

Report on the Development of Chinese Enterprises in Hungary (2023-2024)

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Joint Conference of Chinese Overseas Chambers of Commerce (JCCOCC)
Association of Chinese Enterprises in Hungary (ACEH)

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Preface

Hungary is located in the heartland of Central Europe, which is not only a regional transportation pivot, but also an important platform for economic cooperation between China and Central and Eastern European countries. Driven by the Belt and Road Initiative of China and the Opening to the East Initiative of Hungary, the Sino-Hungarian economic and trade relations have been flourishing, yielding fruitful results in pragmatic cooperation in recent years. China has become the largest trading partner of Hungary outside Europe and the most important partner of Hungary in the field of investment. Investment of Chinese enterprises in Hungary has covered multiple key fields such as infrastructure construction, high-tech development, energy projects and financial services. Such investment have not only promoted the bilateral economic and trade exchanges, but also injected vitality into the diversified development of Hungary's economy.

From 2022 to 2023, the cooperation between China and Hungary entered a new stage of development. In October 2023, the Prime Minister of Hungary, Orbán Viktor, came to China to participate in the Belt and Road Forum for International Cooperation for the third time, and met with the President of the People's Republic of China, Xi Jinping, providing new impetus and direction for the friendly cooperation between China and Hungary. Subsequently, the quantity, quality, and depth of Chinese investment in Hungary were significantly increased. Chinese investments have brought job opportunities for Hungary, with positive impacts on technology, management, and cultural exchange.

Remarkably, although globalization and multilateralism are facing challenges in the current international situation, the friendly relationship between China and Hungary shows unique resilience and vitality. The bilateral cooperation has expanded beyond purely commercial scope to build an all-round cooperation model including cultural exchange, educational cooperation, and industrial investment.

The Report has made an in-depth analysis of the business environment in Hungary, the present management situation, and the future development opportunities of Chinese enterprises. By collecting the demands of Chinese enterprises in Hungary and conveying their frontline perspectives to the relevant government departments and institutions of Hungary, the Report puts forward suggestions for improving the business environment, introducing preferential policies, strengthening the infrastructure construction and

addressing employment issues. The aim is to provide a comprehensive perspective for the long-term development of Chinese enterprises in Hungary, and to provide suggestions and improvement measures for enhancing the Sino-Hungarian economic and trade relations.

Chairman of the Association of Chinese Enterprises in Hungary

Li Kexin

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Chapter 1 Overview of Chinese Enterprises in Hungary

1.1 Development overview of Chinese enterprises in Hungary

In recent years, the number of Chinese enterprises investing in Hungary has been increasing, resulting in the high scale of investment. Large-scale enterprises are flocking into Hungary, and the field of investment is gradually expanding. A large number of key Chinese enterprises and projects have invested in the chemical engineering, finance, telecommunication, infrastructure, logistics, automotive, new energy, TCM, security technology and other fields, with the investment covering photovoltaic power stations, new energy vehicles and their parts, automobiles and their parts, power batteries and parts, new energy vehicle charging and replacement facilities, logistics transportation, finance, insurance, chemical engineering, infrastructure construction and project contracting, engineering design, aviation, culture, education and media, scientific research, food packaging, electric meter manufacturing, home appliance and home decoration and other industries.^① In 2023, China became the largest source of foreign direct investment for Hungary after 2020 for the second time, with the total annual investment up to Euro 7.6 billion, accounting for 58% of the annual foreign direct investment for Hungary.^②

By 2022, it was conservatively estimated that over 80 main Chinese enterprises were investing in Hungary, mainly from Beijing (central government-owned enterprises), Zhejiang, Shanghai, Guangdong, Shandong, Sichuan, Jiangsu, Hunan, Fujian, Hainan, Liaoning, Hubei and other provinces and cities. The representative Chinese enterprises

① Projects of Chinese enterprises in Hungary:
<https://m.21jingji.com/article/20221009/herald/5bb101f4b1454e84095c292ec0928332.html>

② Hungary: Eastern Opening initiative v.s. Belt and Road initiative: http://www.china-ceec.org/jmhzh/202310/t20231031_11171069.htm

among them are the Bank of China, Yantai Wanhua Group, Huawei, ZTE, China Railway, China Railway Ninth Bureau, China Railway Electrification Bureau, Shanghai Bureau of CREC, Central European Trade and Logistics Cooperation Zone, China Construction Bank, China Development Bank, BYD, Yanfeng, China General Technology Group, Shandong Himile, Anhui BBKA Group, Lenovo Group, State Grid Shanghai Municipal Electric Power Company, Yunnan SEMCORP, CATL, Nio, Inovance, EVE Energy, Huayou Cobalt and Sunwoda. Since 2020, the investment of Chinese enterprises in the green energy and new energy vehicle industries of Hungary has significantly increased, with more than EURO 10 billion of investment and planned investment.

1.1.1 Industry distribution

Chinese enterprises in Hungary are mainly distributed across trade and manufacturing, where 30% are engaged in trade (including wholesale and retail), 24% are engaged in manufacturing, and the remaining enterprises are distributed in culture, sports and entertainment, real estate, construction and other industries.

1.1.2 Entry approach and equity structure

From the perspective of the enterprise entry approach, greenfield investment accounts for 29%, M&A accounts for 13%, and other approaches account for 58%. From the perspective of the equity structure, Chinese enterprises in Hungary are mainly sole proprietorships, where 73% of enterprises are sole proprietorships, 21% of enterprises are joint ventures, and 6% of enterprises did not provide relevant data.

1.1.3 Enterprise size

Most of the Chinese enterprises in Hungary are small and medium-sized enterprises, of which 61% of the Chinese enterprises have less than 50 employees, 21% of the Chinese enterprises have 50~250 employees, 6% of the Chinese enterprises have 250~500 employees, and 6% of the Chinese enterprises have 500~1000 employees, and 6% of the Chinese enterprises employ more than 1000 people.

1.1.4 Main investment drivers

52% of the Chinese enterprises invest in Hungary for the purpose of trade, and 27% of the Chinese enterprises invest in Hungary for the purpose of processing and production. Among the factors of promoting the Chinese enterprises to invest in Hungary, two-thirds of the Chinese enterprises decide to invest after investigation, 15% of the Chinese

enterprises are influenced by the industry or driven by associated industries, and 3% of the Chinese enterprises are attracted by the government for investment.

From the perspective of registration time, 45% of the Chinese enterprises entered the Hungarian market after 2011, reflecting the guiding effect of the Belt and Road Initiative, cooperation between China and Central and Eastern European countries and other policies on the enterprises to some extent.

1.2 Introduction to representative Chinese enterprises

1.2.1 China-EU and Logistics Cooperation Zone

In April 2015, the China-EU Trade and Logistics Cooperation Zone became the first national trade and logistics-based overseas economic and trade cooperation zone after appraisal of the Ministry of Commerce and Ministry of Finance of China; in September 2019, the Cooperation Zone was recognized as one of the first national public platforms for international marketing services by the Ministry of Commerce of China. The Zone has a planned total investment of Euro 200 million, has cumulatively invested USD 135.1195 million, covers an area of 140,000 square meters, and has completed the construction of the China Commodity Trade Exhibition Center in Hungary, Logistics Park of Csepel Port and Logistics Park of Bremerhaven, Germany. The project of Watts E-commerce Industrial Park is under construction.

1.2.2 Sino-Hungarian Borsod Economic and Trade Cooperation Zone

Sino-Hungarian Borsod Economic and Trade Cooperation Zone is a processing and manufacturing base developed under the leadership of Wanhua Industrial Group Co., Ltd., with chemical engineering, light engineering, mechanical manufacturing and logistics as the core industries. At present, the Zone has an industrial land of 4.8 square kilometers, where 15 enterprises are settled, including 11 Chinese enterprises and 4 foreign enterprises. In 2022, the Zone achieved an annual sales income of USD 3.64 billion and a net profit of about USD 238 million. By 2022, the company had a cumulative investment of about USD 5 billion (including the M&A amount).

1.2.3 China Railway Corporation Limited

China Railway Corporation Limited is an extra-large enterprise group integrating survey and design services, construction and installation, industrial manufacturing, real estate development, resources and minerals, financial investment and other services, with its headquarter in Beijing, China. The business scope of China Railway covers almost all infrastructure fields, including railway, highway, municipal works, housing construction, urban rail transit, water conservancy and hydropower, airport, port, wharf and so on.

Budapest-Belgrade railway is a landmark project of cooperation between China and Central and Eastern European countries, the first railway infrastructure project implemented by China in EU, and also the docking of China's railway technology and equipment with the technical norms of railway connectivity in the EU. The project connects Budapest, the capital of Hungary, and Belgrade, the capital of Serbia. The segment of Hungary is about 152km in full length, implemented by the consortium consisting of China Railway Ninth Bureau, China Railway Electrification Engineering Group and RM Company of Hungary. The Hungarian segment of the project adopts the Sino-Hungarian cooperation mode and is scheduled to be completed and opened to traffic by July 6, 2025.

1.3 Social contribution to Hungary

By 2023, Chinese enterprises have provided more than 15,000 employment positions for Hungary, making important contributions to the sound economic development of Hungary.^① Meanwhile, Chinese enterprises have also been concerned about the resource, environmental, safety and social governance issues brought by business development, realizing the cultural integration, people-to-people bond and common development with the local society by supporting the local community, economic, cultural and educational development. Chinese enterprises actively undertake social responsibility, not only avoiding the risks, but also improving the brand image and influence of Chinese enterprises in Hungary.

1.3.1 Leading the industry development

^① China Financial Information Network: <https://www.cnfin.com/world-xh08/a/20190716/1865505.shtml?f=arelated>

In 2023, Hungary attracted a total foreign direct investment of Euro 13 billion, doubling that of the previous year. In recent years, investment from China has played an active role in accelerating development of Hungary's economy.

Take the logistics industry as an example. The project under construction of the China-EU Trade and Logistics Cooperation Zone - "Watts E-commerce Industrial Park" has a reserved land area of 217,237 square meters and a proposed construction area of 72,360 square meters. The "Watts Smart Warehouse Project" under construction has a total construction area of 32,000 square meters. By November 2023, the Zone has signed contracts or framework agreements with Cainiao, Pinduoduo, YunExpress, Shein and many other cross-border e-commerce platforms or logistics enterprises. Relying on the Smart Warehouse Project, Hungary will become the "Central and Eastern European Distribution Center" of e-commerce platforms, helping these e-commerce enterprises to complete the port operation and the last mile delivery. The most advanced smart warehouse in the Central and Eastern European region has been built in the project, and it is planned to build a cross-border e-commerce logistics educational training base to cultivate and provide professionals for the logistics of Hungary.

With respect to electronic communication, Huawei has provided the leading solutions for the digitalization construction of Hungary. More than 80 percent of the Hungarian population's daily communications are provided by Huawei. In 2021, Huawei launched AirPON optical access solutions, helping operators to accelerate the home broadband infrastructure construction, and helping Hungary achieve its "Gigabit Society" goal of providing 95% families with high-speed Internet connection by 2030.

With respect to the financial service, Bank of China has assisted the Hungarian government in issuing the panda bonds for many times, with a total cumulative amount of up to RMB 6 billion, and has issued the first green bonds of Chinese-funded institutions in Central and Eastern European region to support the water conservation and renewable energy development of Hungary. Meanwhile, Bank of China has also provided the RMB clearing and settlement services for economic and trade enterprises of China and Hungary, contributing to the bilateral trade; has provided the credit supports for the Sino-Hungarian leading enterprises which will be helpful for the enterprises of China and Hungary to expand the market; and has provided all-round financial supports for Chinese-funded new energy enterprises in Hungary.

With respect to biochemical engineering, Anhui BBKA Szolnok Citric Acid Plant Project takes full advantage of maize resource advantage and market advantage in Hungary,

and promotes advanced biotechnology and production experience, increasing the yields from local agricultural processing, and directly promoting the development of local agricultural economy. By building industrial parks, it gathers the upstream and downstream enterprises of related industrial chain, forming the industrial cluster effect, not only increasing the resource utilization efficiency and reducing the production cost, but also improving agricultural product added value, extending the industrial chain and further driving the local agricultural structure upgrading. Meanwhile, the enterprise pays attention to the cultivation and introduction of local labor force and talents. Through cooperation with Bengbu University and Szolnok University College, it aims to cultivate bio-chemical professional. It has established a local R&D center, committed to the research and development and innovation of new technologies, and has established partnerships with local enterprises to share the technologies and resources in the manner of joint venture and cooperative R&D to promote local technology innovation.

1.3.2 Boosting the tax revenue and employment

According to the data published by the Hungarian Investment Promotion Agency (HIPA), China's direct investment in Hungary in 2023 was Euro 7.6 billion, accounting for 58% of the annual foreign direct investment attracted by Hungary, and created more than 10,000 job positions. China became the largest source of foreign direct investment for Hungary again after 2020.

Take Huawei as an example. In 2019, Huawei contributed Euro 39.4 million to the direct gross value added (GVA) of Hungary's gross domestic product (GDP); the procurement of Huawei brought the GVA contribution of Euro 405 million to Hungary's supply chain. From 2015 to 2020, Huawei made a local tax contribution of up to USD 277 million.^① From 2021 to 2023, Huawei had an operation revenue of more than USD 500 million, and made the local direct tax contribution of up to USD 52 billion. Huawei actively integrates into the local culture, hires local employees, and strictly abides by the local labor laws and regulations, with the employee localization of more than 80%.

China-EU Trade and Logistics Cooperation Zone achieved a trade volume of USD 2.7 billion during the "13th Five-year Plan" period, driving and boosting the domestic enterprises to have direct and indirect export amounts of up to USD 4.2 billion, with the

^① Source of data about investment of Huawei in Hungary: http://www.china-ceec.org/chn/jmhz/202112/t20211224_10475420.htm

local paid tax of about USD 10 million. In 2022, the annual total local paid tax was USD 4,733,200. Up to November 2023, the Zone had a total of 1502 employees, including 1411 foreign employees, increasing the employment rate of the local population.

BBCA Szolnok Citric Acid Plant Project invested by Anhui BBCA Group Co., Ltd in Hungary had a total investment of USD 155 million to build the citric acid production line with an annual output of 60,000 tons, which was rated as a key investment project by the municipal government. From 2021 to 2023, the project contributed a tax of nearly RMB 4.6 million to Hungary, creating 400 local job positions.

1.3.3 Undertaking the social responsibility

While expanding the business, Chinese enterprises in Hungary have actively undertaken social responsibility, actively promoted the exchanges in the Sino-Hungarian economic and trade, cultural, social and other fields, and actively reached out to the vulnerable, establishing a friendly, credible and reliable corporate image and national image.

While serving the small and medium-sized enterprises in Central and Eastern Europe with heart, Bank of China held the matchmaking conference of small and medium-sized enterprises of China and Central and Eastern Europe in Hungary and Croatia, and built a platform for exchanges and cooperation among the small and medium-sized enterprises, which achieved fruitful results. Bank of China actively implemented public welfare activities, made donations to Sino-Hungarian bilingual schools, and initiated the “Bank of China Scholarship” project of Franz Liszt Academy of Music to sponsor 10 excellent students every year, becoming one of business organization scholarships with the highest amount in the history of higher education in Hungary. It also cooperated with Roland University, Corvinus University and many local Confucius institutes to jointly promote the Sino-Hungarian cultural and educational exchanges.

During the epidemic period, Bank of China donated a total of 136,000 medical masks and 300 protective suits to the Hungarian government, Sino-Hungarian bilingual schools and Corvinus University.^① China-EU Trade and Logistics Cooperation Zone introduced the first KN95 mask production line for Hungary, and helped the Hungarian government to build the first nitrile glove factory; it donated anti-epidemic supplies and medical devices at a total value of over Euro 500,000 to the municipal government of Esztergom District,

^①Data source: 2020 Report on Annual Social Responsibility of Bank of China Limited
<https://pic.bankofchina.com/bocappd/report/202103/P020210327642432608596.pdf>

Budapest Cardiovascular Center, Bank of Budapest, 15 district governments of Budapest, Semmelweis University, Victor United Social Agency of Slovakia, Hungarian National Guard, Sino-Hungarian bilingual schools and other Hungarian government institutions and social groups. It was awarded the “Order Chivalry of the Hungarian State” by the Hungarian Government.

1.3.4 Protecting the environment

Guided by green development and sustainable development, the green economy has become a new growth point for Chinese enterprises in Hungary. A number of Chinese green and low-carbon projects including green electricity and electric vehicle have been implemented in Hungary, which are welcomed by the local government and society while a positive corporate image is established.

With respect to green electricity, the green electricity output from the smart photovoltaic solutions provided by Huawei for Hungary exceeded 7% of the national electricity generation of Hungary, providing an annual green electricity capacity of more than 50 billion kWh for Hungary, and the annual reduction of carbon emission is more than 1.2 million tons, equivalent to annual planting of 1.8 million trees. China-EU Trade and Logistics Cooperation Zone also responds to the call of “building green parks” in the Belt and Road initiative. In April 2023, the 7.5MWh solar power station invested by the Zone was officially connected to the grid for operation. So far, the electricity generation has been 8.3 million kWh, completely achieving the carbon-neutral zero emission of the Zone.

Chapter 2 Evaluation of Hungary's Business Environment and Chinese Enterprises

2.1 Overall investment and business environment in Hungary

Hungary joined the EU in 2004 and became a member state of the Schengen Agreement in 2007. Hungary has a relatively stable political situation, where the laws and regulations are sound, the financial market is open and the investment environment is good, which is very attractive to foreign investors. Hungary is one of the transport network hubs in Europe. It has 5 international airports, 7 highways, and 5 railways straight to the surrounding 7 countries; it has complete basic supporting facilities and a developed logistics and communication network; it has not only advantageous industries radiating EU represented by the automobile & parts industry, but also its own characteristic advantageous industries represented by tourism and brewing, and it also has traditional innovative advantageous industries such as bio-pharmaceutical and communication. Currently, the new energy vehicle manufacturing industry has become a key impetus for Hungary's economic development.

As shown in the *2020 Business Environment Report* published by the World Bank (not updated now), Hungary's business environment convenience ranked 52nd place among the global 190 economic entities.

As shown in the *2019 Global Competitiveness Report* published by the World Economic Forum (not updated now), Hungary's global competitiveness ranked 42nd place among the 141 countries and regions.

As shown in the *2022 Global Innovation Index* published by the World Intellectual Property Organization, Hungary's composite index ranked 34th place among the 132

countries and regions.^①

2.2 Evaluation of Hungary's business environment by Chinese enterprises

In general, Chinese enterprises in Hungary gave a positive evaluation of Hungary's investment environment. More than 60% of surveyed enterprises gave a good evaluation of the investment environment, the remaining enterprises considered the overall investment environment to be moderate, and no enterprise considered the investment environment to be poor.

Regarding the soft investment environment, most of the Chinese enterprises considered the legal environment, intellectual property protection and local market competition environment of Hungary to be good. More than 80% of the Chinese enterprises considered the bilateral economic and trade agreement and cooperation mechanism of China and Hungary to be good, and no enterprise gave negative feedback on the investment soft environment; with respect to the government service level, more than half of the Chinese enterprises considered the government service to be good, and 40% of the Chinese enterprises considered the government service to be moderate; with respect to the government integrity, the proportion of the Chinese enterprises that considered the government integrity to be good and to be moderate was 50% each; with respect to the government work efficiency, more than half of the Chinese enterprises considered the government work efficiency of Hungary to be moderate, and even 20% gave a negative evaluation; with respect to the tax policy, 20% of the Chinese enterprises considered the tax policy of Hungary to be poor; with respect to the environmental protection policy, most of the enterprises gave a good evaluation of Hungary's social security and labor policy. In general, more than 80% of the surveyed Chinese enterprises considered the investment soft environment of Hungary to be good.

With respect to the hard investment environment, in terms of the transportation infrastructure, most of the Chinese enterprises gave a good evaluation of road and air

^①2022 *Global Innovation Index*: <https://www.globalinnovationindex.org/analysis-indicator>

transportation, and a moderate evaluation of railway and inland water transportation; more than half of the enterprises considered the road transportation facilities as well as the airport and air transportation of Hungary to be good, and more than half of the Chinese enterprises gave a moderate evaluation of the railway transportation. Chinese enterprises gave a good evaluation of electricity, coal, water, gas and other utilities, but gave a moderate evaluation of postal communication. In general, Chinese enterprises thought highly of the local investment hard environment, and more than 70% of the enterprises considered the hard environment to be good.

More than 50% of Chinese enterprises considered the tax policy, the social security and labor policy to be the largest factors influencing the business operation, and fair competition and government service level also affected the business operation to some extent. Some specific issues were reflected by the Chinese enterprises relatively concentrated: Firstly, due to labor shortage, it is difficult to recruit workers. In recent years, due to the massive outflow of labor, leading to labor shortage, it has been difficult for enterprises to recruit workers, and the labor cost has constantly increased. Secondly, the government's work efficiency is not high enough. Though Chinese enterprises were satisfied with the government service of Hungary, the government work efficiency and decision-making efficiency were low, leading to an extended input cycle. Some government officials had limited English proficiency, leading to obstacles in communication.

Chapter 3 Obstacles Faced by Chinese Enterprises Investing in Hungary and Related Demands and Suggestions

3.1 Challenges and major obstacles

3.1.1 Cultural difference

It is inevitable for the overseas development of Chinese enterprises to face the challenge of political system, cultural background, development environment and public opinion system different from those of China. Hungary is a country that focuses on leisure lifestyle. In 2023, Hungary had 13 public holidays, and weekends which were days off. The important festivals every year, e.g. Easter in April, July, August and around Christmas in December, show an upsurge of holidays in Hungary including European countries. In the days off and during the holidays, no commercial activities will be arranged in principle.^① Compared to the “fast tempo” of Chinese society, the work and life of Hungary tend to be “slow—tempo”. With respect to the communication, the official language of Hungary is Hungarian (Magyar). However, according to the statistics, about 60% of the Hungarians can speak English, and the English popularizing rate in small towns and rural areas is low.^② The difference between the Sino-Hungarian language adds difficulties to commercial activities, consensus propaganda and communication with local workers.

3.1.2 Labor security

Hungary has comprehensive laws and regulations for labor standards, and the stakeholders include employer, employee, labor relations board and labor union. According

^①Data source: HELPERS HUNGARY, <https://helpers.hu/staffing-solutions/bank-holidays-in-hungary-2023/#:~:text=There%20are%2013%20bank%20holidays,a%20few%20other%20special%20days>.

^②Data source: WORDPATH, <https://www.wordspath.com/english-speaking-countries-in-europe/>

to the relevant laws and regulations of Hungary, as long as 10 employees initiate and elect the labor union management, the labor union organization can be established legally, but it must be registered in a court with competent jurisdiction. The labor union has the right to request the employer to provide the information and data related to the rights and interests of the employee, and negotiate with the employer on behalf of the employee. Only the labor union has the right to sign an agreement on the negotiated item on behalf of the employee. Labor union representatives can also use their working hours to launch trade union campaigns.

There are significant differences between the labor standards of Hungary and China. If the Chinese enterprises do not understand the *Labor Code* and *Trade Union Law* of Hungary, or are not familiar with the development status, rules and regulations and operating mode of local labor union organization, it tends to give rise to labor disputes.

3.1.3 Restrictions on Government procurement

The domestic and foreign investment enterprises of Hungary are applicable to uniform laws and regulations. The *Foreign Investment Act* (Act XXIV of 1988) published by Hungary provides legal protection for the rights and interests of domestic and foreign investors. Foreign enterprises and other economic organizations or individuals can engage in most of the economic activities to the extent permitted by law. Industries where foreign investment is restricted include: (1) Industries subject to government approval: Gambling, telecommunication, postal service, water supply, railway, road, water transportation and civil aviation (2) Foreign enterprises or individuals are not permitted to purchase cultivated land and natural reserve of Hungary, and there are strict restricts on the purchase of immovable property as the second residence. (3) There are restrictive provisions on the investment and financial service range of foreign banks according to the *Credit Institution and Financial Enterprise Act* (Act CXII of 1996). Foreign commercial banks must obtain the permission of central bank financial institution supervision department of Hungary before investment in Hungary, and can be only registered as a limited liability company or a branch. Foreign banks may also establish representative offices, but cannot engage in any form of operating activities.^①

3.1.4 Environmental protection standards

^①Data source: Ministry of Commerce of the People's Republic of China, <http://hu.mofcom.gov.cn/article/tzzn/201504/20150400958982.shtml>

The environmental protection laws of Hungary comply with the EU requirements of relevant environmental protection laws and regulations, with clear and detailed provisions on noise, sewage, and ecological chain protection. For protection of natural environment, plants and animals, and water resources, all measures are taken to prevent light pollution and sound pollution. Hungary has many farmland and vegetation protection areas. The environmental protection regulations are very strict and complicated.^① The environmental protection act of Hungary has detailed stipulations on the environmental impact assessment of enterprises, environmental protection department responsibilities as well as types and applicable scope of environmental protection license. Enterprise activities with impacts on the environment must be subject to environmental impact assessment to obtain the environmental protection license. Based on the types of engineering and factory activities, investment in factory construction or project contracting in Hungary may be subject to environmental impact assessment. For enterprises that should obtain but fail to obtain the environmental protection license and engage in operational activities without permission, the environmental protection department may restrict, suspend or prohibit the enterprise activities based on the degree of environmental harm, and may impose the penalty of Forint 50,000 to Forint 100,000 per day for the activity duration without permission. With respect to the fee, environmental users (e.g. enterprises) should pay the environmental impact fee for the environmental impact caused by their own activities (e.g. waste emission), should pay the environmental use fee for use of certain environmental elements, and should pay the disposal product fee for production, import and distribution if such products will cause significant burden or harm to the environment or any of its elements during or after use. Enterprises should also pay the supervision fee for the activities within the unified environmental use permission.

3.1.5 Labor supply

Hungary is facing the risk of shortage of labor supply, where enterprises generally find it difficult to recruit workers. Hungary has a population of 9.6 million, where the employed population is 4.7 million, and the current unemployment rate is less than 4%. Meanwhile, the wage level in Hungary is low, which is lower in the EU, leading to a serious loss of top talents. In addition, the laws of Hungary tend to ensure that citizens have priority in

^①Data source: Ministry of Commerce of the People's Republic of China, <http://hu.mofcom.gov.cn/article/ztdy/202103/20210303046948.shtml>

employment, and have many restrictions on employment of third-country labor. The quantity of work permits issued to foreign citizens is strictly restricted, and there are also strict stipulations on the workplace of foreign citizens working in Hungary who have obtained work permits. In recent years, with the substantial increase in overseas investment in Hungary, including continuously expanded investment and continuous factory expansion of Chinese new energy enterprises in Hungary, the manufacturing industry has constantly expanded demands for high-quality labor with relevant knowledge and skills, and human resource intensive enterprises will face difficulties in recruiting workers.

3.1.6 Laws and regulations

Compliance standards in the legal system of Hungary are strict, where enterprises are under great compliance pressure. As an EU member state, Hungary complies with the EU laws and regulations, which are significantly different from the legal systems and rules of China, and it has very strict requirements for product standard and certification, environmental protection and personal data protection.

3.1.7 Horizontal competition

Each case under national competition law handled (or actually parallelly handled) by Gazdasagi Versenyhivatal (GVH) and Hungarian Court must comply with the EU competition law. Based on the enterprise turnover, the different industries threshold and quantity of EU member states involved, if the enterprise merger or acquisition in Hungary reaches a certain threshold, the enterprise is obliged to give a prior notice to the European Commission or GVH to obtain the merger or acquisition approval. Upon economic and competitive analysis, the European Commission or GVH may prohibit the enterprise merger or acquisition, or make stipulations on the structure or behavior standards for the allowed merger or acquisition.^①

At the domestic level of anti-unfair competition, the relevant competent department is the Hungarian Competition Authority (HCA). The *Act No. 86 on the Prohibition of Unfair Market Practices* of Hungary expressly prohibits unfair market practices, including prohibition of unfair competition, prohibition of deceiving consumers, prohibition of agreement on restriction of economic competition, and prohibition of abuse of market advantage.

^① Data source: CEE Legal Matters, <https://ceelegalmatters.com/competition-2021/competition-hungary-2021>

3.1.8 Political change

After the outbreak of the conflict between Russia and Ukraine in February 2022, Hungarian government declared to stay out of the conflict between Russia and Ukraine, and stood in solidarity with the EU on sanctions against Russia, but highlighted that sanctions would not affect the Paks II nuclear power plant expansion plan participated by Russia and the plan of Hungary to purchase oil and gas from Russia.

However, political risks are rising in Hungary as the rift with Europe and the US grow. Due to the corruption crackdown and opposition to sanctions against Russia, the EU has frozen Hungary's funds of nearly Euro 20 billion. Restricted by energy shortage, high inflation, government funding gap and other factors, the Hungarian government was under enormous political and economic pressure from Europe and the US.

3.1.9 Social security

The social security of Hungary is generally stable, and every year around Christmas is relatively high incidence of crime. The principal criminal acts include theft, burglary, etc. In recent years, as the number of domestic tourists to Hungary has increased significantly, the number of thefts against tourists in some popular tourist areas tends to increase.

With respect to the prevention of terrorist attacks, Hungarian law stipulates that individuals are not allowed to possess or carry firearms, except for licensed shooting squad members.

3.1.10 Power supply risk

In recent years, the electric power battery and automobile upstream and downstream enterprises have gathered to invest in Hungary to build factories, causing high demand for electricity which is beyond the bearing capacity of the existing power infrastructure in Hungary and the expectation of the previously original power grid construction plan. Hungary is now pressing ahead to expand the existing power grid, substation and other power infrastructures and to newly build the power generation facilities. Considering the long construction cycle of power infrastructure, enterprises should make good planning on electric power utilization before investment in Hungary.

3.1.11 Inflation and financing risks

Inflation remains high in Hungary, and enterprise construction and production costs are soaring. Since the second half of 2022, inflation rate has been high in Hungary. The

average inflation rate was 14.5% in 2022, and up to 25% by the beginning of 2023, ranking the first place in EU. The industrial production and living cost are soaring in Hungary, and the employee wage and financing cost are also rising.^①

3.2 Expectations and suggestions on improvement of the business environment by the Hungarian government

3.2.1 Preferential support policy

Due to high level of economic development in the central and middle regions of Hungary, the rent, labor cost, daily operating cost and other costs are many times those in other regions. The high costs rising year by year hinder Chinese enterprises from selecting sites in the capital and middle region, which find it difficult to provide services and expand market influences in these regions. However, Hungary has no preferential support policy for foreign investment.

The support policy of the Hungarian government is suggested not only to provide economic support, but also to:

1. Provide a series of comprehensive support policies in combination with labor training, laws and regulations training, tax declaration and other necessary training for foreign investment and enterprise development, which will help Chinese enterprises to integrate into the business environment of Hungary more quickly, providing a foundation for Chinese enterprises to operate legally and in compliance.

2. Regard industrial parks as one of the support policies, so that associated enterprises can strengthen the inter-enterprise cooperation in the same industrial park, and enhance the competitiveness of enterprises. The Hungarian government should pay attention to the overall planning of industrial parks when attracting foreign investment, strengthening the development of municipal public energy resources, reducing the energy costs of enterprises, and creating a suitable investment and operation environment for foreign investors and foreign enterprises.

3.2.2 Contract execution and legal services

^①Data source: PwC, https://www.pwc.com/hu/en/pressroom/2023/vezerigazgato_felmeres_2023.html

Chinese enterprises in Hungary generally are not familiar with the laws and regulations of EU and Hungary, and they are urgently in need of related services and training in terms of contract execution and legal services. Contract drafting to execution should comply with different procedures and different legal norms.

It is recommended that Hungarian government provide public legal training and lawyer consultation service for contract execution of foreign enterprises, simplify the administrative procedures to the greatest extent, and improve the government work efficiency, so as to shorten the procedural review and waiting time.

3.2.3 Preferential tax policy

Although the annual corporate income tax rate is only 9% in Hungary, which is the lowest among the enterprises in EU countries, the benefit from the low corporate income tax tends to be offset by the high local business tax and the high employment cost levied by municipal authority. Chinese enterprises suggest Hungarian government provide more friendly and industry-wide tax incentives for small and medium-sized enterprises to better support their development.

Hungarian government provides the development tax allowance, but it is generally applicable to large-sized enterprises with large investment scale and many employment positions only. Only one aspect of this development tax allowance is specific to the investment of small and medium-sized enterprises, which is hard on such enterprises, and most of the small and medium-sized enterprises cannot reach the investment and development criteria.^① Chinese enterprises suggest Hungarian government relax the conditions for preferential tax policies, relax the industrial restrictions imposed by preferential policies on enterprises, not limited to manufacturing (green investment, brownfield investment or capacity expansion investment) and shared service center industry, and meanwhile, and provide tax preference in energy conservation and emission reduction, enterprise training, R&D and other sustainable development aspects to support and encourage the green development and sustainable development of Chinese enterprises and foreign enterprises in Hungary.

3.2.4 Strengthening investor protection

The *Foreign Investment Act* (Act XXIV of 1988) published by Hungary provides legal

^①Data source: VGD, <https://cn.vgd.eu/zui-xin-xin-wen/xiong-ya-li-fa-zhan-shui-shou-you-hui>

protection for the rights and interests of domestic and foreign investors of Hungary. The domestic and foreign investment enterprises of Hungary are applicable to uniform laws and regulations. Foreign enterprises and other economic organizations or individuals can engage in most of the economic activities to the extent permitted by law. However, with respect to investor protection, due to the low information disclosure and legal liability index in Hungary, the World Bank and International Finance Corporation rank investor protection in Hungary in 128th place in the world.

Chinese enterprises suggest Hungarian government introduce and improve the laws and regulations supporting foreign investment, to create an open, transparent and non-discriminatory regulatory environment for foreign investors and enterprises, to promote competition and fairness, to provide strong protection for intellectual property rights (IPR), and to simplify the cumbersome regulations on investment to the greatest extent, so that the tedious regulations will not reduce the enthusiasm of Chinese enterprises to participate in innovation and technology development. At the financial level, it is recommended that the Hungarian government ensure that the financial market laws and regulations contribute to international investment and that enterprises in Hungary can obtain financing to carry out innovation and technology intensive projects by stabilizing the financial risks, creating a favorable framework for stock market development and adding the availability of financing instruments.

3.2.5 Facilitating business start-up procedures

The establishment of corporate entities in Hungary involves cumbersome and lengthy procedures which includes the deed of incorporation and all other legal documents must be written by a lawyer on behalf of the company in Hungarian instruments. Half of the subscription amount (at least Forint 250,000) should be deposited in the bank account designated at the time of subscription, and submitted to the registration court for application before the establishment of social insurance account. It will take 102 days for an enterprise to apply for the construction permit, involving 26 procedures; Only after the government department completes the inspection, the enterprise will receive the statement from the urban planning commission and the letter of tax authority. After satisfying all the above conditions, the enterprise should also obtain the use permit, and complete the registration in the Office of Land Registry. Cumberse procedures plus low government work efficiency and decision-making efficiency as well as barriers to language communication have prolonged the investment cycle of enterprises.

Chinese enterprises suggest Hungarian government simplify the procedures. On one hand, improving the electronic and digital information service facilities can reduce the procedure burden and waiting time of enterprises; on the other hand, Hungarian government or related law committee is suggested to provide the related lawyer consultation for enterprises, providing professional suggestions for the situations of different enterprises; meanwhile, the government is suggested to continue improving the English language training of primary-level staffs and provide multi-language support in the handling procedures so as to better help the Chinese enterprises to communicate with the government institutions and to obtain the information and progress updates in a timely manner.

3.2.6 Optimizing foreign exchange management

In the past 3 years, the exchange rate between the USD and the Euro against the Forint has fluctuated considerably. The Forint continues to depreciate and is unstable, and the RMB cannot directly be convertible with the Forint. The exchange risk has a serious impact on the business settlement and operating performance of Chinese enterprises in the Hungarian and European markets.

Chinese enterprises suggest Hungarian government and Hungarian National Bank make the continued stability of the Hungarian currency a top priority, and clear the economic concerns in local and international markets by adjusting the interest rate, controlling the budget and reducing inflation. Hungarian government can take into account and make full investigation on the demands of Chinese enterprises in Hungary for RMB foreign exchange and clearing, and promote a wider range of RMB settlement and RMB bond types, which will provide more convenient foreign exchange selection and asset management mode for Chinese enterprises to develop in Hungary.

3.2.7 Facilitating import and export of goods

The cost of cross-border trade in Hungary is relatively low, but the process takes a lot of time. On average, it takes 17 days to export goods and 19 days to import goods in Hungary, thus greatly slowing the import and export trade speed of Chinese enterprises in Hungary. In terms of import and export facilitation, Chinese enterprises in Hungary appeal to Hungary and EU to build a customs clearance and transportation system platform to implement customs clearance facilitation as soon as possible.

Chinese enterprises suggest Hungarian government strengthen the construction of

customs information technology, promote networked customs clearance management, and improve the customs clearance speed for import and export of goods to make it more convenient to handle the import and export procedures. Meanwhile, Hungarian government should perfect, standardize and coordinate the foreign trade legal system, coordinate the customs clearance work of customs, inspection and quarantine, port, taxation, foreign exchange and other departments, solve the problem of repetitive audits, and provide one-stop service for customs clearance enterprises and import and export trade.

3.2.8 Strengthening cultivation of professionals

Chinese enterprises in Hungary are urgently in need of professionals who are proficient in Hungarian accounting, auditing, law and other related fields, and able to communicate in multiple languages. Chinese enterprises in Hungary should understand and comply with the laws and regulations of Hungary and EU from investment research, business start-up to subsequent business operation. Chinese enterprises suggest Hungarian government to connect the accounting, auditing, law and other international service institutions as well as related colleges and universities with foreign enterprises as a bridge, and to provide a platform to solve the problem of difficulty for Chinese enterprises to recruit and employ workers in related field. Meanwhile, Chinese enterprises suggest Hungarian government to provide systematic training in terms of tax, legal and other necessary business knowledge to help Chinese and international enterprises to integrate into the business environment of Hungary in a more “localized” manner.

In recent years, with the continuous expansion of Chinese enterprises' investment in Hungary and the continuous expansion of factories, Chinese enterprises have increasing demand for labor. On one hand, the Hungarian government is suggested to promote visa facilitation, and provide green channel for the approval of major cooperation projects between China and Hungary to solve the current problems of complicated and long-cycle work visa application of Chinese personnel, so that the communication between Hungarian and Chinese personnel can be smooth. On the other hand, the Hungarian government is suggested to pay attention to the structure of the local labor market, and ensure the supply of labor through training local workers with professional skills and introducing overseas labor.

3.2.9 Giving priority to resolving trade disputes through dialogue

The legal system of Hungary is based on the legal system of Continental Europe (legal system of Germany-France and Roman). As an EU country, Hungary harmonizes with the EU legal system and arbitration procedures, and the economic and trade disputes are resolved through litigation, arbitration, mediation and other legal procedures. The main economic and trade disputes faced by Chinese enterprises include trademark infringement disputes, patent ownership disputes, project compliance and payment disputes, contract performance and anti-dumping, countervailing and safeguard risks. Since 2012, the Hungarian Court has added a conciliation court to resolve civil and commercial disputes. With the development and maturity of the Hungarian mediation mechanism, mediation has become a timely and effective dispute resolution approach, and has been accepted by the society of Hungary. Chinese enterprises suggest the Hungarian government continue to improve market access commitments, fair competition principles, dispute resolution agreements and policies, and provide fair, open and transparent coordination of protection standards and dispute resolution mechanisms for local and foreign enterprises.

In case of disputes, the Hungarian government is suggested to give priority to resolving such disputes through dialogue so as to maintain high transparency and civil society participation. Due to legal and sociocultural differences, the Hungarian government is suggested to provide diversified training about international commercial dispute prevention and resolution including dialogue and consultation, compliance construction, early warning and prevention, standard contract formulation, mediation and arbitration for foreign enterprises, and to protect the legitimate rights and interests of overseas enterprises pursuant to the law, creating an efficient, convenient, fair and equitable business environment for foreign enterprises.

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Introduction to the ACEH

Association of Chinese Enterprises in Hungary (ACEH), founded in November 2004, is a non-government and non-profit service agency for Chinese enterprises officially registered in Hungary. The purpose of the ACEH is: to maintain the rights and interests of members, to promote exchanges and cooperation between members and local enterprises in Hungary, to help members timely understand and research the related policies and regulations of investment and trade between China and Hungary, to maintain communication and exchange with the related governmental agencies of China and Hungary on behalf of Chinese enterprises, and to encourage, help and support other Chinese enterprises with investment intentions to contact with the corresponding agencies for mutually beneficial cooperation.

The ACEH has over 70 official members, which are all the most powerful and most promising Chinese enterprises in the economic and trade cooperation between China and Hungary, with the business scope covering almost all fields. Currently, the president unit is Bank of China (Central and Eastern Europe) Limited, the vice president unit is Wanhua Borsod, China Railway, China Railway Ninth Bureau and China-EU Trade and Logistics Cooperation Zone, and the standing director unit is China Construction Bank, ZTE, Dongfang Guoyao, WINK, Goldenland and Morgan Star Group.

With the promotion of the Belt and Road Initiative and the Opening to the East Initiative of Hungary, as well as the establishment of the comprehensive strategic partnership between China and Hungary, more and more Chinese enterprises are looking to Europe and Hungary with the aim of expanding international cooperation and overseas development. The ACEH will continue to work in the spirit of coordination, communication, cooperation and exchange, build a platform to better serve the members, actively perform the functions of the ACEH, help the established Chinese enterprises to develop more smoothly in the local market, encourage and support more Chinese enterprises to invest in Hungary, and continue to play a role of a bridge and bond for economic exchanges between China and Hungary.

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