

A Comparative Study of the Advantages and Disadvantages of Overseas Destinations for Chinese Enterprises: The Case of Hungary

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Abstract

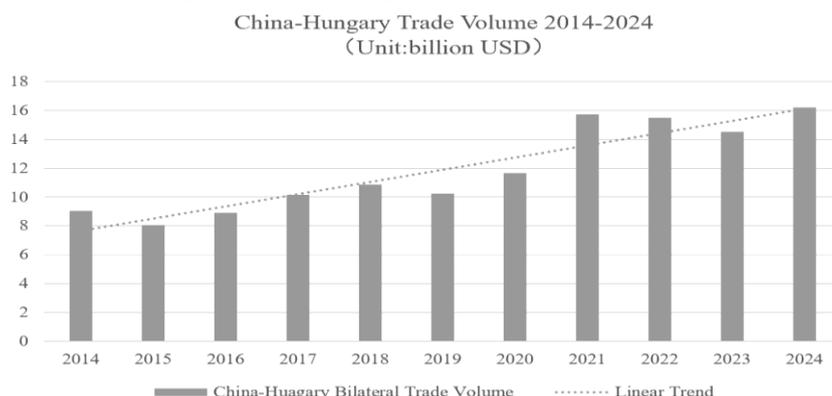
Against the backdrop of the high alignment between China's Belt and Road Initiative and Hungary's “Opening to the East” strategy, Hungary has emerged as a popular choice for Chinese companies looking to expand into Europe, leveraging its unique advantages. This paper combines the strengths and weaknesses factors of the SWOT analysis method with the PEST analysis method to form the Strengths and Weaknesses integrated with PEST analysis (SW-PEST model), which is used to assess the strengths and weaknesses of Hungary's investment environment under the influence of political, economic, social, and technological factors. The advantage of using the SW-PEST model is that it combines strengths and weaknesses with the PEST factors of the external macro environment to form a more systematic and comprehensive strategic analysis framework. By conducting cross-destination comparisons with Serbia, France, Greece, and Sweden, and analyzing the differences in the basic circumstances and strategic positioning of the CATL Hungary project, this paper provides recommendations and strategies for Chinese companies looking to expand into Hungary. In the future, Chinese companies should conduct thorough preliminary research on local regulations and public opinion, promote localized compliance operations, and build bridges for cross-cultural communication to achieve sustainable investment in Hungary.

Keywords: Chinese enterprises; Hungary; SW-PEST model

1. Introduction

Hungary is one of China's major trading partners in Central and Eastern Europe. [1] Data shows that in 2014, the bilateral trade volume between Hungary and China was 9.02 billion U.S. dollars, with China being Hungary's 15th largest export market and third largest source of imports. In 2024, the bilateral trade volume between the two countries reached 16.01 billion U.S. dollars, representing an increase of approximately 77.5% during the past decade (as shown in the data in Figure 1). Nowadays, China is Hungary's largest and most stable trading partner outside Europe. [2]

Figure 1 China-Hungary Trade Volume 2014-2024



Data source: General Administration of Customs of China, National Bureau of Statistics of China

Driven by economic globalization and the Belt and Road Initiative, the scale of Chinese companies going global has continued to expand, with overseas investment and cooperation showing steady and positive growth. In recent years,

Chinese companies' overseas expansion into Hungary has shown rapid development. Hungary, known as the “Detroit of Europe,” has become a core hub for China's new energy industry chain overseas due to its mature automotive industry foundation. Currently, Hungary has become a popular investment destination for Chinese companies. In 2024, China's direct investment in Hungary reached 5.28 billion euros, accounting for 51% of Hungary's total annual foreign investment, ranking first among all countries.

Therefore, this paper explores the current situation of Chinese enterprises going global in Hungary and Hungary's investment environment (SW-PEST model analysis) through domestic and foreign literature, and provides suggestions and countermeasures for Chinese enterprises going global in Hungary in the future.

2. Literature Review

Domestic research has focused on Hungary's status as a key investment destination for China in Central and Eastern Europe. As the first country supported by the EU to participate in the Belt and Road Initiative,^[2] Hungary's “opening up to the East” strategy is highly compatible with China's initiative, and the two sides have achieved significant results in cooperation in areas such as infrastructure, finance, and technology. In 2024, China-Hungary bilateral relations were upgraded to a “all-weather comprehensive strategic partnership,” further solidifying Hungary's role as a key strategic hub for China in Europe. In the same year, China launched seven new investment projects in Hungary. Among them, the CATL Debrecen Factory and the BYD Szeged factory are regarded as models of China-Hungary green economic cooperation. These projects not only promote the optimization of Hungary's energy structure but also set a benchmark for cooperation in the green economy sector between China and Hungary, bringing tangible benefits to the people of both countries.

In contrast to the consistency of domestic research, foreign scholars exhibit some divergence in their attitudes toward Chinese investment in Hungary. On the one hand, some Hungarian officials and academics (such as former Ambassador to China Qi Li and Levente Horváth, Director of the Eurasia Center at John von Neumann University) hold a positive attitude toward Chinese investment. On the other hand, there are also significant doubts and opposition to Chinese investment in Hungary, particularly large-scale manufacturing projects. Take CATL as an example: although the Hungarian central government and local authorities have consistently supported the project, it has sparked intense debate among the opposition party, experts, and local communities. Additionally, the EU's revision of foreign direct investment review regulations in 2024, which introduces an active review mechanism among different member states within the EU, will weaken Hungary's role as a “safe haven” for Chinese investment.

A series of studies have assessed the current status of Chinese enterprises operating in Hungary, providing a foundation for understanding future Chinese investment in Hungary. However, existing research either emphasizes cooperative achievements or focuses on individual controversial cases, lacking a systematic analysis of Hungary's advantages and disadvantages as an investment destination, particularly in comparison with other European countries.

Therefore, this paper examines Hungary's local investment environment, analyzes the advantages and disadvantages of Chinese enterprises investing and operating in Hungary, and enriches investment analysis theories targeting specific countries and regions. It provides more comprehensive case support and theoretical basis for subsequent related research. Additionally, it helps Chinese enterprises gain a more comprehensive understanding of Hungary, enabling them to accurately identify business opportunities in the Hungarian market, optimize their investment strategies, and position Hungary as a strategic foothold for entering the European market.

3. Analysis of the Investment Environment in Hungary base on the SW-PEST Model

3.1 Political

Among EU countries, Hungary was the first European country to join the initiative (2015) and the strongest supporter of the BRI ^[2] and as the terminus of the China-Europe Railway Express, Budapest offers logistics costs that are 15%-20% lower than those in Germany, enabling access to markets in Western Europe, the Balkans, and the Middle East. Additionally, as an EU member state, Hungary grants investors the privilege of zero tariffs for access to the markets of 27 countries. Hungary has revised the Foreign Direct Investment Act multiple times, offering foreign enterprises a range of preferential policies such as financial subsidies and rent discounts to support their development in Hungary. It also uses varying subsidy ratios to guide enterprises to settle in priority development regions. However, Hungary's strained relations with the EU, particularly on issues such as immigration and energy policy, have created some uncertainty regarding policy

stability. Furthermore, Hungary must comply with EU-level foreign investment review mechanisms, GDPR data compliance requirements, and ESG disclosure standards, which have raised the bar for policy compliance to some extent.

3.2 Economic

The Hungarian economic system's key advantage lies in its tax competitiveness, with a corporate income tax rate of 9% (the lowest in the EU) combined with an export tax exemption policy, successfully attracting Chinese companies such as Huawei and ZTE to establish their European regional headquarters. In 2024, Hungary's average hourly labor cost was 14.1 euros, the third lowest in the EU, significantly below the EU average of 33.5 euros, greatly reducing operational costs for Chinese companies. However, due to the economic downturn in its major trading partner Germany, Hungary's economic growth has been continuously revised downward from the initial forecast of 2.5% for GDP growth in 2025 to 0.7%. Additionally, there is a risk of sustained contraction in industrial output over the short term. Furthermore, while inflation is expected to decline to 5% in 2025, it remains above the long-term inflation target. The ongoing depreciation of the exchange rate against major currencies will have a long-term impact on the profits of industrial production enterprises.^[3]

3.3 Social

Hungary has a friendly attitude toward China and is one of the countries in Central and Eastern Europe with the largest Chinese diaspora. It has a high degree of cultural inclusivity, and both the government and the public recognize Chinese investment as a key driver of industrial upgrading. The country's science and engineering education ranks among the top in the EU, with universities like the University of Pécs collaborating with businesses to cultivate technical talent. However, the aging population is exacerbating labor supply pressures, with over 19% of the population aged 65 or older. Young technical talent is flowing to high-paying markets in Western Europe, with approximately 41,300 Hungarians emigrating in 2024, further limiting domestic innovation capabilities. Additionally, the official language of Hungary is Hungarian, and English proficiency is weak in some rural areas, making communication between China and Hungary challenging.

3.4 Technological

Hungary has a solid foundation in the automotive industry and is the only country besides Germany that has production bases for all three major luxury car manufacturers: Audi, BMW, and Mercedes-Benz. This has created economies of scale and agglomeration effects. Although Hungary has a high-quality education system, local companies still face issues with skills mismatches in certain areas, especially in the rapidly developing technology industry. This may require companies to invest additional training resources to improve employee skills, thereby increasing operating costs.

Hungary is located in Central Europe, at the crossroads of Eastern and Western civilizations, and has a rich history and culture. As a moderately developed country, it enjoys a favorable geographical location, well-developed infrastructure, a cost-effective labor force, and an advanced logistics network, resulting in a generally favorable investment environment. However, it also faces certain disadvantages, primarily including high GDP volatility, declining industrial output, and uncertainty in its relationship with the European Union.^[4]

In the wave of globalization, Hungary has become a key hub for Chinese companies expanding into Europe thanks to its unique geographical advantages and policy benefits. To help Chinese companies operate efficiently and sustainably in Hungary, we offer the following suggestions and strategies.

4. Comparison of typical countries in different regions within Europe

4.1 Hungary

Hungary is located in Eastern Europe and serves as a key transportation hub connecting East and West, as well as North and South, with a well-developed logistics network. Additionally, Hungary has a long history of automobile production and is often referred to as the “Detroit of Europe.” The country is focusing on developing new energy vehicles, battery manufacturing, and the electronics industry, aligning with the global trend toward green transformation. Hungary attracts Chinese investment through tax incentives and its “New Era All-Weather Comprehensive Strategic Partnership” with China. However, intensifying domestic political struggles and the constraints on political independence as an EU member state pose challenges to investment.

4.2 Serbia

Serbia's core competitiveness lies in its significant labor cost advantages, benefits from multilateral trade agreements, and substantial infrastructure development needs. Key industries are concentrated in infrastructure engineering, automotive

parts manufacturing, and metal processing. The China-Serbia Free Trade Agreement creates a more favorable, convenient, transparent, and stable business environment for Chinese enterprises.^[5] However, corruption and bureaucracy within Serbia can increase the implicit operational costs for businesses. As a candidate country for the European Union, Serbia may face pressure from the EU regarding policy adjustments and market rule alignment, which could impact the stability of Chinese investment policies and market expectations.

4.3 France

As a developed country, France boasts a robust economy, strong technological innovation capabilities, and abundant human resources. The government implements specialized subsidies for new energy and provides support for technological research and development. Therefore, the new energy and healthcare industries are key targets for Chinese enterprises seeking technological cooperation and market access. However, since 2020, Chinese companies investing in France have faced increased policy restrictions and barriers.^[6] France is also the main driving force behind the EU's anti-subsidy investigations and imposes strict compliance requirements on foreign companies.

4.4 Greece

Greek ports serve as a vital logistics hub in the Mediterranean region, boasting natural geographical advantages and a long-standing history in the shipping industry. With well-developed port facilities and an extensive network of shipping routes, these ports play a significant role in enabling Chinese shipping companies to expand into European and Mediterranean markets and enhance their global shipping operations. However, Greece experienced a debt crisis in 2008, and at its worst, the country declared bankruptcy.^[7] At the same time, the local market has relatively low trust in Chinese brands, so Chinese companies need to spend a certain amount of time and effort to enhance their brand image and market recognition.

4.5 Sweden

Sweden implements a policy of “science and education-based national development,” has advanced science and education, and has a long tradition of innovation.^[8] Chinese biopharmaceutical companies can team up with Swedish companies and use low-interest R&D loan guarantees from the Swedish government to boost their R&D capabilities and product competitiveness. However, Sweden's operating costs are pretty high compared to other countries, especially labor costs, which can increase production costs and operational pressure for Chinese companies.

5. Comparison of CATL projects in Germany and Hungary

As a leading company in the global power battery sector, CATL's strategic layout in Europe, particularly its decision to build factories in Germany and Hungary, is not only an important step in the company's global development, but also reveals the competitive landscape of the global new energy industry and the characteristics of regional markets.

CATL's German factory is located in Thuringia. The agreement was signed in 2018 in the presence of the prime ministers of China and Germany, with an investment of 1.8 billion euros and a planned production capacity of 14 GWh. It officially began production in 2023, and by 2025, its capacity utilization rate reached 92%, far exceeding the 67% of its South Korean competitors. However, due to land area restrictions, there is limited room for expansion. Its core focus is to be close to leading German automakers (such as BMW and Volkswagen) to shorten supply chain response times. As CATL's first overseas factory, it holds significant political significance and has become a benchmark case for China-Germany economic and trade cooperation.

The Hungarian government under Viktor Orbán has worked to strengthen Sino-Hungarian ties over the past decade, the forthcoming CATL gigafactory in Debrecen will be the largest EV battery plant in the entire EU.^[9] As Hungary's largest greenfield investment, with an investment of 7.34 billion euros, a planned production capacity of 100 GWh, and the use of Superline technology, production efficiency is 30% higher than German standard production lines, with room for expansion and significant potential for dynamic capacity adjustments. The Hungarian factory is positioned as a “super factory” with the aim of meeting Europe's long-term battery demand.

CATL's first European battery plant in Arnstadt, Germany, has already begun producing battery cells. On the contrary, its second and largest plant to be built in Debrecen, Hungary, has been strongly opposed by the local communities despite the embrace and support of both the Hungarian national and local governments.^[9] The differences between the two in terms of social acceptance and labor market conditions are shown in Table 1.

Table 1 Comparison of CATL projects in Germany and Hungary

Comparison Dimensions	Germany	Hungary
	After 12 rounds of hearings, the company	
Social Acceptability	promised to create 2,000 high-paying jobs and invest 15 million euros in ecological restoration, ultimately gaining the support of 92% of residents.	Lack of transparency prior to construction raises public concerns, leading to at least 13 major protests
Labor		The project requires the recruitment of 3,000
Market	Over 80% of employees are local	Chinese employees, sparking controversy over “job snatching.”
Environmental Compliance	Approved by the German Federal Ministry for the Environment	Contradictions in water resource data and disputes over CO ₂ emissions
Political Maneuvering	Germany supports investment in new energy across the board, with the Thuringian state government providing long-term policy guarantees.	Aligned with Orbán’s pro-Eastern policy, but opposed by a coalition of seven opposition parties, who have elevated the project to the level of “anti-China battery colonization.”

6. Conclusion: Recommendations and countermeasures for Chinese companies expanding into Hungary in the future

In the wave of globalization, Hungary has become a key hub for Chinese companies expanding into Europe thanks to its unique geographical advantages and policy benefits. To help Chinese companies operate efficiently and sustainably in Hungary, we offer the following suggestions and strategies.

6.1 Conduct thorough preliminary research.

Before expanding into Hungary, Chinese companies need to conduct multi-dimensional, systematic research. Focus on the political and economic environment and conduct an in-depth analysis of the regulatory systems of the EU and Hungary in areas such as investment, trade, and construction, covering details such as safety supervision, labor rights, ESG standards, and privacy and data protection. At the same time, leverage official government channels and professional consulting agencies to accurately identify policy support tools, such as subsidies for the new energy industry and tax incentives.

6.2 Regulate overseas investment and business operations.

Chinese enterprises should strictly comply with local Hungarian laws and regulations and ensure compliance in their business operations. After the investment is finalized, they should strengthen local management, promote localization of operations, hire professional talent, actively fulfill corporate social responsibilities, and carry out media publicity and other work to ensure the long-term sustainable development of the investment project.

6.3 Focus on fostering positive interactions across all sectors in Hungary.

Companies should conduct prior research into Hungarian cultural customs, value systems, and ways of thinking to establish cross-cultural communication mechanisms. Through cross-cultural training for executives and cultural exchange activities for employees, promote the integration of Chinese and Hungarian cultures and break down cognitive barriers. At the same time, in business collaboration, respect the local cultural logic of Hungary, such as the pace of business negotiations and labor-management relations, to lay the social foundation for the long-term establishment of the enterprise.

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