HUNGARIAN-ROMANIAN ECONOMIC RELATIONS AFTER THE EU ACCESSION OF BOTH COUNTRIES

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Abstract: This study intends to complement the extensive bibliography written about Hungarian-Romanian political and minority issues, by offering a both historically and economically relevant account of Hungarian-Romanian economic relations. Hungary and Romania are two neighboring countries and strategic partners, with massive foreign trade activity and investments, yet there is minimal research on the impact of these. The timespan will cover 20 years from 2000 until 2019, arching over the years before and after the EU accession. The methodological framework will have a qualitative component with realism, neoliberal institutionalism and regionalism being the main schools of thought on which Hungarian-Romanian relations as a whole are interpreted, and a strong quantitative component using data analysis. The main finding of the paper is that EU membership provided a structured environment for cooperation and economic integration and managed to catapult bilateral trade and FDI from near non-existent figures to billions of euros.

Keywords: Romania, Hungary, economic cooperation, bilateral trade, FDI, EU integration

Introduction

Economic relations are an often neglected aspect of Hungarian-Romanian cooperation, they however present an indispensable and rewarding field for research. After the change of the regime in 1989, the European Union accession was the second most important milestone in the development of these economic ties. What is most interesting to see is that even though the European Union is also a transnational political and economic grouping of member states, much like the COMECON[2] was, its membership meant a completely different outcome for the Hungarian-Romanian bilateral economic interests (Hunya and Telegdy, 2003). Without detailing too much the period around the fall of

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[2] The Council for Mutual Economic Assistance (COMECON) was an economic organization under the leadership of the Soviet Union comprising the countries of the Eastern Bloc and some other communist states. It functioned from 1949 to 1991.

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communism, it is noteworthy to mention that the foreign trade between the two countries in 1989 amounted to a meagre 1%[3].

It was in this almost non-existent state of bilateral trade that the two countries found themselves sharing the same goal: that of adhering as quickly as possible to the Western European integration systems (Köves, 2003). This has also been the catalyst for the defrosting of Hungarian-Romanian bilateral relations, which have gradually improved as the states became more deeply integrated into the Western community of nations. The improvement never meant friendship between the two states, but it entailed a better working relationship necessitated by a common need to become integrated with the West (Novák, 2013).

Research methodology

Realism has been the dominant approach to the study of international relations for most of the postwar period, therefore Hungarian-Romanian economic relations will be looked upon from the perspective of the global power balance system (Morgenthau, 1985).

Having in mind that EU and NATO membership is an important element of Hungarian-Romanian bilateral relations, neoliberal institutionalist theory will be used as well, which states that international institutions can have a decisive role in the behavior of states towards each other (Keohane et al., 1991).

Noting the geographic location of the two countries, the theories of regionalism will be applied, namely neofunctionalism (Haas, 1958) formulating that integration starts in economic areas and spills over into political cooperation, multilevel governance (Hooghe and Marks, 2001) according to which power is distributed across multiple levels: local, national, and supranational institutions and open regionalism (Baldwin, 1997) saying that regions integrate while remaining open to global trade.

The two country's candidacy and subsequent membership in the European Union show a fine example of economic convergence theory whereby countries with lower incomes benefit from joining more developed countries and even grow quicker than those (Kerr, 1983).

The above-mentioned theories constitute the qualitative methods, alongside which statistical data analysis will also be employed to gain a better picture on Hungarian-Romanian foreign trade and FDI activity. The databases used are: Hungarian and Romanian national institutes (statistical offices and national banks), Eurostat, UNCTAD, World Bank.

[3] Data offered by the Hungarian Central Statistical Office (May, 2021).

Resulting from the above, Hungarian and Romanian relations will be viewed throughout the essay within three frameworks: bilateral, multilateral (international institutions) and cross-border.

Historical overview

From frozen to abundant: Relations after the change of the regime and before EU accession

The shift towards democracy happened in different forms and phases in the two countries, which also shaped the first years of political and economic relations. In Hungary, economic reforms began already in the pre-revolutionary period, and after the democratic elections in the spring of 1990 foreign investors started appearing (Köves, 2003). In Romania the process was slower due to Nicolae Ceausescu's resistance to reforms, and subsequent execution (Vădean, 2011). An important distinction between the first democratic elections of the two countries is that, whereas in Hungary the party that won was built up from below, in Romania the leader of the party has been a high functionary in the communist regime. Consequently, privatization and foreign investments also followed a longer path here.

At the beginning bilateral relations were moderate, what really changed this was the signing of the Basic Treaty between Romania and Hungary in 1996 (United Nations Treaty Collection, 1996). They agreed to support each other's membership in NATO and the EU, and to develop a range of economic and cultural relations.

Following 1990 several high-level meetings took place between the two countries' leaders, all of which addressed cultural, minority and economic issues. However, the continuing escalation of tensions between the Hungarian minority in Romania and the extreme nationalist parties thwarted any pragmatic approach towards the first two areas, and the only real achievements could be noticed in the field of economic cooperation (for ex. prime ministers Gyula Horn and Victor Ciorbea signed the Treaty on the Establishment of a Joint Intergovernmental Economic Commission in March 1997, and prime ministers Viktor Orbán and Radu Vasile agreed on the importance of increasing the number of Hungarian capital investment in all parts of Romania in July 1998) (Illyés and Kántor, 2012).

Between 2005 and 2008, 4 joint government meetings were held (2005-Bucharest, 2006-Budapest, 2007-Sibiu, 2008-Szeged), which have further shaped and fostered Hungarian-Romanian relations in areas such as energy cooperation, tourism, joint flood protection, infrastructure and common state borders (Illyés G and Kántor Z, 2012). It was on these occasions that the Arad-Szeged gas pipeline and the Oradea-Békéscsaba power line project were approved, as well as the opening of the Hungarian labor market to Romanian skilled workers.

After 2008 no more joint government meetings were held, which however did not mean that cooperation deteriorated between the two states, it just got transposed to different levels. There were a number of joint commissions that started operating regularly, the Hungarian-Romanian Joint Economic Commission being the most important one, but the commissions on environment protection, transboundary waters, scientific and technical collaboration[4] also pointed in the direction of gradual progress in the whole of bilateral relations. A full chronology and description of the bilateral agreements between Hungary and Romania can be found in Szabó (2019).

On the path of accession

Hungary presented its application to join the European Union already back in April 1994, and accession negotiations started four years later at the Luxembourg summit. By the time of the adjournment of the accession discussions in 2002 the country had a functioning market economy, significant legal harmonization took place and democratic structures were consolidated. Hungary held a decisive referendum on the 12th of April 2003, where the majority of the votes supported the accession, which ultimately led to the country joining the Union on the 1st of May 2004 (Losoncz, 2019).

Only one year after Hungary's application for EU membership, Romania submitted its official application as well in June 1995. Due to Romania's slower transition to market economy and democratization, here accession talks started in 2000 and were finalized in 2004. By the turn of the millennium, Romania had become a favorable location for foreign investors, and the massive unemployment that has arisen during the economic restructuring has also been reversed. Without holding a referendum, Romania joined the European Union on the 1st of January 2007 (Ministry of Foreign Affairs of Romania, 2007).

Bilateral relations received a definite and long-lasting impetus from the need to comply with the Copenhagen criteria[5] in order to be able to join the EU.

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[4] The Joint Economic Commission operates on the basis of the Economic Cooperation Agreement which was signed in 2005, the treaty on the protection and sustainable use of transboundary waters was signed in 2003, the one on environment protection in 2000, whereas the functioning of the scientific and technical joint committee is regulated by the Basic Treaty.

[5] The Copenhagen criteria comprises those conditions that a candidate country must meet in order to become a member.

Along the political, economic and administrative requirements a crucial component of the advancement of Hungarian-Romanian relations was the one which determined the respect for and protection of minorities (Hunya and Telegdy, 2003). Once this was in place, Hungary continuously supported Romania, first its accession to the EU, and then to the Schengen area.

Parallel to the EU applications, preparations for NATO accession were underway as well, which in the case of Hungary took place in 1999 and Romania entered 5 years later. Linden (2000) has argued that the written and unwritten requirements of NATO, the EU and the Council of Europe – but especially NATO – contributed to the peaceful coexistence of Hungary and Romania.

Taking bilateral relations even further Hungary and Romania signed a Strategic Partnership Agreement in 2002 to enhance cooperation in political, economic, and cultural fields (Ministry of Foreign Affairs of Romania, 2012). This agreement laid the groundwork for deeper collaboration, which continued to evolve post-EU accession.

Infrastructure and border connectivity are two big winners of European integration in the case of Romania and Hungary, as between 2010-2014 four significant agreements were signed in this field: cooperation on natural gas pipelines crossing the Hungarian-Romanian state border and in electricity transmission lines (2010), establishment of the motorway connection between Szolnok–Nagykereki (HU) and Santăul Mare–Cluj-Napoca (RO) (2011), establishment of the motorway connection between Szeged–Makó–Csanádpalota (HU) and Nădlac–Arad (RO) (2011), cooperation on road connections across the Hungarian-Romanian state border (2014) (Szabó, 2019).

By 2020 both highway crossings were functional, the Nădlac–Csanádpalota linking Romania's A1 motorway with Hungary's M43 motorway, and the Borș II–Nagykereki connecting Romania's A3 motorway with Hungary's M4 motorway.

Looking behind the numbers

Romanian macroeconomy

From an empirical perspective the scope of the research is to analyze the following variables: GDP per capita, annual GDP growth (%), annual inflation in consumer prices (%), unemployment (% of total labor force), current account balance as percentage of GDP, trade balance as percentage of GDP, total central government debt as percentage of GDP and foreign direct investment inflows as percentage of GDP over the period between 2000 and 2019. First the individual characteristics will be discussed, followed by comparisons where possible.

Table 1: Romanian macroeconomic indicators, 2000-2019

	GDP per capita (euro)	GDP growth (annual %)	Inflation (average %)	Unemployment rate (%, ILO)	Current account balance (% of GDP)	Trade balance (% of GDP)	Central government debt, total (% of GDP)	Foreign direct investment, net inflows (% of GDP)
2000	1 725,1	2,5	45,7	7	-3,6	-5,3	27,8	2,9
2001	1 896,9	5,2	34,5	6,6	-5,5	-7,5	28,5	2,8
2002	2 203,2	5,7	22,5	8,1	-3,3	-5,6	27,8	2,5
2003	2 784,7	2,3	15,3	7	-5,7	-7,5	25,1	3,7
2004	3 632,4	10,4	11,9	7,7	-8,5	-9	21,7	8,4
2005	4 799,5	4,7	9	7,2	-8,7	-10,1	19,4	6,6
2006	5 983,8	8	6,6	7,3	-10,7	-11,9	16,3	8,9
2007	8 688,9	7,2	4,8	6,4	-13,7	-14	17,6	5,8
2008	10 845,3	9,3	7,9	5,8	-11,7	-12,9	18,3	6,3
2009	8 884,5	-5,5	5,6	6,9	-4,7	-6,3	28,2	2,7
2010	8 729,6	-3,9	6,1	7	-5	-6,4	34,1	1,9
2011	9 936,4	1,9	5,8	7,2	-4,8	-5,8	37,2	1,2
2012	9 280,9	2	3,3	6,8	-4,6	-5,1	40,4	1,7
2013	9 871	3,8	4	7,1	-1	-0,8	43,9	2
2014	10 426	3,6	1,1	6,8	-0,3	-0,4	46,3	1,9
2015	9 329,8	3	-0,6	6,8	-0,8	-0,6	45,2	2,4
2016	9 774,1	4,7	-1,5	5,9	-1,6	-0,9	47,3	3,4
2017	11 149,6	7,3	1,3	4,9	-3,1	-2,1	44,3	2,8
2018	12 993,6	4,5	4,6	4,2	-4,6	-3,4	42,5	3
2019	13 502,6	4,2	3,8	3,9	-4,8	-4,1	43,2	2,9

Source: World Bank, Eurostat and Romanian National Bank data

After entering the new millennium, Romania's GDP started to rise more or less evenly, with a record of 10,4% in 2004, and another surge of 9,3 in 2008, immediately driven downward by the financial crisis. It is visible from the data that the Romanian economy was extremely exposed to external shocks –

domestic consumption and construction-oriented investments being the main factors of growth up until 2008 (Lungu, 2011) – and could only slowly bounce back on a rising curve.

Out of the above variables inflation is the one where EU accession played the most determinant role. As with all transition economies, inflation was considerably high in the 1990's and early 2000's in Romania, but following the accession negotiations and up until the country's entry into the Union it declined exponentially, owing to a more disciplined government spending. The 2008 financial crisis had its toll on inflation as well, but from 2009 it again decreased gradually. 2015 and 2016 marked those years when the country faced deflation due to domestic: the government cut value-added tax on food and raised some state wages (Lungu, 2011) and external: diminished oil prices effects.

All in all, it can be said that EU accession and EU membership has had a favorable impact on inflation, but due to the hectic wage policy of several social democratic parties and inefficiency to react to external shocks, it has only met the objective of the European Central Bank of keeping it at 2% twice in the studied period.

Unemployment rate was fairly constant at around 7% of the total labor force until 2015, when a more pronounced decrease occurred. Between 2016 and 2019 unemployment rate was in the range considered ideal (4-5%), nevertheless as a result of high migration (Lungu, 2011) and the disparity between certain industries the contribution to the economy of this indicator was not necessarily a positive one.

It is striking to see that current account balance and trade balance never reached positive values over the examined 20 years, which points at serious structural problems. Albeit Romania's remarkable economic growth cycle, the country is still exposed to – although in different proportions – the same vulnerabilities that existed in the pre-accession era: government spending over public sector wages and pensions, excessive private consumption, lack of long-term economic strategies. Between 2013 and 2015, the foreign trade deficit was somewhat reduced, but the trend could not be reversed and the negative balance remains continuous.

Romania emerged from the communist era with an impressive near non-existent public debt[6]. This soon changed however and in 2000 the central government debt represented already 27,8% of the GDP. It's evident that the intention to meet the Copenhagen criteria contributed to the decline of the variable until 2006 with only a slight increase in 2007 and 2008, yet the financial crisis elevated public debt to worrisome levels. Romania turned to the International

[6] This was due to President Nicolae Ceausescu's severe austerity measures aiming to pay off external debt.

Monetary Fund, which granted the country a 20 billion € line of credit of which the government took 17.9 billion € (IMF, 2009).

As data withdrawn from the Romania National Statistical Institute shows, trade-wise Romania mainly exports machinery and transport equipment, raw materials, and various manufactured goods such as textiles and footwear, whereas the imports consist of machinery and transport equipment, raw materials, chemicals and fuels. More than 70% of exports and imports are with other European Union member states, the most important of which are Italy, Germany, and France.

Once Romania opened up its market and underwent some structural reforms one of them being a favorable tax policy, foreign direct investment started pouring into the country (Köves, 2003). The pre-accession years stand out, between 2003 and 2006 FDI amounted to an annual average of 6,9%. In the year of accession and the year after capital flows were still a high contributor to GDP, but after the financial crisis they remained at an annual average of 2,3%. Main donor countries came from the European Union and are the same as Romania's main trade partners, namely Germany, Italy and France.

2.2 Hungarian macroeconomy

Table 2: Hungarian macroeconomic indicators, 2000-2019

	GDP per capita (euro)	GDP growth (annual %)	Inflation (average %)	Unemployment rate (%, ILO)	Current account balance (% of GDP)	Trade balance (% of GDP)	Central government debt, total (% of GDP)	Foreign direct investment, net inflows (% of GDP)
2000	4 806	4,5	3,4	6,6	-8,8	-3,7	61,2	5,8
2001	5 483,3	4,1	3,8	5,7	-6,1	-1,3	59,4	7,5
2002	6 916,9	4,7	2,9	5,6	-6,5	-2,1	59	5,4
2003	8 750,3	4,1	3	5,8	-8,3	-3,9	59,8	4,8
2004	10 706,6	5	3,5	5,8	-9,1	-4,3	63	4,3
2005	11 664,5	4,3	4,1	7,2	-9,9	-2,8	65,2	7,6
2006	11 941,1	3,9	4,3	7,5	-7,3	-1,5	68,4	16,2
2007	14 488,8	0,3	4,8	7,4	-7,3	-0,1	69,1	49,5
2008	16 392,2	1	8,9	7,8	-7,3	-0,04	72,7	47,4
2009	13 591,2	-6,6	2,9	10	-1,2	3,5	81,1	-2,6

	GDP per capita (euro)	GDP growth (annual %)	Inflation (average %)	Unemployment rate (%, ILO)	Current account balance (% of GDP)	Trade balance (% of GDP)	Central government debt, total (% of GDP)	Foreign direct investment, net inflows (% of GDP)
2010	13 736,9	1,1	3,3	11,2	-0,2	4,8	81,3	-15,9
2011	14 795	1,9	4,8	11	0,4	5,7	90,6	9,9
2012	13 495,1	-1,3	3,7	11	1,1	6,1	94,1	8,1
2013	14 254,1	1,8	2,7	10,2	3	6,5	94,7	-2,8
2014	14 856,1	4,2	2,4	7,7	0,7	5,9	98,7	9,4
2015	13 216,8	3,7	1,4	6,8	2,1	7,7	96,4	-4,5
2016	13 619,7	2,2	1,6	5,1	4,4	8,4	96,8	54,9
2017	15195,8	4,3	2,3	4,2	1,7	6,6	92	-8,3
2018	17070,7	5,4	2,4	3,7	0,3	4,3	86,5	-42,4
2019	17445,9	4,9	2,2	3,4	-0,6	2,3	83,4	60,3

Source: World Bank, Eurostat and Hungarian Central Statistical Office data

As shown in the figure, Hungarian economy went through a period of steady early growth, and GDP per capita was almost 3 times higher in average between the years 2000 and 2005 than in Romania. Large investments in infrastructure, a massive FDI inflow and trade with Western European countries (Hunya and Richter, 2011) favored an average rate of 4,4% GDP growth until 2006, alas inefficient budget management and imprudent social policies led to high deficits in the coming years, with the financial crisis giving the final blow. In the years between 2009 and 2013 GDP growth halted and even reached minus figures, but from 2014 until 2019 it again equaled an annual average of 4,12%.

Except 2008, when it hit 8,9%, inflation does not seem to have been influenced to such an extent by EU accession. Between 2009-2019 the annual average amounted to 2,7%, which came near the European Central Bank target of 2%.

Unemployment rate exposed similar values to the ones in Romania, but the financial crisis dealt a more severe blow to the Central-European country, averaging 10,7% in the period 2009-2013. Owing to Hungary's labor market policies (Losoncz, 2019) like the reintegration of long-term unemployed people, the cutback of unemployment benefits and job protection schemes, towards the end of the last decade values already reached the desired range between 4-5%.

As far as the negative balances of trade and current account are concerned, contrary to Romania, Hungary succeeded in reversing the trends, trade balance turning positive in 2009 and current account balance two years later, both making relevant contributions to GDP growth. The main reason for the improvement in trade balance was the decrease in imports for consumption purposes and the increase in exports of automotive products (Sass and Kalotay, 2012). As in the case of Romania, above 70% of the trade in goods was carried out with European Union members.

At the change of the regime, Hungary was one of the most indebted ex-socialist countries (Andor, 2009), having a public debt of 66% of its GDP. The country tried to maintain it at a quasi-steady level through the 2000's, but the financial crisis aggravated it even more. As Andor (2009) points it out, the biggest factor in the Hungarian economy being so overthrown by the global financial crisis was that the country was not only indebted externally, but there was a rising household debt as well, as many people took loans in foreign currencies (especially in Swiss francs and euros). As a result of this – similarly to Romania – Hungary also reached out and was granted a 20 billion euro standby loan from the IMF, the EU, and the World Bank.

Following this downward spiral the government restructured its public debt to be primarily held in forints, reduced the budget deficit and introduced windfall taxes targeting sectors such as banking, energy and telecommunications (Sass and Kalotay, 2012), measures which proved to be effective and had an impact on the alleviation of public debt.

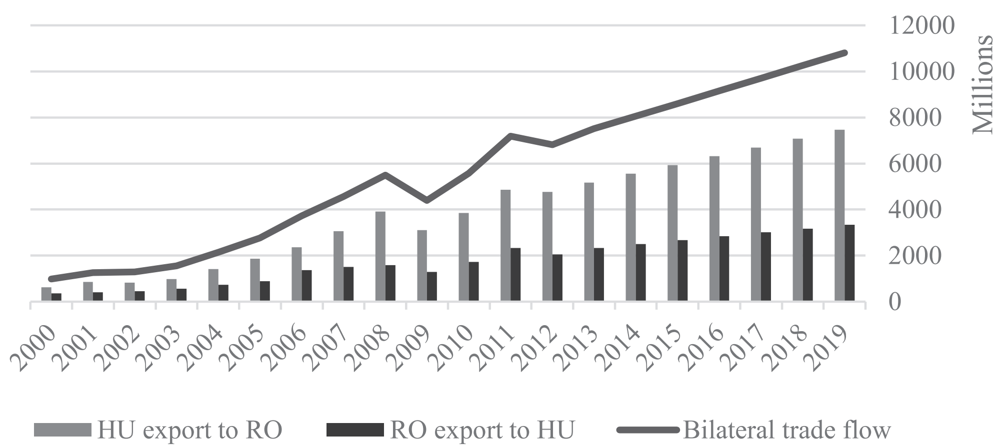
Hungary used to attract significant foreign direct investments already from the 1990's, when the privatization of state-owned enterprises gave way to foreign acquisitions (Köves, 2003). After joining the EU investments soared, but in 2008 the trend was broken. As a result of the increasing risks, investment intentions weakened. Once the government's austerity measures were in place however, FDI started pouring again into the country, and with a few years as exceptions – when it has reached minus figures – it has boosted the GDP.

In the period under review – as concluded from the data of the Hungarian National Statistical Office –, the share of the main investing countries (Germany, the Netherlands, Austria, France and Luxembourg) was stable, and the amount of capital invested by each of the main partners increased in a nearly identical geographical structure.

Bilateral trade and investment

As neighboring countries sharing a common border of 448 kilometers Hungary and Romania began to trade goods and services immediately after the communist regime collapsed. The year-on-year increase in both exports and imports was doubled in the interim period, when Hungary was already a member of the European Union but Romania still awaited accession, and subsequently tripled after both countries became full members. This prominent upturn can be attributed to the elimination of non-traditional trade barriers, the decrease of customs administration costs and elimination of technical and legal barriers due to the adoption of the *acquis communautaire* (Hornok, 2010).

Chart 1: Hungarian-Romanian bilateral trade flow (values in million euros)



Source: Hungarian National Statistical Institute

In the studied period bilateral trade continuously presented a Hungarian surplus, which is mainly due its advantage in industrial production, supply chains and logistics. Also, Hungary's 3 main export products (electrical machinery, equipment and instruments; medicines and pharmaceutical products; road vehicles) offer a higher added value. Romania's top 3 export products are electrical machinery and transport equipment, processed products, and fuels which are less competitive. Nevertheless, Romanian exports to Hungary has also seen an obvious increase in the last two decades, and owing to developments in its manufacturing industry, the country is expected to diminish the trade balance deficit somewhat. As Hunya and Richter (2011) argue that intra-regional trade among the V4 countries has been a success story since their EU accession, their findings can be applied to Romanian-Hungarian trade as well.

Romania has emerged from being Hungary's 21st import partner in 2000 to the 11th place in 2019, whereas Hungary has occupied the 10th place in 2000 among Romania's import partners and has advanced to being 4th in 2019. Between 2000 and 2019, the two countries consistently ranked among each other's' top trading partners.

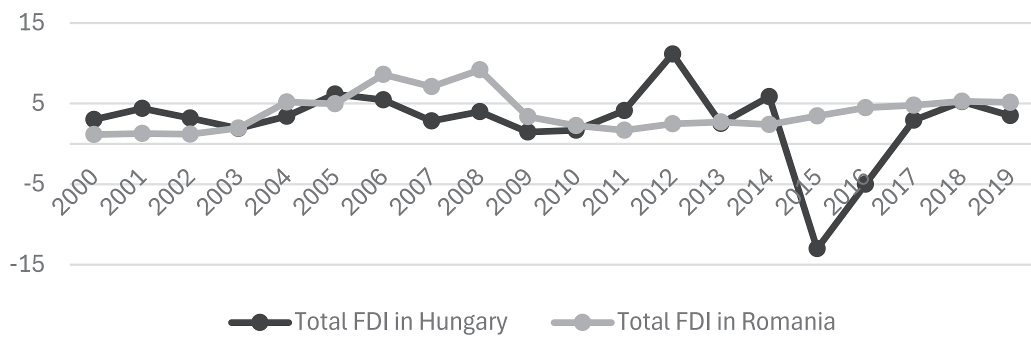
Bilateral trade flow first suffered the economic recession caused by the financial crisis and then the crisis of the eurozone triggered by Greece's debt, therefore between the years 2008-2012 we can see a fluctuation in the previously soaring numbers.

Table 3: Bilateral direct investments (values in million euros)

	Total FDI in Hungary	FDI from Romania to Hungary	Romanian outflow FDI total	Total FDI in Romania	FDI from Hungary to Romania	Hungarian outflow FDI total
2000	2 998,4		-14,1	1148,9		398,5
2001	4 390,7	-1,4	16,7	1286,7	38,9	443,7
2002	3 185,1	0,2	22,1	1201,1	21,8	570,0
2003	1 887,5	1,7	103,5	1943,4	32,6	1 914,2
2004	3 438,7	0,0	124,2	5190,3	74,1	1 114,4
2005	6 172,1	2,1	-32,3	4961,3	-19,5	1 808,1
2006	5 454,4	-10,6	335,7	8617,5	152,5	3 575,6
2007	2 852,1	18,6	202,9	7104,4	39,8	3 235,0
2008	3 981,0	-119,0	187,8	9178,2	18,9	1 778,3
2009	1 452,5	130,0	-69,1	3356,1	1,7	1 320,2
2010	1 698,7	36,9	-37,6	2253,4	83,2	938,3
2011	4 146,8	25,2	-18,7	1700	-6,5	3 434,7
2012	11 165,7	-20,5	-88,4	2479,8	162,5	9 154,6
2013	2 538,7	26,7	-211,3	2708,3	101,2	1 493,2
2014	5 852,9	6,6	-281,2	2418	112,6	2 900,3
2015	-13 028,9	-21,4	506,3	3459,5	151,4	-14 272,1
2016	-4 996,8	20,6	4,5	4504,5	-21,3	-7 397,4
2017	2 920,8	27,8	-85,8	4795,6	167,7	1 127,9
2018	5 223,5	10,3	321,2	5270,3	98,0	2 810,5
2019	3 495,3	124,9	324,1	5170,5	288,6	2 802,2

Source: UNCTAD, Hungarian National Bank, Romanian National Bank data and own calculations

Chart 2: Foreign direct investment inflows to Hungary and Romania (values in million euros)



Source: UNCTAD, Hungarian National Bank

As already discussed in the macroeconomic section, Hungary had a more stable FDI flow at the beginning of the transition period, but the EU accession boosted investments to Romania and managed to overtake Hungary between 2006 and 2010. The next four years saw a revival of foreign investment into Hungary, but as investors started seeing the growth potential in Romania's industry and labor market (Sass and Kalotay, 2012), it again exceeded its North-Western neighbor. Whereas Hungary saw more high-tech and automotive investments, Romania excelled in IT and services.

Taking into consideration the bilateral investments, it can be said that outward FDI from Romania was marginal in the beginning, while Hungary put an emphasis on investing in neighboring countries (Köves, 2003), in 2001 for example Romania accounted for 8% of outward Hungarian investment. Romanian companies lacked strong financial capacity for large-scale investments abroad, but after the country's EU accession in 2007 investments in Hungary slowly increased, especially in retail, real estate and transport.

In 2019, Romania was the 6th most important destination country for Hungarian capital, with a stock of EUR 1,665 billion, which accounted for 5% of the total Hungarian foreign capital stock. Romania's direct capital investments in Hungary in 2019 amounted to EUR 124,9 million, ranking it 28th among foreign investing countries (Hungarian National Bank, 2024).

Naturally, both these countries aim to attract FDI and in this framework are rather competitors than investors in each other's economies, nevertheless the fact that in 2019 both Hungarian investments to Romania and Romanian investments to Hungary have reached an all-time high signal that FDI constitutes an important element of Hungarian-Romanian economic cooperation.

Bi- and multilateral strategic projects

Next to trade and FDI exchange, the two countries have been actively enhancing their bilateral economic cooperation through various other projects.

One of the most ardent issues for both countries constitutes the diversification of energy sources and for several years they have been working together towards delivering Black Sea gas to Central Europe, the Bulgaria-Romania-Hungary-Austria (BRUA) gas corridor being the most tangible result. BRUA aims to transport alternative sources (Caspian, Central Asian, LNG) and offshore natural gas from the Black Sea, and the first phase involved the construction of a 479 km pipeline from Podișor to Recaș in Romania, along with the establishment of new compressor stations at Podișor, Bibești, and Jupa ensuring a bidirectional capacity of 4.4 billion cubic meters of natural gas per year (European Bank for Reconstruction and Development, 2017). The second phase targets the development of additional compressor stations and the enhancement of existing infrastructure but has no certain time limit.

Hungary also has interest in Romania's Neptun Deep project, which is expected to deliver the natural gas to be produced in the Black Sea to Central Europe. The project is still in its development phase, but could greatly contribute to the two countries' (especially Hungary's) energy security (Government of Hungary, 2025). The plan is to transport natural gas to Hungary via the Romanian natural gas transmission system, which is still under construction, and the Hungarian-Romanian interconnector, which will have an expanded capacity, from where it could be transported to neighboring countries in a hub-and-spoke network.

A flagship project between the two countries is the Békéscsaba–Oradea 400 kV Overhead Power Line, for which the countries signed the agreement already in 2008, but due to expropriation issues (Transelectrica, 2018) it only started operating fully at the end of 2020. Through the line Romania is able to export 100 MW of electricity to Hungary and import 300 MW of electricity from Hungary, which is a significant enhancement in cross-border electricity transmission and greatly strengthens regional energy security.

European integration made it possible for the two countries to develop their cross-border cooperation and build stronger regional bonds. In total, between 2004 and 2020 there were 3 INTERREG programs, which intended to support the Hungarian-Romanian border zone and the development of priority areas. The first program, INTERREG IIIA between 2004-2006 was already available before Romania's accession and aimed to improve infrastructure, economic cooperation and environmental protection. It was co-financed by the EU's PHARE

CBC (Cross-Border Cooperation) funds for Romania and the European Regional Development Fund (ERDF) for Hungary. The two additional programs were already fully funded by the ERDF, the Hungary-Romania Cross-border Cooperation Program lasted between 2007 and 2013, and the INTERREG V-A Romania-Hungary Programme embraced another 7 years between 2014 and 2020. In this last programming period (European Commission, 2025) the entire program budget (EUR 177 million) was allocated to 100 projects in the areas of tourism, nature conservation, cultural heritage protection, health, transport, disaster management, cooperation between institutions, water management, and economic development.

In 2017 Hungary launched an economic development program in Transylvania aimed at supporting farmers and SME's, which resulted according to the Embassy of Hungary in Bucharest (2023) in the implementation of investments worth a total of approximately 467 million euros in Transylvania (half of it originating from the Hungarian government, half own contributions).) Romania expressed concerns regarding the program being ethnically discriminative and asked for further consultations, which are currently underway.

Conclusion

Over the last two decades Hungarian-Romanian relations have presented a diverse picture. While foreign policy and diplomatic relations could be quite hectic, economic cooperation indicated a constant stability. The accession to the EU had overall positive effects on bilateral relations as the external pressure of international institutions made possible the implementation of economic reforms.

The two countries were hit hard by the global economic and financial crisis, which shed light on their inadequacies in structural reforms and budget mismanagements – each having a unique pattern – but managed to return to a growing track, and after the last major crisis of the eurozone bilateral trade and FDI flows have swooped on a year-on-year basis.

Both countries are good examples of economic convergence theory, as both of them managed to close some serious gaps with the older, more advanced EU members. Hungary had an early advantage but has somewhat slowed down in recent years, whereas Romania is catching up faster, driven by higher growth and foreign investment.

The Hungarian-Romanian economic cooperation is increasingly important in the framework of the EU, NATO and the Central-Eastern-European regional policy. There are numerous areas with successful collaboration projects, which were briefly mentioned in the paper, but could definitely constitute the subject of a further study. These collaborations are the European Union Strategy for the

Danube Region, The South-East Europe Transnational Cooperation Programme, cluster cooperation, motorways development, small-scale cross-border road connections, railway infrastructure development and energy (gas and oil, electricity, nuclear, renewable).

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