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# **Adaptive Dynamics of Foreign Trade and Foreign Policy Strategy in Sub-Saharan Africa**



## *Summary*

Geographically situated in the Global South as the geological extension of the Afro-Eurasian land mass, Africa is centrally situated at the very intersection of global strategic dynamics. Based on this special political and economic position, Africa is re-defining its partnership with various regions of the world, including Central Eastern Europe. These countries played an important role during the African anti-colonial struggles and their early years of nation-formation in the development of the African human capital. Hungary as member of the European Union prides itself with its extensive experience in agriculture, education, science, technology and innovation, it will actively participate in reshaping relations with the countries of the continent. This paper attempts to analyze the current government policy for Hungarian involvement in Africa, with a fuller insight into the foreign economic relations as the most dynamic and thriving framework of cooperation. Finally, it touches upon issues of various trade and investment related financial instruments, and best practice methods of intervention as key elements of a successful long-term strategic Hungarian policy towards Africa.

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## A QUARTER OF A CENTURY OF FINDING A WAY FROM A DISADVANTAGED POSITION

Unlike many of our European Union partners, Hungary has never had an African colonial empire. We have no direct political experience of the social processes of the continent, we do not have centuries of economic and cultural roots, and our extremely difficult but wonderful native language is only understood by Africans who have studied in our country. Thus, the government has built the current Hungarian presence in the sub-Saharan Africa with a serious disadvantage, but at the same time with remarkable consistency and commitment, which may be symbolic in economic terms but our results in foreign policy are unquestionable. For a real assessment of the process, it is useful to review the main milestones of the Africa Strategy in recent decades. At the very end of the 1980s, the three defining pillars of Hungarian foreign policy were, in addition to the Euro-Atlantic integration, the settlement of the situation of the Hungarian diaspora across the border and the strengthening of the co-operation with neighboring states. Then, after the regime changed, achieving full EU and later NATO membership was a clear priority for Hungary. Unfortunately, this intention to catch up with the West did not include a global, economic-oriented foreign policy, which the developed world had already seen as an operational norm, or the bilateral relations with the region outside Europe - in the terminology of the time, with developing countries.

This also meant that the newly proclaimed Republic of Hungary had in fact withdrawn from the partnerships of the more distant continents and thus from sub-Saharan Africa. Hungarian foreign missions were drastically reduced, six of the previous eight embassies were closed<sup>1</sup>.

The Hungarian Africa policy in the 1990s was characterized by total passivity, the dismantling of bilateral relations, and the disintegration of the system of economic and cultural relations. The ad hoc nature of our relations with the states of the sub-Saharan region is well illustrated by the fact that a visit on a Foreign Minister-level from Hungary took place only once during the decade, in 1993, and a visit from the Prime Minister and Heads of State was unprecedented before the beginning of the 2000s. According to a foreign affairs paper prepared in 2005<sup>2</sup>, the accession to the European Union opened the possibility for Hungary's Africa policy to receive a new framework, and for the sub-Saharan region to finally return to the political map of Hungary.

It is undeniable that, at the time of our accession, the sub-Saharan region has long been a priority for most of the EU and its Member States, as, in addition to the Member States (in particular the French, British and Portuguese actors inheriting the colonial structure), major players in international life (China, India, Brazil, USA, Japan, and Russia) paid increasing attention to the large, low-demand, albeit (then still) relatively small purchasing power of the African market. It has also become clear to Hungarian decision-makers that the listed states are constantly looking for opportunities to mobilize the market (e.g. through privatization, and implementation of infrastructure programs), and the EU is increasing its presence in the region through tenders launched and funded under the 2001 Cotonou Agreement governing political and economic relations between the EU and the ACP countries.

The founding members of the EU, as well as members who joined later, before Hungary, have long been aware of the importance of the continent's vast reserves of raw materials (e.g. oil, natural gas, gold, diamonds, copper, cobalt, and noble wood) and the related concession opportunities. Imports of some tropical agricultural products (citrus fruits, coffee, tea, cut flowers, and fish) were also an excellent business opportunity for them. In addition to economic aspects, the well-conceived interest of the EU member states - and according to the increasingly widespread opinion, its moral duty is to stabilize the region and to deal with its humanitarian problems. The illegal influx of refugees induced by poverty and privation has directly affected the EU member states due to their geographical proximity. At the same time, the elimination of conflict zones was part of the fight against terrorism and organized crime. Development aid, including those from the European Development Fund (EDF), has thus played an important role in shaping EU policy towards Africa.

Hungary's membership in the EU has therefore brought about a significant change in our relations with African countries. As parties to the Cotonou Agreement, we have become members of a permanent, structured contact mechanism through, which we have had the opportunity to get to know each other better. It has also become possible for Hungarian economic professionals and civil actors to build a more realistic and direct system of relations with Africa. From the expansion of our multilateral relations, Hungarian diplomacy hoped for a beneficial effect in bilateral relations as well.

As early as 2005, it became clear that Hungary, as a member of the EU, could not isolate itself from the problems of the sub-Saharan region either, as Hungary could have become a destination country for some of the economic and political refugees coming from the region. Although this has not happened in this form, as a Member State we have adopted a new set of values that takes into account not only our own national interests but also solidarity and human rights considerations. As a member of the EU, we also had to make donor commitments, primarily in the form of a contribution to the EDF resources. It is a clear conclusion that a part of our contribution can only be recouped if Hungarian economic, professional and non-governmental organizations also apply for the EU ACP programs that have opened to us through accession.

A few years later, a government strategy was made to interpret and enhance the country's global presence. According to István Tarrósy, *"it is indisputable that Hungary also had a basic interest in making clear its intention, which defined the country's activities with long-term effects in the transnational global reality."* (Tarrósy, 2020).

After Hungary held the rotating presidency of the EU Council in the first six months of 2011, it became timely to review Hungary's foreign- and Europe-policies. As a part of this, the concept of Hungary's "global openness", prepared a year earlier, gained momentum, as an independent organizational unit which was established in the Ministry of Foreign Affairs for this purpose: a Deputy Secretary of State for Global Affairs was established, led by a head of foreign affairs, who managed bilateral relations with Asia, Australia, the Pacific, and Africa.

For Hungary, the establishment of a new Africa-policy is in fact linked to the third Orbán government: the “Southern Opening” announced in 2015 marked the beginning of the revival of foreign and political relations with sub-Saharan Africa, which had been severed and neglected after the regime change. This has now brought a number of visible and tangible results: we reopened embassies (Addis Ababa, Accra and Luanda - together with Abuja, Nairobi and Pretoria, there are a total of six Hungarian diplomatic missions in the sub-Saharan region), we established a representative office in Kampala and also managed to establish an institutional framework for trade relations and political dialogue.

The government’s clear goal is to preserve and further develop the achievements of Hungary, so by 2030 it could become one of the most active and recognized countries in Central Europe in sub-Saharan Africa. We must pursue this goal in line with our general foreign policy objectives, in particular our efforts to diversify exports, increase exports, curb migration and protect Christian communities. As in the past, we intend to act as equal partners in the sub-Saharan countries in the future as well, pragmatically seeking a mutually beneficial cooperation, along with making a significant contribution to the development of our African partners. The basis of the strategy is these specific initiatives and projects.

Sub-Saharan Africa is a dynamically growing region that is geographically, socially, politically, culturally and economically diverse and complex, offering many economic opportunities, but also many challenges; therefore, in order to achieve our goals, we need purposeful, focused action, a flexible set of tools and a strategy based on appropriate financial resources, with specific initiatives and projects.

In line with the government’s intentions, Hungary is working in partnership with the countries of sub-Saharan Africa to achieve the following three main goals by 2030:

- doubling trade turnover, implementing Hungarian projects with added value, contributing to the development and economic growth of African partners;
- expanding our political relations so that we can be valuable and useful partners for African governments and making them interested in developing our relations as well;
- deepening our cooperation in tackling migration challenges, strengthening our security cooperation.

In the sub-Saharan states, which most often have a highly centralized state administration and economic governance, it is essential to strengthen and broaden our political relations in order to achieve our foreign economic goals. According to the experience of our diplomats and Hungarian economic actors active in the region, a permanent physical presence in the sub-Saharan region is key to successful relationship building. We are not yet present in Francophone African countries, so in the case of the Ivory Coast and Senegal, which can be considered particularly promising foreign economic partners, the Ministry of Foreign Affairs and Trade (MFAT) is currently examining the possibility of establishing representative offices; at the same time, in order to use resources efficiently, efforts must be made to build political relations in a targeted and focused way. In order to facilitate personal relationships with African partners, the government will continue to hold the Budapest Africa Forum on a regular basis.

A new element is that the strategy considers the expertise and contact capital of African students graduating their higher education in Hungary within the framework of the Stipen-

dium Hungaricum (SH) program as a key resource. By creating an alumni network, the relationship with former SH students can be institutionalized. The Ministry of Foreign Affairs and Trade is constantly examining how to encourage them to study in Hungarian as well, and how to deepen their general knowledge about Hungary (e.g. launching country specific courses).

In the countries of the sub-Saharan region – and especially in the Sahel – due to the combined presence of pull and push factors, special attention must be paid in the coming period to stopping migration, enhancing our cooperation in tackling its root causes, and strengthening our security cooperation. In implementing the strategy, we will take into account the strategies, decisions and resolutions of the European Union with the African continent as a whole, including in particular the countries of the Horn of Africa and the Sahel, in which aspects of combating violent extremism and terrorism also play an important role.

Through international development projects that improve local quality of life, we contribute to tackling the root causes of migration locally, thereby reducing and ultimately eliminating the pressure on Europe. As a priority, in addition to dealing with acute situations, we focus on long-term developments that can generate lasting solutions to encourage staying in place (e.g. job creation, the creation of adequate health and education infrastructure) and open the way for further cooperation.

The implementation of the policy on the protection of Christian communities, treated by the government as a new strategic element, has a marked impact on the Hungarian-African bilateral relationship, as the problem of persecution and discrimination of Christian communities affects several countries of sub-Saharan Africa. In the spirit of the Hungarian policy supporting persecuted Christians, within the framework of the *Hungary Helps* program, we are implementing projects in these states that enable those in need to thrive in their homeland.

Taking into account the development strategies of the sub-Saharan governments, we use education and training as an essential tool for “*helping locally*” given local needs and skill levels, and we develop vocational training cooperation with our main African partners while maintaining the Stipendium Hungaricum scholarship program. Vocational training can be a point of breaking for a wider section of society compared to higher education, provides marketable qualifications at relatively low cost in a short period of time and is suitable for targeted support of specific groups (e.g. women). We are further expanding the range of participants in education with the help of low-system required applications of digital education (e-learning) developed in Hungary. By the end of the government cycle, education and training will be one of the most important image elements of Hungary’s Africa brand.

In addition to strengthening the importance of border protection in connection with migration, we will initiate the sharing of relevant Hungarian experiences and offer capabilities in the sub-Saharan issuing and transit countries. Given that the Africa Strategy covers a number of areas falling within the remit of different ministries, a coordinated and coherent implementation requires the establishment of an inter-ministerial committee meeting at least once a year, which is responsible for the coordinated implementation of the strategy.

## BUILDING FOREIGN ECONOMIC RELATIONS

Our trade relations with sub-Saharan countries are insignificant in relation to the size and population of the group of countries, which is mainly due to the geographical distance and the different trade culture of our countries. In addition, Hungarian companies are extremely conservative in terms of exports, find it difficult to enter foreign markets, and even then, due to the advantages provided by the common market, they prefer the markets of the EU partner countries (Suha, 2017). The policy of the Southern Opening defined the diversification of Hungarian exports as a goal, thus making the Hungarian economy more resilient in the event of a possible European economic recession. The development of our trade relations with Africa serves precisely this goal, as our exports to the region contribute to Hungary's positive foreign trade balance, given that we have a significant foreign trade surplus vis-à-vis all African countries.

Based on trade data from recent years, there have been no significant changes in Hungary's ten most important trade partner countries<sup>3</sup>. Based on 2017 export data, South Africa (\$200.8 million), Angola (\$45.1 million), Nigeria (\$33 million), Ghana (\$15.5 million), Senegal (\$15.2 million) Ethiopia (\$11 million), Kenya (\$8.6 million), Cameroon (\$8 million), Ivory Coast (\$6.5 million) and Uganda (\$5.9 million) were in the top ten. However, with the exception of Angola, Senegal and Ivory Coast, all ten of our important partners show a decline in exports, while our imports from these relations have increased almost steadily since 2015 (-4% for 2016, 131% for 2017 and an increase of 31% for the first ten months of 2018 compared to the same period of the previous year).

In 2017, foreign trade with the countries of the region approached \$1.2 billion, of which Hungary's exports amounted to \$880 million (equivalent to Hungarian exports to Denmark, which is less than 1% of total Hungarian exports). Looking at sub-Saharan Africa as a whole, Hungarian exports were characterized by a continuous decline compared to 2015 (-10% in 2016 and another -12% decrease in the following year). From 2018 onwards, however, the trend is positive, with a slight increase in exports compared to the same period of the previous year, with an 8% increase in turnover totaling \$1 billion.

In the period since the launch of the 2015 Southern Opening policy, the structure of our exports to the African continent has shown only a slight change. In terms of exported products, the most significant product group until 2017 was clearly machinery and transportation equipment, valued at \$644.5 million in 2015, \$588.2 million in 2016, \$458.7 million in 2017, and \$335.2 million in the first ten months of 2018. Processed products accounted for the second largest group of our exports until 2017, which, however, shows a change based on data for the first ten months of 2018 and is already appearing as a primary export product.

In terms of service exports, based on the 2017 results, Hungary's primary destination countries are South Africa (\$13.5 million), Kenya (\$3.6 million), Ghana (\$3.3 million), Nigeria (\$2.4 million) and Seychelles (\$1.9 million). It should be noted that of the countries listed, only Kenya shows an increase in exports, looking at the data from 2015 (64% from 2015 to 2016 and 20% from 2017).

## HIGHLIGHTED SECTORS AND RELATIONS

Our trade with the countries of the African continent is affected by a number of factors, including geographical distance and the technological development of the industry. Especially with regard to product exports, the primary aspect of the entry of Hungarian companies into foreign markets is the distance of the destination country from Hungary. For this reason, as an area of development, the greatest potential is the export of services and know-how, the support of which is the main goal of developing a strategy focusing on the region.

Regarding the sub-Saharan region, Hungarian producers can have a competitive advantage primarily in the food industry and agriculture, paying special attention to the following areas: seeds, fruit and vegetable processing lines, packaging technical equipment, as well as machinery and irrigation systems. As for the energy sector, there would be a demand for Hungarian technology primarily in relation to renewable energy. Unlike the American and Asian relations, which are often looking for the most modern technological solutions, the lower-tech export base of the domestic economy can also be competitive in this region. At the same time, this is not exclusive, as in some African countries (e.g. Kenya) there has been a significant demand for state-of-the-art ICT technology and developments, in which Hungarian manufacturers and developers have a competitive supply.

There are significant opportunities for setting up joint ventures based on technology and knowledge transfer with the involvement of a local partner. At the same time, the focus of the export strategy targeting the African region should be on medium-sized or larger, capital-intensive, experienced Hungarian exporting companies with the appropriate capacities and willingness to invest, as well as local language skills.

In general, it can be said that financing barriers also hinder the successful market penetration of Hungarian companies.<sup>4</sup> In terms of pre-financing, there are serious administrative burdens that are often difficult for African partners to cope with. It can also be stated that the local partners are mostly used to the pre-financing of the product/service by the foreign party, but most Hungarian companies do not have sufficient capital or goods base to conduct the business.

According to the unanimous opinion of almost all Hungarian Africa-researchers (Tarrósy, Suha, Búr) since the regime change, the sub-Saharan region can be an ideal foreign market for Hungarian agricultural technology both in terms of product exports (seeds, soil improvers, agricultural irrigation technologies), and higher technology ICT solutions.

As a new technology supply element, there is a growing demand all over the world for the border protection devices offered by Hungarian companies, the provision of physical space and airspace, and the protection solutions used to prevent illegal migration (drone and radar protection). The tools of economic diplomacy can be an effective way to help outstanding Hungarian companies of the sector to access foreign markets.

In many cases, the countries of sub-Saharan Africa are characterized by underdeveloped telecommunications systems and an IT services sector with significant operational problems. However, most countries in this region will not go through the earlier stages of technical development but will engage at a near-high tech level. The ICT sector will play a key role in this, in terms of public administration development, business opportunities and education. Substantial

results can be expected mostly in the case of complete investments to be implemented in a bundle (e.g. building network systems, *smart city*, *smart agriculture* solutions, etc. supporting more basic infrastructure developments). It is expedient to offer solutions and technologies in the framework of diplomatic visits and GVBs. The export of various financial, IT and banking security technology developments, packages and services may appear as a focus area in the measures aimed at increasing Hungarian exports. The exportable solution packages offered by the Hungarian ICT sector are most typical in the following areas: fintech (digital finance technologies), e-commerce, banking solution packages (mobile payment technologies, electronic toll payment systems, etc.), cyber security (security technology, and data recovery technologies), smart agriculture (smart agro-informatics solutions), smart city, digital solutions for waste and water management, and health informatics (e.g. medical imaging). It is important to stress that there is no direct correlation between general economic development and the level of technology required by IT needs. An example of this is Nigeria, which is among the lasts on the WTO list in terms of competitiveness but ICT-based solutions, including internet commerce, are developing extremely fast in the country; today, nearly 10% of the population, about 16 million people, shop online every day<sup>5</sup>.

The development of e-government systems (online cash registers, digital identification, and usage-proportionate toll system) and the technologies used in central and local administration (security documents, identity cards, and banknote printing) are also potential entry points for Hungarian companies<sup>6</sup> to the region, and Hungarian expertise in e-government can give a new impetus to exports to Africa. Based on the positive feedback from the preliminary market research on the online cash register system and the negotiations started in Nigeria and then in Kenya, Hungary may have significant potential in Africa in the solutions introduced for the purpose of economic whitening.

In addition to market interests, the African region has great importance because of its contribution to the local management of migration. Opportunities for water cooperation across Africa are mainly in the areas of urban development and the development of efficient water management systems, wastewater treatment, drinking water treatment, mobile water treatment equipment, wastewater recycling, further development of water infrastructure and water education. The region is characterized by outdated water infrastructure. Millions of people are struggling with water scarcity or the problem of pollution of existing water resources, which means that millions of people do not have access to clean drinking water and sanitation services. There is a significant demand for world-class Hungarian water technology and water management companies in Africa as well however, the export of these technologies can be realized mainly within the framework of tied aid lending and international development programs.

The Hungarian pharmaceutical industry is characterized by a high degree of concentration, the four largest companies (Gedeon Richter, Egis, Teva, and Sanofi) account for 85-90% of production and exports, but it should be noted that 4-5 domestic small and medium-sized pharmaceutical companies can also be placed in this category with appropriate financial and technical assistance. In several countries, due to low domestic production, there is a significant demand in the medical device and pharmaceutical markets, mainly for generic products, as well as imaging diagnostic equipment, orthopedic implants and cardiac surgical supplies.



According to several UN reports<sup>7</sup>, there are many countries in Africa where, due to the shortage of medicines, it is possible to sell any Hungarian product. In most cases, there are no restrictions, but the administration of drugs is a complex process and requires action at the highest government level. In order to facilitate the entry of interested Hungarian companies into the market, it is necessary for foreign economic attachés to contact local partners and partner companies directly. It is a general experience that in a given country it is only possible to enter the market with the proposal or cooperation of a local company. At the same time, with regard to the Republic of South Africa, the expansion of Hungarian knowledge-based cooperations can be mentioned as a point of breaking out, which has a greater potential for cooperation than the licensing of medicines due to pharmaceutical regulations.

With regard to medical devices, some Hungarian companies in the regions have already established contacts and there have been examples of doing business, but the market has not yet been fully mapped. In the areas marked in orange in the second map below (mainly Ghana, Nigeria, Kenya, Ethiopia, Uganda and the Republic of South Africa), it is worth exploring market opportunities together, and with the help of domestic companies.

The Republic of South Africa is the leading economic and trade center in the sub-Saharan region and, as a result, has been our primary export partner for decades, mainly due to its political and financial stability. In recent years, several technologies transfer projects and joint ventures have been initiated, but a fundamental problem is that Hungarian companies find it difficult to invest in the country due to lack of capital or willingness, as a result of which, in most cases, South African government subsidies and market access fail.

In the West African region, most Hungarian companies that currently want to establish closer trade relations with African countries have already appeared with successful projects. Thanks to established interstate and trade cooperation, business relations enjoy support from both sides at the highest political levels.

Due to the increase in foreign economic activity, after a continuous and significant decline in exports in recent years, our Kenyan exports increased by 84% to a total of \$13.3 million, based on indicators measured in the first ten months of 2018. Kenya's economic and development conditions provide an ideal platform for both the export efforts of Hungarian companies offering low-level agricultural and manufacturing technology and the entry of Hungarian companies with the most advanced information and financial security technologies.

The international development cooperation launched in 2018 is the best example of how Uganda can be a key relationship in the future to strengthen and deepen Hungarian export efforts. Through the development programs, many Hungarian companies have shown great interest in the developments to be implemented in Uganda from the very beginning, and thanks to these initially acquired contacts, they will be able to participate in further initiatives in other relations in Africa with greater security and willingness. The opening of the representative office also serves this purpose.

The opening of a commercial office in Abidjan to support Hungarian businesses in the country with high capacity and already established links in the African business and public sector could contribute to supporting the increased demand for Hungarian products and services from the region.

## METHODS OF INTERVENTION: FINANCIAL AND OTHER FORMS OF SUPPORT

Hungary's international development activities<sup>8</sup> in sub-Saharan Africa serve a dual purpose: on the one hand, to support the local management of the root causes of migration through development programs there, and on the other hand, to provide opportunities for Hungarian economic actors and other executives to emerge in foreign markets. The experience gained in this way serves as a reference for Hungarian actors and provides visibility both for the given company and partner, and for the international role of the Hungarian Government. With the accession of Hungary to the European Union and then to the OECD Development Assistance Committee (DAC) in 2016, Hungary has made commitments to increase its ODA to 0.33% of its annual gross national income by 2030, as did other EU Member States that joined in 2004 and after. Hungary's ODA in 2017 was 0.11%, which points to the need to mobilize additional resources. Following our commitments and our foreign economic goals, we aim to further increase the amount and proportion of our international development assistance to Africa.

In view of the above, the focus of Hungary's international development activities in Africa has been on those countries that have a significant market size and favorable economic prospects, as well as that they play, or could play an important regional role. As a result, Hungary will put East Africa at the forefront of sub-Saharan Africa until 2030. A significant factor in the selection of the target region is that Hungary has several foreign missions in the region, so our diplomats in the region play an important role in performing the logistical, professional and coordination tasks related to development projects and in the long-term sustainability of the projects.

In order not to put Hungary at a great disadvantage in the development policy competition in East Africa, it is justified to implement a project of strategic size (worth HUF 6 billion) annually, with the involvement of Hungarian economic actors. Larger projects contribute to the fulfillment of our commitments in the field of international development policy and to the realization of our migration and other foreign policy interests. Given the local needs and the comparative advantages of the Hungarian companies, Hungary plans to implement development projects in the fields of water management, agriculture, health, education and ICT, which will help the country to catch up and achieve sustainable development and gain market share for the contractor. On the Hungarian side, the field of cyber and document security can be a key sector, in which Hungarian companies are already present on a market basis in the region and thus their international development-based support can also contribute to reaching other markets.

The international development of the Africa Strategy began with the launch of a comprehensive development program in Uganda<sup>9</sup>. The project has a budget of HUF 5.168 billion, the resources required for its implementation are provided by a government proposal.

In addition, Hungarian diplomacy is constantly examining the development needs and opportunities of other East African countries. In this respect, Ethiopia, Kenya and Tanzania are emerging as possible additional destinations. Following a mapping of local needs, further

comprehensive programs would be launched in these countries as well. These objectives and the resource requirements assigned to them are also in line with the National Export Strategy developed by the Ministry of Foreign Affairs and Trade.

In Hungary's international development policy implemented in a multilateral framework, it has become essential to make more efficient use of domestic contributions to the external relations chapter of the EU budget, as well as to the European Development Fund (EDF)<sup>10</sup> and other international development funds. In addition to facilitating and supporting a strong Hungarian position on the issue of migration on the international stage, these payments create an opportunity for domestic economic actors and non-governmental organizations interested in or already experienced in the region to participate in the implementation of development projects in the regions supported by the funds.

The European Commission, the European External Action Service, the Representations of the European Union (EUDEL) and the Member States, as well as the African countries concerned will define the EU's development objectives for the African region in the next multiannual financial framework (2021-2027) and pre-allocated amounts. Based on these, so-called country strategies and indicative framework programs will be prepared, setting out the priorities for the coming years, which will then be implemented through the announcement of each developed proposal. The Hungarian goal is to develop objectives, country strategies and framework programs, which formulate areas of expertise and criteria and will enable a successful Hungarian application. During the preparation of these documents, our missions can obtain meaningful information through close cooperation with EUDEL in the given partner country, and can influence the content elements of the programming documents, especially the presentation of Hungarian economic and development interests thus, facilitating more efficient domestic applications. Hungary's foreign missions play a significant role not only in the preparation of individual programming documents, but also after that, the projects already developed and announced for tender also play a significant role in delivering and raising the awareness of Hungarian partners with experience in the region.

A tied aid loan is a preferential export subsidy granted to developing countries for the purchase of goods and services from a donor country. It is the only internationally and nationally recognized state export aid instrument with a donation element. The results of tied aid loan programs cannot be expressed in quantitative terms alone in the form of economic benefits. It must also be taken into account that by providing support, the development of bilateral political relations is also a priority for Hungary. It is also not a negligible aspect that tied aid loan partner countries are all part of global multilateral integrations, so by promoting bilateral relations, Hungary will also significantly increase its multilateral advocacy capacity. According to the reports of our foreign missions, Hungary has been given serious recognition by the leadership of the partner countries by offering tied aid loan programs and successfully implementing completed projects, and the population of the beneficiary states could be made aware that the affected developments were implemented with the support of Hungary, so the programs have visible results at the level of public diplomacy as well.

Based on the above aspects, we consider tied aid lending<sup>11</sup> to be a key tool in establishing and strengthening Hungary's economic relations with Africa. The classification system devel-

oped by the OECD determines the value of gross national income per capita below which a country becomes eligible for a tied aid loan. According to the 1 January 2019 classification in force, there are 3 eligible states in North Africa and 41 in sub-Saharan Africa, therefore the African continent shows the highest eligibility among continents, both in proportion and in absolute terms.

From Hungary's point of view, tied aid lending can be interpreted primarily as an export promotion tool, with which we intend to achieve the qualitative improvement and quantitative expansion of exports, as well as the adjustment of the structure of exports to economic policy goals. When planning the activity, it is of paramount importance that this tool enables Hungary to enter new markets that would be inaccessible to us in other forms. The experiences of the already completed aid loans show that significant new economic opportunities have opened up for our companies, which would have a further positive impact on our national economic data and foreign policy relations. Therefore, the extension of the aid lending policy is in the best interest of Hungary among the eligible countries of Africa, in accordance with the policy of the Southern Opening.

Sub-Saharan Africa has the largest number of countries eligible for tied aid loans, including most of the least developed countries as defined by the United Nations. This is also important because in the case of such countries there is no need to examine project eligibility, so it is also possible to carry out financially sustainable projects. Similarly, to South and East Asia, water management, waste management, transport, health, agriculture and e-government can be mentioned as potential areas for development. In addition, the utilization of energy, especially solar energy, can be highlighted. In Africa, there is significant demand for water management and agricultural projects not only due to population growth, but also due to climate change and desertification. The strategy of the Southern Opening directs the attention of Hungarian foreign economic policy towards sub-Saharan Africa and tied aid lending is a suitable (in many cases, the first and only) means to appear in new markets. It is important to note that in addition to opportunities, Africa also brings a number of challenges, with the lender and project implementers facing significant political, security (ethnic conflicts, international terrorism), administrative, financial, and infrastructural risks, depending on the country. Based on our experiences so far, potential destinations in the region include Kenya, Nigeria, the Republic of Cape Verde, Ethiopia, Eritrea, Tanzania, Uganda and Ghana, which have a stable political and social system to start foreign trade cooperation with. In the case of Kenya and the Republic of Cape Verde, the Government made a decision in 2018 to offer an aid loan. We are providing \$50 million in tied aid loans to Kenya for health care, agricultural and food developments, while Hungary has offered the Republic of Cape Verde €35 million for irrigation and water management investments.

Our key development policy commitment is also to support the States in the migration-emitting regions, the largest of which are in sub-Saharan Africa in terms of potential emigrants, in order to provide livelihoods and decent living conditions for the local population in their homeland. In all cases, tied aid loan programs are aimed at the development of basic social infrastructure (health care, water supply, waste management, and agricultural development), so there are direct positive effects on local living conditions. Thus, the develop-

ments of tied aid loan programs also fit into the overall objective of *Hungary Helps*, announced by the Government. With this, Hungary can not only take part in international development policy efforts, but it can also dynamically increase the population retention power of the mentioned communities, with which the tendency to emigrate can be drastically reduced.

Previously, domestic export promotion programs targeting Africa have typically focused on the export of goods or services in the classical sense, so the government had created the financial, institutional and training conditions for these. However, the fall in export performance in the recent period points out that the encouragement of exports of goods and services should not dominate Hungarian export development trends in Africa. In the light of international experience, individual economies, typically in the Southern and Eastern Openings, in order to keep their developments and factors of production in check, are taking measures, as a result of which, instead of classical exports of goods and services, capital investment in a given country can increasingly be the more effective solution. Recognizing this, many foreign states (including Poland, the Czech Republic, and Romania in the region) support not only direct exports of goods or services through government means, but also foreign investments by domestic enterprises.

Given that the establishment of companies in these markets can be a competitive advantage for Hungarian companies, the Foreign Economic Section of the embassies should pay special attention to the company establishment regulations in the host country and provide professional support to Hungarian investors interested in the region. At the governmental level, the creation of financial funds should also be considered, which would contribute to the foreign market investments of Hungarian companies and thus substantially increase our presence in the African foreign market. An example of this concept is the non-repayable grant scheme already developed for Montenegro and Serbia, supplemented by a preferential EXIM loan. A similar support framework is proposed for the sub-Saharan region, taking into account the specific characteristics of the region.

In March 2014, the Trust Fund Partnership Agreement between IFC (International Finance Corporation) and EXIM was signed as a decisive step in cooperation with the World Bank Group. With the agreement, Hungary became an active donor to the World Bank Group, which took the relationship between Hungary and the international organization to a new level. The total amount to be paid into the Cooperation Fund is \$20 million. On our part, the source is provided by EXIM at the expense of the central budget. By joining the IFC Cooperation Fund, Hungary now has a much more intensive access to the global network of the IFC and the World Bank Group than before.

Bearing in mind the experiences of the period since the announcement of the Southern Opening Policy in 2015, it can be said that Hungarian small businesses are less interested in African relations. The primary reasons for this are the large geographical distance and the extremely high cost requirements, which are essential for organizing a trip. Experience has also shown that, due to the different business cultures, a number of face-to-face meetings between partners are needed to build and maintain business relationships, given that African entrepreneurs place a strong emphasis on face-to-face contact. E-mail correspondences and forwarding product presentation materials, which are common in Europe, are not preferred

there. Taking these characteristics into account, in the future, in addition to small enterprises in African relations, it will be expedient to place special emphasis on supporting the export aspirations of capital-intensive and experienced Hungarian, medium-sized enterprises. In order to give special support to Hungarian exporters, the Ministry of Foreign Affairs and Trade has launched the Priority Exporter Partnership Program, in the framework of which the Ministry concludes agreements on the deepening and extension of cooperation with successful companies engaged in foreign market activities that are decisive for the domestic sectors and exemplary for novice exporters. The aim of the program is to increase the contact with these Hungarian companies with great export potential and to expand their target countries.

In many cases, it can be seen that in the case of the export of Hungarian equipment and machinery, the operation, repair and use of the given equipment exceeds the technical capacity of the designated persons. Not all Hungarian exporters guarantee to provide technical support for the product and in case of improper use or failure, the equipment will be taken out of use. A good solution to the problem seems to be to provide product-related professional trainings with the involvement of the deservedly famous Hungarian higher education institutions. These export development programs combined with education could be implemented in cooperation with Hungarian companies in the regions that are less developed in the field of vocational training. The primary goal of the cooperation is to present the operation of the equipment and technologies exported by Hungarian companies and to train the locals participating in the training. Tailor-made trainings greatly contribute to the maintenance of the product or service. The long-term results of the programs can also be to increase the market perception of Hungarian products and companies, to build market confidence and to increase the number of people with qualifications in the local labor market.

The involvement of young African students, studying in Hungary within the framework of the Stipendium Hungaricum program, in the cooperation with Hungarian companies may appear as a priority in the medium- and long-term export development goals. The primary aspect is to acquaint the students studying in this field during the years spent in Hungary with the key sectors characteristic of the Hungarian economy and with the most significant Hungarian companies of the sectors, exporting or intending to export to Africa. Upon their return home, these young people could appear as “representatives” of the Hungarian company in their own country, which could not only help companies with the often extremely complicated licensing and administrative procedures, but also provide companies with easier access to market and state actors in that country.

Exports are significantly hampered by the restrictions and regulations faced by the exporter in the host state. The often cumbersome and time-consuming licensing procedures characteristic of African relations can in many cases deter Hungarian manufacturers from entering the African market, which is also hampered by the often chaotic and corrupt bureaucratic system. This is mainly the case in the food, agriculture and pharmaceutical licensing procedures. Based on the examples of Kenya and Nigeria, the use of Hungarian economic diplomacy tools and the intervention of foreign missions is the only way to speed up these procedures. However, supporting the companies and monitoring individual cases can put a huge strain on the foreign economic capacity of embassies. The best way to reduce

the difficulties is to develop framework agreements that benefit Hungarian companies and to standardize the technical conditions for the given product categories by facilitating technical cooperation and letters of intent between the specialized institutions of the two countries. These interdisciplinary, intergovernmental conventions, as well as the cooperation between authorities, are particularly important in some protectionist economic policy relations (e.g. Nigeria).

#### BEST PRACTICES OF BUSINESS DIPLOMACY

Based on the experiences of the network of foreign economic attachés operating in African relations and the reports of Hungarian companies, only those Hungarian companies that are able to present their products on the spot to those interested can prevail in the African markets. Virtual product presentations (PowerPoint presentations, paper-based and online product catalogs) in most cases do not result in a deal. Therefore, it is essential that the attachés be able to present the products of Hungarian companies to potential African partners in the course of their work, primarily at major international exhibitions and in the framework of model farm concepts. However, sending the product samples offered for this purpose in a given relation is often difficult, as it is disproportionately expensive for Hungarian small and medium-sized enterprises trying to open up to African markets to use the services offered by courier services. A good opportunity to solve the problem seems to be the financial support for sending the product samples, which appears as an export promotion tool, which can significantly facilitate the export efforts of Hungarian small and medium-sized enterprises wishing to open up to the markets of the Southern Opening countries. The initiative is also promising because it opens up new opportunities for the presentation of Hungarian goods, which is a critical factor in all African regions.

Hungary is the 6<sup>th</sup> largest seed exporter in the world after France, the Netherlands, the United States, Germany and Chile. Seed production, which is an export-oriented product, takes place on an area of about 100 thousand hectares. In addition to the success of seeds, there is another opportunity to export innovative soil improvers, conditioners and pesticides. The introduction of these products to the foreign market is greatly aided if, in addition to the research results and variety descriptions, the farmers of the host market can experience the quality and applicability of the products under the local climatic- and soil conditions. In the case of the export of waste management technologies, the presentation of the working technique and technology is also essential.

In Africa and Asia, traders and farmers typically decide to purchase an agricultural input product based on personal experience, accepting only the results of local, tangible tests. An excellent tool to support this is the establishment of Hungarian model farms in the agricultural areas of the host country, where animal husbandry (chicken, and fish), crop production (vegetables, fodder and floriculture), irrigation water management, fruit and vegetable processing and composting can be presented to entrepreneurs, and in the framework of vocational training, it may also be possible to teach these technologies and exchange business knowledge, even with the involvement of Hungarian higher and vocational education institutions. Anot-

her clear advantage of setting up these model farms is that potential local partners, producers and traders can see the quality of the products for themselves. Therefore, the farm concept means not only the provision of arable land for interested Hungarian companies, but also opportunities to enter the market within the framework of services: professionally supervised, prepared one-hectare production area; conducting comparative tests and protocols led by experienced Kenyan experts; advising on registration and authorization procedures for placing products on the market; presentation of test results, communicating them to East African customers and interested parties; and market entry consultancy (identification of resellers, distributors, wholesalers, promotion of contacts).

In order to support the sector in foreign markets, the goal is to establish (in addition to Kenya) other similar model farms (4-5), mainly on the African continent, where there is a high demand for varieties that tolerate the local climatic condition well, and for soil improvement solutions that can reduce water usage. The program would initially be funded from a budget, but if successful, the system could later become self-sustaining from the sale of farm-tested crops (after authorization).

Currently, the development of the model farm concept has started in Kenya, Nigeria and Ghana, and a similar type of farm is operating in Zambia, for example, which is operated by a Hungarian entrepreneur and would provide potential ground for the implementation of the concept.

The first pilot project is the Sámuel Teleki Hungarian Farm, which has been under preparation since 2015, and which is planned to be established in cooperation with a local partner in Kenya. The aim is to test Hungarian vegetable and spice production and Hungarian agro-innovation solutions under local conditions in a 12 + 12-month test period in the traditional production area of Kenya.

In the locally established accelerator centers (selected and partially prepared in Hungary) Hungarian companies could spend a few weeks, where they would participate in business negotiations and look for an investor with the help of the local startup development partner and the embassy's foreign economic attaché (the program is not specifically aimed at immediate exit). Industry focal points of the accelerator program for Africa: agricultural ICT solutions, health care, fintech, cyber defense, and drone technology. Thanks to the cooperation between the Kenyan Embassy and the Hungarian National Chamber of Commerce, the concept made its successful debut in Nairobi. Immediately after the end of the program, negotiations between the local partner and the Hungarian company began, which later led to a specific business. Financial and technical support for the program can also provide an excellent development framework to help other businesses enter the African market.



NOTES

- <sup>1</sup> In Guinea, Tanzania, Ghana, Mozambique, Angola and Ethiopia. Only in Kenya and the Republic of South Africa did the Hungarian diplomatic mission operate continuously.
- <sup>2</sup> Referred to by the Geopolitical Council Africa Research Center conference at the Institute of Foreign Affairs, Oct. 22, 2008.
- <sup>3</sup> source: CSO database, 2020, and MoE (author's announcement)
- <sup>4</sup> According to the National Export Strategy (p. 5)
- <sup>5</sup> <https://oxfordbusinessgroup.com/country/nigeria/ict>
- <sup>6</sup> An excellent example is the expansion of the State Printing House in Africa: <https://www.vg.hu/penzugy/afrikai-orszagokat-celoz-a-nyomda-2-862605/>
- <sup>7</sup> <https://www.un.org/africarenewal/magazine/december-2016-march-2017/dying-lack-medicines>
- <sup>8</sup> <https://ensz.kormany.hu/magyarorszag-nemzetkozi-fejlesztesi-es-humanitarius-tevekenysege>
- <sup>9</sup> <https://nefe.kormany.hu/uganda-palyazat-2>
- <sup>10</sup> [https://ec.europa.eu/info/strategy/eu-budget/eu-budget-news-events-and-publications/documents/european-development-fund\\_en](https://ec.europa.eu/info/strategy/eu-budget/eu-budget-news-events-and-publications/documents/european-development-fund_en)
- <sup>11</sup> Tied aid loan

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