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Laggards or Mavericks? Czechia and Hungary's Divergent Responses to the EU's Changing Industrial Policy Regime

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Abstract

There is widespread agreement among scholars that the "geo-dirigiste turn" in the EU and the resurgent spirit of industrial policymaking have thus far only served the interests of core countries, thereby reinforcing core–periphery dynamics on the continent. However, despite their shared semi-peripheral status in the transnational division of labour, Central and Eastern European states such as Czechia and Hungary have navigated the changing industrial policy paradigm of the EU in markedly different ways. While Hungary has doubled down on the pre-existing trajectory of attracting foreign direct investment in a few handpicked strategic sectors, Czechia has sought to branch out into green technologies, semiconductors, and horizontal support for R&D activities. Drawing on semi-structured interviews, self-collected quantitative data, and primary and secondary documents, we argue that such observable differences are predicated on differential patterns of state–business interaction. Two principal findings emerge. First, traditional accounts relying on state capacity as a master variable do not suffice to explain cross-national differences in industrial policymaking in the semi-periphery. The exercise of state capacity for industrial policy objectives varies depending on whether state capture is ubiquitous and politically driven or limited and driven by private interests. Second, our analysis shows that the Central and Eastern European countries, rather than playing the role of "laggard" policy adopters, tend to set their own priorities and "play their own game" as they become increasingly disenchanted with the structural dominance of core EU member state interests. More often than not, this subverts the shared objective of European strategic autonomy.

Keywords

Central and Eastern Europe; core–periphery relations; European Union; industrial policy

1. Introduction

Geopolitics has returned to the policy agenda of the EU, but not in the same way for all member states. The recent European "geo-dirigiste" turn towards targeted, "vertical" industrial policy in pursuit of strategic autonomy has raised questions about the political-economic ramifications it may or may not have on the EU's Southern and Eastern semi-peripheries (Di Carlo & Schmitz, 2023; Eberle & Monsees, 2026; McNamara, 2023; Seidl & Schmitz, 2023; Šitera & Eberle, 2025). Traditionally, European competition policy has locked in Central and Eastern European (CEE) member states on path-dependent trajectories of becoming archetypal "dependent market economies." That is to say, they have turned into semi-peripheral producers heavily reliant on foreign direct investment (FDI) embedded at the lower end in the value chains of transnational corporations (Nölke & Vliegenthart, 2009). For such countries, the recent "geo-tech" policy shift means having to navigate not only a more volatile geopolitical environment, but also a changing European institutional landscape. This landscape potentially imposes much more taxing conditions for participation in supranational industrial initiatives.

The EU's relaxation of competition policy has been placed on the agenda by large core EU member states, primarily France and Germany (Bora, 2023; Bora & Schramm, 2023, 2025; De La Cruz, 2026). New interventionist policy instruments such as the Important Projects of Common European Interest (IPCEIs) seem to best serve the economic interests of these core countries (Lavery & Lopes-Valença, 2025; Schmitz et al., 2025). Spearheading a coalition of strange bedfellows, CEE countries have joined some Scandinavian states and have repeatedly voiced opposition to the new industrial policy measures. In particular, they have opposed the relaxation of state aid through open letters, special opinions, and intense lobbying. Such efforts achieved either no success or at best compromise formulations (Czech Republic et al., 2021; "Eleven EU countries," 2023; Packroff, 2024; Stolton et al., 2023; Swedish Confederation of Enterprises, 2024). Finally, by examining indicators such as participation in the IPCEIs, R&D funding, and composition of epistemic and business networks, scholars have argued that the EU's "industrial policy turn" is likely to perpetuate core–periphery relations within the Union, thereby undermining the twin goals of convergence and cohesion (De La Cruz, 2026; Eberle, 2025; Lavery & Lopes-Valença, 2025; Rone, 2025).

The latter insights are informed by a burgeoning "new dependency" literature in comparative political economy concerned with the effects of globalisation and Europeanisation on national varieties of capitalism and the limits of foreign-led development. The strong, "structuralist" version of the argument stipulates that transnational integration has irrevocably shrunk the policy space for domestic industrial policy because it has done away with traditional, protectionist nurturing of domestic champions (Becker et al., 2020; Chang, 2002; Vliegenthart, 2010). The softer, "institutionalist" version of the argument suggests that while EU competition policy removed old developmental state capacities, it also created new ones. Besides, it acted as a "beneficial constraint" preventing budget-depleting and race-to-the-bottom competitions for subsidies and investment. It also levels the market power of larger and more affluent member states, preventing them from promoting their domestic industries in a discriminatory way (Bruszt et al., 2020). Therefore, CEE countries could reap the benefits of the European state aid regime and pursue its liberal-transnational industrial policy, so long as they wielded enough domestic state capacities to do so (Bruszt & Vukov, 2017; Medve-Bálint & Šćepanović, 2020).

While we recognise both the strictures of the EU state aid regime as well as the importance of state and bureaucratic capacity for navigating the challenges of Europeanisation, we find the strong version of "new dependency" overly restrictive and the soft version in need of further qualifications. Despite the common external constraints, their shared structural position in the world economy and their similar endowments in terms of state capacity, the dependent market economies of Central and Eastern Europe have navigated the changing state aid landscape in markedly different ways. This suggests more room for manoeuvre than the structuralist accounts presuppose, and the presence of further explanatory factors besides state capacity.

In line with the goals of this thematic issue, we seek to delve into the *how* of industrial policy in today's geo-tech world. In particular, we study how two CEE states, Czechia and Hungary, two similar textbook examples of "dependent market economies," respond to the changing European industrial policy regime in markedly divergent ways. While Hungary has pursued a strategy of *doubling down* on the pre-existing trajectory of FDI attraction and top-down focus of a few handpicked strategic sectors, Czechia has sought to *branch out* into green technologies, semiconductors, and horizontal support for R&D activities. Hungary has pursued its industrial strategy in open defiance of Europe's strategic goals of decoupling from authoritarian states, while Czechia has largely aligned its goals with the openly declared European aspirations of "strategic autonomy."

Drawing on semi-structured interviews, self-collected quantitative data, and primary and secondary documents, we argue that variation in country-level strategies for navigating Europe's changing industrial policy regime is predicated on the patterns of state capture in each individual country. These relations mediate the way in which state capacity is strategically wielded in the pursuit of industrial policy goals. In states captured by monopolistic political parties, industrial policy is exercised in a more centralised, top-down, hierarchical way, leading to the targeted prioritisation of selected sectors and technologies deemed strategic by the public hand. In states with higher elite turnover and more unstable electoral cycles, competition in the political realm makes businesses seek proximity to decision-makers in heightened uncertainty, leading to a branching out of industrial policy efforts. In short, differences in the level of uncertainty in the electoral system produce different patterns of interaction between state and business elites, which in turn translate into different strategies of navigating the new interventionist zeitgeist in the EU.

The remainder of this article is divided into five parts. The second section revisits the "new dependency" literature and problematises both its "structuralist" and "institutionalist" readings. The third section refines the institutionalist theory of state capacity at the semi-periphery, infusing it with insights from the literature on state capture. The fourth section unpacks our methodological choices and research design. The fifth section discusses our empirical findings based on the two case studies of Hungary and Czechia. Finally, the sixth section draws the empirical and theoretical findings together and outlines avenues for future research. It also challenges the interpretation of CEE states as mere "laggards" trailing behind industrial policy initiatives crafted in the economic core of the Union.

2. Core–Periphery Relations in the EU: Two Interpretations

Economic convergence and cohesion have been the declared goals of European integration since its very inception. Article 3 of the Treaty of the European Union states that the Union "shall promote economic,

social and territorial cohesion…among Member States" (Consolidated Version of the Treaty on European Union, 2012). The facilitation of catch-up growth for laggard national economies and regions was to be promoted through a mixture of redistributive budget transfers, cohesion funds, market-making measures, and regulatory integration in the Single Market. The "big bang" enlargement rounds of 2004 and 2007 rendered this task more complex, as post-socialist countries at very different levels of socio-economic development and institutional stability became members of the Union—yet for a long time, Europe's "convergence machine" seemed to absorb these difficulties. In terms of per capita GDP, the new member states from CEE have been continuously, if only gradually, converging with the Western core economies. Furthermore, they have far surpassed those regional neighbours who had started their post-communist transition at comparable levels of development in the early 1990s but remained mere accession candidates (Figure 1). This upward trajectory has continued even after the economic shocks of 2008 and 2020.

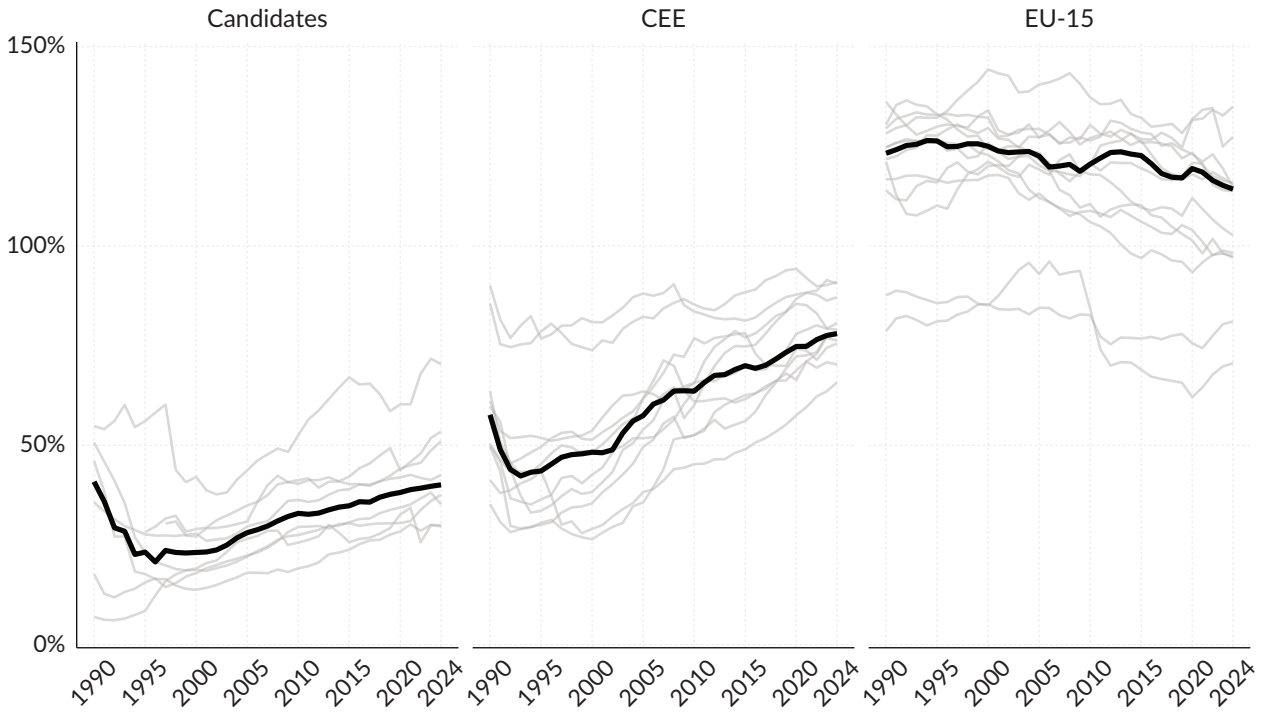

Figure 1. Convergence in GDP per capita as percentage of the EU average (purchasing power standard, in current international USD, EU-27 = 100). Notes: The thin grey trend lines represent individual countries; each thick black trend line represents the median value for the respective sub-region; "Candidates": Albania, Bosnia and Herzegovina, Montenegro, North Macedonia, Serbia, Turkey, Moldova, Ukraine; "CEE": Bulgaria, Croatia, Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia; "EU-15": The "old" member states, including the UK; to avoid stretching the y-scale, the outliers Luxembourg and Ireland have not been included in the graph. Source: Own calculations based on World Bank (n.d.).

Yet this nominal convergence in GDP levels obscures persisting differences in kind between the national models of capitalism that underpin the growth trajectories of CEE countries (as compared to Western European ones or East Asian countries, for example), as well as the diverging specialisations in the transnational division of labour associated with these models. Despite their higher growth rates, CEE countries have remained on the receiving, rather than the originating end of productive investment, technological development, and product innovation as compared to the economic core of the continent (see Gereffi & Evans, 1981, for an analogical application of the concept). This model of "dependent development," relying on deep liberalisation and FDI as a

vehicle of growth and employment—contrasted with the "independentist" model of East Asian countries such as Taiwan and South Korea—has become the hallmark of the region (Bohle & Greskovits, 2012; Medve-Bálint & Šćepanović, 2020; Nölke & Vliegenthart, 2009; Vukov, 2021).

The analysis of dependent development in the EU has drawn strongly on dependency theory, which distinguishes between core and periphery, taking nation-states as units of analysis, as well as its later elaboration in the world systems theory (WST; Wallerstein, 2000). WST offers a structural account of a holistic world system—a hierarchical and spatially distributed division of labour between an economic core, a semi-periphery, and a periphery. The periphery engages in labour-intensive industrial activities and raw material exports, while the semi-periphery, incapable of harbouring the full business cycle, specialises in the production segment, developing a comparative advantage in the production of medium-skilled, low-wage durable production goods (Vliegenthart, 2010, p. 250). It is therefore unsurprising that dependency theory and WST have become conceptual lynchpins for the study of post-socialist economies from the vantage point of comparative political economy.

Provided that WST conceives of the entire capitalist world-system as the appropriate unit of analysis (Wallerstein, 2000, p. 149), how does the EU fit such an interpretation? Many current applications of dependency theory and WST to CEE tend to bracket the world system dynamics and explore core/semi-periphery/periphery divisions within the EU, treating the EU itself as a world-system in miniature which exerts structural pressures resulting in hierarchical differentiation and uneven development between core, semi-peripheral, and peripheral member states, marked by different types of (de)industrialisation and financialisation (Becker et al., 2020). Prima facie, the new industrial policy formulation in the EU and the actual uptake of policy instruments such as IPCEIs seem to confirm core–(semi-)periphery interpretations with CEE countries emerging as laggards compared to countries such as France and Germany (Eberle & Monsees, 2026; Lavery & Lopes-Valença, 2025; Šitera & Eberle, 2025). It may thus appear plausible to conclude that the shift in industrial policy is but a manifestation of the rigid constraints on development that European integration places on the semi-periphery by virtue of sheer structural necessity. This is what we call the "CEE as laggards" interpretation.

Still, the rigid *structural* assumptions of the dependency theory and WST can be eased in favour of an *institutionalist* reading of core–(semi-)periphery relations (see Parsons, 2007, for an elaboration of the difference between structuralist and institutionalist explanations). Such a reading draws attention to the diversity within the periphery in terms of industrial policy strategy and state capacity (Bohle & Greskovits, 2012; Vukov, 2023). For instance, the four Visegrád countries have been firmly integrated in a "Central European manufacturing core" revolving around German automobile production (Zavarská et al., 2023). The Baltic states and South-East Europe have remained at the periphery of this development and have thus specialised less in complex manufacturing and more strongly in basic and dynamic services. Furthermore, the role of the EU has not been simply a constraining one. Through its enlargement policy, the European Commission has consistently engaged in direct institution-building and remade the semi-peripheral CEE states in its own image, thus rendering them more institutionally resilient and capable of handling the challenges and opportunities of the European Single Market (Bruszt & Vukov, 2017; Vukov, 2021).

In this article, we present an argument that aligns with this latter institutionalist reading of divisions between the core and (semi-)periphery but also expands it by taking into account the importance of state–business

relations. There are several reasons for this decision. While adequate for analysing relations *between* the core and the (semi-)periphery, structuralist accounts of development cannot predict or explain instances of *within-regional* variation on the (semi-)periphery. By contrast, an institutionalist reading of WST explains the existence of cross-country variation endogenously, by attributing it to observable differential patterns in the institutional composition of domestic political economies. Secondly, the institutionalist interpretation helps make sense of domestic political agency (Mälksoo, 2021; Vangeli et al., 2025; Vukov, 2023, 2025). The wide divergence between CEE countries' industrial policy since Covid has received scant attention in the literature on strategic autonomy. This is because the analytical focus has been on a single instrument—IPCEIs—rather than on a broader analysis of state aid, as seen in comparative studies of growth models (Éltető & Medve-Bálint, 2023), and state aid more generally (Bulfone et al., 2026; Di Carlo et al., 2024). It is precisely such an analysis of broader patterns of state aid in Czechia and Hungary that we aim to offer in this article.

3. State Capacity, State Capture, and the Diverging Strategies of National Industrial Policy

The empirical section of this article compares two CEE countries—Czechia and Hungary—that exhibit different trajectories of industrial policymaking in recent years, despite their initial similarities. The divergent trajectories of change are complex and cannot be measured by a single indicator. However, looking at relative changes in state aid levels in relation to GDP offers a start. As Figure 2 shows, state aid gradually increased in both countries as well as in the entire CEE region since the EU enlargement rounds in 2004 and 2007. However, in Czechia, state aid levels align with the CEE median during the entire period, with the single exception of 2020, the year of the Covid outbreak. In quantitative terms, this makes Czechia a textbook "median case." Hungary, by contrast, has the highest levels of state aid spending in the region, and by extension, in the EU, sometimes investing twice as much as the median CEE country in state aid.

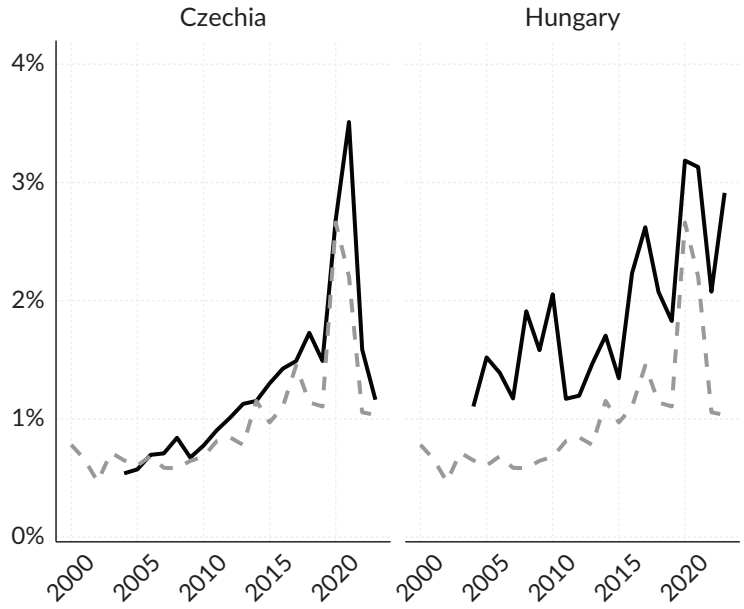

Figure 2. State aid as percentage of GDP in Czechia and Hungary, compared with the CEE median. Notes: The dashed trend line in each subplot represents the median value over all CEE member states of the EU; the solid black lines represent the values for each individual country as compared to the regional median. Source: European Commission (2026b).

There are also significant differences in the activist stance each of these countries adopts vis-à-vis the European state aid regime. In cases concerning the vital manufacturing core of the economy, both Czechia and Hungary have been very actively filing notifications to DG Competition under Article 107 TFEU. Hungary, as Figure 3 shows, has been even more active, occasionally flooding the Commission with notifications, leading to discontinuous jumps in the cumulative number of cases scrutinised by DG Competition.

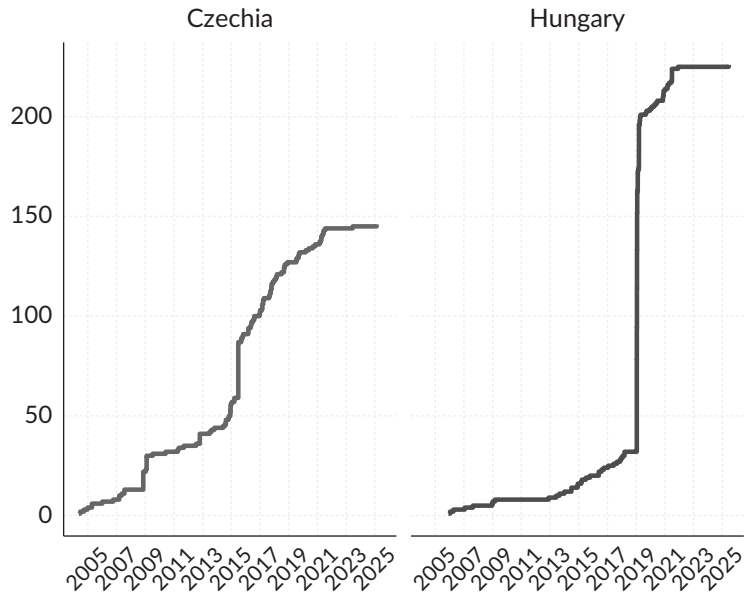

Figure 3. Cumulative count of state aid notifications in manufacturing sectors filed to DG Competition. Notes: The thin grey trend lines represent the cumulative count of all notifications filed by each individual country to DG Competition in cases concerning manufacturing between 2005 and 2025; "manufacturing sectors" are all sectors falling under category "C" of the NACE Rev. 2 classification. Source: Own calculations based on manually collected data from European Commission (2026a).

Where do such differences originate? To answer this question, we adopt a historical-institutionalist, state-centric view of the political economy (Evans, 1995; Skocpol, 1985) and infuse it with insights from the rich literature on state capture and state–business relations in the post-socialist context (Barnes, 2007; Innes, 2014; Resimić, 2022). To begin with, a usual variable used to explain divergence in CEE states' performance has been state capacity, broadly understood as a political body's ability to deliver public economic goods underprovided by markets through administrative means. This includes enforcing property rights, channelling strategic investment, and facilitating value chain upgrading of domestic sectors or companies—functions which, taken together, have long been identified as a crucial variable in the study of semi-peripheral CEE economies (Bohle & Greskovits, 2012; Bruszt & Langbein, 2020; Medve-Bálint & Šćepanović, 2020; Vukov, 2021).

In the context of the EU state aid control, the state capacity of new member states can be understood as the institutional capability to comply with the formal strictures of EU law without letting it interfere with the pursuit of a coherent national industrial strategy (Medve-Bálint & Šćepanović, 2020). This capacity can consist in punctuated interventions intended to extend the domestic beneficiaries of transnational market integration; or, whenever national objectives and supranational legislation appear to be at odds, it can manifest as "creative compliance"—obeying the letter of the EU state aid regime while ignoring the spirit (Lindstrom, 2021, p. 1792). The presence of skilled public servants in strong, coherent institutional bodies will determine whether EU

competition policy becomes an opportunity or a straitjacket for each individual country. Still, we argue that state capacity alone is necessary yet not sufficient to understand within-CEE divergences in industrial policy strategy and performance.

A second key dimension—state capture—emerges as crucial in this respect. State capture is a mode of interaction between business and politics, in the course of which parts of the state machinery are instrumentalised to serve narrow economic interests, rather than the provision of public goods. While corrupt behaviour is also widespread in Western contexts and facilitated by bending rules, bribing, "pantouflage," or "revolving doors" (Vauchez & France, 2017), state capture in CEE is a qualitatively different phenomenon. The difference between corruption and state capture is microfoundational. The former typically revolves around individual events, organisations, issues, or transactions. The latter involves a stable distributive pattern and a distinct network structure in which corrupt actors cluster around certain parts of the state to collectively engage in extractive, rent-seeking behaviour (cf. Fazekas & Tóth, 2016).

Needless to say, state capture is not limited to the post-communist context. However, it is especially prevalent there, for largely idiosyncratic reasons. The rapid transition from planned to market economy after 1989 sparked a historically unprecedented redistribution of income, dispersing losses and concentrating gains in the hands of a narrow constituency of winners (Hellman, 1998). Restraining the "winners" and their rent-seeking opportunities has been one of the main reform challenges faced by CEE countries. Thus, state capture is emphatically *not* a principal-agent problem; it involves politics, historically contingent power asymmetries, and patterned interactions between political and business players.

State capture generally occurs in two varieties, depending on the level of uncertainty and how politically connected firms can extract gains from their network capital (Resimić, 2022). In conditions of an open political system with high electoral uncertainty and a capable state with high bureaucratic capacity, state capture remains relatively localised in "islands" where rent-seeking is the easiest to pursue. This type of state capture, usually labelled "corporate state capture," involves attempts at "bottom-up" rent-seeking of public resources by private business actors through informal, and often illicit, networks of political influence (Innes, 2014). In corporate state capture, such interactions frequently involve the eventual entry of influential businesspeople into politics (Schoenman, 2014).

On the other hand, "party state capture" occurs in conditions of low electoral uncertainty and limited elite turnover. This provides an opportunity for a dominant political party to colonise the economy from the top down, pursuing both long-term political monopoly and economic gain through extraction. Party state capture is associated with "top-down" rent-seeking, whereby businesses directly owned or favoured by political officeholders and their families and cronies stand to gain the most (Resimić, 2022).

Categorising different types of industrial policymaking in CEE thus requires detailed knowledge not only about the nature of state capacities, but also about the type of state capture predominant in a given national context. As a general rule, we expect state capture to mediate the way in which industrial policymaking is pursued in one of two alternative ways. First, we expect party-captured states to be associated with a more narrowly concentrated industrial policy. A dominant political power, operating under the conditions of low electoral uncertainty, is endowed with the political coherence and the insulation from public resistance necessary and sufficient to double down on whatever narrow priorities they may deem strategic. Second, we expect the high

electoral uncertainty in corporate-captured states to at least partially dissipate rent-seeking behaviour and contain it to sectors and organisations more easily susceptible to capture. This, in turn, should allow for more political inclusion of non-captured business interests and an overall diversification of industrial policy efforts.

4. Analytical Strategy

This article is based on a comparative case study of recent industrial policy initiatives in Czechia and Hungary. Following the comparativist tradition in political economy, we adopt a most similar systems design using John Stuart Mill's method of difference (cf. Hancké, 2009, pp. 73–74; Mill, 2011). Despite their dissimilarity in recent industrial policy strategies, both Czechia and Hungary belong to a group of economically successful small post-communist economies building on a track record of strong state capacity. Both countries have developed highly diversified export profiles centred around complex manufacturing industries and can be considered archetypal "dependent market economies" (Bohle & Greskovits, 2012; Nölke & Vliegenthart, 2009).

Czechia has unquestionably ranked among the strongest CEE states when it comes to state capacity and scores the highest in terms of government quality, together with Estonia, in the World Bank Governance Index. For all its worsening track record in terms of democracy and quality of governance (Győrffy, 2024; Scheiring, 2019), Hungary has retained remarkably strong state capacity and ability to navigate EU laws to attract foreign investment. Its skilled civil servants navigate EU law and use it for their own goals while keeping the letter of the law, thus "complying creatively" and engaging in "ingenious disobedience" (Lindstrom, 2021).

Czechia and Hungary can therefore be considered most similar cases along a variety of causally relevant dimensions (see Table 1 for a summary). However, one thing that sets them apart is the nature of electoral cycles and the type of state–business relations predominant in the country. Despite the rise of techno-populism in Czechia (Guasti, 2020) and an attempt at centralisation of power by Andrej Babiš's ANO, there has been strong political contestation in the country, with different parties supported by diverging business elites vying for power. Therefore, Czechia has at least so far remained an example of corporate capture (Innes, 2014). By comparison, Hungary under Fidesz rule has monopolised the political process, instituting a tilted, winner-takes-all electoral system with a low degree of uncertainty and a high degree of incumbent tenure. It is this significant difference that we leverage as our master variable to explain the observed difference in recent industrial policies.

Table 1. Logic of case selection and comparison.

	Czechia	Hungary
Export profile	Highly diversified and dominated by complex manufacturing	Highly diversified and dominated by complex manufacturing
Structural position in the world economy	Semi-periphery (dependent market economy)	Semi-periphery (dependent market economy)
Legacies of pre-socialist industrialisation	Extensive experience with complex manufacturing	Extensive experience with complex manufacturing
State capacity	High	High
Electoral cycles and state capture	High uncertainty ⇒ corporate state capture	Low uncertainty ⇒ party state capture

Empirical evidence for each of the two country cases was collected through extensive analysis of both primary and secondary sources, including official government documents and strategies, investment statistics, statements by businesses and public officials in both countries, as well as media articles and academic literature on state aid. The descriptive quantitative data presented for the Hungarian case are based on a unique dataset that combines company-level data on stock volume, timing, location, and origin of all FDI in the EV/battery-related sectoral activities in the country between 2018 and 2025 (see Supplementary File for additional information).

The process of data collection was complemented with six original semi-structured interviews conducted with public representatives and academic experts in 2025. Interviewees were selected on the basis of their involvement in national and European policymaking, regulatory bodies, and their track record of expertise on industrial policy and state aid. The sample of interviewees consists of national-level experts from both Czechia and Hungary, as well as EU-level policy specialists (see Table 1 in the Supplementary File for details). The interviews served to complement our data and provide detailed insight into the inner workings of public institutions typically unavailable through desk research. Due to ethical concerns arising from the political salience of the topic, we protect the identity of the interviewees by anonymising their names and, for the most part, refraining from reporting direct quotations.

We analysed the empirical material through the lens of pre-existing theoretical expectations derived from the literature on dependent development and state capacity. However, as state capacity alone provided a necessary but insufficient explanation for the observed variation, we developed the concept further, infusing it with insights from the literature on state capture in CEE in order to refine the theory. Therefore, our analysis pursues a mixture of the theory-testing and theory-building variants of qualitative case study research (Beach & Pedersen, 2016).

5. Case Studies

5.1. Hungary: Doubling Down

Although Hungary joined Czechia in opposing the return of vertical industrial policy at the EU level, it was already among the most active users of domestic state aid in the EU before the onset of the Covid-19 pandemic (cf. Figure 2; Di Carlo et al., 2024, p. 3). Up to 2025, Hungary has participated in three IPCEIs, namely Next Generation Cloud Infrastructure and Services (2023), IPCEI Med4Cure (2024), and IPCEI Tech4Cure (2025). However, to focus exclusively on IPCEIs is to miss the most important development in the Hungarian political economy over the past five years: the country's massive reindustrialisation efforts, driven by a strategic bet on the battery industry (Gagyi, 2024; Győrffy, 2024; Polyák, 2026). Contrary to interpretations that would suggest Hungary's moderate participation in IPCEIs stems from lack of administrative capacity, it appears that IPCEIs have simply not been a priority for the country.

Instead, Hungary has generously used various other forms of state aid in its quest to propel itself into a leading position in battery manufacturing. It has supported its EV battery sector by providing close to 4 billion euros in direct subsidies and infrastructure development, amounting to 2% of the country's GDP and close to 3% of its public debt ("Hungary channels close to €4bn," 2025). These state investments have unlocked foreign investment equivalent to nearly 25 billion euros in 2025 prices (see Figure 4). This includes the largest ever

greenfield investment in Hungary—7.3 billion euros by the Chinese EV battery maker CATL for their factory in Debrecen. There have also been smaller investments by Korean battery giants SK Innovation and Samsung SDI. Overall, Hungary has attracted around 40 greenfield FDI projects, making it an undisputed EU leader in terms of FDI attraction in the sector (Figure 4). What is more, the country has become a leader in annual battery production capacity, already surpassing large member states such as France, Poland, and Spain. It is also planning the single largest expansion of battery production capacity by 2030 (see Figure 5).

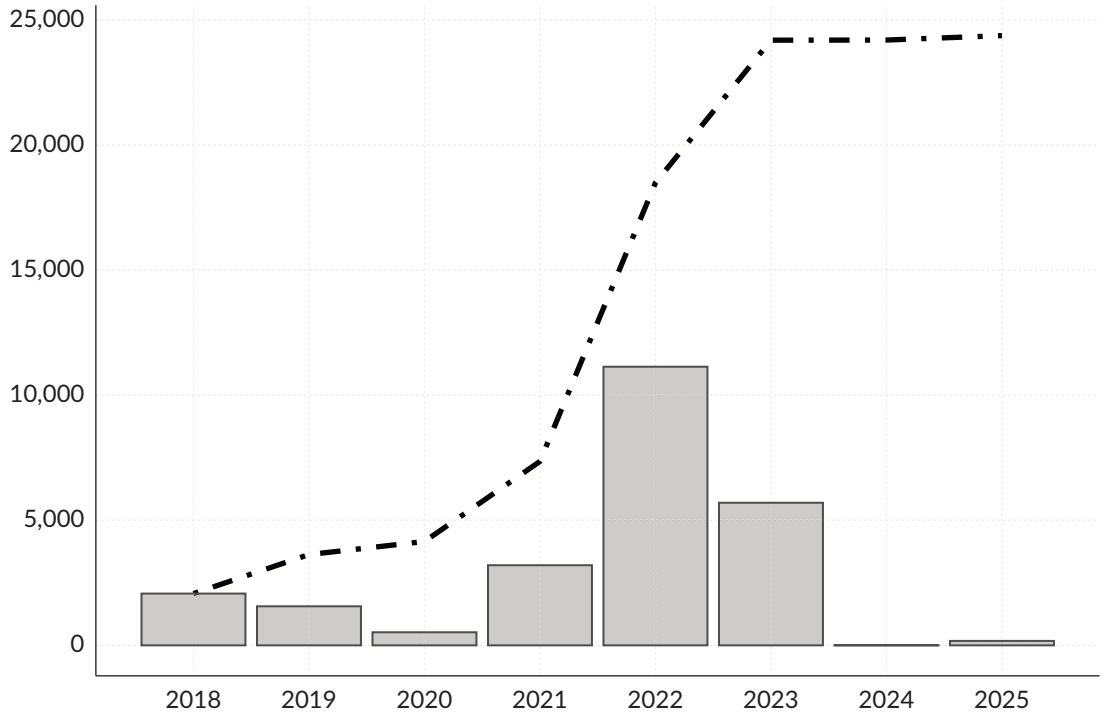

Figure 4. FDI stock in the Hungarian battery and EV sector, 2018–2025 (in million EUR in constant 2025 prices). Notes: The bars represent the annual FDI stock in the EV/battery sector; the dashed line represents the cumulative stock of investment over this period. Source: Original data; for details on the data collection and computation methodology, see the Supplementary File.

These data belie an interpretation of Hungary as an industrial policy laggard in the EU. If anything, it is currently a regional leader in battery manufacturing capacity. Even analysts sceptical of the ability of a CEE country to do well in the current geo-dirigiste turn acknowledge that Hungary's recent performance has exceeded expectations (Interview 5). Hungary's extensive experience with FDI meant that it already had multiple connections with investors. It has also gained considerable experience in providing state aid in formal accordance with EU law—in line with the "creative compliance" approach of the Hungarian state aid bureaucracy. FDI projects in the battery sector have been generously subsidised by the Hungarian government and frequently justified to the European Commission by recourse to regional development and cohesion. De facto, this is hardly a plausible justification. The vast majority of investments have poured into the most affluent and industrialised regions of the country: the surroundings of Budapest, important second-tier urban agglomerations such as Debrecen, Szeged, Miskolc, Nyíregyháza, and Kecskemét, and inherited industrial districts such as Komárom and Tatabánya (see Figure 6). This ability to formulate policies formally compliant with EU competition requirements sets Hungary apart from other CEE EU member states with weak state capacity such as Bulgaria. Aware of the country's institutional and administrative limitations,

Bulgarian officials have been repeatedly reluctant to provide state aid to avoid potential infringement procedures (Interview 2).

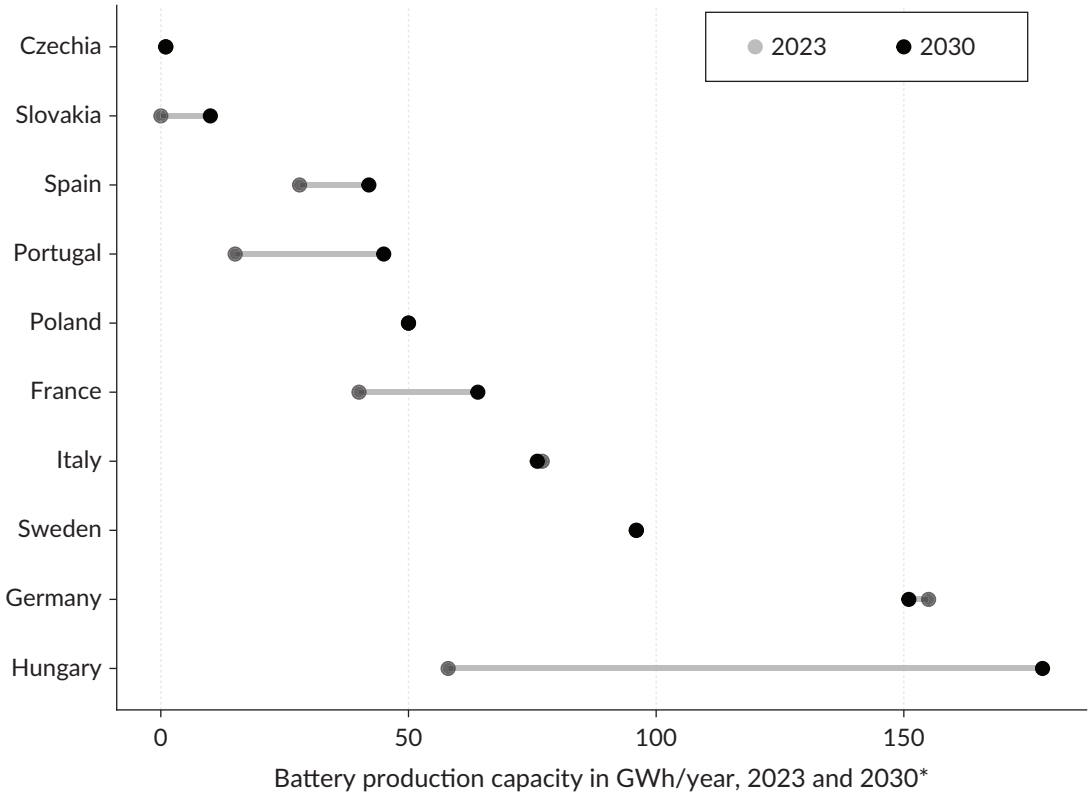

Figure 5. Battery production capacity in EU member states in annual GWh, current (2023) and planned (2030). Sources: European Court of Auditors (2023); * the 2030 projection is based on monitoring of company announcements.

But why did Hungary choose to devote such high absolute amounts of state aid to batteries? And why has it doubled down on its FDI-led growth strategy in such a decisive fashion? Hungary's 2016 industrial strategy, adopted at the eve of its first big FDI project in the battery domain, signals a transition to even more vertical sectoral state aid, yet it barely mentions the sector (Ministry for National Economy, 2016). Instead, investment in batteries was initially negotiated on a case-by-case basis by the Ministry of Economic Development and was driven by the interest of foreign investors. The government strategy on batteries followed the first important investments that had been made (Hrubý, 2024, p. 15). In retrospect, it is difficult to disentangle strategic government foresight from pressure from business and foreign investors. The choice of batteries as a key investment sector likely resulted from a confluence of these factors (Interview 5). What characterises the Hungarian battery experience, however, is the conspicuous absence of a broad societal consultation or any type of democratic process when formulating the country's state aid strategy. The decision to double down on battery manufacturing and FDI was presented to the Hungarian public as a *fait accompli* in a 2022 speech by PM Viktor Orbán (Győrffy, 2024, p. 583).

To wit, Hungary's story is not merely about administrative capacity and bureaucratic experience in securing FDI. It is also a story of party state capture. The unilateral top-down monopolisation of power by Fidesz since 2010 has allowed for a high degree of policy continuity, as well as the ability to disregard opposition

and negative public opinion. There have been substantial criticisms of the unprecedented Hungarian battery expansion, yet these have failed to change the course of government policy. Firstly, the environmental consequences of battery production have attracted widespread public opposition, including environmental NGOs such as Greenpeace, as well as mothers' groups and local farmers vehemently opposing battery factories in their vicinity (Csomós et al., 2025; Gagyi, 2015; Kálmán, 2025; Polyák, 2026). The construction of battery factories has been made possible to a large extent by the deliberate weakening of both national and regional environmental authorities. Dismantling the Ministry of Environment was one of the early actions of Fidesz during their first term in government, with its functions being transferred to the Ministry of Agriculture (Kálmán, 2025; Polyák, 2026). While foreign companies have often been fined, the small size of the fines can hardly be a serious incentive to transform their production strategies. Secondly, there have been numerous accounts of the flexibilisation and exploitation of workers in these factories (Czirfusz, 2023; Gagyi, 2015).

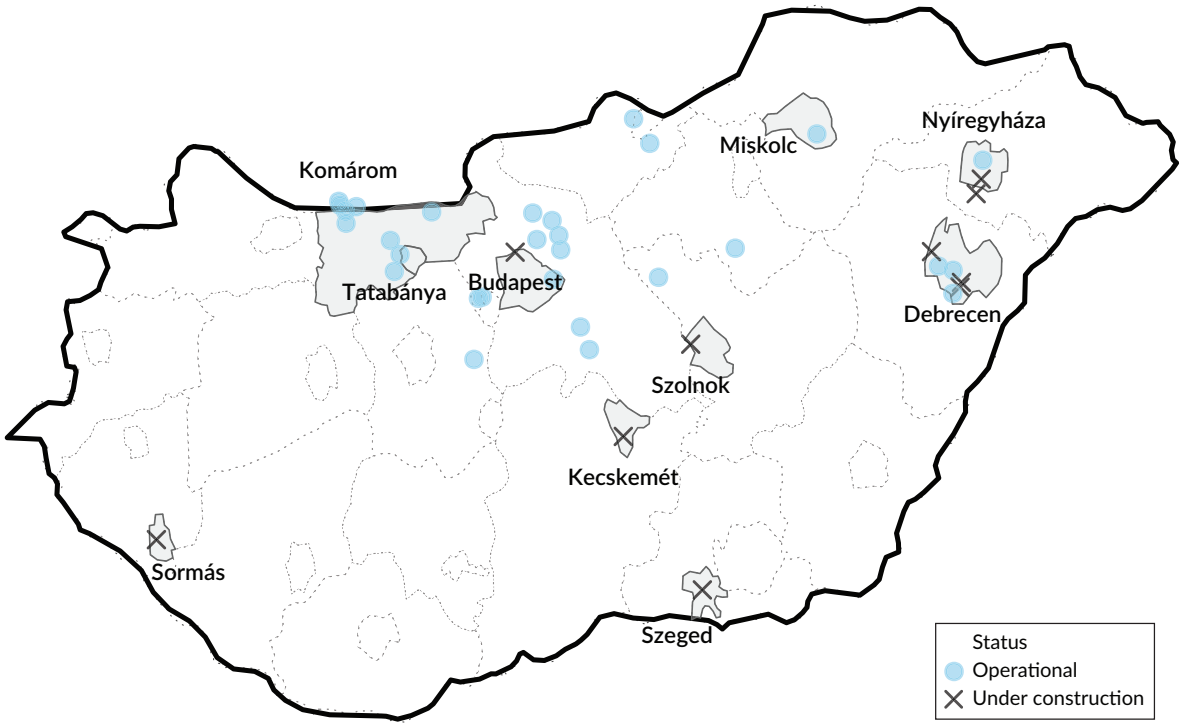

Figure 6. The location of FDI in battery and EV plants in Hungary, 2018–2025. Source: Original data; for details on the data collection and computation methodology, see the Supplementary File.

Thus, the massive investment made by Hungary in batteries has been made possible by a state that has been both *competent enough* to attract foreign investment and *captured enough* to ensure sufficient continuity of its industrial strategy while suppressing citizen dissent. Key support for the battery strategy has come from national capitalists from domestically captured sectors such as energy or construction, who have "bought into" the Fidesz reindustrialisation project by being given the opportunity to provide infrastructure for foreign investors (Interview 5; Czirfusz, 2023; Éltető & Medve-Bálint, 2023; Gagyi & Gerőcs, 2025).

How sustainable is Hungary's industrial strategy in the long run? With the slowing down of EV demand in the EU, a lot of Hungary's battery factories have run at lower capacity, with some planned expansions actually being frozen (Kálmán, 2025). While Hungary is becoming a battery manufacturing superpower, it

fails to move into the higher-value-added activities related to battery production and thus remains an assembly line of foreign companies (Hrubý, 2024; Polyák, 2026). The country's total investment in R&D has been trailing behind the EU's leaders, even if Hungary ranks sixth in the EU in terms of allocating state aid for R&D (Eurostat, 2025). In line with the predictions of the dependent development paradigm, the bulk of investments in the battery sector have been concentrated in the lower and mid-value-added segments of the battery production chain, including the production of raw materials such as copper foil, pre-materials such as anodes and electrolytes, or the assembly of battery cells and packs (original data). Whenever individual investment projects are announced as "R&D," such as the one by Chinese EV manufacturer BYD, they usually imply low-end processes performed by high-skilled labour, e.g., the development of software modifications necessary to comply with EU regulations (Interview 5). Even the government has recognised this situation, claiming in June 2025 that it does not aim to attract more FDI, but rather to increase the share of value added instead (Dettoni, 2025). Whether Hungary's battery bet will remain plausible in the long run remains to be seen. Its participation in IPCEIs in pharmaceuticals and cloud computing demonstrates that the country has not entirely abandoned the idea of diversifying its industrial profile. However, in terms of absolute investment, IPCEIs clearly remain peripheral to the country's bet on batteries.

Finally, to what extent is Hungary's doubling down on FDI-driven battery production a response to the EU's "geo-dirigiste turn"? Hungary's current industrial strategy relies on using cheap Russian energy to attract Chinese capital to produce batteries that are then exported to the German automotive sector (Interview 5). In particular, Hungary has become deeply dependent on Chinese capital for the development of its battery sector. As of 2025, China is the single largest foreign investor in the Hungarian battery industry by far, eclipsing even German automotive capital (see Figure 7). Such industrial policy decisions—in stark contrast

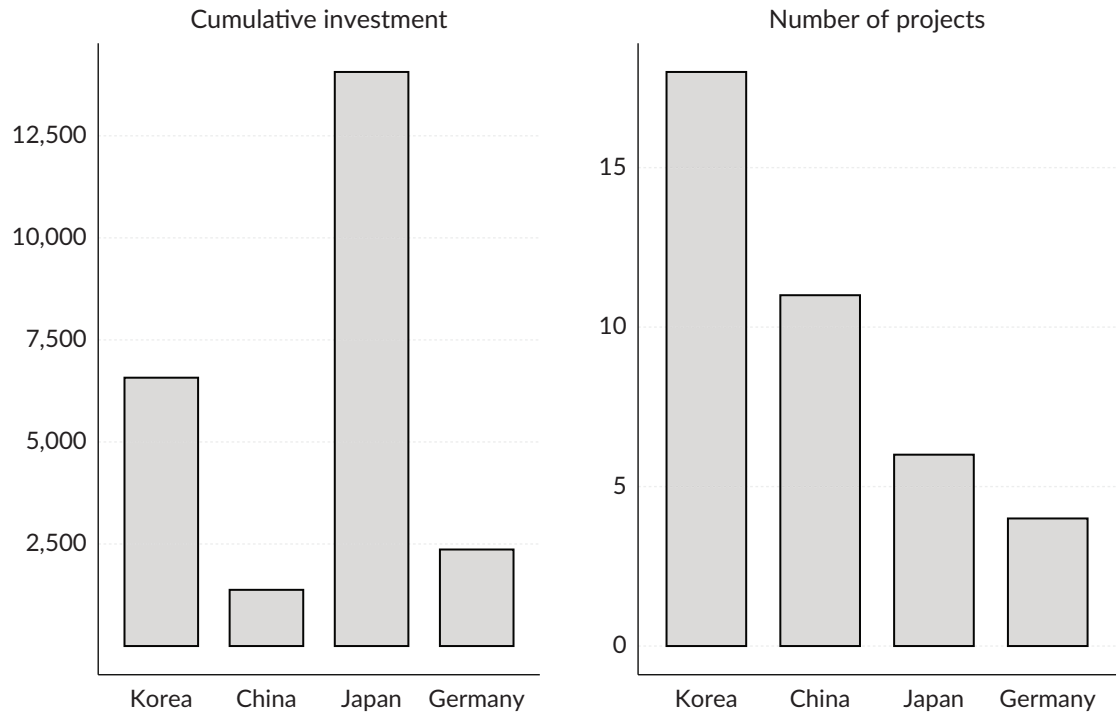

Figure 7. The origin of FDI in the Hungarian battery sector. Note: cumulative investment's unit of measurement: million EUR in constant 2025 prices. Source: Original data; for details on the data collection and computation methodology, see the Supplementary File.

to the EU's official line and domestic liberal opposition—were made possible by the extent of party state capture observed in Hungary. The relentless colonisation of the state apparatus and the long uninterrupted incumbency have allowed Fidesz to leave its "illiberal" ideological imprint on industrial policymaking in open defiance of Europe's stated geopolitical aspirations of decoupling from Russian energy and Chinese manufacturing. At the same time, the continuing deep imbrication between Hungarian battery production and German car manufacturing renders interpretations of the Hungarian case as a "Trojan horse" within the EU more difficult to sustain than it seems at first glance (on the role of the EU in the creation of "coercive industrial zones" in Hungary, see Polyák, 2026). Rather, amid an increasingly tense geopolitical situation, Hungary has assumed the role of a maverick "playing its own game" and balancing between different players. While the country ended up relying on Chinese capital, it was South Korean and Japanese investments that ignited Hungary's battery bet in the late 2010s.

The overall benefits of this policy, however, predominantly accrue to Fidesz-connected cronies. The latter have benefited from the FDI-led industrial strategy of their political patrons by securing lucrative public contracts, e.g., for providing energy and infrastructure for greenfield investment projects. This top-down cronyism has had two reinforcing effects on the industrial strategy of "doubling down." Firstly, it has bound the "national bourgeoisie" to the party line. Secondly, it has provided investors with a convenient, centralised "one-stop shop" service at the national level (Interview 5). In short, the dynamics of party state capture have been constitutive of Hungary's recent industrial strategy.

5.2. Czechia: Branching Out

While the case of Hungary has been extensively researched and commented on in the media, much less is known about how Czechia has fared under the EU's new industrial policy. To begin with, Czechia has been among the most vocal opponents of the relaxation of the EU's competition regime. It has spearheaded a coalition against laxer rules for state aid on several occasions. This includes opposing the IPCEI instrument itself, but also the Temporary Crisis and Transition Framework introduced in 2023 to address the economic impact of Russia's invasion of Ukraine and to support the EU's green transition in a situation of energy crisis (Czech Republic et al., 2021; "Eleven EU countries," 2023; Packroff, 2024; Stolton et al., 2023). Such opposition at the EU level should be taken seriously to the extent that it opposed allowing core EU member states to use measures that had so far been available mainly for the peripheral states. However, unlike Hungary, which opposed relaxing state aid at the EU level while actively providing it at home, Czechia has been more consistent. State aid had been low before the Covid outbreak and the subsequent crises, and it barely ever reached the levels observed in neighbouring Hungary (Figure 2).

Of the state aid that Czechia provides, a large proportion of notified schemes have been filed under the rubric of environmental protection and energy savings (European Commission, 2026b). However, civil society organisations have drawn attention to the fact that these benefits are concentrated in the hands of a few Czech oligarchs and companies such as Daniel Křetínský's EP Group—a massive investor in energy, logistics, retail (Metro AG), media, and e-commerce—and Pavel Tykač's Sev.en Energy—a coal-focused energy group (Re-set, 2025). Close to 14 billion crowns (575 million euros) have flowed from the Czech budget to Křetínský's EP Group, the majority of which came from the Modernisation Fund, originally meant to support decarbonisation but ending up supporting new gas power plants and incinerators (Re-set, 2025). Tykač's Sev.en Energy received funds from the Modernisation Fund, approximately 86 million euros (Re-set,

2025). While civil society criticism has been dismissed as "ideological," the use of state aid for politically well-connected oligarchs is a long-term pattern observed in Czechia (Innes, 2014).

Despite the fact that a considerable portion of state subsidies accrues to well-connected domestic oligarchs as elsewhere in CEE, Czechia has shown also considerable foresight in strategic planning. Czech ministries have engaged in intense strategising for priority sectors of the country to develop in EU strategic sectors (Interview 6). The Czech government, consisting of a multi-party alliance against the techno-populist politician Andrej Babiš from 2022 to 2025, identified four strategic technological pillars as part of its national innovation and security agenda: semiconductors, artificial intelligence (AI), quantum technologies, and nuclear technologies (Interview 4). This approach is reflected in the National Semiconductor Strategy approved in October 2024, and reinforced through official government communications emphasising AI and quantum technologies as priorities for digitalisation and competitiveness, alongside nuclear technologies for energy security and advanced research (Ministry of Industry and Trade of the Czech Republic, 2024). Furthermore, "across the political spectrum, there is general agreement on the need to move from low-cost manufacturing to high-value-added production and invest in human capital, R&D, and strategic infrastructure" (Interview 4). While intense political competition prevents the monopolisation of the agenda-setting process by a single political party as in Hungary, it does not shorten policymakers' time horizons in the areas of innovation, research, and industry. The latter remain issues of low electoral salience in the Czech political system and are, for the most part, kept out of everyday political contestation (Interview 6).

In addition, Czechia adopted a smart specialisation strategy in 2016. Initially, the strategy focused on broad, cross-cutting, horizontal objectives during its first programming period until 2020. It has since shifted towards a diversified portfolio of vertically targeted selected priority areas (Interview 6; Figure 8). The strategy explicitly takes issue with FDI-led development and the associated industrial strategy of cost competitiveness. Instead, it pursues a vision of long-term competitive advantage based on knowledge and innovation in an array of strategic technologies and sectors (Ministry of Industry and Trade of the Czech Republic, 2022, pp. 3, 46, 70). Thus, while a considerable part of total Czech state aid has been directed to a traditionally "captured" sector such as energy, the detrimental effects of rent-seeking behaviour in narrowly distributive networks have been successfully contained through electoral competition and a meritocratic civil service. This is an important difference from Hungary's doubling down on an FDI-led, battery-centred strategy in recent years. Czechia has so far placed great emphasis on providing state aid for R&D (Hrubý, 2024, p. 18). This relative emphasis on R&D over direct investment for production was also highlighted by Czech industry representatives, who attributed this approach to the influence of academics within Czech political parties (Interview 4). Czechia's overall national R&D expenditure in 2024 was 1.82% relative to GDP, while Hungary's was only 1.31%. Both figures fall below the EU average of 2.24%, yet to different degrees. Czechia outperforms not only the majority of CEE countries in this respect, but also all Southern European member states—Italy, Spain, Greece, and Portugal (Eurostat, 2025).

Czechia has so far participated in two IPCEIs as a direct member: the first hydrogen IPCEI Hy2Tech (2022) and the second IPCEI on microelectronics and communication technologies (2023). The country has also approved major state aid—notably outside of the IPCEI framework—for the US chipmaker Onsemi to set up a novel integrated chip manufacturing plant for silicon carbide (SiC) power devices in Rožnov pod Radhoštěm. Onsemi has pledged an approximately 1.8 billion euros investment in the semiconductor factory

in Rožnov pod Radhoštěm in the Zlín Region, with the state aid by the Czech Ministry of Industry and Trade corresponding to 27% of the total investment. The aid promised is not part of an IPCEI, but is justified under the Chips Act and has been notified to the European Commission. Apart from the increasingly important Zlín Region, the South Moravia region is "one of the founding members of the European Semiconductor Regions Alliance and the only one from Central and Eastern Europe" (Hrubý, 2024, p. 18).

While state aid in the field of energy seems to follow long-established patterns of state capture by corporate agents, state aid in the fields of semiconductors has resulted from the combined strategic pressure by the EU and the presence of strong domestic companies and academics from non-captured sectors identifying a window of opportunity. Indeed, semiconductor chips were a largely overlooked area until the elaboration of the EU-level Chips Act. It was only after this external programmatic push that the Czech government "rediscovered" semiconductors as a strategic priority (Interview 4). Important factors for following the EU lead and deciding to invest in semiconductors have been not only the important socialist legacy of the country with semiconductor chips production in Czechia (Interviews 1 and 4), but also the advanced R&D infrastructure discussed above. More specifically, the country is endowed with a "strong research base in photonics, micro/nanoelectronics, and optical technologies, supported by universities and institutes….Brno produces roughly one-third of the world's electron microscopes" (Interview 4).

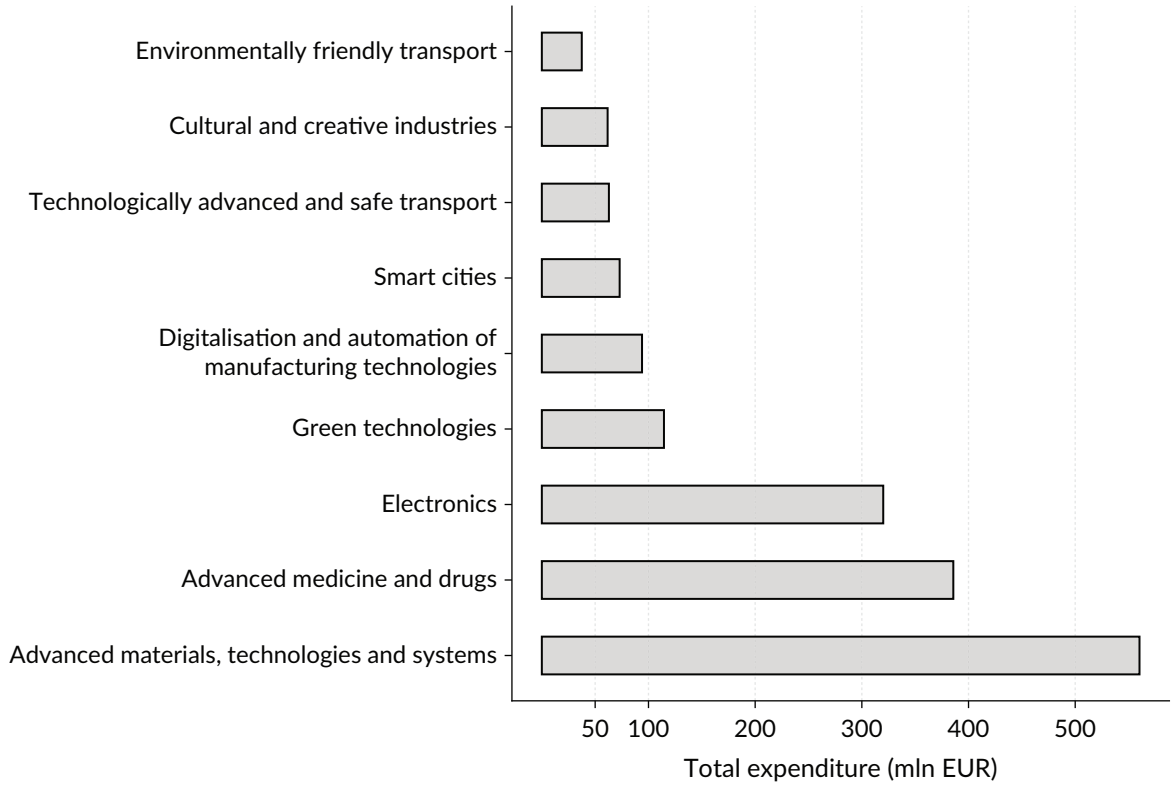

Figure 8. Vertical domains of Czechia's smart specialisation strategy by expenditure volume, 2021–2025. Source: Own calculation based on Ministry of Industry and Trade of the Czech Republic (n.d.); for details on the data source and the currency conversion methodology, see Section 3 in the Supplementary File.

Furthermore, the Czech government's overall interest in AI bears the imprint of techno-liberal visions of progress espoused by parties such as the Czech Pirate Party (Interview 1). It was also reinforced during the

Czech presidency of the EU Council, which prioritised shaping AI regulations during negotiations around the AI Act (Bertuzzi, 2022). Thus, in terms of choice of domestic strategic priorities, Czechia has very much aligned with the EU and followed broader EU developments. At the same time, domestic academic and corporate actors from these newly emerging sectors of the economy have been crucial in providing expertise and guidance in the process ("David Uhlir: I am delighted," 2025).

That said, *how* Czechia has pursued its objectives in priority sectors is another matter entirely. Despite their fundamental differences in geopolitical orientation, both Hungary and Czechia appear to be mavericks rather than laggards, each "playing their own game" rather than being passive recipients of European industrial initiatives. For example, Czechia has sought to complement US investment in semiconductors with potential investments from the key player in this sector—Taiwan. The two countries have signed a memorandum of understanding on upgrading key infrastructure and energy facilities in Ukraine. Taiwanese officials and companies were also key guests at the second day of the Czech semiconductor event Semicon Days in Prague in May 2025 (CzechInvest, 2025). In fact, Taiwan has chosen Czechia, alongside Lithuania and Slovakia, as a key partner for semiconductor collaboration in Europe. Furthermore, bilateral cooperation with Taiwan supports Czechia's integration into the TSMC-led European cluster, by ensuring proximity to Dresden's fab—a vital component supplier for Germany's car manufacturing industry—and by attracting Taiwanese suppliers to Czechia (Interview 4). At the same time, the biggest FDI-related news in Czechia in 2025 has been the decision of Toyota to build an EV factory there. The Japanese carmaker chose Czechia as an investment location over competitors in Western Europe—and Hungary—thus contributing to the country's diversification strategy (Toyota, 2025).

Even if Czechia has increasingly turned to a technocratic populism mode of governance (Guasti, 2020), this dynamic has been much more contested. The dominance of the businessman-turned-politician Andrej Babiš has been successfully challenged in several elections, leading to elite turnover and preventing the entrenchment of clientelist state–business relations to the same extent as in Hungary. While the influence of corporate oligarchs in fields such as agriculture and energy has persisted, the country's techno- and meritocratic civil service has not been completely captured and politicised, leaving space for strategising in non-captured sectors. Ultimately, this has led to a diversification—"branching out"—of the country's industrial efforts.

6. Conclusion: Playing Their Own Game?

This article documents the political-economic foundations of two distinct semi-peripheral responses to the EU's geo-dirigiste turn. Because of the different nature of state capture dynamics, Hungary and Czechia have embarked on two diverging individual industrial policy strategies despite multiple similarities between the two countries. Hungary has been exceptionally proactive in the use of vertical state aid instruments, dispensing approximately 4 billion euros to fund its nascent EV battery industry. Pulling the resources of a vertically monopolised state, the country has doubled down on its long-standing FDI attraction strategy and attracted massive amounts of investment in a single strategic sector, creating opportunities for domestic oligarchs in the process. Victor Orbán's industrial policy has thus bridged not only EU business demands, Russian energy, and Chinese know-how, but also non-captured and captured sectors of the economy to secure its political endurance. By contrast, the more fragmented regime of corporate state capture in Czechia has contained rent-seeking behaviour to easily captured sectors such as energy. This has provided the country with a policy

space to branch out into new areas of interest such as semiconductors, and to devote more resources to R&D activities.

In analysing these contrasting empirical cases, we defend an argument about industrial policy that contributes to the field in several ways. First, we fill an empirical gap in the growing literature on the EU's new industrial policy by offering a comparative case study of small dependent economies in CEE, transcending the literature's traditional preoccupation with large economies within Europe's economic core (Bora & Schramm, 2023; McNamara, 2023; Seidl & Schmitz, 2023). We also elaborate a broader way of looking at European industrial policy beyond the current emphasis on flagship instruments such as the IPCEIs (Lavery & Lopes-Valença, 2025; Schmitz et al., 2025). Secondly, contrary to interpretations of core–periphery relations in the EU that focus on structural constraints (Becker et al., 2020; Eberle & Monsees, 2026; Lavery & Lopes-Valença, 2025), we conceive of the political-economic terrain as a more differentiated range of adaptation strategies, conditioned not simply by state capacity, but also by the type of state–business relations dominant in each country. We contribute to the literature on state capture by arguing for the need of a more nuanced analysis of capture at the sectoral level. We show that party state capture and corporate state capture produce diverging results in terms of industrial policy: binding captured and non-captured sectors in a single strategy to maintain political power in the case of Hungary, and supporting captured and non-captured sectors in parallel, with non-captured sectors displaying dynamics of embedded autonomy, in the Czech case. Our theoretical lens enables us to zoom in on the *how* of industrial policy in CEE from a comparativist vantage point.

There are three further practical takeaways from our study. Firstly, even small semi-peripheral countries such as Hungary and Czechia cannot simply be characterised as "laggards" under the new geo-dirigiste turn. Although they face significant structural constraints, both countries have used state aid actively to pursue industrial upgrading. Second, even though Hungary and Czechia have diametrically opposed views on geopolitics, both countries have been proactive in establishing bilateral cooperation with third countries, while so far making little use of the specific instrument of IPCEIs. For Czechia, the main external partners have been the US, Taiwan, and Japan. For Hungary, mainly China and South Korea, with Russian energy as a material prerequisite for its massive reindustrialisation bet. The fact that semi-peripheral states would rather "play their own game" with third-country partners than use EU integration as the main platform for industrial policy cooperation does not bode well for Europe's aspirations to reduce its technological dependence. At the same time, this is a logical response to an EU-level industrial policy largely shaped by core EU states (Bora & Schramm, 2023; Šitera & Eberle, 2025).

Finally, in line with other contributions to this thematic issue (e.g., Wigger & Lavery, 2026), our article questions to what extent the "geo-dirigiste turn" represents a significant turn for CEE countries, many of which have previously relied on vertical state aid to pursue their specific model of dependent development. Rather than asking how "laggard" CEE states can be involved in more German-dominated IPCEI projects, perchance the more pertinent question to ask is why large core EU states such as Germany and France appear to increasingly resemble semi-peripheral Hungary in their unilateral pursuit of national industrial objectives through state aid or deregulation. Party capture in Hungary has allowed the government to suppress local dissent and fast-track foreign investment projects despite public opposition. Ongoing deregulatory proposals suggesting to "simplify" EU-level legislation and current French laws overriding local resistance to data centres mirror the Hungarian experience in worrying ways ("'Simplification' Bill: A denial

of democracy," 2025). CEE's experience of dependent development thus increasingly emerges as a "model" or a "cautionary tale" (even if non-explicitly discussed as such) for attracting FDI in core EU states (Rone, 2025). The democratic implications of such developments cannot be ignored.

The two trajectories analysed in this article do not exhaust all possible CEE responses to the increased salience of vertical state aid in the EU. However, the framework we propose paves the way for further exploration of this topic. Future research can explore in more depth the politics behind the diverging responses of CEE states, specifically examining the role of political ideology in shaping these responses. Secondly, further exploration could focus on instances of weak state capacity and its interaction with patterns of party and corporate state capture in cases such as, for instance, Croatia and Bulgaria. Finally, in line with Vukov's comparative approach (Vukov, 2023) and more recent studies of growth model readjustment in the EU's peripheries (Éltető & Medve-Bálint, 2023), further comparison between the EU's Eastern and Southern peripheries can shed important light on the relative role of state capacity and various types of state–business relations in defining national responses to the EU's industrial policy turn.

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Conflict of Interests

The authors declare no conflict of interests.

LLM Disclosure

OpenAI's ChatGPT has been used to streamline and debug parts of the R code used to plot the map in Figure 6. Apart from this, the underlying data analysis and everything else that you see and read in this article is human-crafted. So much so that the authors themselves find it hard to believe.

Supplementary Material

Supplementary material for this article is available online in the format provided by the authors (unedited).

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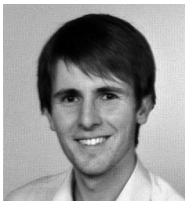

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