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During the years of the Cold War Hungary was a member state of the Warsaw Treaty Organization (WTO). From the very beginning of the foundation of this organization Hungary's foreign policy, structure and development of its economy, military strategy, etc., were determined by the "common interests" of this politico-military bloc. Because of the immense Soviet power and its role within the WTO it exerted a powerful influence on Hungary's national security policy. Actually, in most cases she was told what to do and how to do it. Fortunately those times are over. Hungary regained her independence and sovereignty and freedom of action. This changed situation demands that a new strategic assessment be developed. This study provides an appraisal of what is at stake, what the problems are, how Hungary is doing and provides some policy recommendations.

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STRATEGIC APPRAISAL OF HUNGARY

AN INDIVIDUAL STUDY PROJECT

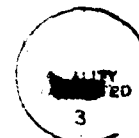
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STRATEGIC APPRAISAL OF HUNGARY

CONTENTS

Abstract	ii
Contents	iii
Introduction	1
I. <u>Hungarian Interests in the region</u>	
A. Introduction to Hungary	3
B. List of Hungarian National Interests	8
II. <u>Challenges to Hungarian Interests</u>	
A. Defense Trends/Challenges/Risks	9
B. Economic Trends/Challenges/Risks	16
C. World Order Trends/Challenges/Risks	21
D. Ideological Trends/Challenges/Risks	28
E. Specific Flash Points	34
III. <u>Policy Recommendations</u>	36
Appendix I, Strategy Formulation Guideline	42
Appendix II, Map of Hungary	43
Endnotes	44
Bibliography	50

INTRODUCTION

Historic changes have occurred in Europe during the last three years. If you want to have a look at the pieces of the "Iron Curtain" or the "Berlin Wall" you will have to go to museums. The Warsaw Treaty, the Council of Mutual Economic Aid (COMECON) and the Soviet Union are now pieces of history. Most of the peoples of Central and Eastern Europe have found the way leading toward democracy. The former Soviet Union is becoming a Commonwealth of Independent States, associated with positive aims and serious problems and uncertainties. There is a civil war in Yugoslavia and the problem of national minorities throughout in Central and Eastern Europe is of great concern. The picture is very mixed and the outlook for the future is uncertain.

Hungary has found herself in a situation where she does not belong to any military alliance. Her interests orient the country toward the West, but she needs to keep an eye towards the developments in the states of the former Soviet Union (FSU). This new situation requires the development of a new Hungarian National Security Strategy. The new government which has been in office for less than two years has not developed this strategy yet.

This study provides a strategic appraisal of Hungary. It is the first one of its kind developed specifically for Hungary and is based on the procedure that the U.S. Army War College (USAWC) recommends its students follow during Course 5 (Regional Strategic Appraisal). This Strategic Appraisal defines Hungarian national interests (based on national values), indicates how

these interests are affected (positively or negatively) by current and projected trends, articulates objectives, and then recommends courses of action to achieve those objectives.

Appendix I presents a step by step approach in strategy formulation and shows the place where this Strategic Appraisal fits in.

This paper, including policy recommendations, was developed to meet USAWC academic requirements. The paper is based mainly on foreign publications available through March 5, 1992, due to the scarcity of information of Hungarian origin.

I. HUNGARIAN INTERESTS IN THE REGION

A. Introduction to Hungary

Hungary is situated in Central Europe. She has a territory of 93,030 square kilometers (map at Appendix II, p. 43). She is a landlocked country and shares a 2,251 kilometer border with the Czech and Slovak Federal Republic (CSFR), Ukraine, Romania, Yugoslavia, Croatia, Slovenia, and Austria. Much of Hungary is flat with low mountains in the northern part and to the north and south of lake Balaton. Hungary is poor in natural resources. The land is fertile and its ratio of cultivation very high. The climate is temperate and the annual precipitation averages 25 inches.

Hungary has a population of 10.5 million with negative growth rate of 0.1 percent. The population is 96.6 percent Hungarian. By religion, 67.5 percent of the population is Roman Catholic. Literacy is 99 percent. Hungary has a labor force of 4.86 million.¹

Hungary is a republic. Its constitution of August 20, 1949 has been the subject of several revisions ensuring legal rights for individuals and constitutional checks on the authority of the prime minister and established the principle of parliamentary oversight. The legal system is in the process of revision, moving towards the rule of law based on a Western model.

The Hungarian state was formally recognized when the Pope sent a crown to its creator, St. Istvan in 1000. Sharing defeat of the Austro-Hungarian Dual Monarchy, Hungary lost two-thirds of

its territory and nearly as much of its population. During World War II Hungary fell under German occupation. Having liberated the country from German occupation, Soviet military forces were "temporarily" stationed in Hungary until June 19, 1991.

On August 20, 1949 a new constitution proclaimed Hungary a "People's Democracy". In the same year she joined the COMECON as a founding member. Since that time its economic policy was determined by the collective interests of this organization.

By 1950, all private industrial firms with more than 10 employees were nationalized and freedom of press, religion, and assembly were greatly curtailed. The forced industrialization and land collectivization soon led to serious economic difficulties and poverty.

In 1955 Hungary joined the Warsaw Treaty Organization (WTO) as a founding member thus depriving the country of freedom of action. Hence, Hungary became dependent on a "common and concerted" policy. Similar to its economy, Hungary was obliged to tailor its armed forces to the need of this military bloc.

On October 23, 1956, a peaceful march by students in Budapest which was staged in support of Poland's confrontation with the Soviet Union, turned into revolution; that is, a people's uprising. Soviet armed forces stationed in Hungary attacked the revolution and restored "order." On November 4, 1956, formation of the Hungarian Socialist Workers Party (HSWP) and a counter-government headed by Janos Kadar were announced.

The 9th Congress of the HSWP in 1966 made a commitment to

the country's economic reforms, the "new economic mechanism" which was introduced in 1968. It was intended to increase flexibility and efficiency by decentralizing economic decision-making.

As a result of having made serious mistakes in assessing the consequences of the first oil-crisis, the country began to accumulate foreign debt which was used to retain inefficient industrial structures and provide a continuous increase in living standards, thus creating an image of development. The legislative elections of June 1985 were the first held under the revised electoral law, giving the voters the chance to make a choice between candidates. In the meantime, Hungary became a member of the GATT, then in 1982 joined the International Monetary Fund (IMF) and the World Bank. In 1988 the National Assembly (NA) approved an economic program designed to make the economy competitive within 10 years.

In June 1989 round-table discussions were initiated between the HSWP and representatives of opposition groups. These discussions centered on the holding of multi-party elections, changes to presidential structure, amendments to the Constitution, and economic reforms.² On October 23, 1989 the Republic of Hungary was proclaimed. The NA approved legislation enacting a number of radical reforms. A Constitutional Court was established and a new electoral law was approved. The first free multi-party elections in Hungary since 1945 were held in two rounds, on March 25 and April 1, 1989. Six parties have won seats

in the NA.³ In May 1990 a new coalition government was formed which declared its intention to withdraw from the WTO, to seek membership in the European Community (EC), and start a gradual transition to market-oriented economy. Also in May, Arpad Goncz was elected President of Hungary. In November 1990 Hungary became a member of the Council of Europe (CE).

Hungary pursues an active foreign policy. Relations with many Western nations have improved steadily in the late 1980s, in line with the democratic changes taking place in Hungary. On November 22, 1991 Hungary signed a protocol with the EC on associate membership beginning March 1, 1992.

Its relations with neighboring countries are regulated by bilateral agreements, excluding Yugoslavia. Since more than one-third of Hungarians live outside the territory of the country, the minority issue is a very sensitive point of the Hungarian policy. To promote democracy in the region, the CSFR, Hungary, and Poland established the "Visegrad-triangle". Hungary is also a founder of another regional institution, the Central European Initiative (CEI).⁴

Hungarian legislative power is held by the unicameral NA. Representatives are elected for a four year term by universal adult suffrage. The President is elected by the NA also for a four year term. The President is the Commander-in-Chief of the Armed Forces. The Council of Ministers, the highest body of state administration, is elected by the NA on the recommendation of the President. For local administrative purposes the country is

divided into 19 counties and the capital city (Appendix II).⁵

In July 1990 Hungary initiated the dissolution of the WTO which officially ceased to exist on April 1, 1991. Since that time the last Soviet soldier has left Hungary and the COMECON has been dissolved.

Young men become eligible for military service at the age of 18. Military service for conscripts lasts 12 months. In 1989 an alternative military service for conscientious objectors was introduced. Peacetime strength of the armed forces is at present some 110,000. The main weapons systems and equipment are of Soviet origin or design and most of them are obsolete. To adjust the armed forces to the changed situation, different steps were taken, but these steps were made in the absence of a new National Security Strategy.

In the field of social welfare the situation is not so promising. Unemployment, as a new phenomenon in the life of Hungarians, shocked people. There is no adequate social safety net and impoverishment is increasing. At the same time there are lots of positive signs. Hungary has managed to regear its exports to the West. More than two-thirds of its exports went to developed industrial countries. Inflation has grown, but it is under control and will turn down in 1992. Also there are positive signs that the decline of the GDP will stop and even a small increase is expected in 1992. Privatization is going on and foreign investment in Hungary goes beyond expectations. Hungary can manage its debt payment and retains access to markets and

capital. The country has a skilled labor force which is willing and able to work, and people want further democratic transition. So the essential conditions are given to continue the transition to a market-oriented economy and real democratic society.

B. List of Hungarian National Interests

INTERESTS

INTENSITY

1. DEFENSE

-National independence	survival
-Territorial integrity	survival
-Regional stability	vital
-Arms control and disarmament	major
-Non-proliferation of NBC weapons	major
-Counter-terrorism	major

2. ECONOMIC

-Avoidance of economic collapse	vital
-Handling foreign debt	vital
-Economic transition	vital
-Access to markets and capital	vital
-Access to resources	vital
-Stable convertible currency	major

3. WORLD ORDER

-Preservation of peace	vital
-Regional cooperation	major
-New European security structure	major

- "Say" at the Central European table major

-Rule of law	major
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unfriendly attitude toward the country.

-Since the dissolution of the WTO, Hungary is not a member of any military alliance. NATO is the only military alliance in Europe and it has no intention of expanding its membership.

-A small country like Hungary, as regards both its economic and military potential, has never been and never will be able to guarantee its own security. To strengthen its security, Hungary intends to sign bilateral state agreements with countries of the region. In such agreements countries express their willingness to establish and maintain good neighborly relations.

-Hungary has expressed several times that she is interested in the continued existence of NATO, including U.S. military presence (as part of the alliance's force) in Europe.

-Other European institutions, like the EC, the Western European Union (WEU), the Conference on Security and Cooperation in Europe (CSCE), etc, play a complementary role in the future of European security. Strengthening for example the role of the CSCE does not mean a decreasing NATO role.

-If multinational military activity is needed, it is only NATO and WEU that can play a coordinating role. The problem is that NATO has no "out-of-area" mandate, while WEU has no command-control and logistic infrastructure.¹

-At present and in the foreseeable future NATO plays a key role in the preservation of regional stability. After the coup in the FSU, NATO declared that the security of Central and East European countries is "of direct and material concern to us" and

they consider security of NATO members to be "inseparably linked" to theirs.⁸

-NATO and Hungary have established regular diplomatic liaison and military contacts. Hungary has made preliminary steps to assign a Defense Attache to NATO.

-At the Rome Summit NATO initiated a process "to develop a more institutional relationship of consultation and cooperation on political and security issues." The Summiteers proposed the creation of the "North Atlantic Cooperation Council" (NACC).⁹

-With the collapse of the Soviet Union, there is no direct Soviet influence. It has brought to the surface conflicts which remained latent for a long time in Central and Eastern Europe.

-The rapid collapse of the FSU has led to instability in the newly formed CIS. There is reason to be concerned about the control of the huge nuclear arsenal and generally the armed forces in an environment of diminished central authority.

-The collapse of the post-Soviet Red Army is inevitable because the CIS has no common security policy, no strategic vision, no military strategy, and no idea about threats to their security. One can witness a quick "privatization" or nationalization of the Red Army. The uncertain future and role of this military force poses a danger to stability of the region.

-The worst case scenario would be a civil war between states of the FSU. The ethnic conflicts between nationalities, and states may ignite civil war which might spread over the borders.

-After the dissolution of the WTO the former Soviet military

leadership redeployed its best trained military units, equipped with the most advanced Soviet military weaponry, in its western border-republics..

-The Ukraine intends to maintain a large military force. After Russia and Turkey, the Ukraine will have the strongest military power in the region. This country is in transition to the "unknown." Its intention is to become a democratic country, but today everything is uncertain and ambiguous and the outcome may be a healthy evolution or chaos.

-As a consequence of the former centralized command-control practiced exclusively by Moscow, the leadership of the republics do not have adequate knowledge on formulating national security policy, military strategy, nuclear planning, developing and training armed forces or how to deal with arms control issues. All these affect the security of the countries in the region.

-Civil war in Yugoslavia poses a great danger to Hungary's security. Since the beginning of this civil war, relations between Hungary and Yugoslavia have been full of tension. There were numerous charges that Hungary interfered in the Yugoslav conflict by supplying arms and that Hungarian officers were training Croatian saboteurs.¹⁰

-At present there is a fragile cease-fire between the Serb-dominated Yugoslav Federal Army and the Croatian armed forces. The planned UN presence between the belligerents will hopefully lead to a peaceful settlement of the crisis. The emerging new republics will likely create their own armed forces.

-The Treaty on Conventional Armed Forces in Europe (CFE) signed in Paris on November 19, 1990 strengthens European security. The CFE treaty sets equal limits on ground and air forces of NATO and the former WTO member states which eliminates the possibility of a surprise attack by the FSU westward.¹¹

-The CFE treaty is very important concerning future relations between states. It puts an end to hostilities by noting that: "The signatories solemnly declare that, in the new era of European relations which is beginning, they are no longer adversaries, will build new partnerships and extend to each other the hand of friendship."¹²

-The CFE treaty has not been ratified yet. The uncertain factor is now whether the new republics of the FSU will agree to the limits of the CFE treaty because many want to create their own armed forces. That is why some observers give the treaty no more than a fifty-fifty chance.¹³

-Excluding Austria, Hungary has the smallest armed forces in the region. According to the CFE agreement, the number of tanks, armored combat vehicles, pieces of artillery, fixed wing combat aircraft, and attack helicopters will be the smallest among the armed forces of Hungary's neighbors.

-Though the CFE treaty has not been ratified yet by all its signatories, Hungary is reducing its armament to the level agreed in the CFE treaty. At the same time, Yugoslavia, which is not a signatory of this treaty, fields, for example, seven times more combat aircraft than Hungary does.¹⁴

-All of Hungary's main weapons systems are of Soviet origin. A large portion of them are obsolete. One of the greatest concerns facing the Hungarian armed forces today is the lack of spare parts.

-The air defense system has been identified by the Hungarian Defense Minister as the weakest aspect of Hungary's security.¹⁵ Most of the elements of the air defense system are outdated, 10 or more years behind similar systems of the western armed forces and furthermore they are mostly at the end of their operational or shelf life.

-Given the lack of funds to modernize its weaponry, the technical obsolescence of the Hungarian armed forces will probably continue. This will have an adverse effect on the military's combat readiness.

-The collapse of the WTO had an adverse effect on the Hungarian military industrial activity. Hungarian military export has dramatically decreased, state enterprises dealing with military industrial activity became bankrupt or they are at the edge of becoming bankrupt.

-Hungarian armed forces are in a transition period characterized by reduction of peacetime strength, decreasing defense budget in real terms, restructuring and redeploying of military units, preparations to reform the entire military education and training system and tailoring the command-control system to meet new requirements. The former offensive character of the armed forces has ceased. The new defense conception is of

a defensive character and not directed against any country. Hungary has no pre-shaped "enemy-image."

-Soviet military training for Hungarian officers has been cut dramatically. In the future most of the officers will be trained within the country. At the same time, since 1991, a few Hungarian officers have received military academy or college fellowships in western countries, e.g. in Germany, the U.K., the U.S., etc.

-Having dissolved the party organizations in the armed forces, it is now free from party struggles and characterized by the primacy of national interests and the defense of national sovereignty. The armed forces are part of Hungary's democratization process and have become the army of the people and the nation.

-Formulating a new National Security Strategy, it must take into account that security is no longer dominated by trends in the military balance, but by economic and social issues as well.

-Hungary is no longer free from terrorist activity. The main characteristics of this terrorist activity is that they were committed against foreign citizens by foreign professional criminals. The security and law enforcement agencies are in transition. The borders of the country are more open. All these may draw the attention of international criminals to extend their activity to Hungary as well. Despite the existing and increasing danger of terrorist actions, no terrorist organization has yet built up a base in Hungary.¹⁶

-To counter terrorism, all the member states of the former WTO and Albania have agreed to cooperate to curb organized crime, terrorism, drug traffic, and illegal immigration.¹⁷

B. Economic Trends/Challenges/Risks

-The demise of the "Socialist World System" and the dissolution of COMECON have brought the Hungarian economy to the edge of economic collapse. Hungary has lost a major portion of its Eastern market. To avoid economic collapse, it has become a vital interest for Hungary to reorient its trade to the West. However, Hungary has to face the fact that a large percentage of its products cannot compete in the Western market.

-The new democratic government inherited some \$ 20 billion of foreign debt. Preservation of solvency has become essential to gain access to capital, while paying the debt represents a great burden by reducing resources needed for economic development.

-The dramatically reduced Eastern market has led to the appearance of unemployment, increasing inflation, and declining Gross Domestic Product (GDP).

-In the early 1950s, Hungary built up a heavy industry when the country lacked resources, energy, oil, and especially ore. This led to the creation of very large state enterprises which concentrated the work force. These enterprises are very inefficient and their markets have dried up. Since they employ the majority of the work force in a number of settlements,

closing down these enterprises means that the whole population of these settlements will become unemployed.¹⁸

-Hungary has a good and strong agricultural base, producing almost one-fourth of the country's total exports. Despite the collapse of the huge Soviet market for agricultural products, Hungarian exports of food and food products have remained stable.¹⁹

-The newly elected government developed "The Economic Programme of National Renewal" in September 1990. This program seeks to restore economic freedom by making the transition from a command economy to a market oriented economy. This program underlines that "The principal economic resource of Hungary is the Hungarian people. At the same time, this is the economic resource exploited in the worst manner and handled most lavishly. The release of the productive spirit of the population is of paramount importance, and is, in fact, a precondition for economic growth."²⁰ Hungary's labor force is highly qualified and available at low cost on the international scale.

-Since the late 1960s the Hungarian economy has become gradually integrated into that of Western Europe, providing access to Western capital and credit markets. Establishing joint ventures with foreign involvement has been possible since 1972. It means that the economic transition to a market oriented economy does not have to begin from zero.

-Some results of the first year of a long period of economic transition are positive. Hungarian exports to the industrial

world increased by 32 percent in 1991. Regarding trade blocs, the EC is Hungary's largest partner. Hungarian exports to Germany, Hungary's largest trading partner, increased by more than 60 percent. Parallel to the growing export, Hungary's imports have also increased. However, the expansion of Hungarian exports to the West only offsets half the losses from the Eastern market.²¹

-As a result of export reorientation to the West, Hungarian exports to the Eastern market decreased by almost two-thirds and represent only 19 percent of total Hungarian exports.²² Hungary is making efforts to reverse this trend by re-establishing economic relations with the new republics of the FSU. Agreements signed with them for 1992 opened a possibility of conducting trade worth about \$ 4 billion (Hungarian trade totalled \$ 2.9 billion in 1991).²³

-Hungary's largest disadvantage in trade with the East, mainly the FSU, is that the economy is heavily dependent on FSU resources, energy, and oil. The fact that negotiations on the large Hungarian trade surplus with the FSU remained unsolved, casts a shadow on mutual trade.²⁴

-The National Assembly passed the laws needed for economic transition. As a result, Hungary has seen growing foreign investment. By the end of 1991, foreign investment reached \$3 billion in Hungary, some 60 percent of all foreign investment in Central and Eastern Europe. It proves that contrary to all its problems, Hungary is the most business-friendly country among the former socialist countries.²⁵

-The consequences of the enormous cost of upgrading the former East Germany, may force Germany to decrease its participation in restructuring the Hungarian economy. At the same time, stabilization in the region , and especially in the CIS, may draw the attention of foreign investors to those areas and therefore reduce their participation in the Hungarian economy.

-Privatization is identified as a key element of "The Economic Programme of National Renewal." In 1990 the State Property Agency was formed to privatize state-owned firms;²⁶ also in 1990 the Budapest Stock exchange was reopened;²⁷ and in June 1990 the Hungarian Parliament passed the Property Compensation Law, making it possible for the owners of land confiscated after June 1949 to claim compensation.²⁸

-As a result of the privatization which began in 1990, the number of participants, both Hungarians and foreigners, in the market has increased. Almost half of the state enterprises have completed or started their transformation. The number of economic units has reached some 52,000. The number of foreign operated enterprises in Hungary almost doubled in 1991, and their figure exceeded 10,000.²⁹

-Parallel to the growing number of private enterprises, their share in gross domestic products also grew in 1991. Some unofficial estimates put their share in GDP at some 50 percent.³⁰

-The Hungarian Banking System is more developed than any other in the former socialist countries, but not friendly enough

to small business.³¹

-Subsidies represented about 13 percent of the GDP when the new government came to power. Since that time it has been gradually decreasing and represents only 5 percent in 1992.³²

-Market reorientation, the start of economic restructuring and decreasing subsidies have resulted in growing inflation and unemployment. The government succeeded in controlling the inflation which was about 37 percent in 1991, but will decrease further in 1992. The rate of unemployment is growing fast.³³ It was 7.3 percent, that is some 350,000 people without jobs in December 1991, and this number will grow further in 1992.

-Hungary is the country in the region where the three largest economic powers of the world have very important roles in promoting the economic transition: the U.S. is the largest investor; Japan is the largest source of credit; and Germany is the largest trading partner.

-On November 22, 1991 Hungary was granted associate membership in the EC. When this agreement comes into force, tariffs and quantity limitations will cease to exist for more than two-thirds of Hungary's industrial products and by the second half of the decade, Hungarian industry will have no limitations on exports to EC markets.³⁴ However, many barriers will remain in place and especially farm products will continue to be heavily protected by the EC's Common Agricultural Policy (CAP). Witness for example the protest actions of French farmers against Central European agricultural products, the situation is

not very promising.

-The association agreement is important for Hungary because it offers the prospect of membership and help to become competitive by being granted access to markets faster than Hungary has to open its own markets to others. An Austrian EC membership in the near future will be an advantage for Hungary also because its border then becomes an external border of the EC.

-Countries of the "Visegrad-triangle" intend to sign an agreement aiming to reduce all barriers in their trade. The process of total liberalization will take between five to ten years. The provisions of this agreement will be based on an agreement with the European Free Trade Association (EFTA).³⁵

-Hungary was removed from the Coordinating Committee for Mutual Export Controls (COCOM) list in early February 1992. It means that from now on Hungary has free access to the most advanced western technology, giving a good chance for a more rapid economic transition.³⁶

-The long awaited convertibility of Hungarian currency is becoming a reality: "the state of economic transition and hard currency reserves of the country (are such that), the Hungarian currency can become convertible by the end of 1993."³⁷

C. World Order Trends/Challenges/Risks

-The collapse of Communist ideology, dissolution of the WTO.

and changes in regimes in Eastern Europe put an end to the Cold War. The "Iron-Curtain" is down and the Berlin Wall is only a bad memory now. Though the division of Europe by military blocs or hostile social systems is over, there is another kind of division: the western part of Europe is a prosperous region moving towards complete integration and relying on a strong military alliance; the eastern part of Europe collapsed politically, economically, socially and militarily and the countries of the region are at the very beginning of a transition period toward democracy.

-The reunification of Germany changed the landscape of Europe. The new center of Europe will be Germany with which Hungary maintains very good relations.

-Preservation of peace in the region or close to the region is a vital interest of Hungary. This motivated Hungary to condemn the Iraqi invasion of Kuwait and implement all UN Security Council resolutions on Iraq, allowing the use of its airspace for U.S. aircraft on their way to the Persian Gulf, and participating in operation Desert Storm with a medical team.

-At present the Yugoslav internal crisis represents the biggest threat to peace in the region. For this reason and because a large number of Hungarians live in that country, Hungary is very much interested in a peaceful settlement of that crisis.

-Hungary calls for an increasing UN peacemaking role. Peacemaking in early stages of conflict can prevent them from

turning into war which is more desirous than having to act during the course of war. Peacemaking, preventing the outbreak of war, requires "preventive diplomacy." That is why, among other UN member states, Hungary suggests that the UN must reject the principle of noninterference in internal affairs because there are several such issues in which an international stand is justified, e.g., genocide, etc.

-With the Cold War over, the old foes are reemerging: extreme nationalism, ethnic hatred, border disputes, and the search for scapegoats. These are hotbeds of tension in relations between countries. Countries of Central and Eastern Europe "...are already engaged in seemingly intractable disputes over ethnic minorities..." which may lead to "...interwar animosities, border conflicts, and military buildups, with the breakdown of democracies in the post-Soviet west leading to the breakdown of post-communist democracies in Eastern Europe."³⁸

-The new government of Hungary pursued an active foreign policy which led to the full restoration of national independence and sovereignty. The primary objective is to rejoin Europe. The new government is committed to European integration. All these represent a major policy reorientation toward the West.

-Dissolution of the WTO, rejection of "socialist internationalism" in foreign policy, changes in regimes, formation of new governments demanded to reestablish relations with countries of the region based on mutual interests, noninterference in internal affairs, and respect for national

independence and sovereignty. At the same time, establishing good neighborly relations with countries of the region promotes stability in the region as well.³⁹

-Following World War I Hungary lost some two-thirds of its territory and a large portion of population. Therefore, Hungary has every reason to consider the Trianon Peace Treaty as unjust, at the same time, however, Hungary respects the 1947 Paris Peace Treaty and the 1975 Helsinki Act. As such, Hungary has no territorial claim to any territory but the frequent call for respect for minority rights are often misinterpreted and associated with territorial claims by some governments.

-Hungary has a traditionally good relationship with Austria. It was a window to the West for Hungary and the importance of Austria will further increase when she becomes an EC member state.

-Hungary maintains good relations with Poland and the CSFR, though relations with CSFR (especially the Slovak Republic) have continued to be burdened by the controversy over Nagymaros-Gabcikovo dam Project.⁴⁰

-The new western republics of the FSU will have a great effect on Hungary because they are located in close proximity to the country. The continuing political instability in these republics can be a major source of problems in Eastern Europe.

-On December 6, 1991 a long awaited treaty was signed with the Soviet Union which included condemnation of the 1956 Soviet military intervention. Hungary established diplomatic relations

with the Ukraine, Russia, and Moldova. This process is continuing with the newly emerging states of the FSU.

-Relations with, Romania, except military relations, have not developed in accordance with Hungary's intentions. There are several sensitive issues hindering the improvement of bilateral relations: inadequate respect for minority rights in Romania; Romanian unwillingness to reopen the Hungarian Consulate in Cluj, Romania; Romania demands Hungary to declare, in a separate state agreement, that Hungary has no territorial claim to Romania and recognize the border between the two countries established by the 1947 Paris Peace Treaty.

-On January 15, 1992 Hungary recognized Croatia and Slovenia as sovereign states. The Serbian Republic was informed of Hungary's firm intention to foster balanced, good-neighborly and mutually advantageous relations and future cooperation with all of its neighbors.

-The united Germany occupies an outstanding place in Hungary's relations with the West. Germany became Hungary's largest trading partner. A particular element of this relationship is the role that Hungary played in restoring German unity.

- Relations with other Western European states developed very successfully. Democratic Hungary devotes special attention to Hungarian-U.S. relations, and maintains high-level cooperation and contact with Canada.

-After Europe and North America, the Middle East comes next

in Hungary's security concerns. Relations with the Middle East form an organic part of Hungary's European and Atlantic policy. In the past decades the Arab states have enjoyed a rather significant priority at the expense of Israel. This priority has been terminated by the current Hungarian government. Today Hungary pursues a balanced policy regarding Israel and the Arab countries and strives for closer relations with those Arab countries which are useful for the country economically.

-Beyond strengthening bilateral relations with countries of the region, Hungary is an initiator and an active participant of the "Visegrad-triangle" and the Central European Initiative (CEI). In November 1990 Hungary became a member of the Council of Europe (CE), the first from the former WTO countries. She is also a member of the CSCE and the NACC and an associate member of the EC. Participation in these international organizations provides a further contribution to Hungary's security.

-The Hungarian government has realized that joining NATO is unrealistic in the near future, however Hungary is a member of the newly established NACC.⁴¹

-CSCE, including 46 European and two North American states can be the base of a future European security structure. A renewed NATO could play an important role in this emerging security structure. NATO could, and perhaps should, serve as the backbone of CSCE.⁴²

-Hungary highly appreciates the role and activity of the UN. Hungary is a non-permanent member of the UN Security Council

since January 1992. It demands that Hungarian foreign policy makers play an active role in the international arena and express their view on all issues the UN deals with. The events in the FSU and Yugoslavia will upgrade the position of Hungarian diplomacy since Hungary is in the neighborhood of these countries and has reliable information concerning the situation.

-With high regard for the peacekeeping and peacemaking role of the UN, Hungary has taken part in several UN peacekeeping missions since 1988, e.g., Iraq, Namibia, Kuwait, Angola. Hungary's intention is to continue this activity in the future on a larger scale than it has in the past.

-One of the possible outcomes of the economic collapse in countries east and south of Hungary could be a large number of unemployed who may seek a chance to make their living west of their homeland. As a consequence of this eventuality Hungary is making efforts to prevent an economic refugee wave from hitting the country. Hungary on its own is not able to absorb immigrants which are forced to flee from Romania, Yugoslavia, Bulgaria, and from the FSU.

-Hungary is facing serious problems in environmental protection. The expansion of industrial and agricultural activity after WW II has resulted in acute environmental problems in Hungary as well. A high percentage of waste-water goes untreated, rivers are polluted, soil is polluted by oil and chemical products. Concentration of smoke was steadily increasing which, among others, led to an embargo on the import of two-stroke

engine cars to Hungary.

-When comparing Hungary's energy use and economic output with other European countries, the result is that Hungary uses about three times more energy per unit of economic output than for example Spain, Germany, or Belgium, and almost 50 percent more than Yugoslavia. It means that not only is Hungary's energy use extremely inefficient, but the air pollution is much higher as well.⁴³

-Hungary has taken several steps to give impetus to initiatives in environmental protection. With the help of the World Bank a project was launched to improve efficiency of energy use. "Clean-up" works with U.S. help have been started in former barracks of Soviet military units throughout Hungary.

-Transition to a market economy offers a good chance to introduce environment-friendly technologies. However, this technology is more expensive and the country's economy lacks the necessary resources to act as desired by Western countries.

-Many people are afraid that during the first period of economic transition a sizeable portion of foreign entrepreneurs will bring to Hungary a less advanced technology together with adverse consequences to the environment as well.

D. Ideological Trends/Challenges/Risks

-Self-determination is an inherent right of a people. It was non-existent since March 19, 1944, when Nazi Germany occupied

Hungary. On June 19, 1991 the last Soviet troops left the country, thus Hungary has regained its sovereignty, and now the Hungarian people can effectively exercise their right to self-determination.

-The change in regime was helped by the reform Communists from inside the HSWP and it took place through negotiations between the "reform-socialist" government and the democratic opposition.

-The first free elections after 1945 were held in March and April 1990. "Today Hungary has a functioning parliamentary democracy based on a multi-party system, organically linked to the political structure of the democratic countries of Europe and North America."⁴⁴

-Hungarians want a European Hungary with the achievement of human rights, the possibility to exercise all rights. Hungarians want a constitutional state which guarantees its citizens all liberties. Hungarians want a social state that grants its citizens the feeling of security. To attain these goals, the most important thing was to achieve economic democracy because without economic democracy there is no political democracy.

-The Parliament has done an enormous job passing an average of one law a week. Unfortunately there were too many laws correcting past mistakes and very few relating to Hungary's future development. As a result of this work, in accordance with international norms and standards, Hungarian laws and regulations now are based on the rule of law, the full implementation of

human rights, and fundamental freedoms.

-The last survey of the "Freedom Review" notes that, for the first time in its modern history, Hungary is considered a free country. It is rated in "category-2" on a seven-grade scale concerning political rights and civil liberties.⁴⁵

-The government treats the cause of national minorities as a cornerstone of Hungary's foreign policy. At the same time Hungary set up a special State Secretariat to honor the rights of the minorities living in Hungary and further improve their lot.

-Because of different interpretations of human rights in different parts of the world and even within one region it is not likely that the UN or any other institution could adopt a "common standard" or "minority code" that Hungary calls for.

-People have different views on what democracy means. It is especially true for those peoples who lived in a socialist system. The expectation of people toward democracy was too high. "...everyone, parties, politicians, and the electorate alike - were inexperienced and sometimes had quite unrealistic expectation of what democracy could achieve."⁴⁶

-Collapse of the "socialist world system" led to the fall of Communist ideology in Eastern Europe. It "...has created an ideological vacuum that ethnicity and religion, two sources of meaning that managed to survive totalitarian assaults relatively intact, rushed to fill."⁴⁷

-With the promulgation of the Constitution on October 21, 1989, and the ensuing formation of the government, the Republic

of Hungary became a parliamentary republic in the European sense. The inter-relationship of the three main arms of the governmental system -the Parliament, the President of the Republic, and the Government - are determined by the democratic principle of check and balance.

- In 1989, replacing the Presidential Council, the post of President of Republic was established. The President is the country's head of state and the Commander-in-Chief of the country's armed forces. Regarding his authority, it is a "weak" presidency.

-The Parliament has become the central factor and the strongest branch of the state administration in Hungary. This means that the Parliament has considerable scope and extensive authority in decision-making. The Parliament elects the president of the Republic, the Prime Minister, and the members of the Constitutional Court, etc. The Prime Minister is the supreme authority as regards government activity and responsibility. It means that unlike the post of President, Hungary has a very strong prime minister post.

-The change in leadership in different institutions has not been finished yet. The new government declared that competency must be the only factor in nomination for a post. However, there were a lot of cases when obviously it was disregarded and political considerations played a key role even in the direct level of leadership. Society is divided on this matter.

-The parties, the National Assembly, the Government, and the

whole society is in the middle of a learning process: what does real democracy mean; how should a ruling coalition work; what is the role of the opposition, etc. Tensions between the two strongest parties of the ruling coalition led to a situation in the National Assembly where members of Parliament belonging to the same party are divided into two factions.⁴⁸

-Many people have the feeling that the change in regime has benefitted no one but a handful of intellectuals who toppled the communists from power only to take their places.

-The party system is not fully developed. Membership of different parties are not homogeneous, most of the parties have at least two or more factions. The public is highly dissatisfied with the parties' performance. The same is valid for interest groups. Political parties and Trade Unions are considered as the least important ones among political institutions.⁴⁹

-Dissatisfaction has increased, since the democratic transformation aroused great hopes in society, and early optimism met with speedy disappointment which is heightened by an economic crisis that is being felt throughout society. The people's trust in the National Assembly and the government was only 57 on a scale of 100 in November 1991.⁵⁰

-The public has become uninterested in policy which is clearly proved by the extremely low participation in bi-elections. "Most Hungarians apparently believed that their votes would make little difference; the Hungarian political establishment was apparently unable to convince them they

could."⁵¹

-With the growing disappointment, as a consequence, new social movements are emerging. The National Democratic Alliance has the aim of creating a developed constitutional Hungarian democracy, with a new constitution and a developed extraparlimentary system of institutions. The "Democratic Charter 91" social movement was launched on December 7, 1991. This movement does not question that democracy is being formulated in the country, but draws attention to some dangers, e.g., the development of rule by authoritarian power; the legislative and executive power which confuses the concept of nation and state; the state does not show neutral patience toward the convictions and ideologies of all citizens; etc.⁵²

-The Parliament passed a law on November 4, 1991 which has shaken the whole society. The law on the "prosecutability of serious crimes committed between December 21, 1944 and May 2, 1990 and left unpunished for political reasons" generated hot debates throughout the country. There was a great fear that a desire for revenge rather than justice could undermine the rule of law and jeopardize the tentative democracy. On March 3, 1992 the Constitutional Court declared this law unconstitutional.

-During the socialist regime Hungary was unable to resolve social problems. Until now many of these problems have remained unsolved. Consequently, the number of people living under the poverty line keeps growing. In real terms the budget allocated for health care and education is declining. This will increase

human suffering.

-The reform of the educational system is a consequence of changing the regime. The system is more decentralized now than it was before. A lot of textbooks were rewritten and teachers have greater freedom in the education process.

-In December 1991, the EC warned at its Maastricht summit "that manifestations of racism and xenophobia are steadily growing in Europe." In January 1992 a Hungarian neo-fascist group was held in detention in Győr, western Hungary. This group established links with an extremist neo-Nazi organization in the U.S. and is in contact with a Viennese group.⁵³ Hungarian "skinheads" gather in groups to provoke then beat Gypsies and Arabs. Because the size of these neo-fascist groups and "skinheads" keeps growing in Europe and because of past European experiences, the danger they represent must not be underestimated.

E. Specific Flash Points

-The call for minority rights takes one of the most important places in Hungary's foreign policy. It has proved not too successful so far. Steady calls for the respect of national minority rights frequently generates misunderstanding and is associated with territorial claims (note the example of Russia and other new republics in the FSU or the Serb Republic). Steadily pushing neighboring countries where large Hungarian

minorities live, and raising the visibility of minority rights blocks improvement of better relations badly needed for Hungary in the region.

-The possibility of an economic collapse in the FSU and other Eastern European countries still exists. The direct consequence of this collapse will be a huge mass of unemployed. Hundreds of thousands or even millions of people without jobs may emigrate and try to make their living west of their homelands. Because of the geographic location of the country, Hungary may become a transit point and a target country. Hungary will never be able to absorb large numbers of economic refugees and accommodate and feed them even if they only stay for a few days. Besides, these economic refugees will probably have only hope in their pockets instead of currency. Eventually it would pose a threat to public security as well.

-Hungary is very heavily dependent on oil, energy, and resources. A large percentage of oil, electricity, and ore comes from the FSU mainly through the Ukraine. Because the internal situation in the FSU is unstable, there is always the uncertainty of free access to needed resources. The Ukraine has the greatest likelihood of internal crisis within the FSU, possibly with Russia. Should crises develop there, they could easily lead to a situation similar to that which happened in Yugoslavia during the civil war, where the "Adria" oil pipe-line to Hungary was simply closed down and which resulted in increased costs to the government from other resources.

III. POLICY RECOMMENDATIONS

-Because of the collapse of the WTO and its strongest power, the FSU, there is no direct Soviet influence. Regaining national independence and sovereignty requires, and at the same time makes it possible that, the feeling of national pride and self-esteem be re-established.

-One of the basic tasks of a sovereign state is to guarantee the security and defense of its citizens. Hungary's National Strategy which was developed and implemented during the Cold War era is not applicable to the future. It is almost two years since the new government has been in power, yet Hungary still does not have a new National Strategy. It should be developed as soon as possible. Appendix II describes an approach generally used in the U.S. during the strategy formulation process.

-During the development of a new National Strategy, policy makers must take into account that Hungary is neither a military nor an economic power. Furthermore, Hungary's geographical situation does not enable Hungary to guarantee its own security.

-Because the economy and foreign policy (based on domestic policy) will enjoy major importance in formulating the future security environment, it does not mean that Hungary does not need a military force. But military force as an element of national power, must be the last resort in securing Hungary's national interests.

-To formulate Hungary's foreign policy, an important task should be to create a body similar to the U.S. National Security

Council which is responsible for coordinating the defence, economic, international and domestic policies of the government. Although this will not eliminate the competition among different ministries, agencies, and their high ranking officials involved in formulating foreign policy and economic diplomacy, such an agency can go a long way towards harmonizing policies to better serve the interests of the state.

-Because ensuring the security of the Republic of Hungary represents a national task, it must be based on the consensus of the entire Hungarian society.

-Because NATO has no clear intention to extend its membership, Hungary will not be able to join this alliance. Additionally, creating a military bloc in Central Europe does not seem to be a wise idea. Therefore, there are only two possible ways of strengthening Hungary's security in the future. First: through membership in other European institutions (EC, WEU, CSCE, NACC, etc.); second: through bilateral state and military agreements with the countries of the region.

-Because Hungary's aim is to join the EC, efforts should be taken to join the WEU as well which was identified by the last EC Summit as the "defense arm" of the EC. Parallel to this, the entire new Military Strategy (military objectives, strategic concepts, and resources) should be developed in a way that makes the Hungarian Defence Forces compatible with this emerging military structure.

-Hungary must use the opportunity provided by NATO through

its Cooperation Council to create regular military contact between NATO and Hungary. To facilitate this contact, a permanent Defense Attache Office or Military Delegation should be established as liaison to the NATO Military Committee.

-During the development of a new military strategy, planners must take into account the uncertain fate of different arms control and arms reduction agreements; furthermore, plans for size, structure, deployment, weaponry, doctrine and training of the armed forces must be based exclusively on the capabilities of the armed forces in neighboring countries, not on an estimation of possible intentions of Hungary's neighbors.

-Regarding the serious situation which has developed in spare-parts supply for Soviet-origin weaponry, Hungary could (or should) decide to purchase these items in return for Hungarian goods, e.g., a return to a barter system, until a normal free market system can be established. Additionally, Hungary should seek spare parts suppliers from the global marketplace (some Western and even U.S. companies deal with manufacturing or upgrading Soviet-origin weaponry).

-Hungary has begun to restructure and redeploy its armed forces. This effort requires enormous resources. Since Hungary is not under a direct threat today and the size of the country makes it possible that any unit can be employed in another part of the country in a short time should a dangerous situation develop this re-deployment should be stopped. This is not an urgent task. It could be accomplished over a period of 10-15 years. The

resources allocated to finance this re-deployment of units should be used to upgrade, for example, the air defense system. It would be a false economy to have every unit in an "ideal" location, based on an "unknown" threat, but completely incapable of performing its assigned mission due to obsolescence or inadequate maintenance.

-Hungary must continue to pursue an active foreign policy aimed at promoting regional stability, creating a new European security structure, and economic transition to market oriented economy.

-Preparation to join the EC as a full member should have begun already. The complexity of this process requires the establishment of a "joint task force" to develop an exact schedule with detailed task to be accomplished.

-It must be clear that the orientation towards the West and especially Germany is to be highlighted in Hungary's foreign policy. Germany is becoming the most powerful and influential state in Europe. Germany also provides the most important guarantee of Hungary's modernization. Hungary does not have to be afraid of committing itself to a new, democratic and European Germany.

-Hungary's security is best served if its neighbors have flourishing economies, democratic institutions and shared values. Foreign policy and economic diplomacy need to be formulated in a way that Hungary could contribute to and promote the process toward these objectives. The issue of respect for minority rights

must not be the guiding principle of Hungary's foreign policy. Giving first priority to this issue casts a shadow on Hungary's overall relations with neighboring countries.

-Hungary must speed up economic transition. Among others, two major problems hinder Hungary in a more rapid economic transition: the slow pace of privatization of large enterprises which conserves the old structure of economy, while housing shortages impede movement of the work force to those areas where it is needed.

-There are two different sources of experience Hungary could use in transition to a market-oriented economy: experiences that Germany has accumulated so far in restructuring the former East German economy; the other occurred in less developed countries during the implementation of structural adjustment of their economies.

-Because of national security interests, a certain level of military industrial activity must be retained. This must be in concert with: the future orientation of the country; the planned military purchase from abroad; and, possible involvement in European military research programs.

-Because Hungarian society is divided on how to achieve justice for serious crimes committed during the previous regime (some of which occurred 35-40 years ago and were left unpunished for political reasons) national reconciliation must be given top priority. Hungary must study and could apply experiences of Spain or some countries of Latin America where dictatorships were

replaced by democratic governments. The aim must be to prevent what happened during the onset of Communism from happening now that we are a democracy.

-In the social field the government, other institutions and agencies must focus on the fast growing number of people living under very difficult conditions to enable them to tolerate the enormous burdens of economic transition.

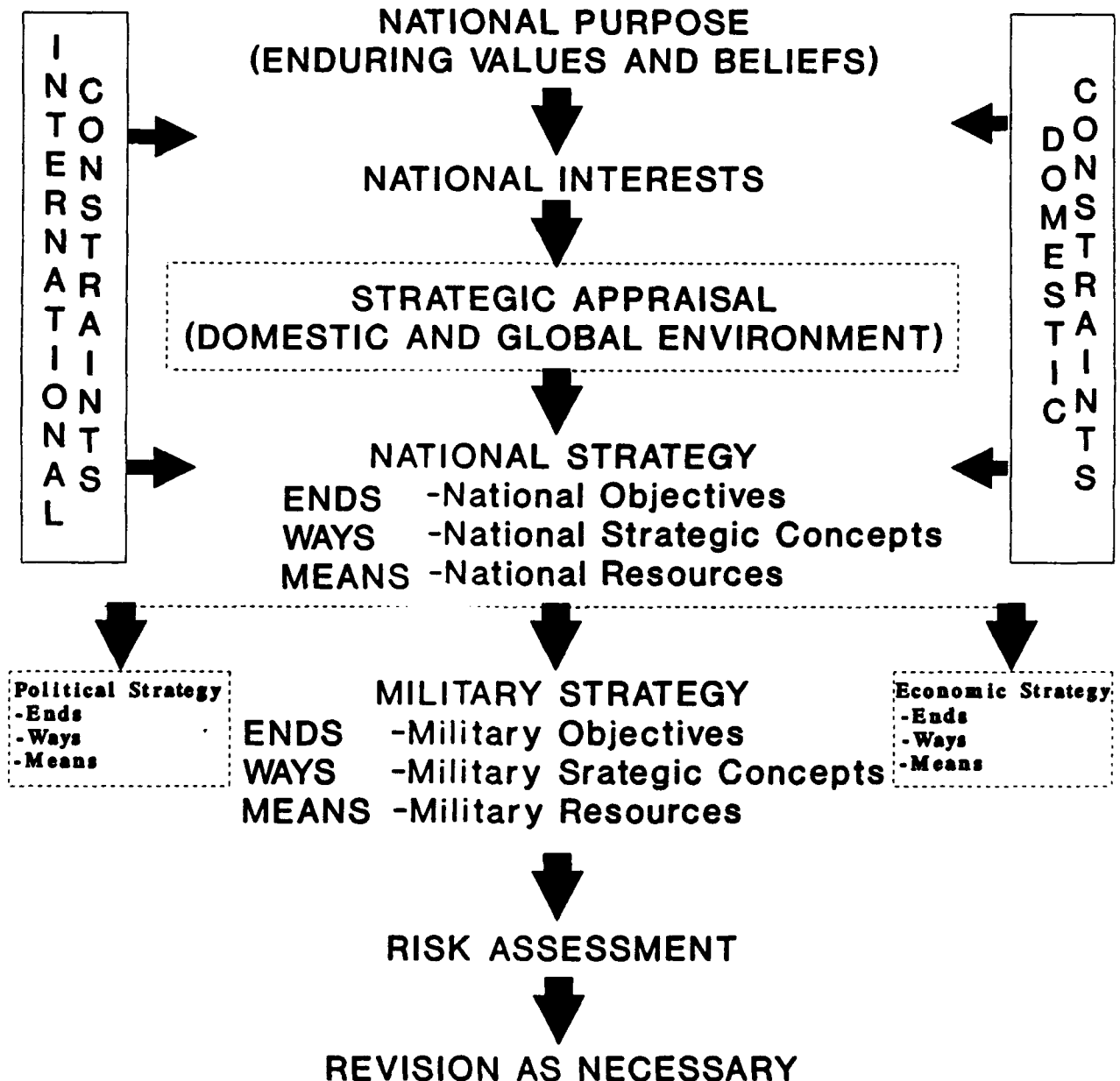
-In a democratic society the responsibility of a state is to provide security for its citizens and create favorable conditions for economic and social activity. The state must avoid interfering in affairs of media, religion, ideology, interest groups, etc. The state must not undertake to favor an ideology or religion against others. The state must remain neutral in such matters.

-Preparations have to be made to handle a possible flood of economic refugees from the east and southeast. This refugee flood will test Hungary's commitment to human rights. If the country cannot cope with this problem in an acceptable manner, Hungary might be considered a country whose word cannot be trusted.

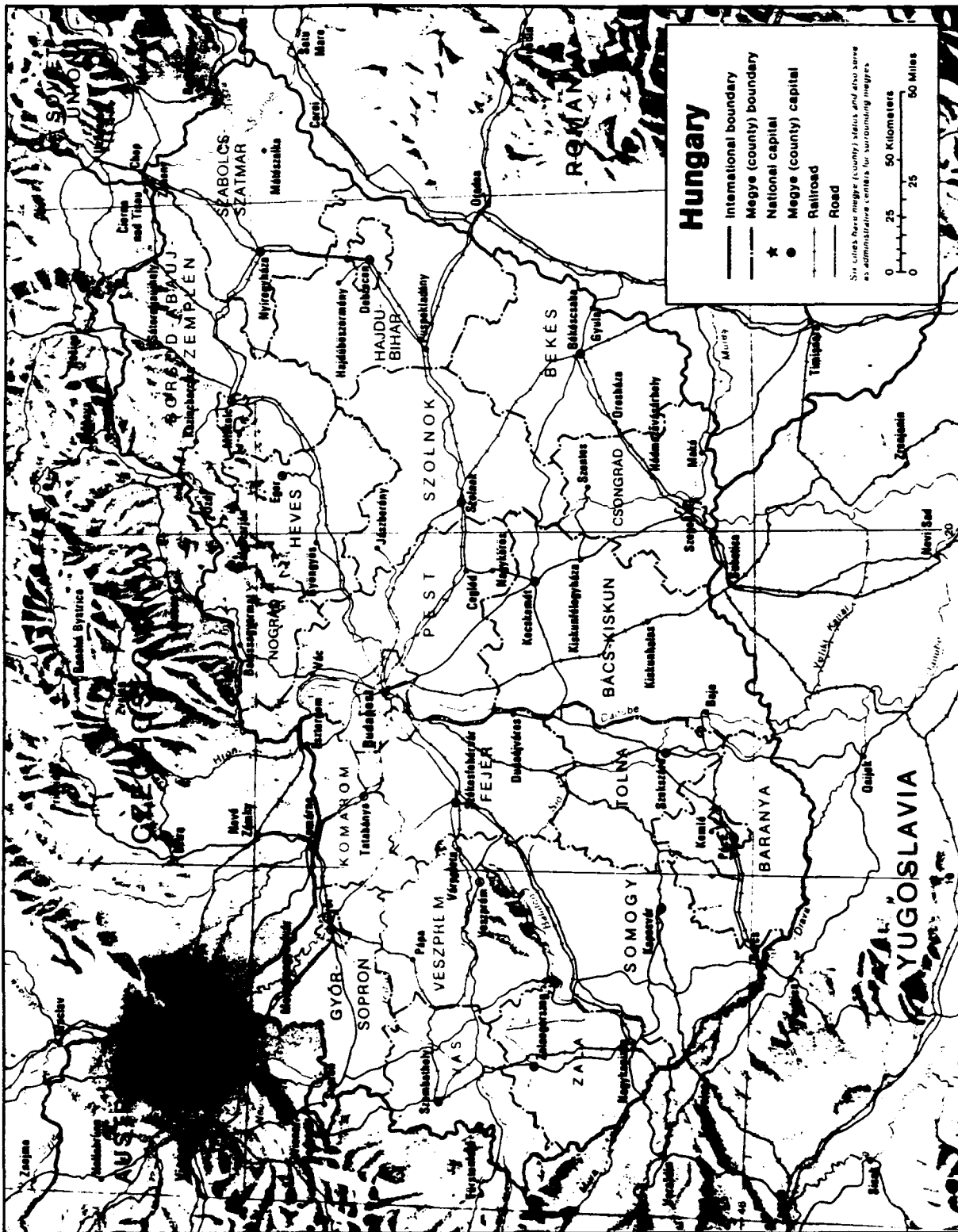
-In order to promote domestic security, Hungary must do everything to prevent the spread of narcotraffic and the consumption of drugs by actively cooperating with international agencies. Hungary has no more than two to three years to take appropriate steps. When the Hungarian currency becomes convertible, Hungary will be a target country for drug-sellers. The same relates to terrorist activity, neo-Nazism and "skinhead" activity.

APPENDIX I

STRATEGY (FORMULATION GUIDELINE)



APPENDIX II



ENDNOTES

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