Columbia FDI Perspectives

Perspectives on topical foreign direct investment issues

Editor-in-Chief: Karl P. Sauvant (Karl.Sauvant@law.columbia.edu)

Managing Editor: Chioma Menankiti (clm2249@columbia.edu)

No. 395 October 28, 2024

The Chinese electric vehicle industry's FDI in Hungary: A challenge for European policymakers

by

Louis Brennan, Viktor Eszterhai and Shaowei He*

BYD, the biggest electric vehicles (EV) producer in China and the world's largest seller of EVs, is currently establishing its first European EV factory in Szeged, Hungary. This multi-billion-euro investment will create thousands of jobs in Szeged and the surrounding regions. Other Chinese companies in the EV supply chain—Nio, Eve Energy, Huayno Cobalt, Ningbo Zhenyu Technology—have also recently announced new factory projects. The latest arrival is the Chinese battery giant CATL; last year, it pledged to build a €7.3 billion battery plant. This would boost Hungary to become the second largest producer of EV batteries, only after China.

The increasing inflows of Chinese FDI into Hungary (and its EV industry in particular) is in contrast to the trend of declining global FDI. According to UNCTAD, global FDI flows fell 12% in 2022 and again 2% in 2023. Chinese investment into Europe (EU-27+UK) has continued its multi-year decline, reaching a decade-long low of just €6.8. billion in 2023. This background makes the increasing Chinese FDI in Hungary more remarkable: China's share of FDI in Hungary, which greatly increased from 1% in 2014 to 9% in 2023, could become significantly higher with the implementation of the above-mentioned projects.

China is now the world's largest producer and consumer of EVs, and its EV battery makers boast the latest technologies. Indeed, attracting Chinese EV investment is part of Hungary's broader strategy of becoming an indispensable node interconnecting German and Asian value chains. The arrival of EV battery plants not only further protects earlier investment in the EV industry, but they also help to strengthen Hungary's EV eco-system by extending and deepening its EV supply chain. Together with investment from other Chinese firms (but also Korean and Japanese ones), Hungary's ambition to become a superpower in electric mobility seems to be attainable, demonstrating that it is possible to adopt FDI attraction policies that take advantage of global frictions.

Undoubtedly, Chinese firms find Hungary's close relationship with China and its EU membership appealing. In addition, Hungary already has a significant presence of European automobile makers (including the big three German manufacturers), thus offering Chinese EV suppliers located there the advantage of proximity to potential customers. The EU's imposition of anti-subsidy tariffs on EV imports from China lends urgency to Chinese EV suppliers to establish production plants within the EU. Such investments can serve as a means of avoiding any such tariffs—provided (as stated by the EU Trade Commissioner) that they met rules-of-origin requirements with a minimum value created within EU borders.

The auto industry is of systemic importance to the EU economy, providing 13 million jobs and accounting for 7% of total employment. Given that China's EV firms possess formidable cost, technology (in batteries in particular) and supply-chain advantages over EU firms, their entry into the European market via greenfield investments poses considerable risk for European incumbents.

The EU framework for FDI screening—which became fully operational in 2020—has been focused on brownfield FDI, generally motivated by asset-seeking. The framework also addresses security and public order risks rather than competition. Member states' current FDI screening regimes seem to have already had some deterrent effects on Chinese FDI. It is not clear that extending FDI screening to encompass competition risks—such as greenfield FDI that is motivated by market-seeking—would gain favor among all EU member states given that such investments bring the promise of jobs, capital and technology upgrading. Still, the EU Commission in its recent proposal for a new Foreign Investment Screening regulation includes the screening of greenfield investments.

Hungary's approach to Chinese FDI reflects a different weighing of national security and economic development considerations as compared to other EU members with regard to FDI screening. This poses a challenge to the recent call for harmonization among member states' FDI screening regimes as member states may attach different importance to considerations of national security and economic development.

The possibility of the EU Commission's application of the recently introduced Foreign Subsidies Regulation to Chinese EV companies trading in the Single Market, including those located and producing within the borders of the EU, has been raised. However, this has not thus far gained any traction.

Instead, just as the arrival of Japanese auto FDI into Europe and the USA in the 1980s led to local incumbents improving their performance, European and member state policies should be directed toward a similar outcome in the face of the arrival of Chinese EV FDI. In this regard, the Commission could consider encouraging members states to put in place incentives that would help European firms and the Chinese entrants to partner in joint ventures, thus allowing for technology transfer and the adoption of best manufacturing practices by local incumbents from their joint venture partners. At the same time, such ventures would benefit the new entrants in terms of accessing their local partners' market knowledge and expertise in marketing and distribution. There remains the possibility of the EU and its member states learning from China's FDI policy by requiring Chinese entrants to engage in joint ventures with local producers.

---

[*] Louis Brennan (brennaml@tcd.ie) is a Professor in the Trinity Business School; Viktor Eszterhai (Eszterhai.Viktor@uni-nke.hu) is a Research Fellow at the John Lukacs Institute for Strategy and Politics China and the Indopacific, Ludovika University of Public Service; Shaowei He (Shaowei.He@northampton.ac.uk) is a Professor at the University of Northampton. The authors wish to thank Christian Bellak, Manfred Schekulin and Zbigniew Zimny for their helpful peer reviews.

Most recent *Columbia FDI Perspectives*

- No. 394, Martin Dietrich Brauch, Stefan Mayr and Carl Frederick Luthin, 'After intra-EU BITs and the ECT, the EU needs to abandon extra-EU BITs—for legal, energy and climate policy, and political economy reasons,' Columbia FDI Perspectives, October 14, 2024.
- No. 393, Fernando Bedoya and Belén Lassala, 'States should take a prudential approach to the implementation of GLoBE rules to avoid ISDS,' Columbia FDI Perspectives, September 30, 2024.
- No. 392, Stephen Heifetz, 'CFIUS and the cost of risk aversion,' *Columbia FDI Perspectives*, September 16, 2024.
- No. 391, Gary Hufbauer, 'Semiconductor subsidies and WTO rules,' *Columbia FDI Perspectives*, September 2, 2024.
- No. 390, Jeffrey Owens and Ruth Wamuyu, 'How will countries compete for FDI in light of the new global tax environment?,' *Columbia FDI Perspectives*, August 19, 2024.