Hungary’s Link to Financial Cooperation with Asia*

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In recent years, China’s contribution has increased in nearly every aspect of life. This process is strongly supported by Chinese economic growth, which has continuously and consistently exceeded the global average. China is opening up its financial markets very gradually, while integration in the global economy requires more immediate financial cooperation. Recognising this tension, the Chinese President publicly put forward an initiative to build the organisation and establish the operating conditions of the Asian Financial Cooperation Association (AFCA), the incorporation of which is currently in progress. Consequently, one of the most important financial associations in the world will launch its operations at the turn of 2016/2017.

The Hungarian Banking Association was also invited to participate in the preparations for the AFCA and in the foundation of the organisation. In August 2016, in addition to the approval the draft Regulations of the AFCA and the operation of the organisation, the senior officers of the Association were elected, with the representative/Secretary General of the Hungarian Banking Association elected as a member of the Executive Board of the Board of Directors.

In this paper, we present the background of the AFCA’s foundation and the objectives of its operation, and describe the new opportunities afforded by Hungary’s participation, membership and relationship network.

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1. Chinese economic policy at a crossroads

A few years ago, a paradigm shift took place in the economic policy of China. Owing to the progressive implementation of the economic reform launched in 1984, the country was characterised by years of dynamic, double-digit economic growth and...
a strong inflow of foreign direct investment and modern technology. The sources of this extensive economic growth, however, have been depleted and, as the erosion was further exacerbated by the 2008 global economic crisis, economic growth faltered. At the same time, the importance of strengthening China’s international political and economic role became apparent and the necessity of addressing such internal problems as the rapid ageing of the population came to the foreground.

The question for China, therefore, was to find a way to ensure sustainable growth while also tackling the country’s other challenges. With a view to promoting an aggressive opening to external markets, the Chinese government announced its much-publicised Belt and Road policy, which consists of two main pillars: the “Silk Road” and the “Maritime Silk Road” initiatives. One of the cornerstones of the latter decision was to support China’s exports of goods and to boost foreign direct investment by utilising substantial financial resources, i.e. subsidised (preferential) loans. Indirectly, this agenda bolsters the economy, creates new jobs and, over the medium term, allows for the remittance of yields on foreign investments.

In parallel with the above, China began to strengthen its international financial and economic relations. One important achievement in this endeavour was the International Monetary Fund’s October 2016 decision to include the renminbi – the Chinese currency – in the IMF’s SDR basket of reserve currencies (USD, GBP and EUR), with a significant weight. China was also aware of the negotiations that commenced between the European Union and the United States on the Transatlantic Trade and Investment Partnership (TTIP). Presumably also in consideration of the impending trade agreement, in 2014 China organised an economic and political collaboration under the auspices of the Asia-Pacific Economic Cooperation (APEC).

2. Relations between China and the European Union

One of the most critical objectives of the European Union is to boost and ensure the sustainability of economic growth. In order to achieve this goal, the EU needs to put in place a set of adequate tools. From the financial side, one of the most crucial decisions of the European Union is to complete the Monetary Union in the coming period. Last October, the Commission announced a roadmap for the reform of the Monetary Union’s architecture and its envisaged stages. In recognition of the importance of external financial relations, it should be noted that, interestingly, one part of this action plan is to reinforce the external representation of the euro area. According to the Commission, the external representation of the EU has failed to keep in step with the increased economic and political weight of the currency area. While the US dollar has a single, solid representation in the international financial community, Member States of the euro area speak with a fragmented voice. The Commission proposes a consolidated external representation for the
euro area both in the international arena and in the IMF, with the president of the Eurogroup designated to represent the euro area in the latter. Another important component of completing the Monetary Union is to accomplish the construction of the Banking Union.

The next important step of the European Union in the area of international financial relations and direct investment is to launch a Capital Markets Union, the implementation of which is in progress.

When these European Union processes are compared to the strategic objectives of the Chinese government, it becomes evident that there are indeed opportunities for cooperation that serves the interests of both parties and the chances of establishing such win-win collaborations should not be passed up.

From the perspective of China, this opportunity for cooperation can be summed up, in simple terms, as follows. The Chinese government has embarked on numerous reforms in recent years (price reform, agricultural reform, rural industrial development reform, etc.), but now it is time to move forward. According to the programme announced by the government, excessively rapid economic growth is unhealthy; however, a certain growth rate – which is currently defined at an annual rate of 6 per cent – needs to be maintained. To that end, several decisions have been made, ranging from boosting internal demand and consumption to counteracting the ageing of the population; however, it is the international aspects of addressing the problem that bears the most relevance to this paper.

The first and perhaps most important task of the established strategy is to ensure that the surplus substantial industrial capacities and capital buffers accumulated as a result of enormous inflows of foreign direct investment are utilised abroad. China has developed the economic, commercial and financial conditions required for the implementation of this concept: the inception and announcement of the “One Road, One Belt” programme have established the contractual and infrastructure conditions that enable Chinese goods to be exported through Central Asia to the West all the way to Europe and to the markets of the European Union (referred to as the “Green Road”), or via the maritime “Blue Road” through Southeast Asia and South Asia to Africa and Europe.

Guy de Jonquiéres, the acclaimed analyst of ECIPE expressively and wittily characterised the relationship between the EU and China as follows: “Henry Kissinger famously once asked: “What number should I dial when I want to talk to Europe?” Beijing has found the answer. It begins +4930, the code for Berlin. Last autumn, President Xi Jinping added two more numbers to his address book: those of Britain’s Prime Minister and Chancellor of the Exchequer, who accorded

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him a rapturous – some unkindly souls said sycophantic – welcome to London and declared Britain to be China’s “best partner in the West”.

When Mr Xi or his colleagues call Berlin or London, they can expect an enthusiastic response – especially if there is Chinese money in it. Beijing, however, guarantees European leaders no such reciprocity […] Then, they can expect a frosty reception, or none at all.

As that suggests, the relationship between China and Europe is unbalanced, with the scales weighted mostly, though not entirely, in China’s favour. [Arguably], that imbalance owes less to Chinese strength, which is often over-rated abroad, than to European weaknesses – mostly self-inflicted.

Beijing is pretty clear what it wants from Europe. Chiefly three things: free access to its single market; a secure home for its investments, particularly its fast-growing acquisitions of corporate assets; and a diplomatic foil in its increasingly fractious relationship with the United States. […]

Europe’s interests in China today are basically mercantilist. Its governments think of China primarily as a big and promising market and, more recently, as a source of otherwise scarce capital. Increasingly, they view China also as a rising global power with which to make their number in the hope of political, as well as economic, dividends in the future. This has translated into an undignified scramble by EU members to curry favour and preferment with Beijing at each others’ expense. In narrow national terms, such tactics may make sense, if cosying up to China earns rewards in export orders and inward investment. That means jobs in Europe and jobs mean votes for politicians who claim credit for creating them. Offending China, on the other hand, risks forgoing prizes in the great treasure hunt. Or so European politicians seem to believe.”

The strategy of the “Belt and Road” initiative, i.e. the new economic policy of the Chinese government, conjures up all keywords of international cooperation: an opening towards new business relations, increased foreign direct investment overseas, revaluation of global economic relationships. That notwithstanding, the strengthening of international financial and banking relations and the establishment of the relevant institutional framework are not listed among the objectives either in the European Union’s, or in China’s external economic strategy, even though decades-old experience has clearly demonstrated that international investors and foreign project-owners feel far more comfortable when they have access to reliable, well-functioning banking relations in the target country. In this day and age, stock

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2 When broaching certain subjects to which Europeans tend to be sensitive (authors’ note).
exchanges and financial institutions act as a compass for enterprises: they show directions, instil confidence and suggest reliability. Similarly, the role of international banking associations cannot be ignored in a globalised world confronted with mounting challenges after the international financial crisis.

The Asian Financial Cooperation Association is seeking answers to just such challenges from the financial and banking side. The AFCA may become a part of the compass and the guidance that can assist in forging a way forward for capital and exports.

3. The significance of Chinese economic and financial relations for Hungary

We attempted above to outline the course which led China and the Asia-Pacific region, as well as the European Union and the United States, to define a programme, a set of tools and a timeline to address the situation arising after the global crisis. Initially, it appeared that these major economic powers and regions set out on two different roads in parallel directions. More often than not, the landmarks alongside the two roads are similar to each other, and they also conspicuously coincide in time. Knowing the interests of these formidable economic units, it has become clear by now that the parallel roads, driven by the partners’ interests, converge in the distance.

One junction where these two roads may cross – not only in a geographic sense – is Hungary. Hungary and the Central European region serve as an important gateway for Asian and Chinese exports to the market of the European Union. There is heightened demand for foreign – in this case, Chinese – direct investment and for the support of infrastructure developments. As an example closer to home, the upgrade of the Belgrade–Budapest railroad should be mentioned, which is scheduled to be implemented with Chinese participation as, hopefully, an important future section of the “Green Road”.

The traditionally sound Chinese–Hungarian economic and financial ties became even tighter during China’s preparation for its 1978 economic reform. It is perhaps a lesser known but historical fact that, when Hungary’s accession to the IMF and its ability to draw down the stand-by credit facility was a matter of life and death in 1980, the USD 500 million quota required for the entry and for the membership was put up by the People’s Bank of China.

Hungary also represents a significant opportunity in the area of financial and financing infrastructure. On 2 October 2015, the People’s Bank of China and the Magyar Nemzeti Bank officially announced that the Hungarian subsidiary of the Bank of China was given a mandate to launch its RMB clearing centre in Hungary. Since Bank of China Hungary Ltd. operates in the context of a regional framework
and mandate, this means that the RMB clearing centre in Budapest can be used across the entire Central European region. It demonstrates the significance of this step that after Hong Kong, Taiwan, Paris, Frankfurt, Sidney and Kuala Lumpur, Hungary was the first to receive this entitlement in the region, and the Bank of China Hungary was the first to issue “One Belt, One Road” bonds.

In this context, it is important to mention that the Chinese and the Hungarian Banking Associations have nurtured a continuously developing and mutually advantageous professional relationship for years. As a result, the Memorandum of Understanding signed by the two associations in 2014 was the first such arrangement in the Central and Eastern European region.

4. The significance of the Asian Financial Cooperation Association (AFCA) for Hungary

Two main conclusions can be drawn from the above: (1) It is clear that the establishment of an organisation that represents and reinforces China’s power and influence in the international financial market and promotes China’s working capital exports was an important and timely step both from an economic and from a financial point of view; (2) the traditionally strong ties between Hungary and China, as well as the deepening professional and personal relations between the banking associations of Hungary and China and the senior executives of the Bank of China allowed and indeed, warranted Hungary’s invitation to be a founding member of the AFCA.

At the Boao Forum\(^6\) held in Hainan province in March 2016 with the attendance of invited institutions and those initiating the foundation of the association, including the Hungarian Banking Association, Chinese Premier Li Keqiang urged “to enhance economic and financial cooperation and dialogue to ward off potential risks and contribute to world economic recovery”. He proposed to establish an Asian financial cooperation association in order to improve markets and prevent financial turmoil.\(^5\)

The objectives and operating principles of the Association to be established were defined at the meeting of the originating institutions as follows: (1) The primary objective of the new, non-political, non-profit professional financial organisation is the advancement of financial relations, mutual understanding and trust; (2) Establishment of high-level financial forums;\(^6\) (3) Building financial cooperation platforms; and (4) The AFCA is an Asia-oriented but open organisation; its fundamental principle is openness and inclusion.

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\(^4\) Boao Forum for Asia (BFA).
\(^6\) High-end Financial Forums.
The originating institutions signed the Memorandum of Understanding on their intention to establish the organisation on 25 March 2016, in the framework of the Boao Forum held on the island of Hainan. On the side of Europe, this document initiating the foundation was signed by the Hungarian Banking Association. The Memorandum of Understanding reinforced the basic principles outlined above and expressed the signatories’ intention to actively participate in the establishment of the association’s organisation and in the launch of its operation, and reconfirmed the signatories’ readiness to include influential financial stakeholders, associations, development institutions, commercial and investment banks, investment funds, stock exchanges, and financial and clearing centres. The Memorandum of Understanding presages the expected international weight of the AFCA. It states that Asia is a critical part of the global economy and one of the most dynamically developing region of the world with continuously increasing global strategic influence, and the financial sector is one of the key pillars of this trend. In view of these factors, globalisation trends necessitate the operation of regional organisations and integrations and call for the deepening and the expansion of the financial cooperation between them.7

By the end of August, founders and the institutions and banks joining the association since March – a total of 101 financial institutions – were invited to discuss the Regulations of the AFCA and the operating conditions of the association. Attendees of the conference held in Shanghai discussed and adopted the Regulations, members’ rights and responsibilities and the organisational structure of the AFCA. The latter follows the following classical organisational principles: General Meeting, Board of Directors (including a high level Executive Board with a limited number of members), Organisation and Secretariat. With due consideration to the recommendations of the Preparatory Committee, on a preliminary basis, attendees approved the elected members of the supreme decision-making bodies. The representative of the Hungarian Banking Association was elected to be both a member of the Board of Directors and of the Executive Board with the rank of Vice Chairman. In this case, the preliminary election of members means that the election is pending the official incorporation of the Association and the approval of the Chinese Banking Supervision.8

Hungary, therefore, was invited to be member of a prestigious international financial organisation that is expected to become an influential member of the international financial community; indeed, its currently registered members as well as the signatories of the Memorandum of Understanding on membership are among the

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largest financial organisations, banks, stock exchanges and investment funds of the Asian region from China through Singapore to Hong Kong. Hungary is looked upon as a regional and geopolitical centre of utmost importance for the AFCA and primarily, China. The Hungarian Banking Association is counted upon to be a partner in furthering and intermediating these regional interests.