3 Attraction and Repulsion

Hungary and European integration

Pál Germuska

Amid easing international tensions, Hungary approached the West from the mid-1960s onwards because it desired more intensive economic, cultural and technological cooperation with the developed market economies of Western Europe. However, Budapest repeatedly retreated from Brussels in the belief that it risked the benevolence of Moscow if it recognised the European Economic Community (EEC or Common Market). Before Mikhail Gorbachev's root-and-branch reforms, the Hungarian elite did not dare to cross the Rubicon and conclude an agreement with the country's most important Western economic partner. Although the Soviet Union was unable to provide financial resources to stabilise Hungary from the early 1980s,¹ energy safety (secure supplies of crude oil and natural gas) remained a core issue for Hungarian decision-makers. A second crucial factor in this careful policy was the *idée fixe* of First Secretary János Kádár and his older generation comrades that Hungary was such a small and negligible country that any vacillation in their loyalty towards Moscow might result in a Soviet political intervention and provoke a U-turn in Soviet foreign economic policy towards Hungary.

The issue of obtaining access to the Common Market provoked sharp debates within Hungarian elite groups from the mid-1960s, and this chapter analyses Hungary's internal discussions on European integration and its envisaged role in pan-European cooperation. Although the Hungarian leadership adopted a negative Soviet stance on the Common Market and refused to diplomatically recognise the EEC (as did the other Soviet satellite states), this standpoint was questioned in confidential documents in the early 1960s. Faced with deepening Western European integration and evolving EEC protectionism, Budapest attempted to manage a rapprochement with Brussels. Hungary moved through two different channels: the Council for Mutual Economic Assistance (CMEA), hoping to unify the efforts of socialist countries to conclude a general agreement with Brussels; and the General Agreement on Tariffs and Trade (GATT), trusting that the organisation would be able to persuade the European Community to abolish its protectionist measures. However, by the end of the 1970s both paths proved to be dead ends: CMEA-EEC negotiations manifestly reached stalemate, and GATT membership did not gain Hungary better access to the Common Market. When in 1980 Romania signed a separate agreement with the EEC, a small but loud-mouthed group of trade politicians still argued against preparing a similar document, continually

reiterating that Brussels should guarantee Hungary's commercial rights on the ground of its GATT membership. As we will see, younger generation elite groups recognised the signs of the times that such an agreement with the EEC would have *political importance* (instead of economic) and it would demonstrate Hungary's willingness to open its markets and recruit investors to modernise its economy. At the same time, this was precisely the situation that Moscow, and therefore Kádár himself, intended to avoid: turning a commercial problem into a political matter.

The policy conducted towards the EEC was embedded in Hungary's *four main foreign policy directions*: the principal direction was the Soviet Union; the second was the Soviet bloc and the entire socialist community; the third circle of relations covered the West, including developed market economies and the EEC; and the fourth and newest direction was the "third world" with its developing countries.² For understandable reasons of trade and foreign policy, the focus shifted from the socialist world towards market economies during the "long 1970s", and the importance of the four pillars mentioned changed. It is undisputed that the Soviet Union maintained its first place as the leading force in the communist movement, the largest buyer of Hungarian goods and the vital supplier of energy. However, the importance of the European CMEA countries gradually decreased since the partner states were not able to intensify their cooperation. On the other side, as Eastern cooperation weakened, Western relations were appreciated more. According to Ervin Csizmadia, after its initial phase the Kádár regime aimed to broaden its international relations and during the 1970s the idea of socialist integration was supplemented with rapprochement to the West and Western integration. Therefore, the idea of 'openness' and an 'open economy' became a positive approach and the perception of the West in those years was re-constituted among the Hungarian elite. Moreover, Hungary was characterised by a *dual dependency*: it depended on the Soviet empire but also on the Western world's economy.³

The fourth foreign policy circle manifested the new challenges of the 1970s: how could Hungary cope with the radically changing world economy and how could it profit from the expanding globalisation? A new party foreign economic policy decree of 1977 synthesised this issue at the conceptual level. It stated that Hungary and the socialist economies were an integral part of the world economy and Hungary had to open towards non-European markets too. To a certain extent, the Hungarian Socialist Workers' Party (HSWP) subsequently just approved the current situation, especially because the country multiplied its commerce with the global South in the early 1970s and extended its political, cultural and technical cooperation with the developing world.⁴ An additional consideration is the fact that the socialist states (re)joined several international organisations and enhanced their activities in these arenas.⁵ On the other hand, these organisations – where the socialist states were a minority – played an increasingly important role in the economic life of the socialist bloc. As Fritz Bartel has recently argued, the involvement of the International Monetary Fund (IMF) as the lender of last resort during the Eastern European debt crisis offered the Western states an indirect pressure possibility.⁶ Overall, Hungary irrevocably became part of the indivisible global economy.

It is also important to remember that *economic motivation* was a core element in Hungary's opening up policy: détente was not a foreign policy goal per se but rather an advantageous environment in which to do business. From 1963 to 1964 the Hungarian leadership intended to normalise its relations with the Western powers, especially the US, aiming to return to the international financial markets to acquire loans for the modernisation of the economy. As the first ideas of an economic reform emerged, it was indisputably clear that it could not roll out without a foreign policy opening towards the West.⁷ Therefore, reform and opening progressed hand in hand in Hungary.

The unfolding liberalisation offered more room for manoeuvre to large enterprises which were interested in the acquisition of modern technologies to win new markets. State-owned enterprises established joint ventures in Western Europe to facilitate market access, circumvent EEC regulations and sometimes smuggle embargoed products, parts or technologies. By 1970, forty companies with Hungarian shareholding operated in Western Europe. From 1972 a Ministry of Finance decree provided new possibilities for Hungarian enterprises to set up joint ventures abroad. At the same time, this decree also enabled foreign owners to buy a share in newly established companies in Hungary.⁸ Established international companies introduced new technologies and know-how, institutionalised Western production culture, and standardised higher quality requirements in Hungary. The joint ventures made the Iron Curtain permeable in both directions.

Hungary's import-led modernisation strategy had its downside: a permanent foreign trade deficit (see Appendix, Table A.1). The two oil shocks of 1973 and 1979 dramatically deteriorated the balance of exports and imports. Between 1974 and 1980 the cumulated trade deficit exceeded 5.7 billion US dollars. Ministerial plans were elaborated from the turn of 1973–74 to re-shape the Hungarian export structure and to adjust the entire economy to the changed conditions, but competitiveness adaptation progressed slowly.⁹ Even though the export expansion had a strategic rationale, hardly any change occurred within a decade. Agricultural products still had considerably more weight in Hungarian exports to Western Europe than industrial ones. According to Michael Marrese, in the period between 1974 and 1986, animals, cereals, raw food materials, additional foods and food products, beverages and tobacco constituted 25% of the Hungarian products that were exported to European market economies, while machinery, equipment and industrial consumer goods represented only 29%.¹⁰ In more detail, nearly a quarter of Hungarian agricultural exports (22% in 1981 and 24% in 1984) went to the Common Market. Additionally, in the first half of the 1980s the foodstuff sector was a net exporting branch of the Hungarian economy, contributing a notable surplus to the national foreign trade balance.¹¹ This is why agricultural tariffs and quotas remained permanently at the forefront of Hungarian (economic) diplomacy. In the absence of marketable industrial goods, grain, beef cattle and fresh fruit had to offset the sizeable Western imports. As will be shown, the unchanged internal economic structure constituted a hard constraint on foreign trade and policy towards the European Community.

This chapter proceeds in five steps in thematic order. The first section sketches how Hungary-EEC relations were interpreted for the wider public. The second

depicts the formulation of new trade policy directives, while the third presents foreign-policy initiatives to improve pan-European cooperation. The fourth section examines discourse among the expert and academic communities during the 1970s and shows the role of bankers in the economic policy turnaround at the end of the decade. The final section reveals non-public discourse regarding Hungary-EEC relations when the young party elite sought to shift from the outdated standpoint but clashed with the taboo of going against the Soviets. Using records from the Ministry of Foreign Trade, the Hungarian National Bank and inter-ministerial bodies (like the Committee for International Economic Relations), the chapter demonstrates that in certain fields the Ministry of Foreign Trade was an active and independent agent while colourful – and sometimes contradictory – ideas flourished in internal debates. Since creating access to the Common Market was envisioned primarily as a tariff and commercial issue during the 1960s and 1970s, the trade apparatus mainly managed the internal and external coordination of Hungary's policy towards the EEC. As Gábor Szilágyi highlights, the HSWP ignored the issue for a long time and new initiatives were mostly launched by the state bureaucracy.¹² This study challenges his interpretation on one crucial point: it argues that from the early 1980s the genuine initiator of a foreign trade policy shift was the reform wing of the party, while the foreign trade apparatus remained steadfast on non-recognition. The chapter sheds new light on the intersection between the different Hungarian foreign policy circles, where national interest confronted ideological doctrine. Exploration of these internal debates contributes to a better understanding of the Hungarian elite's motivations and reveals the frontlines between the elite groups.

Public interpretation of Hungary's relations with the Common Market

The 1957 treaty that created the EEC was a side issue in Hungary. The official newspaper of the Hungarian Socialist Workers' Party, *Népszabadság* (Peoples' Freedom), relegated news of the event to page 7. In the years that followed, the HSWP supported the Soviet stance on the Common Market and the official press regularly echoed this attitude. Indeed, the issue of collaborating with the Common Market was never discussed publicly due to the severity of the problem. A small circle of diplomats and commercial experts worked on new solutions in the background while the Ministry of Foreign Affairs promoted well-known clichés about the EEC in newspaper articles and diplomatic conferences.

For example, Foreign Minister János Péter explained Hungary's principal goals at an ambassadors' conference from 30 July to 4 August 1962. (These so-called ambassadors' conferences were held at random intervals and the three- to four-day meetings aimed to summarise Hungarian foreign policy targets for the country's diplomats.) He justified building new links with the Western countries on the grounds of peaceful coexistence; working in the interest of the worldwide victory of socialism; improving Hungary's place among the socialist countries; and establishing Hungary's reputation in the international arena. He also underlined that

Hungary should weaken the Western European integration efforts and prevent the accession of Austria to the EEC.¹³

By the mid-1960s, the peaceful coexistence of different political systems in Europe emerged as a favoured topic in public communication. Budapest insisted that Western countries should take the first steps to abolish obstacles to inter-bloc trade. On 11 February 1965, János Kádár told Parliament: 'If the capitalist countries are going to develop commercial ties in reality, then these obstacles should be discontinued and most-favoured-nation [status] should be granted to the socialist countries'.¹⁴ Also in the following years, the Hungarian press paid close attention to key events in the Community, always informing its readers about harsh debates and contrasts between the six member states (the Six).

On the occasion of a 1969 ambassadors' conference, Deputy Foreign Trade Minister Béla Szalai explained the three main targets of Hungary's trade policy: enlarging the circle of liberalised products; expanding trade quotas; and initiating industrial cooperation and joint ventures. He reminded the ambassadors that the next aim on the commercial agenda was to conclude agreements with the EEC and the European Free Trade Association (EFTA). He emphasised that although diplomatic recognition of the EEC should not be taken into consideration, a continuation of technical talks was desired. The Economic Secretary of the HSWP, Rezső Nyers, also argued for further negotiations with the Common Market as the organisation was gradually formulating its common trade policy.¹⁵ In August 1969, Pál Gulyás condemned the launch of this policy. The columnist reminded the readers of the *Népszabadság* that the planned EEC regulation would hurt the export interests of all the socialist countries and stressed that expanding international trade was a winning proposition, while those who hindered it with discrimination would be the losers.¹⁶

In the first half of the 1970s, cooperation difficulties among the Six were continually highlighted, and discrimination by the Common Market remained a regular headline topic. For example, in February 1970 Hungarian radio pointed out that establishing a common monetary policy within the Common Market would be a 'difficult and lengthy process'. It also touched on the common trade policy and envisaged that 'small Hungary' would confront the 'giant monster of an economic association'. At the same time, it expressed its hopes that the Western countries also intended to avoid unmanageable situations and that the liberalisation of product lists would be enlarged by 1972.¹⁷

Hungary's sharp criticism of Common Market practices was also demonstrated in the party daily. In April 1972, *Népszabadság* reported Foreign Trade Minister József Biró's attack on the EEC at the United Nations Conference on Trade and Development (UNCTAD) in Santiago de Chile. He condemned discriminatory restrictions which seriously affected the socialist states and indicted the Community for refusing to grant them most favoured nation status for 'political reasons'. The common agricultural policy was deemed 'one heavy burden' on international trade.¹⁸ Budapest also enhanced its protests when the Community ordered an import ban on beef cattle in the summer of 1974. Hungary demanded the withdrawal of this decision and criticised the 'irresponsible and outrageous behaviour' of EEC politicians.¹⁹

On the other hand, a more friendly tone was used regarding the EEC when general pan-European cooperation issues were on the table. In September 1973, János Kádár welcomed a meeting between representatives of the Common Market and the CMEA. He expressed Hungary's desires in an interview on Finnish radio and TV: 'What we require from the contacts between the two organisations is that they offer their member countries the opportunity to take a serious step forward along the road toward amplifying their economic links and their co-operation and facilitating contacts'.²⁰

The first secretary was also a keynote speaker at the next ambassadors' conference in July 1975. Kádár reminded his audience that peaceful coexistence was not a tactical usage in Hungarian foreign policy but a 'communist policy for a historical epoch' which would indirectly assist the world revolution. He warned the diplomats that they should not be 'more Catholic than the Holy Father in Rome, redder than Moscow and more leftist than the Central Committee and the Government'. Namely, the Hungarian diplomatic corps should follow the intentions of the party exactly instead of formulating alternative pathways.²¹

Minister of Foreign Affairs Frigyes Puja explained the concept more concretely to department leaders in November 1976. He stressed that the capitalist states were the second most important country group to deal with, as he noted 'we can purchase modern technologies there, we can acquire loans there, we can sell our goods there'. He mentioned bilateral relations with Western states as a tool to improve the international climate and resolve international debates. He complained that the EEC subjugated its relations with the CMEA to its 'fight against' the Soviet Union. He supposed that the Community did not wish for an inter-bloc agreement since then the room for manoeuvre for the smaller socialist states (like Romania) would be eliminated while Brussels would gain from division among the socialist countries.²²

At a 1978 ambassadors' conference János Kádár was again the keynote speaker. He stressed the openness of Hungarian foreign policy and explained the equal importance of the three main directions: the socialist ally system, the developing world and the Western capitalist countries. On this occasion, the Common Market was only mentioned in an expert report, which pointed out that the Hungarian embassies did not maintain appropriate contacts with the representatives of NATO, the EEC and the European Parliament.²³

The next ambassadors' meeting in 1980 was the first occasion when Budapest-Brussels relations received specific attention. Foreign Minister Puja reminded Hungary's representatives about the worldwide economic recession, the heating of international tensions and the unfolding conflict of interests between the US and the EEC. The Community was depicted as the main hindrance to Hungarian export expansion since Brussels had not only intensified its protectionist measures but also undermined Hungary's rights under the GATT Agreement. Puja stated that criticising trade discrimination was a constant cornerstone of Hungary's foreign policy and encouraged further negotiations on trade and a contractual relationship between the CMEA and the Common Market.²⁴

Noteworthy, in the following years the official press regularly repeated well-known clichés concerning the EEC (harsh debates between the member states,

failures of summits, etc.) but never mentioned the exploratory discussions between Budapest and Brussels. Meanwhile Hungary was seeking new paths behind the façade of socialist unity.

Challenging the socialist non-recognition policy – the foreign traders

During the preparation for the economic reform, the Ministry of Foreign Trade proposed to seek Hungary's entry into the GATT with the purpose of improving access to the Common Market. On 31 May 1966, the Committee for International Economic Relations (CIER) gave Hungary permission to submit an application for GATT observer status, which was conceived as a first step towards full membership.²⁵ The top party leadership also consented. In October 1966, the HSWP Political Committee (PC) requested new policy papers with different options on how to launch talks with the EEC and called on the Ministries of Foreign Trade and of Foreign Affairs to effectively represent Hungarian interests in tariff and discrimination issues abroad.²⁶

In April 1968, Deputy Minister Béla Szalai submitted a report to the Ministerial Board with fresh ideas and evaluations regarding the Common Market. The report's point of departure was the agricultural issue, since agriculture and food products represented 60% of Hungary's exports to the Common Market. Before 1968, exports of agricultural goods (especially eggs, poultry, pigs and pork) had dynamically expanded, and the EEC regulations on beef cattle were of crucial importance since this product alone amounted to 35% of Hungary's agricultural exports. The ministry warned that Hungary would soon face new challenges due to the EEC's decision to abolish its internal customs tariffs by 1 July 1968. Nearly half of Hungary's Western trade involved EEC countries, and this was 13% of its total trade. In addition, West Germany and Italy were the primary suppliers of modern technologies to Hungary. It was therefore essential for Budapest to negotiate with the Common Market. The ministry called the CMEA position an *outdated perspective* and stated that CMEA member states should consider *official diplomatic recognition* of the Common Market. In his conclusion, Szalai called on the government to reconsider its non-recognition policy at forthcoming CMEA meetings. In the meantime, he suggested the continuation of informal Hungary-EEC bilateral talks to resolve technical questions.²⁷

A finalised version of this proposal was circulated and commented on by the top leadership. Prime Minister Jenő Fock supported Hungary's accession to the GATT and continuation of technical negotiations with the Community. He added that concluding multi-annual agreements with EEC member states on joint ventures and technical cooperation would be desirable. Vice Prime Minister Antal Apró's secretariat also agreed on the key points. Their note asserted that the former arguments against the EEC (that it was an economic arm of NATO, a tool of West-German revanchism, and a supranational power which would soon fall apart) had been proven wrong. Apró's secretariat agreed with Fock's comments that it would be too early to grant the EEC 'political recognition', but the CMEA

should reconsider its standpoint soon. In the meantime, Hungary might gain more advantages through accession to the GATT as an associate member.²⁸ On 10 May 1968, the CIER debated the April proposal on the Common Market and passed a resolution requiring Hungary to initiate a re-evaluation and better coordination regarding CMEA-EEC relations within the CMEA.²⁹

Just a month later, on 10 June 1968, the Ministry of Foreign Trade suggested revising the internal customs tariff system to prepare for Hungarian accession to the GATT. It argued that full membership would result in further gains for Hungary since the GATT, as a multilateral foreign trade coordination forum, played an increasingly significant role in discussing trade discrimination and barriers. The second most important argument for accession was: 'It would be an advantage if – in the framework of the GATT – we could directly negotiate with the Common Market in earnest without diplomatically recognising it'.³⁰ This sentence reveals the true intentions behind the accession request: to make a new deal with the EEC without openly breaking socialist unity.

On 21 June, the CIER supported the action plan and ordered the Ministry of Foreign Trade to elaborate a proposal to improve the tariff system and to draft a decree on GATT accession.³¹ One year later on 9 July 1969, the Hungarian government submitted its application for full membership to GATT in accordance with Article XXXIII of the General Agreement.³²

Already Hungary's observer status fulfilled its expectations in the sense that it facilitated informal networking efforts with the EEC. In September 1969, János Nyerges, the Hungarian representative delegated to international economic organisations, was welcomed in Brussels by Wolfgang Ernst, the deputy head of the Directorate General External Trade (DG XI) of the European Commission, and Commissioner Jean-François Deniau, head of DG XI. Although the Hungarian economic diplomat considered their meeting to be part of the general GATT talks, he consistently dealt with Budapest-Brussels relations. He argued for a flexible liberalisation of Common Market regulations, especially in the field of agricultural trade. On the contrary, Deniau and Ernst suggested discussing general trade policy issues in the framework of the GATT. Foodstuff exports were again the core issue at a business lunch, but Edmund Wellenstein, director general of DG XI, declared that the Community could not offer any positive prospects for Hungarian agricultural exports since a decided intent of the EEC was to be self-sufficient in terms of food. Therefore, Hungary should seek to change its export structure. Conversely, Nyerges insisted that, for economic and historical reasons, Hungary was not able to cease its agricultural exports and demanded a guarantee from Brussels that it would not change its trade regime in the future.³³

These non-official meetings continued in the following year, since Budapest intended to ensure a better position for its exports. In August 1970, the head of Jean-François Deniau's cabinet, Pierre Duchâteau, visited János Nyerges at the ministry during a holiday in Hungary. They discussed the kind of treatment of the socialist states that would be desirable in a new Common Market Eastern policy. Nyerges argued again for a new EEC policy regarding agricultural trade which would open its market for Eastern foodstuff supplies at good prices and in large

volumes. He stated that Hungary 'was fighting for' normalisation of international commerce in the framework of the GATT talks and pointed out that trade liberalisation would not risk the Common Market states' interests.³⁴

Presumably, additional informal meetings were held even though technical issues were being increasingly addressed as the GATT negotiations proceeded. After four years of intensive negotiations, the GATT working party finalised its evaluation of the Hungarian application in July 1973 and submitted its recommendations, including a draft protocol.³⁵ On 10 August 1973, the Hungarian government finally signed the Accession Protocol. The Hungarian economic leadership pinned all its hopes on getting better access to the Common Market because the Protocol envisaged the elimination of trade barriers. Nevertheless, these Hungarian expectations were not realised since the EEC member states maintained most of the quantitative restrictions related to Hungarian exports.³⁶

A CMEA reform attempt and initiatives on pan-European cooperation – diplomats at the forefront

A second strand in Hungary's strategy regarded the socialist bloc. To create a solid background to its economic reform and to expand commercial opportunities, Budapest elaborated far-reaching reforms to improve the CMEA. A proposal in May 1968 aimed to foster CMEA integration with advanced financial conditions, monetise commercial relations between partner states, promote direct inter-firm links and provide non-socialist countries with opportunities to join the CMEA.³⁷

It soon became evident that Hungarian aspirations to find supporting partners within the CMEA would at most only be partially fulfilled. In January 1969, the Executive Committee passed a resolution on EEC relations declaring that each CMEA member state could have 'links with EEC organs to defend their economic interests' and calling on the member states to readily exchange information. Although the Hungarian Ministry of Foreign Trade later interpreted this declaration as advantageous (the Executive Committee *did not explicitly prohibit* building contacts with the Common Market), the decision also clearly dictated that the member states should abstain from granting diplomatic recognition to the EEC.³⁸

The Hungarian state apparatus regularly re-assessed recent developments in the Common Market – the planned enlargement of the Community and the decision to implement a Common Commercial Policy and so forth. In December 1970, the Foreign Trade Ministry summarised new tasks in Hungarian policy towards the EEC. A report by the Inter-state Department of European Non-socialist Countries analysed the EEC regulations concerning the most important Hungarian export products (beef, cheese, wine, etc.) in detail together with relations between the other CMEA members and the Common Market. Although it made clear that the EEC's Common Commercial Policy was not *completely* implemented, the department proposed – and the Ministerial Advisory Board accepted – the following guidelines: Hungary should conclude agreements on certain products, initiate negotiations with EEC candidate countries and attempt to sign long-term trade agreements with the actual member states before 1974. Assuming that Western

European integration would progress in the forthcoming years, the report considered it necessary to revise the CMEA's approach.³⁹

Facing firm Soviet resistance to the adoption of a new line, Hungarian diplomacy attempted to avoid the issue of diplomatic recognition by proposing ways to make direct ties between the CMEA and the EEC. In February 1972, for example, a Hungarian proposal offered the following options: a CMEA declaration that the Eastern side was ready to establish contacts with the EEC; preliminary informative links between the CMEA and the EEC on possible forms of contact; principle agreements on certain economic and trade policy issues; and treaties or agreements on selected sectoral issues (coordination or mutual acknowledgement of quality specifications and standards, environmental protection, transport, energy).⁴⁰ The Ministry of Foreign Affairs also agreed that expanding economic relations with the EEC would be crucial for Hungary since Hungarian raw material exports offset the imports of high-quality complex technologies, licences and industrial equipment. However, in accordance with the official CMEA policy, the Economic Policy Group of the ministry did not intend to build new ties with the supranational organs of the Common Market.⁴¹

Hungary also presented remarkable new initiatives to encourage wider pan-European cooperation only half a year after the Budapest Declaration of the Warsaw Pact Political Consultative Committee. In October 1969, the Ministry of Foreign Affairs elaborated a detailed memorandum which suggested adding economic topics that went beyond questions of security to the Conference on Security and Co-operation in Europe (CSCE) agenda: cooperation in various economic sectors, including industry, supply infrastructure, and telecommunications and transport networks. Moreover, the ministry proposed to establish a new 'Committee for European Economic Cooperation' to re-shape the role of the United Nations Economic Commission for Europe.⁴² Before the commencement of CSCE talks in Helsinki, the Hungarian leadership once again voiced its interest in moving beyond common security issues regarding the bloc countries. In June 1973, when the HSWP Political Committee discussed an upcoming speech by Foreign Minister János Péter to the CSCE, it placed more emphasis on cultural and economic cooperation, requesting the elimination of discriminatory trade barriers and highlighting the importance of pan-European collaboration to improve the wellbeing of European citizens. It also pointed out that economic cooperation between the opposing political systems would provide increased security across the continent.⁴³

From the Hungarian viewpoint, it was a crucial result that the Helsinki Final Act declared in the first chapter (Commercial Exchanges) of Basket II that the participating states 'will endeavour to reduce or progressively eliminate all kinds of obstacles to the development of trade'.⁴⁴ Budapest had a legitimate expectation that the Act could give a new impetus to unhindered trade.⁴⁵ Shortly after the signing of the Helsinki Accords in September 1975, the secretariat of the Committee for International Economic Relations analysed the economic consequences of the CSCE in detail. János Szita, secretary of the CIER, recalled in this report that neither the socialist nor the capitalist countries intended confrontation regarding

Basket II. He drew attention to the fact that with its signing of the Act the EEC became not only a de facto but also a de jure actor in international politics. Moreover, he suggested that Brussels intended to give more expression to its role. The report assessed the tasks concerning the implementation of the Final Accord and the preparation for the follow-up Belgrade conference planned for 1977.⁴⁶

As a direct consequence of the Accords, in December 1976 Budapest proposed talks with nineteen Western countries in order to develop bilateral political, economic and cultural relations. These proposals were highly ‘personalised’ since they varied from country to country. In the case of West Germany, for example, the Hungarian Ministry of Foreign Affairs suggested initiating talks that would balance bilateral trade and abolish trade discrimination against Hungarian exports. In addition, Budapest questioned whether the interlocutors would speak up for the establishment of official relations between the CMEA and the EEC after a Hungarian–West German summit.⁴⁷

Maintaining détente also remained one of the main goals of Hungary’s foreign policy after the Belgrade Conference, which ended in the late winter of 1978 with limited results. Budapest wished to continue the inter-bloc dialogue not only in the field of arms reduction and disarmament but also with more attention to economic and trade issues. As the Ministry of Foreign Affairs pointed out in its October 1978 proposal, Hungary prioritised Basket II (economic and trade cooperation) rather than the Warsaw Pact plans to organise a pan-European conference on environment protection and energy. Budapest treated Basket III with contradictory feelings: on the one hand it was considered a potential threat to the expanding unofficial contacts, but on the other hand cultural exchange was envisaged as a tool to correct the image of the socialist countries in Western states.⁴⁸ Hungarian diplomacy kept trade issues at the forefront in the following years too, for example during the Madrid conference (see below).

Forcing an economic policy turnaround – experts and bankers

By the early 1970s, a structured network of background research institutes was supporting policymaking in Hungary. These institutions played a crucial role in re-formulating attitudes towards the West: the Institute for World Economics (VGI) of the Hungarian Academy of Sciences (HAS), the Economic Research Institute of the Central Statistical Office and the Institute for Economic and Market Research shaped thoughts on the international economy while the Hungarian Institute for Foreign Affairs (re)fashioned the foreign-policy mindset.⁴⁹

In 1973, the newly established *Külpolitika* (Foreign Policy; journal of the Institute for Foreign Affairs) proclaimed the official standpoint in an article by János Szita, the secretary of the Committee for International Economic Relations. He examined the differences between the CMEA and the Common Market and also the possibilities for cooperation. He argued that the CMEA countries’ policy did not lead to isolation from other parts of the world economy but the discriminatory policies of the Common Market towards non-affiliated countries seemed to slow down pan-European cooperation in the coming years.⁵⁰ In 1974, Ferenc Kozma

attempted to predict the 'realistic possibilities' for the future relationship between the two European integration organisations in the pages of *Külpolitika*. He stated that the essential condition for developing inter-bloc cooperation was a revision of the EEC's disadvantageous business policies and granting the most preferential terms to the socialist countries.⁵¹ Two years later, in his book on economic integration, Kozma suggested that the CMEA should learn from the experiences of the Common Market instead of copying the Western model.⁵²

A leading Hungarian economics monthly, *Közgazdasági Szemle* (Review of Economics; journal of the HAS Institute of Economics) paid special attention to advances in the EEC's enlargement (with the UK, Ireland and Denmark). However, its author, Gabriella Ízickné Hedri, stressed that Brussels had no concept of how to cooperate with socialist countries. After 1976, the perception among economists of Western integration was more positive: the encouragement of inner mobility, the development of depressed areas and technological and structural regeneration were depicted as features of a successful adaptation model through the deepening integration.⁵³

Experts from these research institutes were also invited to participate in preparing a new foreign economic policy concept, which was ordered by the HSWP Political Committee in July 1975. This party resolution aimed for a thorough analysis of global changes and their consequences for the Hungarian economy, and the Economic Policy Department of the HSWP Central Committee (CC) organised six working groups to elaborate guidelines. In January 1976, the Fifth Working Group – dealing with foreign economy strategy (as the fifth chapter of the planned document) – gathered key figures in the field: representatives of ministries, the national bank, researchers, the party centre and the Hungarian Chamber of Commerce. In this way the academic sphere had the opportunity to give direct feedback to the decision-makers and encourage them to adopt a more active and open economic policy.

One can follow the entire elaboration process of the concept from the first drafts to the finalised chapter in the personal files of János Nyerges. In March 1976, Nyerges personally wrote the first sketch on 'capitalist integrations', in particular on the desired policy towards the Common Market. Since it was an internal preparatory outline, he formulated his ideas more frankly. He bitterly recalled that Hungary depended highly on the EEC and noted, 'There is no real choice in the field of relations with the Common Market. The situation is that the Common Market keeps almost all our capitalist exports in its hands as an entail without a real effort or compelling competitive pressure'.⁵⁴

Nyerges stressed that Hungary only had legal and political instruments against the Community since the country had no power to use any economic pressure. He considered the launch of CMEA-EEC talks a very hopeful sign, but in the long run there were no high hopes of concluding an agreement. Instead, other trade policy measures were deemed necessary like reaping the benefits from rivalries between the EEC and other third parties: improving Hungarian-US trade relations and negotiating with the EFTA member states. Last but not least, the GATT rounds also offered room for manoeuvre to reach equal treatment by the Common Market.⁵⁵

In June 1976, the Fifth Working Group compiled a 'Summary and Conclusions' which tackled the EEC in five pages. This part of the document followed Nyerges' argumentation but formulated measures more softly. The summary designated the Common Market as an organisation that gathered Hungary's most important non-socialist commercial partners. Therefore, this direction was crucial. It expressed the hope that a CMEA-EEC framework agreement could be concluded within two to three years if the socialist states could offer profitable economic opportunities to the Common Market. The working group proposed to reject any effort by Brussels to sign a bilateral agreement with Budapest and stated that only the GATT Agreement should be the principle framework for any talks with the Community. It also suggested substituting the commercially dominant EEC with an alternative market orientation (the US, non-EEC member European states, developing countries) since suppliers faced difficult competitive conditions. Overall, they argued that Hungary should develop its relations with EFTA members and build new ties with the "third world".⁵⁶

The Economic Policy Department of the HSWP CC and the Committee for International Economic Relations drew up a final proposal from the working group reports submitted. The finalised document, titled 'Guidelines for Long-Term Foreign Economic Policy', paid less attention to the EEC than the previous drafts since the new approach was to diversify Hungary's relations. However, for the first time this report intertwined the three main tasks in Hungarian economic policy: handling the aftermath of the oil crisis, adjusting economic structure and opening towards the *non-CMEA world*. *Détente* – the easing of tensions in international relations – was favourable to expanding East-West cooperation. Therefore, the proposal aimed to intensify more dynamic business links with the world economy. It stated clearly that deepening foreign economic relations brought risks, but this was a 'smaller [hazard] than the economic and political outcomes of isolation'.⁵⁷ The guidelines proposed building international economic relations with socialist and non-socialist states on a solid basis. However, it ranked relations according to a political criterion: cooperation with the Soviet Union came first, cooperation with the socialist states followed closely and last came cooperation with capitalist states. Relations with the developed Western countries were presented as an important national interest and as an inherent part of a policy intended to foster peaceful cooperation between the two economic systems. The rapporteurs stated that Hungary should urge for negotiations between the CMEA and the EEC and also aim to improve the Hungarian trade policy position. At the same time, they stated that the basic rule in Hungarian trade policy was the most favoured nation principle, and on the contractual legal basis of the GATT Budapest should act against the defaulting Common Market practices.⁵⁸ The HSWP Political Committee accepted this document as a resolution in April 1977, and in the following year it became the guideline for further state measures.

Although official attention was more devoted to non-European markets, new research projects were also launched to explore the current situation of the core Western European economies. Between autumn 1977 and spring 1978, an ad hoc research group in the HAS Institute for World Economics worked to investigate

several different aspects of the EEC, among them the industrial structure and industrial policies in the Community; its relations with the EFTA states, Canada, Japan and China; developments in EEC-US relations; and the CMEA and East-West trade. In his concluding study, principal investigator András Inotai identified an asymmetry of interests between the CMEA and the EEC. The Common Market had a much more important role in the realisation of the socialist states' economic policy targets than vice versa. The EEC represented the larger part of the CMEA states' trade with capitalist countries while the CMEA had only a 4%–5% share in the EEC Nine's imports and exports (excluding intra-German trade). Inotai also recalled that the CMEA members were attempting to expand their exports to the Nine in the sectors where the highest tariffs and quotas were levied (e.g. clothing products). Consequently, the socialist states should reshape their development policies and adjust their export patterns to forecast market demands. In his conclusion, Inotai warned that countries which had not yet established a contractual relationship with the EEC would be forced to act, and not Brussels. Therefore Inotai – and to a certain degree the expert community – argued for reaching an agreement as soon as possible: 'Any problems involved in this step [of concluding an agreement], which is an imperative necessity, should thus be considered as the price for ensuring more favourable conditions for future and longer-term development'. In his closing remarks, Inotai not only reflected on but also disproved the key point in the 1977 party resolution, stating that there was no real alternative market that could substitute socialist exports to the EEC.⁵⁹

At the end of the 1970s, another important expert community, bankers, also formulated criticism – at least in non-public documents. The central bank was the hub of Western business ties since Western European, North American and Middle Eastern banks were all among the country's creditors. Between 1973 and 1979, Hungary borrowed 8 billion US dollars to stabilise its state budget, to finance its trade deficit and to restructure its industry (see Appendix, Table A.5). In fact, this 'planned indebtedness' strategy was not supported and accepted uniformly. For example, the reformist president of the Hungarian National Bank (HNB), Andor László, expressed his disagreement, which caused his early retirement in 1975 at the age of 61. His successor, Mátyás Tímár (previously vice president of the Executive Council), managed the central bank more smoothly. The HNB secured the required external funding for the national economy. However, several times it reported doubts.⁶⁰

Although the central bank was publicly rather passive concerning the issue of foreign trade policy, behind the scenes the HNB was the genuine engine of economic policy turnaround. From the perspective of the HNB, the 'unresolved' relation with the EEC was a serious obstacle that hindered Hungarian exports and negatively affected the entire financial balance. In September 1978, reviewing a CIER proposal, the foreign currency department of the central bank remarked that due to its organisational structure and its outstanding internal problems, the CMEA was not capable of managing inter-bloc talks. Therefore, dialogue should be continued but it was worth formulating the Hungarian standpoint to initiate bilateral negotiations with the Common Market. The department also warned that

Hungary itself had to take the first step to avoid sizeable losses in trade, since the country's financial balance did not permit any postponement of talks with the Community.⁶¹ In July 1979, analysing another proposal by the Foreign Trade Ministry, the same department of the HNB pointed out the lack of concrete suggestions on how to handle the ineffectiveness of the CMEA-EEC negotiations and called for a clear declaration that in the absence of a CMEA solution Hungary should negotiate with the Common Market itself.⁶²

A political deal with the EEC? – State ‘hawks’ and party ‘doves’

The crucial moment came in a year and a half. The CMEA-EEC negotiations reached stalemate in October 1980 and there was no hope of reviving them in the short term. The Hungarian leadership was disappointed and attempted to find a narrow path to avoid confrontation with the Soviets while at the same time trying to improve its relations with core Western European countries. It is noteworthy that in this delicate situation certain circles in Budapest envisaged the possibility of concluding a free trade agreement with Brussels. However, the idea was deemed ‘economic naivety’ by foreign traders since the Hungarian economy was only a reformed planned economy and not a genuine market economy.⁶³ Presumably, given international commercial legislation the trade apparatus considered it illusory to draw up a contract with the EEC, while reformers desired a shift from the outdated standpoint. The general international climate was contradictory at the beginning of 1981. The Polish crisis overshadowed the prospects for any new reform in socialist states and the next CSCE follow-up conference in Madrid continued with endless disputes. Only economic cooperation seemed to be a promising neutral terrain at the conference. Regarding Basket II, Hungarian proposals on the exchange of market information, on industrial cooperation and on eliminating trade obstacles received positive echoes.⁶⁴

In these circumstances, the reformist younger generation within the party elite initiated action. In March 1981, the Department for Economic Policy of the HSWP CC elaborated a top-secret report on relations with the Common Market. In its memo, which was addressed to Ferenc Havasi, the economic secretary of the CC, it proposed concluding an all-embracing agreement with the Community to arrange economic and commercial issues simultaneously. The document stressed that such an agreement could improve the Hungarian economic position or at least would help to avoid major losses. The department assumed that Budapest might be able to bargain better conditions with Brussels like Romania or even Yugoslavia. The rapporteurs underlined that the Romanian and Yugoslavian cases clearly demonstrated that an economic-commercial agreement with the EEC did not cause ‘political storms’.⁶⁵ According to István Horváth's (the subsequent Hungarian ambassador in Bonn) memoirs, Havasi embraced the idea and consulted on this initiative with János Kádár, who informed the Soviet leadership during his summer holiday in Crimea.⁶⁶

Following preparatory talks with the West German Sozialdemokratische Partei Deutschlands (SPD), Ferenc Havasi had the chance to express the HSWP approach

in November 1981. He stressed in Bonn that Hungary aimed to develop equally bilateral (Budapest-Brussels) and CMEA-EEC relations.⁶⁷ In his memoirs, Havasi affirmed that West German Chancellor Helmut Schmidt promised discrete support in negotiations on a Budapest-Brussels cooperation agreement.⁶⁸ Despite the promising start, a month later Budapest received an unexpected warning from the chancellor. In an 18 December letter addressed to Kádár, Schmidt stated that the political risks of Hungary's stronger attachment to the European Community were evident. As he argued, since Hungary was an important member and partner in the CMEA, any attempt to establish closer links with the EEC would have far-reaching implications of high political importance. He expressed his considerable doubts that the EEC could present an attractive offer in the economic field for Hungary. He concluded that the Hungarian leadership should assess whether the potential benefits of building a closer relationship with the EEC could outweigh the immediate political risks.⁶⁹

The issue of a rapprochement was raised again in April 1982 in the last moments of a Kádár-Schmidt summit in Bonn. The West German chancellor stated that it was still unclear to Brussels what the exact content of an EEC-Hungary agreement would be. Additionally, he repeated his concerns about Moscow since such negotiations might cause a serious conflict for Budapest. Finally, Schmidt explicitly advised the Hungarians to take the matter off the table. Gyula Horn (at the time deputy leader of the Department for Foreign Affairs in the HSWP CC) asked the chancellor why it was he, rather than the Hungarians, who were worried about the Soviets. Schmidt replied that it might be unpleasant for the Federal Republic of Germany if the Soviets found out that Bonn had helped to draw up a Budapest-Brussels agreement.⁷⁰ Following his visit in Bonn, Kádár also expressed criticism of Havasi and the CC departments for having suggested an agreement with the EEC which was not in accordance with reality.⁷¹ Kádár seemed to be so disappointed at Schmidt's refusal that he never supported any similar action again.

During the spring of 1982, the Ministry of Foreign Trade elaborated a new proposal on Hungary's relations with the EEC. The ministry pointed out that even if they were successful the CMEA-EEC talks would not be able to improve Hungary's commercial position. Therefore, Budapest should continue its negotiations with Brussels and conclude agreements that would adequately satisfy its economic interests. The report examined three main topics: tariffs, quantitative quotas and the Common Market's agricultural policy. Concerning tariffs, the ministry underlined that there was no chance of signing a free trade agreement under the current circumstances. The report also self-critically emphasised the low level of competitiveness of Hungarian suppliers, which was a greater hindrance to export expansion than Common Market customs tariffs. According to the report, agriculture was a crucial area of dispute because this sector absorbed the heaviest losses from EEC protectionism. The trade ministry urged the Hungarian leadership to conclude a bilateral arrangement with the Community as soon as possible, even at the expense of Hungary bartering Western market opening with increasing food-stuff imports from the Community. The concluding part of the report emphasised that appointing Hungarian diplomatic representatives in Brussels would be an

important political gesture and pointed out that diplomatic recognition was inevitable sooner or later.⁷² However, the finalised version of the proposal, which was signed by Minister of Foreign Trade Péter Veress on 7 June, clearly demonstrated that the time had not yet come to shift towards a new approach. The crucial last sentence of the proposal was changed to state that recognition was 'no longer relevant'.⁷³

It is not hard to discover the coincidence between the parallel events. Indeed, Hungary was on the verge of total financial collapse by the beginning of summer 1982. Although the IMF accepted the Hungarian request for accession in November 1981, turbulence in the international debt crisis resulted in panic reactions – several hundreds of millions in US dollar deposits were withdrawn from the Hungarian National Bank. In February 1982, the financial situation deteriorated dramatically. János Fekete, HNB vice president, forecast that without new external credits the country's savings would only stretch to the next month. On 6 May, József Marjai, vice prime minister, and Fekete signed the IMF accession document at a lavish ceremony in Washington, but this membership did not in itself mean an immediate capital injection. Therefore, hard bargaining was launched with the Bank for International Settlements (BIS) and private banks to provide the country with fresh credit. At a Budapest meeting on 9 July, János Fekete hoped to convince Jacques de Larosière, the managing director of the IMF, that it was a primary interest of the West to support the 'unique, firmly independent and difficult' Kádarian path, since its failure would certainly delay opening up.⁷⁴

On the other hand, from time to time the Hungarians had to reassure the Soviets that the country did not depend on the West at all. For example, on 9 June 1982 Prime Minister György Lázár affirmed to Nikolai Aleksandrovich Tikhonov, the Soviet chairman of the Council of Ministers, that Hungary was firmly committed to Soviet and socialist shipments. Lázár cited at length commercial data to demonstrate that Hungarian exports had expanded more intensively to the partner states than to the capitalist states, and he rejected a statement that Hungarian trade enterprises were exclusively interested in trading with market economies. He emphasised that Hungary purchased goods from developed capitalist countries only when it was impossible to acquire them from socialist or developing states.⁷⁵

Obviously, the Hungarian leadership was dancing on a razor blade. Budapest had to satisfy the requirements of the IMF in exchange for loans but did not want to incite Moscow's anger with an additional Western deal. Therefore, when the economic cabinet of the Council of Ministers, presided by Marjai, accepted the Foreign Trade Ministry's proposal at its 1 September 1982 meeting, it gave permission for talks with the EEC to be launched and a comprehensive agricultural agreement to be negotiated, but explicitly stated that these negotiations would be solely an *exchange of views of a technical nature*.⁷⁶ However, in November 1982 on the occasion of a GATT ministerial meeting in Geneva, the Hungarian trade delegation suggested to the EEC representatives on a confidential basis that they should examine the possibility of concluding a *comprehensive* bilateral agreement. In his 2016 book, Péter Balázs, at the time the commercial counsellor in Brussels, called this initiative a 'bold and ambitious' proposal which ran counter

to the common CMEA standpoint.⁷⁷ Indeed, the idea of a *bilateral* agreement between Budapest and Brussels was undeniably a courageous measure. Nevertheless, the archival evidence reveals that it was part of a tactical game. The Ministry of Foreign Trade and the close circle of Vice Prime Minister Marjai confidentially showed a positive attitude towards the Common Market while they kept a watchful eye on Moscow's reactions, and in fact intended to avoid a compromise with the EEC.

Publicly, Hungarian representatives repeatedly condemned EEC trade practices, as did Foreign Trade Minister Péter Veress at the thirty-eighth GATT ministerial meeting on 24–29 November 1982.⁷⁸ However, at the expert level signs of dissatisfaction were observable, think tank institutions – hand in hand with certain HSWP CC departments – sought newer points to break out. A prime example of these pathfinding attempts was a January 1983 draft proposal by the Institute for Foreign Affairs titled 'The Eighties and Hungarian Foreign Policy'. Gyula Gyovai, director of the institute, highlighted new opportunities for Hungarian foreign policy, since the room for manoeuvre for small countries had considerably expanded by the 1980s. The authors emphasised that the more trust and cooperation with the Soviet Union was built, the better Hungary could operate flexibly both inside the country and outside in the international arena. Moreover, it stated that in the current situation Budapest should narrow its confrontation with Moscow to the minimum and concentrate on the most important issues (like IMF membership). Regarding the capitalist world, the document stated that market economies would be 'one of the strongest' players in world politics, and in East-West relations the escalation of conflicts would change into an alternation between détente and tensions by the second half of the 1980s. What is quite astounding in the draft is the idea of joining another trade association. It supposed that Budapest would have real a chance during the 1980s to prepare a proper framework agreement with the EEC. Moreover, it stated that '[Hungarian foreign policy] – following an adequate preparation and not demonstratively – could prepare the ground for Hungary's accession to EFTA. In order to ensure the modernisation and effective functioning of the Hungarian socialist economy, these steps will be necessary.' The authors trusted that Budapest would have the opportunity to realise this plan, even though political criticism and protest was expected from both East and West.⁷⁹

The Institute for Foreign Affairs submitted this proposal to the Department for Foreign Affairs of the HSWP CC, where its deputy head, Gyula Horn, reviewed it. He considered the document a collection of embryonic and fragile ideas which could not offer a coherent blueprint for Hungarian foreign policy. Although he criticised several points in the proposal in detail, he did not officially comment on the plan of joining EFTA or concluding an agreement with the EEC. However, in the margin of the document he remarked in pencil, 'these things cannot be done under the table, nor are the others entirely stupid'.⁸⁰ This comment may allow a presumption that Horn agreed with the ideas but that he deemed them unrealistic.

This January 1983 plan and its perception unequivocally demonstrate the front lines between the state's "hawks" and the party's "doves". Marjai's circle, the Ministry of Foreign Trade and the top leadership in the Ministry of Foreign

Affairs preferred to only conclude a *commercial* agreement with the EEC – with certain prerequisites. Meanwhile the reformist wing of the HSWP, in particular two departments in the Party Centre, intended to conclude a *general, demonstrative political* agreement with the Common Market to prove Hungary's goodwill and commitment to its most important European commercial partners.⁸¹ The former grouping still wished to avoid any confrontation with the Soviet Union and the CMEA partner states, while the latter desired to find Western supporters to advance the internal reform process. For a year and a half, the hawks' approach prevailed over that of the doves.

Bilateral negotiations with the EEC developed slowly and hesitantly, maybe due to the absence of a sincere Hungarian intention to compromise. After preliminary soundings in which the Hungarian side tried to spur the Commission to declare an economic offer, Foreign Trade Minister Péter Veress met Commission Vice President Haferkamp on 17 January 1984. Haferkamp expressed the unequivocal political will of the member states to manage a rapprochement with Hungary. Conversely, Veress declared that Budapest would examine different options, including a comprehensive agreement, but was also interested in concluding additional arrangements on agriculture, tariffs and so forth.⁸²

Nearly a month later, Trade Minister Veress summarised the aims for the further negotiations. In a 13 February memorandum to Vice Prime Minister Marjai, he paid special attention to the fact that for political reasons the Soviet Union was greatly inconvenienced by (potential) agreements between certain socialist countries and the Common Market apart from sectoral and technical arrangements. He stated that Moscow saw these agreements as a threat to the unity of the CMEA and to the chances of a politically desirable CMEA-EEC general agreement. Veress suggested continuing the talks with Brussels but intended to only submit the issue to the top leadership at the last moment, when an agreement would be close to conclusion.⁸³

There is no archival record reporting that any government body discussed Veress' proposal. Marjai himself probably decided that Budapest should show firmness towards Brussels. Presumably, talks the vice prime minister had in Moscow urged him in this direction. During a meeting in the Soviet capital on 23 January 1984, Marjai informed Nikolai Talyzin, Soviet deputy chairman of the Council of Ministers, about the Hungary-EEC negotiations. Talyzin declared that the Romanian agreement with the Common Market opened not only a crack but also a gate in the bloc's principles regarding the EEC. He commended and thanked Hungary for continual information on Budapest's talks with Brussels. Talyzin reminded Marjai that in the current political situation a common action would be the most important goal, and all separate negotiation attempts would weaken these efforts. The Hungarian vice prime minister replied that Hungary would only conclude an agreement if it corresponded with common principles and resulted in relevant gains.⁸⁴

Additionally, the Soviet economic factor was still a hard constraint in the background. It was not possible to disregard the issues of energy supply, the USSR's sizeable market and privileged loans. According to an annual evaluation report

by the Ministry of Foreign Affairs, in 1983 the Soviet Union had a 34% share of total Hungarian foreign trade and 17% of national income was realised in trade with the Soviets. The USSR delivered 90% of Hungary's crude oil and 95% of its natural gas and timber imports, and the large Eastern neighbour purchased 50% of total Hungarian machinery exports and 30% of its agricultural supplies. Moreover, at a 1983 annual summit Budapest requested the prolongation of a loan of one billion roubles (re-scheduling it from the 1986–90 plan period to the following post-1990 period), but Moscow still floated the issue during spring 1984.⁸⁵ To sum up, the Soviets possessed strong trump cards in their hands to handle the intractable Hungarians. They did not explicitly express their reservations. Instead, they temporarily blocked a shipment or postponed an important meeting at the appropriate moment. Therefore, the Hungarians had to read between the lines to decode Moscow's intentions.

In any case, at the end of February 1984 the Foreign Trade Ministry ordered the commercial counsellor at the Hungarian embassy in Brussels, Péter Balázs, to present a so-called non-paper paper to Haferkamp. This written memo aimed to underscore Hungary's key conditions for any agreement. Budapest reconfirmed that it could not accept any discriminatory measures and asked the EEC to eliminate all 'quantitative restrictions inconsistent with Article XIII of the GATT'. The document also stated that the idea of effective reciprocity was not acceptable. Additionally, the non-paper claimed that a desirable agreement should result in a substantial improvement in export conditions for Hungarian goods.⁸⁶ Some Western partners were shocked by these firm Hungarian demands. As the West German ambassador in Budapest, Norman Dencker, pointed out, Bonn got the impression that the Hungarian government came to a sudden stop in its progress. On 12 March, Dencker reminded Deputy Trade Minister Tibor Melega that a possible agreement between Hungary and the EEC would have political significance.⁸⁷

Despite the disappointment in Brussels, on 23 March Louis Kawan presented the Commission's official proposal to continue the expert negotiations. When Melega reported on these latest developments, he highlighted that Brussels expected an unconditional approach, namely that Budapest should abandon its principles declared in its February non-paper. The deputy minister warned that acceptance of such a condition could discredit Hungary in the eyes of the Soviets: such an appearance may confirm the suspicion that Hungary was in fact not driven by *economic* but by *political* motivations. He suggested the following tactic to Marjai: Hungary would send its representatives to the expert-level negotiations but maintain its positions concerning discontinuation of discrimination, rejection of effective reciprocity and so forth.⁸⁸

It is no wonder that the next expert meeting in Brussels on 15–17 May 1984 adjourned without any concrete result.⁸⁹ The Belgian daily *Le Soir* reporting on these talks characterised the situation perfectly in its headline on 24 May: 'Hungary Approaches the Ten then Retreats: Attraction-Repulsion'.

The HSWP Political Committee's decision on 3 July 1984 in one sense closed an epoch. The committee embraced the statement that Hungary should not initiate

any further step towards the Community until Brussels suspended its discriminatory and protectionist regulations. However, a loophole was hidden in the voted proposal: the Department for Economic Policy pointed out that a disagreement had emerged between the EEC member states regarding Hungary and suggested that any shift in the Community's standpoint could only be initiated by the largest, most respected countries.⁹⁰ Thus Budapest retreated again but did not burn its bridges with Brussels.

Conclusions

On 25 July 1985, Foreign Trade Minister Péter Veress retrospectively evaluated the Hungary-EEC unofficial negotiations over the previous two years. First, he prided himself on having continually informed the CMEA states and especially the Soviet Union about these talks. He presented this as evidence of Hungary's fidelity to its allies. Second, he blamed Brussels for its unwillingness to negotiate on the grounds of the GATT agreement. The EEC did not offer special treatment to Hungary and deemed Hungarian demands 'excessively maximalist'. According to Veress, the real reason for the failure of the talks was Brussels' fear that if the Common Market granted concessions to Hungary it would have to grant the same to all the socialist countries, including stronger exporters such as the GDR and Czechoslovakia.⁹¹

The trade minister's speech showed that in certain cases ideological doctrine still overrode the national interest; political loyalty towards Moscow remained a stronger factor than the expected economic gains of concluding a compromise with the second most important economic partner, the EEC. This notion brings an additional perspective to the general evaluation of the then Hungarian foreign policy. In a broader sense, according to Csaba Békés, Hungary's Western relations dynamically developed during the first half of the 1980s. Indeed, Budapest presented an innovative and initiating foreign policy even in the coolest moments of the period.⁹² László Borhi also emphasises that despite the deterioration in the superpower relations, Hungary was able to preserve the gains achieved in its relationship with the US in 1983–84.⁹³ However, it is obvious that a significant discrepancy arose between Hungary's foreign and commercial policies. Békés argues correctly in general terms when he states that the foreign policy was based on a relative independence from the end of the 1970s, with the slogan 'that which is not forbidden may be free'.⁹⁴ However, in fact Budapest showed a *self-restraining character* in its relations with the Common Market, and so its foreign economic policy remained ambiguous and ineffective in this direction.

In comparison with the CMEA partner states, Hungary walked along its own individual path, especially because it remained alone in its radical reforms following the repression of the Prague Spring. The former Polish-Hungarian-Czechoslovak axis no longer worked and divergent interests of the CMEA states prevented the formation of a 'united front' against the Western 'giant monster', the EEC. Instead of coordinated cooperation, the bloc countries essentially became competitors in Western markets. Although Hungarian diplomacy continually closely

followed the meetings between the Community and the socialist states, Yugoslavia and Romania served as a reference point for Budapest: Belgrade positively and Bucharest negatively. According to the interpretation at the time, the Yugoslavs had the chance to act more independently without additional risks while the Romanians behaved obstinately and impeded any common action. (The latter perception became somewhat softened after the 1980 EEC-Romania agreement.) If one examines the macro-financial vulnerability of Hungary, it belonged to the heavily indebted group within the bloc, together with Poland and the German Democratic Republic. Hungarian bankers did not follow the conservative Czechoslovak borrowing pattern. Therefore, management of the debt crisis to a great extent determined the foreign economic policy targets.

As far as the role of the 'Soviet factor' is concerned, it was at least as important in the Hungarian case as in the East German one, not simply because of Hungary's economic dependence on the Soviet Union but additionally for moral and emotional reasons (predominantly due to 1956). Certainly, what Helmut Schmidt wrote proved to be true: the Hungarian politicians carefully examined the short-term pecuniary advantages of a rapprochement and the long-term hazard of confronting the Soviets, and finally they deemed it safer to stand in line. The previously mentioned dual dependency of the Hungarian economy (Eastern fuels and raw material, Western loans and technologies) required a prudent economic policy after the end of the 1970s to maintain solvency and internal social stability. Presumably, the Hungarian leadership did not wish to lose Soviet support in exchange for an EEC trade agreement which might generate negligible commercial profit. It is a hypothetical question whether the Hungarian leadership had a real chance of conducting a bolder foreign (economic) policy before Gorbachev. Perhaps not. Maybe the foreign traders had a realistic view. However, party reformers paved the way for later changes.

This chapter has shown that attitudes towards European integration underwent a radical transformation over time. Initially the EEC was depicted as the "economic flank" of NATO, then it was designated as the main obstacle to Hungary's export expansion in the West, and finally it was considered a prospective supporting partner. As has been seen, radically new approaches emerged from the middle-level expert community in two waves: first, when the trade apparatus identified the problem of improving market access, which led to the GATT accession, and a second time when the younger party apparatchiks recognised the change of context and envisioned a political solution to cut the Gordian knot. The issue of an agreement with the EEC also became a home-front battlefield between the "hawks" and "doves" in the political leadership at the end of the 1970s. Although the reform wing of the HSWP lost this battle in 1983–84, the socialist unity idea irreversibly eroded.

As an indirect consequence of these political discussions, in the mid-1980s a new public discourse was generated regarding terms like "Europe", "Europeanisation", "re-Europeanisation" and the "paradigm of Europe". Hungary's historical roots and geographical place (Central Europe? East-Central Europe? Central Eastern Europe?) were discussed alongside perceptions of the West and the

emancipation of Eastern Europe. Some experts argued that ‘the comprehensive institutional reform of the relations between Hungary and the European Community fit[ted] in the process of the restoration of a geographically and historically determined system of relations’.⁹⁵ From 1986 Budapest attempted to manage the disadvantageous consequences of a three-decade-long confrontation with the EEC. By 1989, Common Market membership was still an unreality for Hungary since the country was a member of another alliance system. However, according to Deputy Trade Minister Tibor Melega, a rapprochement towards the European economic development centre was strongly required in order to increase the efficiency of the Hungarian economy.⁹⁶ During the political transformation process in 1989–90, the European Community became the symbol of Europeanism, it embodied peace and prosperity, and it emerged as a target to be achieved which would fulfil the desire of thousands of Hungarians to return to Europe.

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Notes

- 1 Lorenz Lüthi considers Hungary’s accession to the International Monetary Fund to be a testimony to the Soviet Union’s weakness. Lüthi, “Drifting apart,” 386.
- 2 Csaba Békés argues for a ‘tripartite determination’ that constituted Hungarian foreign policy: the Soviet Union, the West and the ‘Eastern European lobby fights’. For details, see Békés, *Enyhülés és emancipáció*, 192–3. My interpretation also incorporates the global South into the ‘determinations’ since the unfolding globalisation re-shaped Hungarian foreign policy preferences.
- 3 Csizmadia, *Diskurzus és diktatúra*, 24.
- 4 On Hungary’s internationalist missions, see the details in Mark and Apor, “Socialism goes global,” 852–91.
- 5 Mark and Rupprecht, “The socialist world in global history,” 91–2.
- 6 Bartel, “The power of omission,” 200–21.
- 7 Borhi, *Dealing with dictators*, 193 and 195.
- 8 Borvendég, *Az “impexek” kora*, 52–8; Pogány, “Cooperation through the Iron Curtain,” 151–9.
- 9 For details, see Germuska, “Failed Eastern integration,” 271–91.
- 10 Marrese, “Hungarian foreign trade,” 36.
- 11 Györi, “Az EGK-ba,” 45–6.
- 12 Szilágyi, “From ignorance to a (delayed) strategy,” 84–105.
- 13 Garadnai, “A magyar-francia kapcsolatok története De Gaulle,” 158–9.
- 14 Az Országgyűlés 15. ülése 1965. február 11-én, csütörtökön. in *Az 1963. évi március hó 21-ére összehívott Országgyűlés naplója*. Vol. I. 1963. III. 21. – 1965. II. 12. (Budapest: 1974), 1065–6.
- 15 National Archives of Hungary (MNL OL), XIX-J-1-j 1969 2. d. 001628/1969. 174–175, 258, “Követi konferencia, 1969. augusztus 25. – szeptember 4.”
- 16 *Népszabadság*, “Kik akadályozzák a fejlődést? Megjegyzések a közös piaci javaslatokhoz,” 29 August 1969, 4.

- 17 Records of Radio Free Europe/Radio Liberty Research Institute: Publications Department: Situation Reports; Open Society Archives at Central European University, Budapest (RFE-OSA), HU OSA 300–8–47–101–8, “Situation Report: Hungary,” 24 February 1970, 18, accessed 10 February 2020, <http://hdl.handle.net/10891/osa:1fdca935-d0b3-4cec-b895-b05b1a3cc145>.
- 18 RFE-OSA, HU OSA 300–8–47–103–16, “Situation Report: Hungary,” 25 April 1972, 6–7, accessed 10 February 2020, <http://hdl.handle.net/10891/osa:17fe8ab5-ab6c-493c-ad13-787968e68b92>.
- 19 RFE-OSA, HU OSA 300–8–47–106–3, “Situation Report: Hungary,” 21 January 1975, 6, accessed 10 February 2020, <http://hdl.handle.net/10891/osa:e315d209-4d43-4e04-8e95-76a3216f8a83>.
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- 65 “Kereskedelempolitikánk az EKG országokkal az új világgazdasági viszonyok között. 1981. március,” in Horváth and Heltai, *A magyar-német játszma*, 103–12. Yugoslavia signed its first agreement with the EEC in 1970, and Romania in July 1980. For details, see Chapter 9 by Benedetto Zaccaria and Chapter 8 by Elena Dragomir in this book.
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