

# Strategic Faultlines

Geopolitics | Geo-economics | GCC Strategy

## **“Strategic Realignment and Implications for Europe & Central Europe, with a Special Focus on Hungary”**

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*EuroAtlantic Consulting (DIFC, Dubai, UAE)*

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### **1. Executive Summary**

Europe is entering a period of “forced multipolarity,” where strategic choices are narrowing and costs are rising. Three broad paths are emerging:

#### ✓ **Strategic Alignment with the U.S.**

Guarantees defense under NATO and secures access to North American markets. However, it compromises Europe’s strategic autonomy and leaves it vulnerable to U.S. domestic political volatility.

#### ✓ **Hedging and Strategic Autonomy**

Involves tailored agreements with both the U.S. and China while preserving technological sovereignty. Yet, this strategy risks Europe being squeezed between rival powers and suffering from high internal fragmentation costs.

#### ✓ **Deep Regionalization (“Fortress Europe”)**

Seeks to build economic and technological resilience and promote the Euro as a partial reserve currency. This inward turn, however, would shrink Europe’s global influence and exacerbate internal tensions, fueling populist backlash.

Recent EU Commission white papers (April 2025) and Geopolitical Futures assessments suggest that Europe will likely pursue a hybrid strategy: reinforcing transatlantic defense ties while

selectively decoupling from China in key economic sectors and accelerating industrial sovereignty — particularly in defense, energy, and digital technologies.

In this emerging environment, Central and Eastern Europe (CEE) must navigate a complex overlay of economic realignment, technological bifurcation, and shifting geopolitical loyalties. Hungary, uniquely exposed by its deep ties to China and Russia, finds itself at the intersection of these forces. Its strategic choices over the next 12–24 months will define its long-term positioning within Europe, the transatlantic alliance, and the wider global system.

Control over technology ecosystems — semiconductors, artificial intelligence (AI), and green energy — will increasingly define strategic power in the coming decade. As global power centers harden into competing blocs, CEE countries that invest early in resilience, technological competitiveness, and strategic clarity will be best positioned to transform systemic disruption into national advantage.

### **1. Technology Rivalries and AI Competition**

Technology, once seen as a neutral domain, has become a central battlefield of great power competition. Control over AI, semiconductors, and green technologies will increasingly define economic and geopolitical hierarchies.

The United States maintains a lead in foundational AI models, semiconductor design, and critical R&D ecosystems, while China dominates large-scale deployment and application of AI technologies. The EU, in contrast, faces the urgent task of building indigenous capabilities to avoid being technologically subordinated to external powers.

### **Impact of U.S.–China Tech Decoupling:**

Restrictions on Chinese technology giants are reshaping global supply chains. Huawei faces exclusion from 5G and critical infrastructure markets, deepening the bifurcation of technology ecosystems. The EU's tariffs on Chinese electric vehicles have triggered Chinese retaliation, accelerated hybrid export strategies, sharpened competitive pressures on European industry.

### **Europe's Response:**

Europe's push for strategic autonomy has accelerated. The EU Chips Act is catalyzing semiconductor investments, with major fabrication plants under construction in Germany and projects planned in Central Europe. Poland, Czechia, and Romania are positioning themselves as nearshoring hubs for AI components and semiconductors.

### **AI Race Dynamics:**

- ✓ **U.S. Dominance:** Foundational models.
- ✓ **China's Scale Advantage:** Application ecosystems.
- ✓ **Fresh U.S. Restrictions:** Stalling China's AI ambitions and forcing indigenous innovation.

### **Strategic Implications:**

Technology standards are fragmenting into rival blocs and being weaponized geopolitically. Europe risks falling into strategic dependency if it fails to accelerate AI, semiconductor, and green tech sectors. CEE countries stand to benefit from nearshoring trends, offering attractive destinations for semiconductor fabs, AI research centers, and EV component manufacturing.

## **2. Implications for Central and Eastern Europe (CEE)**

CEE is at a strategic inflection point, exposed to economic and geopolitical turbulence yet uniquely positioned to benefit from shifting investment flows and security realignments.

### **a) Economic Pressure:**

- ✓ Vulnerable to secondary shocks from weakened German exports.
- ✓ U.S. tariffs on European goods indirectly penalize key sectors like automotive manufacturing and industrial machinery, amplifying regional exposure to global trade tensions.

### **b) Investment Realignment:**

- ✓ Nearshoring trends are redefining European manufacturing geographies.
- ✓ Poland and Romania are emerging as preferred hubs for defense, technology, and energy supply chains.

### **c) Political Tensions:**

- ✓ Internal divisions within the EU are set to deepen with Atlanticist states (e.g., Poland, the Baltic countries) reinforcing transatlantic ties, while China-friendly actors (notably Hungary) maintain alternative economic alignments.
- ✓ Geopolitical fragmentation threatens to expose CEE to intensified political instability.

### **d) Energy and Technology Security:**

As global supply chains for critical energy transition technologies — batteries, rare earth elements, AI chips — become weaponized, CEE countries must urgently diversify supply agreements. Dependence on vulnerable corridors could expose them to coercive economic tactics from rival powers.

### **e) CEE Energy Realignment:**

- ✓ Most CEE states have reduced reliance on Russian hydrocarbons.

- ✓ Hungary's continued dependence on Russian energy, including nuclear creates strategic asymmetry and vulnerability within NATO and EU frameworks.

#### f) Strategic Opportunities:

CEE can leverage Europe's drive for strategic autonomy to secure increased funding for defense modernization, digital infrastructure, and AI research clusters.

#### g) China's Strategic Playbook: EV Frontline:

The European Union's new tariffs on Chinese EVs have triggered a recalibration of Beijing's strategy. China is accelerating hybrid exports, pushing for localized manufacturing within Europe, and deepening ties with tariff-skeptical EU members. Hungary's pro-China positioning could attract substantial EV-related investments — but at the risk of increased exposure to Chinese economic leverage and diplomatic pressure.

### 3. Hungary: A Strategic Crossroads

Hungary occupies a uniquely precarious position within the emerging global order. For over a decade, Prime Minister Viktor Orbán has pursued deep economic and diplomatic ties with China, positioning Hungary as a key Belt and Road gateway into the European Union. Major Chinese investments — from battery plants to rail infrastructure — have made Hungary disproportionately dependent on Chinese capital.

However, systemic geopolitical shifts are exposing the vulnerabilities of this strategy.

#### Key Dilemmas:

- ✓ The Orbán government seeks to restore and elevate ties with a Trump-led United States, leveraging the Trump-Orbán personal relationship.
- ✓ Hungary cannot afford to alienate Chinese investors, who underpin crucial segments of its medium-term economic growth.

#### Strategic Risks:

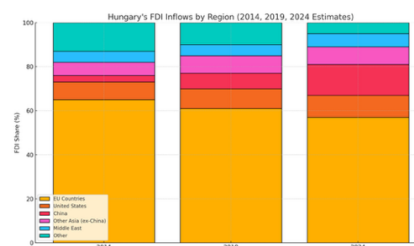
- ✓ **US and EU pressure to reduce Chinese technology presence** may force painful policy reversals.
- ✓ **Reliance on Chinese technologies** isolates Hungary from Western security frameworks.
- ✓ **Russia-friendly posture** eroded trust with regional peers, weakening traditional alliances.
- ✓ **Heavy reliance on Trump and putting most of Hungary's bets on Trump's success** may lead to further isolation in Europe and strategic imbalance.

#### Changing Value Proposition to China and Russia:

Hungary's value to China and Russia has rested in its ability to act as a spoiler within EU decision-making — delaying or vetoing unified European responses. However, in the new environment of systemic bloc competition, the tactical importance of such spoilers is diminishing.

As decoupling accelerates, Beijing and Moscow may find Hungary's capacity to fracture EU consensus less valuable, diminishing Budapest's strategic bargaining power.

#### FDI Shift and Financial Anchors:

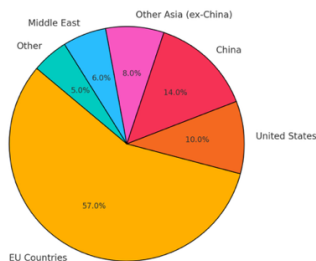


Between 2014 and 2024, Hungary's foreign direct investment (FDI) structure has shifted notably:

- ✓ EU-originated FDI fell from 65% to 57%. Chinese FDI surged from 3% to 14%.
- ✓ While Orbán's "sovereignty" policy succeeded in attracting Chinese capital, it deepened Hungary's vulnerabilities as Europe reorients toward defense rearmament, technological sovereignty, and transatlantic resilience.

- ✓ The sharp contrast between stable US investments and rapidly rising Chinese inflows underscores Hungary's increasingly fragile balancing act between East and West.

Breakdown of Hungary's Total FDI Inflows (Approximate Share)



### Strategic Implication:

Hungary's rising exposure to Chinese investment now structurally constrains its ability to integrate fully into Europe's emerging defense-industrial complex and U.S.-led strategic initiatives. Its room to maneuver between East and West is narrowing.

### Potential Strategic Moves:

- ✓ Sectoral compartmentalization: Retain Chinese capital in non-strategic industries while realigning defense, telecom, and critical infrastructure sectors with NATO and EU standards.
- ✓ Regional repositioning: Re-engage Central European formats to rebuild lost credibility.

- ✓ Flexible Sovereignty: Pursue bespoke agreements with both Washington and Beijing, though such a “double-balancing” strategy carries escalating long-term risks.

## 4. Conclusion

The escalating rivalry between the United States, Europe, and China is not a transient disruption but a systemic realignment. Strategic clarity and operational readiness will define the winners of the next decade. For CEE, this presents a dual challenge: vulnerability to external shocks and an opportunity to reposition as a critical pillar of Europe's resilience architecture. Hungary faces a narrowing window of strategic maneuver. The choice is stark: recalibrate towards resilience within an EU- and NATO-aligned framework, or deepen asymmetric dependencies that yield short-term tactical gains at the cost of long-term

In a world where control over technology ecosystems — AI, semiconductors, energy transition technologies — is as decisive as control over trade routes or supply chains, strategic clarity will separate the winners from the vulnerable. The clock is ticking: **investment in resilience, technology leadership, and disciplined geopolitical positioning will define the next decade's winners.**

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### About the Editor

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Dr. Tamás L. Fellegi is a global strategy advisor, former Hungarian government minister, and founder of EuroAtlantic Consulting, a strategic advisory firm operating across the UAE, Europe, and the United States. With expertise in economic diplomacy, investment strategy, and geopolitical risk, he advises sovereign funds, institutional investors, and governments on trade realignment, corridor positioning, and strategic recalibration.

As Hungary's former Minister of National Development (2010–2012), Dr. Fellegi oversaw state assets, energy and telecom sectors, and EU development programs, and served as Hungary's Chief Negotiator with the IMF, ECB, and European Commission. During Hungary's EU Presidency, he chaired ministerial councils on energy, ICT, and climate policy. He was later appointed Special Government Commissioner for bilateral economic relations with China, Russia, and Ukraine.

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