



# Economic Nationalism Goes Global: Illiberal Governments Instrumentalizing Globalization in Eastern Europe

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## Abstract

*What are the consequences of electing illiberal leaders for the liberal international order? Traditional responses suggest they either want to increase their influence or change it radically. By understanding the illiberal domestic agenda of economic nationalism and statism in a world of increased financialization, I argue that the economic concentration taking place domestically will result in illiberal leaders instrumentalizing globalization for their political survival. This means these leaders have learned to selectively pick those parts of globalization most likely to sustain their regime—for example, criticizing multilateral organizations such as the European Union while reaping the benefits of EU membership. In this article, I begin by examining the trend of illiberal governments adopting economic nationalism and statism. I then theorize the nuanced ways in which illiberal leaders still use the liberal order for their political survival—in spite of espousing an illiberal economic agenda. I examine this phenomenon with an emphasis on illiberal leaders in Hungary and Poland and provide evidence from the last two decades of economic and political developments in Eastern Europe, as well as explore the impact of the Covid-19 pandemic and the recent war in Ukraine on the future of illiberal leaders' approach to globalization.*

Keywords: illiberalism; economic nationalism; globalization; Eastern Europe; Hungary; Poland

In the last two decades, as increasing numbers of illiberal leaders have been occupying the highest seats of power across the globe, systematically analyzing their time in government has become a policy necessity. While many scholars have examined the consequences of illiberalism on domestic political processes<sup>1</sup> and more work is being done on the economic implications of illiberal governments,<sup>2</sup> the next step is to investigate the impact of these increasingly vocal leaders on the international arena.

To understand how illiberal leaders might interact with or change the international arena, it is essential to know that the liberal international order that has been organizing relations between states since the late 1940s has never been an uncontested concept,<sup>3</sup> with scholars predicting its demise for years.<sup>4</sup> Rising illiberalism in particular represents a crucial recent challenge.<sup>5</sup>

However, in this article, I argue that illiberal leaders do not want the failure of the current international order, nor do they necessarily want it to be remade in their image.<sup>6</sup> Because of their statist and economic nationalist domestic stances, the way illiberal leaders approach the international arena will be one of instrumentalizing globalization to further their own political survival. While loud criticism will dominate the statements of these leaders regarding various international organizations, countries, companies, or investors, this rhetoric can be explained as part of their economic nationalism and statism espoused in the economic arena. However, in practice, illiberal governments will continue their previous international engagements to stay relevant in the international arena and its many organizations and to continue reaping the benefits of this participation. These benefits range from direct financial help like that which Hungary and Poland receive from the EU as part of the accession process, loans, grants from multilateral financial or development institutions, or even foreign investment facilitations.

Yet other benefits can be less direct though just as significant. Access to larger markets and extensive trade remain important benefits of globalization. But access also matters for the ability to gain entry to the international financial sector. As world economies have become increasingly financialized, leaders' ability to both

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1 Steven Levitsky and Daniel Ziblatt, *How Democracies Die* (New York, NY: Broadway Books, 2018); Yascha Mounk, *The People vs. Democracy: Why Our Freedom is in Danger and How to Save It* (Cambridge, MA: Harvard University Press, 2018).

2 Paula Ganga, "Economic Consequences of Illiberal Governments," in *The Routledge Handbook of Illiberalism*, eds. András Sajó, Renáta Uitz, and Stephen Holmes (Abingdon, UK: Routledge, 2021): 691–709.

3 David A. Lake, Lisa L. Martin, and Thomas Risse, "Challenges to the Liberal Order: Reflections on International Organization," *International Organization* 75, no. 2 (2021): 225–257, <https://doi.org/10.1017/S0020818320000636>; Joseph S. Nye Jr., "Will the Liberal Order Survive?: The History of an Idea," *Foreign Affairs* 96, no. 1 (January/February 2017): 10–16.

4 John J. Mearsheimer, "Bound to Fail: The Rise and Fall of the Liberal International Order," *International Security* 43, no. 4 (2019): 7–50, [https://doi.org/10.1162/isec\\_a\\_00342](https://doi.org/10.1162/isec_a_00342); Alexander Cooley and Daniel H. Nexon, "How Hegemony Ends," *Foreign Affairs* 99, no. 4 (July/August 2020): 143–156.

5 Lake, Martin, and Risse, "Challenges," 235; Alexander Cooley and Daniel H. Nexon, "The Real Crisis of Global Order: Illiberalism on the Rise," *Foreign Affairs* 101, no. 1 (January/February 2022): 103–118; Alexander Cooley and Daniel H. Nexon, "The Illiberal Tide: Why the International Order is Tilting toward Autocracy," *Foreign Affairs* 100, no. 1 (January/February 2021): 103–118.

6 Only illiberal regimes in countries like Russia and China would have the international clout to make this sort of change, but even when they are inclined to reshape the international order, their recent strategy has been to set up authoritarian regional organizations of their own. See Alexander Libman and Anastassia V. Obydenkova, "Understanding Authoritarian Regionalism," *Journal of Democracy* 29, no. 4 (October 2018): 151–165, <https://doi.org/10.1353/jod.2018.0070>; Maria J. Debre, "Clubs of Autocrats: Regional Organizations and Authoritarian Survival," *Review of International Organizations* 17, no. 3 (2022): 485–511, <https://doi.org/10.1007/s11558-021-09428-y>.

access these markets and hide assets within them has been extensively documented.<sup>7</sup> Therefore I argue that illiberal leaders have learned to selectively pick those parts of globalization that are most likely to sustain their regime while continuing to criticize these institutions and processes to domestic audiences as a way to further their project of building statism and economic nationalism.

This instrumentalization does not mean that illiberal leaders analyzed here are just neoliberals with nationalist rhetoric. These leaders' statism and economic nationalism run deep. The domestic dimension reveals that not only is their commitment to democracy shallow, but the economic dimension shows the instrumentalization of state policy toward power consolidation. It is no surprise that the actions they take abroad follow this line of reasoning. Whether it is the liberal international order or a Chinese alternative, I argue that Eastern European economic nationalists will make use of the available foreign instruments for their domestic survival.

A significant challenge to this argument is that all states do this: it is called foreign policy, and trying to extract as much as possible from all situations for the benefit of one's own state is what all good politicians should do. Moreover, the "logic of political survival" dictates this behavior in both democracies and autocracies.<sup>8</sup> However, the decades that have seen the liberal international order in action have also experienced increased levels of cooperation in the international arena from states all around the world. What is new from the illiberal trend is the questioning of long-established international commitments and the portrayal of previous governments taking on those commitments as going against national sovereignty and even amounting to a betrayal of the country by those elites to foreign interests. In this setting, the illiberal leader claims to be breaking away from these disastrous arrangements, or to be trying to get better deals while continuing to participate in the international arena and getting the benefits of that participation. I show this trend in the contentious relationship with the EU that Hungary and Poland have experienced since they have begun sliding further down the de-democratization path.

By examining the international dimension of the domestic economic policies enacted by illiberal governments in two Eastern European governments with an eye toward a comparative analysis, this article builds an initial theoretical framework for the illiberal approach to the international arena. By focusing on Hungary and Poland, two important countries in Europe, this paper's conclusions could find applicability for future European illiberal governments and, to a large extent, for countries outside the EU framework such as Brazil, Turkey, or India.<sup>9</sup>

In this article, I begin by assessing how illiberalism is linked to statism and economic nationalism, as well as the trend toward economic nationalism, and statism in Eastern Europe and elsewhere. Then I theorize the nuanced ways in which domestic economic nationalism and statism have translated into the instrumentalization of globalization by illiberal leaders for their political survival. I examine this

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7 Juliet Johnson and Andrew Barnes, "Financial Nationalism and Its International Enablers: The Hungarian Experience," *Review of International Political Economy* 22, no. 3 (2015): 535–569, <https://doi.org/10.1080/09692290.2014.919336>; James O'Donovan, Hannes F. Wagner, and Stefan Zeume, "The Value of Offshore Secrets: Evidence from the Panama Papers," *Review of Financial Studies* 32, no. 11 (2019): 4117–4155, <https://doi.org/10.1093/rfs/hhz017>.

8 Bruce Bueno de Mesquita, Alastair Smith, Randolph M. Siverson, and James D. Morrow, *The Logic of Political Survival* (Cambridge, MA: MIT Press, 2005).

9 For an examination of economic populism and sovereigntism with a similar argument that focuses on 5 Western European political parties, see Gilles Ivaldi and Oscar Mazzoleni, "Economic Populism and Sovereigntism: The Economic Supply of European Radical Right-Wing Populist Parties," *European Politics and Society* 21, no. 2 (2020): 202–218.

phenomenon with an emphasis on concrete cases of illiberal leaders in Eastern Europe and provide evidence from the last two decades of economic and political developments in the region. I also analyze the impact of the Covid-19 pandemic and the recent war in Ukraine as new instances of instrumentalization of international events by illiberal leaders.

## Illiberalism, Statism, and Economic Nationalism in the Era of Globalization

Much of the work on illiberalism is relatively new, as the concept itself only emerged in 1997 with Fareed Zakaria's argument that many political regimes appeared democratic on the surface by virtue of their conducting elections and going through the motions of democratic practice, but that this was done without respecting liberal principles such as pluralism, the rule of law, or individual freedoms.<sup>10</sup> Since this early definition, the debate around illiberalism has intensified both in academic circles and think tanks.<sup>11</sup> Still, the term has also possibly been rendered toxic<sup>12</sup> by its adoption by politicians claiming the mantle of "illiberal democracy."<sup>13</sup> Even now, the consensus is that there is no consensus and no minimal, easy-to-identify definition,<sup>14</sup> with illiberalism sometimes still associated with conservatism,<sup>15</sup> the far right,<sup>16</sup> populism,<sup>17</sup> or nationalism.<sup>18</sup>

Substantial work is being done to disentangle these concepts and carve out more precise definitions. For example, Marlene Laruelle suggests a more fine-grained framework to avoid this terminological confusion.<sup>19</sup> While the definition is quite extensive in scope,<sup>20</sup> I focus here on a few key elements where I expand upon and

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10 Fareed Zakaria, "The Rise of Illiberal Democracy," *Foreign Affairs* 76, no. 6 (November/December 1997): 22–43; Fareed Zakaria, *The Future of Freedom: Illiberal Democracy at Home and Abroad* (Revised Edition) (W.W. Norton & Company, 2007).

11 Marlene Laruelle, "Illiberalism: A Conceptual Introduction," *East European Politics* 38, no. 2 (March 2022): 303–327, <https://doi.org/10.1080/21599165.2022.2037079>.

12 Günter Frankenberg, "Exploring the Topography of the Authoritarian: Populism, Illiberalism, and Authoritarianism," *Journal of Illiberalism Studies* 2, no. 1 (Spring 2022): 10, <https://doi.org/10.53483/VDIU3531>.

13 Viktor Orbán, "Speech at the 25th Bálványos Summer Free University and Student Camp," July 26, 2014, [http://2010-2015.miniszterelnok.hu/in\\_english\\_article/\\_prime\\_minister\\_viktor\\_orban\\_s\\_speech\\_at\\_the\\_25th\\_balvanyos\\_summer\\_free\\_university\\_and\\_student\\_camp](http://2010-2015.miniszterelnok.hu/in_english_article/_prime_minister_viktor_orban_s_speech_at_the_25th_balvanyos_summer_free_university_and_student_camp).

14 Helena Rosenblatt, "The History of Illiberalism," in *The Routledge Handbook of Illiberalism*, eds. András Sajó, Renáta Uitz, and Stephen Holmes (Abingdon, UK: Routledge, 2021): 16–32.

15 Andy Hamilton, "Conservatism as Illiberalism," in *The Routledge Handbook of Illiberalism*, eds. András Sajó, Renáta Uitz, and Stephen Holmes (Abingdon, UK: Routledge, 2021): 70–81.

16 Marc F. Plattner, "Illiberal Democracy and the Struggle on the Right," in *The Emergence of Illiberalism*, eds. Boris Vormann, and Michael D. Weinman (Abingdon, UK: Routledge, 2022): 43–57.

17 Paul Blokker, "Populism and Illiberalism," in *The Routledge Handbook of Illiberalism*, eds. András Sajó, Renáta Uitz, and Stephen Holmes (Abingdon, UK: Routledge, 2021): 261–279.

18 Mabel Berezin, "Identity, Narratives, and Nationalism," in *The Routledge Handbook of Illiberalism*, eds. András Sajó, Renáta Uitz, and Stephen Holmes (Abingdon, UK: Routledge, 2021): 237–249.

19 Laruelle, "Illiberalism," 2.

20 Laruelle defines *illiberalism* as follows: "(1) Illiberalism is a new ideological universe that, even if doctrinally fluid and context-based, is to some degree coherent. (2) It represents a backlash against today's liberalism in all its varied scripts—political, economic, cultural, geopolitical, civilizational—often in the name of democratic principles and by winning popular support. (3) It proposes solutions that are majoritarian, nation-centric or sovereigntist, favouring traditional hierarchies and cultural homogeneity. It proposes to restore national sovereignty in various spheres: internationally, by rejecting supranational and multilateral institutions in favour of the sovereign nation-state; economically, by denouncing neoliberal orthodoxy and promoting protectionism at the nation-state level (while at the same time, when in power, sometimes implementing neoliberal reforms); and culturally, by rejecting multiculturalism and minority rights in favor of majoritarianism. ... (4) Last but not least, it calls for a shift from politics to culture and is post-postmodern in its claims of rootedness in an age of globalisation." (Laruelle, "Illiberalism," 309).

nuance Laruelle's insights. I agree that illiberalism "proposes solutions that are majoritarian, nation-centric or sovereigntist," focusing on "traditional hierarchies and cultural homogeneity."<sup>21</sup> The focus on national sovereignty in opposition to the dislocations of globalization, and on the promotion of protectionism at the nation-state level while bashing supranational and multilateral institutions, is an important dimension of illiberalism's economic and international agenda. Illiberalism exacerbates the process of de-democratization and the weakening of property, political, and civil rights. Additionally, the approaches promoted by illiberal leaders (respect for authority and tradition in society, criticizing Western-style individual freedom, and praise of organic collectives) go hand in hand with increased consolidation of political power and, in the end, economic power.

However, while these characteristics are true, the actual behavior of illiberal regimes shows important nuance in its extreme instrumentalization of the international arena. While state sovereignty is a cornerstone of illiberal politics, these governments have not abdicated *en masse* from their place in the international system nor indiscriminately abandoned neoliberalism. As Laruelle herself points out, when in power, these regimes have even implemented neoliberal reforms.<sup>22</sup> While illiberal leaders criticize multilateral organizations they already happen to belong to, they usually stay put—not because they are committed to neoliberalism, but due to the benefits of membership. This makes the instrumentalization of the tools provided by the international system a novel development and a key to the survival of these leaders.

It is important to specify which part of the international liberal agenda is most prone to criticism from illiberal regimes. Globalization and the alternative terms that could describe international politics toward the end of the 20th century—the liberal international order, neoliberalism, the Washington Consensus—offer a big menu of policies and illiberal leaders more vocally object to some of them while benefitting from the others. Moreover, accepting certain benefits does not make them neoliberals but politicians. However, the term *globalization* is just as contested as *illiberalism*.<sup>23</sup> Anthony Giddens is cited as saying that "there are few terms that we use so frequently but which are in fact as poorly conceptualized as globalization."<sup>24</sup> The *Blackwell Companion to Globalization* opts for a wide definition of the concept as "an accelerating set of processes involving flows that encompass ever-greater numbers of the world's spaces and that lead to increasing integration and interconnectivity among those spaces."<sup>25</sup>

Although less precise, this definition allows for the political, economic, and social dimensions of globalization to resonate with the integration and interconnectivity underlined here. Despite multiple disciplines having made important contributions to the study of globalization, a major lens of study is the economic one, which suggests that the phenomenon is produced by the expansion of capitalism over the past century.<sup>26</sup> Therefore the economic processes at the core of globalization take

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21 Laruelle, "Illiberalism," 304.

22 Laruelle, "Illiberalism," 309.

23 George Ritzer, ed., *The Blackwell Companion to Globalization* (John Wiley & Sons, 2016).

24 Cited in Jan Aart Scholte, "Defining Globalization," *World Economy* 31, no. 11 (November 2008), 1473, <https://doi.org/10.1111/j.1467-9701.2007.01019.x>.

25 Ritzer, *Blackwell*, 1.

26 Harold James, *The End of Globalization: Lessons from the Great Depression* (Cambridge, MA: Harvard University Press, 2009); Roland Robertson and Kathleen E. White, "What Is Globalization?," *The Blackwell Companion to Globalization*, ed. George Ritzer (John Wiley & Sons, 2016): 54–66.

precedence in the analysis. This explains why globalization and neoliberalism are often associated with one another.

The term *neoliberalism* itself has evolved to mean many things depending on the perspective used. It can mean a set of economic reform policies that encompass deregulation of the economy, liberalization of trade, and privatization of state-owned enterprises. However, as the 1980s and 1990s brought more of these reforms to various regions of the world, neoliberalism also came to signify an ideology that focuses on market exchange as the primary value or a mode of governance guided by the self-regulating market ruled by competition and self-interest.<sup>27</sup> The set of policies that came to be known under this name was initially proposed by John Williamson as a way to help indebted Latin American countries in the 1980s,<sup>28</sup> but was later widely adopted by many reforming countries either by their own leadership as part of a transition process that would result in more foreign investment, or—more prevalently in Eastern Europe—as part of a reform package demanded by international institutions to access loans and grants<sup>29</sup> or to be granted membership in the EU or other international bodies.<sup>30</sup> It is this conditionality that illiberal leaders everywhere, but particularly in Eastern Europe, object to the most.<sup>31</sup> Their rise to power comes on the heels of the economic dislocations caused by the openness of globalization, deeply questions the commitments of previous governments to these international arrangements, and promises economic relief to those most affected.<sup>32</sup>

In previous work, I argue that to accomplish their promises, illiberal leaders end up consolidating economic power and increasing the presence of the state in the economy.<sup>33</sup> These policies are a natural consequence of illiberalism espousing a worldview that emphasizes authority and tradition over individual freedom. A strong state becomes the natural defender of authority and tradition not only in political matters but also in economic ones. I refer to these economic policies as “statism” and “economic nationalism,” though they might appear under various names. For example, in Hungary and Poland, such policies have been called “unorthodox

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27 Tejaswini Ganti, “Neoliberalism,” *Annual Review of Anthropology* 43 (October 2014): 89–104. <https://doi.org/10.1146/annurev-anthro-092412-155528>; Rajesh Venugopal, “Neoliberalism as Concept,” *Economy and Society* 44, no. 2 (2015): 165–187. <https://doi.org/10.1080/03085147.2015.1013356>.

28 John Williamson, “The Washington Consensus Revisited,” in *Economic and Social Development into the XXI Century*, ed. Louis Emmerij (Washington DC, Inter-American Development Bank, 1997): 48–61.

29 Randall W. Stone, “The Scope of IMF Conditionality,” *International Organization* 62, no. 4 (October 2008): 589–620. <https://doi.org/10.1017/S0020818308080211>.

30 Ulrich Sedelmeier, “Is Europeanisation through Conditionality Sustainable? Lock-in of Institutional Change after EU Accession,” *West European Politics* 35, no. 1 (January 2012): 20–38.

31 For example, integration into the European Union’s structures can be seen as a modified version of the globalization process. However, the requirements for accession to the EU are much more stringent than the economic reforms needed to access International Monetary Fund money or foreign direct investments. Even though, as a matter of principle, the EU does not get involved in the domestic politics of its candidate or member states, the accession process nevertheless thoroughly restructures the politics of a country. For example, a governing party that enacts EU reforms might become so unpopular following those reforms that it might never be competitive in subsequent elections. A political party that enacted reforms required by the EU that later proved unpopular might lose the next elections and never be able to recover from that defeat.

32 Dani Rodrik, “Populism and the Economics of Globalization,” *Journal of International Business Policy* 1, no. 1 (June 2018): 12–33. <https://doi.org/10.1057/s42214-018-0001-4>.

33 Ganga, “Economic Consequences.”

economic policies,”<sup>34</sup> “Orbanomics,”<sup>35</sup> and “repolonization.”<sup>36</sup> These policies have received similarly evocative names in the academic literature, such as “conservative developmental statism,”<sup>37</sup> “economic populism and economic sovereigntism,”<sup>38</sup> “authoritarian-ethnicist neoliberal fusion,”<sup>39</sup> and “populist paternalism.”<sup>40</sup>

These names only partly capture the departure in terms of economic policy represented by the actions of illiberal governments in Hungary and Poland. The policies associated with globalization, neoliberalism, and particularly the Washington Consensus include 10 sets of broad economic policies: fiscal discipline, the reordering of public expenditure priorities, tax reforms, liberalizing interest rates, a competitive exchange rate, trade liberalization, foreign direct investment (FDI) liberalization, privatization, deregulation, and property rights.<sup>41</sup> In other work, I delve into some of these policies that have either been reversed (fiscal discipline, property rights)<sup>42</sup> or used for electoral gains (tax reform, reordering of public expenditure priorities).<sup>43</sup> However, all these policies have been directed toward rebuilding the power of the state and in the process supporting the party in power. By using the more traditional understandings of the terms *statism* and *economic nationalism* for the economic policies of illiberal governments in Hungary and Poland, it becomes easier to see the similarities across cases as these leaders intensify their pursuit of economic nationalism.

34 Gábor Oblath, “Economic Policy and Macroeconomic Developments in Hungary, 2010–2015,” *mBank - CASE Seminar Proceedings* no. 143 (2016), [http://www.case-research.eu/sites/default/files/publications/mBank-Case\\_Seminar\\_Proceedings\\_no143%20Gabor\\_Oblath.pdf](http://www.case-research.eu/sites/default/files/publications/mBank-Case_Seminar_Proceedings_no143%20Gabor_Oblath.pdf); Dariusz Kalan and Michael Durlik, “Central Europe’s Limping Tigers: Hungary’s Unorthodox Policy vs. Romanian Austerity,” *Foreign Affairs*, October 20, 2015, <https://www.foreignaffairs.com/articles/hungary/2015-10-20/central-europes-limping-tigers>; Edith Balazs, “Unorthodox Economics Gets Sentiment Wake-Up Call in Hungary,” *Bloomberg Business*, August 21, 2016, <https://www.bloomberg.com/news/articles/2016-08-21/unorthodox-economic-plan-gets-sentiment-wake-up-call-in-hungary>; László Csaba, “Unorthodoxy in Hungary: An Illiberal Success Story?” *Post-Communist Economics* 34: no. 1 (2019): 1–14, <https://doi.org/10.1080/14631377.2019.1641949>.

35 Andrew Byrne, “‘Orbanomics’ Confounds Critics as Hungary’s Economy Recovers,” *Financial Times*, June 9, 2015, <https://www.ft.com/content/027eaf9a-05e9-11e5-b676-00144feabdco>.

36 “Polish Government to ‘Repolonize’ Media in Next Term, Deputy PM Says,” Reuters, June 20, 2019, <https://www.reuters.com/article/us-poland-media/polish-government-to-repolonize-media-in-next-term-deputy-pm-says-idUSKCN1TL1EX>; Annabelle Chapman, “‘Repolonization’: Poland Again Hints at Limiting Foreign Media Ownership,” International Press Institute, October 5, 2020, <https://ipi.media/repolonization-poland-again-hints-at-limiting-foreign-media-ownership/>; Irena Pyka and Aleksandra Nocoń, “‘Repolonization’ Process of Domestic Banks: Analysis of Conditions and Opportunities,” in *Contemporary Trends in Accounting, Finance and Financial Institutions*, eds. Taufiq Choudhry and Jacek Mizerka, (Cham, Germany: Springer, 2018): 139–154, [https://doi.org/10.1007/978-3-319-72862-9\\_11](https://doi.org/10.1007/978-3-319-72862-9_11).

37 Katharina Bluhm, and Mihai Varga, “Conservative Developmental Statism in East Central Europe and Russia,” *New Political Economy* 25, no. 4 (July 2020): 642–659, <https://doi.org/10.1080/13563467.2019.1639146>; Mitchell A. Orenstein, and Bojan Bugarić, “Work, Family, Fatherland: The Political Economy of Populism in Central and Eastern Europe,” *Journal of European Public Policy* 29, no. 2 (2020): 1–20, <https://doi.org/10.1080/13501763.2020.1832557>.

38 Ivaldi and Mazzoleni, “Economic Populism and Sovereigntism.”

39 Adam Fabry, *The Political Economy of Hungary: From State Capitalism to Authoritarian Neoliberalism* (London: Palgrave Pivot, 2019).

40 Zsolt Enyedi, “Paternalist Populism and Illiberal Elitism in Central Europe,” *Journal of Political Ideologies* 21, no. 1 (2016): 9–25, <https://doi.org/10.1080/13569317.2016.1105402>; Zsolt Enyedi, “Right-Wing Authoritarian Innovations in Central and Eastern Europe,” *East European Politics* 36, no. 3 (2020): 363–77, <https://doi.org/10.1080/21599165.2020.1787162>.

41 John Williamson, “A Short History of the Washington Consensus,” *Law & Business Review of the Americas* 15 (2009), 7.

42 Paula Ganga, *Privatization, Nationalization and Back Again: The Politics of Economic Policy Reversal*, book manuscript, (forthcoming), 162–173.

43 For example, property rights are still upheld in Hungary, but my research has shown that a domestic economic agent operating in a sector that the Orbán government considered either strategic or too lucrative would find themselves under the increased scrutiny of financial auditing institutions, with the most frequent result being either selling the company to the state or another economic actor close to the ruling party, or the company going bankrupt due to fines imposed by state authorities (Ganga, *Privatization, Nationalization and Back Again*, 151).

Traditionally the concept of statism is linked to the processes of nationalization and expropriation experienced under Communist regimes. However, with the end of the Cold War, a new form of statism has emerged where a similar phenomenon is now linked to market processes under the banner of “state capitalism.”<sup>44</sup> Under this version of capitalism, private ownership and extensive market processes coexist with state ownership and control of significant segments of the economy. The policy of economic nationalism has been present not just in recent years under slogans such as “America First,” but since the 19th century<sup>45</sup> and across various geographic locations.<sup>46</sup> This approach sets the state on a path to protectionism and anti-globalization, emphasizing national unity, autonomy, and the augmentation of national power—a natural extension for illiberal leaders focused on authority, tradition, and the concentration of that power under state institutions.

While often associated with protectionism, economic nationalists may also favor free trade if it increases national power.<sup>47</sup> Therefore, economic nationalists may promote either pro- or anti-globalization policies depending on their particular conceptions of national identity and their beliefs about which economic policies will promote the nation as a sovereign political and economic force.<sup>48</sup> This approach is in line with the argument of this paper on the instrumentalization of international interactions.

The dynamics described by the concepts of illiberalism, statism, and economic nationalism have been present in the countries of this study for some time. For example, in Hungary, Fabry finds a “fusion between authoritarian state practices and neoliberal economic policies.”<sup>49</sup> In contrast, in Poland the role of the state has been gradually increasing since 2015<sup>50</sup>—despite those in government declaring that they “don’t believe in ‘statism.’”<sup>51</sup>

### Illiberal Economics in Practice: Hungary and Poland

Leaders who describe themselves as illiberal get started by touting the advantages of “illiberal democracy,” returning power to “the true people,” and not following the Western style of democracy promoted by a globalized elite.<sup>52</sup> Promising increased welfare spending and standing up to international institutions and foreign investors by using economic nationalist rhetoric, these leaders and political parties came to power propelled by discontent against those seen as having caused the 2008 financial crisis<sup>53</sup>—usually previous governments and the rapid process of economic

44 Joshua Kurlantzick, *State Capitalism: How the Return of Statism is Transforming the World* (Oxford: Oxford University Press, 2016); Aldo Farias Musacchio, and Sergio G. Lazzarini, *Reinventing State Capitalism: Leviathan in Brazil and Beyond* (Cambridge, MA: Harvard University Press, 2014).

45 Eric Helleiner, “Economic Nationalism as a Challenge to Economic Liberalism? Lessons from the 19th Century,” *International Studies Quarterly* 46, no. 3 (2002): 307–329, <https://doi.org/10.1111/1468-2478.00235>.

46 Italo Colantone, and Piero Stanig, “The Surge of Economic Nationalism in Western Europe,” *Journal of Economic Perspectives* 33, no. 4 (2019): 128–151, <https://doi.org/10.1257/jep.33.4.128>.

47 Takeshi Nakano, “Theorising Economic Nationalism,” *Nations and Nationalism* 10, no. 3 (2004), 224, <https://doi.org/10.1111/j.1354-5078.2004.00164.x>.

48 Eric Helleiner, and Andreas Pickel, *Economic Nationalism in a Globalizing World* (Ithaca, NY: Cornell University Press, 2005).

49 Fabry, *Political Economy of Hungary*, 127.

50 Piotr Kozarzewski and Maciej Baltowski, “Change in the Ownership Policy Paradigm in Poland: State Control vs. Privatisation,” *Acta Oeconomica* 67, no. 1 (2017): 1–20, <https://doi.org/10.1556/032.2017.67.1.1>.

51 Mateusz Morawiecki, “The Polish Case for Less Economic Liberalism,” *Politico*, October 21, 2016, <https://www.politico.eu/article/the-polish-case-for-economic-illiberalism-stability-development/>.

52 Orbán, “Speech at the 25th Bálványos Summer Free University and Student Camp.”

53 Hanspeter Kriesi and Takis Pappas, eds., *European Populism in the Shadow of the Great Recession* (Colchester, UK: ECPR Press, 2015).



liberalization—and globalization as promoted by international organizations.<sup>54</sup> The promoters of illiberal democracy today attempt to speak particularly to those perceived as “the losers of globalization” and sharply criticize the elites who have gained from liberalization and globalization.<sup>55</sup> Particularly in Eastern Europe, the contentious privatization process has engendered a backlash that illiberal leaders have managed to capitalize on at the ballot box.<sup>56</sup>

Even though the countries now confronting illiberal leadership were also countries that experienced so-called successful transitions, with their economies surpassing those of some of their neighbors, the local population still bore the brunt of the economic dislocations caused by globalization.<sup>57</sup> In the early 2000s, financial support from the EU to aid in the accession process came with stringent rules that left little room for economic populism.<sup>58</sup> Yet, even with the extensive democracy-promotion elements of the EU accession process, democracy has shallower roots in the region, and citizens have low levels of trust in political parties.<sup>59</sup> While the region experienced the shocks of integration into the global economy, the ability of a large section of the population to work abroad and relieve some of the initial domestic labor surpluses played an important role in helping its people through this transition period. Remittances and EU funding also helped the people weather this difficult economic period.<sup>60</sup> Despite rapid economic growth, the vast majority of voters cannot find respite from the economic anxiety that fuels protest votes there and in other parts of the world. Economic considerations are a leading explanation for why illiberal leaders get elected in countries that freed themselves from autocracy only 30 years ago.<sup>61</sup>

The *Magyar Polgári Szövetség* (Hungarian Civic Alliance, or Fidesz) and its leader, Prime Minister Viktor Orbán, have been a staple of Hungarian politics since the first days of post-Communism. Over the course of its time in power and in opposition, Fidesz morphed from an anti-Communist liberal movement full of alternative ideas<sup>62</sup> into a “national-liberal” mainstream party and, later, into a national populist party

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54 Elenor Neff Powell and Joshua A. Tucker, “Revisiting Electoral Volatility in Postcommunist Countries: New Data, New Results and New Approaches,” *British Journal of Political Science* 44, no. 1 (2014): 123–147, <https://doi.org/10.1017/S0007123412000531>.

55 Teun Pauwels, *Populism in Western Europe: Comparing Belgium, Germany and the Netherlands* (Abingdon, UK: Routledge, 2014), 7.

56 Kriesi and Pappas, *European Populism*.

57 Hilary Appel, *A New Capitalist Order: Privatization and Ideology in Russia and Eastern Europe* (Pittsburgh, PA: University of Pittsburgh Press, 2004).

58 Cas Mudde, “In the Name of the Peasantry, the Proletariat, and the People: Populisms in Eastern Europe,” *East European Politics and Societies* 15, no. 2 (2000): 33–53.

59 Milada Anna Vachudova, *Europe Undivided: Democracy, Leverage, and Integration after Communism* (Oxford: Oxford University Press, 2005); Grigore Pop-Eleches, “Throwing Out the Bums: Protest Voting and Unorthodox Parties after Communism,” *World Politics* 62, no. 2 (2010): 221–260, <https://doi.org/10.1017/S0043887110000043>; Grigore Pop-Eleches and Joshua A. Tucker, *Communism’s Shadow: Historical Legacies and Contemporary Political Attitudes* (Princeton, NJ: Princeton University Press, 2017).

60 Marilena Giannetti, Daniela Federici, and Michele Raitano, “Migrant Remittances and Inequality in Central-Eastern Europe,” *International Review of Applied Economics* 23, no. 3 (2009): 289–307, <https://doi.org/10.1080/02692170902811710>; Mihály Fazekas, and Lawrence Peter King, “Perils of Development Funding? The Tale of EU Funds and Grand Corruption in Central and Eastern Europe,” *Regulation and Governance* 13, no. 3 (2019): 405–430, <https://doi.org/10.1111/rego.12184>.

61 Alexandru Cojocaru, “Fairness and Inequality Tolerance: Evidence from the Life in Transition Survey,” *Journal of Comparative Economics* 42, no. 3 (2014): 590–608, <https://doi.org/10.1016/j.jce.2014.01.003>.

62 Takis Pappas, “Populist Democracies: Post-Authoritarian Greece and Postcommunist Hungary,” *Government and Opposition* 49, no. 1 (2014): 1–23, <https://doi.org/10.1017/gov.2013.21>.

occupying all of Hungary's political space.<sup>63</sup> Moreover, since 2010, Hungary has been described as exhibiting a "peculiar form of populism"<sup>64</sup> or a "mix of nationalism and neoliberalism."<sup>65</sup>

In Poland, *Prawo i Sprawiedliwość* (the Law and Justice party, or PiS) scored its first major electoral victory in 2005, when it was the main partner in a two-year governing coalition. Yet its short time in office and attendant coalition dynamics did not result in major illiberal policies. As with Fidesz, PiS' time in opposition resulted in a sharpening of the populist messaging of the party's leaders. The illiberal actions of the Law and Justice government, such as thoroughgoing changes to the functioning of the judiciary and restrictions on civil rights, began in earnest following the 2015 elections<sup>66</sup> and attracted mass protests and scrutiny from the European Union.<sup>67</sup>

In this context, many illiberal leaders will engage in statist and economically nationalist policies to deliver on their electoral promises to shield voters from the uncertainties of the international markets. Whether they call it "Hungary First" (a riff on former US President Donald Trump's "America First") or "re-Polonization," or describe it as the desire to "run the country as a family firm," behind these nationalistic and technocratic terminologies, leaders hide a different political project: one centered on the concentration of political power within the executive branch, to the detriment of constitutional checks and balances that had been created during the transition to democracy.

Such a concentration of political power is followed by a concentration of economic decision-making power within the country, and thereby an increased statist control over the economy. With Hungary and Poland, we now have examples of governments in Eastern Europe that have concentrated state power and pursued economic nationalism in the name of the people, only to then nationalize this wealth and funnel it into the firms of partisan supporters.<sup>68</sup> In another work, I examine in detail the renationalization process in Hungary and Poland and the policies these governments have adopted to reach the level of economic nationalism and statism we see today.<sup>69</sup> These actions support my argument that the leaders in charge are not simply neoliberals espousing nationalistic rhetoric, but that economic nationalism is

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63 András Bozóki, "The Illusion of Inclusion: Configurations of Populism in Hungary," in *Thinking through Transition: Liberal Democracy, Authoritarian Pasts, and Intellectual History in East Central Europe after 1989*, eds. Michal Kopeček and Piotr Wećslik (Budapest/New York: Central European University Press, 2015): 275–311.

64 Zsolt Enyedi, "Plebeians, Citoyens, and Aristocrats or Where is the Bottom of Bottom-Up? The Case of Hungary," in *European Populism in the Shadow of the Great Recession*, eds. Hanspeter Kriesi and Takis Pappas (Colchester, UK: ECPR Press, 2015), 231.

65 András Bozóki, "Broken Democracy, Predatory State, and Nationalist Populism," in *The Hungarian Patient: Social Opposition to an Illiberal Democracy*, eds. Péter Krasztev and Jon Van Til (Budapest/New York: Central European University Press, 2015): 3–36.

66 Wojciech Przybylski, "Explaining Eastern Europe: Can Poland's Backsliding Be Stopped?," *Journal of Democracy* 29, no. 3 (2018): 52–64, <https://doi.org/10.1353/jod.2018.0044>; Wojciech Sadurski, *Poland's Constitutional Breakdown* (Oxford: Oxford University Press, 2019); Onvara Vadhanavisala, "Democracy towards Authoritarianism under Illiberal Populist Leaders in Hungary and Poland," *Central and Eastern European Review* 13, no. 1 (2019): 31–48, <https://doi.org/10.2478/caeer-2020-0002>.

67 Kriszta Kovács and Kim Lane Scheppele, "The Fragility of an Independent Judiciary: Lessons from Hungary and Poland—and the European Union," *Communist and Post-Communist Studies* 51, no. 3 (2018): 189–200, <https://doi.org/10.1016/j.postcomstud.2018.07.005>.

68 Miklós Szanyi, "Privatization and State Property Management in Post-Transition Economies," *Centre for Economic and Regional Studies*, Hungarian Academy of Sciences 211 (2014): 1–38; Kozarzewski and Baltowski, "Change"; Bálint Magyar, *Post-Communist Mafia State* (Budapest/New York: Central European University Press, 2016); Éva Voszka, "Nationalisation in Hungary in the Post-Crisis Years: A Specific Twist on a European Trend?" *Europe-Asia Studies* 70, no.8 (2018): 1281–1302, <https://doi.org/10.1080/09668136.2018.1457137>.

69 Paula Ganga, *Privatization, Nationalization and Back Again*.

at the core of the agenda. I now turn to how this domestic concentration of economic power explains international behavior exhibited by these and other illiberal regimes.

### **Instrumentalized “Economic Nationalism” in the International Arena**

Illiberal leaders have learned that criticizing globalization and liberalization is a winning strategy. Oftentimes the campaigns of illiberal leaders in Hungary and Poland have featured heavy criticism of the EU,<sup>70</sup> and both in these countries and elsewhere additional criticism is directed toward international organizations and “the West,” broadly defined, as well as specific governments, institutions, companies, and individuals.<sup>71</sup> However, once in power, these leaders tend to embark on a process of selectively picking those parts of globalization that they like best—or that work best with economic nationalism and their continued stay in power. In the same breath, Eastern European leaders can criticize the EU while promising new infrastructure projects, without mentioning that these projects will happen thanks to transfers from that very institution.

Economic nationalists can still champion globalization, just as long as they promote the nation as a sovereign political and economic force.<sup>72</sup> But more often than not, illiberal leaders portray globalization negatively and decry policies that have opened up local economies to other markets as having disproportionately impacted citizens negatively. For example, Viktor Orbán engaged in extensive attacks on the EU as a significant promoter of difficult reforms by highlighting Hungary’s “freedom fight” against the shackles of European Union regulation. In a March 2011 speech commemorating the 1848 revolution, Orbán said: “we did not tolerate Vienna dictating to us in [18]48, and we did not tolerate in [19]56 and 1990 that Moscow dictates to us. We won’t allow it now either that anyone from Brussels or anyone else dictates to us.”<sup>73</sup>

Yet, despite these critiques, neither Poland nor Hungary has considered following the path of Brexit. One of the main reasons is the continued infusion of EU structural funds after the accession of these countries to the organization. These funds contribute important sums to state budgets in the region. According to Kelemen, cohesion funding is one of three factors supporting the EU’s “authoritarian equilibrium.”<sup>74</sup> Funding, combined with a hesitancy to interfere in the domestic politics of its member states and the free movement of people, which generates remittances and siphons off possible supporters for opposition movements, together create a situation wherein EU membership is sustaining the illiberal regimes in

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70 Lars Vogel, “Illiberal and Anti-EU Politics in the Name of the People? Euroscepticism in East Central Europe 2004–2019 in Comparative Perspective,” in *Illiberal Trends and Anti-EU Politics in East Central Europe* (Cham, Switzerland: Palgrave Macmillan, Cham, 2021): 29–55; Robert Csehi and Edit Zgut, “We Won’t Let Brussels Dictate Us’: Eurosceptic Populism in Hungary and Poland,” *European Politics and Society* 22, no. 1 (2021): 53–68.

71 Peter Plenta, “Conspiracy Theories as a Political Instrument: Utilization of Anti-Soros Narratives in Central Europe,” *Contemporary Politics* 26, no. 5 (2020): 512–530, <https://doi.org/10.1080/13569775.2020.1781332>.

72 Helleiner and Pickel, *Economic Nationalism*; Johnson and Barnes, “Financial Nationalism.”

73 Cited in Ágnes Batory, “Populists in Government? Hungary’s ‘System of National Cooperation,’” *Democratization* 23, no. 2 (2016), 289, <https://doi.org/10.1080/13510347.2015.1076214>.

74 Daniel Kelemen, “The European Union’s Authoritarian Equilibrium,” *Journal of European Public Policy* 27, no. 3 (2020): 481–499, <https://doi.org/10.1080/13501763.2020.1712455>.

power with resources they would not otherwise have access to.<sup>75</sup> However, as these countries are transitioning out of the “recently-integrated” category, this will limit the lines of funding they are entitled to.

A second way illiberal governments in the EU take advantage of their membership in this multilateral organization despite continued criticism is as a “gateway” to the EU. Many companies investing in places such as Hungary and Poland choose them for their combination of cheap labor and office space with easy access to the wider EU market. For example, Hungary saw important investments from US-based GE Capital, which invested in a large innovation center that it uses for its accounts support; American hedge fund firm Blackrock also opened a major office in Budapest, whereas American car rental service Avis has based its largest office outside the US in Hungary and uses it to manage its entire European fleet. Similarly, German automakers Audi and Mercedes use their Hungarian offices for customer support.<sup>76</sup> These investments follow active government policy. To boost foreign direct investment, Orbán’s government lowered the corporate income tax to 9% in 2017, from the previous levels of 10% for yearly corporate profits below 500 million forints (\$1.7 million) and 19% above this amount.<sup>77</sup> This measure came on top of already existing generous investment incentives in the form of tax breaks, low-interest loans, and land available for free or at reduced prices, as well as subsidy opportunities for investments greater than €10 million that can be negotiated on a case-by-case basis.<sup>78</sup> In Poland, the PiS government rolled out a new system of special economic zones, where investing companies could be exempt from paying income tax for a period of 10 or 15 years.<sup>79</sup>

The prospect of ever-decreasing support from the EU has forced the illiberal governments in the region to seek out other like-minded actors that could act as political or economic supporters. Due to the contentious place Russia occupies in the region, one important supporter has been China. While Beijing seems invested in several countries, including Poland and Hungary in particular, so far the results have been underwhelming.<sup>80</sup> China appears to be more interested in lending rather than investing. Eastern European governments in general would prefer greenfield investments to loans, and Chinese companies dislike EU rules for public tenders.<sup>81</sup> While these countries are not in the Eurozone, they are still in the EU, which means they must abide by the extensive *acquis communautaire*, or cumulative body of EU

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75 Not only were the leaders supported by EU money, but actual leaders and members of their inner circles benefitted from EU subsidies they could access thanks to their political connections. See Magyar, *Post-Communist Mafia State*; Matt Apuzzo, “We Just Wanted to Talk EU Farm Policy: Why Was Someone Always Looking Over Our Shoulders?” *New York Times*, November 3, 2019, <https://www.nytimes.com/2019/11/03/reader-center/eu-farm-subsidy-reporting.html>; Matt Apuzzo and Selam Gebrekidan, “Who Keeps Europe’s Farm Billions Flowing? Often, Those Who Benefit,” *New York Times*, December 11, 2019, <https://www.nytimes.com/2019/12/11/world/europe/eu-farm-subsidy-lobbying.html>; Selam Gebrekidan, Matt Apuzzo, and Ben Novak, “The Money Farmers: How Oligarchs and Populists Milk the EU for Millions,” *New York Times*, November 3, 2019, <https://www.nytimes.com/2019/11/03/world/europe/eu-farm-subsidy-hungary.html>.

76 Ganga, *Privatization, Nationalization, and Back Again*, 124.

77 AP News, “Hungary to Cut Corporate Taxes to EU-Low of 9 Percent in 2017,” November 17, 2016, <https://apnews.com/article/26e235e5d4cb4f04b7342a0f8e03c6af>.

78 Alan Toplišek, “The Political Economy of Populist Rule in Post-Crisis Europe: Hungary and Poland,” *New Political Economy* 25, no. 3 (2020), 396.

79 Jacopo Dettoni, “Poland’s SEZ Overhaul Remains Work in Progress,” *FDI Intelligence*, July 7, 2020, <https://www.fdiintelligence.com/content/feature/polands-sez-overhaul-remains-work-in-progress-77813>.

80 Michal Lubima, “Big Words, Little Results: The Chinese Investments in Poland from the Political Perspective,” *Polish Political Science Yearbook* 46, no. 2 (2017): 150–171, <https://doi.org/10.15804/ppsy2017210>.

81 François Godement and Abigaël Vasselier, “China at the Gates: A New Power Audit of EU-China Relations,” European Council on Foreign Relations, December 1, 2017, [https://ecfr.eu/publication/china\\_eu\\_power\\_audit7242/](https://ecfr.eu/publication/china_eu_power_audit7242/).

legislation and case law. Chinese loans come with specific strings attached—not only are the terms for loans less favorable than those offered by the European Investment Bank, but they also require hiring Chinese companies or creating links to other deals. A recent study of Chinese contracts shows that these contracts use “creative design to manage credit risk and overcome enforcement hurdles,”<sup>82</sup> and that the lending terms of these contracts “go beyond maximizing commercial advantage.”<sup>83</sup>

What is maximized could be political influence. For example, over 90% of the recorded contracts include a clause that allows for the termination of the contract and immediate repayment in case of law or policy change in the borrowing country. Policy stability is not an uncommon clause, but as the lender is a state entity and not a private firm, this demand now takes on a political dimension. Additionally, the contracts were found to contain very strict confidentiality clauses, require priority for Chinese state banks over other creditors, and if collateral has to be deposited in an escrow account, these sums will also be held in Chinese state-owned banks. Finally, severing diplomatic relations with China could classify as a default and a breach of contract, which would require the immediate repayment of the entire loan.<sup>84</sup>

In addition to easier access to FDI, European countries have also leveraged their appeal for Chinese investments through citizenship and residency incentives. Directed at individuals, these “golden visas” require a specific sum to be invested in a country for the investor to receive a residency permit, giving that individual access to the entire Schengen Area. This has created fierce competition among European countries, with some countries in Eastern Europe leading the way. In December 2012, Hungary adopted the Hungarian Investment Immigration Law, granting residency to those investing at least €250,000 in government bonds.<sup>85</sup> Hungary has been actively selling itself as the “gateway to Europe.” The sale of 6,500 Hungarian residence permits under this “golden visa” program amounted to €1.95 billion in a little over three years.<sup>86</sup> Additionally, Chinese telecom giant Huawei has made Hungary its leading partner in Europe, where it employs over 2,500 people. Since 2015 this company has had an official “strategic partnership” with the Hungarian government, which has resulted in Huawei being entrusted with the government’s mobile phone network after acquiring MVM Net in 2015.<sup>87</sup> As another sign of goodwill, Hungary has even issued bonds in Chinese currency and is financing major infrastructure projects with Chinese money.

Since 2012, China has intensified its influence within countries in Central and Eastern Europe through the “16+1” framework. Annual summits focused on infrastructure projects have resulted in initial hopes for extensive cooperation, as well as fears that this is part of a Chinese effort to “divide and rule” Europeans.<sup>88</sup> However, results have been disappointing. This situation has resulted in local complaints about EU

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82 Anna Gelpern, Sebastian Horn, Scott Morris, Brad Parks, and Christoph Trebesch, “How China Lends: A Rare Look into 100 Debt Contracts with Foreign Governments,” (2021): 2 <https://www.ifw-kiel.de/publications/journal-article/2021/how-china-lends-a-rare-look-into-100-debt-contracts-with-foreign-government-16100/>.

83 Gelpern et al., *How China Lends*, 7.

84 Konstantin Eggert, “Lithuania’s Challenge to China Is Risky, but Clever,” *Deutsche Welle*, April 5, 2021, <https://www.dw.com/en/opinion-lithuanias-challenge-to-china-is-risky-but-clever/a-57071394>.

85 Sophie Meunier, “Beggars Can’t Be Choosers: The European Crisis and Chinese Direct Investment in the European Union,” *Journal of European Integration* 36, no. 3 (2014): 283–302, <https://doi.org/10.1080/07036337.2014.885754>.

86 Godement and Vasselier, “China at the Gates.”

87 Godement and Vasselier, “China at the Gates.”

88 Martin Hala, “China in Xi’s ‘New Era’: Forging a New ‘Eastern Bloc,’” *Journal of Democracy* 29, no. 2 (2018): 83–89, <https://doi.org/10.1353/jod.2018.0028>.

processes. In the wake of the “16+1” summits in Budapest and Warsaw, criticism from the newer EU members highlighted the much broader scale of Chinese investments in France, Germany, Italy, and the UK, as well as the compromises made by these countries to further their relationships with China, while pointing out that EU action against Chinese investments is only being discussed after investments were sought out by Eastern European governments.<sup>89</sup>

Finally, another way illiberal leaders have leveraged the international arena is through the deep interconnectedness of the international financial system. While they criticize this system, not only do their countries benefit from continued participation, but even authoritarian leaders who consistently break their international commitments are still welcome in certain parts of the international system, particularly to safeguard their money.<sup>90</sup> Investigative reporting as part of the Panama and Pandora Papers shows the ubiquity of this trend, with leaders from authoritarian and illiberal regimes using the international financial system to hide their assets.<sup>91</sup> In Eastern Europe, for example, Hungary’s government was linked to business allies with large offshore accounts,<sup>92</sup> whereas in the Czech Republic, the revelations from the Pandora Papers were partly responsible for the electoral defeat of Andrej Babiš.<sup>93</sup>

### **Covid and War in Ukraine: New Arenas of International Illiberal Contestation**

The selective way in which illiberal leaders engage internationally as they instrumentalize the international arena to continue their stay in power is evident in recent developments. Further evidence for the argument in this paper comes from how illiberal leaders have used the Covid-19 pandemic to extend their hold on power, or how the war in Ukraine has been instrumentalized for additional leverage in broader European negotiations.

The Covid-19 pandemic has put immense strain on politics across the world. Illiberal leaders, however, have found this to be an opportunity to expand their executive powers<sup>94</sup> (even as many of the more vocal autocrats kept on denying the reality of the virus).<sup>95</sup> At the same time as these leaders accepted the reality of the pandemic and embraced public health measures based on medical expertise, this acceptance came at the expense of democratic processes, with leaders “hiding behind experts and ...

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89 Godement and Vasselier, “China.”

90 Alexander Cooley and John Heathershaw, *Dictators without Borders: Power and Money in Central Asia* (New Haven, CT: Yale University Press, 2017); Alexander Cooley, John Heathershaw, and J.C. Sharman, “The Rise of Kleptocracy: Laundering Cash, White Washing Reputations,” *Journal of Democracy* 29, no. 1 (2018): 39–53, <https://doi.org/10.1353/jod.2018.0003>.

91 Lawrence J. Trautman, “Following the Money: Lessons from the Panama Papers: Part 1: Tip of the Iceberg,” *Penn St. L. Rev.* 121 (2016), 807.

92 András Pethő and Blanka Zöldi, “Prominent Business Allies of Viktor Orbán’s Government Had Secret Offshore Businesses, Pandora Papers Reveal,” October 4, 2021, <https://www.direkt36.hu/en/rogan-antal-es-meszáros-lorinc-bizalmasainak-titkos-kulfoldi-uzleteire-is-feny-derul-a-legujabb-offshore-kiszivargasban/>.

93 Rick Noack and Ladka Bauerova, “After the Pandora Papers Ensnared the Czech Prime Minister, Voters are Having Their Say: But Will They Care?,” *Washington Post*, October 7, 2021, [https://www.washingtonpost.com/world/europe/czech-babis-pandora-election/2021/10/07/7d486dd4-26cf-11ec-8739-5cb6aba30a30\\_story.html](https://www.washingtonpost.com/world/europe/czech-babis-pandora-election/2021/10/07/7d486dd4-26cf-11ec-8739-5cb6aba30a30_story.html).

94 Jelena Kostic and Marina Matic Boskovic, “How COVID-19 Pandemic Influences Rule of Law Backsliding in Europe,” *Regional Law Review* (2020): 77, [https://doi.org/10.18485/iup\\_rlr.2020.ch6](https://doi.org/10.18485/iup_rlr.2020.ch6); Caress Schenk and Paula Ganga, “The Coercive Capacity of COVID-19 Policies: The Rule of Law and the Rule of Fear?” International Studies Association Annual Meeting, Nashville, TN, April 2022.

95 Thomas Carothers and David Wong, *Authoritarian Weaknesses and the Pandemic* (Carnegie Endowment for International Peace, 2020) [https://carnegieendowment.org/files/Carothers\\_Authoritarianism\\_Pandemic.pdf](https://carnegieendowment.org/files/Carothers_Authoritarianism_Pandemic.pdf).

shifting decisions on pandemic responses outside of the parliamentary arena.”<sup>96</sup> The instrumentalization of technocratic expertise during the global pandemic could then be used to justify executive aggrandizement,<sup>97</sup> as has happened in both Hungary and Poland.

In Hungary, executive aggrandizement started on March 11, 2020, when the government declared a state of emergency, which usually lasts 15 days unless there is parliamentary approval for extension.<sup>98</sup> The state of emergency was later extended indefinitely on March 30, giving the government the ability to govern by decree while postponing any scheduled elections during the emergency and punishing with up to 5 years in prison the dissemination of “fake news” and disinformation.<sup>99</sup> The bill was widely opposed both domestically and by European institutions until the Hungarian Parliament abolished the state of emergency on June 16, 2020.<sup>100</sup>

In Poland, the Law and Justice party continued the pre-pandemic trend of adopting policies that inhibit an independent judiciary. The government created a new Disciplinary Chamber that would punish judges in case of misbehavior. European institutions immediately criticized the move, but the government refused to back down and declared Polish domestic law superior to European law.<sup>101</sup> These actions resulted in a daily fine of €1 million.<sup>102</sup> Since joining the EU Poland has received more than €213 billion,<sup>103</sup> with an additional €36 billion<sup>104</sup> as part of the Covid-19 recovery program. Yet, since PiS returned to power in 2015, Poland’s relationship with the EU has been very adversarial, in spite of popular support for EU membership among the Polish public.<sup>105</sup>

As the world starts to focus on pandemic recovery, policies made under conditions of Covid by illiberal leaders could affect the pace of recovery as well as future prospects for democracy.<sup>106</sup> Already the battle lines have been drawn as the EU is trying to

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96 Petra Guasti and Lenka Buřtiková, “A Marriage of Convenience: Responsive Populists and Responsible Experts,” *Politics and Governance* 8, no. 4 (2020), 470, <https://doi.org/10.17645/pag.v8i4.3876>.

97 Nancy Bermeo, “On Democratic Backsliding,” *Journal of Democracy* 27, no. 1 (2016): 5–19, <https://doi.org/10.1353/jod.2016.0012>.

98 András Kádár, “In Its Nature—How Stealth Authoritarianism Keeps Stealing Along During the Pandemic, and How Can It Be Stopped?,” *Journal of Human Rights Practice* 12, no. 2 (2020): 293–300, <https://doi.org/10.1093/jhuman/haaa034>.

99 International observers noted that the vague phrasing of what constituted disinformation could result in dissent to government action possibly being classified as such and used in order to overwhelmingly punish the opposition.

100 Petra Guasti, “The Impact of the Covid-19 Pandemic in Central and Eastern Europe: The Rise of Autocracy and Democratic Resilience,” *Democratic Theory* 7, no. 2 (2020): 47–60, <https://doi.org/10.3167/dt.2020.070207>.

101 Mujtaba Rahman, “Europe’s Next Rule of Law Problem: Angela Merkel,” *Politico*, October 26, 2021, [https://www.politico.eu/article/europe-rule-of-law-angela-merkel-poland-hungary/?utm\\_campaign=wp\\_todays\\_worldview&utm\\_medium=email&utm\\_source=newsletter&wpsrc=nl\\_todayworld](https://www.politico.eu/article/europe-rule-of-law-angela-merkel-poland-hungary/?utm_campaign=wp_todays_worldview&utm_medium=email&utm_source=newsletter&wpsrc=nl_todayworld).

102 Zosia Wanat, “Poland Hit with Record €1M Daily Fine in EU Rule-of-Law Dispute,” *Politico*, October 27, 2021, <https://www.politico.eu/article/Poland-record-1-million-euros-daily-fine-eu-rule-of-law-dispute/>.

103 Nathaniel Copsey, and Karolina Pomorska, “The Influence of Newer Member States in the European Union: The Case of Poland and the Eastern Partnership,” *Europe-Asia Studies* 66, no. 3 (2014): 421–443, <https://doi.org/10.1080/09668136.2013.855391>.

104 Reuters, “Polish PM Says Chances of Deal on EU COVID Cash Have ‘Slightly Improved,’” February 18, 2022, <https://www.reuters.com/world/europe/polish-pm-says-chances-deal-eu-covid-cash-have-slightly-improved-2022-02-18/>.

105 Andrew Higgins, “Poland’s Heartland Would Rather Keep EU Money Than Break With Bloc,” *New York Times*, October 26, 2021, [https://www.nytimes.com/2021/10/26/world/europe/poland-eu-aid.html?campaign\\_id=2&emc=edit\\_th\\_20211027&instance\\_id=43854&nl=todaysheadlines&regi\\_id=70199183&segment\\_id=72731&user\\_id=eee67043992ee86612b2329f71fd5ad](https://www.nytimes.com/2021/10/26/world/europe/poland-eu-aid.html?campaign_id=2&emc=edit_th_20211027&instance_id=43854&nl=todaysheadlines&regi_id=70199183&segment_id=72731&user_id=eee67043992ee86612b2329f71fd5ad).

106 Stephen Thomson and Eric C. Ip, “COVID-19 Emergency Measures and the Impending Authoritarian Pandemic,” *Journal of Law and the Biosciences* (2020): 1–33, <https://doi.org/10.1093/jlb/lsaa064>.

make pandemic funding conditional on upholding the rule of law, with Hungary and Poland promising to block any attempts from Brussels to withhold possible funding.<sup>107</sup>

Another way in which Hungary and Poland show the variety of ways through which illiberal leaders can instrumentalize their foreign policy became evident after the start of the war in Ukraine. As the war began, Hungary was in the middle of its national elections. Although initially the Fidesz government joined in the Europe-wide wave of support for Ukraine, the day after winning his fourth term in office,<sup>108</sup> Prime Minister Viktor Orbán gave the first speech of the new government in which he called President Volodymyr Zelenskyy of Ukraine one of the “opponents” he had to defeat during the campaign.<sup>109</sup> Additionally, Budapest is now a major supporter of the continued purchase of Russian oil and gas, while the rest of Europe is focused on a joint response to shun Russian energy.<sup>110</sup> In the end, although most of the EU agreed to stop buying Russian crude oil, Hungary, Slovakia, and the Czech Republic were exempted from this measure.<sup>111</sup> This exemption was granted even while just days beforehand democracy was further eroded, with Orbán being granted new emergency powers due to security concerns arising from the war in Ukraine.<sup>112</sup>

Poland, on the other hand, has focused on extensive collaboration with the EU. Not only has the country welcomed over 3 million refugees fleeing the war, but when the EU was moving to ban Russian oil, Warsaw agreed to stop importing Russian energy in spite of its dependence on this source.<sup>113</sup> Shortly thereafter, it seemed that the pandemic transgressions in matters of the judiciary were at least partly forgiven. The EU agreed to unfreeze about €36 billion in pandemic aid that had been held up by rule-of-law violations, whereas Hungary’s funds remained blocked.<sup>114</sup> Though taking different paths, both Hungary’s and Poland’s illiberal governments arrived in the same place. They managed to instrumentalize the pandemic to expand their powers, and the war in Ukraine to get concessions from the EU, which are then used to continue propping their governments.

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109 Rob Picheta and Balint Bardi, “Viktor Orbán, Hungary’s Authoritarian Leader and Key Putin Ally, Calls Zelenskyy an ‘Opponent’ after Winning Re-election,” *CNN*, April 3, 2022, <https://www.cnn.com/2022/04/03/europe/hungary-election-results-viktor-orban-intl/index.html>.

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111 Kate Abnett, Jan Strupczewski, and Ingrid Melander, “EU Agrees Russia Oil Embargo, Gives Hungary Exemptions; Zelenskyy Vows More Sanctions,” *Reuters*, May 31, 2022, <https://www.reuters.com/world/europe/best-we-could-get-eu-bows-hungarian-demands-agree-russian-oil-ban-2022-05-31/>.

112 *Deutsche Welle*, “Hungary’s Orbán Extends Emergency Powers, Points to Ukraine,” May 25, 2022, <https://www.dw.com/en/hungarys-orban-extends-emergency-powers-points-to-ukraine/a-61918348>; Reuters, “Hungary’s Government Gets Emergency Powers Due to Ukraine War, PM Orbán Says,” May 24, 2022, <https://www.voanews.com/a/hungary-s-government-gets-emergency-powers-due-to-ukraine-war-pm-orban-says/6587450.html>.

113 Abnett, Strupczewski, and Melander, “EU Agrees Russia Oil Embargo.”

114 Monika Pronczuk, “In Concession to Poland, EU Opens Door to Frozen Funds,” *New York Times*, June 1, 2022, <https://www.nytimes.com/2022/06/01/world/europe/poland-eu-ukraine-coronavirus.html>.



## **Conclusion**

In this article, I have argued that the behavior of illiberal leaders in international settings is creating new challenges to the liberal international order. These leaders come to power criticizing previous international commitments for not protecting the country and its citizens. However, once they have consolidated political and economic power, the international arena becomes a venue for them to further the interests of the government. The result is that illiberal leaders instrumentalize globalization for their own political survival by selectively choosing which parts of the international system are of greatest benefit to them. I explored this dynamic in Hungary and Poland through their selective engagement with the EU—actively maximizing the funding received while dismantling domestic institutions that are at the core of the European project.

The use of the international financial system and seeking out alternative sources of economic support, as well as taking advantage of the Covid-19 pandemic and the war in Ukraine are further examples of this pattern of selective international engagement. These actions do not suggest that these leaders are neoliberals with nationalistic rhetoric but rather that, lacking—so far—the ability to change the international structure from within or at least to prevent the EU from continuously criticizing the rule-of-law abuses in these countries, they are left to make the most of what the international arena has to offer while domestically continuing their economic nationalist projects.

This trend of seeking the benefits of international participation while going against the spirit of cooperation has already impacted arenas such as pandemic recovery and the ongoing war in Ukraine. The roles that illiberal governments play in these and other sensitive matters can indirectly reshape the international order even if these leaders do not aim for system-wide change.<sup>115</sup> As the world faces increased pressures in areas such as climate change and the role of data and technology in society, illiberal leaders can leave an indelible mark on how future regimes of cooperation in these areas are organized. Many illiberal leaders are not willing to make firm commitments to fighting climate change and, based on the pattern of behavior highlighted in this article, might not engage in meaningful action unless they receive tangible benefits.

Similarly, future debates on data, technology, and “surveillance capitalism”<sup>116</sup> might be dramatically reshaped by the interests of illiberal leaders, with personal data being used to benefit these regimes as they seek to extend their hold on power even in the event they find themselves faced with declining popularity at home. Future research should actively engage in examining how these issue areas are being impacted by illiberal forces, both in Eastern Europe and in other illiberal democracies across the world, as well as within illiberal movements in advanced Western democracies. Illiberal tendencies continue to be on the rise and the wave does not yet seem to be breaking.

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<sup>115</sup> Examples abound, but just recently Turkey has signaled opposition to Finland and Sweden joining NATO, possibly reshaping the security of the entire alliance if the two countries do not acquiesce to specific demands.

<sup>116</sup> Shoshana Zuboff, “Big Other: Surveillance Capitalism and the Prospects of an Information Civilization,” *Journal of Information Technology* 30, no. 1 (2015): 75–89, <https://doi.org/10.1057/jit.2015.5>.