

## The EU's Competitiveness and Trade Policy from the Perspective of the 2024 Hungarian Presidency

The study examines the aspects of the European Union's competitiveness and trade policy related to the successive Hungarian Presidency. It primarily aims to explore the situation, problem areas and opportunities of the Hungarian EU Presidency concerning two areas. It provides an overview of the priorities and related results of the previous consecutive presidency periods as regards two topics. Competitiveness is a comprehensive concept that interweaves and connects several operational areas of the European Commission, thus presenting the network of relationships of these areas, with regard to trade policy aspects. The current European challenges of competitiveness and trade policy create the possibility of continuing active presidency activities in these two areas. These are as follows: EU–China conflicts in the field of corporate subsidy; the use of Eastern opening to offset decoupling; compliance with carbon dioxide quotas; national distortions; small and big companies; innovation clusters; international trade negotiations; improving the commercial position of labour-intensive agricultural sectors.

### Priorities and results of the presidencies of the previous years

The successive Presidency of the Council of the EU has been operating in a system of trios since the Treaty of Lisbon. The presidency ensures stability, continuity and regularity in the field of legislation, cooperation and coordination between the member states and the EU institutions.<sup>1</sup> In this context, the presidency can be considered an important factor in the progress of EU priorities, it promotes their coordination and realisation. The presidency also plays an important role in representing EU affairs and policies to the public. In addition, based on an examination built on a game theory approach, there is also empirical evidence that the presidency contains an important opportunity for the Commission to gain a strategically important position with its monopoly on the decision-making initiative during the co-decision procedure. Knowing the series of presidential programs, the Commission can take initiative depending on the programs that are close to its preferences. According to the examinations, the Commission does not need this during the consultation since it has a significant agenda definition.<sup>2</sup>

In 2020 Croatia and Germany, in 2021 Portugal and Slovenia, in 2022 France and the Czech Republic, in 2023 Sweden and Spain held the position of the presidency. The list includes large and small member states, so both the priorities of the large ones and the effectiveness of countries with a similar weight to Hungary can be predicted.

<sup>1</sup> European Council 2023a; European Council 2023b.

<sup>2</sup> VAN GRUISEN – CROMBEZ 2021.

*Appearances and results of competitiveness during the presidencies  
of the previous years*

During Croatia's 2020 EU Presidency, the main role was given to the Covid-19 crisis management, so the previously defined priorities can also be interpreted in this framework. In order to strengthen the competitiveness of the EU, goals such as the further deepening of the single market, the encouragement of digitalisation, and the promotion of investments in R&D, with particular regard to the strengthening of the competitiveness of the SME sector, have been formulated. Supporting the development of new skills adapted to the workplaces of the future, encouraging investments in sectors with high added value, and the development of new, green, innovative technologies also played an important role. Among the priorities, the vision of an influential Europe appeared, for which the improvement of the quality of the infrastructure within the Union was set as a goal. Furthermore, the reduction of existing differences in terms of transport, energy, and the availability of telecommunications and digital networks.<sup>3</sup>

Among the results, we can mention the adoption of the modified version of the Recovery Plan, and an agreement involving the multiannual financial framework (MFF) with a total value of 1,074.3 billion euros was also reached. The EUR 750 billion Next Generation EU initiative, which was called to serve the post-pandemic recovery, in the spirit of the green and digital transition, should also be highlighted. When evaluating the Croatian Presidency, the implementation of the joint crisis response mechanism can therefore be highlighted.<sup>4</sup> During the presidency, progress was made in the EU Strategic Agenda, which also has an important pillar of strengthening Europe's competitiveness, strengthening its role in the world and increasing prosperity.<sup>5</sup>

In the second half of 2020, Germany was still forced to carry out its presidential duties in the spirit of the Covid-19 crisis management. Aspects such as boosting the activities of businesses, strengthening strategic European value chains, and achieving sovereignty in the field of digitalisation appeared as key motives. And through all this, to speed up the sustainable and digital transition. They therefore showed a commitment to an innovative Europe, in which strengthening the competitiveness of the region plays a central role. Similarly to Croatia, the importance of the single market appears here as the basis of prosperity, and the observance and effective implementation of the rules of the single market play an important role. SME companies and their digital transition play a decisive role in the competitive European industrial sector. Regarding the structural policy of the EU, the strengthening of the competitiveness of the European regions and their resilience in relation to crises were highlighted among the priorities. The emphasis is on innovative economic change, taking environmental aspects into account and protecting employment.<sup>6</sup>

<sup>3</sup> EU2020.hr 2020a; EU2020.hr 2020b.

<sup>4</sup> European Commission 2020b.

<sup>5</sup> European Council 2023a.

<sup>6</sup> EU2020.de 2020.

Looking at the results of the successive German Presidency, the further development of digital sovereignty and competitiveness can be highlighted. All this, supplemented by the appropriate financial architecture, supported a stronger and more innovative Europe. In connection with digitisation, it can be highlighted that important progress has been made in the field of digital action, including the area of infrastructure and data policy, as well as the strengthening of standards.<sup>7</sup> The Commission was asked to develop a “digital compass” by March 2021, which defines concrete aspirations for the EU related to digitalisation to be achieved by 2030. The EU leaders agreed that at least 20% of the resources of the Recovery and Resilience Facility will be available for the purposes of the digital transition, and this can be used, among other things, by SMEs.<sup>8</sup> A European reference framework for a secure and reliable data infrastructure has been created. The European Initiative on Processors and Semiconductor Technologies was launched with the aim of reducing Europe's dependence on microchips from non-member countries. In December 2020, the Berlin Declaration on Digital Society and Value-Based Digital Governance was published. It formulates 7 basic principles regarding digital public services in order to encourage a value-based digital transition based on European values. In addition, the cybersecurity sector has been strengthened through developments concerning the establishment of the European Cybersecurity Competence Centre.

The Slovenian Presidency<sup>9</sup> has results including the acceleration of the recovery of the European economy. The finance ministers adopted 22 national plans for recovery and resilience. A total of EUR 291 billion in grants and EUR 154 billion in loans were accepted. Among the primary goals were the green transition, digitisation, encouraging innovation, making the economy more competitive, and in this connection, improving the standard of living. Cybersecurity measures also served to strengthen resilience. In October, the Council of the European Union adopted proposals to explore the potential of a joint cybersecurity unit.

In connection with digitisation, an agreement was reached regarding mobile roaming, which enables access to mobile services within the EU at the same price as at home without additional fees. The Slovenian Presidency has started drafting the first law on the rules for the application and use of artificial intelligence.

The Council of the EU has approved a mandate for negotiations with the European Parliament on proposals for a digital finance package, namely the Regulation on Markets in Crypto Assets (MiCA<sup>10</sup>) and the Digital Operational Resilience Act (DORA<sup>11</sup>). Their goal is to create a favourable environment for innovative companies while maintaining financial stability and reducing risks for investors and consumers.

The Slovenian Presidency also focused on strengthening Europe's defence technological and industrial base with the involvement of small and medium-sized enterprises.

<sup>7</sup> European Commission 2020a.

<sup>8</sup> European Commission 2023b.

<sup>9</sup> Slovenian Presidency of the Council of the European Union 2021a; European Council 2021.

<sup>10</sup> European Commission 2020c.

<sup>11</sup> European Commission 2020d.

The Slovenian Presidency has concluded a new agreement on the management of the European Research Area, which will increase the efficiency of research and innovation, allowing us to respond more quickly to the key challenges of our society.

The activity of the French Presidency is based on three emblematic concepts: climate, social and digital. The green and digital transition also plays a central role in the French Presidency, which can essentially be interpreted as a central element of global innovation. In connection with digitisation, which has a prominent role in terms of competitiveness, the priority was placed on the economic regulation and accountability of the various interfaces. The essence of the DSA regulation is to limit the online distribution of illegal content and products (see hate speech). The essence of the DMA is to end the economic dominance of large digital platforms and strengthen consumers' freedom of choice.

We can also mention the support of innovation and the growth of companies expected to produce rapid growth by mobilising institutional investors (3.5 billion euros were mobilised for the Scale up initiative).<sup>12</sup>

The Czech Republic's priorities are based on three pillars: 1. a flexible and open Europe; 2. a competitive and sustainable Europe; 3. Europe with a dynamic labour market. Business priorities include promoting competitiveness, growth, flexibility and supporting the increased flexibility of the labour market. The goal was to increase the competitiveness of the European industry and to strengthen own production in strategic areas. The implementation of the green transition must be done in such a way that it adequately supports the EU's global competitiveness. They emphasised the realistic handling of the "Fit for 55" package, that is, that the ecological transition does not take place at the expense of the competitiveness of some member states.<sup>13</sup>

Sweden's priorities include competitiveness, the green and energy transition, democratic values, and the rule of law. In relation to competitiveness, it was emphasised that the most urgent political attention is necessarily devoted to the war in Ukraine and its short-term consequences. Europe's strength, resilience and global standing depend on our economic performance, which is closely linked to the single market and global trade opportunities.<sup>14</sup>

Looking at the results, they highlighted the better-functioning, deeper single market, increased investments in research and innovation, the acceleration of the EU's digital transition, better and simpler regulation, fewer reporting obligations for businesses, as well as an increase in the level of investments and better access to private capital. During the Swedish Presidency, the EU also strengthened the single market through a political agreement under the Single Market Emergency Instrument (SMEI).

It has taken important steps to strengthen European industry through measures such as an agreement on access to semiconductors, which is critical to the green transition. In addition, the Council reached a political agreement on the recently submitted proposal for a legal instrument on critical raw materials.

<sup>12</sup> European Commission 2020a; EUFrance22 2022.

<sup>13</sup> SPCR.cz 2022.

<sup>14</sup> Sweden2023.eu 2023a.

Significant progress has been made in the negotiations in the digital area, including agreements with the European Parliament on data law and the European Digital Identity (eIDAS<sup>15</sup>) proposal. The Council also initiated tripartite consultations with the European Parliament<sup>16</sup> on the Artificial Intelligence Act.<sup>17</sup>

In case of Spain, the main priorities are centred around re-industrialisation, the green transition, social and economic justice, and the strengthening of European unity. Since no specific points related to competitiveness were formulated, our present paper does not discuss them further.

*The forms and results of the trade policy during the presidencies  
of the previous years*

Relations with Switzerland (primarily in institutional matters) and the United Kingdom played an important role in the Croatian EU program. The latter focused on future relations between the EU and the United Kingdom after Brexit.<sup>18</sup> In terms of trade policy, the Croatian program primarily drew attention to the dangers of protectionism in the world economy. The main element of the program is promoting the openness of global trade, which includes preserving the EU's leading role in WTO reform, strengthening transatlantic trade relations and relations with China, as well as the development of rules related to access to goods and services from third countries to the EU's internal public procurement to its markets. In addition, with regard to the customs union, more effective enforcement of the application of customs rules at the customs borders was envisaged.

The Croatian EU Presidency was significantly affected by the Covid-19 epidemic. Nevertheless, many results can be highlighted from the side of trade policy, such as the case of an orderly Brexit.<sup>19</sup> An important element of the Presidency was the EU – Western Balkans summit in Zagreb, where, in connection with the coronavirus, the provision of trade channels that are important even during the epidemic period, as well as an investment plan for the region during crisis management, came to the fore. The latter, in addition to economic and investment incentives, also extended to enable the Western Balkans to be fully connected to the EU's internal market as a result.<sup>20</sup> In addition, an important element during the EU Presidency was ensuring the sustainability of global trade and global value chains as a result of the epidemic, as well as the efforts made in this direction.<sup>21</sup>

<sup>15</sup> European Commission 2021a.

<sup>16</sup> European Commission 2021b.

<sup>17</sup> Sweden2023.eu 2023b.

<sup>18</sup> EU2020.hr 2020c.

<sup>19</sup> EU2020.hr 2020b.

<sup>20</sup> European Council 2020.

<sup>21</sup> EU2020.hr 2020c.

The strengthening of transatlantic trade relations also appeared in the German program, and the promotion of the depth and breadth of relations between the EU and the United Kingdom played an important role, as well. In addition, they aim to promote mutual reciprocity and equal trade with China in all policy areas. An important element of the program is the promotion of African relations, within the framework of which, among other topics, the African Continental Free Trade Area (AfCFTA) will appear after the Cotonou Agreement, which will help in the treatment of the epidemic and in the subsequent recovery. From the trade policy side, the promotion of an open and rules-based international trade policy appears prominently, similarly to the Croatian program, supplemented by the fact that this may also offer a kind of solution to the coronavirus epidemic. Another important element is the promotion of free trade and investment protection agreements, which can stimulate the flexibility and growth of global value chains. In addition, the program highlights the modernisation agenda of the WTO, as well as the importance of various agreements in individual areas, e.g. in digital commerce. In addition, the Presidency assured the support of the rapid finalisation of the agreement with Mercosur (which has been pending ever since), as well as the modernisation of the agreement with Mexico, as well as the European Commission's negotiations with New Zealand and Australia.<sup>22</sup>

From the point of view of trade policy, the focus of the Slovenian Presidency is the strengthening of transatlantic relations (with the United States and NATO) and the strengthening of cooperation between the EU and the Western Balkans.<sup>23</sup> In the field of transatlantic relations, there is the settlement of existing trade disputes and the dismantling of trade barriers. Relations with the United States and Canada also focus on trade and technology.<sup>24</sup>

The first sanctions against Russia were adopted during the French Presidency. Along the lines of the objectives of the presidency, it can be mentioned among the results that environmental protection and social requirements appear more strongly than trade policy agreements. In addition, mirror dimensions were introduced for products manufactured and imported in the EU, which aims to establish the same production standards.<sup>25</sup>

The aim of the Czech Presidency is to increase the coherence between the EU's trade policy and other policies, which can promote the increase of competitiveness and the realisation of the EU's priorities. In addition, the promotion of international consensus based on broad solutions also appears (e.g. the issue of taxation within the OECD). They wanted to encourage the ratification of trade policy agreements, as well as the realistic definition of their scope and the declaration of their economic goals. In addition, the priority of transatlantic relations appears here as an emphasised element, as well as the support and modernisation of the WTO.<sup>26</sup>

<sup>22</sup> EU2020.de 2020.

<sup>23</sup> Slovenian Presidency of the Council of the European Union 2021a.

<sup>24</sup> Slovenian Presidency of the Council of the European Union 2021b.

<sup>25</sup> EUFrance22 2022.

<sup>26</sup> SPCR.cz 2022.

From the point of view of trade policy, the Swedish Presidency has set the goal of maintaining and developing open, sustainable foreign trade, as well as deepening the single internal market. In addition, the program also emphasises the reconstruction of Ukraine from the point of view of trade policy. It is part of the Swedish Presidency program to strengthen relations with important partners (the United States, including the Trade and Technology Council, and the United Kingdom) to increase resilience. The purpose of the Presidency was to develop cooperation with EFTA members and to promote association agreements in the case of Andorra, San Marino and Monaco. It also takes measures to promote the reform of the customs union. In the field of foreign trade, they strive to expand free trade and agreements based on partnership, the main direction of which during the presidency is the Indo-Pacific region and Latin America. In connection with this, the Presidency seeks to continue the negotiations on the abolition or reduction of customs duties in relation to developing regions, as well as on defence against economic coercion. The aim is also to continue the negotiations with a view to establishing a multilateral investment court. The contribution to the reform of the WTO and the development of the trade policy in such a way that it is coherent with the digital transition and sustainability also appear in the case of the Swedish Presidency. In connection with this, the promotion of digital trade through bilateral agreements and the e-commerce regulations of the WTO were also present in the program. Regarding the internal market, further elimination of trade barriers was highlighted in the area of goods and services.<sup>27</sup> The liberalisation of freight transport between the EU and Ukraine took place during the Swedish Presidency.<sup>28</sup>

In connection with the Spanish Presidency, the trade policy will come to the fore with the aim of improving re-industrialisation and competitiveness, which can be facilitated by the agreements concluded with the Latin American and Caribbean regions.<sup>29</sup> The EU–CELAC summit took place in July 2023, where bilateral cooperation was strengthened. In parallel with the promotion of the launch of the Global Gateway Investment Agenda, an investment commitment of 45 billion euros was made (of which Spain undertakes 9.4 billion euros). All this resulted in extended partnerships in many sectors, e.g. energy sector, transport and infrastructure, education and research, digitisation and healthcare.<sup>30</sup>

### **Competitiveness in the system of common policies**

Competitiveness is not a community policy area in itself, but it is interwoven with policies in a close symbiosis. The purpose of some policies is explicitly to strengthen the EU's position in the world economy and to support the unified internal market of the EU's economic actors, i.e. the competitiveness of the EU's economy must ultimately be

<sup>27</sup> Sweden2023.eu 2023a; Sweden2023.eu 2023b.

<sup>28</sup> Sweden2023.eu 2023c.

<sup>29</sup> EU23 2023a.

<sup>30</sup> EU23 2023b.



strengthened so that it can contribute to the objective of growth and prosperity. At the same time, the development of competitiveness affects the efficiency, resources and enforceability of policies.

The EU found its competitiveness strategy in its long-term sustainability, which thus requires continuous coordination between policy areas of the European Commission such as climate and environmental protection (DG Clima, DG Environment), competition regulation (DG Competition), economic policy (DG ECFIN), employment and social affairs (DG Employment), energy sector (DG Energy), foreign trade (DG Trade) and industrial policy (DG GROW), not to mention the other specialist areas.

According to Ketels and Porter,<sup>31</sup> the leading figures of the company-based competitiveness literature, instead of general and generic EU-level competitiveness priorities, the strengthening of company-level innovation can be achieved by deepening the specific factors and capabilities, which can only be realised if local and national management are involved in defining the specifics. At the EU level, the primary task is to ensure the institutional functioning of the single market. It is also emphasised that European integration is also struggling with challenges as a whole so that the single market is also fragmented in many cases. From this point of view, it follows that the improvement of competitiveness should be built from the bottom up in two dimensions, i.e. on the one hand, starting from the company level, and on the other hand, the mechanisms must be based on the strengthening of local and national decision-making competences. According to them, the deepening of integration should not move in the direction of more bureaucracy and more control, but it should rather improve the efficiency of macroeconomic coordination, that would be the correct approach.

The European Commission defines the pillars of its competitiveness in nine mutually reinforcing factors.<sup>32</sup>

- “a functioning Single Market by broadening and deepening it and fostering the integration of services
- access to private capital and investment by deepening the Capital Markets Union and completing the Banking Union, as well as the development of EU tax and financial services regulatory frameworks supportive of businesses
- public investment and infrastructure by reforming the European economic governance framework
- research and innovation through tax incentives, public–private partnerships and large-scale projects to de-risk investments in innovation, especially in the key areas of clean technology, digital and biotechnology
- energy through fast roll-out of renewables, the digitalisation of energy systems and energy storage facilities
- circularity by fostering the transition towards a more circular economy in the EU
- digitalisation through broad-based take-up of digital tools across the economy and more support for leadership in key digital technologies such as Artificial

<sup>31</sup> KETELS–PORTER 2019.

<sup>32</sup> European Commission 2023b.



Intelligence, Quantum Computing, microelectronics, Industry 4.0, virtual reality and digital twins, and cybersecurity

- education and skills by developing and recognising skills as the key to attractive, quality jobs, increasing the participation of women, the young and third country nationals in the labour market, and promoting vocational education and training
- trade and open strategic autonomy by continuing to open markets for EU companies through deepening ties with allies and trading partners, preserving fair trade principles, and addressing risks in a targeted way”

The European Union industrial strategy (*Investing in a Smart, Innovative, and Sustainable Industry. A Renewed EU Industrial Policy Strategy*<sup>33</sup>), which is still in effect during the 2024 Hungarian Presidency, focuses on the following three objectives:

1. Maintaining the global competitiveness of European industry and ensuring a level playing field.
2. Creating a climate-neutral European economy by 2050.
3. Shaping Europe's digital future.

The EU is significantly behind in achieving its goals. Based on the 2022 Competitiveness Report of the European Round Table for Industry (ERT), the EU ranks particularly poorly in competitiveness and technology indicators compared to the other power centres of the world (USA, China, South Korea, Japan).<sup>34</sup> The manufacturing industry continues to retreat, and its share in medium and high-tech manufacturing production is decreasing, its global share in high-tech exports is decreasing, it is disappearing from the Fortune Global 500 list of the largest companies, and it also has a disadvantage in the spread of 5G telecommunications technology. Besides, its proportion to GDP in R&D spending is the worst, and its industrial capital formation (GFCF) also lags behind. Its leading role remains only in renewable energy investments and sustainability.

## **Competitiveness and trade policy challenges of the EU**

### *Regulation of foreign subsidies*

Since 2022, the EU Foreign Subsidy Regulation (FSR; EU Regulation 2022/2560<sup>35</sup>) aims to prevent large international companies from distorting the EU market through subsidies to their subsidiaries operating in the EU. The essence of the regulation is that subsidies and cash flows given to subsidiaries from outside the EU must be reported, which the Commission can examine and even block the transaction if it is assessed as

<sup>33</sup> European Commission 2017.

<sup>34</sup> ERT 2022.

<sup>35</sup> Regulation (EU) 2022/2560 of the European Parliament and of the Council of 14 December 2022 on foreign subsidies distorting the internal market.

market distorting. During the application of the regulation, the Commission must strive for continuous consultation with companies and, in connection with subsidy regulation, with countries outside the EU. However, these rules do not apply to state subsidies. In the latter case, the decree has so far only regulated subsidies granted by EU member states, but state subsidies granted by third countries are still a matter of debate. The problem is primarily with the subsidies that the Chinese state provided to state-owned companies whose subsidiaries operate in the EU internal market. Among the EU member states, this is still considered market-distorting state aid. However, State aid rules do not apply to such financial contributions from third States. Therefore, the problem that foreign subsidies can create unequal conditions of competition in the EU internal market still exists, and not only because of the foreign sponsor. EU state aid law applies to European-based parent companies, while there are currently no restrictive regulations for recipients of aid from third countries. Thus, the current situation puts European companies at a double disadvantage, as it creates a competitive advantage for Chinese companies and a competitive disadvantage for European companies at the same time. In 2023, the main topic in the area of market distortion caused by corporate subsidies is primarily the competitive advantage of Chinese electric vehicles obtained through state subsidies.<sup>36</sup> In this respect, the Hungarian Presidency can be an active promoter of regulatory issues related to foreign state and non-state subsidies given to foreign companies, for which it can easily win the support of individual states as well, and it provides an opportunity to demonstrate effectiveness.<sup>37</sup> The Hungarian–Chinese relations also create an opportunity for the intensive dialogue with China promoted by the EU to speed up and possibly lead to results. Hungary’s interests would also be served if Chinese state subsidies did not lead to a trade war, punitive tariffs and decoupling, but instead to a series of mutual concessions and the maintenance of trade/investment relations.

### *Strategic autonomy, decoupling, intermediary zones*

The EU sanctions against Russia introduced as a result of the Sino–EU conflict outlined above and the Russian–Ukraine war led to the fact that Central and East Central Europe was significantly cut off from Russian energy carriers, which were cheaper due to their availability. Besides, a significant part of Russian consumer markets were isolated. In addition, the EU–China trade relations system is shifting towards a trade war from a freer trade situation, on the backwaters of the U.S.–China conflict, which is moving in the direction of a two-part world order.<sup>38</sup> If the EU increasingly has to choose sides,<sup>39</sup>

<sup>36</sup> Global Times 2023; LIBOREIRO 2023; WHITELAW et al. 2023.

<sup>37</sup> NAGY 2021: 147–162; SCHONBERG 2022: 143–152; HORNBKOH 2023: 137–151; BOSCHIERO–SILINGARDI 2023: 151–178.

<sup>38</sup> SMITH 2023; WALT 2020; BEKKEVOLD 2022; MANNING 2023; WYNE 2020: 41–64; JOHNSON–GRAMER 2020.

<sup>39</sup> ESTEBAN–OTERO-IGLESIAS 2020; GOULARD 2020: 56–68; GARCÍA-HERRERO–TAN 2020; SCHÜLLER 2023.

in that case, it will be necessary to create trade intermediary countries and regions that are already operating in the isolated EU – in relation to Russia, for example in case of India<sup>40</sup> or the post-Soviet Central Asia and the Caucasus region.<sup>41</sup>

Despite the constantly expanding scope and significance of the sanctions against Russia introduced by the EU and the USA, evaluating their effectiveness is a rather complex task. While the sanctions led to an economic decline in the country, the decline in living standards was no longer uniformly felt within the Russian society, and the budgetary situation cannot be considered critical. However, certain sanctions have a stronger impact, especially export restrictions, which affect certain segments and cause shortages in critical industries such as the defence industry. Sanctions take time to take effect, but typically they will be long-term and difficult to reverse. Despite all this, it became clear that these measures were able to economically limit Russia in financing the war.<sup>42</sup>

As a result of the Eastern Opening and through its membership in the Turkish Council, the Hungarian Presidency will have the opportunity to initiate mediation regional cooperation at the European level, based on the possibilities inherent in these. This also creates an opportunity for the EU not to have to separate itself from the Chinese economy, and Hungary could also increase its influence in the EU in case of a suitable initiative.<sup>43</sup> This would help the EU in the so-called implementation of the Sinatra Doctrine, which would avoid slavish copying of the U.S. China policy and complete disengagement.<sup>44</sup>

The purpose of the regulation on screening foreign direct investments is to ensure that, in addition to openness to foreign investments, potential risks are also carefully considered. The decree ensures that direct investments from third countries are screened for reasons of public order. This makes it possible to take a preliminary inventory of possible impacts on critical areas (technologies, AI, infrastructure, energy, food safety, etc.) and formulate comments.<sup>45</sup>

### *Adherence and enforcement of carbon dioxide quotas with foreign actors*

Compliance with carbon dioxide quotas and trade policy and competitiveness is connected through the phenomenon of carbon leakage. (Although there is also a study refuting this.<sup>46</sup>) The EU realised that European companies are playing around the carbon dioxide quotas by moving production to countries where they do not have to be complied with or where the carbon dioxide pricing is not very effective. In the EU's view, the export of these products to the EU is also considered a market distortion against products produced in the

<sup>40</sup> GAVIN 2023.

<sup>41</sup> Hirado.hu 2023.

<sup>42</sup> CSEHES et al. 2023: 43–77; PORTELA–KLUGE 2022.

<sup>43</sup> UMBACH 2021; FELBERMAYR et al. 2021; LI–HE 2022: 439–455.

<sup>44</sup> European External Action Service 2020.

<sup>45</sup> Regulation (EU) 2019/452 of the European Parliament and of the Council of 19 March 2019 establishing a framework for the screening of foreign direct investments into the Union.

<sup>46</sup> BRANGER et al. 2016: 109–135.

EU. As a result, the EU has launched an initiative in international forums, the ultimate goal of which is to introduce the so-called Carbon Border Adjustment Mechanism; this cost in the form of duties/taxes would burden imported products depending on the amount of carbon dioxide emitted during their production. The first round of the transition will take place at the end of 2023, and from 2024 it would affect the production of cement, iron, steel, aluminium, fertilizer, electricity and hydrogen.<sup>47</sup> During the Hungarian Presidency, we must expect the involvement of additional product groups and obviously international objections and conflicts, the protests of developing countries due to the adverse income effects affecting them, and the trade negotiations concerning the CBAM customs duty.<sup>48</sup> The countries most affected by the first round of the CBAM tariff are China, Turkey, Ukraine, Russia, the United Kingdom and Norway.<sup>49</sup>

### *National distortions in the single market*

The period of polycrisis increased the value of the economic policy decisions at the member state level, which put the richer and more indebted member states in a more favourable position, which eventually appeared in the single market as a distortion of competition. For example, Germany was able to include 200 billion euros of debt in its own budget to deal with the Covid crisis,<sup>50</sup> and then it accepted an additional package of 200 billion euros<sup>51</sup> for financing energy costs and 100 billion euros for military development.<sup>52</sup> This is a significant advantage for German companies in comparison to the member states waiting for the slowly trickling Next Generation EU funds, or to the EU resources that are aimed to finance the Ukraine armament rather than their own member states. Moreover, in addition to all this, in 2022, Germany allocated 270 billion euros to German companies in the form of emergency company support authorised by the EU. (Germany paid 50% of all subsidies and France 30% to its own companies in the EU.)<sup>53</sup> Fast national subsidies and slow EU crisis management funds bring a double distortion to the single market.<sup>54</sup> The Hungarian Presidency could initiate the regulation of such cases in the future, and the development of some kind of compensation mechanism, which leaves open the possibility of rapid economic policy response at the national level, while at the same time later compensating the other member states based on detectable internal market distortions.

<sup>47</sup> European Commission 2023a; AMBEC 2022.

<sup>48</sup> BATRA 2023; TASTAN 2022; ZHONG–PEI 2022; HUFBAUER et al. 2022.

<sup>49</sup> WOLF 2021; PETERSEN–WALKENHORST 2023; ÜLGEN 2023.

<sup>50</sup> SZABÓ 2020.

<sup>51</sup> Portfolio 2022.

<sup>52</sup> Privátbankár.hu 2022.

<sup>53</sup> Portfolio 2023; HANKE VELA 2023.

<sup>54</sup> MOTTA–PEITZ 2020: 219–222; CRESPIY–SCHRAMM 2021: 46–67; HORNKOHL 2023: 137–151.

*Competitiveness and industrial policy*

Support of global oligopolies or support of EU companies

Industrial policy must constantly resolve the dilemma of supporting large, international oligopolies, which concentrate the resources of knowledge-, capital- and technology-intensive sectors and activities, thus higher productivity and better efficiency and achieving faster efficiency, or small and medium-sized enterprises (SMEs), which increase employment more at the expense of productivity and emissions. The EU's SME strategy<sup>55</sup> also expresses that the implementation and dissemination of digitisation and the green transition is possible through the masses of SMEs. A significant part of innovation and patent development is typically realised through start-up SMEs, which are then acquired by global corporations.

The EU's main challenges<sup>56</sup> related to big European companies include how to keep European global companies at the top of value chains and technology chains, i.e. how can these companies remain among the most decisive companies in terms of production organisation, technological directions, investment locations, trade channels while being crowded out of the aforementioned Fortune 500 list. Furthermore, big European companies perform poorly in connection-building activities (platform economy, contrary to the U.S. firms like Facebook, Uber, etc.) and do not appear to be leaders in the development of artificial intelligence either. Although several ongoing antitrust proceedings<sup>57</sup> can be mentioned, which were initiated against non-European companies, the EU currently focuses too much on the effects of the internal market, so it worsens the global positions of European companies with antitrust proceedings and merger inspections. It is also in a defensive position vis-à-vis foreign global companies, primarily also for internal market considerations. Instead of a defensive position, it would be worthwhile to pursue an industrial policy that encourages investment and innovation in case of large companies. EU law cannot be applied outside the EU against Chinese companies, which are abundant in state financial support, or American companies operating in more effective support, support control and regulatory environment, which

<sup>55</sup> European Commission 2020a.

<sup>56</sup> WOLFF–PETROPOULOS 2019.

<sup>57</sup> Among them are, for example, Google or Amazon Marketplace and Buy Box, which are connected to Amazon, as well as Facebook Marketplace. The Commission objects that Google has a dominant position in the advertising sector and is practically present at all levels of the advertising technology (adtech) supply chain (European Commission 2022d; European Commission 2023d). See the cases of individual antitrust measures in more detail in European Commission 2023c.

thus gain an overall competitive advantage. Furthermore, it should also double the 2% R&D spending by encouraging large companies. Based on all this, it is still emphasised that the support of foreign trade openness must be implemented in such a way that fair competition between domestic and foreign producers is sustainable. The EU is constantly developing its foreign trade protection tools, the most significant of which are anti-dumping, anti-subsidy measures and market protection tools (safeguards). The importance of these measures will continue to be considered crucial.

Based on the above, it can be concluded that the EU primarily uses SMEs to strengthen internal market processes and goals, while large companies are used to strengthen their global competitive positions and not blame internal market failures on them.

Research–innovation–education and corporate cooperation,  
strengthening of clusters

From the lagging behind of companies in innovation and from the deteriorating ranks<sup>58</sup> of European universities, the suggestion arises that the EU, as a catalyst, should promote, encourage and support the strengthening and creation of industrial clusters in the territory of the EU, as well as the firms producing and the university networks and other institutions researching and innovating. Such innovation networks might improve the chances of becoming a global company, moreover, accelerate the development of technology and the spread of innovation.<sup>59</sup>

The EU can be a catalyst and facilitator of corporate cooperation with universities and research centres based on the smart specialisation approach.<sup>60</sup>

“The core of the smart specialisation approach is the growth of competitiveness of the local entrepreneurship by combining their existing strengths with the application of the key enabling technologies obtained through cooperation with different universities and research institutions (Foray 2016). It presumes the existence of absorptive capabilities from the side of local businesses. On the other hand, local universities and research institutions should also be able to provide the requested knowledge about the use of key enabling technologies in these industries, which are relevant to the region (Kempton and Edwards 2014).”<sup>61</sup>

<sup>58</sup> Shanghai Ranking 2023.

<sup>59</sup> SEPO et al. 2014: 388–408; CALOGHIROU et al. 2001: 153–161; LILLES et al. 2020: 174–192.

<sup>60</sup> European Commission 2022c.

<sup>61</sup> LILLES et al. 2020: 175.

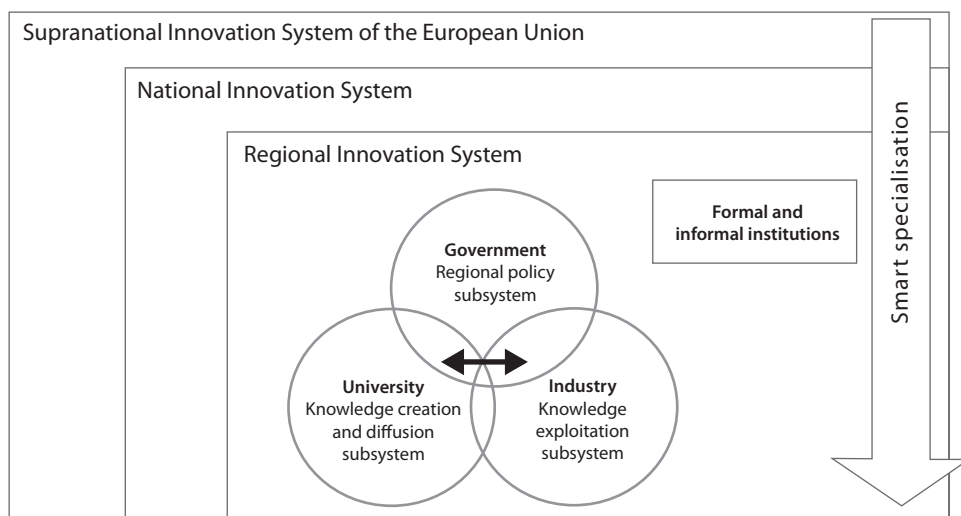


Figure 1: University and industry cooperation in the framework of the supranational innovation system and its relationship with intelligent specialisation

Source: LILLES et al. 2020: 177

### *Foreign trade opportunities for the Presidency*

*Unfinished international trade negotiations and agreements:* Not all of the trade association agreements launched in the last decade have reached the application phase, in many cases the process has slowed down or stopped: TTIP, EU–India agreement,<sup>62</sup> EU–Mercosur agreement.<sup>63</sup> In cases where the Hungarian interest dictates it, the Hungarian Presidency can become an advocate for the entry into force of the given agreements or the continuation of the negotiations. European clusters play a leading role in the involvement of SMEs, in cross-border and inter-sector cooperation, and in the implementation of large-volume European innovation projects.<sup>64</sup>

*Strengthening the commercial position of labour-intensive agricultural sectors:* The global competitiveness of the European and, within that, the Hungarian agriculture and the food industry cannot be based on quantity-based, return-of-scale cost advantages due to the fragmented property structure in global comparison on the one hand, and the high quality and procedural EU requirements protecting European consumers on the other. Furthermore, it is able to find European (and Hungarian) agricultural and food industry

<sup>62</sup> European Commission 2022a.

<sup>63</sup> European Commission 2022b.

<sup>64</sup> European Clusters Alliance 2021.



markets based on a quality-based, product differentiation strategy, GMO-free and less chemically processed, among premium buyers, both in developed and developing markets. It is worthwhile to take initiatives for export development in case of labour-intensive agricultural sectors (irrigated farming, horticulture, outdoor animal husbandry, organic farming) and food production made from artisanal or labour-intensive agricultural raw materials.

### **Policy proposals for the priorities of the successive Hungarian Presidency**

- As a continuation of the previous consecutive presidencies, it is almost mandatory for the presidency to develop and represent new programs for the further spread/dissemination of digitalisation.
- Connecting greening with competitiveness and digitisation can also be considered a mandatory element.
- In the field of innovation, working on the EU's lagging behind in many dimensions creates an opportunity for programming.
- Continuation of African trade agreements (EU–AfCFTA) in order to reduce economic migration.
- Strengthening the EU positions of the Western Balkans through trade policy.
- Revision and renewal of trade sanctions against Russia in an effective way, or at least the opening of this debate in the EU.
- The war in Ukraine can be the starting point for a growth and innovation program implemented through an armament program.
- Strategic separation from China is not in the interest of the Hungarian Government. It can slow down or reverse the process through the presidency, if it is able to achieve meaningful progress in the matter of neutralising the state subsidies given by foreign states (i.e. China) to their companies (i.e. Chinese companies) appearing in Europe, as well as in the agreement process that the EU continues with other states, especially China, regarding the carbon offset mechanism.
- Based on the disproportionality of the national treatment of the Covid crisis and energy price inflation, it could be initiated that such rapid national recovery actions should not violate the single market. Of course, they should be regulated and legalised instead of denied, but in such cases, there should be a medium-term compensation/equalisation mechanism, which makes states with plenty of spending for national recovery to pay into the EU funds ex post to smooth the distortions. At the same time, in relation to the handling of the Covid crisis, it should be added that the Commission created a temporary regulatory framework, which was to facilitate the subsidising of member states according to the Treaty of European Union (TEU).<sup>65</sup>

<sup>65</sup> For more information see European Commission 2020b.

- The successive presidency should initiate changes in the processes regulating large companies and SMEs, which, instead of a market protection and defensive approach, use and condition large companies to improve their global competitive positions (innovation, investment, fusion, etc.), while trying through SMEs primarily to influence the enforcement of internal market goals.
- The successive presidency should develop proposals for the promotion and financing of innovation cooperation between innovation clusters and companies and universities in order to overcome the EU's global innovation disadvantages.
- The Hungarian Presidency can examine which international trade agreement processes have stalled and which of them should be accelerated or restarted. In the same way, the membership and Schengen zone processes of the integration process can be revised and accelerated.
- It is recommended to develop proposals and programs to strengthen the commercial positions of the labour-intensive sectors of agriculture and the food industry, through which Europe can also be globally competitive, and its products positioned for quality market niches with product differentiation that can be sold in contrast to food raw materials produced by mass production.

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