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Hungary's PM: Madman or Geopolitical Genius?

Hungary has seen increasing domestic civil unrest over centralization of power and international criticism over potential changes in its democratic process.

Hungary's Prime Minister Viktor Orban supports the creation of an "illiberal democracy," noting that countries with restricted democracies have been the rising stars on the international front. He is also one of the first European leaders to turn friendly toward Russia, noting that geopolitics are changing and that Eastern European countries should redefine their international policies according to these changes.

His actions have caused many Western leaders to call Viktor Orban an autocrat, a dictator and a destroyer of democracy. We do not believe that autocracy is the ultimate goal of Viktor Orban, but that he is attempting to secure the best outcome for Hungary under a set of changing geopolitical circumstances that he believes are forthcoming, while making sure his Fidesz party stays in power. Orban believes that Russia will become increasingly belligerent and the West will be too entangled in its own crises to turn its full attention to its Eastern front. All of Eastern Europe has also watched the West's handling of the Ukraine crisis and the lack of response is making the regional powers ask, "What will the West fight for?" As a result, Hungary has pursued a multi-dimensional foreign policy, trying to re-

assess its bargaining power with Europe and Russia, taking from each the most for Hungary while keeping both at arm's length. Historically, Hungary has tried to preemptively align itself with regional powers that are gaining strength. Hungary's current foreign policy shift toward Russia could be a signal of changes in Eastern European geopolitics.

In today's geopolitical commentary, we will explore the differences between the rules of the geopolitical game that is played by Hungary, the West and Russia. We will also describe the history of Hungary's balancing act between the powers of the East and the West and how this history has affected the current politics of Hungary. We will discuss the most likely outcomes and the international significance of these outcomes. As always, we will conclude with market ramifications.

Brief History

Hungary is a land-locked country in southern Eastern Europe. The country has historically been a crossroads country, meaning the region has been ruled by various European and Asian powers. As a crossroads country without strategic significance or rich natural resources, Hungary has had to make deals with whichever power has been the hegemon in the region. Throughout its history, the country has been attacked by a multitude of powers from the East and the West. As a result, Hungary has mostly attempted to placate its more powerful neighbors, not aligning strongly with anyone and being quick to change policies according to changing geopolitics.



(Source: University of Texas, www.utexas.edu)

Presently complicating the matter for Hungary is that it has seven neighboring countries; six of them are relatively new and are still trying to figure out their own foreign policies.

The Kingdom of Hungary was established in the year 1,000 AD. During the 11th century, the kingdom was attacked by the Mongolian empire twice, with the first attack resulting in half of the Hungarian population being killed or sold as slaves. The Turkish invasion during the 16th century divided the country into three parts—the Hungarian kingdom, the Turkish empire and the Habsburg empire. The country remained divided for 150 years, after which it was controlled by the Habsburg empire in its entirety. In 1848, Hungary attempted to regain its independence, but the Habsburg empire suppressed the movement. However, in 1867, the Austro-Hungarian empire was established via a peace treaty, which granted more autonomy to the Hungarian segment of the empire.

Hungary was highly involved in both world wars. As is well known, WWI began with the Austro-Hungarian empire declaring war on Serbia after the assassination of Archduke Franz Ferdinand of Austria. WWI also ended the Austro-Hungarian empire, after which Hungary became independent. The peace Treaty of Trianon, signed in 1920, established Hungary but

reduced the size of the country, cutting it down to one-third of its original land mass and reducing its population by half. As a result, many Hungarians still believe that the land taken from the country in 1920 should be returned.

Hungary was allied with Germany and Austria in WWII, declaring war on the Soviet Union. As the war wore on and it became clear that Germany was weakening and the Soviets were likely to take the Hungarian region, the country's leaders secretly met with the Soviets, attempting to create friendly relations ahead of the anticipated Soviet takeover. Through an interesting turn of events, Hitler found out Hungary's plans and, since the country was essential in the defense of Austria, moved to occupy Hungary, instilling local Hungarian Nazis in the new government.

This history of foreign invasion has instilled in Hungarian people a distrust of foreign powers. Oftentimes, the country's leaders have blamed all Hungarian misfortunes on foreign involvement, ridding themselves of responsibility.

After the Soviet Union fell in 1989, Hungary re-oriented itself toward the West. The country joined NATO in 1999 and the EU in 2004. Hungary thrived economically and enjoyed a balanced political system, with both the center-left and center-right parties enjoying equal representation in the parliament. However, a series of corruption scandals involving the center-left party led to the emergence of Orban's Fidesz party as the dominant party. Fidesz came to power as a center-right party, a party with nationalistic tendencies but still appealing to the popular vote. The center-left opposition continues to be divided and disorganized, but more recently an extreme-right fascist political party, the Jobbik party, has gained

support among the young, Eurosceptic population. Jobbik stands for nationalism, centralization of power and anti-globalization. In fact, the incumbent Fidesz party faces more threats from the extreme-right Jobbik party than from the center-left. These threats from the extreme-right have moved the incumbent party's stands further right in an attempt to gain votes from Jobbik.

Geopolitically, after the fall of the Berlin Wall, the U.S. played a crucial role in Hungary's transition to a market economy in terms of funds and expertise. However, the whole Eastern European region is aware of the reality that the ex-Soviet Union ceased to be a priority for Washington in recent years as America's foreign focus has shifted to the Middle East and East Asia. Of the ex-Soviet countries, Hungary is the first country to change its own foreign policy in response to a more aggressive Russia and a withdrawn West, but others may follow soon.

Current Situation

Since Orban's government came into power, the Fidesz political party has introduced more government control over many areas of the economy, instituting strict controls over media and most recently attempting to introduce an internet tax, which was widely viewed as a further restriction over free speech.

The government has also criticized the EU over its austerity measures, the sanctions it has imposed on Russia and, most significantly, the advancement of EU-centered governance of what Hungary views as its own sovereign matters.

One of these central issues for Hungary is whether the EU should have the right to dictate what kind of a democracy its

member states should have. From the West's point of view, democracy is the one and only governance structure that works and every country should work toward achieving it. On the other hand, Orban, along with some other foreign leaders, believes that an "illiberal democracy" may achieve the maximum benefit for a country. He admires the emergence of China, India, Singapore, Turkey and Russia, which he points out either adhere to a "special kind of a democracy" or are not democracies at all.

In the game of geopolitics, Putin has often been said to approach foreign relations as if it were a judo match, often weighing the relative power position of the players and creating distractions to take home a victory. Along the same line of thinking, one could say that the West approaches geopolitics as a chess game, assuming that all players are, or at least should be, gentlemen. If Putin is playing judo and the West is playing chess, then Hungary seems to approach its foreign relations as a multi-player mud-fight. Orban is trying to stand back and provide enough vague signals to the other sides, not creating complete enemies but aligning itself with the side that seems to have the upper hand at any given time, while not kicking mud in the face of the losing side in case its position improves.

As long as these sides are playing different games, an understanding between them is not likely to emerge.

Additionally, it also seems that Hungary has accepted that the best foreign policy is to align with the stronger regional players given its position as a land-locked country with no significant natural resources that lies between greater geopolitical forces. Thus throughout its history, the country has hitched its wagon, sometimes willingly,

sometimes unwillingly, behind the greater political forces that are on the rise.

Possible Outcomes

Hungary, like many other Eastern European countries, is geopolitically and economically stuck between two conflicting powers and schools of thoughts, the West and the East. On the one hand, the West, primarily through the EU and NATO, is supporting the ideals of a strong democracy and voluntary cooperation between countries. On the other hand, an increasingly aggressive Russia is trying to either take over neighboring countries or at least create a buffer between itself and Europe. Some countries, like the Baltics and Poland, have chosen to strongly align with the West, while other countries, like Ukraine, have been torn apart by internal divisions.

Hungary has attempted to weave a delicate balance, seemingly accepting its geographic limitations and strategic frivolity as it has through most of its history. Hungary has historically tried to keep a low profile while trying to negotiate the best deal from both sides, oftentimes changing its negotiation stance based on fluid circumstances. A crossroads country cannot afford to strongly align itself with any one power.

Orban is facing an EU that's entangled in its own economic challenges and thus is less interested in getting involved with outside conflicts. However, Hungary falls on the poorer side of the EU members, so receiving aid money is essential to the country. Therefore, Hungary has no interest in severing relations with the Eurozone. But Hungary also knows that the EU is not interested in losing a member, thus the country is trying to keep its distance between itself and the EU leadership in Brussels.

NATO membership offers Hungary a promise of protection. However, Hungary, along with the rest of Eastern Europe, has closely followed the West's handling of the Ukraine conflict. Hungary is interpreting the West's lack of military response as a signal that Russia could be allowed to create further Russia-friendly buffer zones. Thus, just like Hungary did when it saw Germany losing strength at the end of WWII, the country has turned to Russia and is attempting to keep warm relations with the country that could one day be its direct eastern neighbor.

From a pure geopolitical game theory perspective, it serves Hungary to maintain an EU membership for the financial support and maintain a NATO membership for the protection option, but keep as much distance between the country and the groups as possible.

At the same time, centralizing government power at home and keeping amicable relations with the Kremlin could help Hungary in case Russia resurges. Russia also offers other attractive attributes to a crossroads country that the EU does not have. Russia provides the majority of Hungarian crude and natural gas, and is disinterested in whether or not its foreign partners implement democratic reforms.

So far, Hungary has been the only country to actively seek Russian friendship, but other countries, such as Romania, could follow suit. If the economic crisis in Europe persists and the U.S. continues to withdraw from the region, other Eastern European countries will be looking at the outcome of the Hungarian experiment. Strengthening nationalism across Europe could prove to be a fertile ground for more fluid forms of Hungarian-style foreign relations. Orban has indicated that he views the direction that

his country is taking as an experiment in geopolitics. We would agree. Certainly, other Eastern European countries are watching the resurgent Russia and the Western response and trying to figure out the best roadmap forward if this trend continues. We could see other countries in the region turn friendly toward Russia.

Although Orban idealizes the “special kind of democracy” that other countries have tried, history has shown that in the long run these political arrangements do not work. The experiments in India and South America have proven that special kinds of democracies will lead to special kinds of messes.

Orban has proven himself to be a clever geopolitical game theory student and, although he is not likely to provide clarity on the political front so as not to alienate any possible international partners, one thing is clear—he will change his international policies with the changing global tide. For this reason, we do not believe that Orban is looking to create a dictatorship (not any more than any other politician, anyway), but that he is trying to pre-empt a geopolitical

shift and place Hungary in bed with the likely runners-up. We would not be surprised to see Eastern European countries look for other economic and geopolitical partners, including turning to Asia, to diversify their reliance on the West or Russia alone.

For countries that lack strategic significance in the region, other than being a crossover country, the morally troubling but geopolitically consistent rationality is to align itself with the strongest powers in the region. Hungary may be the first litmus test country to indicate that geopolitical conditions are changing and that the West should pay attention to these emerging trends before they have a chance to develop into a larger movement.

Ramifications

The market ramifications from increasing volatility in Eastern Europe would be capital flight out of the region, especially into the U.S. as we have seen already.

Kaisa Stucke
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