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The victory of European business over European politics in Hungary

An investment revolution, which is launching Hungary into the top league of European producers of batteries and electronic vehicles, is under way. Although the most disobedient child of the European Union, Hungary is becoming its pillar of advanced automotive technology, on which the big European plans for advancing the "green agenda" and ending the era of transportation on fossil fuels while switching to sustainable energy sources are based. Several huge investments from the automotive industry have arrived in Hungary in a short period of time.

In particular, investments in the production of vehicles for which there will be a huge demand in Europe in the coming years and decades. The combination of large EV battery production capacities and new electric car factories will create a well- rounded supply chain in Hungary, involving producers from competitive national economies. The champion of new investments in Hungary is the Chinese car battery giant CATL, which is investing 7.3 billion euros in a factory in Debrecen. After Erfurt in Germany, this is the second of CATL's three gigafactories planned in Europe.

It will be five times larger than Tesla factory in Nevada and will produce batteries for about two million cars a year. CATL's main battery cells buyer will be Mercedes-Benz, which will instal them in its factories in Germany and Hungary. BMW will also be an important customer. BMW has decided to double its initial investment in EV production in Hungary to 2 billion euros, also in Debrecen, where the Chinese battery manufacturer is located. The BMW plant is at the centre of the Bavarian auto industry's plans to compete with Tesla, still the world's largest EV producer.

The South Korean giant EcoPro BM is building a plant for the production of cathodes for car batteries in Hungary. A plant is worth about 800 million dollars with a capacity sufficient to equip about 1.3 million cars a year.

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Hungary has attracted these huge investments with a megacombination of very favourable tax conditions (9% corporate tax, the lowest in the EU), large state subsidies - about 800 million euros, but also some non-financial incentives, which are also important for investors. One of the key advantages is the proximity to the largest European car markets, both manufacturers in Germany and consumers in the continental west and north, which will lead the European transition from fossil fuels to electric power.

There are purely Hungarian specifics that are reflected in investor-friendly legislation, but also weak trade unions, which in combination, provide an almost ideal environment for large investments. Investors apparently did not pay much attention to the EU's long-standing anger towards Hungary and its illiberal leader Viktor Orbán. Business followed its own logic: in this case, the opposite of the political one. Orbán's Hungary is Europe's enfant terrible due to increased nationalism, widespread corruption and threats to media freedoms and human rights groups, especially the LGBT community.

Liberal Europe accuses Hungary and its Prime Minister Orbán of their strong ties with Russia, when it comes to energy, but also with China, of which Hungary is the largest partner in the Eastern European arm of the Belt and Road project. “Prime Minister Viktor Orbán’s decision to align his country with Vladimir Putin’s Russia and Xi Jinping’s China has rendered this NATO ally a dangerous Euro-Atlantic security liability”, said one of hundreds of similar reports of liberal European think-tanks (European Values) where Hungary is described as a "black sheep" in the heart of the EU and a danger to its fundamental values.

Brussels recently decided to show its muscles instead of harsh words to Orbán, and denied

Hungary 7.5 billion euros from cohesion funds, demanding that Budapest strengthen the rule of law and fight corruption. Symbolic or not, Hungary "loses" as much money on this political field as it gains from the Chinese investor on the other.

This European response was the first serious blow to Hungary's illiberal rule, and the next could be even its exclusion from making important decisions at EU level, given the recent Hungarian veto that blocked the sending of major European financial support to Ukraine. However, huge investments from Europe and Asia make it easier for Hungary to handle all of this.

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While the political war between Brussels and Budapest is reaching its climax, there is almost harmony on the economic level. By 2030, Hungary will be by far the second largest European manufacturer of car batteries, behind Germany and twice the size of third-placed Poland.

In the same illiberal Hungary, the greatest pride of the European economy and its market, such as Mercedes-Benz, BMW, Audi, Stellantis, can find an oasis for close cooperation with an industrial giant from authoritarian China - CATL, by far the largest global manufacturer of car batteries, which holds more than a third of the market. “Europe has fallen behind and missed out on the opportunity to create a complete value chain”, Péter Kaderják, chair of the newly formed Hungarian Battery Association and a former government official under Viktor Orbán told the FT.

In the long term, in Hungary, already exposed to internal EU financial sanctions, an electric-automotive hub is growing, which may be crucial for the success of European energy transition strategies. If it comes to fruition, Europe will have its entrepreneurial auto giants to thank, not its bureaucrats from Brussels.