



B | S | T The Black Sea Trust
for Regional Cooperation
A PROJECT OF THE GERMAN MARSHALL FUND



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FOREIGN POLICY AUDIT:



**UKRAINE-
HUNGARY**

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1. INTRODUCTION

The cooperation trends set in the early 1990s have largely determined the dynamics of the Ukraine-Hungary bilateral relations for the past 25 years. In December 1991, Prime Minister of Hungary József Antall and President of Ukraine Leonid Kravchuk signed the Ukrainian-Hungarian bilateral treaty in Kyiv that became the foundation for bilateral relations. It was a fundamental document that outlined the most important commitments of both parties: absence of territorial claims between both countries and guarantees of the mutual protection of minority rights. In fact, the signing of this agreement was a symbolic act for both sides: Budapest demonstrated to the international community that it envisioned relations with its neighbors based on the principles of friendship and respect, whereas Kyiv effectively addressed the question regarding one of its most sizeable ethnic minorities hoping to set an example for Crimea and Bukovyna.

In retrospect, Ukraine and Hungary have followed quite similar historical and geopolitical trajectories as both countries cast away the burden of the past, shared Euro-Atlantic aspirations (although Ukraine occasionally deviated from this path), and positioned themselves as a bridge between the East and the West. Kyiv and Budapest enjoy rather unmarred common history in comparison to the tumultuous periods that each country had with their neighbors. In a sense, there are more things that unite rather than divide the two nations.

At the current stage, however, the bilateral relations are based increasingly on the common interests rather than common history, geographic proximity or aspirations. This trend has become evident in the light of the complex geopolitical situation that followed Russia's decision to annex Crimea and force a conflict in eastern Ukraine. Not only Ukraine but also Hungary faced a conundrum of how to restructure their economic and energy ties with Russia. While Kyiv pursued the only possible course of action by limiting its dependence on Russian imports and natural resources, Budapest faced a hard choice between the external challenge of a unified EU position on Russia and the internal challenge of securing low gas prices and economic ties. Finding itself between the hammer and the anvil, Hungary opted for

a mediatory role between the EU and Russia. Despite the salience of Russian factor in Budapest's foreign policy, Ukraine will remain a key partner of Hungary as it seeks to strike a balance between two centers of power. Rather than pursuing a normative approach toward Budapest, Kyiv has to work consistently toward ameliorating contentious issues while creating incentives for the support of its own core interests.

For Ukraine, these interests are:

- a unified position of the European Union on the Donbas- and Crimea-related sanctions on Russia;
- reverse gas flows;
- improvement of cross-border infrastructure;
- adapting the best practices in the spheres of security, democratic transition, small and medium enterprises, energy, and decentralization through the Visegrad Group.

Hungary's interests toward Ukraine in the modern period can be deciphered through the prism of the well-being of the Hungarian minority in Transcarpathia, support of its integration into Euro-Atlantic structures, and the Eastern Opening policy aimed at finding new markets for Hungarian products.

By and large, the core interests of Ukraine and Hungary are not mutually exclusive, but rather complimentary as both countries are benefiting from the transit and reverse flow of natural gas, improvement of infrastructure and economy of Transcarpathia, visa liberalization and free trade initiative within the EU framework. In fact, cooperation extends to security (Ukraine and Hungary hold joint exercises in the Visegrad Battlegroup) and energy trade with Hungary being the largest importer of Ukrainian electricity. Hungarian businesses have a significant interest in the Ukrainian market, and there are cultural and educational programs that bring both countries closer together.

At the same time, divisive issues appear to be dominating the dialogue of the two countries. Over the past few years, bilateral relations have been tarnished by episodes that could have been avoided by improving communication and intensifying strategic dialogue. Cur-

rently, the following areas remain sensitive and, if mismanaged, could negatively affect the bilateral relations.

- Sanctions on Russia. Hungary's rapprochement with Moscow and its (at least in communication) opposing stance on sanctions on Russia endangers Ukraine's strategic interest to maintain EU unity on this question.
- Transcarpathia. It is a top priority for the Hungarian government to support and protect Hungarian communities outside of the country. Ukraine perceives Hungarian intentions (granting citizenship, calls to guarantee minority rights and economic assistance) as a possible threat to its sovereignty.
- Lack of mutual understanding between the two nations. There is a shortage of knowledge on both sides about each other's history, culture, language and national motivations. At the societal level, two nations remain terra incognita for each other in part due to a lack of interest and awareness of issues outside Transcarpathia.

In sum, the bilateral agenda is dominated by issues that are more aligned with Hungary rather than Ukraine. Although such objectives as developing cross-border infrastructure and improving trade balance resonate well with Kyiv, Hungary is taking the lead in shaping the dynamics and direction of their bilateral relations. In a sense, our inquiry reflects the current state of affairs where Hungary has more interests in Ukraine than Ukraine in Hungary. Thus, the primary objective of this paper is to identify elements and opportunities that could pave the way for more balanced relations and deeper and more fruitful cooperation in economy, energy, security and, last but not least, culture. Our aim is to analyze areas that may connect rather than separate the two nations.

2. INTERESTS

2.1. UKRAINIAN INTERESTS TOWARD HUNGARY

Since 2014, Ukraine's foreign policy toward Hungary has been shaped by the commonality of interests in trade and energy, Viktor Orbán's Eastern Opening policy, and the issue of the Hungarian minority living in Ukraine. Although the previous two decades of bilateral relations were also based on a pragmatic foundation, the current level of engagement is commensurate with how both countries view and address the challenges of Russian expansionism. For the past two years, the intensity of cooperation has certainly decreased. At the diplomatic level, the Ukrainian leadership has neither paid official visits to Hungary nor sent an ambassador to Budapest. While Hungarian Prime Minister and Ukrainian President did meet in Kyiv, Viktor Orbán's attempts to lift the sanctions and reengage with Russia could not resonate well with Ukrainian foreign policy goals.

The early signs of revitalization came in 2016 as Ukrainian Minister of Foreign Affairs Pavlo Klimkin held talks in Budapest with his Hungarian counterpart over some critical aspects of bilateral relations such as the Minsk process, the issue of sanctions, and trade. The meeting between Minister Klimkin and Prime Minister Orbán, despite the hopes from Ukrainian side, has not taken place during this visit. It is obvious that the frequency of high-level meetings reflects the scope and gravity of issues on the bilateral agenda and readiness to address them. Aside from the political dimension where Kyiv and Budapest are still looking for points of contact, the issue of the dwindling trade balance between the two countries and unresolved infrastructural projects should encourage both sides to look for solutions. A potential catalyst in this direction can be the meeting of the Joint Intergovernmental Economic Committee which is scheduled for 2016. This committee has not met for two years which has led to the accumulation of plethora of issues ranging from setting up new border checkpoints to improving the financial and banking spheres. Yet, even these vital efforts can be crippled by the shortage of funds in the Ukrainian economy as it struggles to recover from the crisis.

Although the Hungarian side continues to develop a transportation system in the territory adjacent to Ukraine, efforts to improve the trans-border trade capacity have been put on hold as the Ukrainian authorities do not have sufficient resources to make good on their commitments. Given the austerity measures that the Ukrainian government is taking to balance the budget, it appears highly unlikely that there will be progress on this issue unless financial support will be provided by international organizations that fund development projects. The level of confidence that Hungarian companies have in Ukrainian economy is another aspect that has to be considered in order to improve trade relations. The current economic and increasingly political situation in Ukraine forces Hungarian investors to pursue wait-and-see tactics. In the light of sanctions on Russia's economy, nurturing a favorable investment climate in Ukraine could potentially win over businesses that were aimed at the Russian market.

The current period of the Ukrainian-Hungarian relations presents a challenge to both countries in the form of maintaining friendly relations while also pursuing their foreign policy goals

Undoubtedly, the current period of the Ukrainian-Hungarian relations presents a challenge to both countries in the form of maintaining friendly relations while also pursuing their foreign policy goals. Ukraine's top priority

is a unified European position on Russian aggression and the continuation of the Donbas- and Crimea-related sanctions. Although this topic remains contentious, it does not overshadow other critical aspects of the countries' bilateral relations. Ukraine welcomed Hungary's willingness to increase reverse gas flows, improve infrastructural projects along the border, boost cooperative security, and share its experience of democratic transition through the Visegrad Group format. Budapest has consistently provided humanitarian assistance following the armed conflict in eastern Ukraine and invited conflict-affected civilians and military personnel to Hungary for psychological and medical recovery.

Finally, the biggest interest that can also be the biggest challenge for the Ukraine-Hungary relations is Transcarpathia and specifically the

well-being and prosperity of its multiethnic population. More than 150,000 Hungarians living in this region have historically played a central role in shaping the agenda of the countries' bilateral relations. The unity of Hungarians, whether they live inside or outside Hungary, is the defining aspect of Orbán's foreign policy. Both countries have worked closely to ensure that the rights of Hungarians in Ukraine are respected and opportunities are available for their cultural and educational development. The Hungarian community actively participates in the political process and has its representative in the Ukrainian Parliament.

2.2. HUNGARIAN INTERESTS TOWARD UKRAINE

Hungarian interests toward Ukraine can be discerned from the foreign policy strategies pursued over the years. In the 1990s, Budapest set three fundamental goals: Euro-Atlantic integration, support and protection of Hungarians living outside of the country and establishing friendly relations with the neighboring countries. With regards to the last two provisions, Budapest's approach relied on the political orientation of the governing parties. Thus, right-wing governments have stood up for minority rights more firmly, even to the point of confronting the neighboring states, while left-wing governments have sought to create grounds for non-confrontational dialogue and showed more understanding of the other state's standpoint. Importantly, as left-wing governments shaped policies, they often sought to engage in a discussion over minority-related issues and found a consensus with the local governments instead of relying exclusively on the preferences of the local Hungarian communities. Nonetheless, the bilateral relations between neighboring states tended to turn sour and turbulent from time to time. As a matter of fact, Ukraine was an exception in this regard. In comparison to Hungary's other neighbors, the relations with Ukraine were more balanced and Transcarpathia was seen as a place where ethnic tensions were low and minority rights were more or less respected. For instance, publicly Ukraine did not protest when the first Fidesz government passed the Status Law in 2001 that offered various benefits to ethnic Hun-

garians who lived outside the country and applied for the so-called Hungarian Identity Card.¹

Over the years the question of the Hungarian minority has arguably determined the bilateral relations of Ukraine and Hungary. Because of Transcarpathia, Hungary has always paid a particular attention to Ukraine viewing it as a key partner. At the same time, it supported Ukraine's aspirations for European integration. In 2007, Hungary attempted to ease the consequences of its accession to the Schengen Agreement for Transcarpathians by concluding additional treaties to find solutions for introducing special local boarder traffic rules and simplifying visa application procedures. However, this approach underscores a significant pattern in the relations – the Transcarpathian syndrome – when the bilateral relations and dialogue between the two countries are excessively dominated and, in a way, hijacked by the minority question and the situation in Transcarpathia. In a sense, it puts a burden/limit on the bilateral relations. Unless the political elite and decision makers of the two countries are able to move beyond this phenomenon, it will limit the chances of building deeper and more comprehensive cooperation.

Transcarpathian syndrome is a phenomenon when the bilateral relations and dialogue between the two countries are excessively dominated and, in a way, hijacked by the minority question and the situation in Transcarpathia

Although ethnic issues and disputes over minority rights for Transcarpathian Hungarians were not on the political agenda or in the center of attention in Ukrainian politics for more than a decade, the situation gradually changed in

the years after the Orange Revolution as the Hungarian question started to generate nationwide interest. The Hungarian community that makes up a mere 0.3% of the country's population has become increasingly visible. Disputes which used to be regarded as local quarrels gained significance at the national level. Joint attempts of President of Hungary László Sólyom and President of Ukraine Viktor Yushchenko to erect a memorial on the Verecke Pass (which is a historic site for the Hungarian people) in 2007 marked a turn-

¹ Солодкий, Сергій. «Закон про закордонного угорця: «втручання» з благами намірами?» День. Accessed at <http://day.kyiv.ua/uk/article/den-planeti/zakon-pro-zakordonnogo-ugorcya-vtruchannya-z-blagimi-namirami>

ing point in this direction as complications over the issue gained considerable public attention. In the following years, the number of small incidents, cases of discontent and complaints about respect for minority rights emanating from the Hungarian community has increased (e.g., over the use of the Hungarian language in education or the modification of electoral districts that fragmented the Hungarian voting community). The frequency of confrontations between Budapest and Kyiv has increased proportionally.

Hungary's foreign policy priorities toward Ukraine remained unchanged: first, to support Ukraine's integration into Euro-Atlantic structures; second, to assist the Hungarian community in gaining and preserving minority rights. Year 2010 marked an important milestone in the relations as the new Fidesz government gradually started to redefine Hungary's foreign policy goals and redesign its administrative structures (e.g., the MFA was renamed to Ministry of Foreign Affairs and Trade and was granted broader scope of action). In this new multidimensional foreign policy ("an independent policy based on national interests"), a remarkable shift took place in priorities. As a result, foreign trade relations with emerging economies outside of Europe were given more emphasis at the expense of Hungary's traditionally important Euro-Atlantic relations. The so-called Eastern Opening policy was aimed at finding new markets for Hungarian products, increasing trade, and attracting investments from developing countries. Furthermore, it established Joint Economic Committees, opened National Trading Houses and new diplomatic missions. In the light of new policy, pragmatic economic relations and cooperation with Russia (primarily in the energy sector) gained particular importance. This turn became a crucial factor in the Hungarian-Ukrainian relations which could no longer be viewed separately from Budapest's ties with Moscow. Besides foreign trade, a stronger accent was put on the state policy.

The importance of national policy was highlighted in the new constitution of the country (Fundamental Law) adopted in 2011. It states that Hungary shall bear responsibility for Hungarians living beyond the borders of the country, support them to preserve their identity, and help their efforts to create community self-governments. Another important goal of new national policy is to unite the nation by

granting Hungarian citizenship to those who speak the Hungarian language and can prove their Hungarian origin. The new citizenship law passed in May 2010 simplified the naturalization procedure and attracted criticism from the neighboring countries. In this light, the adoption of the Ukrainian law “On the Foundations of State Language Policy” in 2012 during Viktor Yanukovich’s presidency, which allowed the country’s regions to use more official languages in addition to Ukrainian if they were spoken by over 10 percent of the local population, was viewed positively in Budapest.

After the Revolution of Dignity in Ukraine, the relations between two countries entered a new phase. Unfortunately, it has hard to say that things have changed for the better. Even though the changing international environment has strengthened the areas where the countries can find common ground for cooperation (first and foremost in the energy sector), this recent period has for the most part been marked by disputes, occasional diplomatic skirmishes and sometimes by a sense of distrust.

As mentioned above, the support for Ukraine’s European integration has always been an undisputed provision for Budapest in bilateral relations. Therefore, the democratic changes and the pro-Western shift in Ukraine’s foreign policy vector as a result of the Revolution of Dignity were welcomed by Hungary. At the same time, Budapest’s reactions and attitude toward the events in Ukraine were typically moderate and cautious. Budapest acknowledged the new Ukrainian government and condemned the annexation of Crimea emphasizing the need for Kyiv to maintain its sovereignty and territorial integrity. However, the perception that far-right political forces and nationalist sentiments were on the rise in Ukraine was met with extreme caution by both the government and opposition parties in Hungary. The idea to repeal the law “On the Foundations of State Language Policy” which was voiced in February 2014 was regarded as a worrying signal in Budapest. A boiling point was reached when Prime Minister Viktor Orbán said in his inauguration speech in May 2014 that Transcarpathian Hungarians had to be granted collective rights autonomy and dual citizenship. His appeal resulted in an outrage both in Kyiv and in Western countries. The visit of Vladimir Putin to Budapest in February 2015 drew a similar amount of criticism as his

meeting with Viktor Orbán took place at the same time as the most intense fighting around Debaltseve.

Another sensitive issue that is shaping Hungarian interests toward Ukraine is the question of EU sanctions on Russia. Hungary is one of the countries that have criticized the implementation of sanctions from the very start. The Hungarian government always viewed this question from an economic perspective given that in recent years Budapest sought to tighten economic cooperation and boost trade ties with Russia as a part of the Eastern Opening policy. On one hand, Moscow's counter-measures primarily affected the agriculture and food industries, the main pillars of Hungarian export to Russia. As a result, Hungary suffered major losses in export revenues (estimated at USD 4.5 billion).² On the other hand, the Hungarian government believes that a strong economic cooperation (especially in the energy sphere) with Russia is vital for the EU to regain its competitiveness and take on the challenges of the global economy. The tactics and communication of Budapest regarding the sanctions have been twofold. First, despite its skeptical stance, Hungary voted in favor of all three rounds of sanctions. Second, Orbán's government repeatedly pointed out that they are not in the country's interest and economic cooperation with Russia should be re-established. Even though agricultural and food exports to Russia significantly shrank, the Hungarian government currently seeks to tighten trade ties in other sectors, gain new import licenses and deepen cooperation with various Russian regions. It seems obvious that Budapest would not want sanctions to be extended further than June 2016. However, it is also clear that Hungary will vote in line with the other EU member states, following the example of its main economic partner Germany.

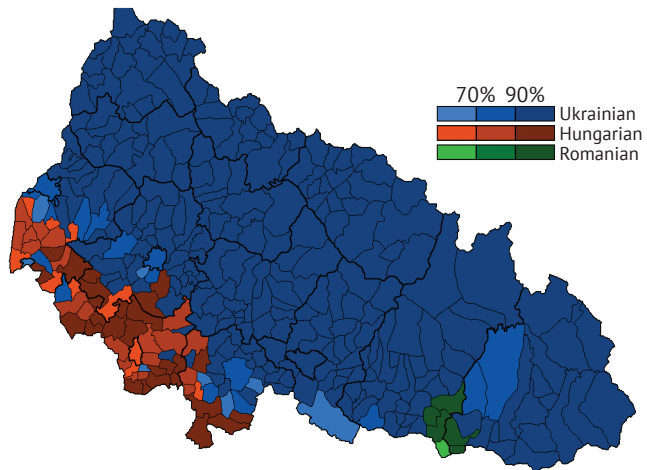
² *"The Russian embargo has caused 4.5 billion dollars in damage to the Hungarian economy,"* accessed at <http://www.kormany.hu/en/ministry-of-foreign-affairs-and-trade/news/the-russian-embargo-has-caused-4-5-billion-dollars-in-damage-to-the-hungarian-economy>

2.3. TRANSCARPATHIA AS A BRIDGE

Transcarpathia should be regarded as something that connects rather than separates the two nations

Transcarpathia (Zakarpattia oblast or Kárpátalja (Subcarpathia) in Hungarian) is Ukraine's westernmost oblast and one of the country's most multiethnic regions with a diverse cultural heritage and rich history. As the only part of Ukraine located beyond the Carpathian Mountains, the region has borders with four economically stronger European Union countries (Poland, Slovakia, Hungary, and Romania). It is also a hub for international road and railway traffic, and numerous cross-country pipelines and electricity transmission lines converge in its territory. The region is home to around 150,000 ethnic Hungarians, while some of its cities and landmarks hold an important place in Hungarian collective memory. Therefore, the issues surrounding Transcarpathia have been dominant, yet often divisive, factors for the Ukrainian-Hungarian bilateral relations since 1991. Concerns about the security and rights of the Hungarian minority have played a prominent role in shaping Budapest's position after events that followed the Revolution of Dignity in Ukraine.

Image 1. The most common native language in city and village councils of Zakarpattia oblast according to 2001 Census. (map by ZaMap by Tovel, distributed under a CC-BY-SA-3.0)



In the light of the Crimea and Donbas events, Hungary's calls for more collective rights and granting citizenship to Hungarians in Transcarpathia understandably became sensitive issues for Kyiv. Therefore, this region is now perceived more as a risk rather than an opportunity for Ukraine, although the Hungarian minority identifies itself with Ukrainian state and has no aspirations for political autonomy. In fact, Transcarpathia should be regarded as something that connects rather than separates the two nations. Because of the Hungarian minority, Budapest will always pay special attention to Ukraine, and Ukraine should capitalize on this by positioning the region as bridge that can unite Ukraine with Hungary and, more broadly, Europe.

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Hungarian national policy towards Transcarpathia

The intention to support and protect ethnic Hungarians living outside Hungary and to preserve the intellectual and spiritual unity of the nation has been a cornerstone of the Hungarian government's foreign policy since Fidesz came back to power in 2010 and was further reflected in the new constitution of 2011. A major goal is to promote the survival and development of the Hungarian communities in their native lands by granting financial support for education, culture, infrastructural projects and, last but not least, by launching economic development programs. Backing aspirations for autonomy (while respecting the sovereignty of the neighboring states) has received a greater emphasis in Budapest's policy as it was considered to be the best way of ensuring the survival and welfare of the Hungarian communities. Another aspect is facilitation in issuing Hungarian passports to Hungarians living in other countries to create a symbolic unity of the nation.

In terms of finances, a significant share of subsidies goes to education. The aim is to enable ethnic Hungarians to use their mother tongue

from the kindergarten to university so that local companies can hire highly skilled Hungarian labor force. In Transcarpathia, Hungary supports all levels of Hungarian-language educational institutions. Thus, Budapest finances the operation of the Ferenc Rákóczi II Transcarpathian Hungarian Institute, a nationally recognized institution of higher education that is located in Berehove, Ukraine. Moreover, Hungary provides substantial funding for the maintenance and infrastructural development of these institutions and supports teachers, parents who send their children to Hungarian-language schools, and health care workers with direct subsidies. In 2015, summer vacations in Hungary were arranged for around 3,000 Transcarpathian children. Budapest also seeks to find ways to support Hungarian entrepreneurs in Transcarpathia and boost the local economy. Thus, it launched the Economic Development Program for the region, mainly targeted at companies in agriculture and tourism.

The current Hungarian government is often criticized for favoring ethnic Hungarian parties in the neighboring countries. In the case of Transcarpathia, since 2010 Budapest has established closer cooperation and allocated financial resources to the Transcarpathian Hungarian Cultural Association (KMKSZ), which further exacerbated the party's long-lasting conflict with the Hungarian Democratic Federation in Ukraine (UMDSZ). However, last year prior to the municipal elections in October 2015, Budapest started a campaign to convince the two Hungarian parties to overcome their disputes and run a joint party list in order to guarantee Hungarian representation in local governance.

Hungarian economic development program for Transcarpathia

The Hungarian government has recently announced the launch of a large-scale economic development program for Transcarpathia starting from June 2016, built on the model of the one granted to Serbia's Vojvodina region last year with the budget of around EUR 160 million. The program aims to provide financial assistance for agriculture and tourism as well as to support business development for Hungarian SMEs in Transcarpathia. The program is envisioned as a way to address the main problem preventing local entrepreneurs from expand-

ing their business, which is a lack of financial resources and access to loans. Ukrainian businesses will be allowed to apply for funding in partnership with Hungarian companies. As for the background of the initiative, the idea and motivations of the program are based on the Egán Ede Economic Development Plan which was elaborated jointly by KMKSZ and other Transcarpathian business associations and organizations.

The specific details and the amount of support are not established yet, though reports suggest a EUR 6.5 million non-refundable grant and a EUR 65 million preferential loan for 2016. In the current phase, the Hungarian side is elaborating the legal and administrative framework of the initiative that would be adaptable to the local conditions and compatible with Ukrainian law. The first invitations for tenders are supposed to be announced in June 2016, and KMKSZ will most probably be responsible for the program's implementation, but the details are unknown in this regard. Although the initiative targets, above all, Hungarian entrepreneurs, Ukrainian companies may also significantly benefit from participating in joint ventures. Nevertheless, at this point it is unclear how effective the program can be in boosting the Transcarpathian economy. The first invitations for tenders in Vojvodina were published only in late January 2016 making comparative analysis rather complicated. Possible challenges in this direction include the necessity of own financial contributions; in certain instances, a possible lack of skilled labor force due to emigration; and a lack of experience in developing and implementing such projects. Otherwise, the entire region may greatly benefit from the program.

Cross-border cooperation and infrastructural projects

The improvement of cross-border trade and infrastructure is the topic that both Budapest and Kyiv have prioritized since the inception of the bilateral relations. Although focusing exclusively on the border region of the two countries can jeopardize other issues on the agenda, that does not mean that such pressing topics as building new checkpoints, highways, and transportation hubs should be ignored. On the contrary, improving cross-border cooperation can and should

open new doors for other areas of interest, such as trade in natural resources and export of electricity from Ukraine.

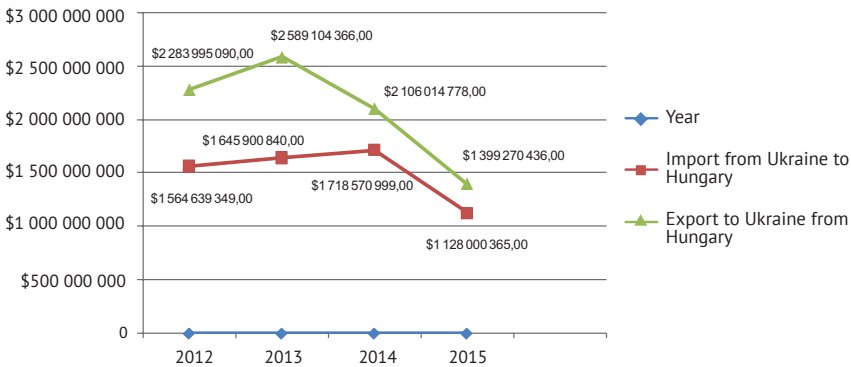
Currently, there are several joint projects to create additional border crossing checkpoints and develop a railway transportation system. Nagyhódos – Velyka Palad' crossing point has been completed on the Hungarian side; Ukraine's commitment to build its section of the road has been put on hold due to a lack of resources. Another border crossing point, Beregsurány – Luzhanka, will be upgraded to accommodate freight transport, and Hungary is currently working on its section of the highway that will connect the village of Beregsurány (this road is a part of the Trieste-Ljubljana-Budapest-Kyiv Pan-European Corridor V.) Negotiations have started about the construction of a bypass around Berehove to counter the harmful impacts of freight traffic whose volume will predictably increase. The major obstacle hindering the realization of these projects is the crisis that the Ukrainian economy is facing and consequently a lack of financial resources. In spite of the commitment and willingness of the Hungarian side, the implementation of these initiatives might be postponed until the Ukrainian economy recovers. Furthermore, Kyiv's agreement with the International Monetary Fund on the bailout program further limits Ukraine's ability, since the agreement does not allow the Ukrainian state to issue financial guarantees, which is a requirement of the Hungarian state-owned Eximbank for providing financing. A new impetus for infrastructural projects could come from the next session of the Joint Intergovernmental Economic Committee scheduled for the fall of 2016. The topics for discussion are the creation of additional border crossings between Hungary and Ukraine, infrastructure development, and opening new mechanisms of financing for Ukrainian companies.

The leading role in this area of cooperation is delegated to the Joint Intergovernmental Committee on cross-border cooperation. Unfortunately, the current level of engagement is affected by Ukraine's lack of resources. Several existing projects to create new crossing points have been completed by the Hungarian side, but additional investments are required for things to move further in Transcarpathia. Aside from transportation topics, ecology remains a priority in the light of the protection of the Tisza River basin from flooding and industrial pollution.

2.4. ECONOMIC INTERESTS AND BUSINESS OPPORTUNITIES

In the economic sphere, the principle of common interests is much more evident. Ukraine has the capacity and the potential to boost trade relations with Hungary and there are signs of reviving economic relations. Yet the issue of corruption that appears to be a ubiquitous reason for many problems in Ukraine was the main stopping force for many Hungarian companies long before Russian aggression. After 2014, many existing Hungarian businesses in Ukraine suffered from the armed conflict and the subsequent economic decline, while the potential investors hesitated to start new projects in the uncertain financial climate. Another alarming trend is rather evident if one looks at the balance of trade in recent years. From 2014 to 2015, the Hungarian exports to Ukraine dropped by 33.6% and imports from Ukraine by 34.5% (the trade balance decreased by USD 116 million) (Chart 1).

Chart 1. Trade of Products between Hungary and Ukraine 2012-2015



Source: *Hungarian Central Statistical Office*

As of 2015, Ukraine ranked 19th in terms of Hungary's exports and imports, while Russia ranked 16th and 10th, respectively. Another factor that shapes bilateral trade cooperation is the structure of the Hungarian exports. Multinational corporations have a large share in the Hungarian economy and consequently in the export segment, while the medium- and small-sized companies that could be interested in the Ukrainian market cannot tolerate high risk and financial instability. Thus, they prefer to expand their businesses into the more stable neighboring countries, such as Slovakia and Romania. In 2016, there are early signs of recovery for the Ukrainian economy as well as the growing confidence of Hungarian companies working in Ukraine. Yet, potential investors who are eager to enter the Ukrainian market are still waiting for the improvement of the political and financial climate.

Currently, there are more than 800 Hungarian companies working in Ukraine. The spheres of interest are rather diverse and include the banking sector, transportation, pharmaceuticals, and construction. The biggest of them are the OTP Bank, Richter Gideon, Egis, Dunapack-Ukrajna, Wizz Air Hungary, Kész Group, and Graboplast. Ukraine's agricultural sector and specifically agricultural machinery are drawing increasing interest from such Hungarian enterprises as Linamar Hungary, Optigep, and Fliegl Abda. The biggest Ukrainian investors in the Hungarian economy are Roshen, which acquired Bonbonetti Choco Kft., a Hungarian confectionary corporation, in 2012 and ISD Dunaffer that specializes in steel production. It is worth noting, however, that the majority of shares in the ISD (Industrial Union of Donbas) belong to foreign investors. Overall in 2015, Ukrainian commodity exports to Hungary reached USD 1.128 billion, while imports from Hungary totaled USD 1.399 billion.³ A dominant trend in the bilateral trade relations is Ukraine's reliance on exporting raw materials, while importing finished goods from Hungary. The biggest export positions of Ukraine were mineral products, machinery and mechanical appliances (primarily cables), transport equipment as well as iron and steel products. Hungary's

³ *Import/export data by the Hungarian Central Statistical Office (<http://statinfo.ksh.hu/>). The data provided by the State Statistic Service of Ukraine regarding imports and exports differs from the Hungarian data due in part to the difference in the statistical accounting of goods.*

primary exports to Ukraine were machinery and mechanical appliances (reaching more than USD 500 million in 2015), chemical (pharmaceuticals) and mineral products as well as raw materials for the plastics industry.

Investments in infrastructure could bring considerable benefits for both Hungary and Ukraine. However, in this sector Hungarian companies face strong competition from the big market players like Germany who have more experience and higher capacity to secure these projects that are primarily financed by the international financial institutions, such as the World Bank. The solution can come from forming consortiums among East European countries to boost the capacity and reputation that is vital for winning a tender bid. In this regard, development projects in Transcarpathia and a broader region could serve as a catalyst for bilateral relations and provide a boost for regional trade cooperation since vital transportation routes not only link the markets of both countries but also serve as a bridge between Europe and Asia.

The organization of investment and business conferences may serve as an effective way for companies (especially for SMEs) and potential investors to gain information about the investment climate, establish contacts and develop partnerships with local entrepreneurs and representatives of state bodies. In this sphere, 2015 showed promising signs as foreign ministries of both countries organized simultaneous Hungarian-Ukrainian business conferences under the title Ukraine: Just Business in Budapest and Doing Business in Hungary in Kyiv in May. Furthermore, an additional Doing Business in Hungary event was held in Dnipropetrovsk in October 2015. Such initiatives require more attention, resources and sustainability (for example, it seems that the planned follow-up event of the Dnipropetrovsk conference, a business forum with the participation of the Hungarian and Dnipropetrovsk Chambers of Commerce and Industry in 2016 will not be realized due to changes the regional council staff).

The Hungarian government sees significant opportunities for facilitating foreign trade and helping Hungarian companies to find new markets in the expansion of the network of National Trading Houses. In November 2015, two new trade missions were opened

in Uzhhorod and Berehove, and another one is expected to start operating in Ivano-Frankivsk in 2016. The primary objective of these Trading Houses will be to provide business assistance to SMEs and to connect them with local Ukrainian entrepreneurs. However, previous experience makes it difficult to predict whether they can make a significant economic impact. Nevertheless, the establishment of an Honorary Consulate in Ivano-Frankivsk in December 2014 set an encouraging example, as it has managed to attract eight Hungarian companies to the region.

2.5. VISEGRAD GROUP AND REGIONAL SECURITY MECHANISMS

The proximity of Hungary and Ukraine and shared security interests create sufficient preconditions for mutually beneficial security cooperation. Both countries share the view that active engagement in the European security architecture is the key to stability and peace. While Budapest has made the membership in the North Atlantic Treaty Organization a top priority after the collapse of the USSR, Ukraine's security preferences varied from one government to another. After Hungary joined the Alliance in 1999, the dialogue between two countries intensified and included a broader spectrum of issues, such as joint exercises, exchange of best practices in military budget planning as well as new modes of border security management. Considering historic security challenges emanating from the expansionist empires of the east, Hungary should also be interested in Ukraine's membership in the Alliance. Yet, when Kyiv came close to the next step of its cooperation with NATO, Hungary followed Germany's position of strong opposition to Ukraine's bid for membership action plan in this security organization. Meanwhile, Hungary continues to closely cooperate with Ukraine through various NATO programs ranging from education and training to cyber security.

The Revolution of Dignity was another milestone in security cooperation between the two countries. Despite the fact that the current Hungarian leadership is balancing between the EU approach toward Russian aggression, which includes sanctions, and the necessity to maintain good relations with Moscow in exchange for cheaper gas

and big trade contracts, in the security sphere Viktor Orbán opted for improving Hungary's defensive capacity in part through active engagement in military planning and cooperation within the Visegrad Format..

The Visegrad Battlegroup was envisioned in 2011 as a joint military formation of the Polish, Hungarian, Czech, and Slovak armed forces that will hold exercise within the NATO Response Force framework. In

For Ukraine common defense interests with Hungary imply that the foundation for a long-term partnership is viable and mutually beneficial

response to Russian actions in Crimea and Eastern Ukraine, Visegrad group members decided to invite Ukraine to join the Visegrad Battlegroup and hold joint exercises to improve interoperability and preparedness of the participating countries⁴. Such steps further reveal the pragmatic approach of the Orbán administration which tries to separate the economic aspects of foreign policy from the political and security dimensions. For Ukraine, this situation is not ideal, yet common defense interests with Hungary imply that the foundation for a long-term partnership is viable and mutually beneficial.

⁴ "V4 invites Ukraine to set up joint military unit," UKRINFORM, accessed at http://www.ukrinform.net/rubric-politics/1670647-v4_invites_ukraine_to_set_up_joint_military_unit_322379.html

3. INTEREST GROUPS AND INFLUENCE GROUPS

3.1. MUTUAL PERCEPTION

The presence of the Hungarian community ensures that there is constant interaction between the two nations and that the Ukrainian-Hungarian relations will be on the political agenda and receive media attention in both countries on a regular basis. Traditionally, Ukraine is among the most popular tourist destinations among Hungarians (ranked 7th in 2013 and 10th in 2014). Many Ukrainians also visit Hungary, even though it has become more difficult since the country joined the Schengen Agreement.⁵ However, a closer look reveals that, similarly to the relations between the states, the nature of interactions at the level of individuals also suffers from the Transcarpathian syndrome (e.g., even though roughly 120,000 Hungarians visit Ukraine annually as tourists, very few of them travel beyond the Carpathians). Overall, an average Hungarian citizen with no connections to Transcarpathia knows little about and has no personal experience of Ukraine and Ukrainians, which is not surprising taking into account the fact that Hungarian society is traditionally Western-oriented and pays less attention to countries lying eastward of Hungary. Ukrainians are also generally unaware about the motivations and intentions of Hungary's foreign policy, which inevitably leads to confusion and tension. The impact of Russian propaganda in Ukraine is very harmful in this regard, as it aims to project an image that Hungary and Hungarians pose a threat to the unity and territorial integrity of Ukraine. The bottom line is that a lack of comprehensive knowledge and the restricted nature of interactions between the two nations to some extent limit the potential for deeper cooperation.

Unfortunately, there has been little research on the attitude of Hungarians toward Ukraine in general. Available information on the public opinion regarding the war in the Donbas suggests that even though the Hungarian population supports measures against Russia, it is generally weaker in comparison to other countries in Europe.

⁵ "A magyar lakosság belföldi és külföldi utazásai 2013," accessed at http://itthon.hu/documents/28123/4083489/Magyarok_utazasai_2013.pdf/12a9ca36-ba53-422d-b3fc-49450c26b6f5; "Turizmus és vendéglátás, 2014," accessed at <http://www.ksh.hu/docs/hun/xftp/idoszaki/jeltur/jeltur14.pdf>

Nevertheless, Hungarians are still in favor of their country's Western orientation and find these ties more important than closer cooperation with Russia.

The results of an opinion poll conducted by the Medián market research company in late 2014 showed that if Hungarians had to choose, they would side with the United States (53%) rather than with Russia (25%). As opposed to supporters of left-wing parties whose significant majority was pro-American (73%), respondents sympathizing with Fidesz found relations with the U.S. (40%) and Russia (39%) equally important (21% were undecided). Surprisingly, the result of this particular survey claimed that the stance of Jobbik's electorate is divided over the question, 48% favoring the United States, 27% Russia, while almost as many (25%) were hesitant⁶. Nonetheless, it does not mean that Hungarians necessarily identify themselves with the Ukrainian position in the conflict. For instance, among eleven European Union countries where Ipsos conducted a survey in April 2014, Hungarians were the least supportive of their government to "do everything possible to support the stability in the remaining country of Ukraine" (the majority, 55% of all surveyed respondents, agreed with the statement, but a mere 31% did so in Hungary).⁷ Furthermore, the survey revealed that only one-third of the Hungarian population thought that their government needed to impose sanctions on Russia (average 45%), while 49% suggested that the country had to "stay out of what is happening and leave it up to others to solve the problem." Interestingly, the United Kingdom followed Hungary in terms of support for this latter argument (35%), whereas the average among all countries was 29%.⁸

The main reason behind such Hungarian attitudes is the overall cautious approach of the Hungarian population to changes in Ukraine due to concerns over the Hungarian community (at that time the relations between the two countries were still strained as only two

6 *Magyar, Peter. "A magyarok többsége Amerikát választaná és nem Oroszországot," accessed at <http://444.hu/2015/01/07/a-magyarok-tobbsege-amerikat-valasztana-es-nem-oroszorszagot/>*

7 *"Responses to the situation in Ukraine," IPSOS, accessed at <http://www.ipsos-na.com/news-polls/pressrelease.aspx?id=6482>*

8 *Ibid.*

months had passed after the attempted abolition of the law “On the Foundations of State Language Policy”). At the same time, the war in Ukraine affected the Hungarian public opinion about Russia. An opinion poll published by Nézőpont Intézet in March 2016 showed that over the past two years, the number of those who believed Hungary needed to seek closer economic ties with Russia significantly fluctuated. However, the Hungarian public attitude, regardless of its actual level of sympathy toward Russians, is traditionally rather pragmatic about economic cooperation with Moscow. It fell from 55% (22% preferred to stay on the same level, 9% would rather loosen the ties, and 14% were unable to answer) in January 2014 to 38% in January 2015 (24% preferred to stay on the same level, 12% would rather loosen the ties, and 15% were unable to answer). Interestingly, there was a gradual increase of favorable attitudes in January 2016 (49% would seek closer ties, 20% preferred to stay on the same level, 20% would rather loosen the ties, and 22% were unable to answer).⁹

Although there were no opinion polls in Ukraine that focused so extensively on Hungary’s foreign policy, a survey by TNS regarding the attitudes of Ukrainians toward Hungarians can shed some light on how Budapest’s actions are perceived in Ukraine. Thus, a poll of 1,000 respondents that was conducted in October 2015 indicated that 42% considered Hungary a friendly country, while 34% believed the relations were neutral.¹⁰ Interestingly, only 4% of Ukrainians thought that Hungary was not a friendly state, despite the media environment being predominantly saturated with the controversial aspects of bilateral relations. such as Hungary’s rapprochement with Russia, Budapest’s dubious messages regarding reverse gas flows, and Jobbik’s statements regarding Crimea and Transcarpathia. A more refined approach on how Ukrainians perceive Hungary has revealed that the attractiveness in terms of tourism (41%) and rich history and culture (39%) are the most frequent answers. Only 12% of the respondents

⁹ Dorka, Gabay. “Egyre Többen Támogatják a Magyar–Orosz Gazdasági Kapcsolatok Szorosabbra Fűzését,” *Magyar Idok*, accessed at <http://magyaridok.hu/belfold/egyre-tobben-tamogatjak-magyar-orosz-gazdasagi-kapcsolatok-szorosabbra-fuzeset-386281/>

¹⁰ “42% українців вважають Угорщину дружньою для України,” *TNS*, accessed at <https://tns-ua.com/news/42-ukrayintiv-vvazhayut-ugorshhinu-druzhnoyudlya-ukrayini>

perceive Hungary as a “country that has territorial claims in Ukraine” and 4% as a country “where far-right parties are in power.” The most interesting factor possibly affecting the results is that 86% of the respondents say that they have never been to Hungary, which further underscores the need for strategic communication and the media’s role in forming the public opinion about Hungary in Ukraine..

How the Ukrainian events are covered in the Hungarian media significantly depends on the political views and the traditional political orientation of certain media outlets as well as on their attitude toward Russia. As a general rule, the pro-government ring-wing mainstream media tend to show more understanding of the Russian interpretation of events, while the coverage by some newspapers and TV channels can be regarded as definitely pro-Russian. The left-wing media try to cover the events objectively (acknowledging the annexation and the involvement of Russia in the conflict) and show more understanding and empathy to Ukrainians. At the same time, the image of Ukraine in the Hungarian media is generally unfavorable, as the news from Ukraine is mainly about corruption, oligarchs, and the hard socioeconomic situation in the country. The difference lies in the level of empathy and understanding.

The image of Ukraine in the Hungarian media is generally unfavorable, as the news from Ukraine is mainly about corruption, oligarchs, and the hard socioeconomic situation in the country

In order to address the information gap, it is vital to open dialogues and to deepen the knowledge and understanding of the history, cultural traditions and motivations of both countries. Individual interactions are crucial and cultural diplomacy can be an effective tool to connect the two nations. Over the past few years, there were joint efforts to revitalize cultural relations as the two countries officially renewed their bilateral cultural cooperation agreement approving a three-year action plan in 2014. Nonetheless, these efforts have delivered mixed results and a breakthrough has not taken place. The Hungarian side has been more active in this regard, organizing numerous cultural events all over Ukraine (e.g. the Hungarian National Dance Theatre performances were sold out in Ukraine in 2015). In contrast, Ukrainian cultural programs in Hungary (e.g., guest visits of Ukrainian artists) targeted primarily the local Ukrainian diaspora rather than the broader Hungarian audience. This needs to change especially in

the light of high competition between cultural programs in Budapest. However, there are positive signs as well. For instance, a Ukrainian film festival was held for the first time in the Hungarian capital in October 2015. (Yet, such cultural events are rather an exception to the rule.) Furthermore, a promising process has started in the sphere of education as Ukraine has recently joined the Stipendium Hungaricum program, which will allow 100 Hungarian and 35 Ukrainian students to pursue studies in both countries.

3.2 ATTITUDES OF HUNGARIAN PARTIES TOWARD UKRAINE

As far the Hungarian political elite is concerned, there has been a tendency over the past 25 years that politicians, regardless of their political leaning, have rarely made efforts to “look beyond the Carpathians” and cared little about events in the rest of Ukraine since it has no relevance to the fate of the Hungarian community. It often seems that from Budapest’s perspective Ukraine was on a different continent. In fact, it is hardly surprising if we take into account the generally low level of interaction between the countries in almost every sphere. Therefore, it is hard to identify interest groups which can be considered as the friends of Ukraine in Hungary.

The positions of Hungarian parties toward foreign policy issues tend to be somewhat inconsistent, depending largely on and adjusted to their domestic political motivations

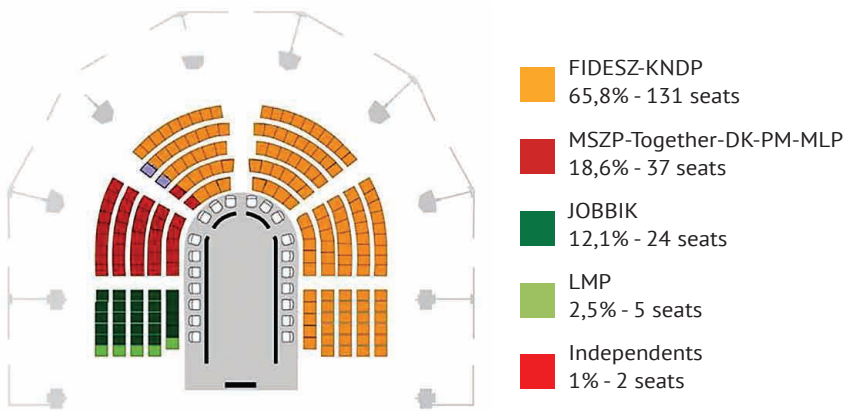
As a matter of fact, foreign policy has never been in the center of political discourse in Hungary due to a lack of interest among the Hungarian public concerning the subject. Consequently, the positions of parties

toward foreign policy issues tend to be somewhat inconsistent, depending largely on and adjusted to their domestic political motivations. Oppositional left-wing parties are currently criticizing the Fidesz government for increasing Hungary’s dependency on energy from Russia. However, it was the socio-liberal government of MSZP (Hungarian Socialist Party) and SZDSZ (Alliance of Free Democrats) that actually initiated the expansion of the Paks Nuclear Power Plant and started negotiations with Moscow in 2007-2008 (back then the idea was vehemently opposed by Fidesz), whereas Prime Minister

Ferenc Gyurcsány supported the South Stream gas pipeline project over Nabucco.

In terms of current events in Ukraine, two questions are uniting and dividing the positions of the Hungarian parties (Image 2). First, these events are predominantly seen in the context of questions concerning the Hungarian minority in general and its safety in particular. There is a common understanding among parties that their rights must be respected. Second, the Hungarian government's policy on Russia is a dividing factor as oppositional parties (with the exception of Jobbik) denounce the ambition to deepen cooperation with Putin, arguing that the Russian authoritarian political system is similar to what Viktor Orbán has been trying to transform Hungary into.

Image 2. Distribution of seats in the Hungarian Parliament



As far as Fidesz is concerned, this party has always supported Ukraine's European integration (as it also happens to be in the interests of Hungarians living in Transcarpathia) and has looked at Ukraine as an important trading partner under the Eastern Opening

policy. However, the crisis in Ukraine has made Fidesz's attitude more complex as it has fundamentally affected a core element of the government's foreign policy, namely the maintenance of pragmatic economic relations with Russia. Therefore, along with the government, Fidesz has been trying to take a cautious, balancing position on the Ukrainian situation. In line with the common EU position, Budapest has supported every sanction. At the same time, both government officials and Fidesz politicians have repeatedly emphasized the damage they are causing to the Hungarian and European economy, arguing that the EU will not be able to regain its competitiveness without a pragmatic economic relationship with Russia.

Jobbik's interpretation of the events corresponds with the arguments of Russian propaganda, while the party is also trying to capitalize on questions concerning Transcarpathia positioning itself as the only true defender of Hungarian national interests. The party's special connections with the Kremlin have been extensively investigated and publicized. Over the past few years, the leading politicians of Jobbik, including President Gábor Vona, have attended numerous events in Russia and established close ties with high-level figures of Russian politics. In his "Open Letter to The People of Ukraine," President Gábor Vona put the blame on the Ukrainian government, which came to power as a result of a "U.S.-funded, bloody coup d'état", for the war in the country which has a devastating impact on Ukrainians, Russians and Hungarians and serves only Western interests. Shortly before the 2014 parliamentary elections, Béla Kovács, a Jobbik MEP with a key role in the party's finances and is in charge of its foreign relations was accused by the Hungarian Chief Prosecutor of spying on EU institutions for Russia. There is an ongoing criminal investigation in the case after the EU Parliament has lifted Kovács's immunity. Furthermore, he was forced to close his "MEP representative office" in Berehove and has been banned from entering Ukraine since he travelled to Simferopol as an observer of the so-called Crimean referendum. Not surprisingly, Jobbik's interpretation of the Ukrainian events is in line with the Russian position and the party's stance can be characterized by the following factors: first, the party tries to create tension between Budapest and Kyiv by making direct provocations in Ukraine. Jobbik has criticized the government for submitting to the will of Western

countries instead of standing up for the interests of Transcarpathia residents (e.g., in the case of “violent and unlawful” conscriptions). Jobbik politicians participated as election observers in the votings in Crimea and the Donbas perceiving these events as possible precedents for the autonomy aspirations of the Hungarians living in Transcarpathia.

The left-wing opposition parties were involved in the social-liberal governments between 2002-2010. MSZP, Demokratikus Koalíció (Democratic Coalition) and Együtt 2014 (Together 2014) had a pragmatic and balancing approach to Russia driven by economic interests. Reflecting on Fidesz’s pro-Russian turn in 2010, the position of these parties has partly changed and now the anti-democratic nature of the Putin’s regime receives more emphasis in their communication. They believe Hungary should act in line with its Western allies, and therefore criticize the government’s skeptical statements on sanctions and Orbán’s close cooperation with Putin (especially the Russian president’s visit to Budapest in February 2015), while also condemning the annexation of Crimea and Russian aggression against Ukraine. Generally, the Democratic Coalition and Together 2014 tend to take a more radical, and more explicitly pro-Ukrainian, stance on these questions (for example, the latter organized a demonstration against Russian aggression in September 2014).

The approach of the green party, Lehet Más a Politika’s (LMP- Politics Can be Different) towards the situation in Ukraine is generally similar. The party has acknowledged and condemned the Russian aggression against Ukraine and, along with MSZP, the Democratic Coalition and Together 2014, opposes the expansion of the Paks Nuclear Power Plant.

3.3. UKRAINIAN REPRESENTATION IN THE HUNGARIAN PARLIAMENT AND INTERPARLIAMENTARY COOPERATION

In 2011, the Hungarian parliament adopted Act CCIII On the Elections of Members of Parliament of Hungary that paved the way for national minorities to be represented at the highest legislative body of Hungary.¹¹ During the 2014 elections, Ms. Yaroslava Hartyanyi, former head of the Ukrainian self-government in Hungary, was elected to be the national minority spokesperson of Ukrainians living in Hungary. Although this position does not grant voting rights, it nevertheless offers an opportunity to lobby Ukrainian interests through debates and discussions regarding the agenda.

These changes to the Hungarian legislation resulted from the national minorities policy of the Fidesz party which secured a confident victory in the 2010 parliamentary elections. Thus, by granting a wider representation in the Parliament to thirteen major ethnic groups living in Hungary, Orbán hoped to strengthen his negotiation positions with the neighbors in terms of the rights of the Hungarian diaspora. Given the political representation of the Hungarian minority in Ukraine, Budapest's move to give greater political representation to the Ukrainian diaspora is a positive sign for bilateral relations.

In addition to strengthening Ukraine's voice in Hungary through the election of a national minority spokesperson, the intensification of interparliamentary dialogue has facilitated the coordination of positions on minority rights and Ukraine's European integration. Thus, the Ukraine-Hungary Interparliamentary Friendship Group that has consistently worked to address the most pressing issues in bilateral relations, such as cross-border infrastructure and energy trade, should become another platform for reaching out to Hungarian interest groups and decision makers in order to bridge the informational gap and search for common interests. Maintaining dialogue with key Hungarian parties and prioritizing mutually beneficial projects is essential given the pragmatic undertone of Budapest's foreign policy.

¹¹ "Act CCIII of 2011 On the Elections of Members of Parliament," National Election Office, accessed at http://www.valasztas.hu/en/ovi/241/241_1_11.html

4. OPPORTUNITIES AND RISKS

Points of Connection	Points of Contention/Risk
Ukraine's European aspirations. Hungary has consistently backed Ukraine's aspirations for European integration	Hungary-Russia relations and the issue of reverse gas flows.
Visa liberalization. Hungary supports visa liberalization between EU and Ukraine	The destabilizing role of Hungarian far right.
Trade in electricity. Hungary is the primary importer of Ukrainian electricity	Unfavorable electoral districts that fragment the Hungarian voting community.
Cooperative security. The Visegrad Group and Ukraine hold joint exercises within the Visegrad Battlegroup	2010 Hungarian Citizenship Law and the issue of dual citizenship
Cross-border cooperation. Both countries support the intensification of cross-border trade and the development of infrastructure.	Lack of resources on the Ukrainian side to finish joint infrastructural projects.
Transit of energy resources. Both countries benefit from the transit of natural resources	Decline in trade between the two countries.
Hungarian humanitarian assistance. Budapest hosted Ukrainian children who are IDPS for summer holidays and provided treatment to soldiers.	Lack of top-level engagement and intergovernmental cooperation. Apart from the visit of the Ukrainian Minister of Foreign Affairs in February 2016, no high-ranking Ukrainian officials visited Budapest in recent years. The Joint Economic Committee and the Joint Committee for Minorities have not met for several years.

VIKTOR ORBÁN'S EASTERN OPENING POLICY TOWARD RUSSIA MAY JEOPARDIZE THE REVERSE FLOW OF NATURAL GAS TO UKRAINE

Trade in energy resources represents a critical dimension in the bilateral relations. Ukraine remains a key transit country of natural gas as well as one of the largest suppliers of electricity to Hungary. Since 2014, both countries have worked closely to boost the reverse gas capacities to Ukraine that aims to diversify its energy sources and decrease the dependence on Russian natural gas. At the same time, this sector suffers the most due to the political strings that are attached to gas supply contracts. Statements by the Hungarian leadership regarding the suspension of the gas flow to Ukraine due to pressure from Moscow create tensions in the bilateral relations as Ukraine attempts to diversify its energy imports and limit its reliance on Russian natural gas.

Probability. Medium. Recent events have shown that Viktor Orbán's statements about limiting reverse gas flows to Ukraine were not necessarily followed by the actions. In fact, Hungary has supplied 0.456 billion cubic meters of natural gas in 2015, and the same amount is planned for export in 2016.¹² The duality of Viktor Orbán's positions stems from Hungary's dependence on Russian natural gas for heating residential buildings and for industrial needs and on contracts with Rosatom to build new power units for the Paks Nuclear Power Plant. Currently, Fidesz enjoys the overwhelming support of the Hungarian population due in part to its promise not to increase gas prices for residential consumption. On the tumultuous energy market, this can be achieved only by securing preferential gas contracts with Russia. Thus, Viktor Orbán's energy policy strategy is twofold. First, it is imperative to keep the price of gas for Hungarians low by importing the cheapest option. Second, Orbán wants to maintain friendly relations with Ukraine as one of the main non-

¹² FGSZ Ltd. data on natural gas supply to Ukraine, accessed at http://tsodata.fgsz.hu/en/pub_data/21Z000000000270Q/allocation_and_flow/m3/0

EU trade partners, a major exporter of electricity and the transit country of Russian oil and gas.

How to avoid. Hungary's reverse gas supply to Ukraine reflects the pragmatic undertone of the bilateral relations. After the 2009 gas war between Russia and Ukraine, Budapest adopted active measures to minimize the consequences of critical shortages of natural gas to counter similar scenarios in the future. Although Hungary created a reserve system, established new routes with other European energy suppliers, and decreased its consumption, it is still largely reliant on Russian gas due to its lower cost. As Ukraine and Hungary gradually aim at minimizing their reliance on the sole supplier of natural gas as well as reducing the overall consumption level, the Russian factor will diminish in the energy policies of both countries. Nevertheless, in the short-term and perhaps mid-term period, Hungary will maintain its current foreign policy posture that leans toward Moscow.

POTENTIAL OF HUNGARIAN FAR-RIGHT TO DESTABILIZE THE TRANSCARPATHIA

The far-right nationalist Jobbik party is the most pro-Russian political party in Hungary and is regarded as one of the most prominent members of the network of Russia's far-right allies in Europe. As 'international election observers' Jobbik's representatives participated in the illegitimate elections in Crimea and the self-proclaimed Donetsk People's Republic (both deputies, Márton Gyöngyösi and Adrienn Szaniszló were immediately prohibited from entering Ukraine, while the Hungarian MFA sharply condemned their actions). In addition, for years Jobbik has made repeated efforts to gain ground in Transcarpathia, trying to establish connections with universities and youth organizations and extend their influence to local online news outlets.

Probability. Currently low, considering the lack of support among the Hungarians in Transcarpathia. Jobbik's activities

and agitation were condemned and highly criticized by Transcarpathian Hungarian organizations for manipulating and exciting the local population and were hindered by the joint efforts of the Hungarian and Ukrainian sides. In domestic politics, the Jobbik politicians seek to exploit the Transcarpathian question and portray themselves as the only true defenders of national interest. By spreading disinformation (e.g., about the allegedly disproportionate drafting of ethnic Hungarians and the settlement of “Ukrainian refugees” in ethnic Hungarian villages and towns) and stirring up nationalist sentiments (e.g., holding protests to support the sovereignty demands of fellow Hungarians living under threat), they seek to put pressure on the government to stand up for the rights of Hungarians more effectively, thus taking a position which is more in favor of Russian interests in the conflict.

How to avoid. The representatives of local Hungarian and Ukrainian parties should make joint efforts to tackle this problem. Effective communication, cooperation between security services, and rapid and appropriate reactions to allegations are crucial in countering nationalist propaganda. It is also vital that the provocations and actions of radical right-wing Ukrainian political groups (e.g., the anti-Hungarian march of nationalists on March 13, 2016) be explicitly condemned and addressed by the Ukrainian authorities.

CHANGES IN ELECTORAL DISTRICTS CAN BE PERCEIVED AS AN INFRINGEMENT OF THE HUNGARIAN MINORITY RIGHTS IN BUDAPEST

The Hungarian minority in Transcarpathia is actively engaged in the political process not only at the regional, but also at the state level. The KMKSZ Ukrajnai Magyar Párt, a party of Hungarians in Ukraine, received almost 9% at the elections to the regional council in Tran-

scarpattia last year.¹³ Another political group, the Democratic Union of Hungarians in Ukraine, UMDSZ, joined efforts with KMKSZ for the 2015 elections to increase the chances of Hungarian representation in the local government. Currently, the first deputy head of the Transcarpathia Regional Council is Yosyp Borto who has been as the Chair of the KMKSZ since 2014. The only solution for the Hungarian minority to be represented in the highest legislative body of Ukraine was to run as a party candidate. During the last parliamentary elections, Laszlo Brenzovics, a KMSZ representative, was elected to the Verkhovna Rada, although, again, he obtained his mandate through the party list of the Petro Poroshenko Bloc.

Since Ukraine regained its independence, Hungarian minority representatives were elected to the Ukrainian Parliament in 1994, 1998, 2002, 2012, and 2014. In the 2006 and 2007 parliamentary elections, the Hungarian community did not have a delegate mainly because these elections were based on the proportional principle (rather than the mixed system of the previous cycles). Since 2012, the structure of the single-member district with predominantly Hungarian population has been changed, minimizing the chances of a Hungarian representative to be elected to parliament. This decision led to an outcry among the Hungarians in Transcarpathia as well as in Budapest.

Probability. Currently low, but can elevate if Hungarian representatives do not have opportunities to be elected through the party list.

How to avoid. Despite recent tensions over election districts, Hungarians living in Ukraine are represented at the local and state levels. The process of decentralization reforms that is underway in Ukraine can provide additional opportunities for the minorities living in Transcarpathia in terms of education, governance and, least but not last, budgeting.

¹³ "Партія угорців України пройшла до облради на Закарпатті," accessed at http://espreso.tv/news/2015/10/27/partiya_ugorciv_ukrayiny_proyshla_do_oblrady_na_zakarpatti

DUAL CITIZENSHIP OF HUNGARIAN MINORITY CAN POSE A THREAT TO HUNGARIAN-UKRAINIAN RELATIONS

In 2010, Hungary eased its requirements for acquiring citizenship; now they include evidence of Hungarian ancestry and knowledge of the Hungarian language. While the new legislation created backlash from the neighboring states with significant Hungarian minorities, there has been no major reaction in Ukraine. There is no official statistics as to how many of the 150,000 Transcarpathian Hungarians applied for and received second passports, but the figure may exceed 50%.¹⁴ The official Ukrainian position on dual citizenship is rather negative since, according to Ukrainian legislation, possessing passports of other countries is punishable by a fine.¹⁵ There have been attempts to enact criminal punishment for dual citizenship, yet such provisions were not adopted by the Ukrainian Parliament. Furthermore, persecuting Ukrainian citizen who also have the citizenship of another country is a rather complicated process.

For Hungarians living in Ukraine, the possession of Hungarian passports allowed them to enjoy the benefits of the Schengen zone and vote in the Hungarian elections. The latter provision comes as the certain benefit to the ruling Fidesz party and its leader Viktor Orbán who openly advocates for ethnic Hungarians to obtain a second citizenship. The concerns of the Ukrainian side about the perils of dual citizenship are equally apparent, since the adoption of such legislation would give certain leverage to the Russian Federation in the light of the situation in Crimea and the Donbas (according to the 2001 Ukrainian census 17% identified themselves as Russian).

Probability. Low. However, if the Ukrainian Parliament increases punishment for dual citizenship, it could severely worsen the bilateral relations. Enacting criminal punishment for possessing Hungarian passports

14 "Подвійне громадянство українцям: дозволити не можна покарати," accessed at <http://press-centr.com/ua/news/Podviyne-hromadyanstvo-ukrantsyam-dozvoliti-ne-mozhna-pokarati>

15 "Українців з подвійним громадянством звільнять з прокуратури та міліції" УНІАН, accessed at <http://www.unian.ua/politics/699954-ukrajintsiv-z-podviynim-gromadyanstvom-zvilnyat-z-prokuraturi-ta-militsiji.html>

alongside Ukrainian ones can pose considerable challenges for bilateral relations, since more than half of Transcarpathian Hungarians already have dual citizenship.

How to avoid. Strategic communications and cooperation between two governments is critical in this regard. The situation could fundamentally change in 2016 when the visa free regime with EU is expected to enter into force. The removal of one incentive for acquiring Hungarian citizenship – visa free travel to EU – could alleviate one of the contentious areas in the bilateral relations. It is worth noting, however, that since 2007 Transcarpathian Hungarians who live near the border have already been able to travel to Hungary (within the 50-kilometer border zone without visa).

5. RECOMMENDATIONS

1. Hungary's foreign policy toward non-EU Eastern European countries is based on the common interests rather than values. **Ukraine should capitalize on the issues that unite rather than divide the two countries.** A focus on mutually beneficial aspects of bilateral relations – trade in natural gas and electricity, cooperation with the Visegrad Group and particularly in its security dimension, as well as improving infrastructure in the trans-border region – could rebalance the interests of the Hungarian leadership from Russia to Ukraine.
2. **It is equally important for both countries not to neglect the divisive issues and work closely to ameliorate points of contention.** A lack of strategic communication at the governmental level often leads to sensitive issues like the Hungarian minority in Ukraine or sanctions on Russia being hijacked by certain political entities and used to facilitate divisive agendas. Undoubtedly, it is imperative to actually address the problematic areas, but it is also crucial for the national governments to convey the achievements to the broader public.
3. **Ukraine should work toward positioning Transcarpathia as a region that unites Ukraine with Hungary and broader Europe.** This can be achieved through developing cross-border infrastructure, improving the energy transit system, and encouraging capacity building between local communities. The unique role that the Hungarian community plays in facilitating dialogue between two countries should be utilized toward this goal.
4. **The need for both countries to engage in more active dialogue cannot be emphasized enough.** The low intensity of diplomatic interaction and the rarity of meetings of high-level government officials make it difficult to find common ground when conflicts of interests appear. The importance of joint intergovernmental committees has been neglected over the past few years as well. Even though a lack of financial resources constrains the efficiency of these committees, if they meet on a regular basis, it will create momentum for the intensification of bilateral relations.

5. **Kyiv should more effectively communicate to Hungary the sensitivity of dual citizenship issue.** The Hungarian national policy – the support of minority communities living outside of Hungary – will remain a top priority for the current Hungarian government, which encourages Hungarians residing in the neighboring countries to apply for citizenship through the simplified naturalization procedure. Even though the Ukrainian legislation does not explicitly forbid dual citizenship, the Ukrainian authorities condemn this practice which makes this issue a continuous irritant in the bilateral relations. In the light of the conflict in Crimea and the Donbas, Ukraine's reaction is understandable. The implementation of the Visa Liberalization Action Plan could decrease the practical significance of dual citizenship and thus remove the contentious issue from the bilateral relations.
6. **In order to prevent ethnic tensions, the Ukrainian government should be more consistent in following up on the promises it has made to the Hungarian community,** even when it comes to symbolic gestures (e.g., the rehabilitation of forced labor victims after the Second World War, restitution of confiscated church properties, etc.). It has been a source of frustration for Hungarians over the past two decades that commitments in the pre-electoral agreements between Hungarian and Ukrainian parties were often left unfulfilled by the Ukrainian side (e.g., addressing the electoral districts problem in Transcarpathia).
7. **Ukraine should focus on how to capitalize on Hungarian investment projects.** Ukrainian companies can directly benefit from access to extra financial resources through economic partnerships, whereas the success of joint ventures may help attract additional Hungarian investments to other Ukrainian regions. Ukraine is a huge market, especially in the agricultural sector. There are opportunities for Hungarian companies that are currently taking a wait-and-see approach because of the unstable market and economic conditions. The first-come, first-serve opportunities should be emphasized, because as soon as the situation stabilizes, Hungarian companies will have to face strong German and Polish competition. The organization of business conferences and deeper cooperation

with the expanding network of Hungarian trade missions (e.g., new trading houses are due to open in Ivano-Frankivsk and Dnipropetrovsk later this year) can help promote this aim.

8. **Jointly with Hungary, Ukraine should encourage intercultural dialogue and promote educational and academic cooperation between the two nations, even though the benefits of such an initiative will become apparent in a long-term perspective.** Currently, there is an alarming lack of knowledge on both sides about each other's history, culture, language, and national motivations. Cultural diplomacy, joint study programs and academic exchanges may serve as effective tools for building societal bridges.

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