Vulnerability and economic re-orientation: rhetoric and in reality in Hungary’s “Chinese opening”
Jacoby, Wade; Korkut, Umut

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Vulnerability and Economic Re-orientation:  
Rhetoric and in Reality in Hungary’s “Chinese Opening”  
Wade Jacoby  
Brigham Young University  

Umut Korkut  
Glasgow School for Business and Society, Glasgow Caledonian University

To what extent do Euroskeptic parties in Eastern and Central Europe have viable alternatives to the European Union and the broad basket of liberal policies promoted by the EU? In recent years, Hungarian Prime Minister Viktor Orbán has used his overwhelming parliamentary majorities to chart a partially new course, and this article inventories one aspect of this new course. The article asks whether Hungary can gain any potential benefits from closer links to China as a partial replacement for resources that might not be available (or that might be lost) from its more conventional European partners to the west. Orbán has often justified both radical constitutional change and economic nationalism as powerful medicines to push back against Hungary’s vulnerability at the hands of its foreign and domestic enemies. In this context, China emerged as both a potential source of new revenue and rhetorical trope that seemed to fit in a broader Fidesz discourse of an “Eastern opening.” This article makes a first attempt to separate rhetoric and reality. It first explores how the ongoing consolidation of illiberalism in Hungary has now also sparked a geopolitical repositioning through the “Eastern opening” during Fidesz’s second term.

Second, it seeks to understand the theoretical proposition that new sources of external funding—including FDI and government bond purchases—can help enable a state to execute such a broad geopolitical shift. To do so, it develops empirical material from the fascinating Hungarian efforts to position themselves as a major beneficiary of Chinese engagement with Europe. The article concludes that Orbán’s policies have indeed been broadly consistent with his party’s new rhetoric, but it also concludes that the amount of Chinese investment is, in aggregate, still modest to date.

**Keywords:** Hungary; China; illiberal democracy; vulnerability; Fidesz

It may seem puzzling that the leader of a coalition that has secured two consecutive two-thirds majorities in a national parliament could, nevertheless, feel vulnerable. But this appears to be the case of Hungary’s Viktor Orbán. Orbán parlayed his overwhelming victory in 2010 to instigate what Fidesz—the conservative party that he leads—calls the “revolution of ballot boxes.” Assertive and defiant in the face of
fierce domestic and international criticism, Fidesz has used radical constitutional change to generate the kind of Hungary the right wing has long craved. These changes included alterations of the electoral law, such that his second victory (in 2014) required only 45 percent of the votes to secure for his coalition the two-thirds majority needed to continue his full-scale renovation of the Hungarian Constitution. This wholesale constitutional revolution has been widely covered elsewhere. The point of this article is to examine whether new economic connections might make the Fidesz revolution more durable.

In the face of harsh criticism from the European Union for his constitutional politics and from the International Monetary Fund for his economic program, Orbán has remained defiant. He justifies both radical constitutional change and economic nationalism as the kind of powerful medicine that can push back against Hungary’s vulnerability and victimisation at the hands of its foreign and domestic enemies. Orbán has made no bones about the revolutionary nature of the changes introduced. Already following Fidesz’s landslide electoral victory in 2010, he stated that “a new social contract evolved in the polling booths, when Hungarians showed an unprecedented agreement in overthrowing the old system and decided to build a new system of national cooperation.” Fidesz politicians maintained that a “vicious circle of lies” of the socialists combined with the treacherous liberal policies of earlier left-liberal governments had put the country’s economic future in peril.

In this context of low trust and deep polarisation, Fidesz increasingly asserts that the Hungarian nation was a victim of both domestic evil originating from the left-liberal camp and also of international conspiracies since the regime change of 1989. In place of liberalism, Fidesz now proposes an alternative modernisation based on Christian values, a strong state, and the broader Hungarian nation, including Hungarians in neighbouring European states. In short, Fidesz has deployed a set of moral claims, purporting to re-acquire Hungary’s strength vis-à-vis its liberal foes on the domestic front and international capital and bankers on the European front. More recently, Orbán promised to institutionalise an illiberal state in Hungary in order for the country to manage a post-2008 crisis world where “anything became possible” while alluding to the “success of illiberal and perhaps non-democratic countries such as Singapore, China, India, Russia and Turkey” as “stars” in international economic performance.

If it appears striking that a leader with a massive supermajority could feel vulnerable, it also appears bold that he might see a solution to this vulnerability in closer ties with countries with hybrid regimes. Emphasising the achievements of illiberal countries, Orbán argues that for Hungary to prosper in the race for global competitiveness, it should explore ways to tear itself away from Western European dogmas such as liberalism. This paper has two closely related aims that respond to these twin puzzles. It first explores how the ongoing consolidation of illiberalism in Hungary has now also sparked a geopolitical repositioning during Fidesz’s second term.
it focuses on Fidesz’s much-emphasised “Eastern opening” and analyses the extent to which political reality matches the party’s rhetoric. Second, it seeks to understand the theoretical proposition that new sources of external funding—including FDI and government bond purchases—can help enable a state to execute such a broad geopolitical shift. To do so, it develops empirical material from the fascinating Hungarian efforts to position themselves as a major beneficiary of Chinese engagement with Europe.

Moving closer to China is meant by Fidesz as a complement to its simultaneous moves away from the EU. As noted, it is somewhat curious that a leader enjoying a comfortable second term of government with full control of executive and legislative institutions would so consistently emphasise the vulnerabilities of the Hungarian nation. Yet a substantial flow of EU regional and structural funds has not damped his Eurosceptic rhetoric. While Eurosceptic or outright rejectionist language toward the EU has grown in many countries since the 2008 crisis, only in Hungary has the conservative-right presented to the public geographical alternatives to Europe. Not even in the United Kingdom is this the case, given the British Eurosceptics’ general emphasis on keeping the “positive” part of Europe—usually the Single Market. In Hungary, the extreme right Jobbik Party adopted a similar position after the onset of the crisis in 2008, but our study shows that increasing recourse to vulnerability of a small state in the post-2008 crisis world is now emanating from the conservative-right and manifesting itself in the search for alternatives to EU integration.

To be sure, these ideas did not preclude some continuity in liberal economic practices—Johnson and Barnes show that Fidesz’s “economic nationalism” retained some scope for liberal trade and tax policies, for example. At the same time, however, Fidesz pursued other policies of étatisation or nationalisation, implying the spreading of public ownership and the reach and the role of the state. Voszka argues that Orbán neither accepts a minimalist neo-liberal state nor a conventional welfare state. Instead, Orbán aspires to follow a different route, combining a neo-liberal turn in tax and social policy with paternalist policies on the issue of decreasing utility costs, that is, energy, water charges for families, while aggressively aspiring to spread state ownership over the economy. According to Voszka, economic science does not have a name for a system that continuously limits state financial support for healthcare, education, social welfare support, yet has ambitions of state-capitalism in a highly confined economy. Whatever one calls it, it has been a spectacular electoral success. Fidesz maintained its political dominance in the 2014 general election, retaining a two-thirds majority for its coalition in the parliament (despite an 8-point drop in voter support) until the two recent by-elections and winning the subsequent European Parliament election by a forty-point margin over the socialists.

Having established the broad outlines of the Fidesz program, this paper proceeds in three sections. First, we provide a deeper political and rhetorical context for Orbán and Fidesz’s rethinking of contemporary Hungarian strategy towards the international political economy. Our emphasis is on the government’s relentless theme of reducing Hungary’s perceived overcommitment to West European
actors—including the European Union—and Hungary’s purported neglect—under the prior social-liberal governments—of other options farther east, including China. Second, three case studies—set to increasing levels of perceived vulnerability from lowest (retail trade) to highest (bond markets)—investigate the extent to which these political-rhetorical priorities can be illustrated with actual behaviour. Each involves potential linkages to China in the form of retail trade, FDI, and bond purchases, respectively. We chose China because it is the only state with both the power and resources substantial enough to make plausible the shift to a more distant relationship with the EU and the reputation for not imposing strict conditions on its investments. As an extensive literature in Africa already documents, China thus represents a “most likely” case for the theory of FDI-lubricated geopolitical transformations. The third section concludes.

**Re-imagining Hungary’s Geographical Location: Distance from the West, Opening to the East**

In examining the fit (or misfit) between Fidesz rhetoric and Hungarian behaviour in the proposed re-orientation towards China—which we see as the critical country in any kind of sustained “Eastern opening”—we must first document Hungary’s partial estrangement from the EU. This estrangement began soon after the 2010 election as all important positions, including those in the “independent” institutions, were quickly filled with Fidesz cadres. These institutional changes raised fears in the EU of an authoritarian shift in Hungarian politics away from the liberal ideals of democracy. The 2010 Fidesz modification of the Hungarian media law instigated the first major conflict between Orbán’s Hungary and its EU partners. The new media law, which gave the executive extensive powers to control the media, was introduced just as Hungary assumed the EU Presidency at the end of 2010. For the EU, the media law was a sign of conservative authoritarian turn and was sharply criticised, especially during Orbán’s speeches at the European Parliament (EP). At the outset of the Hungarian Presidency, Orbán presented the presidency’s program in the EP. To protest Hungary’s new media law, Green MEPs taped shut their mouths, and EP liberals talked about “authoritarian decay.” Meanwhile, the head of the Socialist Group declared Hungary was unworthy of the EU Presidency, and Green MEP Daniel Cohn-Bendit said Hungary was on track to become a communist surveillance dictatorship. In response, Orbán defiantly defended the media law and stated that it was a domestic affair and not to be mixed up with the Presidency.

Orbán also defended his government from its critics both in Europe and at home in his speech on the occasion of Hungarian National Day, which commemorates the 1848 Revolution. Referring to his left-liberal opponents as “the ones that organised from home to discredit the Hungarians,” Orbán asserted that Fidesz “stands by the Hungarians. It showed the door to IMF, introduced taxes on banks, imposed a crisis...
tax, and reclaimed the pension system from the hands of the stock-market sharks.” Orbán then compared Brussels to Moscow, as he continued, “Thus, just as in 1848, Hungarians did not let anyone dictate from Vienna, and just as in 1956 and 1990, Hungarians did not let anyone dictate from Moscow, today, Fidesz will not let anyone dictate to the Hungarians from Brussels or anywhere else.” Later, in his speech in the EP at the termination of the Hungarian Presidency in July 2011, he reiterated he would always protect Hungary from those who try to tell the Hungarians what they can and cannot do, even if these remarks come from Brussels. Orbán continued that Europe is in no position to dictate to the Hungarians and that the more he could make that clear to Hungarians, the more he could increase support for the European project at home.

Crucially for our purposes, this friction between Orbán and the EU translated into a search for new geopolitical alliances to help him manage the pressure from the West over his purportedly undemocratic changes—itself a sign of illiberalism in Hungary. The primary shape of this alternative path became known as keleti nyitás, that is, “opening to the East.” Orbán’s first speech after becoming Prime Minister in 2010 (Orbán had been PM once before after 1998) was to the Hungarian Permanent Conference, a body that represents Hungarian ethnics in the neighbouring countries. Orbán stated that while there should be no doubt that they belong to the western world, “from now on, this fact will imply another connation. In a simplified or caricatured way, we are sailing under the western flag, but in the world economy an eastern wind blows. And the sailor that does not take into consideration according to which wind to rotate the sails will doom himself and his cargo.”

Ideologically, conservative Hungarian proponents of this “opening to the East” generally emphasise perceived problems with the European economy, such as its regulatory architecture, the troubles of the euro, the purported “colonisation of the periphery” by the metropolitan center, the construction of a true knowledge-based economy only in the core, the deficits of national states, and the decline of education levels in the EU. In response, left-liberals warn that the discursive formulation of “opening to the East” also paves the way to “Eastern” styles of leadership and governance, as well as collaborating with eastern autocrats at the expense of moving Hungary away from its western partners. For democrats, Hungary’s latest energy deal to secure Russian investment in the extension of the Paks nuclear energy plant is the most recent expression of this fear.

In terms of economics, however, the Eastern turn promises new raw material opportunities and markets for Hungarian firms. According to the under-secretary of foreign and external economic relations Péter Szijjártó, the Hungarian opening rests on four pillars (quoted in Szretykó). These are first building close ties with the Far East—especially with China; second, strengthening co-operation with the Caucasus countries such as Georgia, Azerbaijan, and Kazakhstan as their trade strategies fit well with the supply structure of the Hungarian market; third, paying more attention and refining the trade links with the Arab world; and finally, within Europe, concentrating on the western Balkans.
Of course, these themes are not new in Hungarian history. Already in the interwar period, the Hungarian right desired to reach out to the Eastern nations, that is, Turán. More recent Eurasianist, neo-Turánist thought on the Hungarian right aspires to terminate Hungary’s alliance with the Euro-Atlantic community and instead form a cultural, political, and economic alliance with the Uralo-Altaic tribes, such as Turkic nations in Siberia, Russia, Central Asia, and nations of Mongolia, Korea, and Japan. Reflecting on the Fidesz response to the post-2008 banking crisis, Csizmadia et al. show there are many similarities between the modern politics of Hungary and the politics during the global economic crisis of the interwar economic environment that generated Turanism. Similarities include the importance of nonallied politics, economic unorthodoxy, and hostility to banks and elites. Such extreme right positions have implications for Orbán insofar as he depicts western liberals and international capitalists as the main players that brought about Hungary’s economic and political collapse in 2000s. In response, Fidesz directs a radical foreign policy to rectify the “asymmetric” relations that connect Hungary to the West. This foreign policy veers away from the traditional left-liberal foreign policy of Hungary and dwells constantly on Hungary’s historical traditions and experiences while retaining an extreme sensitivity about national sovereignty.

Case Selection and Case Studies of Hungary’s “China Options”

This article develops three cases to explore the extent to which the Fidesz rhetoric of an Eastern opening has been translated into action by Hungarian actors. Our case selection is on the basis of Orbán’s stated goal of decreasing Hungarian vulnerability and, in particular, its purported overreliance on Western Europe. We begin with a case—retail trade featuring Chinese immigrants in Budapest—in which any Hungarian vulnerability is fairly modest. While Fidesz has been critical of some retail chains headquartered in Western Europe and expresses a clear preference for Hungarian retailers, we have found no evidence of a strong public aversion (so far) to retailers headquartered in Western Europe. Still, there is some potential for Chinese merchants to appear as a viable alternative to West European chains in some areas, particularly textiles, household goods, and electronics. To be sure, Chinese retailers are far smaller than western chains, and yet given Hungarian consumer preferences (especially amidst rising poverty), Chinese retailers provide crucial outlets, especially in textiles and clothing. We then move to FDI—M&A in the Hungarian chemical sector—as an intermediate case. Here, the Hungarian government is somewhat more vulnerable in the sense that employment and tax receipts are generally dependent on FDI. Even in fat times before the crisis, Hungary—like all Central and East European (CEE) states with the possible exception of Slovenia—scrapped hard for FDI from multinationals headquartered in Western Europe. In lean times, they scrap even harder, though the Fidesz
governments have sought to decrease reliance on Western FDI. We conclude with an arena in which Hungary can be seen as highly vulnerable and indeed desperate for outside investment—bond purchases. Fidesz has gone so far as to offer Hungarian resident status and a path to citizenship to foreigners who invest in as little as €250,000 in Hungarian government bonds, an instrument clearly aimed at Chinese traders and investors. The big prize, however, would be institutional investment from the Chinese state, which could certainly soften the Hungarian state’s vulnerability to international investors.

All of these cases arguably matter to Hungary. While the paper faces the limits in external validity always associated with case studies, picking large, high-profile cases is essential for testing any ideas about the role of vulnerability. Almost by definition, small projects are the ones whose failure is unlikely to have dramatic political consequences for either Chinese firms or CEE polities. Nevertheless, the selection of these cases is crucial as they indicate the interest of a major economic power, such as China, in a small country whose government has been keen to reframe its geopolitical associations in an effort to diversify and enhance its exports as well as attract investment in industrial and infrastructure projects.

We selected China as the potential external patron that makes the most plausible and powerful economic alternative to Europe. To be clear, we do not expect Hungary to renounce its EU membership or to sever the lucrative ties it enjoys through the Single Market. But in assessing whether Orbán’s rhetoric is backed by real actions, we need a concrete alternative that the state might use to lessen its dependence on Europe—a dependence we have shown to be a Fidesz obsession and a central part of Orbán’s political communication to Hungarian voters. While Orbán certainly refers to other countries as possible inspirations for economic success, he frames Hungarian relations in terms of a “historical friendship” with China that seems to us substantially more comfortable than those with Russia or Turkey, to name two other regional powers that could offer some leverage vis-à-vis the EU. During Orbán’s visit to China, he argued that

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].38

Based on this friendship narrative, we next illustrate how Fidesz shifted from an earlier Sinophobic to its now Sinophile position. We stress how Fidesz has pursued a rapprochement with China since 2010 and (somewhat puzzlingly) kept quiet about Chinese acquisitions in Hungary despite Orbán’s renewed calls for public control of economic production in Hungary.39
Low Levels of Vulnerability: Ethnic Chinese and Retail Sales in Hungary

A familiar image of the Chinese abroad involves occupational specialisation in retail and trade. While many Westerners are drawn to such “Chinatowns” for good meals, they are often also attractive for the availability of a wide range of cheap retail goods. In theoretical terms, retail sales is a relatively “easy” domain for Hungary’s Eastern opening, insofar as no complex, high-value added manufacturing is required, no large amounts of capital, and no major direction by the state. In principle, retail sales are an area of perceived low vulnerability. That said, Fidesz joins a long list of traditionalist parties in Western Europe that have harboured intermittent attempts to demonise supermarkets, whether domestically owned or foreign-owned (see Berger and Piore40). Beyond the most general rhetorical level, however, there is little reason to expect Fidesz to see retail sales as a sector in which Chinese activity can assist the geopolitical re-orientation hinted at in Orbán’s speeches. As such, it provides a good initial baseline of low vulnerability.

While Chinese populations exist in all Central and East European (CEE) states, the size of the Chinese merchant group in Hungary is clearly largest.41 Visa-free travel from China to Hungary in the late 1980s and early 1990s led to a spike of about thirty thousand immigrants into (mostly) Budapest in just a few years. Working initially from the sale of textiles shipped in suitcases along the Trans-Siberian railway, the immigrant network eventually shifted to shipping containers. Today, Budapest is often referred to as the “hub” of Chinese activity in CEE.42 The Hungarian Office of Immigration and citizenship show there are now around 14,300 legal Chinese residents in Hungary.43

While still a modest number in a country of ten million people, the economic crisis caused Chinese retailers to grow in importance for Hungarian consumers. In part, Chinese retailers simply survived where others failed. For example, in 2012, the Hungarian Central Statistical Office estimated that Asian retailers had maintained 20 percent of Hungary’s textile and clothing retail sector and had avoided the widespread closures that hit Hungarian firms. Moreover, since many Hungarian firms purchase goods from Chinese retailers, the 20 percent figure likely undercounts their influence in the sector.44 Chinese retailers also specialize in goods for lower income groups, thus playing a key distributive role amidst rising poverty.45 Thus, while Chinese retailers are not comparable to western retail chains in terms of their size (and therefore may not attract a similar reaction from Fidesz), they are still important in the Hungarian socio-economic environment.

These cross pressures are evident in recent dealings with Budapest’s Chinese Market, long the epicentre of Chinese commercial activity in Hungary. When the Fidesz-led 8th District government recently closed one section of the market, there was an immediate outcry from lower income groups. However, the larger section of the market (to which many owners in the now-closed section had already moved)
continues to function. Beyond retail, the importance of the Chinese Market is its centrality to the supply chain for Chinese goods to other retailers in Hungary and beyond. Thus, despite the anti-Chinese tone in the right-wing media during the closure, the 8th District government ensured that the larger section of the market was to remain. This combination seems to have allowed a certain venting of anti-Chinese feeling without any real threat to access to Chinese goods.

And yet Fidesz has also flanked its modest restrictions on Chinese merchants with a degree of welcome. It is not obvious that a conservative and nationalist party like Fidesz would look with approval on the Chinese minority, especially if they bring commerce in a sector—retail—where Hungarians are unlikely to feel vulnerable to West European pressures. Certainly, there has been plenty of suspicion about the Chinese in Hungary. Nyíri reports that representative annual surveys of Hungarians report that between 70 and 80 percent disapprove of the Chinese presence and compares the discourse there to prior waves of anti-Semitism and “yellow peril” discourses. There have been some ethnically motivated attacks on Chinese residents. Moreover, Hungary recently introduced a very strict immigration regime aimed primarily at refugees from Kosovo and the Middle East.

In light of this background, the Fidesz government struck a self-congratulatory tone in remarks about the 20 percent increase in the number of Chinese visitors to Hungary in 2014. The Deputy State Secretary for Tourism stated that Hungary places a major emphasis on the development of tourism connections with China, for which the Chinese Centre for Tourism Coordination in Central and Eastern Europe (based in Budapest) offers a good foundation. Hungary also saw an official delegation from the Chinese State Office of Tourism in March 2015, whose president was awarded an honorary professorship. At the ceremony, the Hungarian government noted its “Eastern opening” and emphasised the importance of Chinese tourism to Hungary.

Such conciliatory language should be seen in the broader context for the shift that it is. Over the longer term, Fidesz generally has taken a skeptical position towards Hungary’s Chinese residents. Fidesz campaigned in their unsuccessful 2006 election on a platform that included restrictions on Chinese immigration. In 2008, Fidesz called on the Hungarian Parliament to warn China to respect human rights and called on the Hungarian government to hold meeting on Tibetan autonomy between Beijing and the Dalai Lama. Hence, Orbán’s emphasis on “sixty years of friendship” between Hungary and China was not there prior to the 2010 election. At various points, Fidesz officials have blamed Chinese merchants for contributing to a wide range of social and economic ills, including smuggling, unfair competition, promoting illegal immigration, and undermining local labor and product markets. To be sure, this was not a rhetoric exclusive to Fidesz, and Hungarian politicians often engaged in aggressive crackdowns against Chinese merchants.

Since re-taking power, however, Fidesz has considerably softened its anti-Chinese populist rhetoric. Even Fidesz members with human rights concerns frame
relations with China in a way that the Hungarian economic interest is more important than standing by human rights. The Tibet issue appears to have fallen entirely from Fidesz’s human rights agenda. In fact, the Hungarian Office of Immigration and Nationality authorities forced a few Tibet activists to visit their offices in order to keep them off the streets during the 2011 Hungarian visit by the Chinese Prime Minister. While still in opposition, Fidesz politician Zoltán Balog was the head of the Human Rights Commission of the Hungarian Parliament in 2009 and took part in demonstrations in support of Tibet at the fiftieth anniversary of Chinese invasion of Tibet. After Fidesz returned to power, Balog became a keen supporter of cooperation between Hungary and China, even lobbying for the introduction of traditional Chinese medical practice to Hungary.

Finally, the Hungarian state has often used tax raids as a check on Chinese merchants, and here, too, we see some shifts in Fidesz’s behavior. For example, Hungary’s National Tax and Customs Administration (NAV) is the only state agency that now hosts a Chinese-language Internet page. This page provides Chinese traders information on Hungarian customs and tax regulations in their own language. We read this as tentative evidence that, in spite of its continued populist measures against Chinese traders, Fidesz also seeks to better facilitate Chinese traders acting within the Hungary’s tax and customs laws.

The changes in tone and behavior noted in this section are consistent with the broader “vulnerability discourse” nurtured by Fidesz and its outspoken Prime Minister and noted at the outset of the article. Fidesz had harshly criticised the outgoing socialist-liberal government for purportedly caving in to EU and IMF demands for austerity. Orbán also sparked a testy exchange with European officials with his denunciation of “debt slavery” for Hungarians with euro- or Swiss franc–denominated loans. In this context, he has suggested that Hungary’s single-minded focus on the European market led it to miss out on other markets, including China and Russia. This section demonstrates that Fidesz moderated its rhetoric and behavior in this broad direction. It ensured that populist anti-Chinese moves like the partial closure of the Chinese market were done in a way that left the vast bulk of the market intact; it focused its nativist discourse more on new (and potential) Middle Eastern and Balkan refugees than on long-time Chinese residents; and it took some steps to help Chinese merchants improve their tax and customs compliance. That said, when it comes to manipulation of Chinese merchants, it is wise to assume that Fidesz retains a well-developed skill set.

The conclusions of this first section are modest. It has established that there is a notable shift in Fidesz rhetoric toward China that is consistent with the hypothesis that its “Eastern opening” policy may be more than just cheap talk. Fidesz has changed its discourse in ways that cannot be explained by underlying shifts in voter attitudes, which remain highly skeptical of Chinese residents. In theoretical terms, since Hungary can pressure West European firms in the area of retail sales, there is little reason to look for Hungarians to perceive Chinese commercial activity as
existential or even highly important. Even here, however, there is some evidence of a shift in rhetoric and behavior, and this “clean” case does help establish an important shift in the Fidesz baseline.

**Medium Levels of Vulnerability: Chinese M&A in the Hungarian Chemical Sector**

A pillar of Fidesz discourse has been the purportedly predatory nature of MNCs based in the EU-15. After the collapse of communism in 1989, Hungary was aggressive and early in its courtship of FDI from such firms. In part, this early openness to FDI was linked to the country’s staggering debt to Western banks at the collapse of communism. In part, this orientation owed much to Hungary’s late-communist era experience with European product and capital markets (and their familiarity with Hungary). In any event, the industrial FDI case allows us more scope to analyse this paper’s animating hypothesis that China might function for Fidesz as a partial substitute for Western commercial activity and a partial solution to the vulnerability decried by Fidesz. The case shows that even in a very sensitive industrial sector with a firm systematically important to the Hungarian industrial economy, the Fidesz government has been supportive of a leading role for Chinese MNCs. While this is not shocking given that no Hungarian purchasers for this firm were available, it does run counter to the rising Fidesz criticism of foreign investment. At the same time, it is consistent with the pattern of a shift in Fidesz rhetoric and behavior vis-à-vis China.

Of course, internationalising Chinese firms often have gone after mature European firms, but this has been far less common in CEE than in the EU-15. Between 2000 and 2010, Thompson Reuters data show eighty-four Chinese M&A deals in the EU-15. Only seven such deals were registered in CEE—five in Hungary and two in Bulgaria. Moreover, none of these were in industrial sectors. The most obvious explanation for this is that while CEE has plenty of struggling industrial firms and many firms with excellent technology, twenty years of intense FDI interest from Western Europe has left the region with few firms that fit both descriptions and thus make likely M&A targets. European M&A opportunities are clearly important for Chinese firms. Deloitte forecast in 2012 that Europe would be the site of about half of all Chinese M&A activity abroad by 2014 (up from only 15 percent in 2007). One potential motive for M&A lies in European firms’ technology. Many of the splashy potential M&A deals have involved West European auto companies, and there has been an obvious reluctance of Western automakers to sell even highly distressed assets like Saab to Chinese firms.

Given Orbán’s nativist discourse and set against this broader pattern of European caution about a leading Chinese role in core industrial sectors, it would not have been shocking if Fidesz had prohibited a controlling position by a Chinese firm in an important firm with ties to the very strategic Hungarian auto industry. The acquiring Chinese firm’s efforts to disguise its intentions for as long as possible may add
additional credence to the notion that Hungarian government support could not be taken for granted. As we will see, however, the government chose to facilitate the Chinese purchase.

The case in question is the largest industrial M&A project in all of CEE: the takeover of Hungarian chemical firm (BorsodChem) by a Chinese firm (Wanhua Industrial Group). Valued at $1.7 billion, this investment was meant to provide Chinese engagement “up and down the value chain,” in the words of Wanhua’s CEO. The acquisition positioned Wanhua as a major producer of raw materials for the foams deployed in the auto, insulation, construction, and furniture sectors. The deal also obliged Wanhua to invest about €140 million in a separate new greenfield plant in Eastern Hungary. When the UK-based investment group that owned BorsodChem initially resisted outside overtures, Wanhua, working with the Budapest-based branch of the Bank of China, moved secretly to acquire substantial interest in the firm. In the end, this interest was revealed, and the takeover was not hostile. Post-deal publicity stressed the expanded opportunity for BorsodChem in Asian markets, and the new Fidesz government strongly backed the accord.

In July 2014, Wanhua then announced further investments of €88 million, flattering the Hungarian government by pitching the deal as a sign of strategic partnership between Hungary and China. Péter Szijjartó, the State Secretary in charge of Hungary’s external economic relations as well as its Eastern opening policy, indicated that this investment was an important sign that Wanhua had settled on Hungary as its regional center. Szijjartó also framed the investment an important opportunity to increase the share of chemicals in Hungarian exports. Both the government and the Eximbank officials noted with obvious satisfaction Chinese interest in a poor and backward area of Hungary. The firm still employs 2,500 workers. The new investment was also perceived as a welcome gesture from China to Hungary amidst the aftermath of Orbán’s recent speech praising illiberalism against western dogmas.

As in the initial case study, there is again some evidence of a change in both the substance and tone of Fidesz policy. In establishing this claim, it helps that the BorsodChem privatisation issue has been going on for more than a decade. In 2001 during his first term as a Prime Minister, Orbán faced queries about Russian interest in the firm. At the time, Orbán noted that, “Hungary, as an open economy, does not distinguish among investors by nationality but it does expect all investors to keep to the rules.” He also added that it would be “unfortunate if Russian investors who acted fairly were met with antipathy in Hungary.” Yet as we saw earlier, Fidesz has since dropped its emphasis on open economy in Hungary and has become a vigorous supporter of statist solutions in many sectors. Moreover, acceding to new M&A projects can be risky for a state. Failed M&A projects can leave states with a big black eye, as occurred when Chinese firms acquired and then closed down high-profile electronics firms in Western Europe during the 1990s. It is thus curious to see the sale to a Chinese firm of a 96 percent stake in the country’s second largest chemical company finalised under the Fidesz government in 2011. To some extent, of course, the sale
is consistent with Orbán’s past openness to foreign investment regardless of national basis, as well as his current efforts to legitimise a non-European commercial alternative to Western European firms. In this endeavour, it may help that the region where BorsodChem is located—Borsod-Abaúj-Zemplén county—is the focus of additional Chinese investment. This area is the poorest region in all of Hungary.71

More generally, Fidesz has reason to hope that Chinese FDI is on the ascent. Potentially very important news in this regard came when China announced a $10-billion “special credit line” for use in the broader CEE region. Within that larger project, China seeks to develop one “economic and technological zone” in each country. In July 2013, the Hungarian Exim Bank concluded an agreement with the Chinese Export-Import Bank for €100 million in loans to finance the expansion of exports to China from companies operating in Hungary.72 An additional $500 million has been designated by China as an “investment cooperation fund” for CEE. This announcement came with the establishment of a “Business Forum” to coordinate the growing interest in CEE. The first meeting was in Budapest in June 2011, the second in Warsaw in April 2012, and the third in Bucharest in November 2013. In September 2012, China established a Secretariat for China-Central and Eastern Europe Cooperation. In December 2012, the first “annual” meeting of the Secretariat was held in Beijing. The Secretariat includes all ten CEE states in the EU plus six others, mostly in the Western Balkans. It involves eighteen units of the Chinese government and is led by the Ministry of Foreign Affairs. Each CEE state is to appoint one lead official or agency to coordinate its interactions with the Secretariat.

Given that the proposed investment figures are roughly three times the size of existing Chinese investment in CEE, the Secretariat is potentially a very large development. To be sure, it will be a few more years before it is clear the extent to which the many memoranda of understanding result in substantial new FDI projects. Even if all Chinese promises come to fruition, this would be dwarfed by the stock of Western European FDI in Hungary. Thus, if the Fidesz metric is for China to replace Western Europe, this case offers little support for such a grandiose and implausible ambition. Yet if a more modest ambition of shifting the Hungarian economy farther away from Western European influence is credited, then this case offers some supportive evidence.73 At minimum, this section has established that the shift in Fidesz rhetoric has a clear behavioral correlate. It has been accompanied not just by toleration of a high-profile FDI acquisition by a large Chinese firm but indeed by active government support of that acquisition and this despite a growing Fidesz enthusiasm for statist projects vis-à-vis Hungarian firms.74

Of course, this outcome is also consistent with Chinese desires to use Hungary as a “springboard” to enter the rest of the EU.75 The EU Single Market already allows the Chinese whose work in Hungary is legal to ply their wares across a market of nearly five hundred million consumers. Such “springboarding” ambitions are naturally paired with concerns about transport networks. Fidesz is clearly keen to attract Chinese investment in transportation infrastructure, such as the announced railway...
link with Serbia that may connect further to railway projects across Turkey and via the main Greek port (Piraeus) to establish freight links with China. To be sure, the lack of direct airline connection between Budapest and China remains a major gap (and source of ongoing discussions). Still, the increasing importance of Hungary is touted by Minister of Foreign Affairs Szijjártó as an indication that Hungary is winning the European competition to become China’s key partner in implementing the wider “One Zone, One Road” strategy.

While it is far too soon to tell if such hype is justified, the very ambitions point to an important shift in the broader “vulnerability discourse” highlighted by this article. To date, the most visible Fidesz talk about vulnerability decries the supposed manipulation of Hungarians by powerful Western MNCs and banks and by EU officials. However, a second vulnerability debate turns on the idea that Hungary will be left out of promising commercial developments. The Hungarian debate about FDI has always had a strong undercurrent of fear that its attractiveness as a business location may not last. To stay attractive, Hungary will need to improve its inadequate road and shipping infrastructure. Due mostly to bottlenecks around Budapest, the average rail speed in Hungary is a shockingly low 2 km/hour. So if Hungary wants to keep its central position in broader distribution networks—including those of Chinese firms and Chinese merchants—it will need to keep up with or surpass the quickly emerging Slovakian rail distribution services, which are also fueled by the needs of a highly integrated auto manufacturing sector. Thus, Fidesz’s support for the purchase of BorsodChem by a Chinese firm is not surprising and fits a broader pattern—both rhetorical and behavioral—of accommodating Chinese investment. By extension, the loose pattern identified in the retail sales case is somewhat stronger in the case of FDI. The final case shows it is stronger still in the one area where Chinese actors could very substantially reduce Fidesz reliance on Western economies: purchases of government bonds.

High Vulnerability: Fidesz and Chinese Bond Purchases

Our final case discusses an area of substantial vulnerability for Hungary, a country whose public debt to GDP levels have grown from under 60 percent in 2005—the legal limit for euro member states, which it is obliged to eventually become—to about 85 percent in 2014. When the financial crisis hit Europe in 2007–2008, a number of observers took note of Chinese investment missions to Europe. Many soon began to speculate on the possible role of China in providing a new source of liquidity to suddenly reeling European economics, especially for those states not in the Eurozone and thus ineligible for special liquidity plans of the European Central Bank. The bulk of the conversation turned on Chinese actions in Western Europe, particularly among the crisis-weakened Mediterranean states struggling to find access to the normal bond markets. That said, there were flickers of interest in CEE as well.

Since the onset of the financial crisis in 2007, CEE economies have felt particularly vulnerable to the withdrawal of capital. Debt-financed consumption had become
a very important part of the political economy of much of the region. This trend was most pronounced in the Balkans, but it was a powerful force also in Hungary, Romania, and Bulgaria, and somewhat less so in Poland, Slovakia, and especially, the Czech Republic. To be sure, most of this was private debt, as most countries had relatively small external public debt balances, and—mostly because the vast majority of their banks had been bought out by larger banks based in the EU-15—there was little chance that sovereigns would have to bail out their own financial sector, a path that had led to massive problems with “sovereign” debt in countries like Ireland, Portugal, and Spain. Yet while most CEE states have recovered reasonably well, a broader European debate has raged about whether China would ride to the rescue and buy the sovereign bonds of European states in desperate need of financing, mostly to roll over the very cheap short-term debt that so many had become accustomed to using prior to the crisis.

That scenario is not, on its face, implausible. CEE states had trouble on bond markets, including three that had to take standby loans from the International Monetary Fund (Latvia, Romania, and Hungary). Newspaper headlines have trumpeted the more general hope/expectation/fear (depending on the paper) that China would become a big player in financing states through the economic crisis. But evidence for this has been extremely hard to find. The primary reason for the difficulty in assessing this idea is that the major Chinese sovereign wealth vehicles—such as the State Administration of Foreign Exchange (SAFE) and China Investment Corporation (CIC)—do not make public the composition of their bond holdings.

In this context, Hungary emerges as an extreme case. Fidesz had harshly criticized the outgoing Socialist government for caving in to EU and IMF demands for austerity. As noted, Orbán’s subsequent denunciation of “debt slavery” for Hungarians holding Euro- or Swiss franc-denominated loans went hand in hand with his claim that Hungary’s single-minded focus on the European market had led it to miss out on other markets, including China, Russia, and Central Asia. He occasionally vilified the IMF and made a concerted effort to avoid calling on new tranches of aid in Hungary’s Standby Agreement with the Fund. When rating agencies downgraded Hungarian bonds to junk (BBB) status, Hungarian interest in alternative buyers soared.

For a time, it seemed possible this strategy might bear fruit. Most prominently, during his summer 2011 visit to Budapest, Premier Wen Jiabao noted that China planned to buy “a certain amount of Hungarian government bonds.” In 2010, the CIC added an “emerging Europe” equity fund to its portfolio. Moreover, various Chinese officials had long underscored their support for buying European sovereign debt. For example, People’s Bank of China Governor Zhou Xiaochuan said in February 2012, “China will always adhere to the principle of holding assets of EU sovereign debt.”

Yet subsequent developments caused a change in tone and substance. The CIC posted losses of 4.3 percent in its overseas portfolio in 2011, which more or less
cancelled out a similar gain in 2010.\textsuperscript{89} The overseas portion makes up about one-third of the fund’s nearly half-trillion-dollar capital base.\textsuperscript{90} Part of the disappointing returns was driven by the performance of European government bonds and prompted Chinese officials to signal more interest in investing in European infrastructure and industrial projects instead,\textsuperscript{91} a priority that has continued through the annual meetings noted in the last case study, particularly the Romanian meeting. The CIC then announced in May 2012 that it would no longer buy European sovereign debt, though it would continue to look for opportunities for tangible investments in Europe. According to the head of the CIC, “We still have our people looking at opportunities in Europe, even though we don’t want to buy any government bonds.”\textsuperscript{92}

With the hopes dashed that China would buy substantial amounts of government debt, Fidesz changed its tactics. Most striking, it passed a 2012 law that grants permanent residency to any person purchasing at least €250,000 in Hungarian state bonds.\textsuperscript{93} At the time, Hungarian vulnerability was quite high given the standoff with the EU and IMF over conditions for the release of further tranches of adjustment assistance. With the country’s access to markets limited, sovereign bond purchases by residents were a high priority or, barring sufficient demand from citizens, through the “residency bonds.” Fidesz lawmakers acknowledged that Chinese investors are a key target. Hungarian press reports call Asian businessmen the “overwhelming majority of applicants” and note that the Fidesz politician who conceived the scheme is closely linked to the Chinese firm that bought BorsodChem.\textsuperscript{94} Raising government funds €250,000 at a time and in a way that incurs the wrath of other EU member states only highlights how desirable was the initial arrangement for Chinese state actors to buy bonds directly.\textsuperscript{95}

Thus, while Fidesz behaviour was again consistent with the broad hypothesis that it is seeking new forms of financial support outside the traditional West European sources, in this case the Fidesz efforts have been met with a negligible result. For now, though, Hungary mostly has been a supplicant on international markets as a result of struggling (once again) to refinance its debt on affordable terms. Perhaps the Fidesz government will succeed in selling citizenship to a large number of Chinese investors. We will have to stay tuned to see how these early trends develop. For now, though the numbers are small, European states certainly fear the instrumentalisation of an EU member state that sells to individuals access to a hard-won common achievement—the Schengen Zone.\textsuperscript{96} When the receipts of such sales could essentially bring the resources that government needs to continue evading its other European responsibilities, one can understand that dismay is the modal reaction in other European capitals.\textsuperscript{97}

**Conclusion**

Hungary is, by some distance, the most interesting CEE state from which to view China. This fact is attributable not just to Hungary’s immediate postcommunist
openness to FDI at a time when the other CEE states generally resisted FDI, nor even exclusively to the big wave of Chinese immigrants who found a doorway into Hungary in a liberal postcommunist immigration law and have stayed on. It is also attributable to the populist politics of the current Fidesz government, which puts a high priority on avoiding further IMF assistance and looks to non-EU sources to fund its very high state debt. While there have been hopes that China might warrant the “savior” narrative occasionally invoked in popular literature, these hopes in Hungary appear to have led to little, so far.

To be sure, the claim that Hungary’s eastern opening has, to date, brought little must be re-assessed in years to come in light of the dispersion of the promised $10 billion in CEE investment. In the meantime, a few general points emerge from this analysis. This paper analysed the general theoretical proposition that new sources of FDI and other kinds of foreign commercial activity (retail and trade networks and bond purchases) can help enable a state to execute a broad geopolitical shift. The article’s first and primary contribution was to present evidence that the ruling Fidesz Party in Hungary desires such a shift. The party (and its outspoken prime minister) talks the talk, but it also seems to walk the walk, choosing policy options that could not be easy for a conservative and nationalist party with a strongly traditionalist orientation. The evidence in all three cases showed behavioural changes consistent with the new rhetorical directions set out after 2010 and subsequently radicalised. In the first case, the core behavioral change was away from Fidesz’s prior populism against Chinese residents. In the second case, it was Fidesz’s preference for supporting Chinese M&A activity in an important firm associated with the all-important auto sector and over the party’s oft-expressed preference for more statist control. In the third case, the evidence clearly supported concerted Fidesz efforts to stimulate Chinese institutional purchase of government bonds along with smaller schemes to promote individual purchases by Chinese nationals.

The paper’s second contribution was to document that despite behavioural changes that are consistent with an effort to attract Chinese resources to partially supplant European ones, Fidesz has relatively little to show in economic terms for its efforts so far. Certainly, the two fundamental problems of its economy remain pressing as high state debt and low employment still put suffocating downward pressure on Hungarian economic development. In the lower vulnerability area of retail trade, Fidesz policy may make life more comfortable for a group of people whose commercial activity tends to make available low-cost goods that are in high demand in difficult economic circumstances. While such firms may often pose a competitive threat to native Hungarian shops—thus threatening one Fidesz constituency—their low prices are a popular buffer at a time of very weak Hungarian labor markets and a wobbly anti-poverty program. In the medium vulnerability issue of the industrial economy—where Fidesz has vilified many European MNCs—the party’s openness to Chinese FDI probably did result in modest material benefits for the national economy. But in the high vulnerability area of bond purchases, Hungary’s initial hopes
have been dashed that Chinese institutional investors would represent a major new source of state finance.

The article’s third contribution is to make more sense of the truly odd complex of policies chosen by the Fidesz governments. While executing this shift from West Europe towards China and others as a way of establishing its Eastern opening, Hungary generated a hybrid form of governmentality that combines neoliberalism and illiberal logics. The economic system rejects many of the achievements of political and economic liberalism that characterise the European integration process, proposes a context-dependent regulatory practice, and as Voszka underlines, engages in establishing a hybrid economic system that is neither consistently neoliberal nor paternalistic. Instead, it is ultra-liberal when it comes to tax and social policy, but it remains paternalistic on the issue of decreasing utility costs, that is, energy and water charges for families. It also aggressively aspires to spread state ownership over the economy. The Fidesz government elected in 2014 is inclined to engage in further radical transformation, and Orbán has taken pains to denigrate liberalism as inadequate to contemporary challenges.

Of course, this trend places Hungary on a trajectory that brings it closer to key elements of China’s own hybrid form of governmentality. Late-socialist China encompasses both neoliberal techniques (e.g., marketisation of labor, calculative choice, and fostering a self-enterprising ethos) in place of state planning along with many Maoist-era norms and values, such as serving the country. Such hybrid forms that combine neoliberalism with illiberal, authoritarian, and nationalist ideologies and practices can enable us to explain the existence of diverse reactions to neoliberal globalisation in semi-peripheries of advanced capitalism. The current Hungarian political elite may simply be aspiring to institutionalise their own hybrid forms in order to guarantee economic growth that resembles that of China.

Notes

2. With the Christian Democratic Party (KDNP), a party heavily reliant on Fidesz.


10. Johnson and Barnes, “Financial Nationalism and Its Transnational Enablers.”


16. Johnson and Barnes, “Financial Nationalism and Its Transnational Enablers.”


18. Ibid.

19. Ibid.


22. Sedelmeier, “Anchoring Democracy from Above?”

23. Korkut, Liberalization Challenges in Hungary; Sedelmeier, “Anchoring Democracy from Above?”


27. Orbán’s Speech delivered on 5 November 2010.


31. Szretykö, Az Európai Unió Válsága és a Keleti Nyitás Lehetőségei.

32. In addition, Szijjártó also mentions a search for cooperation opportunities with African and South American countries (Szretykö, Az Európai Unió Válsága és a Keleti Nyitás Lehetőségei). See also Kalan, “They Who Sow the Wind.”

33. To be clear, whether seen historically, linguistically, or mythically, China has never been considered one of the Turán nations. In that sense, this neo-Turanist impulse cannot draw directly for its legitimation on any core Chinese element in classic Turánist thought. That said, China was always a state with which the Turánic nations have had relations. Our intuition is that neo-Turanist thought is a helpful vehicle for Sinophile arguments in contemporary Hungary but not out of any simple recapitulation of prior variants of these ideas. Akçali and Korkut, “Neo-Turanism and Its Performance.”

35. Ibid.
39. For Orbán’s latest on the topic, see fn3.
44. Keve sebb a bolt, terjeszkednek a kínai, piacok http://www.napi.hu/magyar_vallalatok/keve sebb_a_bolt_terjeszkednek_a_kinai_piacok.554125.html (accessed 21 May 2013).
53. We thank an anonymous reviewer for stimulating us to address this issue.
56. Nyíri, Chinese Entrepreneurs in Poor Countries; Szilassy, A külföldiekhez való viszony a serdülők gondolkodásában.
57. Unlike Poland, Hungary enjoyed little debt relief.
58. Johnson, Barnes, “Financial Nationalism and Its Transnational Enablers.”

60. Based on data from MergerMarket. The North American share was projected to remain stable at about 25 percent while Asia was projected to absorb most of the FDI lost to Europe over this period.


63. Additional research will be needed to establish if Wanhua sought to delay government discovery of their plans or only to delay discovery of the British firm that owned BorsodChem.

64. The firm also has plants in Poland and the Czech Republic.


73. As does evidence of more modest Chinese greenfield FDI in a range of other sectors in Hungary including electronics, business services, mobile phones, and software and IT and automotive, and solar panels (FDImarkets.com).

74. Nor is M&A the only form of Chinese interest in Hungary. Chinese firms announced twenty-five greenfield projects in Hungary over the past decade, resulting in more than six thousand jobs inside Hungary (data from fdimarkets.com).

75. R. Mohr, Magyar-Kínai Kapcsolatok: Rovidített változat” [Hungarian–Chinese relations: in brief], http://www.eastinfo.hu/hu/media/download/m-k_kapcsolatok_rovid.pdf (13 June 2012); Nyíri, Chinese in Eastern Europe and Russia, 55.


77. Ibid.

78. For details, see the illustrations and sources in the introduction.


80. This is roughly the same level as when Fidesz took power in 2010. http://www.marketwatch.com/story/hungarys-debt-jumps-to-four-year-high-2014-08-18-104854550.

90. Europe hosts 22 percent of that equity base, 42 percent is in North America, and 30 percent in the Asia-Pacific region outside China (2010 Annual Report, 32).
93. The amount was later raised to €300,000 in five-year bond purchases. Through March 2015, approximately 2800 such residency permits have been issued. Converting residency to citizenship generally requires residency of at least eight years.
95. Most applicants to this scheme are businessmen, who are not planning to settle in Hungary, but who make use of the residence permits to gain easier access to the country. According to Lian Wang, the managing director of the Hungarian State Special Fund that handles the transactions, some 20 Chinese nationals have requested residence permits in Hungary by investing in residency bonds (Chinese buying special Hungarian bonds that come with residency permits, 12 April 2013, http://www.politics.hu/20130612/chinese-buying-residency-bonds-in-hopes-of-getting-residence-permits/, accessed 12 July 2013).
100. To be sure, the party was reelected with a large plurality that, thanks to its prior constitutional engineering, created a formidable parliamentary supermajority. But this is a political achievement, and our focus is on economic outcomes.
Wade Jacoby is Mary Lou Fulton Professor of Political Science and director of the Center for the Study of Europe at BYU. Jacoby is the author of *The Enlargement of the EU and Nato: Ordering from the Menu in Central Europe and Imitation and Politics: Redesigning Modern Germany*, as well as about fifty articles on comparative politics and political economy. He has served as chair of the European politics and society section of the American Political Science Association and is past program chair of the European Union Studies Association.

Umut Korkut is Reader in Politics at Glasgow School for Business and Society at Glasgow Caledonian University. Korkut is the author of *Liberalization Challenges in Hungary: Elitism, Progressivism, and Populism*. Most recently, he co-edited the volume *Discursive Governance in Politics, Policy, and Public Sphere* and co-authored *Urban Transformation in Istanbul and Budapest: Neoliberal governmentality in the EU’s semi-periphery and its limits*. Korkut is the convenor of Political Studies Association specialist group of the Political Studies Association.