POLICY ANALYSIS - SEPTEMBER 2024

REGIONAL COOPERATION IN CENTRAL EUROPE

The Three Seas Initiative

Equilibrium Institute

Regional Cooperation in Central Europe

The Three Seas Initiative

04-2024

Responsible publisher: Tamás Boros,

Director of the Equilibrium Institute

September 2024

Future for Hungary

Equilibrium Institute

TABLE OF CONTENTS

EXECUTIVE SUMMARY

01

The Three Seas Initiative (3SI) connects thirteen eastern European Union member states along a north-south axis. By developing regional integration, it aims to create a functioning regional market through transport, energy, and digitalization projects by developing regional integration, which can significantly increase the competitiveness of the Central European region.

02

The 3SI allows Central European countries to pursue development goals independently and in their interests. East-Central Europe's initiatives can better represent the interests of its Member States than any cooperation initiated by foreign powers.

03

The 3SI's originality lies in its core concept: it is financed by an Investment Fund, which combines private capital, national contributions, and EU funds to support key developments in transport, energy, and digital infrastructure.

The 3SI is the first regional concept to rely on private capital and public funding to deliver cost-effective and sustainable projects.

04

East-Central Europe has significant economic potential: compared to 2019, a GDP increase of up to 35 percent is expected in the region by 2030. In addition, the infrastructural development needs, exceeding 500 billion euros, offer significant opportunities for attracting foreign investments and private capital.

05

There are essential security policy aspects of the cooperation. 3SI transport infrastructure investments will increase the region's economic and military mobility. Energy projects will help the green transition and increase competitiveness by diversifying energy supplies. They will also reduce the region's carbon footprint and energy dependency, thereby increasing energy security.

06

Compared to the countries concerned, 3SI is an initiative of great importance for our country. Due to Hungary's geographical location, the country will benefit from most regional projects. By consistently implementing the 3SI, Hungary can become the infrastructural, commercial, and transport centre of the region. Taking advantage of this opportunity and facilitating as many projects as possible would significantly increase Hungary's interests within the EU without much potential political risk.

07

For the Initiative's long-term success, increasing transparency, promoting institutionalisation, and ensuring the efficiency of financing is essential. Hungary must prioritise the initiative, both from a diplomatic and financial point of view. Hungary must realise that currently, there is no viable alternative for the East-Central European region to pursue truly efficient and integrated economic development outside of the Three Seas Initiative.

1. WHAT IS THE THREE SEAS INITIATIVE?

The Three Seas Initiative (3SI) connects the 13 eastern European Union member states along a north-south line but functions independently of the EU as a regional intergovernmental cooperation. Its main objective **is to create stronger economic, trade, and energetic collaboration** between its participants and thus help them catch up with Western European economies. At the same time, north-to-south infrastructure developments also raise **significant regional security policy opportunities**.

The Initiative was established in 2015 to boost trade, transport, energy and security integration between the Adriatic, Baltic and Black Sea regions. Initially comprising 12 countries (Austria, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Romania, Poland, Slovakia, Slovenia, Poland, Slovenia and Bulgaria), Greece joined in 2023, while Ukraine and Moldova were granted partner status at the same time.

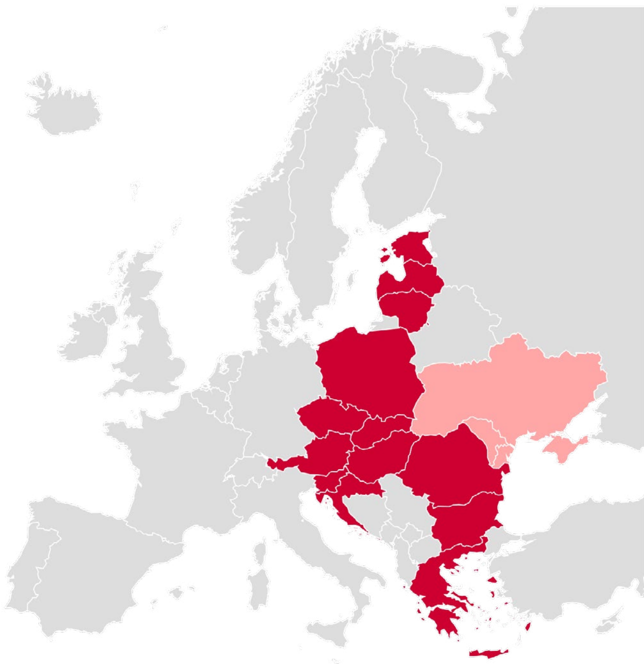

Figure 1: The Member States of the Three Seas Initiative

1.1 FROM GEOGRAPHY TO STRATEGIC PLAN

The infrastructure gap between the countries of East-Central Europe and Western Europe is still significant; however, **the Three Seas Initiative region is developing at an outstanding pace in European and even global terms.** According to the European Commission's Economic Development Index, this region has the highest growth potential in Europe and is also a strong performer in GDP per capita growth. Recent years' data also show that the economic importance of the region is steadily increasing.[1]

1 Ninth Report on Economic, Social and Territorial Cohesion, 2024. European Commission, https://ec.europa.eu/regional_policy/information-sources/cohesion-report_en – date of the latest download: September 4, 2024

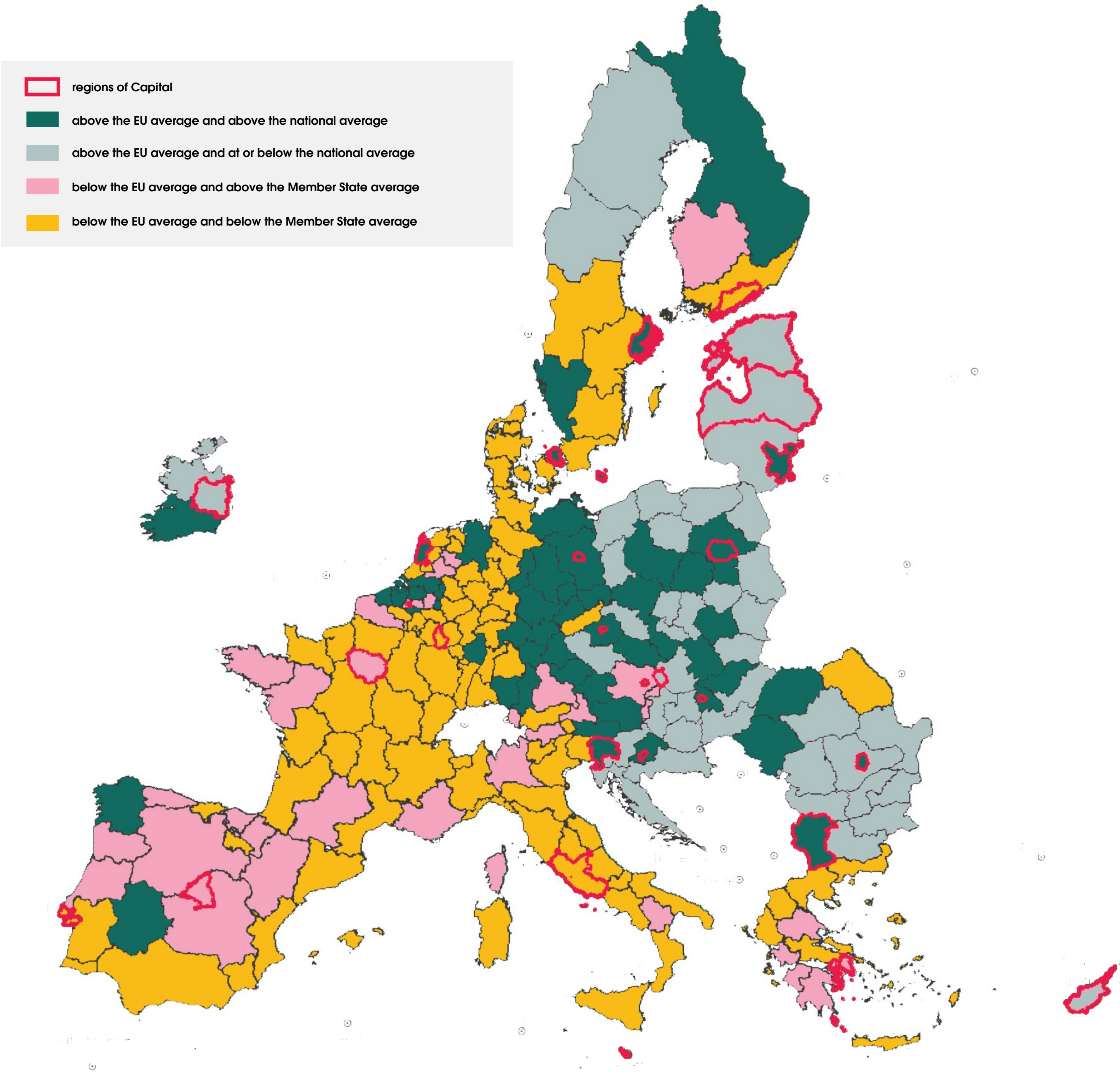

Figure 2: GDP per capita growth of EU regions relative to national and EU growth, 2001-2021 *(source: Ninth Report on Economic, Social and Territorial Cohesion)*

In the 3SI countries, GDP is estimated to grow by up to 35% in 2030 compared to 2019.[2] **The combined trade turnover of the member states will reach €225.6 billion,** while in the last five years, an average of 3.3% was achieved, well above the EU average. The 1.2 million square kilometres of the 3TK region are home to 111 million people, covering 28% of the EU's territory and 22% of its population.

2 Perspectives for infrastructural investments in the Three Seas region, 2019. Three Seas Initiative Investment Bank, https://3siif.eu/wp-content/uploads/2019/11/SpotData_Report_Three-Seas-region.pdf – date of the latest download: September 4, 2024

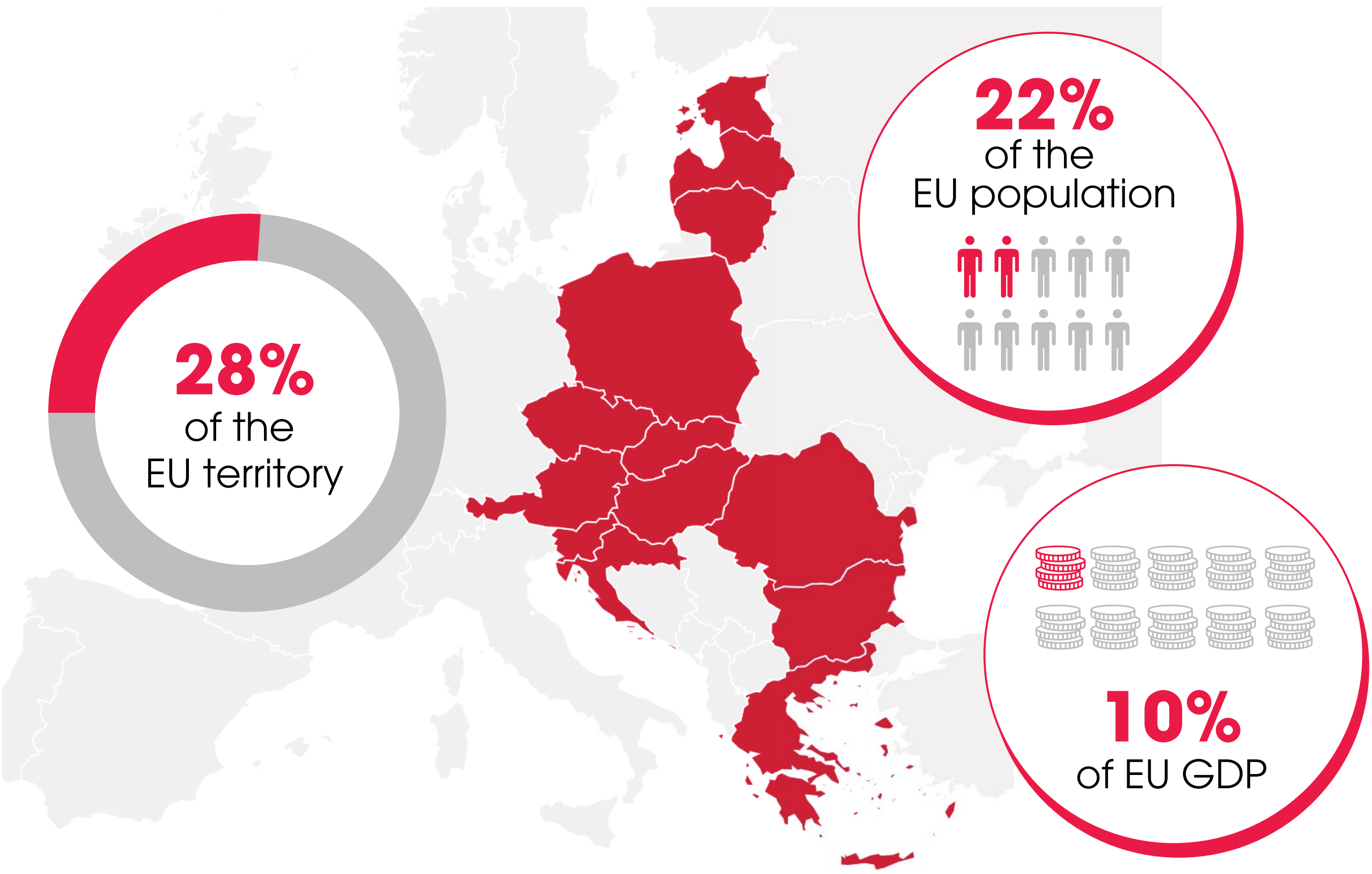

Figure 3: Area, population and GDP of the Three Seas Initiative in relation to the European Union

Next to the region's economic potential, **the cooperation's broader political stakes are equally important: the capacity and room for East-Central European countries to assert their interests.** Over the past decade, it has become almost commonplace among leading strategic analysts: **Central European countries have a vested interest in setting aside their historical, political, economic and other tensions to establish regional cooperation to advance their geopolitical interests.** If they fail to do so, they must accept that larger countries will define their future. Conversely, even an informal yet effective regional collaboration could elevate these countries' advocacy within the EU and NATO.

In the long term, the 3SI **can offer a viable and effective alternative to external, typically Chinese, visions** for the region while strengthening and promoting regional development interests. Initiatives such as the One Belt, One Road or the 14+1 regional cooperation framework, the latter of which lost momentum by 2024, have optimised the projects to be implemented primarily for Beijing, while the interests of East-Central European states were neglected. Even in peaceful times, it seems doubtful whether a cooperation dominated by China and based on Chinese interests can serve the economic interests of much smaller countries or how they can defend and assert their interests vis-à-vis Beijing in the framework of such cooperation. Since the beginning of the 21st century, **international relations have been increasingly influenced by growing tensions and conflicting interests between hegemonic powers. In contrast, the individual power of Central European countries in relation to Beijing has fallen to a level close to zero.** This context casts even more doubt on the usefulness and security balance of Chinese development cooperation.

The 3SI, on the other hand, is **specifically designed to support economic development projects of regional**

interest, taking into account the concerns of the East-Central European countries. Therefore, the 3SI aims to create an economic cooperation platform that simultaneously **strengthens the economies and national sovereignty** of the participating states. These are key considerations when weighing up the alternatives.

1.2. FUNDING - THE 3SI COULD BE THE BEGINNING OF A NEW CHAPTER

The value of a concept is always proportional to the funding available to implement it. The 3SI's funding cooperation framework is based on the principle of involving private capital alongside government and EU funds in the implementation of a market-oriented project. Thus, the 3SI departs from the traditional government-EU financing logic: **it puts the implementation of the necessary infrastructure projects on a market basis and emphasises return on investment.** The cooperation thus introduces a radically new, modern financing model, marking a new milestone in Central European collaboration.

Since 2019, the Three Seas Initiative Investment Fund has offered market-based solutions to finance key infrastructure projects in the region. Its **main objective is to reduce the development gap between regions in the European Union by investing in transport, energy, and digital infrastructure.** The political support expressed by the United States and the European Union can enhance the fund's effectiveness and efficiency, but only the US's actual financial entry will give the 3SI a real boost.

Year	Location	Major foreign participants	Joint Declaration
2016	Dubrovnik	**James L. Jones** General, former United States National Security Advisor, **Liu Haixing** PRC Assistant to the Minister of Foreign Affairs for East-Central Europe,	Joint Declaration
2017	Varsó	**Donald Trump,** President of the United States	Joint Declaration
2018	Bukarest	**Jean-Claude Juncker,** President of the European Commission, **Heiko Maas,** German Foreign Minister, **Rick Perry,** US Secretary of Energy	Joint Declaration
2019	Ljubljana	**Jean-Claude Juncker,** President of the European Commission, **Frank-Walter Steinmeier,** President of Germany, **Rick Perry,** US Secretary of Energy	Joint Declaration
2020	Tallinn	**Mike Pompeo,** US Secretary of State, **Margrethe Vestager,** Executive Vice-President of the European Commission	Joint Declaration
2021	Szófia	**Frank-Walter Steinmeier,** President of Germany, **Margrethe Vestager,** Executive Vice-President of the European Commission, **Kristalina Georgieva,** Managing Director of the International Monetary Fund	Joint Declaration

2022	**Riga**	**Frank-Walter Steinmeier,** German President, **Valdis Dombrovskis,** Executive Vice-President of the European Commission, **Kadri Simson,** European Commissioner for Energy, **Scott Nathan,** United States Secretary of State for International Development International Finance Corporation (DFC)	Joint Declaration
2023	**Bukarest**	**John Kerry,** US Presidential Special Envoy for Climate Action, **Jake Levine,** DFC Chief Climate Officer, **Venera Vlad,** European Bank for Reconstruction and Development (EBRD) EBRD and its lead banker, **Pilar Solano,** Director of the European Investment Bank (EIB) for East-Central Europe and South-Eastern Europe	Joint Declaration
2024	**Vilnius**	**Jichák Hercog,** President of Israel, **Jakov Milatović,** President of Montenegro, **Kamikava Jóko,** Foreign Minister of Japan, **Virginijus Sinkevičius,** European Commissioner for the Environment, Oceans and Fisheries in the European Commission, **Anna Lührmann,** Minister of State for European Affairs and Climate at the German Federal Foreign Office, **Geoffrey Ross Pyatt,** US Assistant Secretary of State for Energy Resources, **Chris Barton,** Her Majesty's Trade Commissioner for Europe (UK), **María Lledó Laredo,** Secretary General for European Affairs of Spain	Joint Declaration

Table 2: Summits of the Three Seas Initiative, with joint declarations adopted *(compiled by the Equilibrium Institute)*

Year	Country	Contribution Amount
2019	Poland	€750 million
2019	Romania	€20 million
2020	Latvia	€20 million
2020	Estonia	€20 million
2020	Slovenia	€23 million
2020	Bulgaria	€20 million
2020	Croatia	€20 million
2020	Lithuania	€20 million
2020	Hungary	€20 million
2022	USA	€280 million

Table 3: Contributions to the Three Seas Initiative Investment Fund *(Source: The Three Seas Initiative Research Center, based on data compiled by the Equilibrium Institute)*

In terms of specific development areas, **the region's overall infrastructure development needs exceed €500 billion,** representing significant investment and innovation opportunities. The estimated investment required for transport infrastructure is €120 billion, €280 billion for energy efficiency and security, and €122 billion for digital and information technology.[3]

By mid-2024, nine 3SI member states joined the Investment Fund, and the United States pledged to contribute USD 300 million (€280 million), which is yet to be materialised. These contributions bring the total amount of the Three Seas Initiative Investment Fund to €913 million by 2024, mainly from member state contributions. Of course, much more capital investment will be needed to implement the cooperation's joint projects.

3 Regional Potential, 2022. Three Seas Initiative Investment Fund, https://3siif.eu/potential – date of the latest download: September 4, 2024

2. THE DEVELOPMENT INVESTMENTS OF THE THREE SEAS INITIATIVE

In 2018, the third 3SI Summit in Bucharest adopted **the list of priority interconnection projects, which consisted of 48 transport, energy, and digital infrastructure projects.** For the 2024 Vilnius Summit, this list of infrastructure projects has tripled, with over 143 projects. The estimated gross investment value is €111 billion.[4]

Figure 4: Distribution of digital, energy and transport projects among the 143 priority interconnection projects *(Source: 3 Seas EU)*

2.1. TRANSPORT INFRASTRUCTURE

The 143 priority interconnection projects include constructing, **extending and renovating railways, tunnels, motorways, expressways, bridges and ports.** The common goal of the wide range of investments is to efficiently and seamlessly connect the region's key commercial hubs, thus fostering stronger economic cooperation and increased competitiveness. In the East-Central European region, significant differences persist in transport infrastructure quality between countries. Traditionally, the road and rail networks along the north-south axis are underdeveloped and need upgrading. For comparison, travelling between Hamburg and Naples by fast train takes approximately 20 hours, whereas the same distance between Gdańsk and Thessaloniki by train and bus takes around 52 hours.[5]

One of the Three Seas Initiative's key projects is constructing the Via Carpathia road network. This interconnecting motorway network will link the thirteen countries involved in the project in a north-south direction to improve trade and transport mobility.

4 Priority Projects, 2024. Three Seas Summit Vilnius 2024, https://3seas.eu/about/progressreport – date of the latest download: September 5, 2024

5 Lucas, Edward (2024) Seasick: The Three Seas Initiative. The Center for European Policy Analysis, https://cepa.org/article/seasick-the-three-seas-initiative/ – date of the latest download: September 6, 2024

Figure 5: Complete route of the Via Carpathia road network

This network of motorways and expressways would link economically important airports and three key ports. The ports of Klaipeda, Thessaloniki and Constanta will serve as strategic gateways for the countries of East-Central Europe, providing direct maritime connections to three seas and thus facilitating the region's global trade integration.

As the largest and busiest port on the Black Sea, **Constanta** will be able to play a prominent role in trade in the East-Central European region. Its strategic location connects landlocked countries with the Transcaucasus, Central Asia and the Far East. Its advanced infrastructure can provide direct links to the European transport network, including the Danube-Black Sea Canal, by connecting road, rail and inland waterway routes.

The Lithuanian port of **Klaipeda** is a regional trade hub, but it also plays a vital role in international maritime trade in the Baltic Sea. The port of Klaipeda does not freeze even in the coldest winters, so unlike many other northern ports, it is a port where shipping and trade can continue uninterrupted all year round. Klaipeda is one of the largest and busiest ports in the region. The continuous development of the infrastructure allows for increased volumes of goods to be transported, which will help the region's exports and imports to grow. It also contributes to the diversification of trade routes, significantly reducing Russian energy dependence.

Thessaloniki is Greece's largest port city, with direct access to the Mediterranean and global shipping routes via the Aegean Sea. As Greece is also the European bridgehead of the 21st-century Maritime Silk Road, the port of Thessaloniki is particularly important for the Balkans and Central European countries, **offering fast and efficient transport to European and Asian markets.** Thessaloniki's strategic location and advanced infrastructure allow the region to diversify its trade routes, thus reducing its exclusive reliance on the Adriatic Sea and Western European ports.

The planned north-south development of the Via Carpathia road network is set to play an instrumental role in reinforcing the transport network in East-Central Europe. **It will create direct trade routes between the Baltic, Aegean, and Black Sea regions, linking Klaipeda, Thessaloniki, and Constanta.** This connection will reduce the region's vulnerability to external influence, increase its strategic autonomy, and enhance its economic competitiveness.

The European Commission is paying particular attention to developing the trans-European transport network. **The Via Carpathia road network fits well into these plans, as its planned routes will create a north-south route linking the eastern borders of the European Union and NATO.** For this reason, in 2022, EU transport ministers unanimously supported the integration of the planned Via Carpathia into the trans-European transport network. This will allow the entire Via Carpathia route to become part of the broader pan-European transport corridor from Tallinn and Helsinki to Limassol in Cyprus.

The Via Carpathia is an opportunity to replace the traditional east-west trade axis on which the economic growth of the post-communist countries has been built. **With increased interconnection between the countries of the Three Seas Region, the road network could become the infrastructural backbone of the eastern part of the EU,** creating the potential to strengthen economic links within the region.

2.2. ENERGY INFRASTRUCTURE

A key objective of energy investments in the cooperation framework is to **promote energy supply security and diversification in the region.**[6] The gas pipeline system in Central and Eastern Europe is predominantly east-west oriented and designed entirely for Russian gas import. Strengthening gas transport along the region's North-South axis would be strategically important to reduce regional countries' energy security exposure and vulnerability.

Additionally, the Three Seas Initiative can provide regional-level solutions to **support the development of infrastructure required for producing and transporting renewable energy.** Currently, 39% of the projects backed by the Initiative focus on the energy sector. This is especially crucial, as **the Russian attack on Ukraine has led to a broad consensus that reducing energy dependency and enhancing gas transport infrastructure are top security priorities for East-Central Europe.** LNG terminals and pipelines planned under the 3SI would be part of the already developed North-South gas corridor. This project includes new gas interconnectors, such as the BRUA pipeline from Bulgaria to Austria, the Eastring pipeline from Slovakia to Bulgaria and the GIPL pipeline linking Poland to Lithuania.

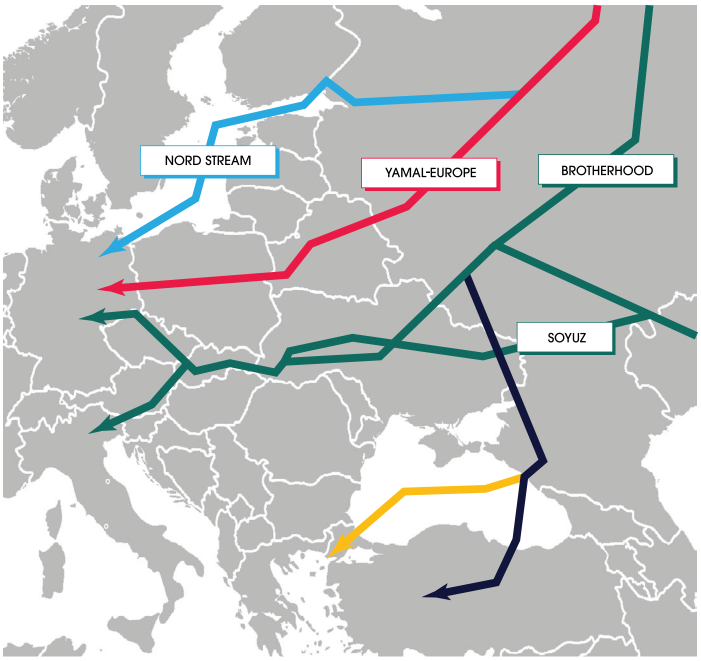

Figure 6: The main East-Central Europe gas transmission pipeline system in today's

6 Energy, Efficiency and Security, 2024. Three Seas Initiative Investment Fund, https://3siif.eu/energy – date of the latest download: September 6, 2024

By providing necessary interconnections, the three priority ports in the 3SI could play a **central role in the transportation and trade of goods and the transport of natural gas.** In the Romanian port of Constanta, an LNG terminal and regasification unit is planned to be built in Romanian-Azeri cooperation, together with a Black Sea LNG terminal, making Constanta a key point for LNG imports in Eastern Europe in the future. Romania is projected to become the largest producer of natural gas in the European Union by 2027,[7] when the Neptun Deep offshore gas field production takes off, which urges the building of adequate gas transport infrastructure. A floating LNG terminal in the Aegean Sea at the Greek port of Thessaloniki is scheduled to be operational in 2025. The Klaipeda LNG terminal in Lithuania has been operational since 2014 and will operate at increased capacity after its planned expansion in 2026. This will require constructing and expanding import pipelines to Greece and Lithuania.

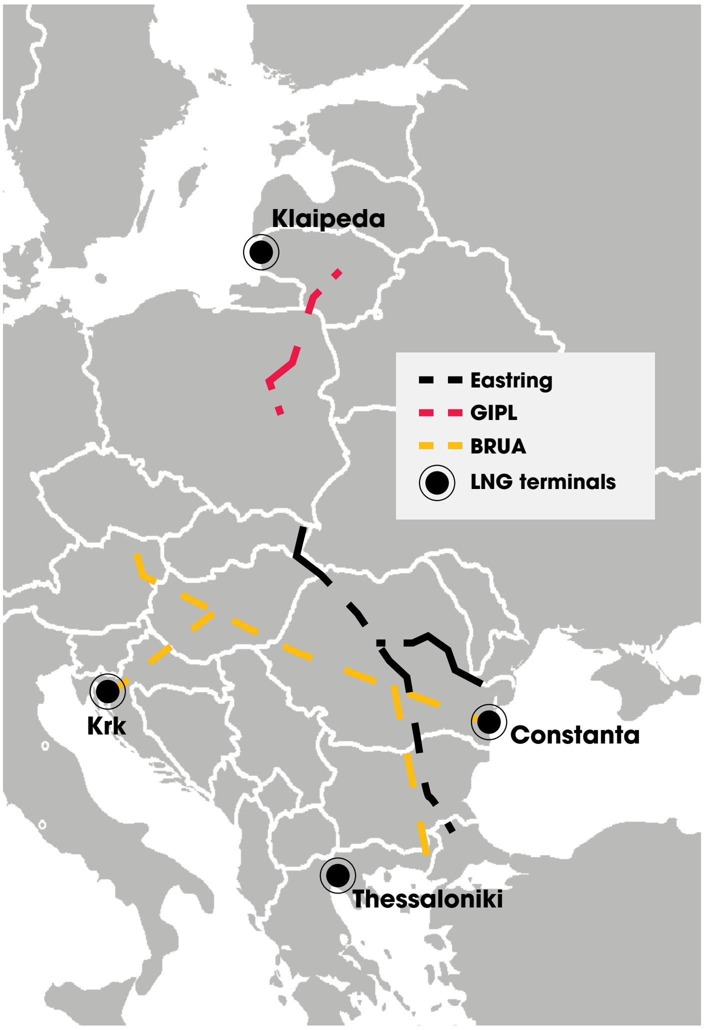

Figure 7: LNG terminals and pipelines planned under the 3SI

The necessity to enhance energy security and combat climate change is generating a surge in demand for lower-carbon energy sources, including natural gas and liquefied natural gas (LNG), along with renewable energy sources, across Europe. With the proliferation of decentralised energy systems, it is therefore **increasingly urgent to develop networks to meet the growing energy needs of the economy in the future.** Hence, in addition to its primary focus on gas pipeline and LNG terminal construction, the Three Seas Initiative also encompasses investments in renewable energy and grid development.

7 Szőke, Evelin (2023) Romania could become largest gas producer in EU after the launch of Neptun Deep project. CEEnergy News, https://ceenergynews.com/oil-gas/romania-could-become-largest-gas-producer-in-eu-after-the-launch-of-neptun-deep-project/ – date of the latest download: September 9, 2024

The green transition in East-Central Europe is strategically crucial. **The outbreak of the Russian-Ukrainian war and the market turbulence in the winter of 2022 have highlighted the vulnerability of the region's energy supply and the importance of alternative energy sources.** Although the region is still undergoing an intensive transition to renewable energy, the process is significantly hampered by under-investment and infrastructure gaps. Cross-border electricity flows are expected to increase by 53% in the 3SI region between 2023 and 2030, which also underlines the need for grid development.[8]

The development of adequate infrastructure, including systems to support renewable energy sources and the development of electricity grids, is essential to strengthen the region's energy security and ensure sustainable development. Cross-border electricity trade is impossible without the proper infrastructure - this is why the Three Seas Initiative prioritises grid development.

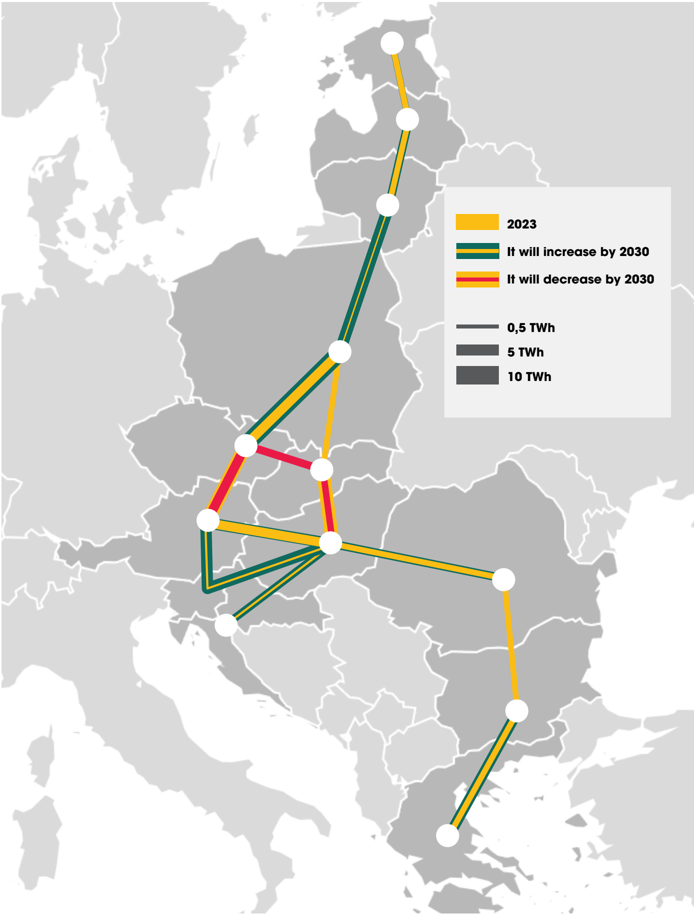

Figure 8: Evolution of cross-border electricity trade between the Three Seas countries between 2023 and 2030 *(Source: Ember)*

2.3. DIGITAL INFRASTRUCTURE

With the dynamic growth of residential, industrial and government data use, it is becoming increasingly crucial to construct an effective, comprehensive and secure digital infrastructure at both the individual Member State and regional levels[9] **The digital development of the 3SI Member States is well below the EU average, and this is another area where there is a particular need for improvement.**

Digital infrastructure, however, demands a different approach compared to transport and energy projects, as **digital developments are predominantly driven by the private sector rather than by the state.** This is not necessarily an obstacle, as digital services there is a significant need for investment to meet the growing demand for energy, which is why one of the **3SI's priorities is to increase the involvement of private capital in this area, based on a comprehensive and long-term strategy.**[10]

8 Czyzak, Pawel – Theisen, Nolan (2024) Empowering Central and Eastern Europe. Ember, https://ember-climate.org/app/uploads/2024/04/RES-3TK/3SI-briefing.pdf – date of the latest download: September 6, 2024

9 Digital and Information Technology, 2024. Three Seas Initiative Investment Fund, https://3siif.eu/digital – date of the latest download: September 6, 2024

10 Fleck, Jörn – Dhankher, Akshat – Batchik, James (2023) Policy memo: How to sharpen the digital pillar of the Three Seas Initiative. Atlantic Council, https://www.atlanticcouncil.org/blogs/new-atlanticist/policy-memo-how-to-sharpen-the-digital-pillar-of-the-three-seas-initiative/ – date of the latest download: September 6, 2024

For the time being, digital infrastructure is certainly receiving less attention than the other two areas within the planned projects of the Three Seas Initiative. In recent years, only 8-14% of the priority projects have been linked to this area,[11] despite the region's great need for more dynamic development and the significant economic benefits that could be derived from investment in digitalisation.

2.4. SAFETY ASPECTS

The Three Seas Initiative will primarily stimulate economic growth through the development of transport, energy and digital infrastructures. Moreover, **it will also increase the military and geopolitical resilience of the region.** In the long run, these developments will strengthen the region's position within the European Union while reducing its vulnerability to external threats and contributing to the security of NATO's Eastern border.

In this respect, **transport infrastructure development, including the Via Carpathia route, deserves particular attention.** The outbreak of the war in Ukraine has highlighted the importance of NATO's eastern borders. However, Eastern Europe, and in particular the Baltic region, has traditionally been a weak point in the Alliance's defence system.[12] **The region's transport network is currently mainly east-west oriented, while north-south transport links are inadequate and underdeveloped.** Establishing a coherent north-south road network through the Via Carpatia, which would connect the Baltic States and Romania, would also have a beneficial impact on the region's military security.

The region's unilateral reliance on Russian energy sources represents a significant security concern. Significant improvements have been made in this respect in recent years, yet considerable work remains to be done. **The 3SI's other planned energy investments - the North-South gas pipelines, new LNG terminals and the development of energy supply networks - will assist regional countries in further diversifying their energy imports.** As a gas producer and importer situated along the Black Sea, Romania will not only be able to strengthen its energy supply by developing the appropriate regional infrastructure but will also contribute to the energy security of the Balkans and East-Central Europe as a regional energy producer. The ports of Lithuania and Greece can play a similar role in the region's energy supply by importing liquefied natural gas - but only when the necessary infrastructure is in place.

As governmental and private agencies increasingly rely on digital systems for their daily operations, the risk of cyber-attacks is increasing. Strengthening digital networks and cybersecurity systems planned under the Three Seas Initiative will increase the resilience of countries in the region to external threats and cyber-warfare. **The development of digital connectivity in the region will thus serve not only economic integration but also the protection of government and indispensable infrastructure, which are key national security interests for all Member States.**

11 Priority Projects, 2024. *Three Seas Summit Vilnius* 2024, https://3seas.eu/about/progressreport – date of the latest download: September 5, 2024

12 Arha, Kaush – Eberhardt, Adam – Messa, Paolo – Scutaru, George (2024) Bridging the Baltic, Black, and Adriatic seas would serve both European and NATO interests. *Atlantic Council*, https://www.atlanticcouncil.org/blogs/new-atlanticist/bridging-the-baltic-black-and-adriatic-seas-eu-rope-nato/ – date of the latest download: September 7, 2024

3. SIMILAR REGIONAL COOPERATION FRAMEWORKS

The fact that East-Central European countries could benefit from regional cooperation has encouraged several successive governments since the 1989-90 regime changes to try to establish a cooperative framework. Thus, the region's countries have established several forms of regional cooperation since the regime change, but most have not proved effective for the region's long-term development.

3.1. THE REGION'S OWN INTERNAL INITIATIVES

The Visegrad Group (V4) is an informal political alliance established in 1991 by Poland, Hungary, the Czech Republic, and Slovakia. Its primary objective is to facilitate post-communist transformation and to support the European integration processes. The four Central European countries sought to build closer ties with the European Union and NATO in order to ensure stability and economic development in the region. In the early decades of cooperation, the V4 countries successfully supported each other in the NATO enlargement process and EU accession and attained notable outcomes in fields such as regional development, science, education, and the fight against crime.

Figure 9: Member States of the Visegrad Cooperation

Economically, the V4 has grown steadily since the 2000s, and accession to the European Union has contributed significantly to bringing the V4 countries closer to the average GDP per capita level of the EU15. The reduction in income disparities accelerated after EU membership, and at the same time, the region's economic catching-up has advanced significantly. However, this has also **exposed structural weaknesses in V4 cooperation, particularly in economic and trade relations.** Since its inception, the group has not been able to develop its joint economic projects to contribute to the development of a larger economic platform, and the size of the four Central European countries has not been large enough to attract major potential foreign investors - cooperation has remained primarily political.

The formal institutions of the Visegrad Cooperation remain undeveloped: the only permanent entity is the Visegrad Fund, which supports cultural, scientific and educational projects. Due to its informal nature, the V4 can only work effectively if there is political agreement - but political tensions in recent years have made continuity of cooperation difficult. **The war in Ukraine has finally deepened divisions within the V4 to the point where they have shaken the cooperation framework to its foundations.**

The 3SI is founded upon the participating countries' economic interests and long-term security concerns and thus implies more stable and closer shared interests. **While the V4 today is mainly political and cultural cooperation, the 3SI strengthens the integration and autonomy of the East-Central European region through concrete economic projects based on common interests.**

The Bucharest Nine (B9) was established in 2015, following the Russian annexation of Crimea, by nine East-Central European NATO member states (Poland, Romania, Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Slovakia). The organisation aims to strengthen collective security, encourage increased defence spending, and represent the interests of the participants within NATO.

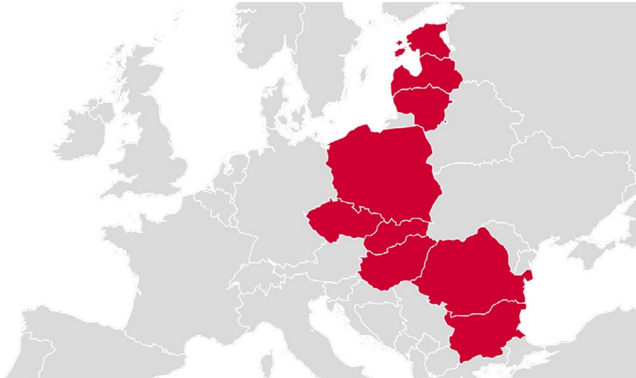

Figure 10: Member States of the Bucharest Nine

Cooperation plays a key role in strengthening NATO's eastern wing, which is reflected in the increase in defence budgets of the participating countries. The average estimated defence budget of the countries involved will reach 2.68 percent of GDP in 2024, just below the NATO average of 2.71 percent.[13]

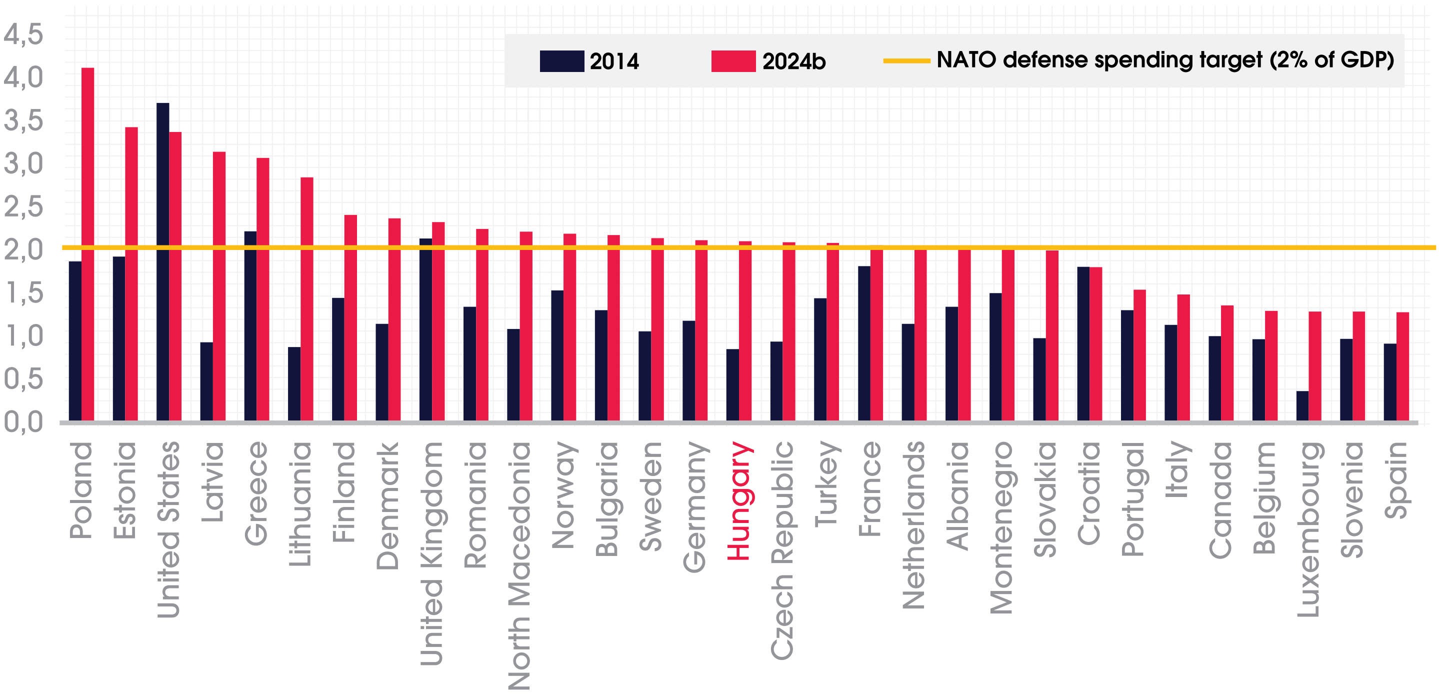

Figure 11: NATO member states' defence spending as a share of GDP *(2024 figures are estimates. Source: North Atlantic Treaty Organization)*

13 Defence Expenditure of NATO Countries 2014-2024. North Atlantic Treaty Organization, https://www.nato.int/cps/en/natohq/news_226465.htm – date of the latest download: September 4, 2024

However, the Bucharest Nine have faced several structural challenges from the outset. The B9 operates more informally, focusing mainly on security policy and strategic dialogue. It aims to formulate joint strategic statements, thus reinforcing the perspectives and interests of the region's countries in strategic decisions. **However, the B9 does not have its own economic or political agenda, formal institutional structure, or funding mechanism.**

Because of its security focus, **several Western European countries have criticised the existence of the Bucharest Nine.** Some see the regional initiative within NATO as a tool for NATO regionalisation, a move in a direction that could weaken the internal cohesion of the defence organisation. Others argue that the B9 countries, fearing the Russian threat, are seeking closer cooperation with the United States, which could negatively impact the EU as a political alliance, especially when the EU seeks to strengthen its common security and defence policy.

3.2. THE 14+1 COOPERATION - ONE ZONE, ONE ROAD

The initiative, launched initially by Beijing in 2012 as the 16+1 Cooperation, **aimed to strengthen economic ties between 16 East-Central European countries and China and was incorporated into the One Belt, One Road initiative in 2013.** 11 of the participating countries are also EU Member States, making them particularly attractive destinations for China - **but the investment needs and development potential of the whole region make it an attractive area for infrastructure development and investment.** Recognising this, China has offered the region a USD 10 billion credit line, mainly for infrastructure investment and the development of trade links. The cooperation, which promises to boost the economies and integration of the East-Central European countries, was expanded to 17+1 in 2019 with the accession of Greece.

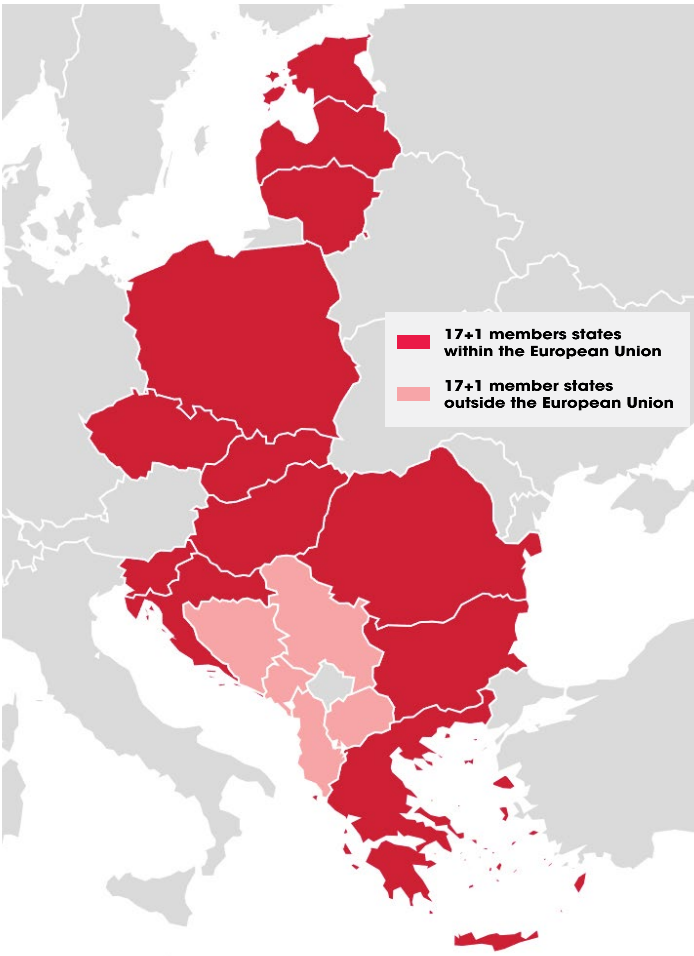

Figure 12: European participants in China's 17+1 cooperation

However, over the past decade, it has become clear that the **17+1 partnership is not delivering the expected results.** Although it initially offered major opportunities, **in reality, most of the projects failed or were never actualised.** Hungary and Serbia have become the most active participants in the cooperation, but most countries in the region have not seen significant Chinese investment.[14] In 2021-2022, the number of participants fell to 14 with the withdrawal of the three Baltic states, **leaving only nine EU countries in the cooperation, while the initiative is coming under increasing criticism.**

It has become apparent that the 14+1 initiative is not primarily concerned with the internal priorities and interests of the East-Central European region; rather, its focus is on China's geopolitical objectives and the expansion of its (alt: Beijing's) economic and political influence. Chinese-funded projects often require Chinese firms and workers to carry out the construction, significantly reducing the local returns on the investment. In addition, over the past decade, Chinese investment has been chiefly directed to non-EU countries, especially Serbia, while most of the 16+1 members have benefited only marginally from Chinese investment and capital. Hungary has been virtually the only exception to this over the past year, **becoming the primary destination for China's EU investment by 2023.** However, Chinese investment in Hungary did not come to Hungary within the multilateral framework but in practice through bilateral Sino-Hungarian agreements, which means that a larger framework would not have been necessary. In addition, **bilateral projects have no regional impact: they do not strengthen the development of a regional Central European market nor the utilization of regional resources.**

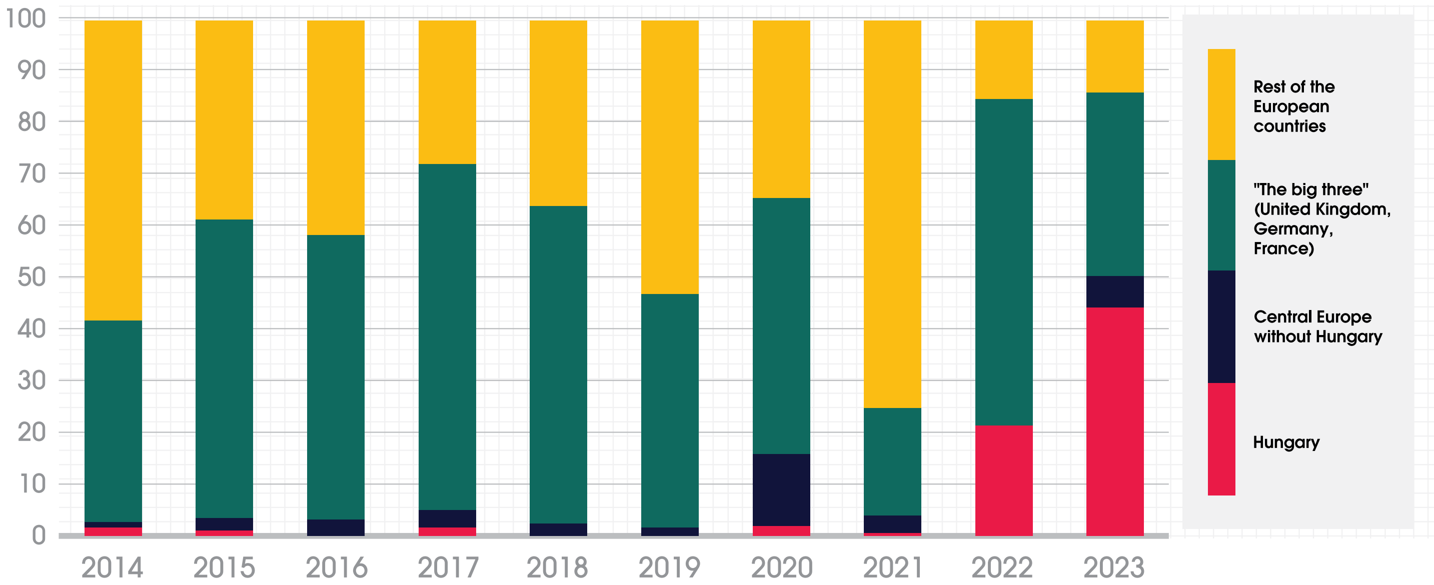

Figure 13: The percentage of Chinese investment by country or country group *(Source: Mercator Institute for China Studies/Rhodium Group)*

14 Matura, Tamás (2021) Chinese Investment in Central and Eastern Europe. Central and Eastern European Center for Asian Studies, https://www.china-cee-investment.org/_files/ugd/72d38a_373928ea28c44c7f9c875ead7fc49c44.pdf - date of the latest download: September 6, 2024

The main drawback, however, is that Chinese investment in the **14+1 cooperation is not designed with the region's long-term economic and social development goals in mind.** Chinese capital usually arrives not as foreign direct investment (FDI) but through acquisitions and other transactions that have contributed less to the sustainable growth of local economies. This practice has cast doubt about the initiative and highlighted that **China's strategy has sought to exploit the region's vulnerabilities rather than promote genuine economic integration and development.**

On the other hand, the **Three Seas Initiative represents a regional coalition that builds on the self-interest of the region's countries and responds directly to local economic, infrastructure, and energy challenges.** The 3SI aims to enable the participating countries to shape their development together through the economic integration of East-Central Europe, using their resources and the opportunities offered by the region. Such internal, region-specific initiatives can be more effective and sustainable for long-term economic development and market integration.

4. WHY IS IT BENEFICIAL FOR HUNGARY?

Over the past five to ten years, the Hungarian economy has increasingly moved towards accessing distant, larger markets, which has brought and can bring new opportunities for many economic actors. **For Hungarian-owned SMEs, however, the countries of the immediate region represent a more tangible and accessible target market.**

Furthermore, in distant markets, Hungarian economic actors, including larger companies, are constrained to assume the role of a smaller partner over the long term. Conversely, **a Central European regional framework provides an opportunity for cooperation between markets of roughly comparable size, in which the assertion of interests can naturally occur in a more balanced framework.** In the event of conflicting interests and economic or diplomatic turmoil, the loss of a Hungarian investment in distant markets is not a significant concern.

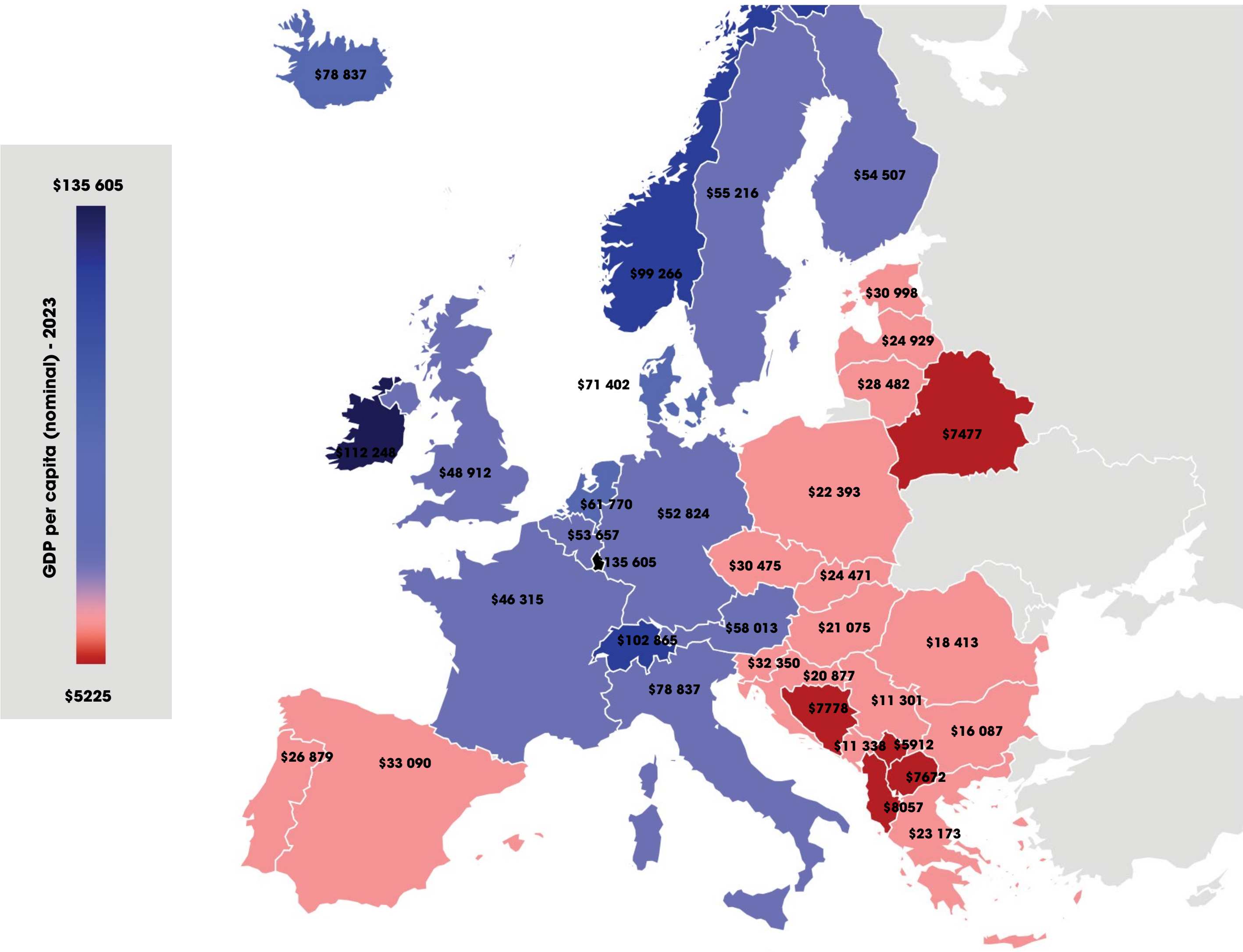

Figure 14: Comparison of European countries by GDP per capita in 2023 *(Source: IMF)*

It is no coincidence that p**olicymakers have recognised the importance of a regional framework for decades.** The development and strengthening of such cooperation is one of a few economic-political objectives that have enjoyed the support of every successive Hungarian government since 1990. Yet, **even three and a half decades after the regime change, a truly adequate regional infrastructure providing dense interconnections has not been built in East-Central Europe.** This is precisely what the 3SI aims to achieve, and **Hungarian economic actors would be the main beneficiaries.** The resulting benefits cannot be replaced by increased access to distant markets. The long-term Hungarian strategy can best benefit Hungarian businesses and national advocacy if it prioritises integration with nearby regional markets.

We are also in a good position to do so, as **the added value of the Hungarian market is higher regionally than for all other Member States in the region.** Hungary's central geographical location within the region means it can benefit from almost all the 3SI-related investments, even those not originally primarily Hungarian. **With adequate support for the cooperation, Hungary can play a key role in boosting the region's economic growth while strengthening its role in East-Central Europe's infrastructure, trade and transport routes. This could significantly increase the country's economic and geopolitical leverage within the European Union and NATO.**

Since 2015, Hungary has been a member of the Three Seas Initiative (3SI) and been increasingly involved in joint projects in recent years. Even though Hungarian foreign policy activity in regional cooperation has traditionally been focused on the Visegrad Four since 1990, the country's activity in the 3SI has become increasingly active in parallel with the growing internal tensions within the alliance and consistent Polish support for the 3SI. Today, no other cooperation framework in the East-Central European region **can provide immediate, short-term, tangible benefits for the Hungarian economy, primarily through infrastructure development.**

Currently, no other cooperation framework in the East-Central European region could bring immediate, short-term, tangible benefits to the Hungarian economy, primarily through infrastructure development, without significant political costs. The 3SI also provides a predictable medium and long-term economic framework, while at the same time, it does not weaken national sovereignty in the political sphere. Instead, the initiative strengthens it while deepening relations with neighbouring countries. **Without disadvantages, the 3SI is a regional framework with tangible potential benefits, which can effectively support the representation of Hungarian economic and strategic interests in the East-Central European region.**

In concrete terms, one of the most significant projects from a Hungarian perspective is the **Via Carpathia road network.** More than 340 kilometres of the 3,000 kilometres of highway are planned to run through Hungary. A large part of the Hungarian section is made up of previously built motorways, so only the completion of the M30 motorway was needed to complete the route: this section was completed in 2021, five years ahead of the 2026 deadline. The development of the north-south transport corridor will not only improve regional connectivity but **will also bring significant economic benefits to Hungary by increasing the flow of goods and strengthening trade routes.**

By becoming an active, even proactive member of the Three Seas Initiative, **Hungary can play a greater role in shaping the region's long-term development while strengthening its position.** As part of the Initiative, key investments can be made in the country, while regional connectivity opens up new opportunities for small and medium-sized enterprises to expand regionally. There is little opportunity today for effective, integrated economic development of the East-Central Europe region, implemented according to common regional interests and criteria, outside the Three Seas Initiative. Hence, it is within our primary interest to recognise that **a larger economic framework and a well-functioning regional market represent significant added value for Hungarian economic actors.** Contributing to the 3TK does not entail any risk, while a larger than minimal contribution can also open up considerable room for manoeuvre for the Hungarian economy and diplomacy in developing regional cooperation across Hungarian borders.

5. THE MOST URGENT TASKS

Despite the potential benefits of integration, the Three Seas Initiative currently faces a number of challenges that must be addressed if it is to succeed. The key challenges for the 3SI:

- lack of visibility
- lack of institutionalisation
- the question of funding

The lack of visibility of the 3SI significantly limits the economic and geopolitical potential of the initiative. Currently, **the Initiative is mainly known amongst experts and governmental and diplomatic circles, but there is a significant lack of information among the wider public, especially among potential investors.**[15] Therefore, a well-thought-out communication strategy is needed **to increase the visibility and understanding of the 3SI, strengthen its media coverage, and highlight the region's economic and commercial potential.** This would reinforce political support for regional integration, facilitate the increased involvement of the private sector, and broaden the acceptance of the region's development objectives.

The institutionalisation of the 3TK Investment Fund is of primary importance for the initiative's success. **The 3SI's decision-making and organisational structures are currently underdeveloped,** which presents significant challenges in coordinating projects and unifying the initiative's strategy.[16] Learning from the shortcomings of the V4, **the initiative needs a stable organisational framework that can ensure transparency in project management, monitoring and funding, as well as effective cooperation between Member States.** Institutionalisation would play a key role in better achieving common objectives, strengthening coherence between Member States and the long-term sustainability of development cooperation.

Increasing **funding** efficiency, both in terms of public contributions and private capital, is a pressing challenge. Public contributions from participating countries do not flow directly to projects in the country concerned, which can lead to tensions between the cooperating parties - but the debate on this can also hinder the achievement of common goals and the necessary cohesion. In addition, the financial commitment and active support role of the United States is a particularly sensitive political issue. **In order to expand and stabilise funding, innovative financing models and the involvement of private capital are needed to make project implementation more dynamic.**

To address these challenges, the Three Seas Initiative must develop and implement a proactive strategy. This should include measures to increase visibility, deepen institutionalisation and strengthen funding mechanisms. For the initiative to succeed, **it must prioritise strengthening communication and public relations, developing a stable organisational structure, and actively engaging private capital and international partners.** To a large extent, the future of the 3SI and its effectiveness will depend on whether these challenges are adequately addressed in the forthcoming years.

15 Khakova, Olga (2024) From Vilnius to Warsaw: How to Advance Three Seas Goals Between Summits. Atlantic Council, https://www.atlanticcouncil.org/blogs/energysource/from-vilnius-to-warsaw-how-to-advance-three-seas-goals-between-summits/ – date of the latest download: September 6, 2024

16 Khakova, Olga (2024) From Vilnius to Warsaw: How to Advance Three Seas Goals Between Summits. Atlantic Council, https://w ww.atlanticcouncil.org/blogs/energysource/from-vilnius-to-warsaw-how-to-advance-three-seas-goals-between-summits/ – date of the latest download: September 4, 2024

6. CONCLUSION

The Three Seas Initiative offers tangible and short-term benefits for the East-Central European states. **Thanks to the cooperation, the region can finally take its fate into its own hands, determine its interests and shape its future while avoiding external influences.** The main strength of the 3SI is that it is an internally driven regional cooperation. It aims to connect the whole region and create a larger economic platform, offering significant and attractive market opportunities for foreign capital and local small and medium-sized enterprises.

The legitimacy and effectiveness of such internally driven regional initiatives lie in **their ability to directly promote the economic and political interests of the participating countries.** The 3SI contributes to the region's economic stability and growth not only through infrastructure investment but also through market integration and trade cooperation. Alongside the EU's cohesion policy and overall regional development, the 3TK will create a larger platform where Member States can act together in international markets, strengthening the region's global competitiveness. **If the region does not pay sufficient attention to its integration and development, external actors will pursue their interests, which may not align with local objectives.** Therefore, it is essential to develop transport, energy, and digital infrastructure in an integrated way, connecting the region's countries and ensuring sustainable economic growth.

Hungary, in particular, has considerable potential for the Initiative**. The country has the ability to become a pivotal figure in the region if it engages proactively, constructively, and supportively in the region's collective deliberations and the formulation of its future direction. In this way, it can also contribute to the development of the Hungarian economy and reinforce the country's economic position.** The development of the North-South transport and trade axes could benefit the Hungarian economy, particularly in terms of providing a larger market for small and medium-sized enterprises, which could add significant value to the Hungarian economy. Furthermore, the region's enhanced infrastructure interconnection has the potential **to reinforce Hungary's economic and geopolitical standing within the Central and Eastern European region and the European Union.**

ABOUT US

The Equilibrium Institute is Hungary's independent think tank. In order to renew the political discourse in Hungary, we draft political, economic and cultural future visions and write detailed policy proposals and strategies based on these visions. We are engaged in an ongoing dialogue with the most important political, economic and cultural decision-makers. We persuade them of the importance of implementing our policy proposals, and we provide expert assistance in the process of policy implementation.

OUR VISION

The Equilibrium Institute believes in a Hungary in which public discourse is not dominated by political power struggles but by expert debates about the future of our country and the consensus that emerges from these debates. In 2020, the Equilibrium Institute published its political, economic, and social vision of Hungary entitled Hungary 2030 – A Future Vision for Hungarians. In this publication, we charted the path that we need to follow to make Hungary more prosperous and happier.

OUR MISSION

In line with the vision of Hungary's future presented in our publication, Hungary 2030, the Equilibrium Institute works on creating a smart, environmentally cleaner nation rooted in a strong community. To this end, we write widely appealing and practical policy proposals that serve the development of our country and discuss them jointly with the best domestic and international experts. Our goal is to ensure that current and future political and economic decision-makers understand, embrace, and implement these recommendations.

OUR FUNDAMENTAL VALUES

The Equilibrium Institute is a future- and solution-oriented policy think tank. It is an autonomous institution independent of all domestic and foreign parties and political and economic interest groups. Its sole purpose is to contribute to the creation of a more prosperous and happier Hungary by presenting its work on the country's future vision, providing a forum for comparing and contrasting different visions and opinions, and drafting public policy recommendations. The Equilibrium Institute is happy to cooperate with any political, economic, and cultural stakeholders who can identify with the fundamental values expressed in the vision we outlined in our publication entitled Hungary 2030.

OUR TEAM

The staff and advisory board of the Equilibrium Institute comprise internationally acclaimed experts, renowned for their excellence in research and analysis across a range of disciplines. Our think tank is supported by more than 30 experts, including economists, sociologists, political scientists, international experts, urbanists and climate scientists.

OUR EXPERTS

TAMÁS BOROS

Executive director and co-founder

Tamás Boros is the executive director and co-founder of the Equilibrium Institute. He was the co-founder and co-owner of Policy Solutions, a consultancy and research institute. He is a recurring guest on a variety of political talk shows and often comments about public affairs for leading international media. He previously worked for the European Commission and the Hungarian Ministry of Foreign Affairs as an expert on communication and EU affairs. His research focuses on Hungarian and EU political communication and populism.

RÉKA SZEMERKÉNYI

Senior Advisor for Foreign and Security Policy

Réka Szemerkényi is the former Ambassador of Hungary to Washington and a leading geopolitical expert in transatlantic security with over 20 years of experience in a variety of government, academic, and private sector capacities. She is the former Executive Vice President of the Washington think-tank CEPA, the Center for European Policy Analysis. Her government roles include her mission as Ambassador of Hungary to the United States and being National Security Policy Advisor to the Prime Minister of Hungary. Her business experience includes being Senior Advisor to the Chairman and CEO of MOL Group, the Hungarian Oil and Gas Company, and Consultant of the World Bank.

GÁBOR FILIPPOV

Director of Research

Gábor Filippov is the director of research at the Equilibrium Institute. Previously, he worked as an expert advisor in the Hungarian National Assembly and then as a political analyst and senior analyst at the Hungarian Progressive Institute. His analyses and op-eds have been published by numerous domestic and international media outlets, and he is frequently invited to talk about politics on television and radio shows. His research focuses on the European and the Hungarian far-right, on the histories of anti-Semitism and Islamophobia and their present-day manifestations, as well as the workings of contemporary authoritarian regimes.

ÁKOS KOZÁK

Director of Business Relations and co-founder

Ákos Kozák is the director of business relations and co-founder of the Equilibrium Institute. Previously, he served as the director of the GfK Hungária Market Research Institute for nearly 30 years. He is the former president of the Hungarian Marketing Association. Formerly, he was also a lecturer at the Budapest Business School and is currently an academic research fellow at the Cyber Economics Research Centre. He is the author or co-author of numerous academic studies on market research. He is the 2008 recipient of the Gábor Klauzál Award (the most prestigious Hungarian state award in the area of trade). He is an expert in futures research and consumer studies and holds a PhD in the sociology of consumption.

DÓRA CSERNUS

Director of Climate, Energy and Environment

Dóra Csernus is the director of climate, energy and environment policies at the Equilibrium Institute. As an expert in environmental issues, she has worked for the Ministry of Environment and Water, the Office of the Parliamentary Commissioner for Future Generations and the Ministry of Public Administration and Justice, representing the Hungarian position in different EU, UN, and OECD fora. She later worked as Director for International Policy Development at Klímapolitika Research and Consultancy Ltd, and as an independent expert in climate and environmental issues. Her main focus is on climate policy, air-quality control and water policy.

Future for Hungary

Equilibrium Institute

Equilibrium Institute

Address: **H-1026 Budapest, Szilágyi Erzsébet fasor 73.**
Phone: **+36 1 249 5238**

Website: **www.eib.hu**
E-mail: **eib@eib.hu**

Facebook

LinkedIn