounded by the continuation of Western FDI and prominence of foreign ownership. Further, Hungary's potential graduation from this categorisation does not appear to bear resemblance to the Irish case²⁰⁶ – a former inhabitant of the semi-periphery – where high levels of investment in R+D and education and training were critical for upgrading the quality of its value chains and a subsequent economic recalibration, aligning more closely with the core capitalist economies (Andreosso-O'Callaghan *et al.*, 2014; Nölke and Vliegenthart, 2009: 695). The importance HAP places on dominating domestic business and establishing new 'Eastern' capital flows for its own ends considerably lessens the chances of Hungary upscaling its capitalist institutions to emulate the Irish case. Consequently, any such replication is not desired by Fidesz and rather, its objectives are to secure ideological consolidation in place of economic rationality.

To assist with understanding these developments, I harness the analysis carried out on AP in chapter one to the VoC approach. Such framework cohesion is beneficial because it permits observers of Hungarian development the opportunity to analyse political and economic

²⁰⁶ The 2008 Global Financial Crisis has had a severe effect on the Irish banking system and has challenged the country's categorisation as a Liberal Market Economy (Andreosso-O'Callaghan *et al.*, 2014)

developments from a more theoretically-holistic vantage point, namely through post-structural and institutional perspectives. This is helpful for advancing understanding into the development of such a “historically unusual” (Szelényi, 2016: 23) case that Hungary has become. While arguments for using Stuart Hall’s work were delivered above, by using the VoC approach, the potential for the convergence of two models within this tradition, namely the DME model and the State-permeated Market Economy (SME) model (Nölke *et al.*, 2015), highlights how increased economic interaction between cases that populate these models can inform observers of Hungarian development of the potential for institutional harmonisation, and importantly, how such institutions are influenced through politics, broadly defined.

A further justification for combining these approaches opens a possibility to broaden investigations into Fidesz strategies through analysis of how the regime operates the maintenance and proliferation of domestic power through AP and the subsumption of domestic business and concurrently, indicating how institutional harmonisation might occur between DME and SME cases as a result of such politically-induced alterations to the domestic business landscape. In Chapter one, two broad potential strategies were identified. First, more importance may be placed on nurturing the prebendal network, which would result in an (even more) highly corrupt ‘illiberal’ regime, with the principal outcome, further Fidesz embeddedness and a proliferation of national, country-wide inequalities. A second identified strategy pertains to the regime’s objective to gravitate Hungary away from the dependent capitalism that has developed since the systemic change in 1989.

By harnessing the VoC to AP, this work advances the VoC framework. The original application of the tradition to the Hungarian case (the DME model) can no longer explain (if it ever fully could) Hungarian capitalism. The creation of a nuanced framework, with an unambiguous onus on the necessity to pay considerably more attention to agency-driven development and subsequently, a reduction on firm-centred bias allows more focus to be paid to both political and economic steering. Hungary is a highly unique case of capitalist development and this is a two-fold story. In the first instance, the historical institutions that developed before and

after 1989, but also because of the (re)emergence of a core group of political actors who have retaken control from economics (Mihályi and Szelényi, 2019). This thesis, then, advances the VoC framework by (a) binding to a post-structural account of populism, and; (b) (re)applying it to the Hungarian case, but with a stronger emphasis on the requirement to acknowledge political agency.

6.3 Development of underdevelopment: the state as a tool for profiteering

If Hungary is no longer a DME case, what is it a case of? Like all national capitalisms, the answer is a complex mesh of historical layering, institutional performance, international relations, sociological make-up and political determinism etc. The “development of underdevelopment” thesis (Frank, 1966) may be an appropriate method to comprehend the post-2010 alterations to contemporary Hungarian capitalism. The neoliberal explosion, after 1989 – particularly after the implementation of the Bokros Package in 1995 (discussed in the Antecedents chapter) – and the onset of foreign domination of hitherto national assets, left Hungary in a locked-in perennially-peripheral position of middle man producer of medium quality goods for Western markets; an unenviable development that undermined the anticipated outcomes of the heady optimistic immediate years after the cessation of state-socialism.

If the Baltic states fervently ingested the neoliberal order as a perceived necessary method to break free from the depths of the Soviet system and its hangover ingredients at all costs, Hungary under Fidesz has developed as a regime with an emphasis on engendering the system’s self-reproduction. This includes an unprecedented rapprochement with Russia, continuing exodus of younger, educated professionals and shameless exhibitions of corrupt

practice via asset assumption. Despite this, Orbán is consistently returned to power and supported with institution-bending supermajorities.²⁰⁷

Fidesz offers an alternative highway towards a nuanced version of the “development of underdevelopment”: the dilution of already weak civic institutions, the aforementioned ‘brain drain’, the concentration of wealth in the pockets of the politically-loyal, the domination of communication (media), an ideology of deeply conservative and traditionalist values etc. Political actors at the centre of these changes, however, wear ill-fitting suits and not the militaristic uniforms fashionable eight decades ago. Contemporary Hungary is not Weimar 2.0 and the incumbent government has been successful in keeping genuine fascists away from any meaningful position that could affect policy. What prevents an immediate breakdown of the liberal order established after 1989 is Hungarian membership of the EU and NATO in the first instance and the obligations that stem from sitting at those tables. If there is a process of “development of underdevelopment” in post-2010 Hungary, the critical difference between the original work and its focus on Latin America and the Hungarian case is that it is HAP that is stimulating this route, rather than exterior actors.

A heavily privatised economy has left Chinese and Russian FDI little room for entry other than to finance greenfield and brownfield infrastructure development. In addition, if Hungary offers a ‘model’ of governance for other V4 countries – or within the wider CEE region – replication may be unlikely. This is because Fidesz’s success at the ballot box remains unmatched in other countries in the region, development paths differ, national characteristics do not always converge, multiple dependencies remain, and neoliberal development paths prevent a broad arc of post-socialist European countries from graduating away from the semi-peripheral zones of global capitalism. Other CEE states maintain different types of relations and attitudes towards Russia, most notably Poland and the three Baltic States. Relations with

²⁰⁷ As stated earlier in the thesis: according to Hungarian electoral law, a supermajority is achieved when one party wins at least 66% of the parliamentary seats

China are highlighted by efforts to attract FDI²⁰⁸ and therefore increased interaction with Chinese capital in post-socialist Europe, while politically-induced, may not tend towards or stem away from any particular ideological standpoint. Rather it emerges as a reaction to neoliberal economic regimes, which developed to varying degrees of intensity and result from different time lags but nonetheless ploughed through the variation of development paths that were chosen across the region after 1989.

6.4 The *longue durée*

At the time of writing – mid-2018 – the post-socialist period is not three decades old and the post-2010 epoch of Fidesz political domination, just over eight years in length. In Hungary, history does not spend much time in the waiting room. In under a century, dual monarchical empire, rightist and leftist dictatorships, market socialism (Kornai, 1991), free-market capitalism and since 2010, a transparently corrupt political elite with self-preservation at the forefront of its focus have moulded the Hungarian political economy and importantly its externalities. Manifold radical shifts have occurred in the last century and therefore it may be entirely reasonable to assume another may happen within a generation, particularly given they typically manifest themselves via the influence or force of exterior actors. Hungary's membership of the European Union and multiple dependencies on the (mostly) Western firms that entered the country after 1989, however, militate against this scenario.

As stated in chapter one, Orbán recently declared his intention to remain as PM until 2030; a feasible proposition given the changes he has made in Hungary, his continued success at national elections, his loyal set of devoted oligarchs and an increasing transnational network of supporters. He has become a frontrunner in Europe's broad political shift to the right, particularly with anti-migrant rhetoric – a platform for political parties throughout the region.

²⁰⁸ In 2013, the Dalai Lama visited Lithuania to give a public lecture, which was denounced by the Chinese embassy in Vilnius. Since then, a new Ambassador to China was appointed to “restart the relationship and give them a new quality which is being realized” (China-CEE, 2018)

As János Kornai (2015) writes, space for optimism remains as long-standing conservative parties are eventually defeated. However, by citing historical examples from Sweden and the UK, the weakness of democratic institutions, the potency of Orbán's governance and the increasingly transnational rigor of a wider, multinational regime that has now reached the so-called advanced countries (e.g. Italy) are underplayed. These developments strengthen Orbán's position and led this research to claim an Orbánist legacy may characterise Hungarian politics for decades to come, in the mode of Peronist Argentina or Thatcherite Britain.

While elections remain timetabled for four-year cycles, the Hungarian Left – and the wider European Left – remain so fragmented that a genuine challenge to Fidesz power is unlikely, at least domestically for the next scheduled national election in 2022. Only Fidesz may be capable of defeating Fidesz.²⁰⁹ A rogue oligarch has little effect,²¹⁰ whistle-blowers cannot dent the machine.²¹¹ Its adept qualities of exploitation of situations for self-benefit is a critical factor for political survival and should not be underestimated. A less skilful party or leader may not have had the foresight or capabilities to consistently unlock political capital and simultaneously uproot dissent and undermine opposition. A more democratic group of political agents may have possessed the humility not to seek perennial power.

The post-2010 politically-induced changes to the trajectory of Hungarian economic development can be understood as anchored against the backdrop of modernity. Hungary – along with Poland²¹² – has been a consistent driver of modernity in the V4 region. The 1956

²⁰⁹ A recent (August 2018) story has become something of a domestic scandal. Orbán's oldest daughter Ráhel – the wife of István Tiborcz discussed in chapter three – who is heavily pregnant was photographed throwing a soiled nappy onto the side of a Croatian motorway. The incident has ignited the political polarities in the country with Fidesz-loyal media finding a way to blame Gyurcsány for Hungary's ills. Further, it has refocused the spotlight on Tiborcz's wealth. One article observed a metaphorical connection between the dumped package and the couple's finances, as it "embodies the essence of the Orbán regime with brutal simplicity" Népszava (2018)

²¹⁰ This is in reference to Lajos Simicska, discussed in chapter three

²¹¹ In 2013, a former tax inspector, employed by the National Tax and Customs Administration (NAV), alleged via a document known as 'The Green Dossier', that the institution overlooked billions of HUF in tax fraud committed by some of Hungary's biggest firms. The dossier included claims that NAV prevented tax audits and forewent evaluations of tax arrears and VAT claims. After resigning, he was sued by NAV for damaging its reputation

²¹² Particularly inspired by the Solidarność trade union, established in 1980

counterrevolution and the opening of the Austrian border in May 1989,²¹³ as well as the pace of EU-accession talks set Hungary apart from its Czech and Slovak regional counterparts. Fidesz's continued electoral success and exploitation of the weak civic institutions that are commonplace in the CEE region have rendered the internationalisation of HAP a distinct possibility. This is not guaranteed however, particularly as other countries' leaders do not share the same level of support as Orbán.²¹⁴ Capital flows from countries less concerned about upholding Hungary's democratic achievements serve to entrench the incumbent Hungarian political elites, crystallising the drive to (anti) modernity.²¹⁵ While it remains unclear what these developments may entail for the longer-term, HAP is the catalyst and within the context of modernity in the CEE region, Poland is the most likely candidate to emulate the Hungarian regime.

Should the fragmented domestic Hungarian Left find the capacity to work together, a genuine challenge to Fidesz could be generated, though with the litany of constitutional changes and manipulation of institutions, this remains unlikely. Orbán is highly pragmatic and will do many things to remain in power – convert to Christianity, reverse the core principles of Fidesz from the 1980s, attack previous sponsors, connect with Russia etc. – and he is adept and skilful at doing so. This means any challenge to his power will have to match his pragmatism and domestic appeal. A stronger and more vocal response from non-Hungarian actors would also serve to challenge Orbán, particularly from Germany and the EU as they have the potential to generate a “restart of democratization in Hungary” (Ágh, 2016: 284). This potential remains unfulfilled, however. The presence of Western industrial interests in Hungary and the wider V4 region is continually reproduced through the maintenance of extant subsidiaries and new market entrants. Despite partial nationalisation after 2010, Hungary maintains pro-market

²¹³ A full six months before the Berlin Wall was toppled in November of that year. The key Hungarian protagonist of the Austro-Hungarian fence-cutting ceremony was Foreign Minister Gyula Horn, later Prime Minister (1994-1998)

²¹⁴ Janez Janša, an Orbán ally was recently (June 2018) elected as Slovenian Prime Minister. Though he received a quarter of the vote, the turnout was only 52%, creating questions around the strength of his mandate to govern. In August 2018, the Slovenian parliament nominated a rival candidate, Marjan Šarec for PM with approximately 60% of its members selecting a five-party coalition in place of Janša

²¹⁵ For a recent publication of this on a broader, global level, see Rabin and Minakov (2018)

strategies that attract Western MNCs. This means rhetorical pressure on Fidesz is yet to transpire into anything more punitive.

As noted above, Orbán has determined 2030 as an end point to a period described as “a unified era” (Euractiv, 2018) demonstrating that the Fidesz project is far from completion. There are no legal limits to serving as Hungarian PM as there are in other countries e.g. Russia and the US, and by 2030 Orbán will be 67 years old; a still active time for a politician. Due to his pragmatic approach to maintaining relevance, he may seek a tenure as President of the Republic²¹⁶ to safeguard his power and HAP. Significantly, he has discussed this seriously before, mooted the possibility of transforming Hungary from a parliamentary to a Presidential democracy, based on the French model (Népszabadság, 2014).²¹⁷ The incumbent President’s term is due to expire in 2022, the same year as the next scheduled national election; convenient timing that would make any transition from PM to President less disruptive. Because of Fidesz’s supermajority, changing the form of democracy may not be too challenging, which is compounded by Orbán’s capacity to ‘sell’ his position to the electorate, as highlighted by the ‘moral panics’ and subsequent ‘common sense’ reactions. Should this development materialise, Orbán as a President may increase his power i.e. Fidesz may set Presidential terms at six years, as is the case in Russia, and this may weave another dimension into HAP.

6.4.1 *The views from Moscow and Beijing*

As outlined in chapter four, Russian business interests cannot establish significant presence in Hungary, but the emergence of a broad arc of ideologically-sympathetic countries that look to Russia as a *de facto* protector is an attractive development from the Russian perspective. Since 2010, Hungary has emerged as an ideological ally in post-socialist Europe and as such, the creation of a relationship with the guarantee of cheaper energy deliverables to help Fidesz

²¹⁶ A largely ceremonial role but with the power to sign – or reject – legislation.

²¹⁷ Any such change would require a national referendum

create political capital is a valuable pursuit. For Russia, Hungary may have the capacity to become a 'voice' for Russian interests at the EU/NATO tables, and it is recommended that researchers investigate these eventualities more deeply as this will generate more understanding into Russo-Hungarian relations and the steadfastness of EU institutions, in the first instance.

The development of shared ideology has redeveloped some aspects of state-socialist era Russo-Hungarian relations. Ideological similarities have rendered cooperation a natural fit at the political level, with Russia looking to create positive bilateral relationships to offset a broad slide to anti-Russianism that has emanated from some Western institutions (particularly NATO), increasingly since 2004.²¹⁸ Hungary is prepared to meet Russia halfway in this respect, and by looking to Putin as a fraternal guardian of ideological practice, leads the way amongst a zone of nascent pro-Russian/pro-Putin governments in CEE.²¹⁹

This research has shown that Russo-Hungarian relations are now more important than they were before 2010 with the Paks II agreement the most significant example of this relationship. Hungary's EU and NATO membership has rendered it a reluctant adherent to the post-2014 sanctions against Russia and while regular antipathy towards this policy is produced, upgrades in bilateral relations remain limited. According to the Russian constitution, the President cannot serve a third consecutive term, which means longer-term Putinism remains unassured and the Russian government's focus until the next scheduled election in 2024 will be dominated by the pending transition process (Rogov, 2018). This means Russia's previous emphasis on the importance of bilateral relations with Hungary may be undermined by increased attention to domestic politics and regime preservation.

²¹⁸ The year of the so-called Orange Revolution in Ukraine that prevented the pro-Russian candidate from taking office following a rigged election. This event began a series of political events in the Ukraine that have developed internationally after 2014 (Havrylyshyn, 2017; Wilson, 2005)

²¹⁹ As noted above, Poland and the Baltic States are notable exceptions

From the perspective of Beijing, Hungary has worked hard to demonstrate its pro-Chinese position, and this is appreciated in China. Hungary is ready to accept Chinese FDI for projects that do not necessarily make immediate economic sense from the Hungarian perspective e.g. the BBRU. While China has the capacity and strategy to relocate assets and interests elsewhere, Hungary remains an important partner, particularly given the substantial Chinese minority in Budapest and the efforts to upgrade soft power with the establishment of cultural and educational initiatives.

China's unmatched growth rates and development since the turn of the century is hard to ignore for most of the world and significant Chinese investments can be found on every inhabited continent. Questions are beginning to be raised surrounding China's investment rationale, however. A recent cancellation of Chinese-financed infrastructure projects in Malaysia cited a nuanced form of colonisation.²²⁰ This may not be the case in the CEE region, though it suggests a paradoxical development given the identification of colonisation as one of the four 'moral panics' of HAP. Should the Hungarian regime survive until its declared target of 2030 and Chinese investment flows continue to enter Hungary, Fidesz may eventually have to offset concerns of colonisation by framing Chinese economic presence as an alternative type of interaction.

The shared ideology between Russia, China and Hungary (Csillag and Szelényi, 2015) renders alliances more palatable than states that are more critical of Beijing and Moscow. Hungary refrains from publicly discussing Tibetan independence and has consistently called for an end to Russian sanctions, which is appreciated by both countries. Most importantly for HAP, neither Beijing or Moscow criticise Fidesz's domestic political record nor do they interfere with the regime's blatant corrupt practice.

²²⁰ Malaysian Prime Minister Mahathir Bin Mohamad who won the May 2018 national election – and was PM from 1981 to 2003 – announced he was suspending two Chinese infrastructure projects with a combined value of \$22bn. He cited concerns over imperialist ambitions, stating “we do not want a situation where there is a new version of colonialism happening because poor countries are unable to compete with rich countries.” (New York Times, 2018)

6.4.2 Capitalism and democracy: decoupling in action

Orbán understands that German industry is critical for near and longer-term Hungarian economic success. He is also aware that a Chinese and Russian financial compliment will help achieve political interests. Some interviewees that helped provide data for this research were convinced that Orbán's view is that the EU is a dead project. This may be the case, but he is unable to be overtly bold in his criticism of extant German firm presence or create a 100% ownership situation of the sectors that were heavily privatised in the 1990s and 2000s and subject to partial nationalisation after 2010. Such an outcome would likely lead to increased risk forecasts for MNCs operating in Hungary, which could take measures to divest and relocate subsidiaries to economies more congruent with their interests.

With democratic institutions in Hungary already weak, there is a growing disconnect between free market capitalism and liberal democracy, discussed elsewhere (Streeck, 2016a; 2017). The extent to which the Western liberal global order may be waning is open to further research. From the Hungarian perspective, however, the neoliberal project has undermined the post-1989 hopes and stunted development. A 2009 study by the Pew Research Centre found that 72% of Hungarians considered themselves to be worse off than under communism, 10% more than Ukraine and 27% higher than Russia (PEW, 2009). The 2008 Global Financial Crisis fuelled nationalism and created easy-to-attack enemies for the purposes of cementing popularity for nationalist entities.

Fidesz's longevity is hard to predict though its continued success indicates a long-lasting stay in government. Should Chinese business interests enter Hungary in a more significant way, this dimension will likely become compounded with checks-and-balances and regulatory frameworks undermined and loyal oligarchic and local business networks further enriched. A significant structural factor underpinning the dimensions of the post-2010 Hungarian political economy investigated in this thesis, is the neoliberal drive that engendered Hungary's

multiple dependencies and locked-in economic status during the 1990s and 2000s. A collective lack of foresight from domestic policy-makers and international businesses and creditors undermined the significance of Hungary's external debt – accrued in the 1980s – which eventually resulted in the adoption of austerity measures from 1995.²²¹

There is no going back to the pre-2010 period. The legacy of HAP will have a significant impact on the Hungarian political economy and may become a method of governance packaged for export throughout the region. It is up to democratic actors and institutions, observers of Hungary, and those concerned with the future of a democratic Europe to work to limit the legacy of HAP as much as possible in order to offset the disastrous outcomes of the post-2010 period.

6.5 Limitations

From a theoretical perspective, there are clear tensions from harnessing approaches from the post-structural and institutional traditions and these were discussed in chapter one. This likely means that such theoretical harnessing of these theories is potentially subject to criticisms from proponents of either camp. In the first instance, quite simply, an institution is a form of structure and necessarily, institutional analyses recognise their positive (existing) nature, explicitly or implicitly. From a post-structural perspective, analysis – because of its emphasis on the negative (absent) e.g. ideas – may be charged with being incapable of capturing tangible outcomes in terms of policy-making or policy outcomes etc. What this thesis has done is drawn two strains of each approach together – and despite the limitations identified here – is confident such binding is a helpful method for comprehending politically-induced (actor-centred) changes to Hungarian capitalism and development.

²²¹ János Kornai (1990) proposed a series of macroeconomic measures to help alleviate strains on the Hungarian economy from the transition away from state-socialism, which were largely ignored by policymakers

This research has been compiled to account for the nature of the contemporary Hungarian regime with the contribution of investigating Fidesz's apparent turn to the East to stimulate capital inflows to help reproduce HAP. In relation to broader trends in CEE democratic backsliding, a clear limitation of this research was the one-country focus. While Hungary remains the most relevant country to study because of the continued success of Fidesz, in other CEE states national variants of authoritarian populism are also present, notably in Poland and Macedonia.²²²

This study has not analysed the types of capitalism in the remaining DME cases, but it may be possible that the capitalist institutions that constitute these economies according to the VoC tradition could increasingly come to resemble those of the SME cases. By only focussing on the potential for convergence using one DME case, this research is not in a position to make assertive claims about the model's longevity and continued relevance. Further, despite this research placing more emphasis on political analysis i.e. investigating the importance of HAP in influencing the Hungarian political economy, this thesis has not directly adhered to the DME model's authors' call for future research to study the five institutions that form the model, from a political perspective (Nölke and Vliegthart, 2009: 694).

The emergence of the prebendal network as a critical nodal point of HAP was analysed in chapter three with the inclusion of empirical evidence. It was not the focus of this research to conduct a wider study into the broader network of politically-loyal actors, their assets, the sectors in which they operate or the movement of capital between stakeholders. A more in-depth analysis to this end, would have been able to more categorically investigate the breadth of the prebendal network – and its political connections – in operation in Hungary.

²²² See Petkovski (2016) on the latter, which was briefly discussed in chapter one

Despite mixed success rates, Chinese penetration of the Hungarian economy is becoming increasingly significant (Rogers, 2019), underscored by the FDI levels vis-à-vis the wider CEE region. Due to spatial constraints, this thesis was unable to conduct a deeper analysis of Chinese capital inflows into Hungary and therefore any accurate forecasts of investment trajectory are consequently less developed.

From a qualitative methodological perspective, I selected to conduct semi-structured interviews in Hungary for reasons outlined in chapter two. Should increased access be forthcoming for researchers in Russia and China, then harvesting qualitative data from leading personnel akin to those who assisted with this research in these countries would generate a more rounded dataset for empirical analysis. A final point in this regard: while I contacted Fidesz MPs for comment, none responded. Therefore, I was unable to acquire any primary source information from governmental sources using the same method as with other contributors, which hindered the research from formulating a more rounded dataset.

6.6 Future research

As identified earlier in the thesis, by placing increased emphasis on political agency, this research paves the way for scholars and other researchers working within the spheres of comparative capitalisms and the (comparative) international political economy to investigate more fervently those cases that are not Eurozone members and or found within the so-called ‘advanced economies’ as has been done thusly (Baccaro and Pontusson, 2016; Nölke, 2016). In this regard, this research reflects recent calls to do exactly that, and emphasises the importance of such endeavours (Bohle, 2017). Given the potential for emerging markets to play an increasing role in the global political economy e.g. the continued upward trajectory of the Chinese economy and the emergent Indian middle class – to give two larger examples – it is imperative that research pay more attention to politically-induced outcomes. This is compounded when political actors work towards – however successfully – altering the

external dimensions of the national political economy, as has been investigated in this research.

These limitations present an opportunity for future research to investigate the institutional complementarities of the DME cases in relation to Chinese capital and with any capital inflows from the remaining two SME cases, particularly India.²²³ Such analysis may develop increased understanding as to the extent to which the capitalist institutions of the DME cases are being manipulated by domestic actors to resemble those of the SME cases in a bid to create a more favourable investment climate. Employing the VoC approach to discern the various (changing) trajectories of economic development of the V4 countries could stimulate important implications for policymakers and capital stakeholders in the region.

It may be helpful to investigate the authors of the SME model's claim (Nölke *et al.*, 2015: 561) that larger emerging economies are not compatible with extant Western liberal global institutions against potential convergence with other economies who are also not core capitalist nations e.g. the DME cases, due to their domestic policies. The authors acknowledge (2015: 561) that Gramscian hegemony must stimulate consent alongside material power in order to be effective. A strengthening of economic relations between China and the V4 may have the outcome of further undermining the liberal Western global order and as such, this should form the basis of future research for those concerned with analysing the global political economy from a VoC perspective.

An important area for future research is to investigate the broader nuclear lobby. Based on the discussion in chapter four, it would be enlightening to uncover why the European Commission reversed a decision on the Paks II agreement, particularly given this was in light of a Rothschild publication, supportive of the project (Rothschild, 2015). More widely, despite

²²³ Despite India's negligible history of investing in the CEE region, recent interest has developed from both sides and there are areas of comparative advantage for Indian entities vis-à-vis other counterparts with interests in the region e.g. in the sectors of agricultural products, pearls and precious stones, textiles, minerals, computers and IT (Svobodová and Fernandes, 2014)

the increasing viability of renewable energy as an alternative to nuclear power, observers of energy policy and solutions would benefit from research with a focus on the power of the nuclear lobby, particularly given firms' increased development of non-nuclear energy solutions in order to diversify their portfolios.

At the firm level, more research should be undertaken into the effects of Fidesz's post-2010 changes to Hungarian capitalism. Locating preferences for statism in certain sectors (e.g. the energy and electric lighting sectors, as discussed in chapter three) would generate a deeper understanding of Fidesz's strategy towards increased domination of national capital (as discussed in chapter one). Further, additional surveys such as the interviews of CEOs of strategic partner companies conducted by Szanyi (2016b) would help to gauge the extent to which political loyalty has become an important factor in Hungarian business. This approach would also generate more awareness of the disposition of *Russophilism* and *Sinophilism* amongst firm decision-makers and sectoral elites. Macroeconomic indicators of industrial relations e.g. collective bargaining, GDP *per capita*, union density etc. also require additional investigation as this will help understand post-2010 trends and what this might mean for the trajectory of Hungarian economic and societal development, particularly given the forecast for further Fidesz electoral success.

As discussed in the previous section, garnering more data from Russia and China will generate increased understanding of the attitudes to and incentives for working more closely with Hungary. This will inform observers in more depth as to the extent to which Hungary's apparent turn to the East is reciprocated and what this means for the potential to reproduce HAP and for the trajectory of Hungarian economic development in the 2020s, in the first instance.

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Appendix

Appendix 1. 1: List of interviewees

| | |
|-----|--|
| I1 | Former Deputy State Secretary of the Ministry of Finance |
| I2 | Executive Board member of the Business and Industry Advisory Committee, OECD |
| I3 | Senior employee at Transparency International Hungary |
| I4 | Former Hungarian Minister of Culture |
| I5 | Former Deputy Head, Financial Stability Department, Hungarian National Bank |
| I6 | Investigative journalist |
| I7 | Managing Director at GKI Economic Research and Consulting |
| I8 | Professor of International Political Economy, Central European University |
| I9 | Senior MP for Jobbik |
| I10 | Former Minister of Education |
| I11 | Senior Advisor, Hungarian National Bank |
| I12 | Senior MP Lehet Más a Politika |
| I13 | Member of the Board, GKI Economic Research Company |
| I14 | Senior staff member, Oriens – Private equity firm with focus on CEE |
| I15 | MP for MSzP |
| I16 | Senior Researcher, Hungarian Academy of Sciences |
| I17 | Director, Deloitte Hungary |
| I18 | Former Minister of Foreign Affairs |
| I19 | Senior Researcher, the Budapest Institute |
| I20 | Former Minister of Industry and Trade |
| I21 | Fellow, Hungarian Academy of Sciences |
| I22 | Member of the Hungarian Institute of International Affairs |
| I23 | Former Minister of Economic Affairs |
| I24 | Vice President of the Association of Hungarian Economists |
| I25 | Fellow, Hungarian Academy of Sciences |
| I26 | Former Prime Minister of Hungary |
| I27 | Professor, College of Europe |

Appendix 1.2: Interview schedule

The interview schedule below accounts for the period of fieldwork in Budapest in January and February 2017. As in Appendix 1.1 above, each interview is represented by the symbol “I” plus the number representing the chronological order in which the interviews were conducted. All interviews took place at either the CEU, where I had privileged access to the facilities due to my Visiting Researcher status, interviewees’ offices or a convenient, central Budapest location. This was discussed in chapter two.

January 2017

| Sun | Mon | Tue | Wed | Thu | Fri | Sat |
|-----------|---------------------------------|-----------------------------------|------------------------|-------------------------|-------------------------|-----------|
| 1 | 2 | 3 | 4 | 5 <i>I1</i> | 6 <i>I2</i> | 7 |
| 8 | 9 <i>I3 & I4</i> | 10 | 11 <i>I5</i> | 12 <i>I6</i> | 13 | 14 |
| 15 | 16 <i>I7 & I8</i> | 17 | 18 <i>I9</i> | 19 <i>I10</i> | 20 | 21 |
| 22 | 23 <i>I11</i> | 24 <i>I12 & I13</i> | 25 | 26 <i>I14</i> | 27 <i>I15</i> | 28 |
| 29 | 30 <i>I16</i> | 31 <i>I17</i> | | | | |

February 2017

| Sun | Mon | Tue | Wed | Thu | Fri | Sat |
|-----|------------------|----------------------------|-----------------|------------------|---------------------------|-----|
| | | | 1 <i>/18</i> | 2 | 3 <i>/19 & /20</i> | 4 |
| 5 | 6 | 7 <i>/21</i> | 8 <i>/22</i> | 9 <i>/23</i> | 10 | 11 |
| 12 | 13 <i>/24</i> | 14 <i>/25 & /26</i> | 15 | 16 <i>/27</i> | 17 | 18 |
| 19 | 20 | 21 | 22 | 23 | 24 | 25 |
| 26 | 27 | 28 | | | | |