

Prime Minister. *etc* ②*Lord Cockfield's report on
his visit to Hungary. I
suggest you read ~~the~~
covering minute only.*

PRIME MINISTER

VISIT TO HUNGARY AT THE INVITATION OF

MR JOZSEF MARJAI, DEPUTY PRIME MINISTER

*Agree to sign
attached minute?**CDP. 2579.*

1. My wife and I had hosted Mr Marjai's visit to this country last year and I had also had discussions with Mr Veress the Minister for Foreign Trade when he came here earlier this year. This was therefore a return visit on Mr Marjai's invitation and it was designed to carry forward the momentum created by your own visit and that of Sir Geoffrey Howe.
2. Everyone we met remarked upon the extraordinary success of your own visit to Hungary. Mr Marjai and Mr Veress in particular asked me to convey their warmest wishes to you - which I do. There were genuine expressions of appreciation and when I told them that the television coverage in this country had in its time made a great impression this added to their pleasure.
3. On the surface Hungary is a green and pleasant land, its people happy, contented and outwardly free. They are well fed, well clothed and reasonably well housed. There is an abundance of motor cars albeit of Eastern bloc manufacture. But under the surface there are real problems and a great deal of anxiety. There is a determination to follow the path of fiscal probity and the serious concern that it will carry with it a fall in living standards - already low by Western standards. There is an acute realisation of the inefficiency of their industry and frustration at their inability to do much about it. Above all there is the constant menace of the Soviet Union - exceptionally well concealed but the greater threat for all of that. The border is not many miles away and the one and only Autobahn is being extended in that direction. There are 60,000 Soviet troops in the country - a garrison designed to protect them not from an external enemy but from themselves. I was told that Kadar, who is now in his seventies and hopes to die in peace and leave a stable regime behind him, is greatly concerned that the new generation, who knew little or nothing of the 1956 uprising and the terrible consequences, may not realise that they cannot push the Russians too far; and that the Russian reaction, never predictable, never logical, could if matters were mishandled bring upon them frightening consequences. They are a very brave people whose history is marked by victory and disaster. They will need very great political skill to ensure the former and avoid the latter. It is very much in our interest that they do so.
4. In Budapest I held discussions with Mr Marjai himself; Mr Peter Veress, Minister for Foreign Trade; Dr Mátyás, the President of the Hungarian National Bank; Mr Tamas Beck, President of the



Hungarian Chamber of Commerce and a prominent industrialist; with Mr Ödön Kallos, Co-President of the Chamber; and I also met Mr Esztergalyos the Deputy Foreign Minister. Detailed notes of the discussions are attached.

5. All those with whom I talked spoke frankly about the economic situation in Hungary. They admitted that mistakes had been made in the past; they had a clear view of the kind of action that is needed to help recovery; and they were realistic about the political difficulties they would encounter in trying to take the measures needed.
6. There was an interesting point which emerged from all of these discussions: namely a universal recognition that the poor economic record of the CMEA as a whole and of the Soviet Union in particular make their own task so much more difficult. There were constant complaints too about the quality of goods particularly engineering products supplied by their Eastern bloc neighbours and the difficulty of obtaining spares. In fact this arises from an attempt in years past to "rationalise" industry in the Soviet bloc: thus Hungary went out of the production of motor cars on the ground that this could be done more efficiently by other countries in the bloc. I told them that we had developed a thriving components industry in this country: and I asked them why they did not manufacture their own spares or get someone in the UK to manufacture them for them.
7. The Hungarians themselves realise that access to Western markets is one of the major factors in recovery, and they have made a concentrated effort to improve their export performance. They are anxious to develop trade with the UK, France and the Netherlands to a level similar to that which they already have with West Germany, Italy and Austria. They are disappointed at the very slow development of joint ventures with British firms, which is in sharp contrast with their experience with Germany.
8. Not unexpectedly in this connection Mr Marjai and Mr Veress both raised the question of the negotiations between Hungary and the European Community which have become stalled. They expressed appreciation of the UK efforts: but hoped we would do more. Mr Marjai in particular raised the question of his letter to you: and I referred to the reply you had sent. I said that we ourselves would like to see such an agreement concluded but it would have to be on terms which satisfied both sides. I pointed out that while I understood their philosophical objection to quantitative restrictions (QR's) the plain truth was that most of the quotas had not remotely been filled and this seemed to be due in part at any rate to a lack of appreciation of the way the distribution system in the UK operated.
9. On the financial front there seems a genuine determination to pursue responsible fiscal and monetary policies. They are prepared to face the very real political difficulties of a



decline in consumption and a possible fall in living standards to meet their debt obligations and to provide funds for investment. This sense of responsibility can be seen in their attitude to the IMF, which contrasts with that of some Central and South American countries. Hungary is determined to avoid rescheduling because of the cost.

10. The Hungarian banking system is primitive and does not, in its present form, play any significant rôle in providing investment capital for industry. The President of the National Bank and his close advisers are well aware of how the banking system works in the West, and are making cautious moves in that direction. But this is a sensitive area in political terms, and progress is likely to be slow.
11. All the major enterprises - and most of the others as well - are State owned. There is a move now to allow private individuals to set up and run their own businesses. But this development is still in its infancy: and many businesses which superficially appear to be individually owned and run are in fact State owned and the "proprietor" simply a State appointed manager.
12. The major State owned enterprises - and no doubt most of the others as well - suffer from the problems we have seen with many of our own nationalised industries and in particular indifferent management, lacking any effective system of motivation. Organisation of the enterprises and their planning procedures tend to be bureaucratic and inefficient. There has been a tendency to create over-large, over-diversified, concerns stretching their resources too far. An interesting example was the Budaflax factory which we visited and which is regarded by the Hungarians as a show piece. This is managed - and within the limits available well managed - by Mr Tamas Beck, the President of the Chamber of Commerce. Mr Beck is aware - indeed painfully aware - of the shortcomings - the lack of effective motivation, problems with securing funds for investment and so on. He drew particular attention to the fact that Budaflax were involved in every aspect of linen production from growing the flax to the production of the finished garments. This concept of total vertical integration seems to be a favourite of the planners. But Mr Beck was well aware of its potential inefficiencies. If the efficiency of Hungarian industry is to be improved significantly a great deal of re-organisation will be needed: better management: and the introduction of effective incentives.
13. Investment - or the lack of it - was a particularly sore point. The funds available are severely limited because of Hungary's financial difficulties but there is also much complaint about the poor quality of Eastern bloc equipment. Interestingly Budaflax had acquired equipment from the leading manufacturers of nearly every country in Western Europe - including some from the United Kingdom.



- 14. My wife - as always - played an invaluable part in the visit. We would both like to express our sincere thanks to Mr Unwin, HMA Budapest, and to Mrs Unwin for their hospitality and help throughout the visit; Mr Guy Hart the First Secretary (Commercial) and Mrs Hart; and to Mr Gordon Reid, Second Secretary at the Embassy who was particularly helpful.

- 15. I am copying this Report to the Foreign and Commonwealth Secretary, to the Secretary of State for Trade and Industry and to Her Majesty's Ambassador Budapest.

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21 September 1984