

# INTERNATIONAL RELATIONS

## DIPLOMATIC RELATIONS

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### The history of diplomatic relations of the Hungarian state

#### The medieval Hungarian state (895–1526)

The Middle Ages did not know several forms of diplomatic relations that are now common practice. There were no permanent diplomatic missions in the country, just as Hungary did not have any abroad. Although the Republic of Venice sent envoys to Buda more or less regularly at the end of the Jagiellonian era, this was still quite far from the embassies of later times. The precursors of today's summits, the *meetings of monarchs*, did happen, but much less frequently than today. Two famous events deserve special attention: The Czech and Polish monarchs met the king of Hungary in Visegrád in 1335, while the king of Hungary and his brother, the holder of the Polish throne, met the Holy Roman Emperor in Vienna in 1515.

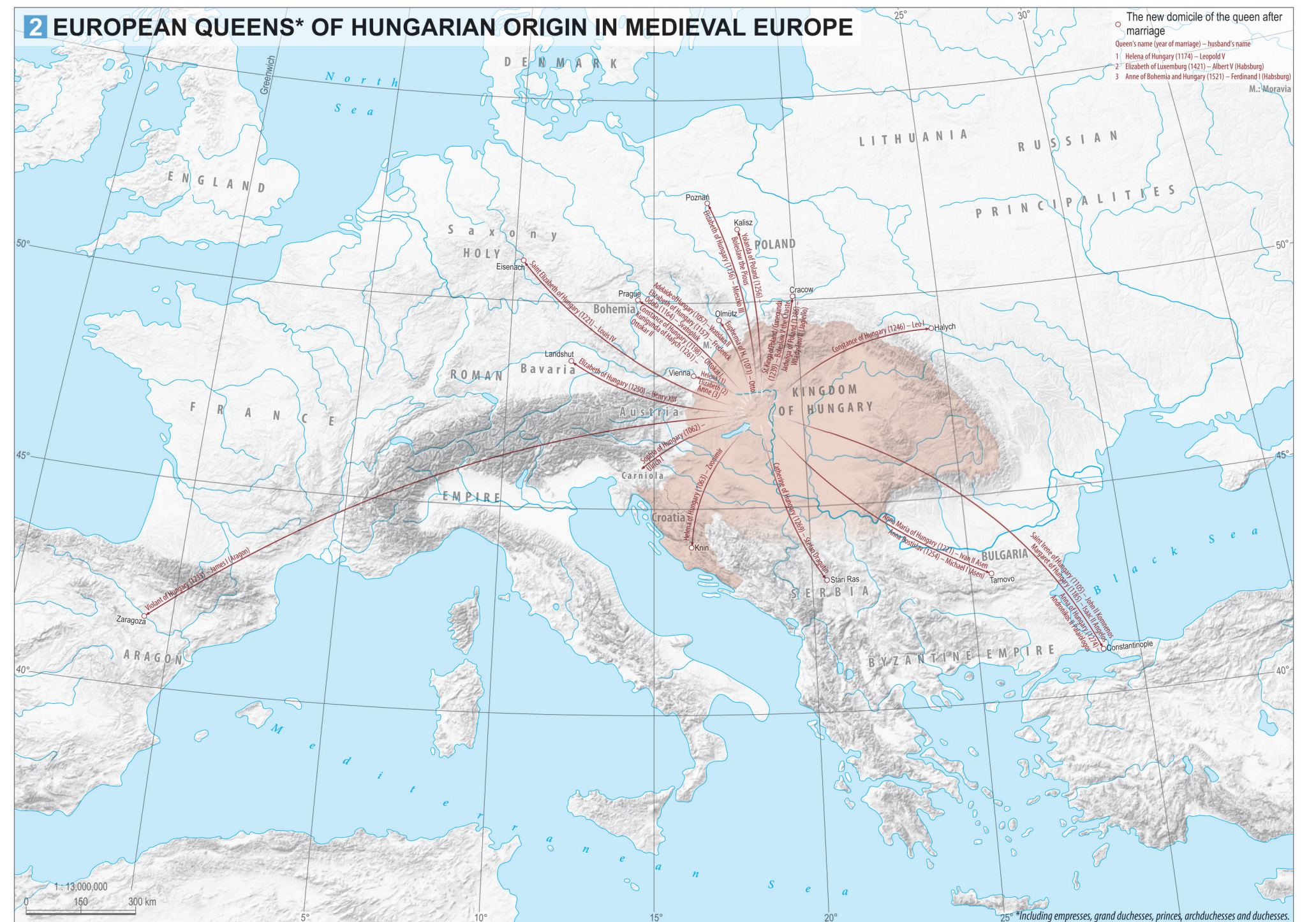
According to the medieval conception of state, the official ties between countries meant first and foremost the relations between rulers. Alliances between countries, external peace and offensive alliances were secured by the *marriage policy of the rulers*. These mar-

riages were political affairs, though they were not only for external functions. The marriage was to secure for the ruler a spouse capable of giving birth to healthy offspring so that the dynasty could survive. Continuity of succession to the throne was one of the most important guarantees of internal peace.

The most important principle of the relations was that members of monarchic families could marry only someone from another monarchic family. Christian monarchs were considered to be one large family who considered each other as relatives. Marriage with one's own subjects was almost completely excluded. The exceptions were only apparent ones. The custom of royal marriages was probably not yet fully established at the beginning of the 11th century. Although *King Sigismund's* (1387–1437) second wife, Barbara of Cilli's family had estates in Hungary, they governed their own countries as counts in the Holy Roman Empire. Moreover, Sigismund, as emperor, granted them direct rights later as imperial counts. Marriages could only happen between Christians, while belonging to Eastern Christianity was not an exclusion. The obstacle of frequent consanguine marriages had to be waived in each case

by the Pope, who could also declare the marriage null and void.

As the European monarchs were almost exclusively men until the 14th century, primarily women travelled to their future spouse's country. In the late Middle Ages, engagements were subject to written contracts, which fixed the amount of the dowry, the amount of the morning-gift the husband was to pay and listed the estates that could be used to hold a court of their own as well as regulated their inheritance. In a given era, the morning-gift and the dowry of a certain princess were usually constant. The queen consort estates were also more or less fixed. During the reign of King Sigismund, these estates were located in the southern parts of Hungary until the 1420s. Then, due to the Ottoman threat, the queens consort were given the towns and manors in the north and west part of the country. When political interests demanded it, the contract was terminated. It was common for a princess who was either a child or an adolescent to have several fiancés within a few years. The engagement was not in person but by proxies. Girls were sent to Hungary before marriage to learn the language and the customs. The second marriage of



widows did not affect Hungary, as the first marriage made the wife a member of her husband's family and of his country. The second marriage of Sophia, the daughter of Béla I, to the Prince of Saxony was already in accordance with the wishes of the first husband's family. The same applies to Margaret, the daughter of Béla III, who was married to Byzantium and later became queen consort in the Kingdom of Thessalonica.

The origin of the Hungarian queens consort perfectly corresponded to the aspirations of Hungarian foreign policy and the geopolitical situation of the country

**XI. 1. 1.** They came mainly from neighbouring countries. The first queen consort, Gisela, originated from Bavaria, which was at the forefront of converting Hungarians and supported Stephen's accession to the throne with arms [1]. The last Eastern Slavic royal marriage

in the Middle Ages was that of Charles I of Anjou, because the once important direction was closed by the Mongol conquest and the strengthening of the Polish-Lithuanian dynasty. From the end of the 11th century until the Ottoman conquest, the main direction of Hungary's expansion was the Balkans. This is the reason why the queens consort came partly from Byzantium and partly from the neighbouring Balkan states. The division of spheres of interest in the Balkans led to the marriage of King Coloman with a member of the Norman dynasty of Sicily and the same goal motivated the wedding of the children of King Stephen V to Naples. In this way, King Coloman secured for himself control of Dalmatia. In the second case, the Angevins accepted the claims of the Árpáds over the northern part of

the peninsula, and the Árpáds did the same with the Angevins' policy in the southern Balkans. Béla II was the first king of Hungary to marry the daughter of a prince from the Balkans, Helena, and to take the title of King of Rama. The marriage of Charles I to Beatrix was part of his policy towards the Czechs, as she was a member of the Luxembourg dynasty that had acquired the Kingdom of Bohemia. The Bohemian branch of the Luxembourgs and the Hungarian branch of the Angevins concluded several engagement contracts, two of which resulted in marriages: that of Charles and of his son Louis. Stephen III was the first to marry from the dynasty that was ruling Austria at that time, and then Andrew III followed his example. Matthias Corvinus (Hunyadi)'s first marriage was the result of a contract between two families of non-royal blood, the Podjebrads and the Hunyadis: they mutually supported each other in gaining power, while the marriage was supposed to guarantee the friendship between the two new dynasties. The first Polish-born queen consort, Richeza, was married by King Béla I while he was still a prince in exile. The marriage was in the interests of the bride's brother, King Casimir I of Poland, as well as of Béla, who seized the Hungarian throne with the help of Polish troops in 1060. Charles I's fourth marriage forged a close bond between the two dynasties. This was one of the reasons why, half a century later, the Hungarian branch of the Anjou dynasty inherited the Polish throne of the Piasts. Behind the marriages of Antioch, Aragon and Nicaea were interests related to the Holy Land and the Byzantine Empire. According to the peace agree-

ment of Vladislaus II of Hungary with the Habsburgs concluded in 1491, the latter would have inherited the Hungarian throne in the event of his childless marriage. Therefore, it was logical for him to choose a wife from the French Valois dynasty, a rival of the Habsburgs. The marriage was also in the interests of the French, as it gave them an ally in the rear of the Holy Roman Empire. The marriages of the children of Vladislaus II, Louis II and Anne to Mary and Ferdinand of Habsburg were agreed by representatives of the two dynasties, the Habsburgs and the Jagiellons in Vienna in 1515. The marriages ended the rivalry between the Bohemian-Hungarian branch of the Jagiellons and the Habsburgs.

Dynastic relations were not on an equal basis. Judith, a daughter of the Emperor of the Holy Roman Empire was married to King Solomon of Hungary in the 11th century. However, a daughter of a Hungarian king never became the spouse of a German king or emperor during the Middle Ages. The daughter of Vladislaus II, Anne of Jagiello, married Ferdinand of Habsburg, who was not elected German king until 1531 and became emperor after his wife had passed away

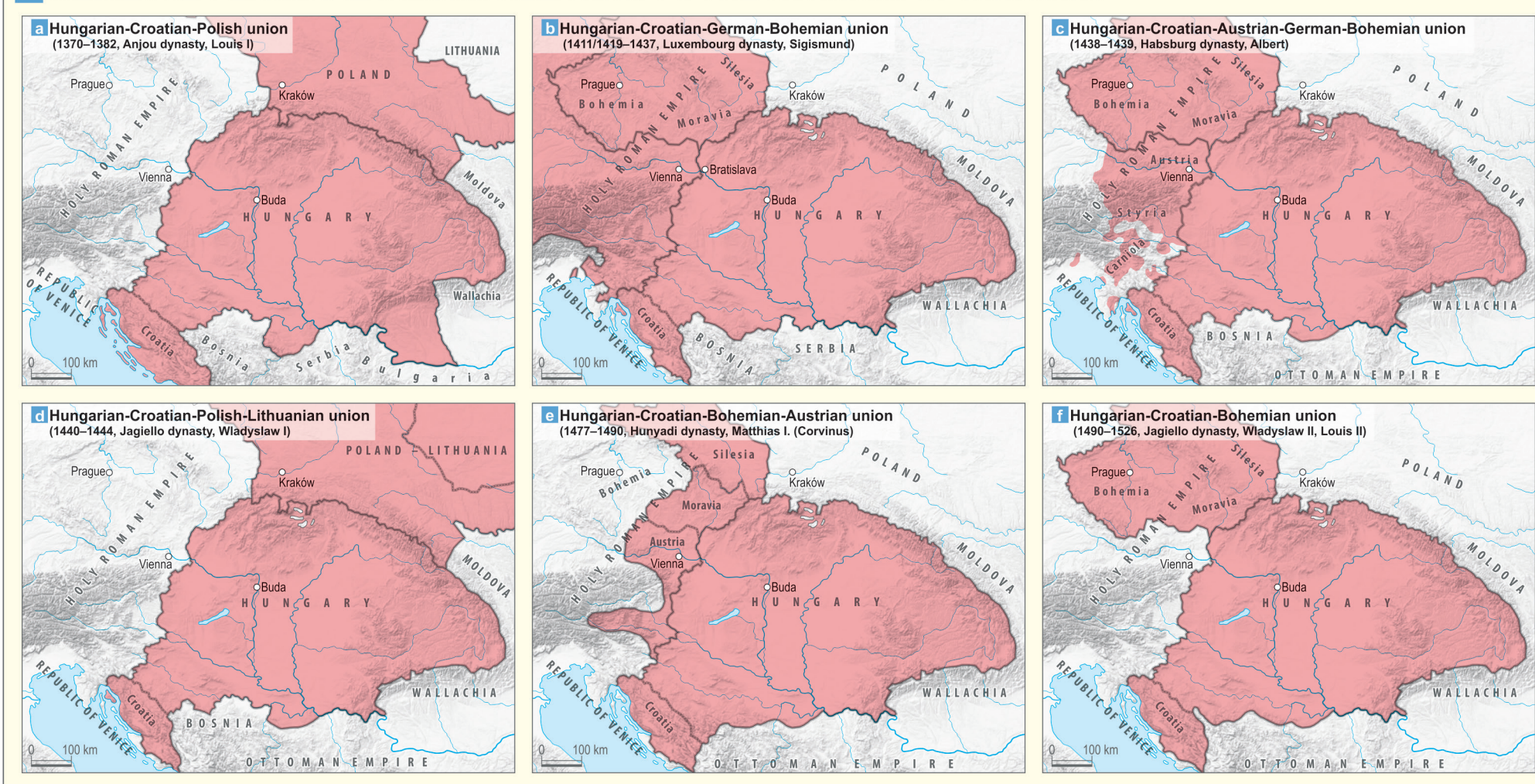
**XI. 1. 2.** Dynastic ties determined permanent relations between countries as well. Medieval legal thinking did not distinguish between *personal* and *real union* between two countries, this is only the result of modern legal thinking. From 1091 onwards, the *Hungarian-Croatian* relations were usually referred to as a personal union, although a separate Croatian royal coronation ceased in the 12th century, and then, with the Hungarian coronation, monarchs automatically became kings of Croatia. The Hungarian Royal Court had no



1 Saint Stephen, the first Hungarian king, and his wife Gisela



### 3 MEDIEVAL PERSONAL UNIONS RELATING TO THE KINGDOM OF HUNGARY



separate chancellery for Croatia, the function of the viceroy (ban) of Dalmatia and Croatia was sometimes merged with, sometimes separated from that of Slavonia. The Hungarian kings, however, retained Croatian customary law and did not grant estates to Hungarian nobles in Croatia. The Croatian-Hungarian personal union was created when the Croatian Trpimirović dynasty died out and a part of the Croatian nobility, encouraged by Helena, the widow of the Croatian king, invited the Hungarian King Ladislaus I to the throne. Later unions can indeed be understood as personal unions **XI.1.3.** The Hungarian kings did not modify the internal structure of Poland, which *King Louis the Great* (1342–1382, **2**) had acquired in 1370, nor did the Poles with Hungary between 1440 and 1444. The German-Hungarian unions created by King Sigismund **3** did not survive the death of his successor, King Albert. The duration of the Bohemian-Hungarian union is a matter of perspective. Those who regarded Ladislaus V as king of Hungary from 1440, accepted the union of the Bohemian and Hungarian thrones, but who accepted Vladislaus I, considered it as having ceased with the death of Albert and recognized the joint government of the two countries by a common ruler only after the actual accession of Ladislaus V, that is from 1452 onwards. Hungary only entered into a personal union with Aus-



**2** Louis the Great, King of Hungary and Poland

tria under King Albert of Habsburg (1437–1439), but after that it was as doubtful as the Bohemian union until 1452. The death of Ladislaus V (1457) terminated the common government with Austria until 1526, but the one with Bohemia was soon revived. The Catholic tributary provinces of the Czech crown, Moravia, Silesia and Lusatia, elected Matthias Corvinus (1458–1590, **4**) king in 1469. From then on, he held the title of King of Bohemia, but he never succeeded in bringing that country under his rule. Matthias Corvinus conquered significant parts of Lower Austria and Styria and he took the title of Duke of Austria in 1487, but this was no more than armed conquest, which ceased after the death of the king. Most of the countries included in the full title of the Hungarian kings were not under the control of the Hungarian monarchs. Therefore, there was no personal union with Rama (Bosnia), Serbia, Cumania (Moldova and Wallachia), Galicia, Lodomeria and Bulgaria.

The kings of Hungary did not have their own residence in Croatia. They went there for war-related purposes only. Croatian affairs were handled by the viceroys (bans), who were mostly based in the city of Knin. During his Polish reign, King Louis the Great made only three trips to Poland, while others governed the country instead of him. King Sigismund spent much of his time in the Holy Roman Empire. He made Pozsony (Pressburg) his second capital because it was easier to reach from the Empire than Buda. Vladislaus I did not return to Poland after his coronation as king of Hungary (1440) and left the country only for two campaigns against the Ottomans. Ladislaus V held his court in his countries alternately. In the last years of his life, King Matthias Corvinus governed his countries from Vienna. Vladislaus II and Louis II stayed predominantly in Hungary and handled Bohemian affairs from Buda. Neither of them created common imperial bodies. There were no common financial or military authorities, no common taxes and no common army for their countries.



**3** Sigismund, King of Hungary, Germany and Bohemia and Holy Roman Emperor



**4** King Matthias Corvinus of Hungary

**The Eastern Hungarian Kingdom (1526–1570) and the Principality of Transylvania (1570–1690)** Historians still debate to this day to what extent the Principality of Transylvania can be considered an independent state. Since it had its own territory, population, ruler and administration, and was internationally recognised, it can be considered partly independent. Moreover, it played a major role in preserving Hungarian national culture and the idea of national kingdom and sovereignty.

The internal battles following the dual election of John Szapolyai (John I), the Voivode of Transylvania and Ferdinand I (Habsburg) to the Hungarian throne at the end of 1526, reduced the rule of John I, who sought a French and then an Ottoman ally, to the eastern regions of Hungary. Despite the *Treaty of Várad* (1538) with Ferdinand I, the infant son of John I, John Sigismund was also elected king of Hungary after the death of his father in 1540. This perpetuated the *division of the Kingdom of Hungary* into two, and then, after the Ottoman conquest in the early 1540s, into three parts, although both the *Habsburgs* and the *Szapolyais* wanted the country to be unified. In the *Treaty of Speyer* (1570), John Sigismund renounced his title of elected king of Hungary. At the same time, in addition to the historical Transylvania, he was also allowed to possess parts of Eastern Hungary (Partium). He would also have been eligible for the title of prince, but he died four days after the ratification of this treaty, and only his successor, Stephen Báthory made use of it after his election as king of Poland and as grand duke of Lithuania in 1575.

*The legitimization of the Principality of Transylvania* was based on the Polish kingdom of *Stephen Báthory* (1533–1586, **5**), since the *Polish-Lithuanian state*, with which *Transylvania* was in a *personal union*, was a major European power at the time, respected by both the *Habsburgs* and the *Ottomans*. As a result, the international role of Transylvania increased significantly. During the reign of Prince Stephen Báthory, Transylvania was no longer considered a vassal state of the *Ottomans*, and this remained the case for most of the subsequent princes (in contrast to, for example, Wallachia and Moldova). Its international recognition is

shown by the fact that it was treated as an equal party in peace agreements, such as the *Treaty of Westphalia* (1648), to which Transylvania was a signatory, playing a key role in the birth of modern Europe. This was a clear proof that *European states regarded Transylvania as a separate entity*. The wives of Stephen Báthory and his nephew Sigismund, as well as that of Gabriel Bethlen, were descended from well-known foreign dynasties. Moreover, the guardian of Michael Apafi II was William of Orange King of England, what is a further testimony to the sovereignty of Transylvania.

The Principality's *foreign policy*, which could be influenced by the prince's advisors and the Diets as well, was based on *loyalty to the Ottomans and good relations with Christian countries*, including the Habsburg Empire. This dichotomy was also reflected in the fact that *the Habsburgs claimed Transylvania by right of the King of Hungary*, while the *Turks considered it a tax-paying vassal*. In this situation, the ability to 'dance hogtied', to skilfully manoeuvre between the two great powers, paid off. However, the semi-independent existence of the Principality created by the Ottoman conquest seemed unjustified after the expulsion of the *Turks*. Therefore, it continued to exist in a completely different form after 1690: within the Habsburg Empire, but as an entity more or less separated from Hungary.

Stephen Báthory envisioned a confederation of Poland, Hungary, Transylvania and the Romanian voivodeships to repel the Habsburgs and the Ottomans, but his death in 1586 prevented the realization of his far-reaching plan.

Transylvania entered the *Fifteen Years War* (1591–1606) against the Ottomans *on the side of the Habsburgs and Venice* (joining the Holy League in 1595), but this almost led to the downfall of the Principality and caused permanent internal political battles as well as temporary Habsburg and Wallachian rule. This confused situation was ended by the *anti-Habsburg uprising of Stephen Bocskai* (1604–1605), who had previously been pro-Habsburg. As elected prince of Hungary and Transylvania in 1605, Bocskai also secured the rights of the Hungarian estates of the realm as well as religious freedom in the *Peace Agreement of Vienna* signed with King Rudolf I in June 1606. In addition, he enlarged Transylvania with significant areas in the Partium territory. This made it possible for Rudolf to end the Fifteen Years War in November of that year with the *Peace Treaty of Zsitvatorok*, signed by the Habsburgs and the Ottomans, with Transylvania as an equal party, through the mediation of Bocskai.

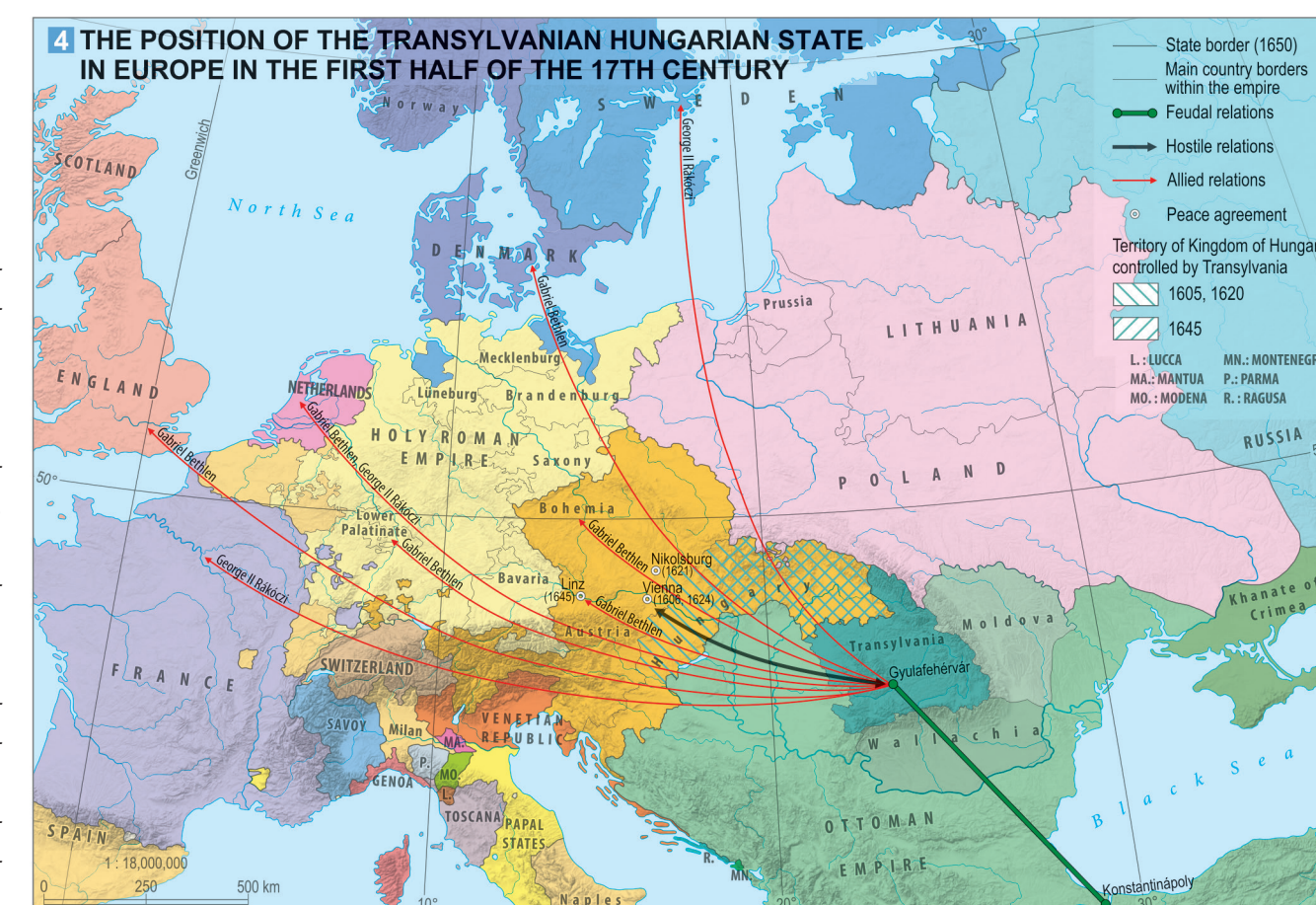
After the reign of Gabriel Báthory, which recalled the turbulent first years of the 1600s, the rule of Prince Gabriel Bethlen (1613–1629, **6**) meant not only the rapid development of Transylvania's economy and culture, its 'golden age', but also the joining of Western European coalitions backed by his Ottoman ally against the Habsburgs, and the establishment of strong relations with the Protestant powers **XI.1.4.** The independ-



**5** Stephen Báthory, Prince of Transylvania, King of Poland



**6** Gabriel Bethlen, Prince of Transylvania, King of Hungary



ence of Transylvania that participated in the *Thirty Years War* (1618–1648) as a belligerent party, primarily in order to secure religious freedom for Hungarian Protestants, was recognised by the leading powers of the time, including the Netherlands, England, Sweden and Venice. While Bethlen became *prince and king of Hungary* (1620–1621), the Ottoman Empire repeatedly waived the payment of the annual tax, which again proved the *almost complete independence* of Transylvania that, in addition to permanent envoys, also sent ad hoc representatives abroad. Bethlen and his successors believed that the Habsburgs threatened the relative independence of Transylvania and were unable to defend it against the Ottomans, while the Turks, if the Transylvanians played their politics well, would not interfere in the internal affairs of the Principality.

This attitude changed during the reign of *George II Rákóczi* (1648–1660), when he attempted to seize the Polish throne (1657). Since a Polish-Transylvanian union would have harmed Ottoman interests, the Ottoman Empire responded to the prince's campaign by *occupying Transylvania*.

The reign of *Michael Apafi* (1661–1690) was again characterized by rebalancing between the two powers. Apafi (initially in secret) joined the new *Holy League against the Ottomans* and broke with the Turkish alliance in the end, but supported anti-Habsburg movements in Hungary, too. His main objective was to gain international recognition for the Principality after the expulsion of the Ottomans, but he failed to achieve this. Transylvania became a province of the Habsburgs by the *Diploma Leopoldinum* (1690), and the *Treaty of Karlowitz* (1699) no longer mentioned it as a separate entity. Attempts to regain sovereignty were unsuccessful, and although *Francis II Rákóczi* was elected prince (1704), Transylvania, largely in the hands of the Habsburgs, had no independence in his state any more.

**In the Austro-Hungarian Monarchy (1867–1918)** Following the election of two kings after the defeat by the Ottoman troops at Mohács (1526), the Hungarian state was divided into two and then, after the Ottoman conquest of Buda (1541), three parts (Habsburg Hun-

gary, Ottoman Hungary, Eastern Hungarian/Transylvanian state). From 1570, the eastern part of the country (Transylvania) was organized as a principality under Ottoman control, but its princes (and the Habsburg rulers) considered this part of the country under their administration as an inalienable part of the Hungarian Holy Crown. The maintenance of the border-fortress system against the Ottomans and, after the unsuccessful Turkish siege of Vienna in 1683, the recapture of Buda (1686) and the expulsion of the Ottomans from Hungary were mainly achieved with the help of the Habsburgs.

Although Hungary was the most independent entity within the Habsburg Empire, the history of the Habsburg-Hungarian relationship in the 17th and 18th centuries, full of quarrels and reconciliations, never allowed for true independence and the establishment of its own foreign policy. This was not possible even after the international isolation of the Empire in the mid-19th century and the Austro-Hungarian compromise of 1867. Hungary had to subordinate itself to the interests of the federal state, which was considered a great power, the other half of which was made up of the hereditary lands of Austria.

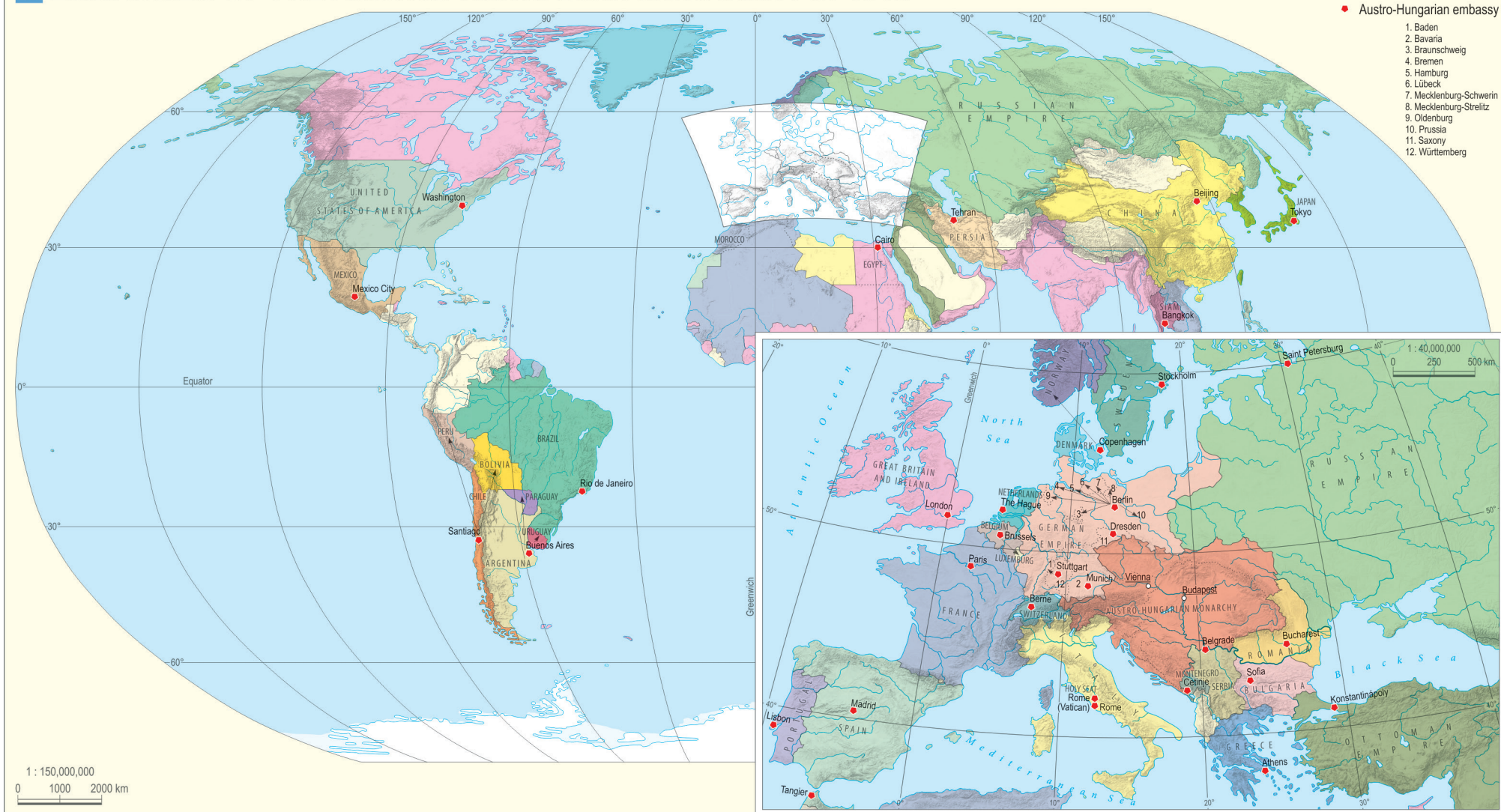
A peculiar structure was created in this way. Joint (k.u.k., kaiserlich und königlich/imperial and royal) ministries for military and foreign affairs of the Austro-Hungarian Monarchy were established and a third one for financing those two, all of them with headquarters in Vienna. There was some scope for enforcing Hungarian aspects in them, because either the common finance minister or the common war minister always had to be Hungarian, but both could not be Hungarian at the same time. The leadership of the joint Ministry of Finance was dominated by Hungarians, and there were several Hungarians among the joint foreign ministers, from *Gyula Andrássy Srnr.* **7** – who unsuccessfully sought in 1849 to gain foreign support for the Hungarian War of Independence as a diplomatic envoy in Constantinople, London and Paris – through *Gusztáv Kálnoky*, *István Burján* and *Gyula Andrássy Jrnr.* Many Hungarians worked at the headquarters of the office at Ballhausplatz (see **XI.1.5.** for the embassies of the Monarchy). However, the lack of



**7** Gyula Andrássy Srnr., Hungarian Prime Minister, Austro-Hungarian Foreign Minister



## 5 EMBASSIES OF THE AUSTRO-HUNGARIAN MONARCHY IN 1913



independent foreign missions limited the international political orientation and networking of the Hungarian political elite. Moreover, it did not allow the country to build its image abroad, which was to take its toll later.

The activities of *Gyula Andrássy Sr.* as foreign minister between 1871 and 1879, also through his excellent relations with the German chancellor Otto von Bismarck, determined the foreign policy of the Monarchy, too. As the Ottoman Empire shrank, the orientation of the small Balkan states became increasingly important. Although the Monarchy wished to maintain good relations with Russia, it did not want to cede this territory entirely to Russian interests. In addition, it also intended to prevent Serbia and Romania from claiming territories of the Monarchy (mainly Hungary) inhabited by ethnic Serbs and Romanians. The Berlin Congress of 1878, attended by representatives of the great powers (Great Britain, France, the Russian Em-

pire, the German Empire, Italy) as well as the Ottoman Empire and the Balkan nations, prevented further Russian expansion and foreshadowed the formation of the later alliance systems. The Monarchy got the opportunity to occupy Bosnia and Herzegovina. Benjamin Kállay, Austro-Hungarian minister of finance and Lajos Thallóczy played a key role in the modernization of the region that was annexed by the Monarchy in 1908 and came under the administration of the joint Ministry of Finance.

As Russia opposed the Berlin settlement, the Monarchy concluded an anti-Russian agreement with the German Empire (Dual Alliance) in 1879 during Andrássy's ministership, joined by Italy (Triple Alliance) in 1882 and secretly by Romania in 1883. Although the League of the Three Emperors (Russian, German and Austrian) concluded in 1873 continued, the Monarchy and Germany's relations with Russia deteriorat-

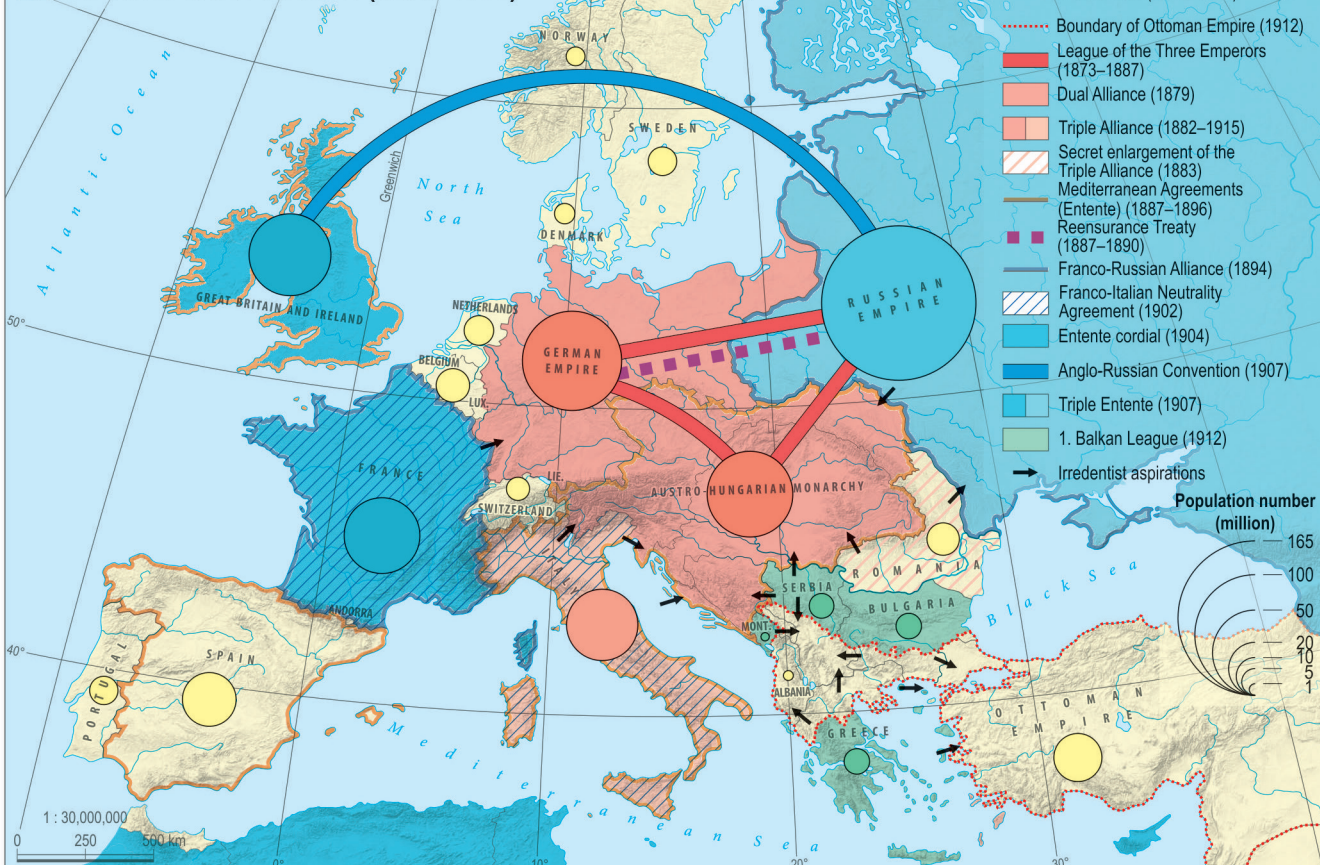
ed from the mid-1880s, mainly because of the Balkan conflict of 1885, and were replaced by a Russian rapprochement to France. The Monarchy's position as a great power weakened. Its ally, the German Empire, became the world's leading economic and scientific power, but Britain and France were also in a stronger position on the international stage.

The Monarchy signed a treaty with Russia in 1897 (replaced by a neutrality agreement in 1904), which ensured respect for the status quo in and the interests related to the Balkans. However, the renewed Balkan conflicts at the beginning of the 20th century, Serbia's increasing anti-Monarchy attitude, the occupation of Bosnia and Herzegovina and the two Balkan wars (1912–1913) finally soured their relations. Meanwhile, a pact between Britain and France in 1904 and then between Russia and Britain in 1907 led to the formation of the alliance known as the Entente, thus creating the power groupings that were the opposing sides in World War I (XI. 1. 6.).

Italy and Romania, which had previously been allies of the Monarchy, were neutral in the beginning but they entered the world war in 1915 and 1916 respectively on the side of the Entente with the promise of satisfying their territorial claims. However, it was not this fact but the declaration of war by the USA (1917) that decided the final outcome of the conflict. The Peace of Brest-Litovsk (3 March 1918), signed in 1918 after the collapse of Russia, and the Peace of Bucharest (7 May 1918), signed with Romania, made the victory of the Central Powers likely. However, the struggle of the belligerents, economically exhausted by 1917 and struggling with internal discontent, was decided in favour of the Entente by the American intervention.

Peace attempts in 1917 and 1918 by the last ruler of the Monarchy, Charles I (as the Emperor of Austria), failed. The collapse of the dualist state at the end of October and beginning of November 1918 also meant the break-up of the former great power, the partition of almost two-thirds of its former territory among several successor states and the tearing apart of Hungary. The occupation of the northern, eastern and southern

## 6 ALLIANCES IN EUROPE (1873–1913)



## 7 INTERNATIONAL TREATIES OF HUNGARY (1920–1944)\*

Name of the treaty	Type and date	Act and/or entry into force
Hungarian–Entente allies (Trianon)	Peace – 4 June 1920	1921: Act XXIII 26 July 1921
Hungarian–USA	Peace – 29 August 1921	1921: Act XLVIII 17 December 1921
Hungarian–Austrian (Venice Agreement)	Border – 13 October 1921	—
Hungary–League of Nations	Multilateral – 18 September 1922	1923: Act XII
Hungarian–Turkish	Friendship – 18 December 1923	1924: Act XVI 4 April 1924
Hungarian–Austrian (Baden Convention)	Cultural – 28 May 1926	1 January 1927
Hungarian–Italian	Friendship – 5 April 1927	1927: Act XXVIII 8 August 1927
Hungarian–Austrian (Venice Agreement)	Cultural – 27 November 1932	27 February 1933
Hungarian–Italian–Austrian	Multilateral – 17 March 1934	12 July 1934
Hungarian–Polish	Cultural – 21 October 1934	1935: Act XXVII 13 August 1935
Hungarian–Italian	Cultural – 16 February 1935	1935: Act XXVIII 23 August 1935
Hungarian–Austrian	Cultural – 4 March 1935	1935: Act XIX 23 August 1935
Hungarian–German	Cultural – 28 May 1936	1937: Act V 3 April 1937
Hungarian–Estonian	Cultural – 13 October 1937	1938: Act XXIII 10 June 1938
Hungarian–Finnish	Cultural – 22 October 1937	1938: Act XXIX 28 June 1938
Hungarian–Japanese	Cultural – 15 November 1938	1940: Act I 20 December 1939
Hungarian–Iraqi	Friendship – 2 November 1938	1940: Act XXXII 26 October 1940.
Hungarian–Afghan	Friendship – 25 August 1934	1940: Act XXXIII 24 October 1940
Hungarian–German	Cultural – 13 March 1940	1940: Act XXXIV 16 November 1940
Hungary–Tripartite Pact	Multilateral – 20 November 1940	1941: Act I 20 November 1940
Hungarian–Yugoslav	Friendship – 12 December 1940	1941: Act II 27 February 1941
Hungarian–Bulgarian	Cultural – 18 February 1941	1941: Act XVI 16 October 1941

\*Excluding foreign cultural policy without sectoral agreements

territories of the Kingdom of Hungary by Serbian, Czech and Romanian troops began in November 1918. In addition, its western territories were claimed by Austria, which had suffered similar losses.

### The Hungarian state independent again (1918–1944)

Hungarian foreign policy in the interwar period was determined by the defeat in the WWI, the partition of the Austro-Hungarian Monarchy, including Hungary in autumn 1918 and the *Treaty of Trianon* signed as a consequence on 4 June 1920. Trianon's provisions, which were extremely strict and included humiliating territorial, economic and political conditions for Hungary, were perceived as a dictate and had wide-ranging effects. Hungary became an independent state again

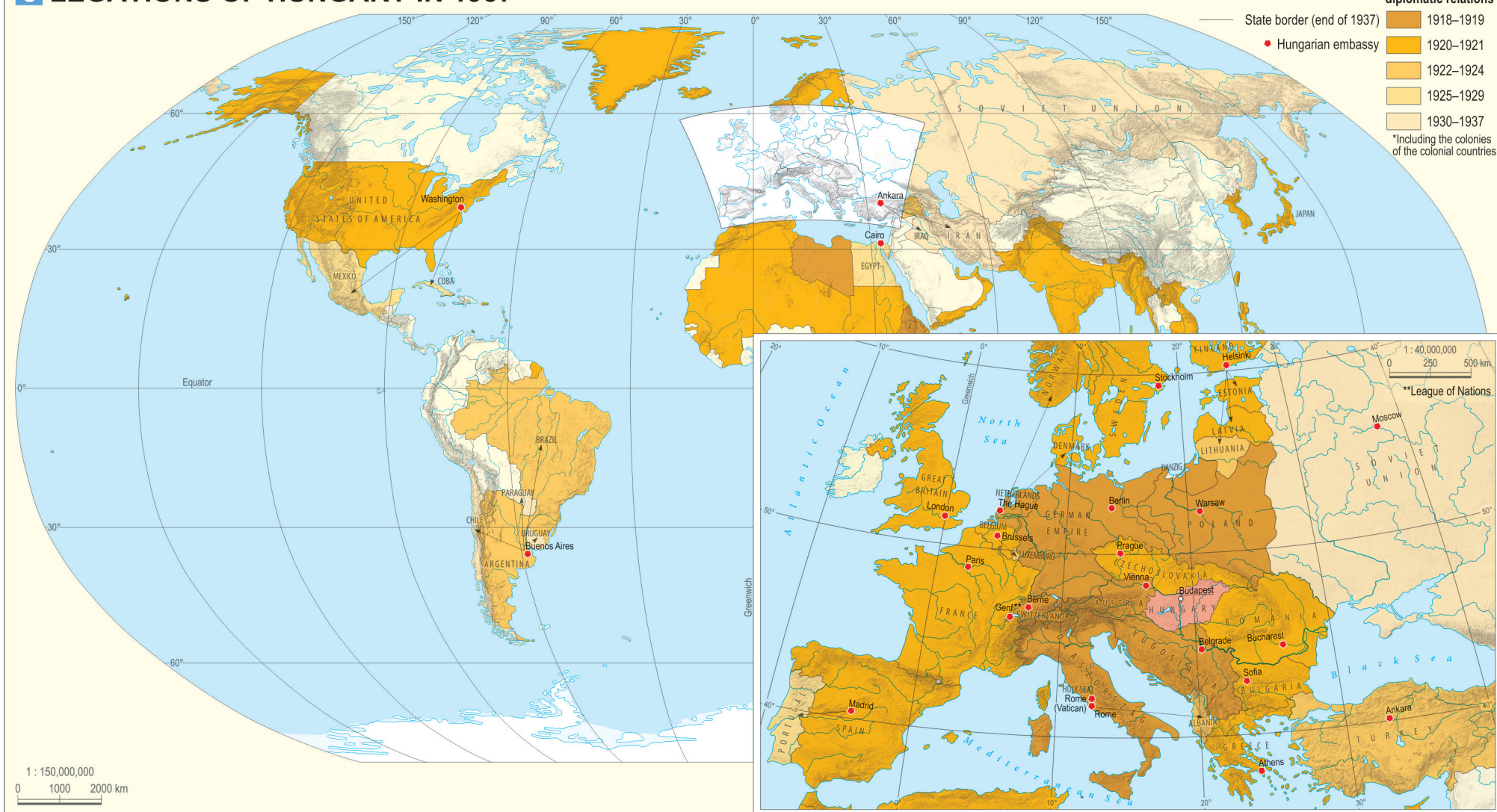
for the first time since 1526, allowing it to pursue an independent foreign policy and build up its own foreign affairs apparatus. However, this process, which had already begun in November 1918 (XI. 1. 7.), was achieved at a price that Hungarian politicians and parties were not ready to accept. This made the demand for a *revision of the peace terms* a common political aspiration in Hungary. Minor debates emerged only about the extent to which it should be: complete or partial (meaning the fairest possible from an ethnic point of view). The room for manoeuvre in Hungary's foreign policy remained extremely limited. With the exception of Austria, initially not benevolently neutral, Hungary was surrounded by 'victorious' states – *Czechoslovakia, Romania and the Kingdom of Serbs, Croats and Slovenes* – that signed treaties with each other to establish the

Little Entente by summer 1921, which had an explicitly anti-Hungarian aim and was created to prevent territorial revision. Until the second half of the 1920s, this tight grip severely limited Hungary's diplomatic options and made it impossible to promote and demand the need for revision in the international arena.

Nevertheless, Hungarian foreign policy achieved some minor successes. The *Treaty of Venice*, signed with Italian mediation on 13 October 1921, made it possible for Sopron, the centre of Western Hungary, given to Austria by the peace treaties and eight surrounding settlements to hold a *plebiscite* on whether to remain in Hungary or to join Austria. This ended in a convincing Hungarian victory on 14–16 December 1921, and a small area, inhabited mainly by a German-speaking population, was returned to Hungary. A decision was taken in September 1922 to admit Hungary as a member of the *League of Nations*, an international organization established after the Great War. This forum provided an opportunity for representatives of Hungary to speak out about the injustices of Trianon – especially by highlighting the plight of Hungarians living beyond the new borders in the Carpathian Basin. With the help of this organization, Hungary received an international loan in 1924 that contributed greatly and faster than expected to its economic recovery and thus to its political consolidation. In that year, Hungary established *diplomatic relations* with 30 countries (40 by 1937), not only in Central Europe (e.g. Austria, Switzerland, Germany, Poland) as in 1918–1919, but also with countries on distant continents (e.g. Japan, USA 1921, Brazil 1923, Argentina 1924, Mexico 1926, Egypt 1928, Iran 1937) (XI. 1. 8.).

Another modern instrument for breaking out of international isolation was *cultural foreign policy*. By establishing *Collegium Hungaricum*s and awarding scholarships abroad, the government helped to educate an elite able to succeed in international environment and to present the values of Hungarian culture abroad, thus improving its international recognition. The Collegiums of Vienna (1924), Berlin (1924) and Rome (1927) as well as their equivalent in Paris (1927) served elite

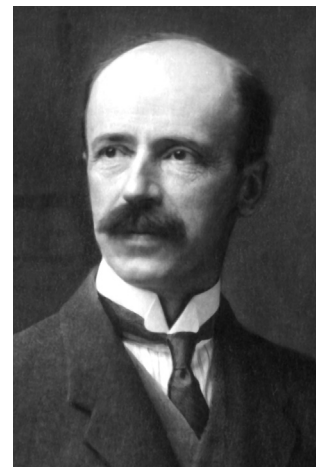
## 8 LEGATIONS OF HUNGARY IN 1937



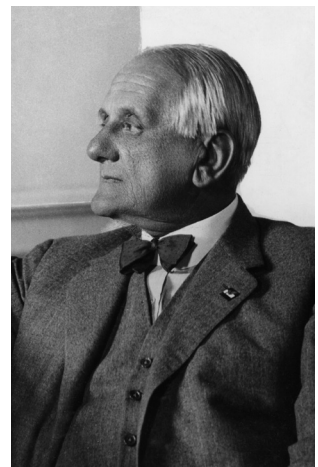




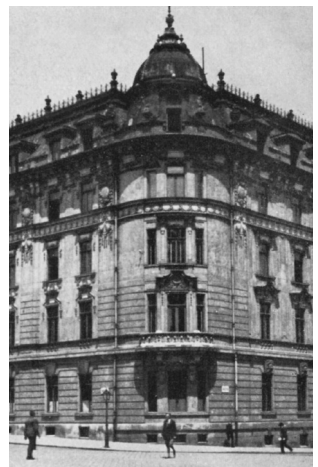
8 Kuno Klebelsberg, Minister for Religion and Education



9 István Bethlen, Prime Minister



10 Kálmán Kánya, Minister of Foreign Affairs



11 The Foreign Ministry building in 1936

political and economic links with each other, partly as a grouping against the Nazi German Reich.

In the same year Hungary established diplomatic relations with the Soviet Union. On 12 March 1938, Germany, which was gaining a stronger foothold in Europe, annexed Austria, making itself Hungary's immediate neighbour. As everyone in Hungary desired a revision of the Trianon Treaty, and only Germany supported this beside Italy, Hungary moved closer and closer to the foreign policy of the Third Reich, but even then it tried to preserve as much of its independence as possible. This was indicated by the fact that the Hungarian delegation led by regent Miklós Horthy and prime minister Béla Imrédy, visiting Germany in August 1938, refused Hitler's provocative offer to play a role in dismantling Czechoslovakia by attacking the former Hungarian part of its northern neighbour. In addition, it was at this time that a treaty was signed in Bled with the Little Entente states, which guaranteed equal rights to Hungary in the field of armaments in exchange for Budapest's renunciation of retaking its lost territories by force. This effectively meant the end of the Little Entente. Furthermore, immediately after the outbreak of WWII in 1939, Hungary refused to allow rail cargoes to pass through the country to help Germany in its war against Poland. In addition, Hungary took in tens of thousands of Polish refugees and provided some of them with new provisional homes.

While the successes of the territorial revision (the southern, mostly Hungarian inhabited parts of Slovakia and Subcarpathia [today in Ukraine] in 1938; the remaining parts of Subcarpathia in 1939; Northern Transylvania [today in Romania] in 1940; the partial return of the former Hungarian parts of Yugoslavia



12 German occupiers in Buda Castle, March 1944

in 1941) were welcomed with great enthusiasm in Hungary, they implied a greater commitment to the German Reich. This was demonstrated by Hungary's accession to the Tripartite Pact of Germany, Italy and Japan in November 1940.

The Italian orientation gradually changed to a German one from 1938 onwards. Although Hungarian foreign policy (at least in part) sought to escape from this mortal grip, also demonstrated by the attempted rapprochement to Yugoslavia in 1940–1941, there remained little chance of achieving this. During the Nazi invasion of Yugoslavia, Hungary came into increasing conflict with the Anglo-Saxon powers over its reconquest of parts of the historic Hungarian southern areas and was forced to enter WWII as a belligerent in June 1941, when the Soviet Union was attacked.

It was difficult to find a way out of this situation and the increasing German pressure. Miklós Kállay's government did contact the Western powers. Nevertheless, by early 1944 it became clear that Soviet troops, not the Western ones, would arrive in Hungary.

On 19 March 1944, the German Reich invaded Hungary, the 'reluctant vassal', and the country's independence was thus terminated [12]. The same year, on 15 October, regent Miklós Horthy, who remained in power, sought to make peace with the Soviet Union in a poorly prepared 'breakaway attempt'. However, after this failed, the far-right took power, led by Ferenc Szálasi. In close collaboration with the occupying Germans, they remained with the Third Reich to the end, while Hungary was occupied by Soviet troops (with a small number of Romanian and Bulgarian ones). This brought Hungary – deprived of its independence once again – into the sphere of interest and influence of the Soviet Union for over 40 years.

### The Hungarian state under occupation and in Soviet dependence (1944–1990)

The German occupation of Hungary in 1944 ended the country's sovereignty and with it the legitimacy of Hungarian diplomacy and the continued operation of the network of foreign representations. Hungary came de jure under the control of the Allied Control Commission (ACC) in 1945, and de facto under the rule of the Soviet Union, which fully affected foreign relations as well. The new system that was taking shape did not, apart from briefly, require the further services of the Hungarian diplomatic corps, outstanding even by international standards, including those diplomats who had resigned earlier in protest against the German occupation. As soon as the war ended, the replacement of the entire foreign service staff began, based on class and ideological considerations, with people who did not have the diplomatic skills and experience that would have been indispensable for the proper representation of Hungarian interests in this crucial period. Thus, Hungary participated in the Paris Peace Conference of 1946–47 with a complete lack of capable diplomats, which – not surprisingly, considering the circumstances

mentioned above – ended up in Hungarian historical memory as the Second Trianon.

In addition to personnel changes, the reorganization of the network of missions abroad and the appointment of heads of mission also began, within the constraints imposed by the ACC and the limited financial resources. Understandably, priority was given to the capitals of the victorious powers (Moscow, Washington, London, Paris) and the neighbouring countries (Prague, Bucharest, Belgrade, Vienna) [XI. 1. 10.]. After the descent of the Iron Curtain (1948), the 'sovietization' of Hungary, and thus of Hungarian diplomacy accelerated. The frameworks established in this period, which, with certain shifts of emphasis, defined the operational conditions and priorities of Hungarian diplomacy until the regime change in 1989. Among these, the first and most important turn was the complete subordination of Hungarian foreign policy to the direction and interests of the Soviet Union. Hungarian diplomacy thus became for many decades the executor of instructions and guidelines from Moscow, with minimal possibility of following real national interests.

This was the time when the dual structure of foreign administration was established in Hungary, which was also typical of other states in the Soviet bloc. This meant that the competent body of the state party (Hungarian Hungarian Workers' Party, MDP, and, from 1956 onwards, the Hungarian Socialist Workers' Party, MSZMP) became the controller of foreign policy within the country, while the Ministry of Foreign Affairs played the role of a subordinate executive. It was also at this time that the strong link between the Ministry of Foreign Affairs and the intelligence/counter-intelligence departments of the Ministry of the Interior was established, which, like in other communist countries, was to remain a feature of the whole period. A huge squad of agents operated in Hungarian missions under diplomatic cover, mostly performing consular duties, or in the capacity of press attachés or political counsellors.

In addition to serving Soviet foreign policy, other priorities can also be observed in the activities of Hungarian diplomacy during the Cold War. One of the most important of them was the observation of Hungarian emigrants living in the West and, to a lesser extent, in certain countries of Latin America, who were considered a potential threat to the communist regime. Therefore, there were plenty of attempts to divide, subvert or otherwise manipulate them. This activity became particularly intensive after the defeat of the 1956 revolution. At that time, large numbers of refugees, strongly opposed to communist rule in Hungary, appeared in Western countries. Many of them – because of their high professional qualifications – could expect a prominent social position in their host countries and could therefore seriously impede the acceptance of the post-1956 consolidation of the Hungarian communist regime in the West. Therefore, they had to be watched!

During the Cold War era, the economic and technological backwardness of the communist countries, in-



13 Prime Minister András Hegedűs signs Hungary's accession to the Warsaw Pact (14 May 1955)

cluding Hungary, from the West gradually became more and more apparent, seriously threatening the long-term sustainability of the system. The tasks of Hungarian diplomacy therefore increasingly included the stimulation of economic cooperation with certain Western countries – with a view to obtaining 'hard currency'. Another priority was to strengthen scientific-technological cooperation in order to find loopholes in the so-called COCOM list to prevent the export of high-tech products to communist countries.

By the mid-1950s, Hungary's integration into the communist bloc was complete, both economically and in military-political terms. Hungary joined the Council for Mutual Economic Assistance in 1949 and the Warsaw Pact in 1955 [XI. 1. 11.]. [13] At the same time, the network of Hungarian foreign missions was constantly expanding, not only in Europe, but also in other regions where this seemed justified for ideological (Beijing 1949, Pyongyang 1949, Ulaanbaatar 1957) or other reasons (Cairo 1947, Tel Aviv 1950, Buenos Aires 1949). Hungary's admission to the UN in 1955 significantly increased the prestige of Hungarian diplomacy, but it definitely did not mean a relaxation of Soviet control.

The effectiveness of Hungarian diplomacy after 1945 and in the 1950s was continuously hampered by a severe lack of properly trained, experienced, and foreign language-speaking professionals. As a consequence of the continuous reorganizations, personnel changes and ideological purges that took place throughout this period, by the end of the 1950s the professional level of the Hungarian diplomatic corps was not even close to the standards it represented at the onset of WW II. The waves of repression and cleansing that followed the 1956 revolution only exacerbated this situation. However, it was precisely at this time that the regime would have had the greatest need for reliable diplomats who could speak foreign languages and were able to interact in an international environment, in order to help the system of János Kádár gain acceptance in the western world. The party leadership saw the solution in a significant increase of the number of intelligence officers working under diplomatic cover, especially in missions operating in the West. The success of this policy was finally confirmed by the fact that in 1963, albeit with significant help by the Soviets, the matter of the reprisals following the 1956 Hungarian revolution, known as the 'Hungarian issue', which was considered the main external obstacle to the communist consolidation, was removed from the agenda of the UN.

By the mid-1960s, Hungary's European relations and the network of its foreign representation was largely in place in both the East and the West. In the decades that followed, Hungarian diplomacy became increasingly pragmatic, facilitated by the détente that began with the signing of the Helsinki Final Act in 1975. In addition, the role of economic considerations compared to political aspects in the opening of diplomatic missions abroad, continued to grow. A good example is Australia, with which Hungary did not even have diplomatic relations in the mid-1960s due to ideological and political differences, but a Hungarian commercial office was operating in Sydney. Hungary established diplomatic relations with the Federal Republic of Germany in similar endeavours in 1973 and opened an embassy in Bonn in 1974, although a Hungarian trade mission in Frankfurt had been operating since the late 1940s. Even more telling is the evolution of Hungary's relations with Spain. In Europe at the time, a more fierce enemy for a communist country could hardly be found than Franco, but despite this, the two sides opened a consular and trade mission in each other's capitals as early as 1970, five years prior to the dictator's death. All this

education very effectively and continue to operate with some interruption to the present day, now primarily for the purpose of cultural outreach [XI. 1. 9.]. In addition, Kuno Klebelsberg (1875–1932) [8] and Bálint Hóman (1885–1951), the leading figures of cultural policy, did much to promote the image of Hungary abroad by supporting departments for Hungarian studies and guest lecturers at foreign universities.

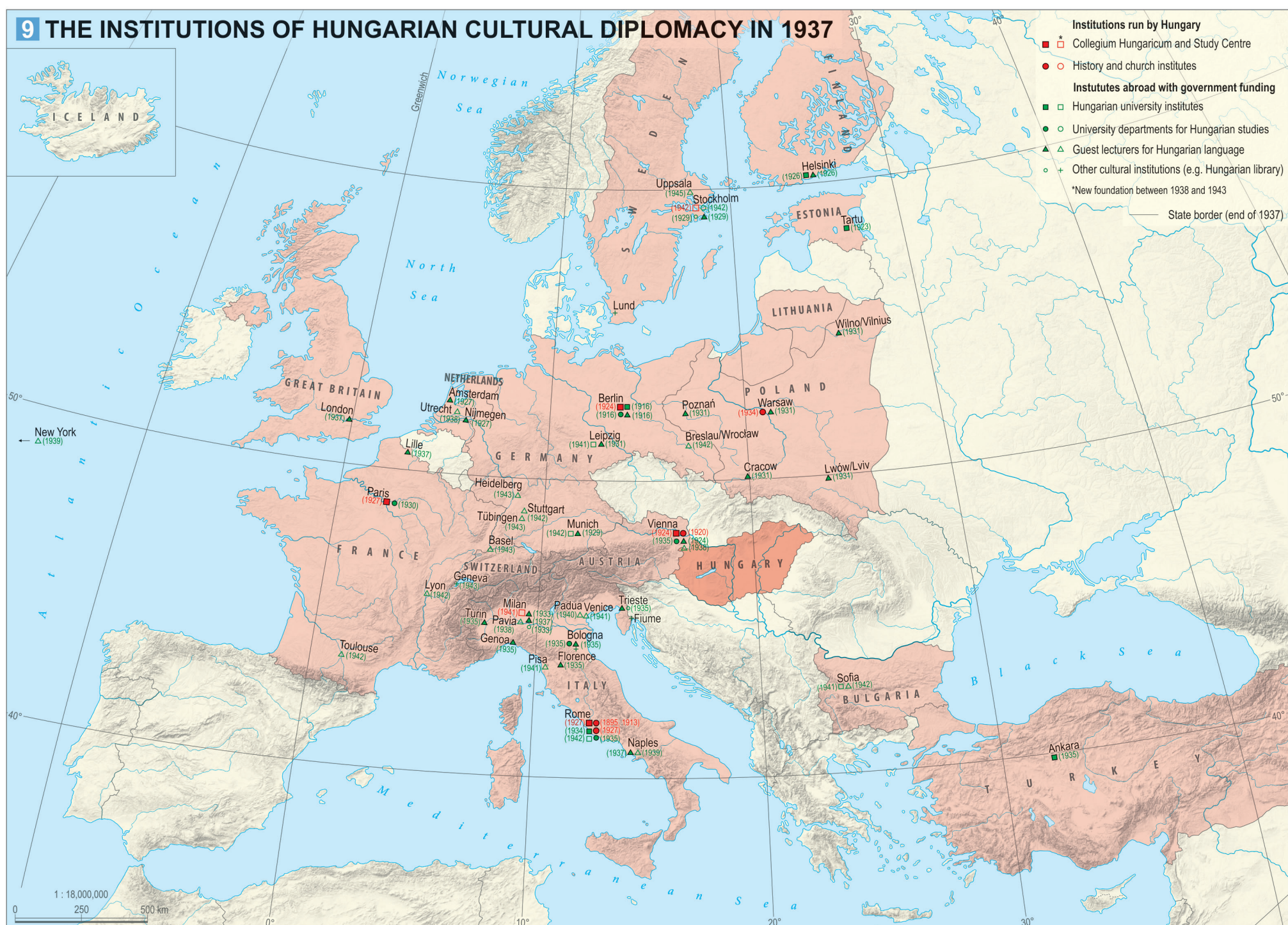
Hungary concluded very interesting and internationally unprecedented agreements with Austria on the partial sharing of the former 'common' archival, museum and library stocks and on their classification as the 'common intellectual property' of the two countries (Baden Convention, 1927; Treaty of Venice, 1932). Starting from the mid-1930s, bilateral agreements on 'intellectual cooperation' in education, culture and science marked the growing importance of cultural diplomacy [XI. 1. 7.], [XI. 1. 9.].

The course of Hungarian foreign policy in the 1920s

was set by prime minister István Bethlen (1921–1931) [9], while that of the 1930s was marked by one of the most talented Hungarian diplomats, Kálmán Kánya, who served as minister of foreign affairs from 1933 to 1938 [10] [11].

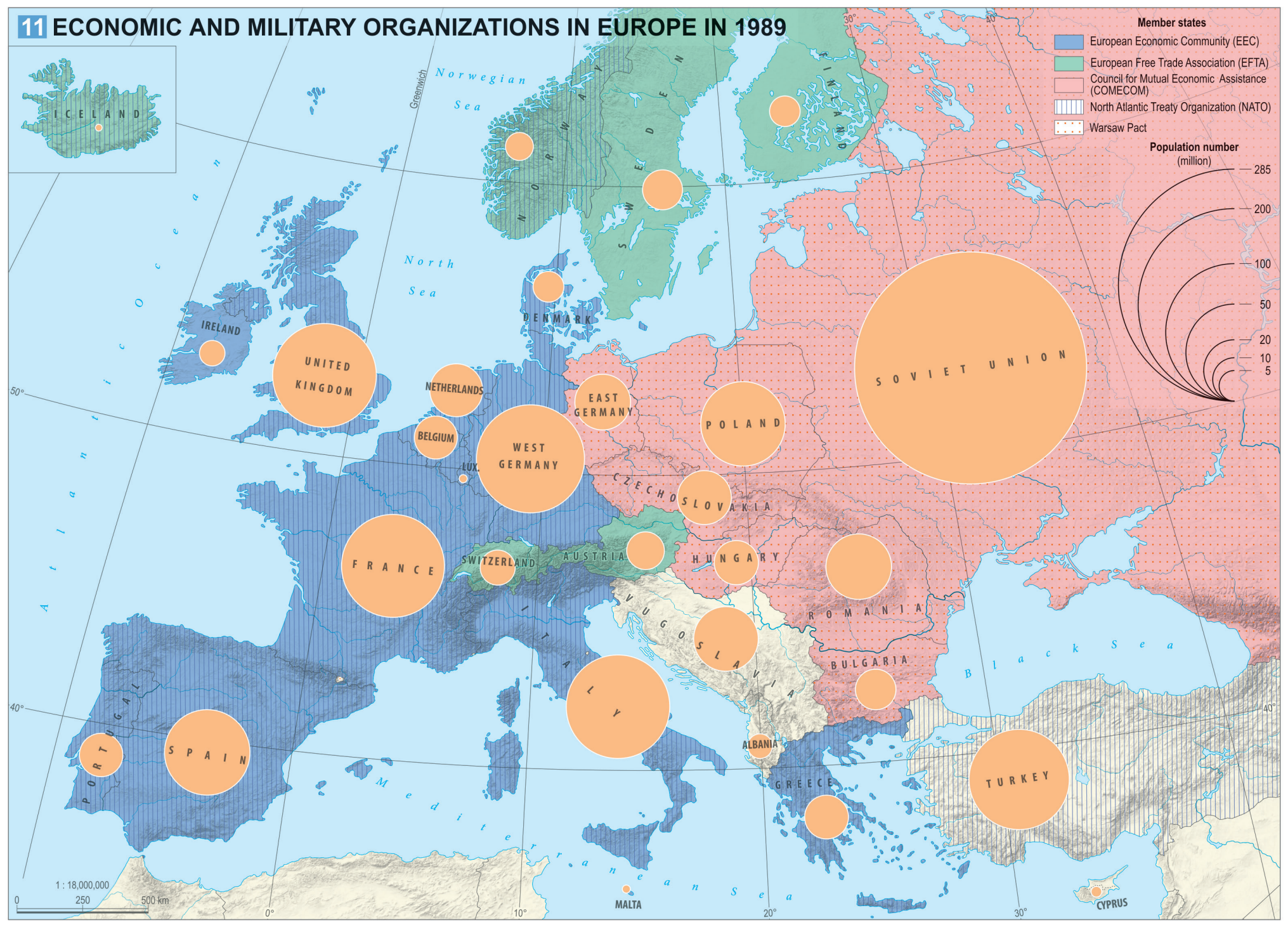
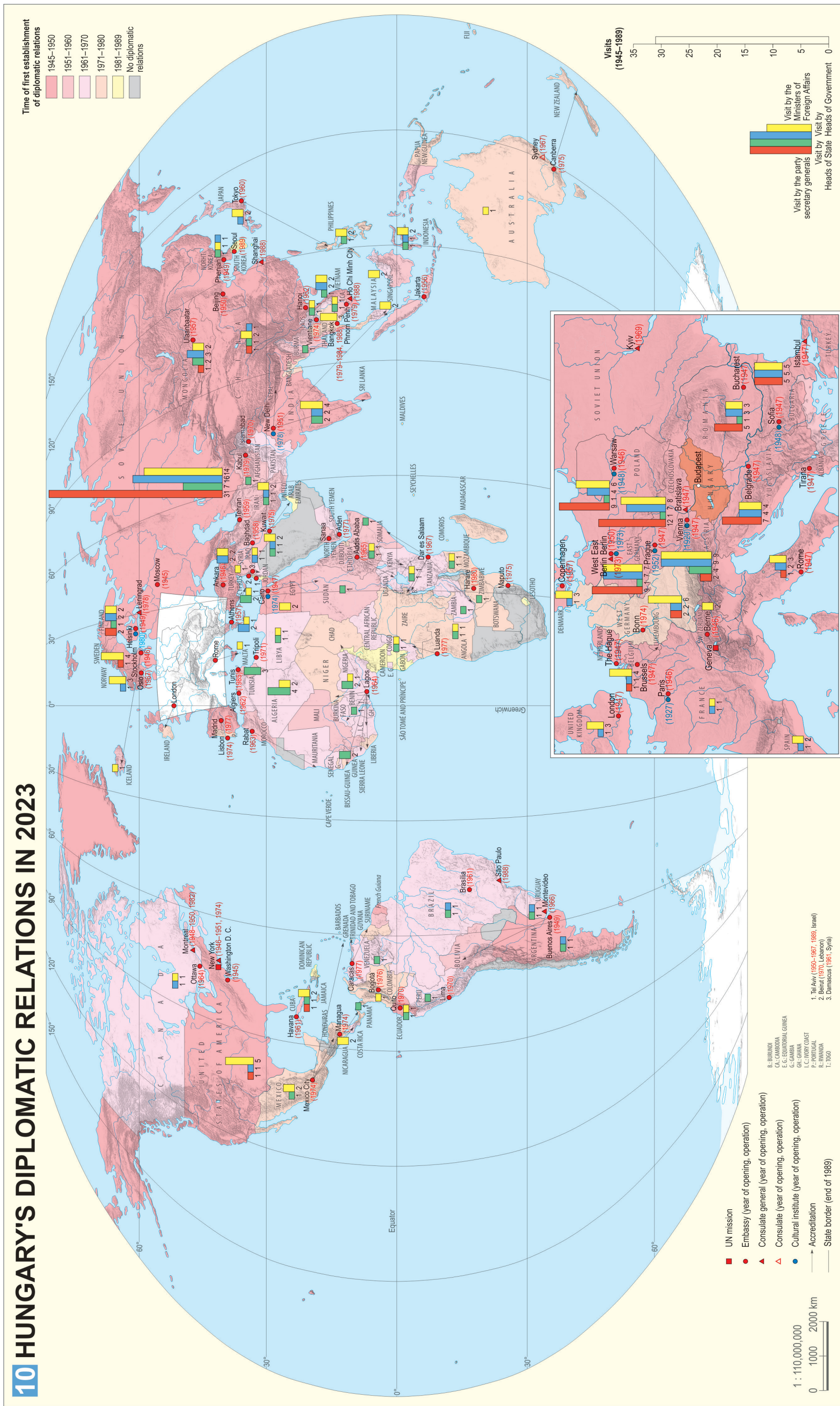
The decisive change in the political field was the friendship treaty with Italy signed in April 1927, which resulted in an increase in Hungary's international prestige. With a victorious, rising power in the rear, Hungary was able to articulate its foreign policy plans and goals in international fora much more freely than before, including the desire for territorial revision. This was also supported by the formation of pro-Hungarian groups in the parliaments of the great powers, which proposed a partial correction of the Trianon Peace Treaty, as reflected in Lord Rothermere's press campaign launched in 1927.

With the signing of the Rome Protocols in March 1934, Hungary, Italy and Austria strengthened their





### 10 HUNGARY'S DIPLOMATIC RELATIONS IN 2023



happened while there was still a 'Hungarian Royal Embassy' in Madrid until 1969! It was in the late 1970s that the first contact was initiated between Hungary and the *European Community*, the predecessor of the European Union. Four years of negotiations led to the signing of an agreement in 1982 regulating supply quotas for mutton, steel and textile products.

Hungarian diplomacy – under Soviet impetus – began to show interest in building comprehensive relations with the *developing world* in the early 1960s. It became obvious that the so-called Third World would become an increasingly important arena for competition between the two political systems. Hungary was fully involved in the struggle to decide which world system the former colonies would join after independence. At that time, there were no number of African and Asian '*national liberation movements*' and independent states *supported* by the countries of the Eastern bloc. Support ranged from supplying military equipment and sending military advisers to providing high-quality university education.

A perfect example of these efforts is the creation of *TESCO* (Technical and Scientific Cooperation) *Bureau for International Cooperation* in 1962, a state-owned company, which played a key role in achieving the objectives described above until 1990. In the late 1960s, TESCO was already organising the sending of Hungarian professionals, doctors, engineers, agricultural engineers to developing countries, as well as the operation of Hungarian companies in the Third World. By the end of the 1980s, the company had a presence in 57 developing countries, with representative offices in Algeria, Angola, China, Cuba, Ethiopia, Ghana, Iraq, Libya, Mozambique, Nigeria, Tanzania and Yemen

(Aden, then Sana'a) until 1990. It is therefore fair to say that TESCO was an integral part of the network of Hungarian missions and played a key role in the implementation of certain foreign policy objectives in countries of the Third World. Hungary built and ran a number of hospitals at that time and was involved in extensive knowledge transfer activities in agriculture, water management, regional development, enterprise management, planning and training. In the 1980s, thousands of Hungarian experts were working simultaneously in certain countries such as Algeria and Libya.

Hungary concluded *technical and scientific cooperation agreements* with 57 developing countries in the period 1960–1990. Many of them are still in force and meaningful cooperation is taking place within the framework established at that time. 8,500 highly skilled Hungarian professionals worked in these parts of the world during those three decades. More than 30,000 *young people from Africa, Asia and Latin America* participated in secondary, higher and post-graduate professional education in Hungary between 1960 and 1990, mainly in the fields of agriculture, water affairs, fish farming, geology, health care, mining and construction. This created a *network of contacts* of such magnitude that Hungarian diplomacy has benefited from it even in the three decades after the regime change. Hundreds of professionals returning to their home countries, speaking Hungarian well and having strong Hungarian ties, were promoted to high positions in the governmental or business sector. Hungarian diplomacy was able to build on this network even when the policy of global opening was launched in the 2010s.

From the early 1960s, the weaknesses of the plan-based economic system began to show. Hungarian mis-

sions abroad were thus given new tasks and started to operate according to *more pragmatic guidelines*, in a different way than before. *Commercial offices* and *company branch offices* were opened in various countries around the world. The serious professional deficiencies that characterised the Hungarian foreign affairs apparatus in the 1950s were significantly reduced by the following decade. In the early 1960s, the training of *Hungarian diplomats* began at *Karl Marx University of Economics in Budapest* and the *Moscow State Institute of International Relations (MGIMO)*, which provided world-class professional knowledge, including the teaching of many rare, non-European languages.

*The 1960s and 1970s were marked by a dynamic expansion of diplomatic relations and the network of Hungarian missions*, especially in Africa, Asia and Latin America (XI. 1. 10.). By 1972, there were 66 Hungarian embassies operating worldwide. In Latin America, in addition to Cuba, which was especially important from an ideological point of view, Argentina, Brazil and Chile were the main focus of contacts through accreditations and the opening of diplomatic missions, indicating that economic interests were becoming more relevant than political ones. In Sub-Saharan Africa, Sudan was the first country with which Hungary established diplomatic relations in 1956, immediately after gaining independence. By 1965, Hungary had diplomatic missions in Accra (Ghana), Conakry (Guinea), Lagos (Nigeria), Nairobi (Kenya) and Khartoum (Sudan). In the mid-1960s, Hungary had diplomatic relations with eight Arab countries, with embassies in five capitals, Rabat (Morocco), Algiers (Algeria), Cairo (Egypt), Baghdad (Iraq) and Damascus (Syria). Hungary's diplomatic relations with Asian nations also developed rapidly, not



## 12 HUNGARY'S DIPLOMATIC RELATIONS IN 2023



only with the socialist countries of the continent (China, North Korea, Mongolia, Vietnam, Laos, Cambodia). In the mid-1960s, Hungarian missions were also operating in India, Indonesia, Japan, Burma (now Myanmar) and Iran. By the end of the 1970s, the number of Hungarian embassies in Asia rose to 13.

Signs of the *decline of the communist system* gradually became apparent worldwide in the 1980s, accelerated by economic stagnation and then by worsening global economic conditions. This was also felt in Hungarian diplomacy. The *rapidly deteriorating economic situation* of Hungary led to a *contraction of the network of missions*, which had been expanding until then. The budget of the Ministry of Foreign Affairs was significantly reduced and the devaluation of the Hungarian forint in 1987 caused further serious difficulties. In the same year, the decision was taken to close the Hungarian embassies in Accra, Conakry, La Paz and Nairobi, as well as the representation at UNESCO in Paris. At the beginning of 1989, there were 65 Hungarian embassies and 12 consular missions in 171 countries around the world. This was hardly more than two decades earlier. Compared to the mounting difficulties, it was a small consolation that – due to much improved training conditions and a more reasonable personnel policy – Hungarian diplomacy paradoxically reached the peak of



14 Austrian Foreign Minister Alois Mock and Hungarian Foreign Minister Gyula Horn cut the Iron Curtain on the Austro-Hungarian border (27 June 1989)

its professional performance in the 1980s, the period of decline. The changes initiated by Gorbachev in the Soviet Union also increased the scope of Hungarian foreign policy. This made it possible for Hungary – as the first state in the Soviet bloc – to sign an *agreement on trade, commercial and economic cooperation* with the *European Community* in 1988, which brought significant economic benefits and meant the establishment of diplomatic relations, too. The imminent end of the era of Soviet dependence was heralded in Hungarian diplomacy by events such as the resumption of relations with Israel in 1988, which had been severed in 1967, and with the Republic of Korea in 1989. And the symbolic final act of this process was the moment when the *Hungarian and Austrian foreign ministers cut the Iron Curtain* on 27 June 1989 [14].

### Diplomatic relations of Hungary after 1990

As a consequence of the *regime change in 1990*, Hungary's international relations and the network of its missions were restructured. József Antall, the first freely elected prime minister of Hungary after the fall of the Iron Curtain, set *three new strategic directions* for Hungarian foreign policy: *Euro-Atlantic integration* (i.e. achieving membership in NATO and the EU), the *transformation of Hungary's relations with Central Europe*, and – as prime minister of 15 million ethnic Hungarians in spirit – the *settlement of relations with ethnic Hungarians living beyond Hungary's borders*. This *strategic shift in foreign policy* and the geopolitical transformation of Central and Eastern Europe led to a transformation of Hungary's foreign representation system as well. In Hungary's neighbourhood, *Czechoslovakia, Yugoslavia and the Soviet Union broke up* and were replaced by 22 new states in the 1990s. Hungary established diplomatic relations with these countries, opening new embassies in several capitals



15 The main building of the Ministry of Foreign Affairs and Trade

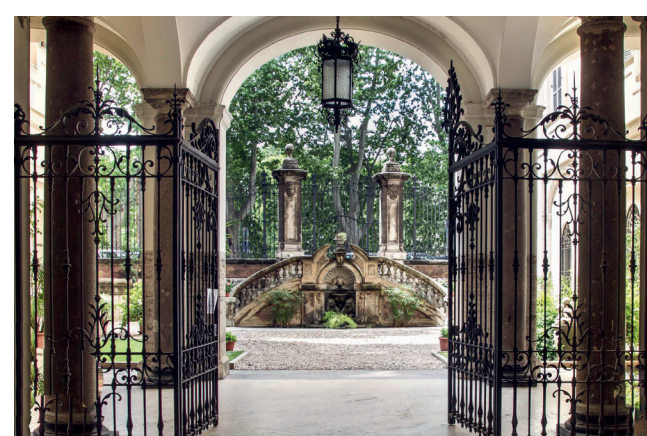
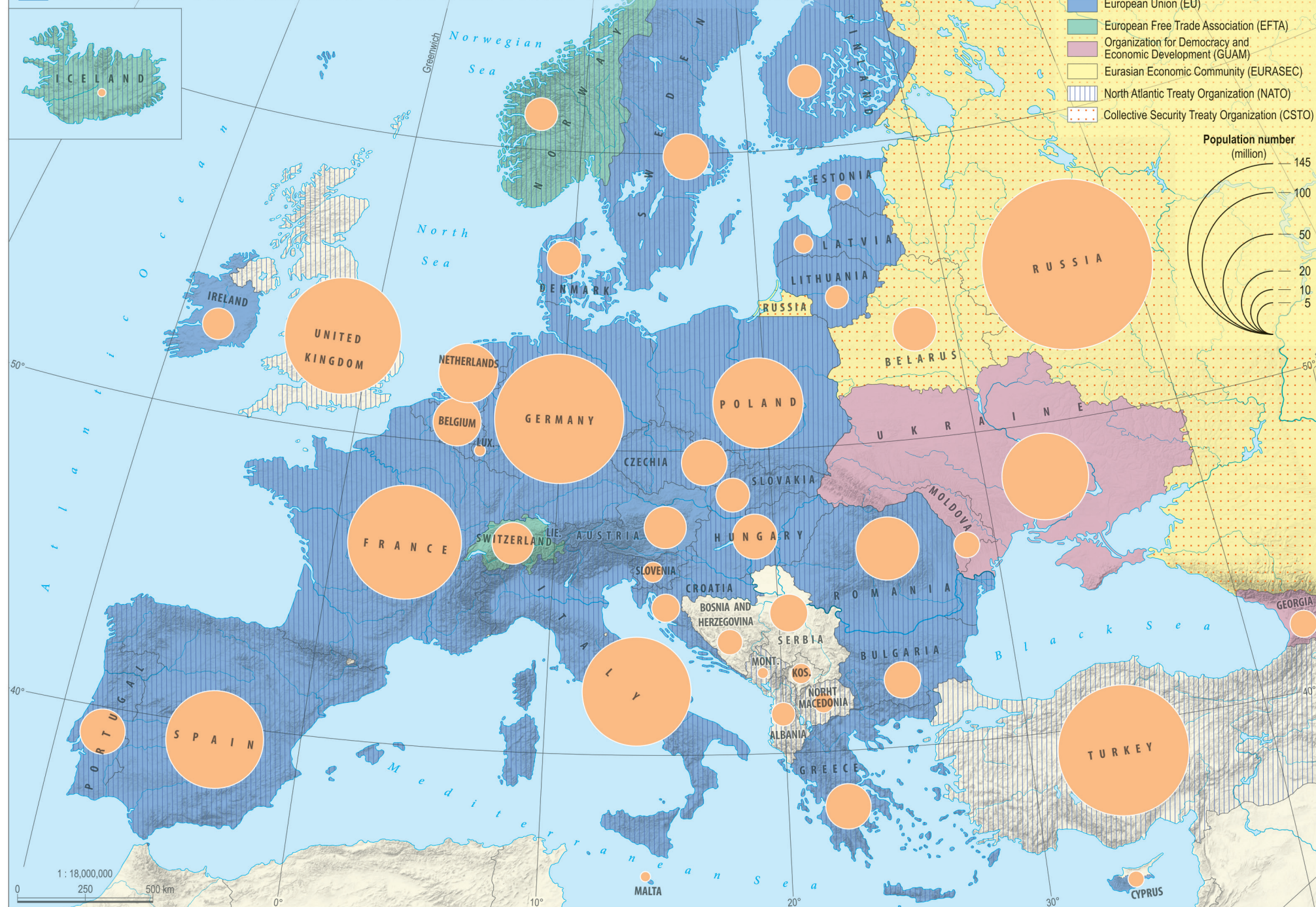
such as Almaty, Baku, Kyiv, Chişinău, Ljubljana, Bratislava, Sarajevo, Skopje and Zagreb. As a result of the new national policy, meaning the policy towards Hungarian communities abroad, consular missions were opened in several cities of the Carpathian Basin [XI. 1. 12].

As an important milestone in the normalization of relations with the West, the government of Miklós Németh, the last prime minister before the fall of the Iron Curtain, signed a treaty with the *Holy See* on 9 February 1990 on the complete resumption of diplomatic relations. The Antall government opened consulates general in Barcelona, Los Angeles, Milan, Munich, Toronto and São Paulo as part of the restructuring of the foreign missions system. Hungary joined the *Council of Europe* in 1990 with a permanent representation in Strasbourg, *NATO* in 1999 and the *European Union*



16 A salon of the Hungarian Embassy in Vienna

## 13 ECONOMIC AND MILITARY ORGANIZATIONS IN EUROPE IN 2024



17 Hungarian Academy in Rome

in 2004 [XI. 1. 13]. The two latter permanent representations are based in Brussels.

The *network of honorary consuls*, known for centuries in diplomacy but rejected by the Communist countries for decades, was revived in 1990. Honorary consuls are generally citizens of the host state who, for some reason (emotional or spiritual attachment, national identity, economic interest or prestige), are ready to represent the sending state as consul and to foster and develop economic, cultural and other relations between the sending and host states. In spring 2023, 272 honorary consuls were assisting in building Hungary's international relations.

2014 saw a new turn in Hungary's foreign policy, with a *strong emphasis on foreign trade*. This shift of emphasis was reflected in the new name of the Ministry (Ministry of Foreign Affairs and Trade, [16]) and the *significant expansion of the network of missions abroad* [XI. 1. 12]. Embassies have been opened in Chile, Ecuador, Kyrgyzstan, Colombia, Oman, Peru, Uzbekistan, as well as consulates in Lendava/Alsólendva,

Banská Bystrica, Chicago, Düsseldorf, Gdańsk, Houston, Kazan, Innsbruck, Miami, Stuttgart and Wrocław.

*Hungarian cultural institutes* represent a special network of diplomatic relations. In spring 2023, cultural institutes served the promotion of Hungarian culture in 26 cities and the creation and preservation of a favourable image of the country.

Hungary's missions operate everywhere in offices and buildings appropriate to their tasks and functions. Some of them are owned by the Hungarian state. The two most valuable buildings in this network are the Embassy in Vienna [16] and the Hungarian Academy in Rome (Falconieri Palace) [17].

### Europe

The radical transformations that followed the regime change in 1990 were perhaps most clearly reflected in Hungary's European relations. With the end of the era of dependence from the Soviet Union and the regaining of sovereignty, the *room for manoeuvre of Hungarian diplomacy widened*. Favourable conditions have been achieved by *Hungary's pioneer role in dismantling the Communist system in Europe, creating considerable moral and political capital for the country*. Relations with Germany, which have always been of strategic importance to Hungary, were significantly strengthened by opening Hungary's western border to refugees from the GDR, the 'Communist Germany'. However, the transition in Hungary's geographical environment has often been accompanied by a number of dangers in the form of protracted crisis situations. Suddenly, Hungarian foreign policy had to find answers and solutions to very complex and often historically significant, fateful issues and situations.

The *return of Hungary to the democratic community of European nations* in political, economic and security terms emerged as a *general demand* that enjoyed national consensus in the process of regime change. This implied reintegration into the community from which the Soviet occupation had forcibly separated Hungary more than four decades earlier. In terms of foreign policy, this meant that Hungary declared its intention to join the then 12-member European Communities, the predecessor of today's European Union as well as NATO, the military alliance of the North Atlantic area. Looking back from the perspective of over three decades, it can be said that Hungarian diplomacy – together with Poland – was at the forefront of both European and Atlantic integration in the region. This was also illustrated by the fact that the two countries originally included in the European PHARE programme (Poland and Hungary: Assistance for Restructuring their Economies), set up in 1989 to help the eco-



18 On 16 December 1991, Prime Minister József Antall signs the Association Agreement between Hungary and the European Communities, the legal predecessor of the European Union, in which Hungary declares its intention to join





19 On 12 March 1999, Foreign Minister János Martonyi deposits with the Government of the United States of America the instrument of accession of Hungary to NATO, thereby making Hungary a full member of the Alliance

conomic transformation of countries liberated from Communist rule, were Poland and Hungary. Hungary, along with Czechoslovakia and Poland, was among the first countries in the region to sign an *Association Agreement* with the *European Communities* in 1991, declaring their intention to join 18, and was the first of the countries of Central and Eastern Europe to present its application for membership in 1994. Hungary played a leading role in dissolving the Warsaw Pact in 1991, which became synonymous with Soviet hegemony, and was at the forefront of the rapprochement to NATO. Furthermore, Hungary was a founding member of the 'Partnership for Peace' programme, a 'precursor' to NATO membership, and was invited to enter the alliance in 1997, along with the Czechia and Poland. Members were admitted in 1999 19. At the same time, another major integration step was underway, the preparation for entry into the organization that has been called European Union since 1993. Accession negotiations started in 1998 and were successfully concluded in 2002. As the referendum held in 2003 approved accession by a large majority, Hungary became a member of the *European Union* on 1 May 2004, along with nine other countries in the region. It also became an important milestone that marked the end of the transition for Hungarian foreign policy and diplomacy that started in 1990. The country was back to the community of values to which it had belonged throughout its history and from which it could only be separated by violent acts of some foreign powers.

In the aftermath of the regime change, the entire system of Hungary's foreign relations had to be put on a new footing and adapted to the political needs of a free and democratic country. Hungary also had to respond to the very serious challenges posed by the changes in its immediate geographical environment. The scale of these challenges is illustrated by the fact that Hungary had five neighbours in 1990 and seven in 1993, but only two of them, Austria and Romania remained the same as before 1990 and five new countries appeared along Hungary's borders. With the breakup of Czechoslovakia, Yugoslavia and the Soviet Union, 14 new states emerged in Central and Eastern Europe in just two years. The transformation that then began not only created the possibility for free and democratic development in the region, but also destabilised some parts of it, as best illustrated by the tragedy of the war in former Yugoslavia. Aggressive, nationalist movements emerged that were previously unknown and that were capable of triggering latent tensions in societies and then escalating them into international conflicts. Hungary and the Hungarian society suddenly found themselves on the borderline between the zones of stability and insecurity. Hungarian foreign policy and diplomacy needed extraordinary perspicacity and



calmness, because the inappropriate handling of the conflicts that had flared up at that time could have even stalled the country's Euro-Atlantic integration efforts. The system of so-called *basic treaties* played a key role in putting Hungary's international relations on a new footing from 1991. Comprehensive agreements were concluded with Italy, France, Poland, Russia and Ukraine in 1991, Germany, Spain, Greece, Latvia, Estonia, Lithuania, Slovenia and Croatia in 1992, as well as with Slovakia, Moldova and Romania in 1995. The parties defined the framework, principles and main directions of cooperation in these treaties and sought to cover the full range of relations, including sensitive issues such as the ethnic Hungarians beyond the borders (with those partners with whom this was relevant).

Hungarian foreign policy reformulated the country's regional policy after 1990. Accordingly, *Central Europe* (roughly the area between the Baltic, Adriatic and Black Sea) and Hungary have a particular interest in the security and prosperity of this region. Throughout their history, these states have been interdependent. The totalitarian regimes of the 20th century cut off the natural links of regional cooperation and imposed a framework alien to the historic traditions of these countries.

From the late 1980s, with the end of dependence from the Soviet Union, a new boom of various forms of regional cooperation emerged. In building these relations, countries mostly sought cooperation on political, security, economic, infrastructure, energy and environmental issues. Particular attention has been paid to the development of the almost non-existent north-south transport and energy corridors, which could compensate for the still perceived predominance of east-west links to former centres of great powers.

The first regional initiative that developed during the last phase of the Cold War already was the *Alps-Adriatic Working Community* (from 2013 Alps-Adriatic Alliance), established in 1978 and still in operation today. Some regions of Austria, Germany, Italy and Yugoslavia participated in this, with Vas County of Hungary joining in 1988. The first three forms of cooperation established after the change of regime were the *Central European Initiative* (CEC, 1989), the *Visegrád Cooperation* (V3, 1991) and the *Central European Free Trade Association* (CEFTA, 1992) XI.1.14. The CEC was founded in Budapest by Hungary, Austria, Italy and Yugoslavia, and was called Quadrangle.

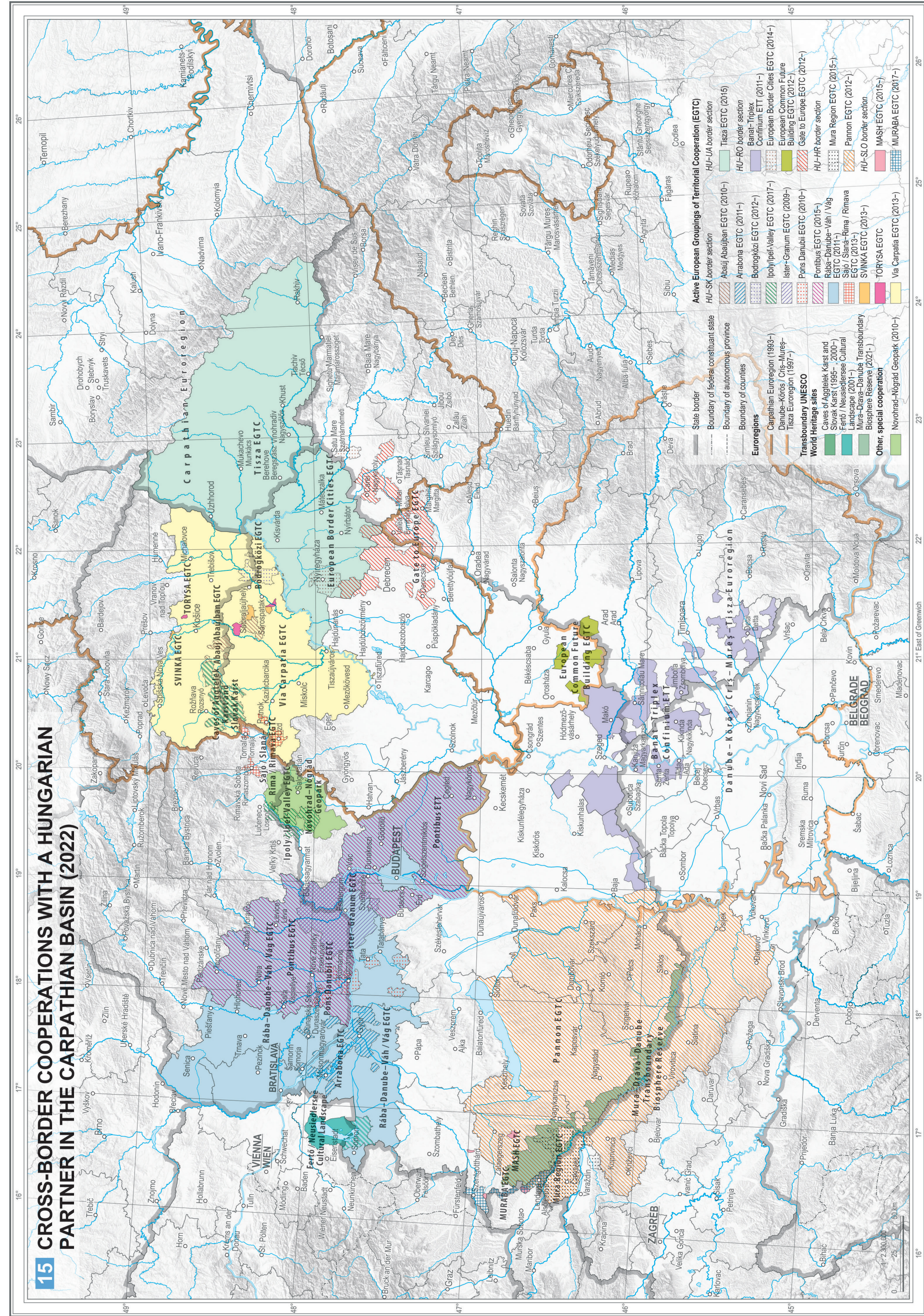
In 1996, it had 16 member states already. CEFTA became the 'gateway' to EU membership in the 1990s.

One of the most successful initiatives of Hungarian foreign policy after the fall of Communism was the *Visegrád Cooperation* with Czechoslovakia and Poland in 1991 and with Slovakia after its independence 20. Over the years, the *Visegrád Four* (V4) has become an institution of mutually beneficial cooperation and effective pursuit of foreign policy interests, from which all participating states have benefited. Its strength is demonstrated by the fact that the combined voting weight of the V4 in the European Council, taking into account the 2003 Nice Treaty of the EU, equals the combined voting weight of Germany and France.

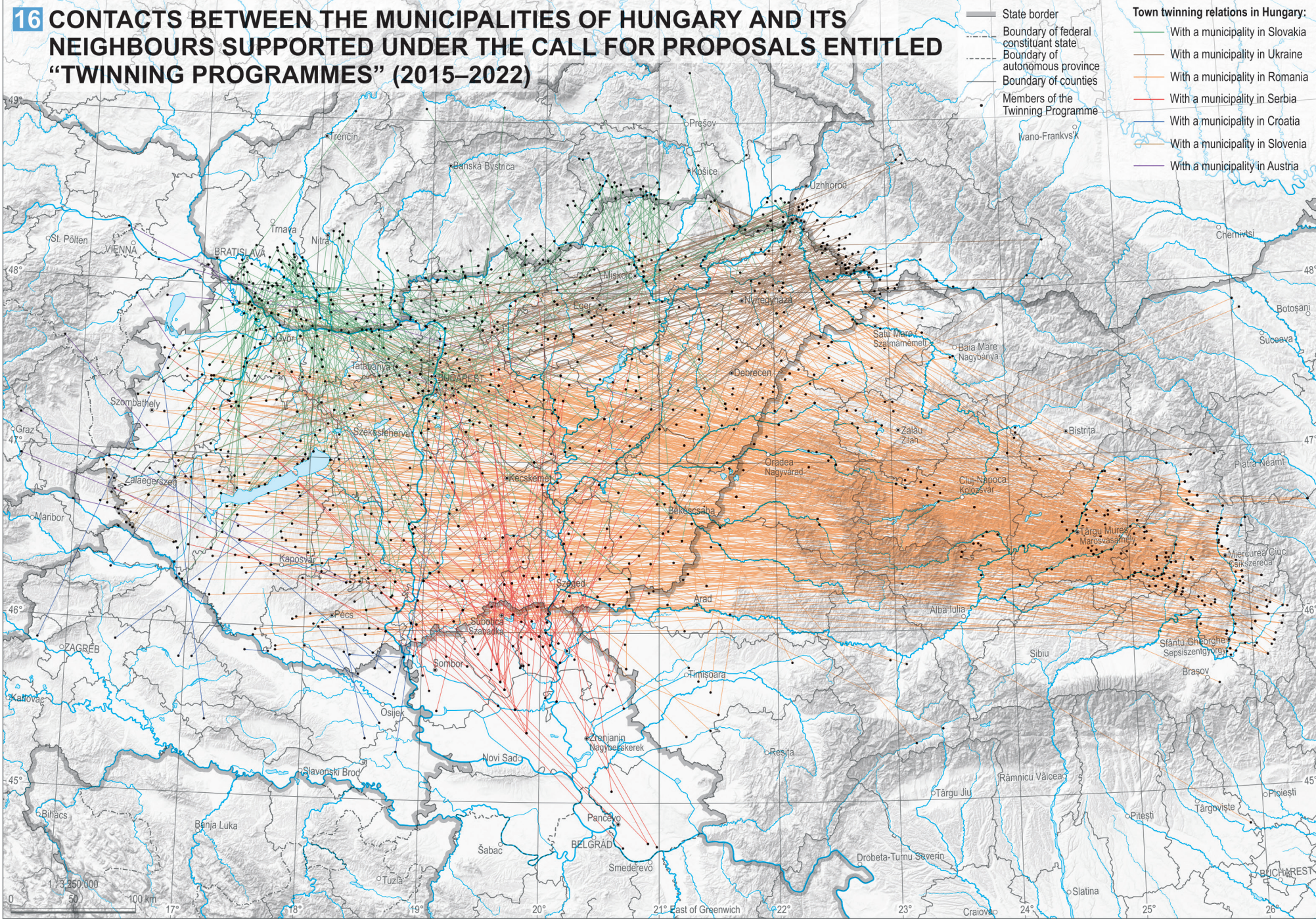
While the Budapest-based *Danube Commission*, founded in 1948, focuses mainly on the facilitation of navigation, environmental aspects have also been included in similar collaboration activities after 1990. A good example is the work of the *International Commission for the Protection of the Danube River* (ICPDR, 1994) and the *International Sava River Basin Commission* (ISRBC, 2004). Regarding the cooperation structures of Central Europe, the European Union's *Strategy for the Danube Region*, adopted in 2011 should be mentioned as well, which coordinates development policies in 11 areas to improve the region's infrastructure connections, promote environmental protection, increase prosperity and strengthen the region. Hungary has taken on a coordinating role in three areas of this strategy: with the Czechia on encouraging the use of sustainable energy, with Slovakia on restoring and preserving water quality, and with Romania on managing environmental risks.



20 Prime Minister József Antall signs the Visegrád Declaration with Czechoslovak President Václav Havel and Polish President Lech Wałęsa in Visegrád (15 February 1991)







A new level of relations with neighbouring countries was established by allowing municipalities, groups of municipalities, counties and regions to contact similar entities on the other side of the border. The regional policies of the Council of Europe and the EU have also encouraged this type of cooperation. Euroregions, the various forms of euroregional cooperation, were mainly established between counties. The first of them was the *Carpathian Euroregion*, created in 1993. After that, more than ten different formations were set up, many of which only lasting for a short time. Today, the *Carpathian Euroregion*, and the *Danube–Körös–Maros–Tisza regional cooperations* are active (XI.1.15). The form of *European groupings for territorial cooperation* (EGTC) replaced the Euroregions in 2006. EGTCs have legal personality and full legal capacity, thus they can have their own budget, assets and apply for development funds. In addition to this, there are many forms of cooperation that could be established as *UNESCO World Heritage sites*.

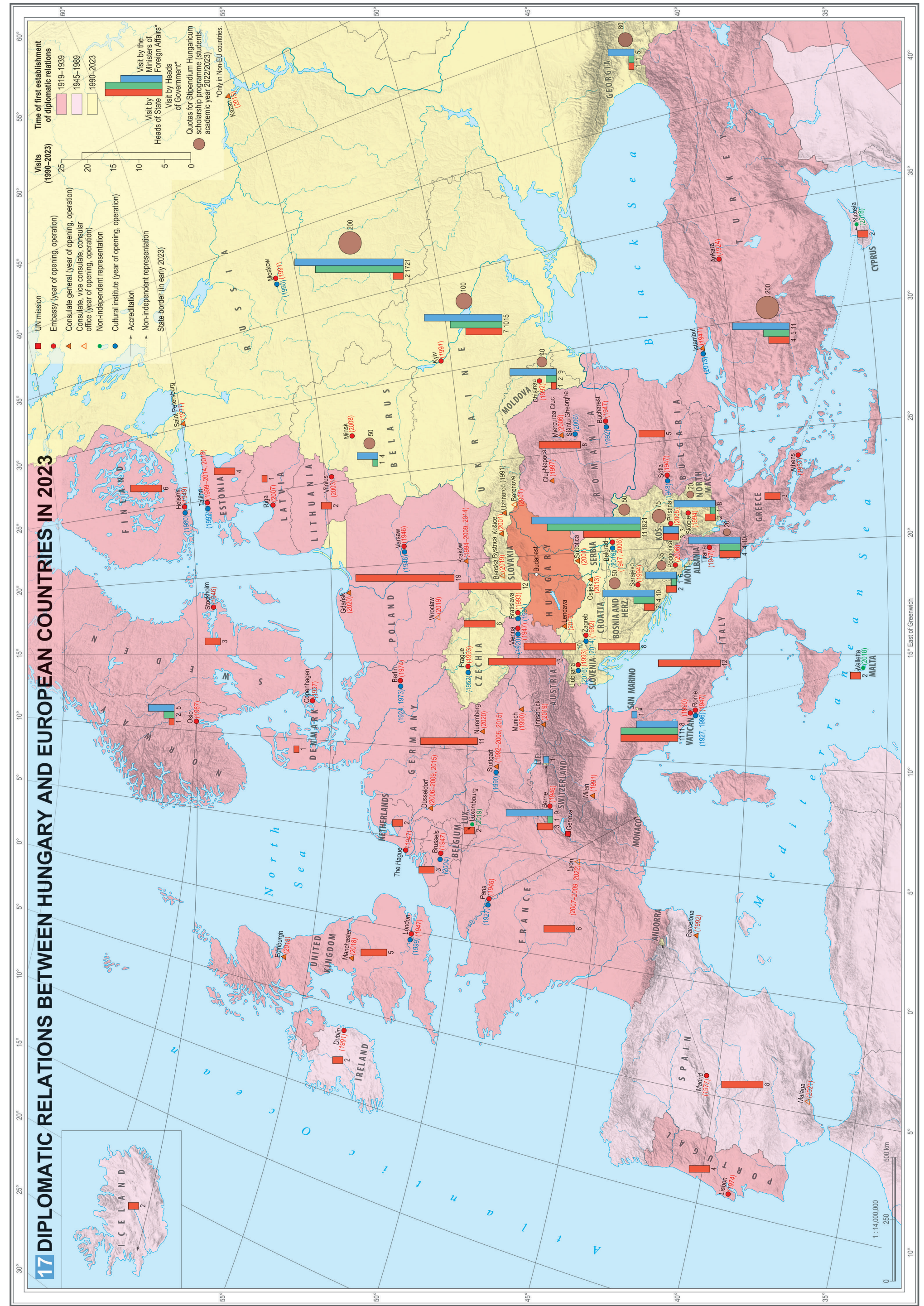
The third priority of Hungarian diplomacy after 1990 was the issue of *Hungarian communities living beyond the borders*. During the decades of Communism, this matter remained taboo for Hungarian foreign policy because of Soviet pressure. József Antall's statement after the first free elections in 1990 according to which he wished to be the prime minister of 15 million ethnic Hungarians spiritually, marked the beginning of a new era in this important field of Hungarian foreign policy. Not only the support of Hungarian civil organizations beyond the borders plays a key role in Hungary's national policy strategy, but also the assistance to municipalities with Hungarian majority in neighbouring countries. This is particularly manifested in the establishment, maintenance and strengthening of

so-called *twin settlement relations* between municipalities in Hungary and Hungarian local communities abroad (XI.1.16). The picture emerging on this basis shows the current state of the fabric of Hungarian national cohesion, and in the case of settlements beyond the borders, it demonstrates also the overall national embeddedness and viability of local Hungarian communities.

Achieving the above three goals required fundamental changes in the organization of Hungarian diplomacy after 1990. Hungary's *network of diplomatic and consular missions in Europe expanded significantly* (XI.1.17). The Government opened representations in the newly formed states, often taking the lead. As an example, Hungary was the first to establish diplomatic relations with the newly independent Ukraine on 3 December 1991 and to open an embassy in Kyiv on the same day. This was followed by the opening of *embassies* in Zagreb (1992), Ljubljana (1992), Chişinău (1992), Bratislava (1993), Sarajevo (1994), Minsk (2008), the Baltic countries and throughout the Balkans. In addition, consular representations have been established in regions of the Carpathian Basin with a significant Hungarian population like in Cluj-Napoca/Kolozsvár (1997), Košice, Berehove/Beregszász, Subotica/Szabadka (2001), Osijek (2002), Miercurea Ciuc/Csikszereda (2006), Lendava/Alsóladva (2016). These *consulates-general* serve not only foreign policy goals but also national policy objectives of Hungary. The *network of Hungarian missions in Western Europe* has also expanded considerably. Embassies were opened in Dublin (1991) and Luxembourg (2003–2009), consulates general were established in Munich, Stuttgart, Düsseldorf, Lyon and Milan. Due to the strong increase in the number of Hungarian citizens working in the UK, and in order

to serve their needs more efficiently, the network of missions has also been expanded there. A consulate general was opened in Manchester, a vice consulate in Edinburgh and honorary consulates in Belfast, Cardiff, Liverpool and Torquay. The number of Hungarian diplomats serving at missions in Europe has increased significantly since 1990. In addition, an excellent network of specialised attachés has been established, especially in the field of foreign trade. Particular attention should be paid to the growth of the European network of *Hungarian cultural institutes*. Hungary had seven of them in Europe in 1990, compared to 19 in 2023. Furthermore, new Hungarian cultural institutes were opened not only in the centres of world politics, like London, Rome and Moscow, but also in the capitals of neighbouring countries, such as Ljubljana, Zagreb, Belgrade and Bucharest. A Hungarian cultural institute was also opened in Sfântu Gheorghe/Sepsiszentgyörgy, Transylvania.

The year 1990 is regarded in Hungarian diplomatic history as a major milestone, when the entire system of values and the direction of the country's foreign policy changed. However, 2010 marked another important turning point, when the government that took office in that year initiated a *change of paradigm in foreign policy*. Hungary has shifted from a follow-on foreign policy to a proactive one, both bilaterally and in multilateral fora. Hungarian proposals, motions, declarations, diplomatic visits, meetings, vetoes if necessary, to achieve foreign policy goals and to stand up for fundamental values of Hungarian foreign policy became very frequent. A major result of proactive foreign policy has been the *renewed and significant expansion of the network of Hungarian missions abroad*. In 2023, there were Hungarian embassies or non-independent







21 Prime Minister Viktor Orbán receives Ursula von der Leyen, President of the European Commission in the former Carmelite monastery, now the Prime Minister's Office (9 May 2022)



22 Hungarian-Serbian summit with the participation of Prime Minister Viktor Orbán and Serbian President Aleksandar Vučić in Belgrade (22 April 2023)



23 Hungarian-French summit with the participation of Prime Minister Viktor Orbán and President of France Emmanuel Macron in Paris (13 March 2023)

representations in every member state of the EU, the Western Balkans and Eastern Europe, the latter ones in Cyprus, Luxembourg and Malta. In addition to embassies, a dense network of Hungarian consulates general, consulates, non-independent representations and honorary consulates covers Europe, enabling the comprehensive promotion of Hungarian interests.

The Hungarian government has shifted from a conflict-averse foreign policy to a conflict-ready one. After 2010, strong advocacy of national interests became the leitmotiv of Hungarian foreign policy. This means that the representation of the values advocated by the Hungarian government has appeared in both bilateral and multilateral frameworks, without shying away from taking on conflicts, if necessary. This is particularly evident in the decision-making fora of the European Union, where Hungarian diplomacy often stands up for the national interests under serious external political pressure. The clear result is a more effective enforcement of interests. 21

Greater emphasis has been placed on the regional dimension of Hungarian foreign policy, Central Europe, the neighbouring countries, regions and the Western Balkans. The number of diplomatic contacts has increased considerably with these countries. The minister of foreign affairs and trade held a total of 60 meetings with his counterparts from neighbouring countries in 2021 and 2022. The Visegrád Cooperation has intensified enormously since 2010 and has become a very effective tool for asserting common interests. Hungarian diplomacy after 2010 has continuously sought to open a dialogue between the V4 countries and other partners. In 2017, during the Hungarian Presidency, the first V4-Israel and V4-Egypt heads of state and government meetings were held in Budapest, while the first V4-Morocco foreign ministers' meeting took place during the Hungarian Presidency in 2021. Hungary has become one of the strongest advocates for the enlargement of the European Union to include the countries of the Western Balkans. The Hungarian foreign policy supporting enlargement of the European Union has also had a positive impact on cooperation with the countries concerned. The fact that Hungarian-Serbian relations have been raised to a previously unprecedented level and that a genuine relationship of trust has been established between the two sides are a good proof for this. 22

National policy became a special focus of Hungarian diplomacy after 2010. The change of emphasis and practice is aimed at improving the living conditions of the ethnic Hungarian communities abroad, helping them to remain and prosper in their native land, strengthening their sense of national identity and their affiliations with Hungary. Since 2010, the Hungarian government has increased identity preservation funding tenfold. A good example of this is the Körösi Csoma Sándor programme, which has been very successful

in supporting ethnic Hungarians living outside the Carpathian Basin.

An unprecedented breakthrough in the field of national policy is the introduction of a preferential naturalization procedure for foreign citizens who can prove that they have Hungarian ancestry. This opportunity is available not only to ethnic Hungarians living in neighbouring countries, but also to those residing in any part of the world. The granting of Hungarian citizenship means the unification of the Hungarian nation under public law. It opens up opportunities unprecedented since the signing of the Treaty of Trianon (1920). By 31 December 2022, more than 1.15 million Hungarians living outside the borders of Hungary took advantage of the opportunity provided by the law to become a Hungarian citizen.

Closely linked to national policy is the strengthening of economic cooperation and investment activity along Hungary's borders, to a large extent with areas inhabited by Hungarians beyond the borders. The political consideration is that successful joint investments with neighbouring countries provide a good basis for cooperation based on mutual respect and appreciation. Furthermore, the resulting improvement in the diplomatic climate will also enhance and strengthen the position of the Hungarian communities living in the neighbouring countries.

The post-2010 period is an era of crises. Hungary's relations with European states have been affected by new types of tensions, crises and threats, unlike anything experienced before. This was the case with the migrant crisis that unfolded in 2015, or the handling of the pandemic that started in 2020. Hungarian politics and diplomacy stood its ground in these cases, too. The migration crisis, in particular, has required measures to protect Hungary's interests, which have caused significant tensions in the European relations of the country. However, time has proven the correctness of the Hungarian position in every case. The steps taken by the Hungarian government were followed 'in silence' by precisely those governments which had been the most vocal critics of the Hungarian measures. The outbreak of the war in Ukraine in February 2022 poses a long-term challenge for Hungarian diplomacy, as it will have unforeseeable and unpredictable consequences in the fields of foreign and security policy as well as economic, energy security and many other areas of cooperation. 23

Building a system of political and economic links with the newly emerged states of the Eastern European region under new political circumstances was of particular importance in Hungary's European foreign policy after 1990. The four states of the region – Russia, Ukraine, Belarus and Moldova – have been a priority area of Hungarian foreign policy and diplomacy since the early 1990s. Hungary signed a basic treaty with both Russia and Ukraine in 1991 and established dip-

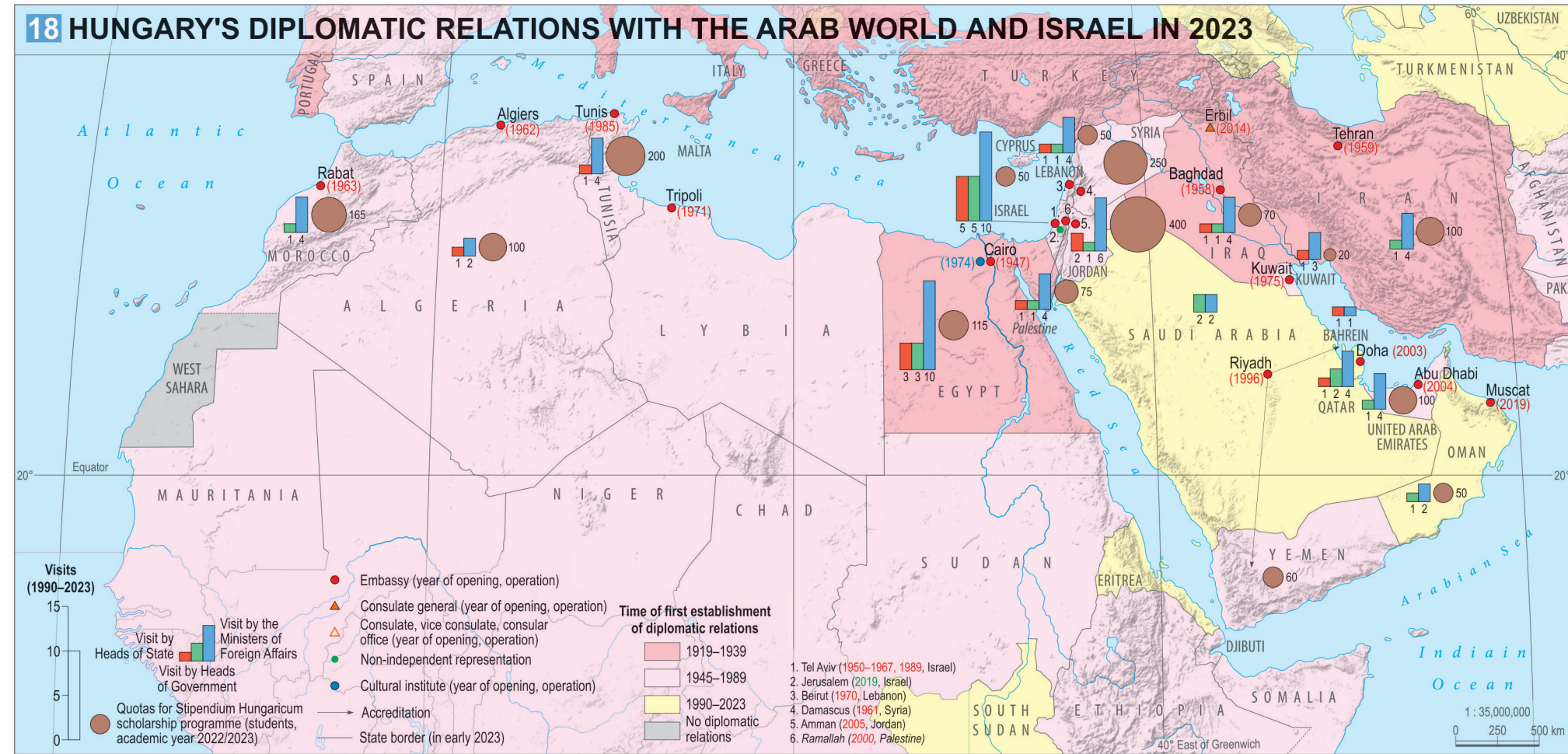
lomatic relations with all of the four states immediately after their independence. The Embassy in Moscow was given a new mandate, while the consulate general in Kyiv, opened in 1969, was upgraded to an embassy. The Hungarian Embassy in Chişinău, the capital of Moldova, was opened in the same year that diplomatic relations were established. Diplomatic relations were also established with Belarus, while in 2008 a Hungarian embassy was opened in Minsk, followed by an honorary consulate general in Brest.

Ukraine takes a special position in Hungary's external relations, also because of ethnic Hungarians living in Zakarpattia. This is one of the reasons why a consulate general was opened in Uzhhorod and a consulate in Berehove/Beregszász. Representing Hungarian interests related to national policy and maintaining contacts with the local ethnic Hungarian community are among the most important tasks of those missions. In addition to these missions, Hungary operates honorary consulates in Ivano-Frankivsk, Lviv, Luhansk and Ternopil.

The network of Hungarian missions in Russia has also expanded remarkably. Besides the embassy in Moscow and the consulate general in Saint Petersburg, there are also Hungarian consulates general in Ekaterinburg and Kazan, as well as an honorary consulate in Chelyabinsk. A Hungarian cultural institute has been operating in Moscow since 1990. All four states in the region send scholarship holders under Hungary's Stipendium Hungaricum programme, with 200 students from Russia, 100 from Ukraine, 50 from Belarus and 40 from Moldova in academic year 2022/23.

Russia has gradually become a special partner to Hungary since the early 2000s. This is demonstrated not only by the extraordinary number of high-level diplomatic visits, especially since 2010, but also by the joint implementation of strategically important projects such as the construction of two new units of Paks Nuclear Power Plant or the joint production of 1,300 railway carriages for the Egyptian National Railways, jointly financed by the Hungarian Eximbank and its Russian partner.

Unfortunately, Hungary's relations with Ukraine have changed in the opposite direction over the past 30 years. Very soon after the collapse of Communism, the two countries established close cooperation. This was greatly supported by the fact that the newly independent Ukraine treated the ethnic Hungarian community in Zakarpattia in an exemplary manner. The close cooperation that developed then served the interests of both countries. However, this process was interrupted after the political changes that took place in Ukraine in 2014. The increasing pressure from the Ukrainian government on the Hungarian community – and other national minorities – and the increasingly harsh provocations of nationalist groups tolerated by the author-



ities gradually made it impossible to develop or keep relation at the same level. Sad milestones in this process were the Ukrainian Education Law of 2017, the Language Law of 2019 and the Secondary Education Law of 2020. Those laws have severely reduced the previously acquired rights of the Hungarian and other minorities living in Ukraine and grossly violated international agreements on the protection of minorities.

Examining the operating framework of Hungarian diplomacy, it can be concluded that the system of training and recruitment of the Hungarian diplomatic corps was radically transformed after the regime change. In the 1970s and 1980s, the majority of Hungarian diplomats were trained in Moscow, whereas from the 1990s onwards, prestigious Western institutions such as the Diplomatic Academy of Vienna and the Institute of Political Studies in Paris (Sciences Po) gained prominence. Furthermore, as in the pre-1990 period, many Hungarian diplomats graduated in international relations from the Budapest University of Economics (now Corvinus University of Budapest). The Hungarian Diplomatic Academy was launched in 2020 under the auspices of the Ministry of Foreign Affairs and Trade, offering high quality theoretical and practical training to young people interested in a career in foreign affairs.

#### The Arab world and Israel

Hungary's relations with the countries of the Middle East and North Africa began to take a new shape in the second half of the 1980s, even before the regime change. The previous cooperation, typically based on



24 Opening ceremony of the 2nd Hungarian-Arab Business Forum in Riyadh with the participation of Prime Minister Viktor Orbán and Saudi Deputy Prime Minister Muqrin bin Abdul-Aziz (23-25 March 2014)

ties defined by the Soviet Union, was gradually replaced by a reorientation of relations towards the Atlantic. One of the first and perhaps the most significant signs of this trend was the development of cooperation with Israel in 1988 and the opening of Hungary's embassy in Tel Aviv in 1989. This process gained new momentum and new directions with the regime change 24. Hungary established diplomatic relations with those Gulf Arab states that had previously been reluctant to do so because of their opposition to the Soviet bloc, namely the United Arab Emirates in 1989, followed by Bahrain, Oman and Qatar in 1990, and finally Saudi Arabia in 1995.

The Hungarian government sent a resident ambassador to Saudi Arabia 24 in 1996, to Qatar in 2003, to the United Arab Emirates in 2004 and to Oman in 2019. The relatively extensive network of missions did not shrink even during the period of regime change. Therefore, Hungary had one of the most comprehensive links in the region among the members of the former Soviet bloc even in the 1990s. Hungary was the only country in Europe to maintain a diplomatic presence in civil war-torn Libya, although its embassy staff had to be evacuated to neighbouring Tunisia in some cases. The Hungarian embassy in Damascus was closed in 2012, due to the suspension of diplomatic relations, but reopened in 2020 at the level of chargé d'affaires. The embassy in Baghdad was suspended in 2005 for security reasons but reopened in 2013. The number of diplomatic staff in embassies, especially those specialised in foreign trade, declined in most



25 Meeting between Prime Minister Viktor Orbán and President Abdel Fattah el-Sisi of Egypt in Cairo (31 May 2016)

missions after the regime change. Hungarian diplomacy sought to compensate for this to some extent by appointing honorary consuls in those states where local rules allowed it. Prime minister József Antall and president Árpád Göncz visited most of the major states in the region and sought to lay the foundations for political cooperation with the renewed, democratic Hungary. Despite all these efforts, the absence of Hungarian companies and the end of scholarships provided by the Hungarian government had a lasting negative impact on the development of relations. The consequence was that Hungary's cooperation with the countries of the Arab region stagnated and then declined from the second half of the 1990s. This was also clearly reflected in a decrease in the number of high-level visits during that period. The decisive change came with the launch of the policy of opening towards the East and then towards the South, as well as a series of practical measures taken after 2010. 25 The government gradually sent commercial attachés to all Hungarian embassies, bringing the number of diplomats in many embassies up to, and in some cases even exceeding the pre-1990 level. A system of re-accreditation of certain specialised diplomats was also introduced in the region. For example, the activities of the scientific and technical attaché of the Hungarian embassy in Paris have been extended to Morocco as well. In line with this policy, the Hungarian consulate general in Erbil, Iraq, was opened in 2014, and the Cairo embassy's office in Khartoum – as a non-independent mission – in 2018. The Jerusalem office of the Hungarian embassy in Tel Aviv was established in 2019. The launch of the Stipendium Hungaricum scholarship programme in the mid-2010s met with a very positive reception by Hungary's partners in the region and gave a new impetus to the development of relations. The total number of countries in the region totalled 1,710 per year in early 2023. Diplomatic contacts reached an unprecedented level of intensity, as clearly demonstrated by the very significant increase in the number of high-level visits after 2010. It is striking that this applies not only to those countries that are considered to be Hungary's traditional partners, but also to those where Hungarian political leaders and public officials had not visited before, or only rarely. It can be concluded





that Hungary's diplomatic presence in the countries of the Middle East and North Africa region in the early 2020s corresponds to its needs, interests and international weight.

#### Sub-Saharan Africa

During the decades of the Cold War, Hungary's cooperation with Sub-Saharan Africa was primarily based on ideological considerations. Prior to the regime change, in the mid-1980s, there were already nine Hungarian embassies in the states of the region, with an extensive network of accreditation. Building cooperation was supported by a strong presence of Hungarian companies and scholarship programme funded by the government. However, these links had already begun to loosen even before the regime change, as was indicated by the closure of the embassy in Accra in 1987. The process of closing missions accelerated after 1990, until only two Hungarian embassies remained in the entire region by 2012, namely in Nairobi and Pretoria. After the announcement of the policy of global and then southern opening in 2013, the Hungarian government first appointed roving ambassadors to several countries in the region, then reopened the embassy in Abuja in 2013, while the missions in Accra, Addis Ababa and Luanda resumed their operations in 2016. The same year, a commercial office was established in Lagos, Nigeria. The reopening of the Hungarian embassy in Addis Ababa was particularly important because the Ethiopian capital hosts the headquarters of the African Union, the continent's most important integration organization whose international role grows steadily.

The Hungarian diplomatic presence in Sub-Saharan

Africa has been strengthened with new types of missions from 2019 (XI. 1. 19.). A non-independent representation office was then established in Kampala (Uganda) under the auspices of the embassy in Nairobi, another one in Lusaka (Zambia) in 2021, attached to the embassy in Pretoria while a third one was opened in Dakar (Senegal) the same year under the supervision of the embassy in Accra. A new office of the embassy in Accra was opened in Abidjan (Côte d'Ivoire) in 2022. Hungarian diplomacy has thus covered more countries in the region with resident or accredited missions than ever before. In addition, the network of honorary consulates has been constantly expanding. Among others, honorary consulates have been opened in Côte d'Ivoire, the Republic of South Africa, the Democratic Republic of Congo, Madagascar, Mauritius, Mozambique, São Tomé and Príncipe and Cabo Verde.

Diplomatic contacts with the countries of the Sub-Saharan region have increased significantly, especially at the level of foreign ministers. From 2014 to 2022, Hun-



26 János Martonyi, Minister of Foreign Affairs and Nkosazana Dlamini-Zuma, Chairperson of the African Union Commission at the first Budapest Africa Forum (6 June 2013)



27 President Ferenc Mád, Emperor Akihito and Empress Michiko in Budapest (16 July 2002)

gary's minister of foreign affairs and trade visited nine countries in Sub-Saharan Africa on 12 occasions and held 40 meetings with representatives of 23 countries on the margins of various multilateral events. The increased attention of Hungarian foreign policy towards Africa is also reflected in the fact that an Africa Forum was held in Budapest in 2013, 2015 and 2018 with hundreds of key political figures, business leaders and experts invited. 26 As a member state of the European Union, Hungary also participates in EU operations to strengthen security in Sub-Saharan Africa (20 staff in Mali in 2022). In addition, Hungarian soldiers are also present in Mali as part of the French-led Takuba Task Force.

Development aid is playing an increasingly important role in Hungary's relations with the region, with EUR 19.51 million for 101 projects in 2020. These funds were mainly allocated to cooperation in education (EUR 17 million), the digitalization of the tourism sector (EUR 909 thousand), the development of social infrastructure (EUR 555.28 thousand) and health (EUR 424 thousand). Under the Hungary Helps programme, the Sub-Saharan region received USD 10.8 million in humanitarian aid between 2018 and 2022. In 2021, Hungary funded 33 projects worth USD 3.4 million in 16 countries. Moreover, the Stipendium Hungaricum programme is also an important tool for strengthening cooperation, with a total of 795 scholarships in 18 countries of the region offered by Hungary in early 2023.

The Hungarian government's resolution on the Africa Strategy, adopted in April 2019, aims to put Hungary's foreign policy and economic presence on the African continent on a new footing, and foresees the further strengthening of cooperation with the countries of the region. The increased focus of Hungarian diplomacy on Africa is particularly appropriate in light of the creation of the African Continental Free Trade Area on 1 January 2021, covering 1.3 billion people and USD 3,400 billion in trade.

#### Asia and the Pacific Region

Compared to other geographic areas, Hungarian diplomacy has traditionally had a strong presence in the Asia-Pacific region bordered by Turkey, Japan and Australia. This is clearly reflected in the timing of the establishment of diplomatic relations and the opening of embassies, especially in the key states of the continent. There are three countries in the area with which Hungary established diplomatic relations in the inter-war period: Japan (1921), Turkey (1924) and Iran (1937). The Hungarian network of 15 embassies and 3 consulates general at the beginning of 1989 did not undergo significant modifications following the regime change.

27 Assuming diplomatic relations with the Republic of Korea in 1989 and opening an embassy in Seoul the same year was a symbolic act and a sign of ending the Cold War (XI. 1. 20.).

Paradoxically, the biggest decline in the number of Hungarian missions occurred in the years after Hungary's accession to the EU. The government of that time closed five missions between 2004 and 2009 (Hong Kong, Ho Chi Minh City, Kuala Lumpur, Sydney and Ulaanbaatar) in a region that was becoming increasingly important in the scheme of global relations. Among the former Soviet republics of Central Asia, Hungary opened an embassy in Kazakhstan (Almaty) in 1992, while the Caucasus republics appeared on the map of Hungarian diplomacy more than a decade and a half later, with embassies in Tbilisi (Georgia) in 2008 and Baku (Azerbaijan) in 2009. Among the countries in the region, Australia and New Zealand have a significant Hungarian diaspora. A Hungarian embassy was opened in Canberra in 1975 and in Wellington in 1919. The most visible expansion of the Hungarian diplomatic network took place in China: the consulate general in Shanghai, closed in 1990, was reopened in 2004, followed by Chongqing (2010) and Guangzhou (2021) and the reopening of the consulate general in Hong Kong, which opened in 1999 but closed in 2009.

The introduction of the policy of global opening, followed by the opening towards the East and the South in the early 2010s also brought changes in the network of Hungarian missions. In Central Asia, embassies were established in Tashkent (2017) and Bishkek (2020). This brings the number of Hungarian missions in Central Asia to four, including the consulate general in Almaty that was opened in 2008 after the embassy



28 Prime Minister Viktor Orbán pays a state visit to Beijing (12 February 2014)

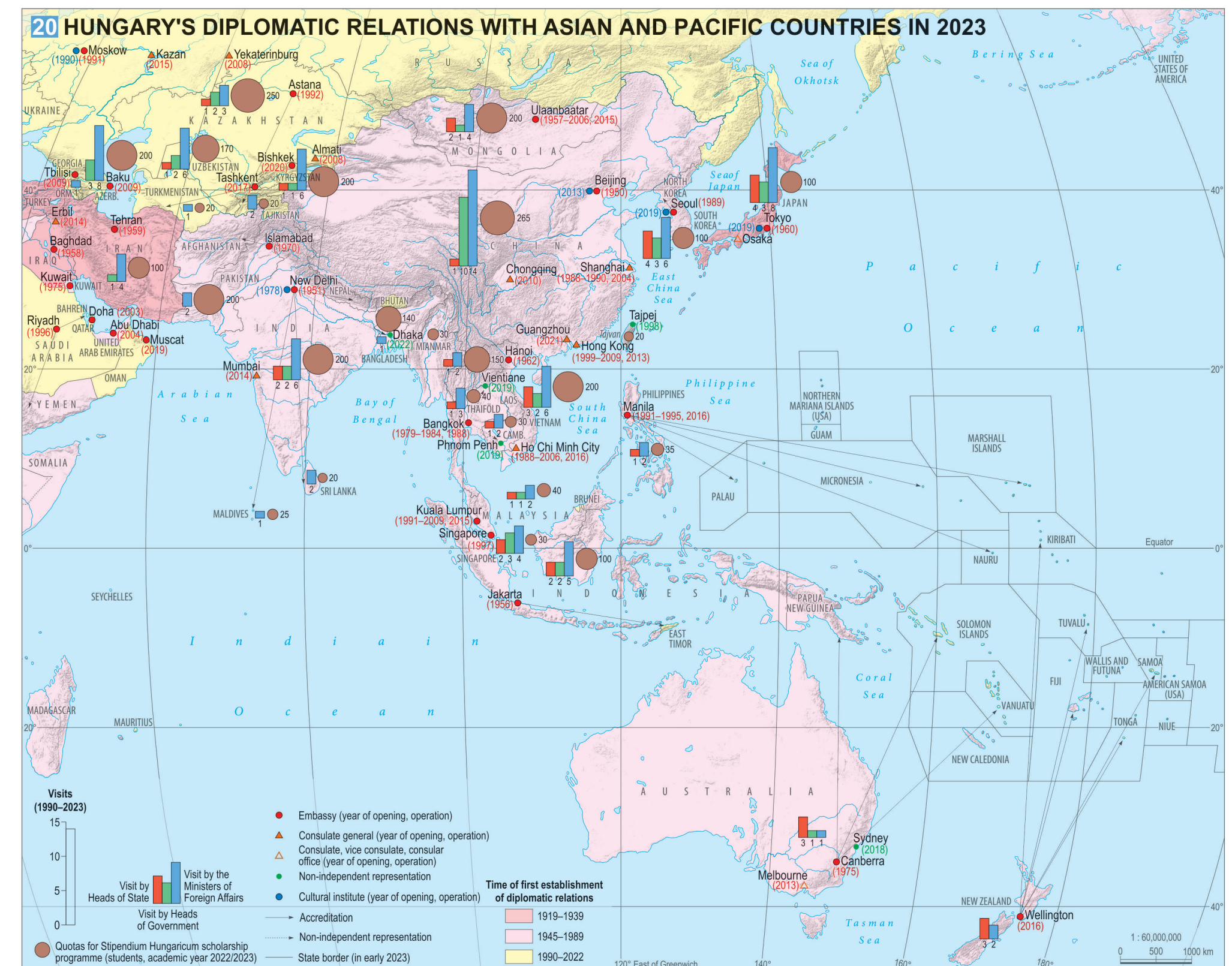


29 Prime Minister Viktor Orbán receives South Korean Head of State Moon Jae-in in Budapest (3 November 2021)

there had been moved to Astana, Kazakhstan's new capital. The previously closed embassies in Ulaanbaatar and Kuala Lumpur reopened in 2015. The network of non-independent missions also expanded in Asia. The Phnom Penh office, operating as part of the Hungarian embassy in Hanoi, opened in Cambodia in 2019 and takes on duties related to consular protection from 2020. The Vientiane office, which is part of the Bangkok embassy, opened in Laos in 2019 and also handles consular matters. The Dhaka office opened in 2022 and operates under the Hungarian embassy in New Delhi as a non-independent mission. There were 34 Hungarian honorary consular missions in the whole region in 2023.

The circle of accreditation of Hungarian ambassadors is constantly expanding, especially in the Pacific region.

The relevance of Pacific island states in global politics has grown steadily in recent years, particularly with regard to trade and economic aspects, as well as the security challenges posed by climate change and their engagement in climate negotiations. According to these criteria, the accreditation of Hungarian heads of mission in these countries became politically appropriate. While until 2018, Hungary only accredited ambassadors to Papua New Guinea, Fiji, Palau, Samoa and Tonga, the decision was taken in 2019 to accredit the ambassador in Canberra to the Solomon Islands and, following the establishment of diplomatic relations, the ambassador in Manila to the Marshall Islands. It was also decided in 2021 to extend the accreditation of the Hungarian ambassador in Canberra to Vanuatu, the ambassador in Wellington to Tuvalu and the Re-







30 Péter Szijjártó, Minister of Foreign Affairs and Trade, together with Uzbek Foreign Minister Abdulaziz Kamilov, inaugurates the Hungarian Embassy in Tashkent (27 June 2017)

public of Kiribati, and the ambassador in Manila to Nauru and the Federated States of Micronesia. Hungary closed its embassy in Kabul in 2014, and as of 2021, Hungary is represented in Afghanistan by its ambassador in Islamabad.

Since the regime change, Hungarian political leaders have frequently visited the countries of the region. The intensity of high-level contacts has particularly increased since the beginning of the 2010s. In terms of the number of visits by heads of state, heads of government and foreign ministers, some countries in the region are priority targets (Japan, China, Korea, Turkey) [28] [29], while co-operation has also increased with countries where there was little Hungarian diplomatic activity before (e.g. Central Asia). [30]

Since joining the EU in 2004, Hungary has been an active participant in the *Asia–Europe Meeting* (ASEM), the most comprehensive forum for informal political dialogue between Europe and Asia. In 2011, the town of Gödöllő hosted the 10th ASEM Foreign Ministers' Meeting, organized by the Hungarian Presidency of the EU. Hungary was represented by prime minister Viktor Orbán at the 12th ASEM Summit of Heads of State and Government held in Brussels in 2018. Due to the pandemic, the 13th ASEM Summit of Heads of State and Government was held in the form of a video conference in 2021, to which Péter Szijjártó, minister of foreign affairs and trade, sent a video message on behalf of prime minister Viktor Orbán. Until the end of 2022, Hungary organized 12 ASEM programmes, most recently the 5th ASEM Transport Ministers' Meeting (ASEM TMM5) in 2019.

When Hungary joined the EU in 2004, it also became a member of the *Asia–Europe Foundation* (ASEF), which covers social, cultural, educational and scientific cooperation. According to ASEF's records, more than 80 Hungarian participants were involved in cultural, professional, student exchange and other training programmes organised by ASEF by the end of 2021. Besides ASEM and ASEF, Hungary also plays an active role in several sub-regional cooperation fora across the continent, such as the Turkic Council or the One Belt, One Road programme initiated by China. Hungary is also one of the driving forces behind the 16+1 (from 2022 14+1) cooperation between China and the countries of Central and Eastern Europe.

Tied aid lending is becoming increasingly important in developing cooperation with many Asian countries. A particularly successful example of this is the tied aid loan programme signed with Laos in 2016, which improved the institutions and legal infrastructure of the Lao food chain safety system and carried out a historic modernization of the Lao laboratory system, such as the complete modernisation of the national vaccine plant. Another important means of building





# INTERNATIONAL RELATIONS

## FOREIGN ECONOMIC RELATIONS

Péter Halmi, László Várkonyi, János Honvári

### The past of foreign economic relations

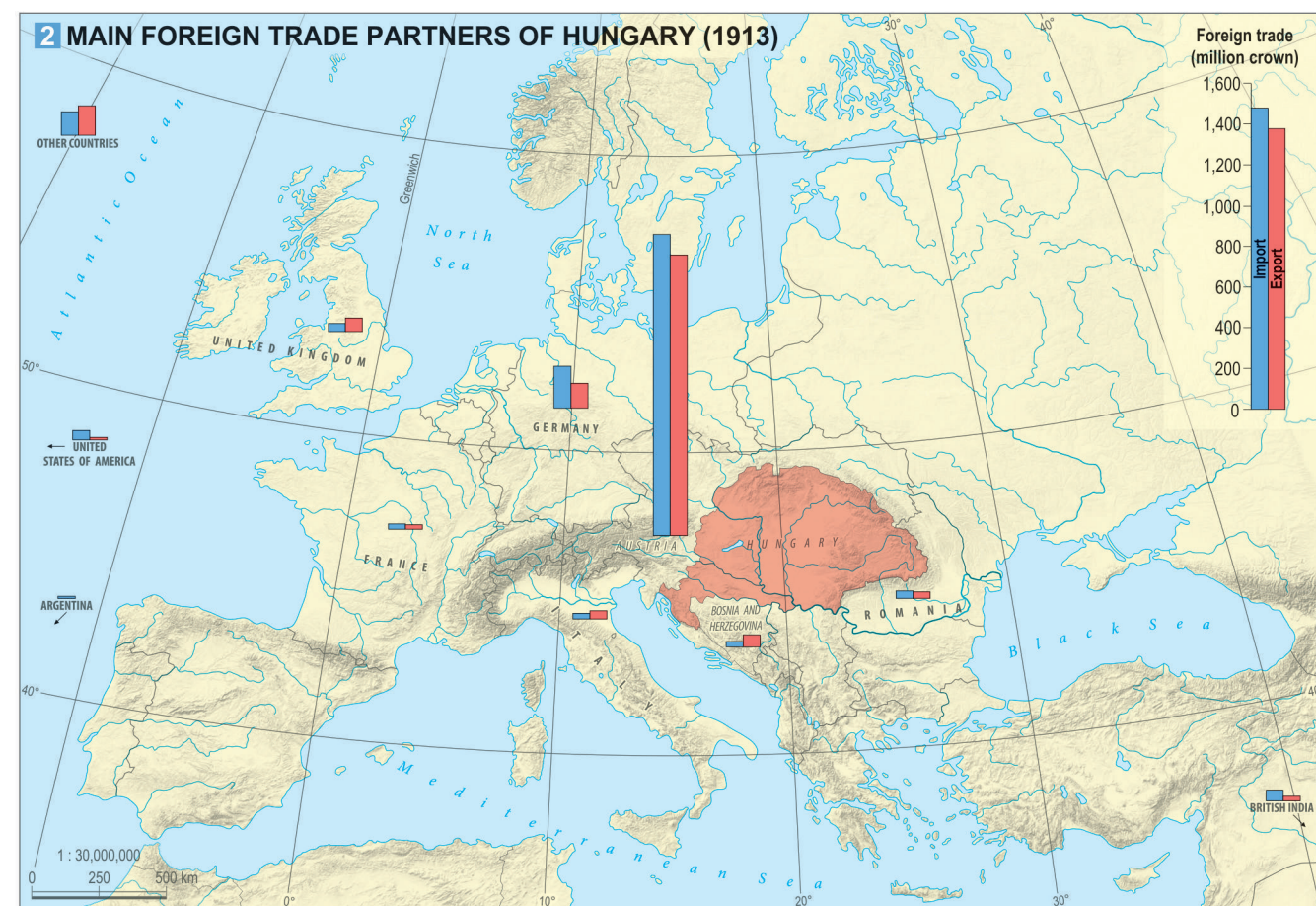
#### From the Middle Ages to the end of the Austro-Hungarian Monarchy

In the Middle Ages and early Modern Times, long-distance trade with foreign countries was limited to exports of small, high-value commodities (salt, wine, gold, silver and copper), due to poor transport conditions. Driven cattle became the main export of Hungary in the 15th and 16th centuries, finding buyers mainly in the cities of Austria, Moravia, southern Germany and northern Italy. Long-distance trade to Hungary primarily involved the importation of textiles, spices, silk, passementerie, metal and glassware.

Foreign trade in these centuries was particularly hampered by logistical, geopolitical and market factors: the lack of river regulation and navigable canals, impassable roads in long periods of the year, low-capacity and slow transport vehicles; constant warfare, a century and a half of Ottoman occupation of large parts of Hungary; the shift of the main trade routes to the Atlantic coast as well as the hectic price fluctuations of agricultural products bound for export.

Regular shipping on major rivers and canals made it possible to transport large quantities of crops, live animals and wool over long distances. Besides traditional products, *grain* and then *flour* became the most important *export products* of the Kingdom of Hungary from the mid-19th century. *Two thirds of imports* from the Austrian provinces were *wool, cotton and linen fabrics*, and more than half of imports from third countries were colonial products. In the first third of the 19th century, the share of the *Austrian provinces* in Hungarian exports exceeded 90%, while it was close to 90% in imports.

The internal customs frontier between Austria and Hungary was partially removed on 1 October 1850 and then completely dismantled on 1 July 1851. The *customs union* was maintained by the Austro-Hungarian Compromise of 1867, which created a secure internal market of 50 million consumers protected by high external tariffs for the owners of large estates. The so-called mercantile circles of Hungary, however, constantly complained about the competition of Austrian, Czech and Moravian industry, which was more advanced than the Hungarian one. The renewal of the customs union every ten years caused sometimes severe disputes between the Austrian and Hungarian governments, but in the end the customs union with the common central bank and currency remained in place for the entire duration of the Dual Monarchy. The share of agricultural commodities in Hungarian exports fell from 90% to



64–65% by the end of the dualism era, as the proportion of manufactured goods increased, mainly due to the rise in exports of food products. Industrial finished products (mostly textiles) still prevailed in imports. Three quarters of foreign trade continued to take place with the countries of the *Monarchy*. *Germany* ranked first in trade with countries outside the Austro-Hungarian customs zone.

From the 1870s onwards, the major grain-exporting countries (United States, British India, Russia) returned to the European markets after settling their conflicts, which meant that Hungarian grain was largely pushed out of Western Europe [XI. 2. 1.](#)

Foreign capital played an important role in the modernization of Hungary, in the creation of its infrastructure and manufacturing industry, mainly coming to the country through the subscription of Hungarian securities. Germany accounted for a third of foreign trade with third countries, and by the turn of the 19th and 20th centuries nearly half of foreign capital came from here. Foreigners have been much less active in direct working capital investment.

The Hungarian trade balance of goods was in deficit for two decades after the Compromise in 1867, but then became generally favourable from 1886 to 1905 (trade surplus). Then, however, there was a deficit until the outbreak of WWI [XI. 2. 2.](#) With the exception of a few years, the balance of payments was in surplus in trade with third countries, but in intra-Monarchy trade it was generally unfavourable, because the deficit in trade in goods was not compensated by other items in the balance of payments.

#### The Treaty of Trianon and its consequences for trade in goods

After the disintegration of the Monarchy and the partition of the territory of Hungary, foreign trade gained

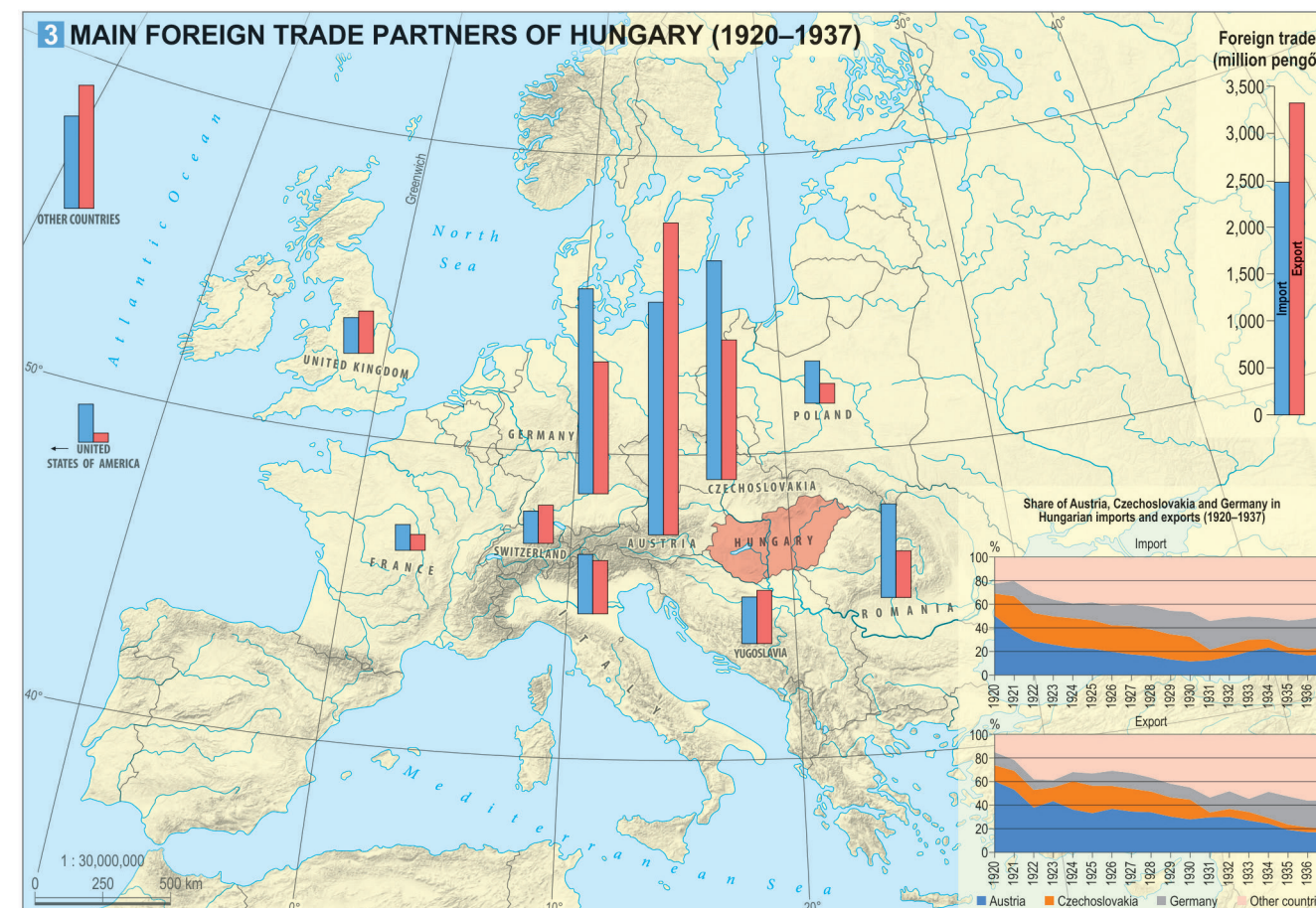
special importance in the national economy of Hungary, which became a country *with an open structure, poor in raw materials and with a small domestic market.*

Before WWI, less than 13% of Hungary's national income on average was generated by trade with countries outside the Austro-Hungarian customs zone. By contrast, Hungary suddenly found itself on the world market in 1920, becoming dependent on foreign trade. As a consequence of the Treaty of Trianon (1920), many basic raw materials, the import of which was (should have been) compensated by exports, were almost entirely or mostly transferred to the successor states. In the interwar period, the Hungarian economy was particularly dependent on *the development of the global economy*. Most exports consisted of *unprocessed agricultural products*, whose terms of trade relative to finished industrial products deteriorated significantly, especially during the years of the Great Depression. The technical level of Hungarian industrial products, the international competitiveness of the Hungarian economy did not reach the standards of the developed countries of the world. Therefore, and because of the debt service of foreign loans received in the 1920s, the *balance of trade*, and especially the *balance of payments*, was disrupted, which led to the country's indebtedness, and caused a de facto bankruptcy at the height of the Great Depression in 1931. Hungary became insolvent in its external payments.

The autonomous customs tariff, which entered into force on 1 January 1925, provided protection mainly for industrial companies with an average of around 30%. Hungary's most important trading partners remained *Austria and Czechoslovakia* in the 1920s. In the first half of the 1920s, these two countries were the main destinations of Hungarian exports and accounted for about half of Hungarian imports. Germany's weight in Hungarian trade increased after 1933 [XI. 2. 3.](#) The expan-

1 HUNGARIAN WHEAT AND FLOUR EXPORTS (1882–1913, %)

Period	Wheat exports		Flour exports	
	Austria	Markets outside the unified customs area	Austria	Markets outside the unified customs area
1882–1886	77.4	22.6	59.5	40.5
1912–1913	99.6	0.4	95.8	4.2



sion of the German Reich, the annexation of Austria and the Czech lands further increased its weight in Hungarian foreign trade to 52–53% by 1938–39. The conquest also affected the enterprises of the annexed countries abroad. Therefore, by the time of WWII, Germany became the owner of about half of the foreign-owned businesses in Hungary. After Hungary had entered a state of war with the United Kingdom and the USA, relations with the Allied Powers were essentially severed. Outside the Axis powers, Hungary only had access to raw materials and finished products from neutral states. The bulk of external trade during this period was carried out with the Axis powers. (Germany, the Protectorate of Bohemia and Moravia as well as Italy accounted for 79.4% of the turnover in 1942. This figure fell to 75.3% in 1943 due to the landing of Allied troops in Italy.) In the interwar period, the Hungarian trade balance was in deficit until 1929, while from 1930 onwards – with the exception of 1940 – it was in surplus. The Hungarian trade surplus accumulated in German–Hungarian foreign trade exceeded one fifth of the Hungarian national income in 1944. In 1943, Germany reduced the claim arising from the Hungarian surplus deliveries by handing over Hungarian securities in Germany's possession worth 35 million pengős.

#### Capital movements in the interwar period

The post-WWI hyperinflation was brought to a halt by the mid-1920s with the help of the stabilization plan of the League of Nations' Finance Committee and the issue of a *rescue loan* on the international monetary market. The *pengő* as the new currency, which replaced the *korona*, was introduced at the end of 1926, with a parity of 0.2632 grams of gold.

Between 1925 and 1929, the government, banks, mu-

4 FOREIGN DEBT OF HUNGARY AT THE END OF 1931

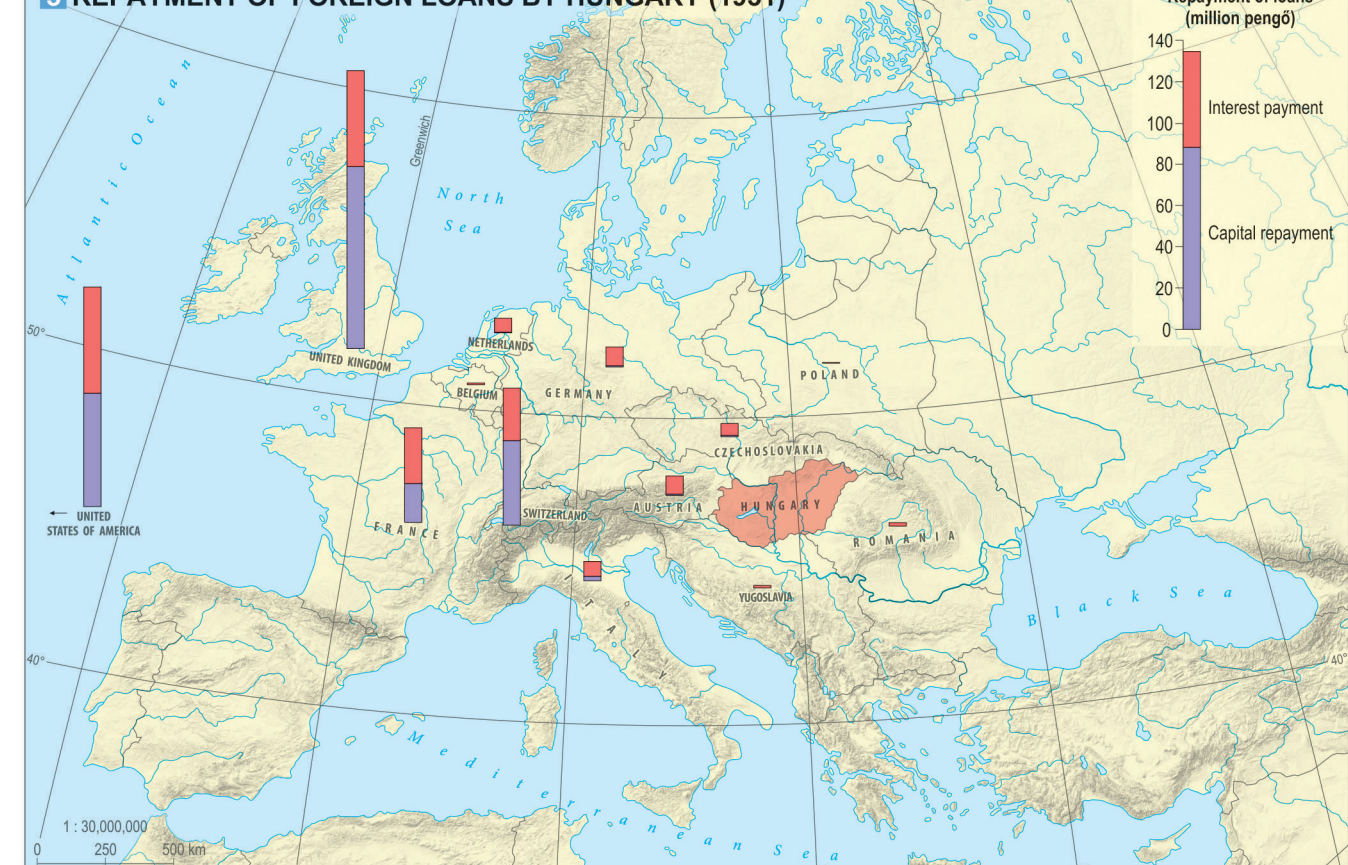
	Long-term debt (million pengő)	Short-term debt (million pengő)	Total debt (million pengő)
Government debt	1,251.9	245.7	1,497.6
Non-government public debt	516.1	124.6	640.7
Debt of the National Bank of Hungary		145.1	145.1
Private debt (banks, companies etc.)	702.8	1,322.9	2,025.7
<b>Total foreign debt</b>	<b>2,470.8</b>	<b>1,838.3</b>	<b>4,309.1</b>

nicipalities and a few large Hungarian companies borrowed financial loans with a nominal value of around 1 billion pengős on the international financial markets, usually secured by mortgages. After WWI, new investors (United Kingdom, USA, Switzerland, Sweden) replaced the former capital exporters (Austria, Germany, France) in the Hungarian economy. The same countries also excelled in investing in working capital.

Hungary's total *foreign debt* at the end of 1931 amounted to some 4.3 billion pengős, nearly 60% of which was long-term debt. About half of the latter originated before WWI, while the majority of short-term debts arrived in Hungary after the stabilization [XI. 2. 4.](#) [XI. 2. 5.](#)

At the time of the *Great Depression*, foreign trade was far from generating enough surplus to cover the debt service on the loans that had been borrowed earlier, while the reserves of the central bank were also dangerously depleted. The government therefore imposed *exchange controls* on 16 July 1931 and a *moratorium on transfers* at the end of December 1931. Hungarian debtors transferred their foreign loan repayments to the National Bank of Hungary (MNB) in pengő, while MNB made further transfers, depending on

5 REPAYMENT OF FOREIGN LOANS BY HUNGARY (1931)



the country's liquidity situation. From 1932 onwards, the government concluded with short-term creditors so-called credit freezing agreements, which were extended year by year. Despite the moratorium on transfers, Hungary's foreign debts fell from 4.3 billion pengős to 2.5 billion pengős by 1937, mainly due to the devaluation of the currencies of the creditor countries. As the country's liquidity situation improved, MNB started to partially pay debt service on foreign loans in 1937. When, in 1941, the state of war was declared between Hungary and the United Kingdom and the United States, its two largest creditors, British and American loan repayments were suspended.

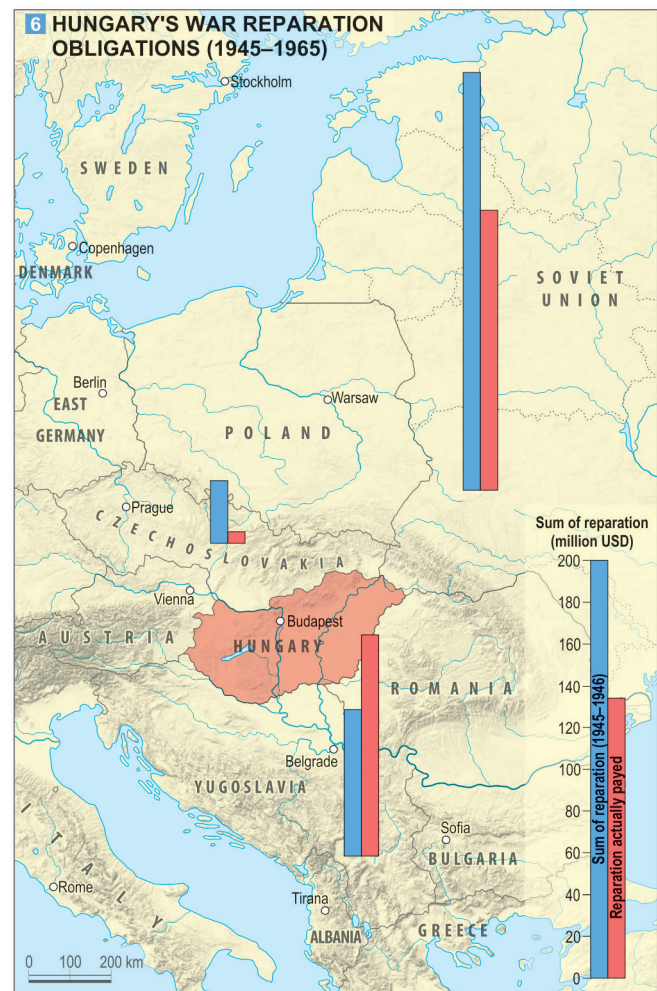
In order to increase exports, many countries abandoned the gold standard in the 1930s and devalued their currencies, some of them several times. Hungary did not officially change the parity of the pengő, because devaluation would have meant the revaluation of its large debts. Instead, it used a premium on exchange (*agio*) from 1932.

During the Great Depression, many countries signed *barter trade and clearing agreements* that eliminated cash payments. Hungary concluded bilateral clearing agreements with Austria and Switzerland in 1931 and with Germany in 1932. The balance in bilateral trade was ensured by matching reciprocal deliveries without the circulation of currencies. The clearing system already covered more than two-thirds of foreign trade by 1937–38.

#### Withdrawal of capital without compensation after 1945

Hungary, devastated by war, could not rely on foreign funds. The only exception was a loan of USD 15.9 million in 1946–47, which could be used to buy redundant US war stocks, such as hundreds of railway locomotives. At the end of WWII, only a small part of the estimated USD 200 million of Hungarian property was repatriated that had been brought to the German Reich. Meanwhile, the Soviet occupiers extracted capital, including entire factories stolen as military booty, on a scale far beyond the country's capacities. The armistice agreement of 1945 obliged Hungary to make *reparations* worth USD 300 million in the form of goods, mainly to the Soviet Union and to a lesser extent to Yugoslavia and Czechoslovakia [XI. 2. 6.](#) The acquisition of Soviet ownership in several Hungarian companies also meant capital withdrawal. Hungary was obliged





to compensate the Western allies for two thirds of the war damage to their property in Hungary in forints. The countries concerned made claims of about 3 billion forints under this heading until autumn 1948, two thirds of which were filed by the USA and United Kingdom. Hungary settled this debt later in the framework of global compensation agreements with the Western powers.

Mainly upon the demand of the USA, Hungary was forced in the Paris Peace Treaty of 1947 to renounce its claim of 2 billion reichsmarks that had been accumulated in its trade with Germany during WWII. The sum lost in this way exceeded one fifth of the Hungarian national income in 1944. *German property in Hungary* (or that classified as such) was assigned to the *property of the Soviet Union* as war reparations under the Potsdam Agreement. These companies used a part of their profits in Hungary and transferred 675.3 million forints. Hungary bought back the Soviet assets between 1947 and 1955. The country settled 999.9 million forints of the 3,965.5 million forints purchase price in cash, 791.3 million forints by delivery of goods, while the Soviet Union waived 2,174.3 million forints.

The Western powers made the establishment of trade relations with Hungary subject to the condition that Hungary would recognize and repay the loans that had been frozen during the Great Depression and its new debts incurred after the war. The compensation negotiated in the financial and property treaties was gradually settled by cutting out 4 to 9% of Hungarian exports to the country concerned. By the end of March 1967, Hungary had agreed on a total of USD 140.5 million in reparations, most of which (USD 130.9 million) had already been paid. Hungary agreed with Austria, the UK and the USA to settle its debts by 1975.

## XI. 2. New orientation in foreign economic relations after World War II

After WWII, there was a major *shift in foreign trade flows* in favour of the countries that later became members of the Eastern Bloc, above all the Soviet Union. Until the late 1970s, 60 to 70% of foreign trade was carried out with these countries, including 25 to 30% with the Soviet Union. Machinery, equipment and instruments accounted for 50 to 60% of Hungarian exports to the Soviet Union, while 80 to 90% of imports

consisted of raw materials. Western imports included so-called 'deficit' raw materials (non-ferrous metals, cotton, leather, fertilisers), machinery and equipment, and until the mid-1960s, to a lesser extent, agricultural products. In return, Hungary exported meat, animal products, light industry articles, chemical raw materials and semi-finished metallurgical products.

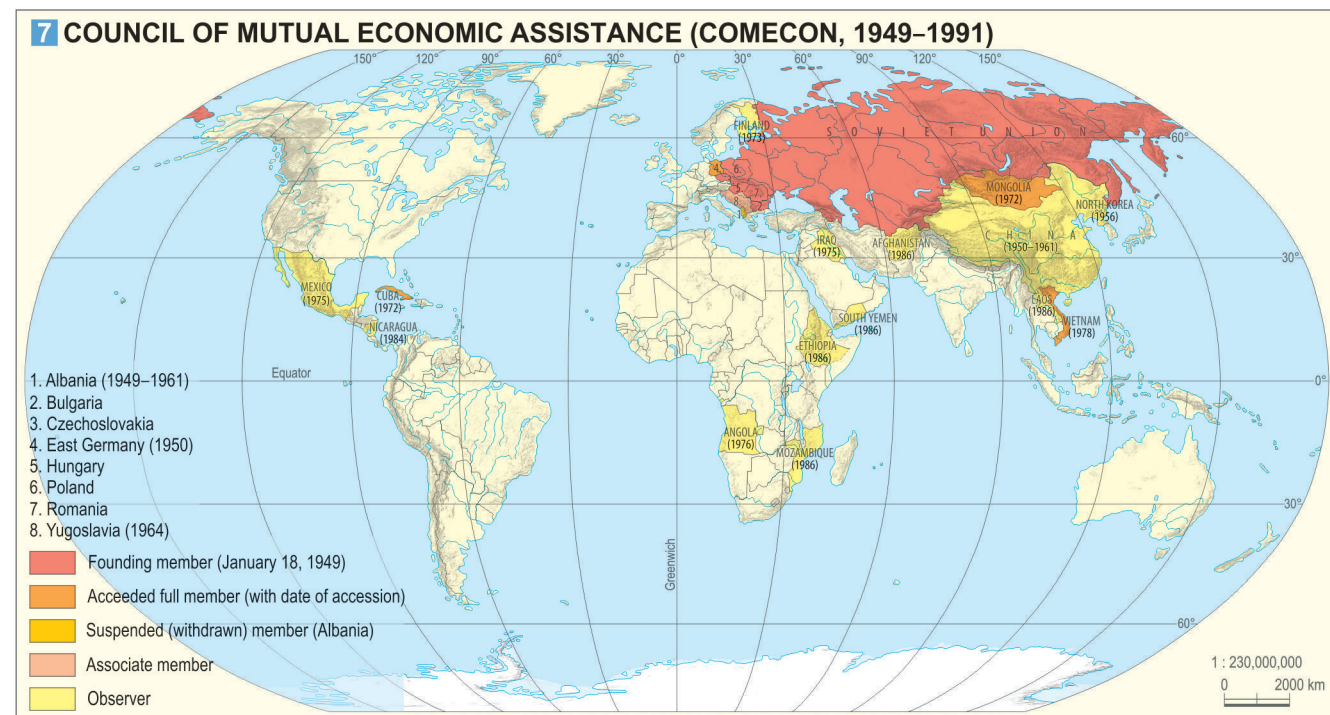
*Foreign trade* gradually became a *state monopoly* from the period of the first three-year plan (1947–1949). Export and import activities were thus basically restricted to state-owned foreign trade enterprises, but only in the range of products defined for them. This system not only isolated manufacturing companies from the impact of foreign markets, but specialization also excluded the possibility of competition between foreign trading companies. Only a few flagship enterprises (e.g. Medicor, MOM, Bábolna State Farm) were granted direct rights to export or import. The number of companies qualified to do so increased significantly after 1980. However, until the end of the state monopoly in 1990, the bulk of external trade was handled by about forty companies specializing in that field.

*Price compensations and levies in foreign trade permanently separated external and internal prices.* Therefore, Hungarian companies did not directly experience any eventual disadvantages in their international competitiveness. Another basic element of the system was the *monopoly on foreign exchange*. The mechanism of the plan-rule system, as set out above, institutionally separated the domestic and foreign economies. The situation changed gradually only after the introduction of the *economic mechanism reform* (originally intended as a regulated market) announced in the *mid-1960s*. The *openness of the real economy*, the ratio of foreign trade to national income (or GDP), increased significantly. At the same time, the previous restrictions eased only moderately. The lack of institutional openness limited adjustment to the external economy and the orientation function of international competitiveness.

## 7 THE COUNCIL FOR MUTUAL ECONOMIC ASSISTANCE (COMECON)

The Council for Mutual Economic Assistance of the countries of the former Eastern Bloc, the *COMECON*, was founded by Bulgaria, Czechoslovakia, Hungary, Poland, Romania and the Soviet Union in Moscow on 18 January 1949. Albania, the German Democratic Republic, Mongolia, Cuba and Vietnam joined later. At certain times, Yugoslavia participated in the work of COMECON as an associate member and a number of other countries as observers [XI. 2. 7.](#)

Cooperation between the socialist countries was initially based on annual, later five-year bilateral inter-



state trade agreements. Deliveries, which were mostly recorded in natural indicators, were put into concrete terms by foreign trade and production companies in contracts under private law. The prices used to settle accounts among themselves were frozen after 1950. It was decided in 1958 to filter out cyclical fluctuations in the world market, while enforcing permanent price changes in the medium term. From 1975 onwards, the average world market prices of the previous five years were applied every year, which led to a significant deterioration in the terms of trade between the Soviet Union and Hungary, as was also the case in the trade with Western countries. The *International Bank for Economic Cooperation* (IBEC), established in 1964 and the introduction of the *transferable rouble*, were to be responsible for multilateral payments between member states. However, they could not fulfil this function because the different pricing, tax rules, subsidy and deduction systems applied in each country meant that the trade surplus generated in one country could not be used to settle debts with a third one. Despite the many obstacles, 35 to 40% of joint trade was already based on some kind of inter-state specialization agreement or production cooperation in the 1980s. Specialization progressed mainly in the manufacturing of military products. After the termination of the Soviet–Hungarian joint venture companies in 1954, only very few socialist joint ventures were established.

## 8 FOREIGN TRADE ACCORDING TO COUNTRY GROUPS (1981–1990)

The trade volume with the COMECON countries declined from the second half of the 1970s, while economic efficiency and the terms of trade were deteriorating. The share of COMECON countries in Hungarian imports fell from 64.8% in 1967 to 48% in 1981 and in exports from 65.1% to 54.4%. Moreover, the composition of trade also worsened for Hungary. The Soviet Union announced that it was ready to supply additional quantities of raw materials and energy carriers, which were the most important for Hungary, only in exchange for a contribution to investment. In the mid-1970s, 11–14% of Hungarian exports to COMECON countries were in convertible currencies, accounting for 15% of total dollar receipts in 1976 and more than 18% in 1977.

The distribution of foreign trade by country groups changed significantly by the time of the regime change [XI. 2. 8.](#) Until the mid-1970s, with the exception of a few years, the split between socialist and 'capitalist' (i.e. Western) foreign trade was roughly two-thirds to one-third. The Soviet Union accounted for about 30% of the total, while the COMECON members for

## 8 FOREIGN TRADE ACCORDING TO COUNTRY GROUPS (1981–1990)

Country groups	Import (%)			Export (%)		
	1981	1985	1990	1981	1985	1990
<b>Non-market economies</b>	52.6	55.8	36.9	59.9	60.4	37.7
of which: Eastern European countries	41.5	44.2	27.9	47.8	47.9	28.2
<b>Market economies</b>	47.4	44.2	63.1	40.1	39.6	62.3
of which: developed countries	40.7	39.4	53.2	28.5	29.1	54.2
of which: developing countries	6.7	4.8	9.9	11.6	10.5	8.1
<b>All countries</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

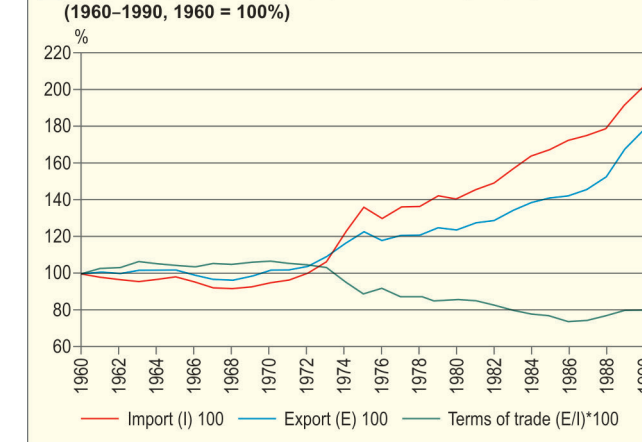
about 60%. This ratio shifted significantly by the time of the regime change. The share of the former socialist countries of Central and Eastern Europe in Hungarian imports had fallen significantly by 1990, while that of the market economy countries exceeded 63%. The Soviet Union (after its break-up, the successor states) continued to dominate imports of certain products (electricity, oil, natural gas, iron ore, timber, etc.).

Similar changes can be observed in *exports*, with the difference that the relative significance of market economy countries – especially the developed ones – was much smaller than in imports in 1981 and 1985. The main reason for the former lies in the unsatisfactory competitiveness and technical quality of Hungarian industrial products at that time. Besides that, the discriminatory measures of the European Communities (import levies, high customs duties) created obstacles to food exports that were difficult to overcome. Due to the disintegration of COMECON and the drastic deterioration in the solvency of the socialist countries in transition, the weight of Hungary's former main trading partners in exports also declined significantly by 1990.

Regarding imports, the share of machinery, vehicles and industrial consumer goods increased, in addition to energy products. This could have been compensated for by semi-finished and material products as well as consumer goods, but they were inadequate for domestic conditions. Therefore, the share of these products increased in Hungarian exports.

A fundamental feature of the performance of a national economy is the evolution of its international competitiveness, which is also indicated by the dynamics of the *terms of trade*, among other factors. From the early 1960s – in line with the world economic conditions of the time – the terms of trade of the Hungarian economy, predominantly exporting medium-quality manufactured products and importing raw materials, improved until 1973 [XI. 2. 9.](#) From autumn 1973, however, profound changes took place in the world economy. Medium-quality industrial products depreciated in international trade, while raw materials, in particular hydrocarbons and high-tech industrial products appreciated. As a result, the turnover-weighted average prices of Hungarian imports rose much faster than export prices, i.e. more and more exports had to be made per unit of imported products. The *terms of trade* of the Hungarian economy *deteriorated*

## 9 PRICE INDICES AND TERMS OF TRADE INDICATORS (1960–1990, 1960 = 100%)



by almost 30%. This process reflected the fundamental structural weaknesses of the economy and led to a dramatic decline in the external balance, with debts growing to an increasingly unmanageable level [XI. 2. 10.](#) between 1960 and the mid-1980s.

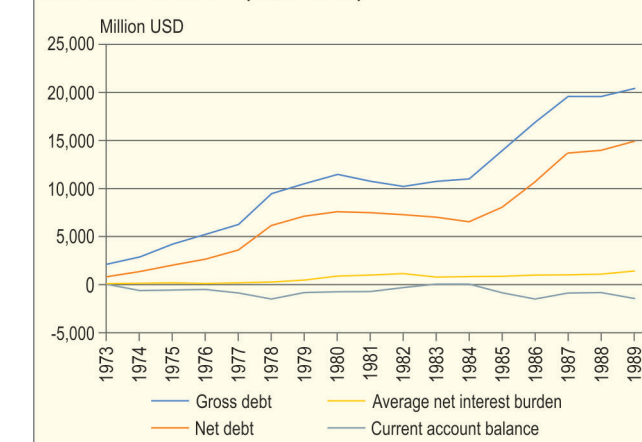
After WWII, the General Agreement on Tariffs and Trade (GATT) embodied the basic set of rules and standards governing international trade relations based on the principles of a market economy. In Hungary, the *reform of the economic mechanism*, which started in 1968, created the conditions for *accession* to the GATT. The Hungarian *'mechanism reform'* included the development of a new customs policy and tariff regulation. This played a decisive role in enabling Hungary to become a party to GATT in 1973 in the normal way, i.e. by 'paying' for the tariff concessions it had received. (Romania joined in 1968 and Poland in 1971, but they had to commit themselves to a constant quantitative increase in imports in exchange for the most preferential tariff concessions.) Following the accession to GATT, the Hungarian tariff rate was reduced from 34% to 18%. In the negotiations for a *further liberalisation of world trade* (1973–79: Tokyo Round; 1986–1994: Uruguay Round), Hungary was already a fully-fledged participant, including the commitment to further gradual reduction of the average tariff level. After the regime change, with the dissolution of COMECON in 1991, the rules of GATT became the norm for all Hungarian foreign trade. Hungary is one of the founding members of the World Trade Organization (WTO), which replaced GATT and started operating in 1995.

Under pressure from Moscow, Hungary was not allowed to de jure recognise the *European Communities* until 1988. Nevertheless, Hungary was the first among the socialist countries to sign a *comprehensive trade and economic cooperation agreement* with the European Communities in 1987. This accord also included the dismantling of many of the discriminatory measures against Hungary in a short period of time, which was followed by the establishment of diplomatic relations between the parties on 8 August 1988.

## Foreign loans, indebtedness

Hungary was only granted long-term loans by the Soviet Union from 1948 until the mid-1960s, but most of them had to be used to purchase weapons and to mine the uranium deposits in the Mecsek Mts in south-

## 10 FOREIGN DEBT (1973–1989)



western Hungary. The consolidation of the system and the preservation of its solvency were ensured by a 10-year *loan* of about 1.2 billion roubles, equivalent to about 10% of the national income of Hungary at the time, *granted by the socialist countries* in 1957 at 2% interest. The loan, worth around USD 300 million, allowed Hungary to avoid total bankruptcy after the Soviet intervention and communist restoration that crushed the 1956 revolution. Hungary, with its open structure, shortage of raw materials, small domestic market and low international competitiveness, fell systematically into debt after WWII. Until the late 1970s, the most challenging problem of accumulating debt denominated in Western currencies was not its absolute amount and its ratio to national income, but its composition by maturity.

Hungary's economic situation made it indispensable, and the reparation agreements with Western countries made it possible to borrow loans from the latter. In addition to short- and medium-term loans for the purchase of bread grain and fertilisers in the early 1960s, Hungary borrowed medium-term loans from the West to import investment assets for the first time during the second five-year plan (1961–1965).

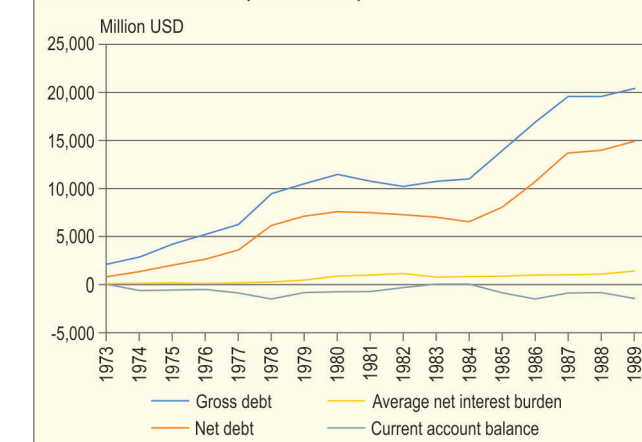
*The first period of accumulating external debt*, following the revival of Hungary's broader external trade relations and in parallel with the oil and commodity price shocks, fell between 1973 and 1979. At that time, the political leadership, assuming that the crisis would be a short, temporary period in the world economy, financed the deficit in the balance of payments by borrowing abroad instead of taking restrictive measures. It became clear a few years later that there were enduring changes in the world economy that negatively affected the terms of trade for Hungary.

*The price of energy* and raw materials in general also *rose significantly* in the trade with the Soviet Union. Due to deteriorating terms of trade, and despite export volumes growing much faster than imports [XI. 2. 11.](#), Hungary's trade balance remained negative for the entire period after 1973 until the regime change.

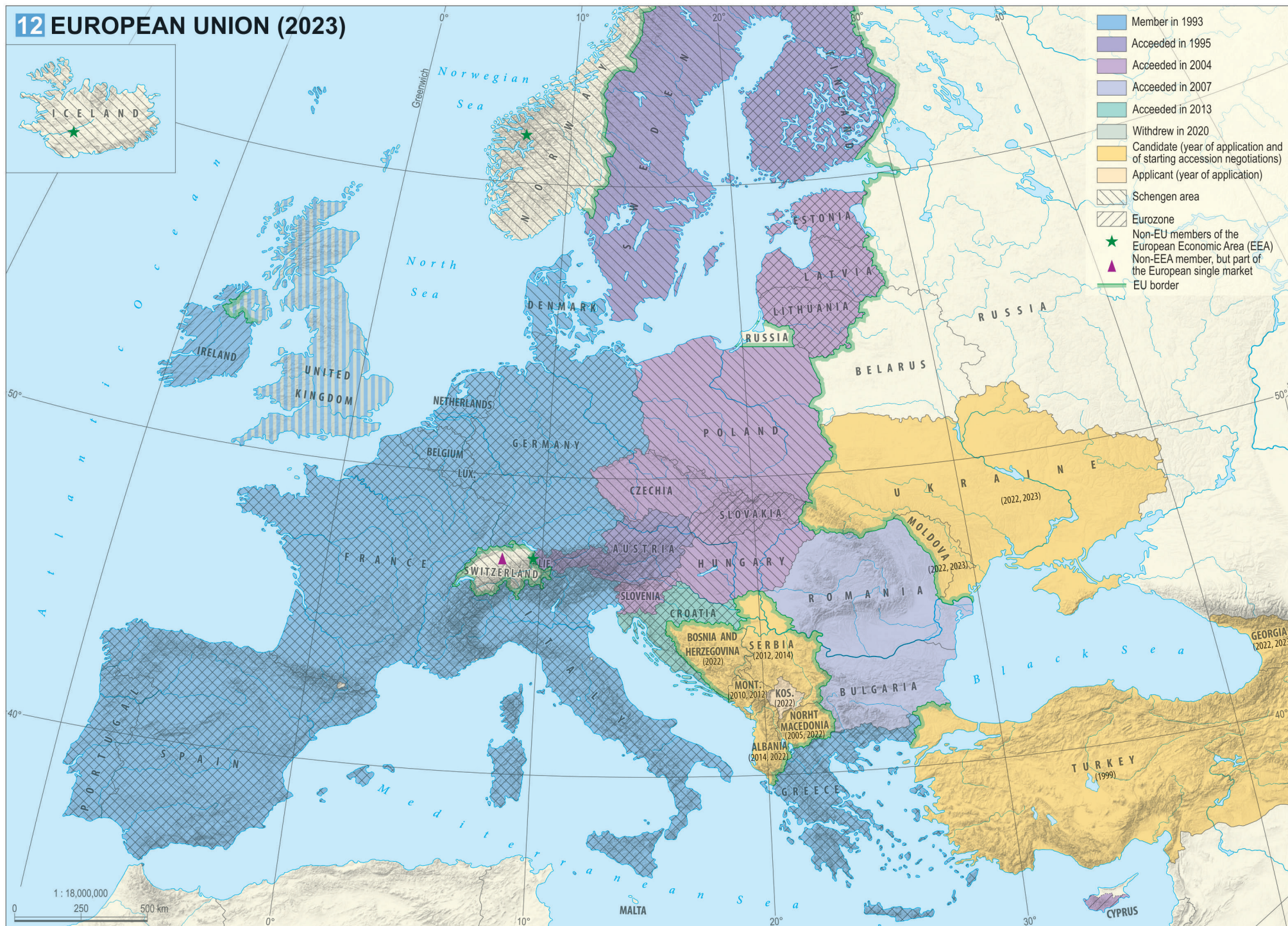
Therefore, a *partial shift in economic policy* took place in 1979. The objective of growth was subordinated to restoring equilibrium in the economy. Internal demand was curbed. Consumer price subsidies were reduced with cutbacks in public and corporate investment. Despite protests from the Soviet leadership, Hungary joined the *International Monetary Fund* (IMF) and the *International Bank for Reconstruction and Development* (IBRD) in 1982. The turnaround brought temporary success: the growth of net debt not only stopped between 1980 and 1984, but also fell. *The confidence of international investors returned*, the withdrawal of foreign deposits from the National Bank of Hungary slowed down, allowing *Hungary to gain access to new foreign loans*.

From 1985 onwards, however, Hungary's *gross debt denominated in Western currencies* rose from USD 11.5 billion in 1980 to almost USD 20.4 billion by 1989 – mainly because of the exaggerated expectations of the

## 11 VOLUME OF EXPORTS AND IMPORTS (1966–1990, 1966 = 100%)







13th congress of the state party and the hasty 'dynamization'. Meanwhile, the country's exports to Western countries remained unchanged at USD 5 billion per year [XI. 2. 11.](#) The imbalance swelled to uncontrollable levels by the end of the 1980s. The collapse of the system became inevitable by 1990, also in terms of foreign trade.

### Trade policy after 1990

#### Free trade agreements, European integration

The regime change, including the *transition to a market economy* (privatization, liberalization, deregulation) also meant fundamental shifts in external economic relations. This process, together with the disappearance of the formerly dominant role of COMECON made it politically possible and economically necessary for Hungary to *conclude preferential trade agreements* with its major partners, providing mutual advantages.

Negotiations with member states of the *European Communities (EC)* and the *European Free Trade Association (EFTA)* started as early as 1990. An important difference is that the EC and Hungary set the objective of a *comprehensive association agreement*, which, in addition to trade in goods, also provided for the liberalization of services and investment as well as defining the guidelines and conditions for political and economic cooperation. With the EFTA, however, the aim was to develop a traditional free trade agreement to remove tariffs and other restrictions on trade in goods. A common point is that trade liberalization was implemented asymmetrically with both the EC and the EFTA, with a longer transition period for Hungary in

order to facilitate the transition to a market economy and to take account of differences in the level of economic development. The association agreement between Hungary and the EC entered into force in 1994, but the EC granted trade preferences under the so-called interim agreement as early as 1991.

As the EC and EFTA launched similar negotiations with Poland and Czechoslovakia in addition to Hungary, it was logical that the three (after the split of Czechoslovakia in 1993, four) 'leading reform countries' of Central Europe should focus on developing trade among themselves, besides the Western orientation. The former element of cooperation was already anchored in the joint Visegrád Declaration adopted in 1991. The *Central European Free Trade Agreement (CEFTA)* that entered into force in 1994 was established in this spirit, and extended the same trade preferences among the parties that had been granted to the EC and EFTA [XI. 2. 14.](#)

Hungary pursued an active trade policy with other partners as well. It concluded free trade agreements (FTAs) with Israel (1998), Turkey (1998), Latvia (2000), Lithuania (2000), Estonia (2001) and the Federal Republic of Yugoslavia (Serbia and Montenegro, 2002).

Hungary, together with the nine other countries in the region, became a member of the EU on 1 May 2004, which was the biggest ever enlargement of the EU [XI. 2. 12.](#) This historic event was the climax of the process of regime change. With the accession to the European Union, Hungary also had to give up its previous FTAs concluded at national level, but became a party to the international trade agreements established by the EU and the market access preferences they provide. A key area of the integration *acquis* is the internal mar-

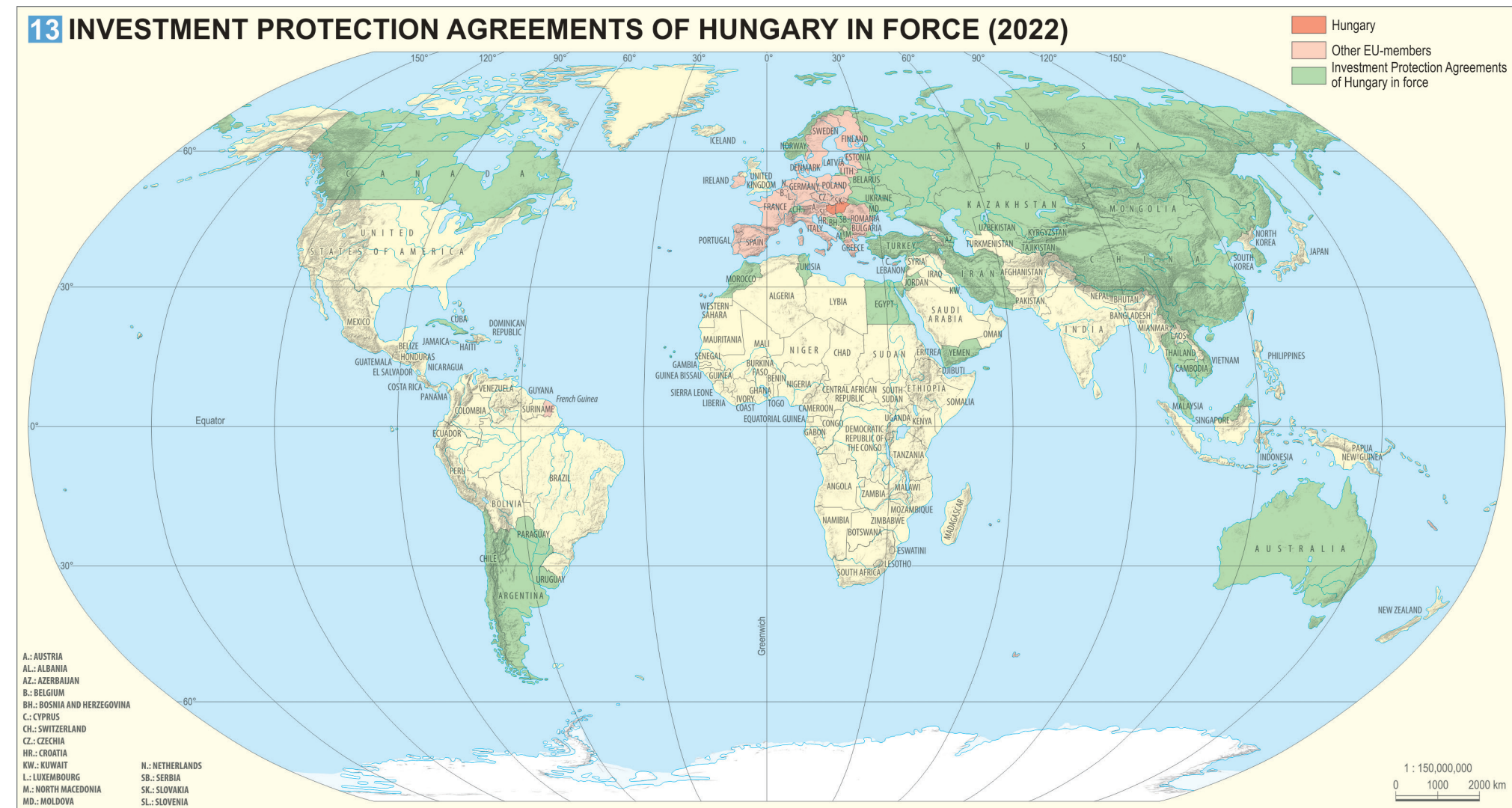
ket and its regulation. *The external economic performance (trade in goods and services, working capital flows) of Hungary as an EU member is largely achieved in an internal market free of border controls and additional barriers (European Economic Area, EEA).*

#### Investment protection agreements

Because of the scarcity of resources in the Hungarian economy, the need to allow and encourage *investments by foreigners* in the form of working capital emerged as early as the 1980s. However, potential foreign investors were rather sceptical about the system of economic governance in the former socialist system. To overcome this, Hungary initiated bilateral investment protection agreements, initially with its main partners in Western Europe. The first agreement of this kind was signed with the Federal Republic of Germany in 1986. The investment protection agreements guaranteed that

- the Hungarian state does not apply less favourable operating and tax rules to foreign investors and their investments in Hungary than those applied to domestic competitors;
- the profits generated can be transferred from the country in a convertible foreign currency;
- the nationalization or expropriation of investments should only take place in public interest, within a transparent framework and with proportionate financial compensation; and
- in the event of a breach of the agreement, the foreign investor concerned may seek international arbitration against Hungary to claim compensation for the material damage suffered.

The number of investment protection agreements



increased steadily. By the end of 2020, Hungary had concluded 66 such agreements. The Treaty on the Functioning of the European Union (TFEU) put the regulation of foreign direct investment under EU competence. However, the European Court of Justice ruled in 2017 that investment protection agreements between EU members were incompatible with EU law and ordered their termination. Therefore, the number of agreements in force decreased. Given the fact that the protection of foreign investments in Hungary is guaranteed by both the Fundamental Law of Hungary and the EU legislation, Hungary concluded and negotiates investment protection agreements with those partners where this instrument is needed to protect

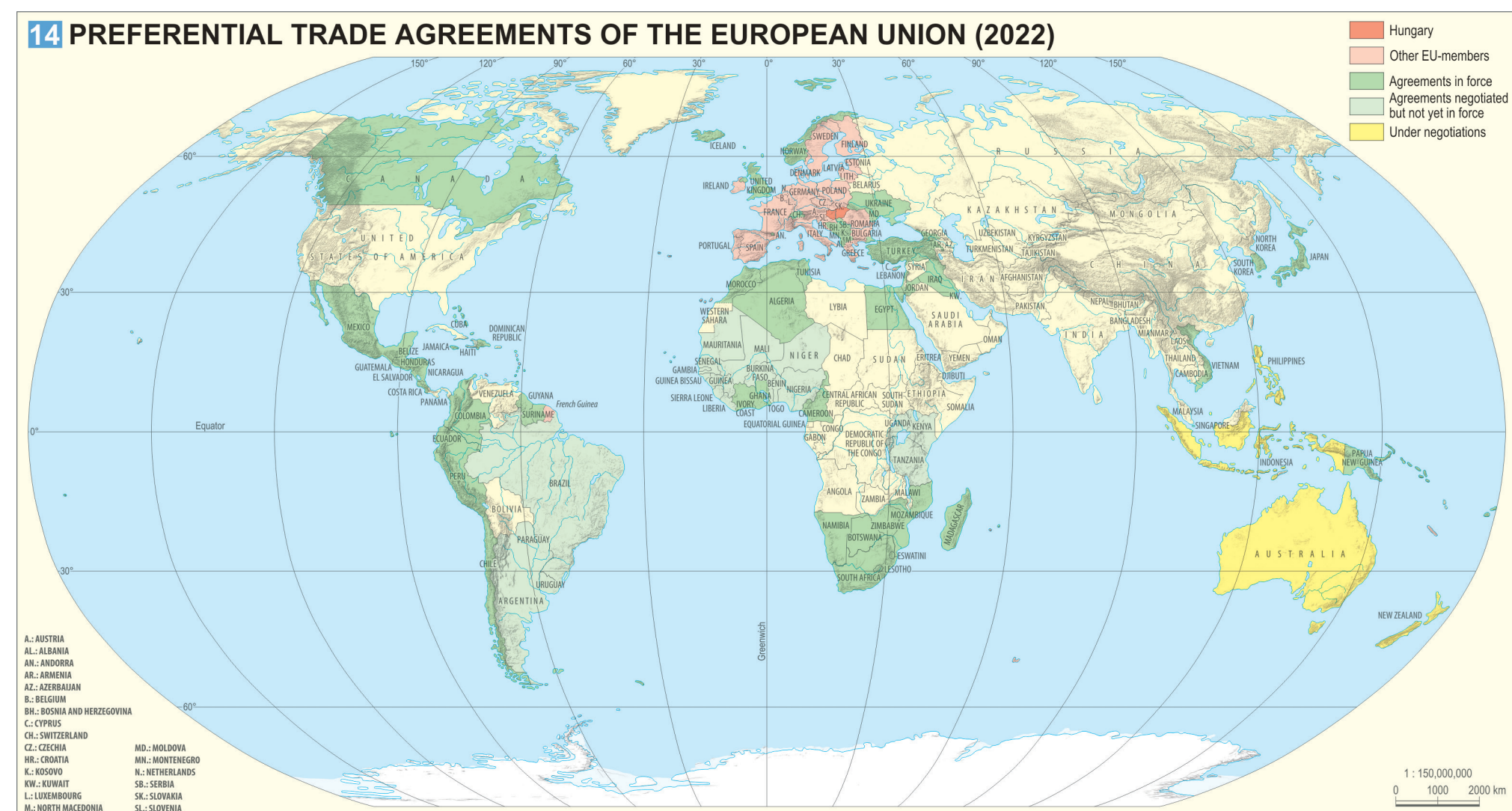
the foreign investments of Hungarian economic actors [XI. 2. 13.](#)

#### The common commercial policy of the European Union

*Commercial policy* – the regulation of trade relations between the EU and its external partners – is one of the EU's core common policies. By joining the EU, Hungary fully transposed and applies EU legislation on the common commercial policy and the provisions of international treaties on this subject. Customs duties are the primary trade policy instrument for regulating trade in goods. Following the adoption of the EU's common customs tariff and customs regulations,

the average level of customs duties on imports of goods from third countries fell significantly (by almost 50%) in Hungary from 2004 onwards. At the same time, the EU's measures to protect European producers against unfair or distorting imports were applied to the territory of the new member states.

The EU accession did not change the basic objectives of Hungarian trade policy, i.e. to develop the export of goods and services and to ensure favourable external market conditions, to encourage foreign direct investment and investment by domestic companies abroad, as well as to provide effective protection against unfair trade practices by partners. However, the range of instruments available was modified and





expanded. The enforcement of Hungarian interests became a two-step process. Hungary's offensive and defensive foreign economic interests must first be accepted by the EU member states in order to be integrated into a single common position. Because of the exclusive competence of the EU in trade policy, the representation of these EU interests and positions in bilateral and multilateral negotiations with third parties is carried out by the European Commission, under a mandate from the member states.

In 2022, the EU was the world's largest exporter of goods and third largest importer (behind the United States and China), and the most important player in international trade in services. This means that the EU remained the world leader in trade in goods and services with a 16.2% share in 2021. Accordingly, the EU has a strong interest in ensuring open and fair conditions of competition, based on international rules, for both trade in goods and services. While the EU sought to establish preferential trade relations with the rest of the continent until the late 1990s, in the following decade it began negotiating bilateral or regional free trade agreements with an increasing number of partners. In 2022, 77 countries have such agreements in force or in application, and many more are in the process of concluding or awaiting approval [XI. 2. 14.](#)

### Developments in Hungary's external economy after 1990

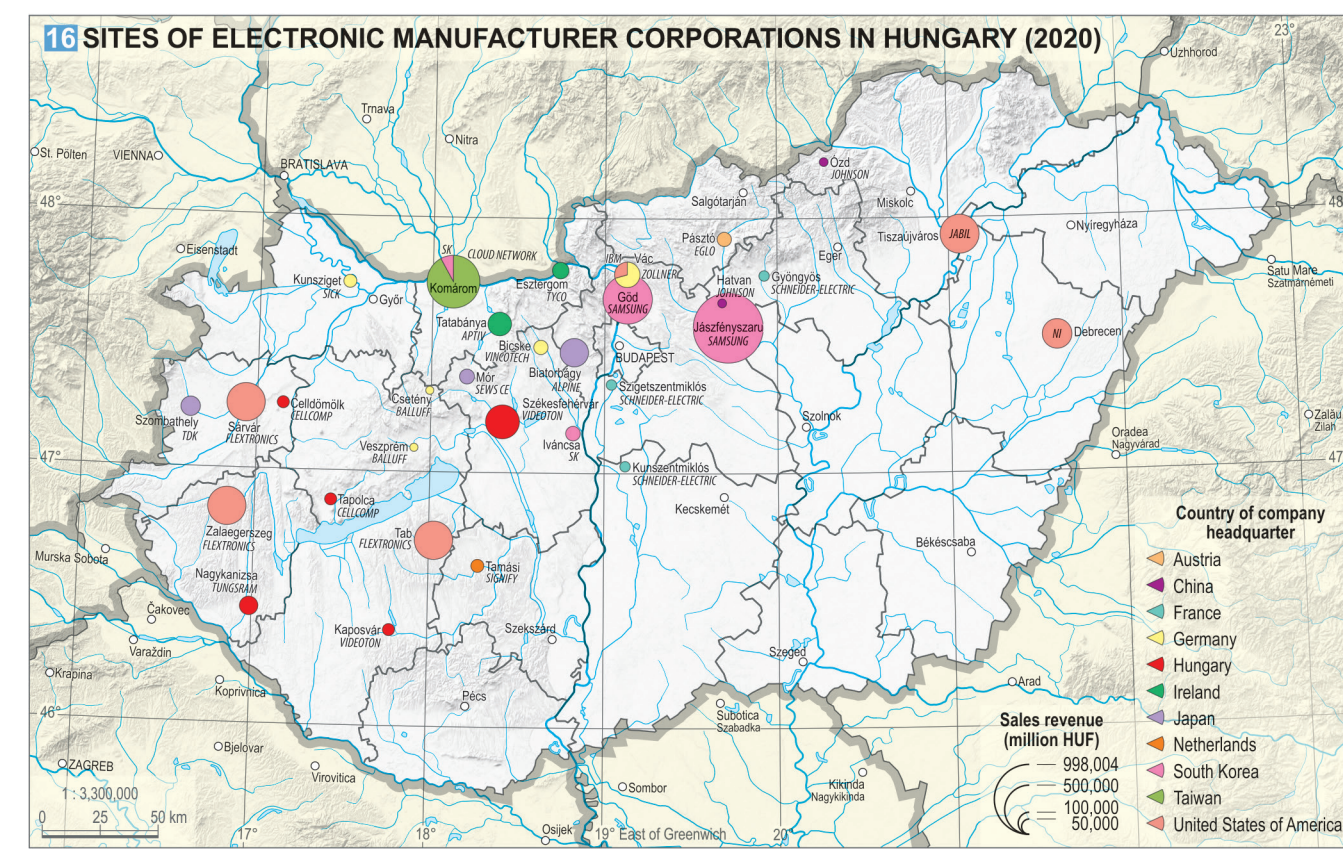
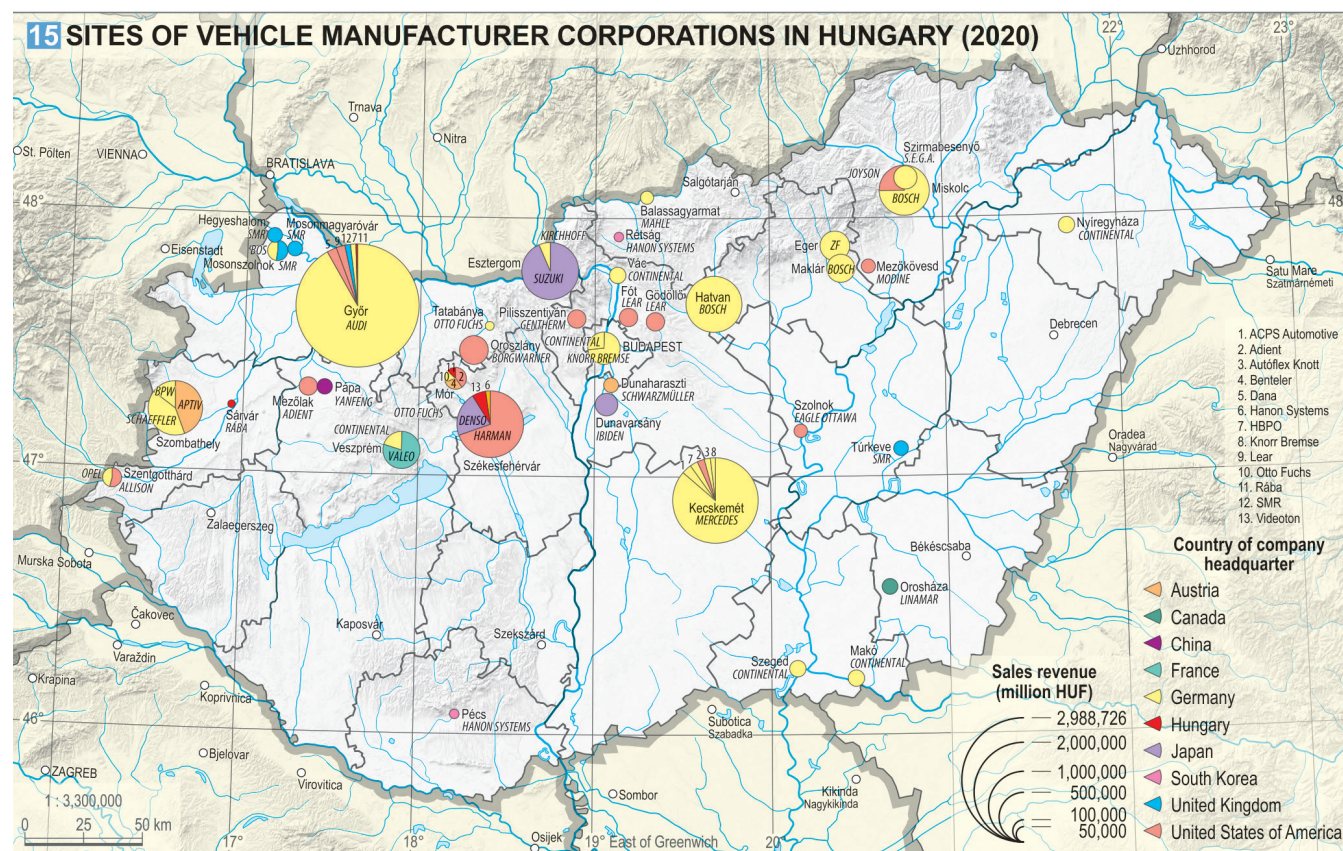
#### The structure of trade in goods

Developments in foreign trade show the impact of the transformation to a market economy. Privatisation and the disintegration of COMECON strengthened cooperation with Western European countries. During this period, *the Hungarian economy became more open* and one of the most affected by the process of globalization. In addition to a further increase in the openness of the real economy, the Hungarian economy became institutionally open to the global economy in the process of market economy transformation.

The pattern of Hungarian trade in goods changed dramatically in the ten years following the regime change. The share of raw materials in total Hungarian imports shrank to a fraction of its previous level (over 50%). The share of imports of foodstuffs also fell, while the combined share of *processed products, machinery and transport equipment increased* from 30% to over 80%. Similar developments and shifts took place in exports. For instance, the share of agrifood exports halved to less than 10%. The ratios of these commodity groups did not change significantly over the twenty years prior to 2023.

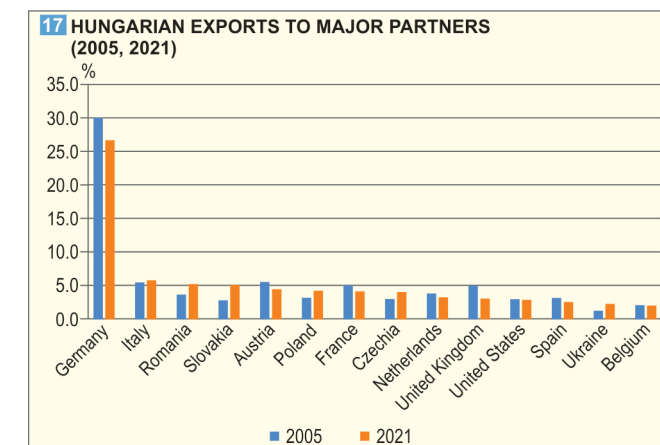
However, the sectoral breakdown of industrial exports underwent a considerable shift. While the clothing sector accounted for 15% of exports of manufactured products in 2000, its share fell to 2.5% by 2021. The proportion of iron and steel products also decreased (from 17.7% to 13.5%). However, the *share of pharmaceuticals and medical products* in exports of manufactured products *increased* from 4.5% to 16% over the same period. The road transport equipment and electronics sector shows a *continuous and dynamic development* in the main group of *machinery and transport equipment*, which represents the largest share of Hungarian exports. Road vehicles, combustion engines and other components accounted for nearly a quarter of total Hungarian exports in 2021. Electrical machinery and equipment made up 15%, while communication equipment contributed 10%.

Hungary was the 34th largest exporter (0.7% share)



and the 33rd largest importer (0.6% share) of goods worldwide in 2021.

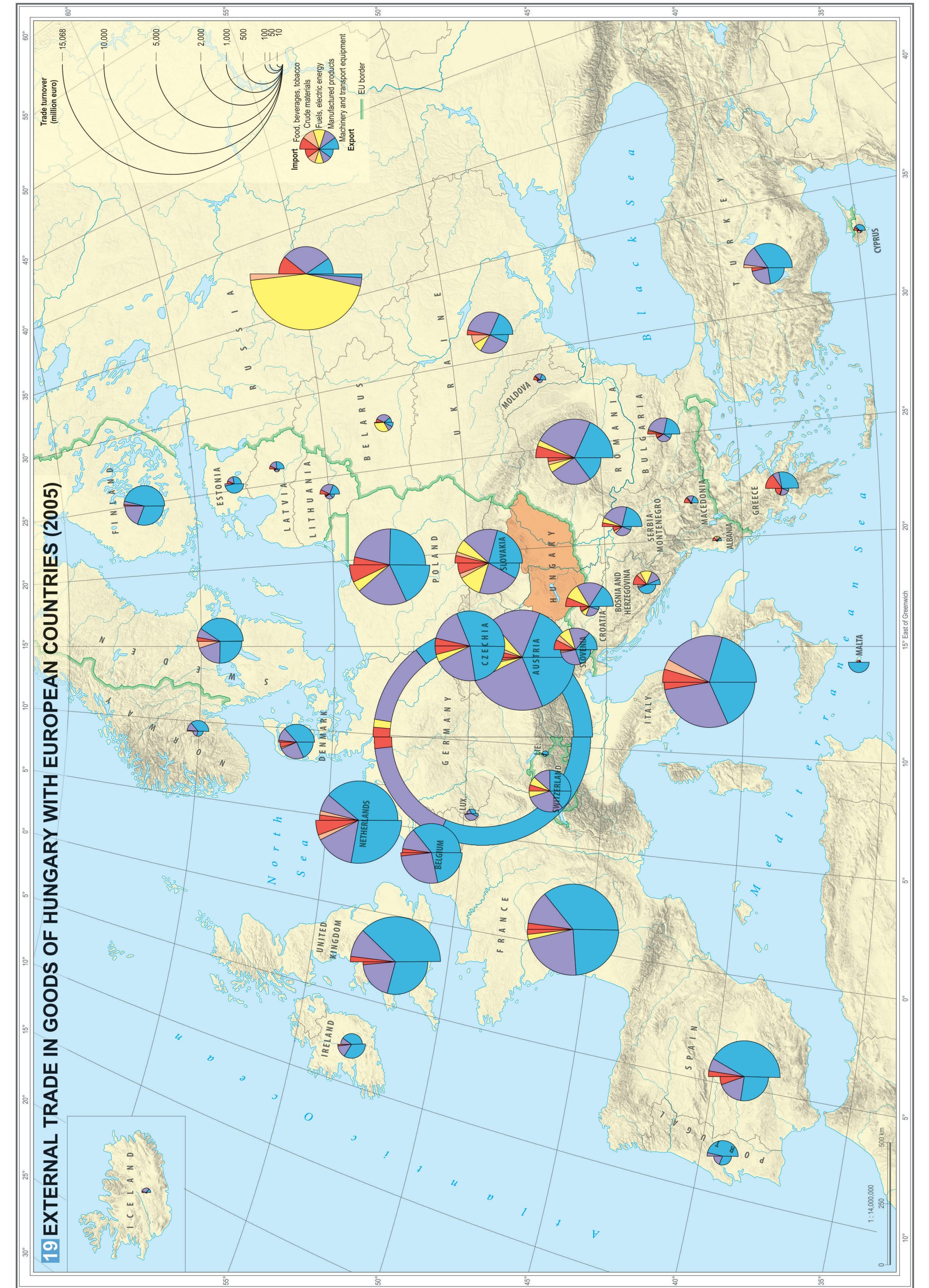
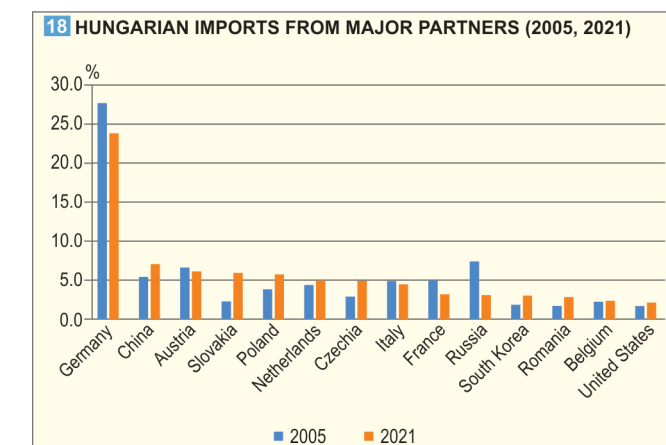
The role of *foreign-owned companies* in Hungarian trade is dominant, representing around 80% of exports. Foreign-owned companies with 250 or more employees are highly export-oriented, with two-thirds of their revenues coming from exports. Hungary is strongly integrated into international production chains in the *automotive and electronics sectors*. Exports account for over 90% of the sales of the largest Hungarian companies in this sector [XI. 2. 15.](#) [XI. 2. 16.](#) Many of the world's leading electronics and automotive companies (e.g. Samsung, Flextronics, Jabil, Audi, Suzuki, Mercedes) established branches in Hungary. The main markets for the products manufactured in Hungary are typically the countries of the EU and its free trade partners.



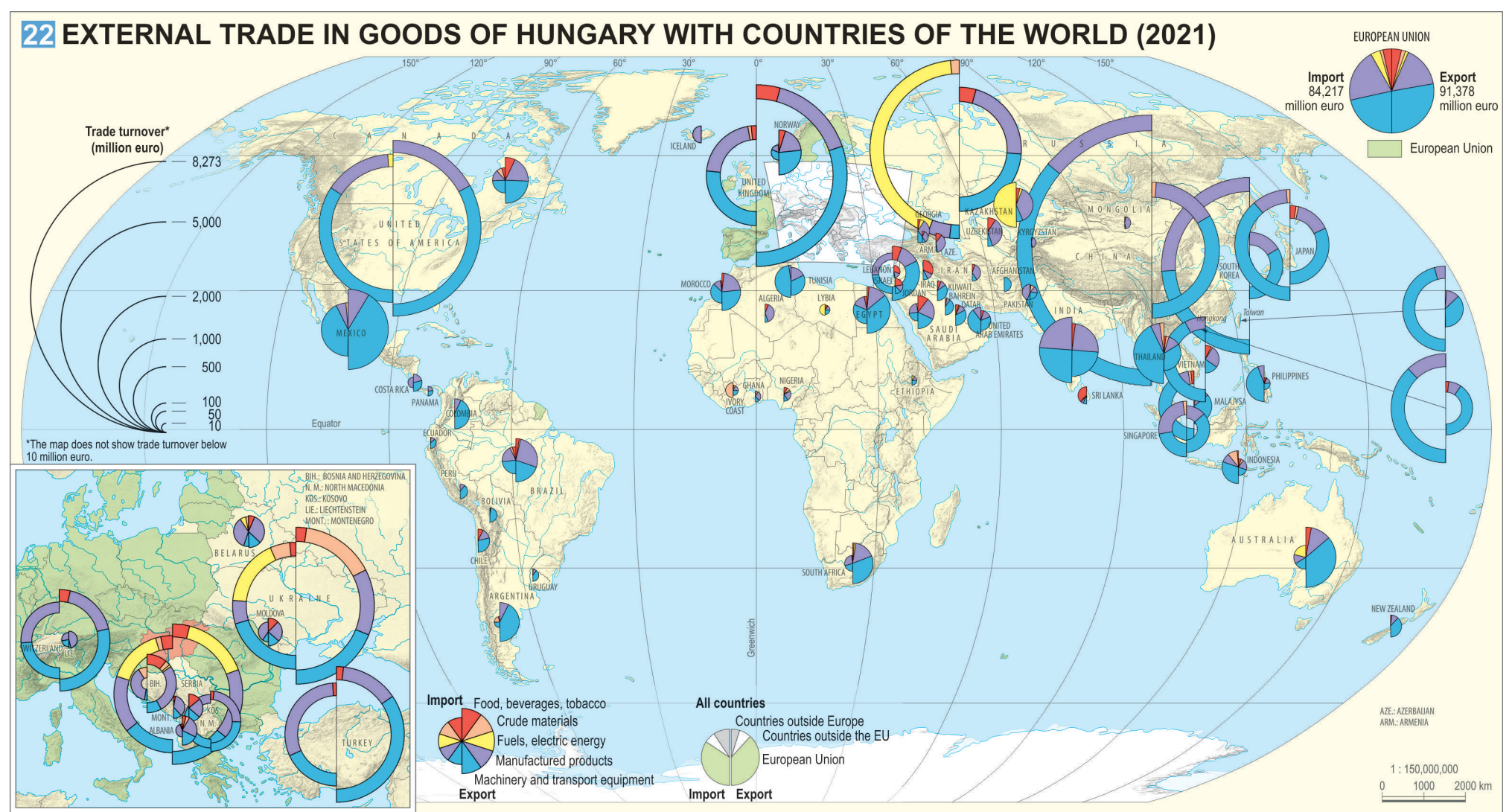
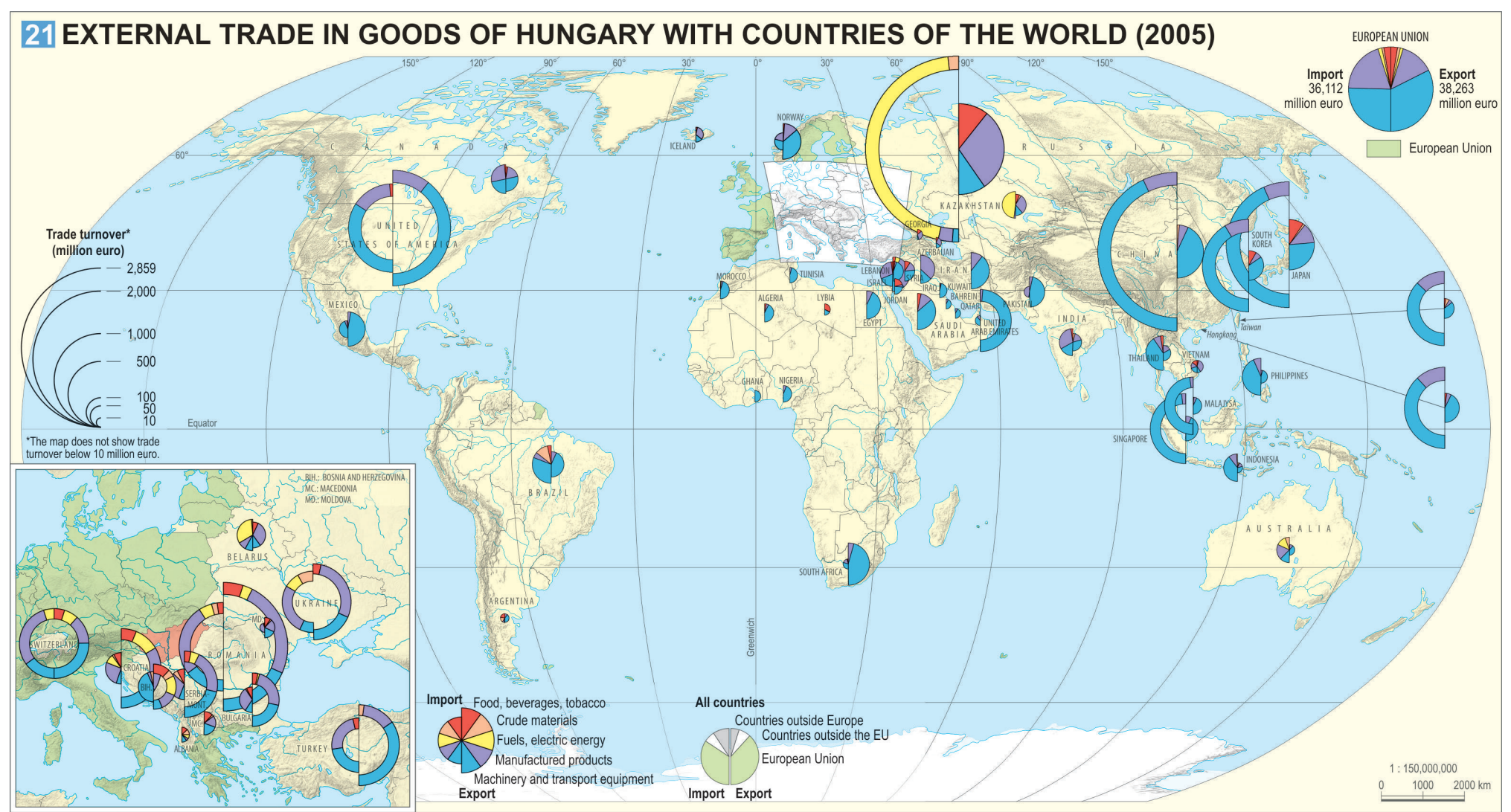
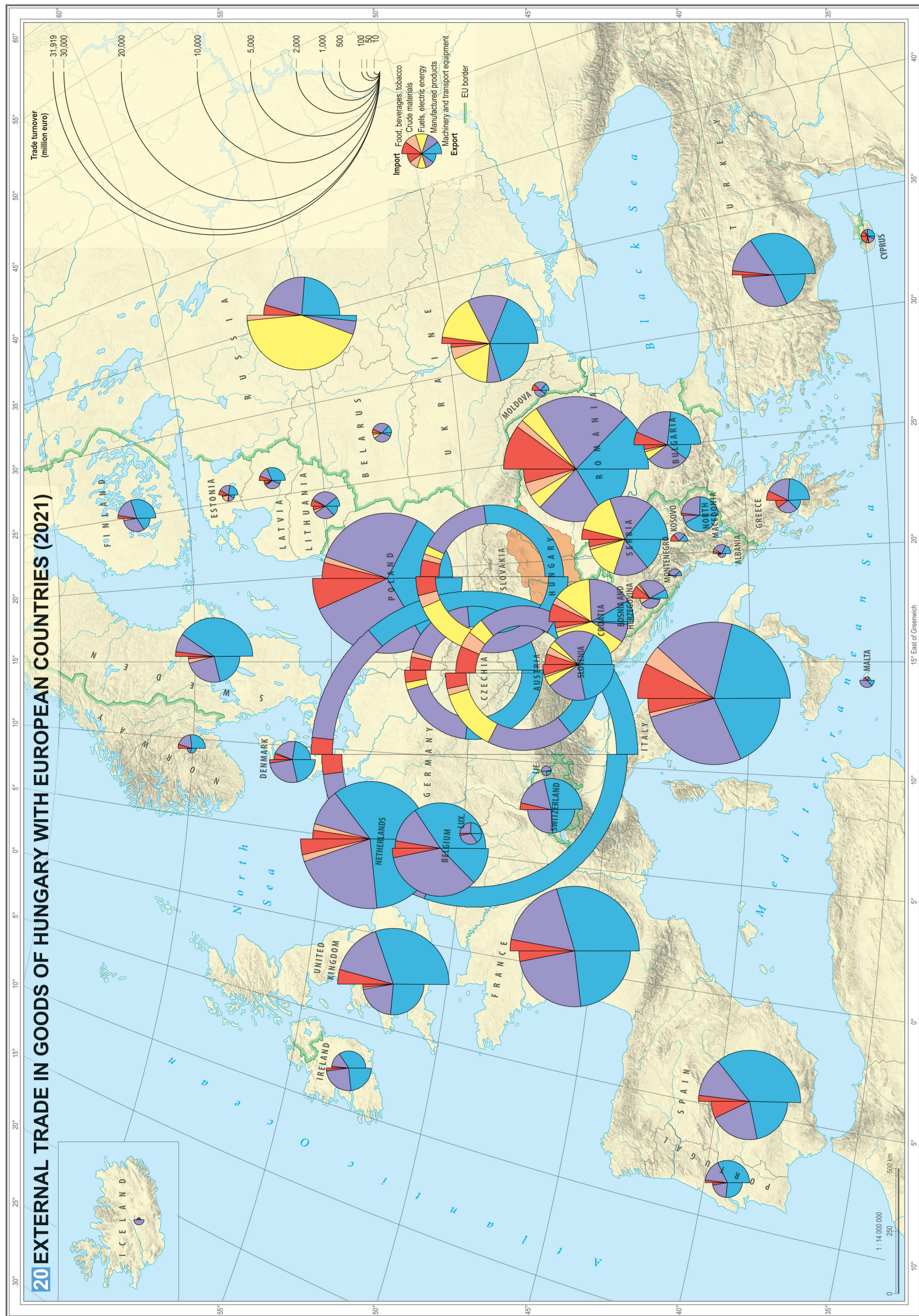
Accordingly, transport infrastructure (road, rail, air) plays an essential role in the choice of location, alongside labour supply and local incentives.

#### The largest trading partners

The disintegration of COMECON and the switch of trade transactions to convertible currencies caused a fundamental rearrangement of trade flows in a very short period of time. *Germany again* became the most important export market and source of imports in Hungarian foreign trade, typically with a share of around 25% or more. *Russia's* importance in Hungarian foreign trade (excluding imports of energy products) had already declined sharply in the second half of the 1990s, while trade with *Western European partners* and the *United States* grew dynamically. Central Europe's share







in Hungary's trade started to grow after the Visegrád Group concluded the Central European Free Trade Agreement (CEFTA) in 1992 to re-establish trade links. Other countries of the region joined CEFTA later. However, this development only became spectacular after these countries acceded to the European Union. The share of Hungarian trade in goods with the Visegrád partners doubled to 15% by 2021. With the addition of other neighbours, we find that Hungary already generated almost a quarter of its trade in the *Central European region* in 2021, approaching Germany's share. On the import side, the most significant increases are related to China and South Korea, mainly due to the rising demand for industrial consumer goods as well as manufacturing machinery, equipment and compo-

nents. The European Union dominates the relational structure of Hungarian foreign trade. More than three quarters of Hungary's exports go to EU countries and 70% of imports come from there. It is noteworthy that there is a continuous and significant (EUR 7–10 billion per year) Hungarian surplus in trade with EU member states [XI. 2. 17.](#) [XI. 2. 18.](#) [XI. 2. 19.](#) [XI. 2. 20.](#) [XI. 2. 21.](#) [XI. 2. 22.](#)

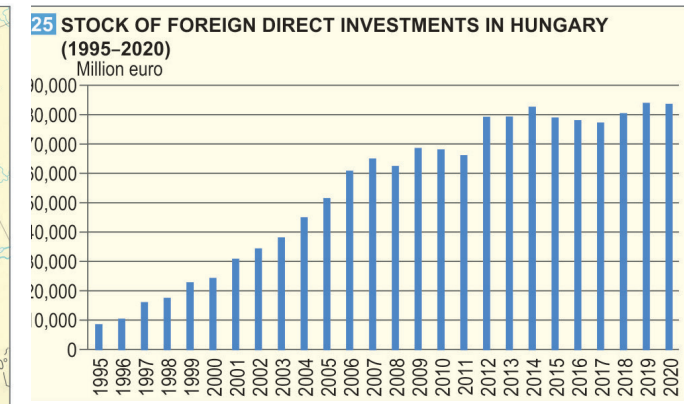
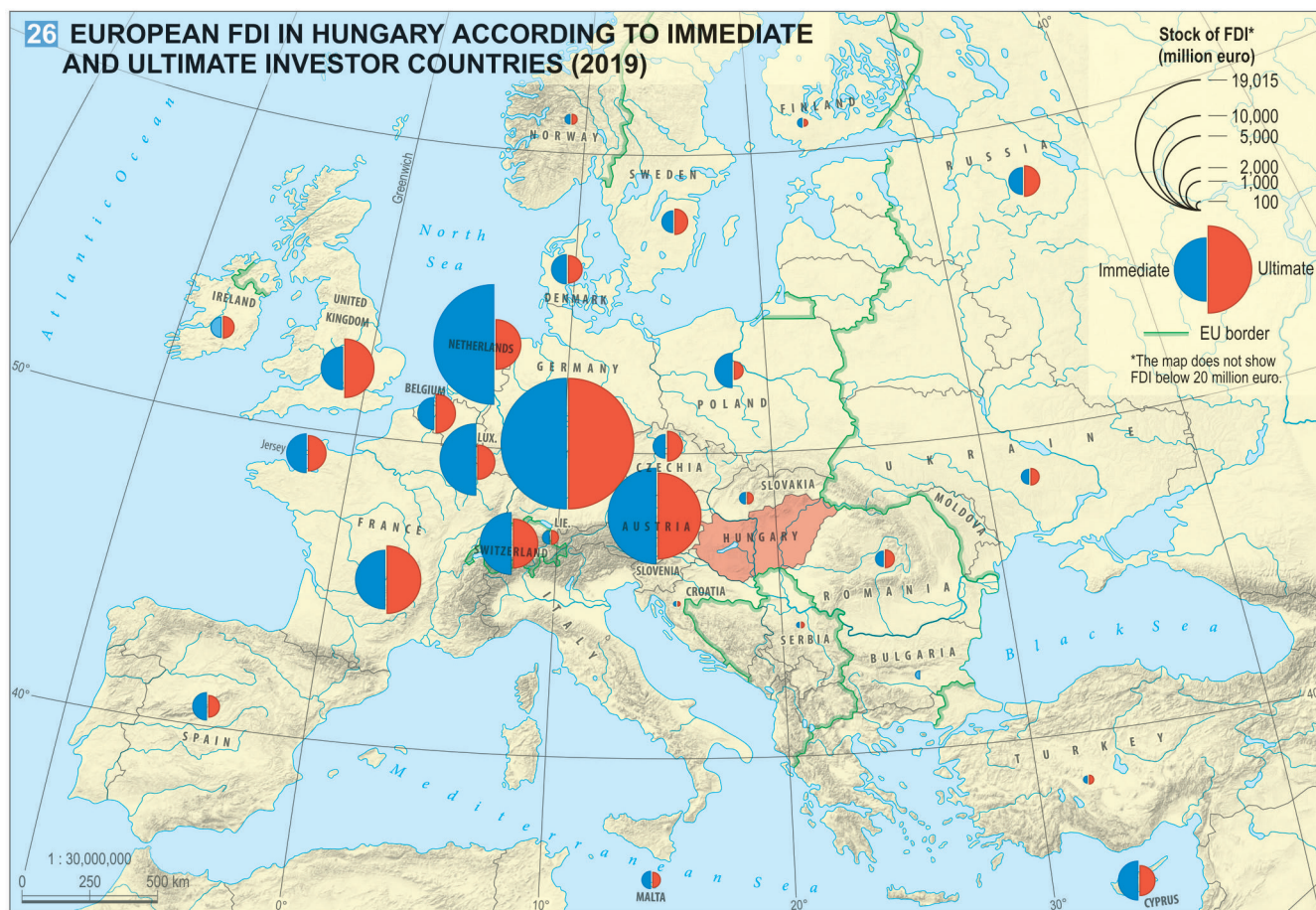
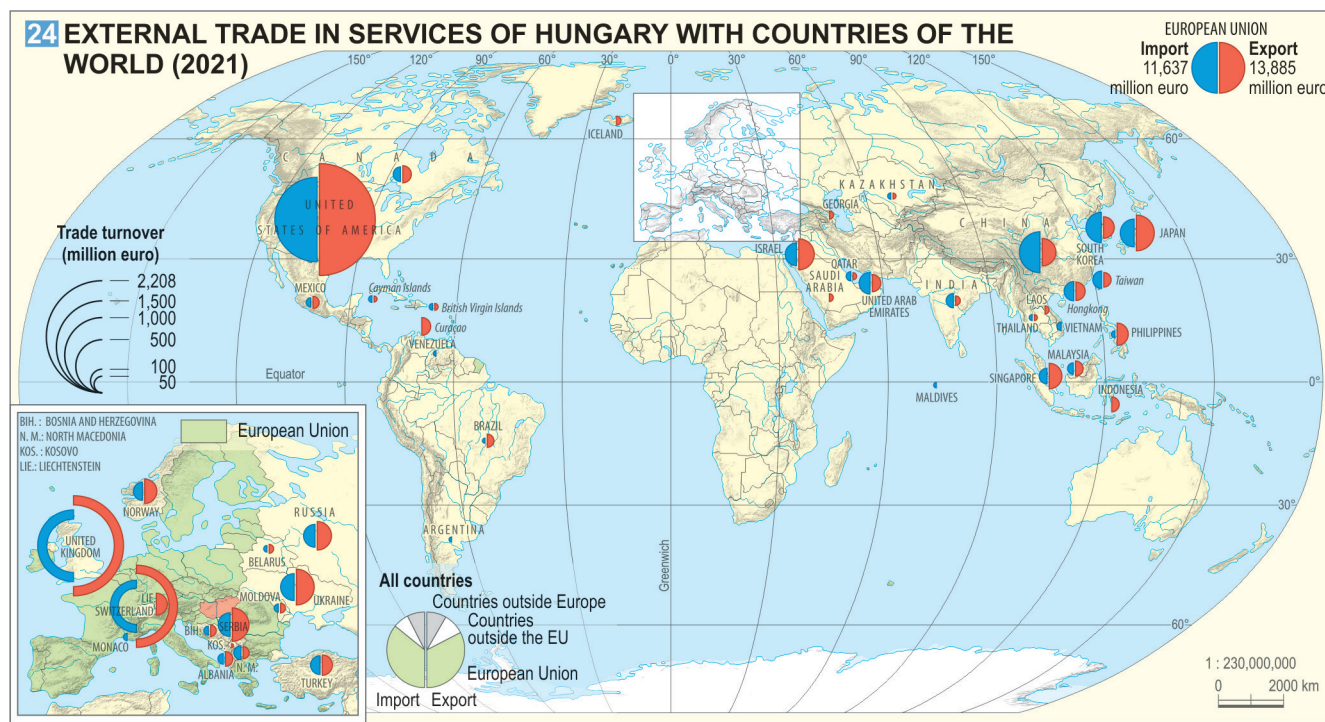
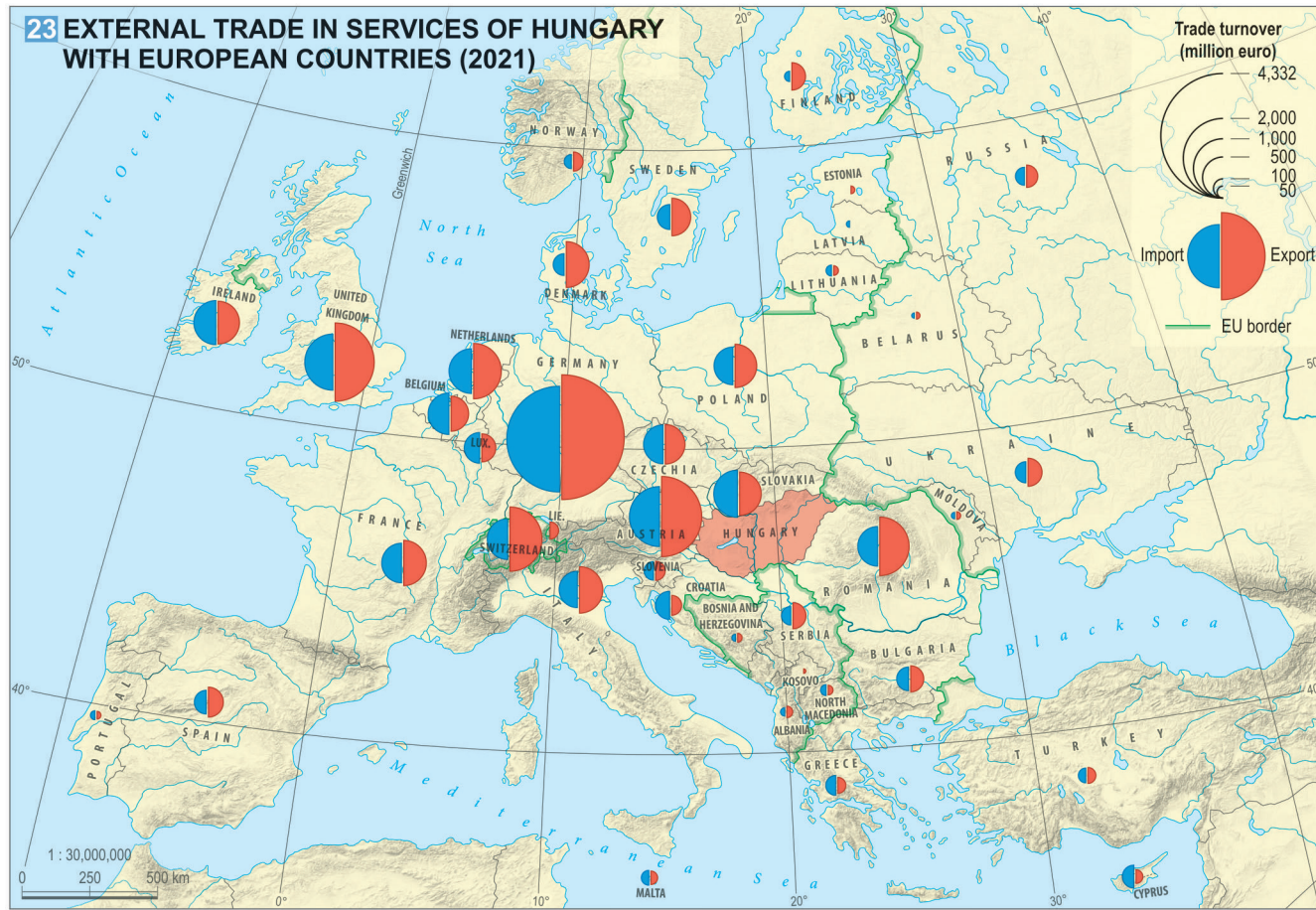
#### Trade in services

Trade in services showed continuous expansion over the three decades prior to 2023. Its largest component was *business services*, followed by *transport activities* and *tourism*. The value of exports of services reached 25% of exports of goods by 2018. Nevertheless, this

was reduced later by the decline in the sectors of transport and tourism due to the Covid-19 pandemic in 2020–2021. The positive balance of trade in services became significant after Hungary's accession to the EU, amounting to over EUR 8 billion annually in the period 2017–2019 [XI. 2. 23.](#) [XI. 2. 24.](#) Business services consist of highly heterogeneous activities.

The most important categories in Hungary's foreign trade include accounting, business consulting, public relations and computer, scientific and engineering services, fees for intellectual property rights as well as research and development. Exports and imports of business services are roughly balanced, with a significant Hungarian surplus coming from the transport and tourism sectors. As a result, Hungary's trade in services





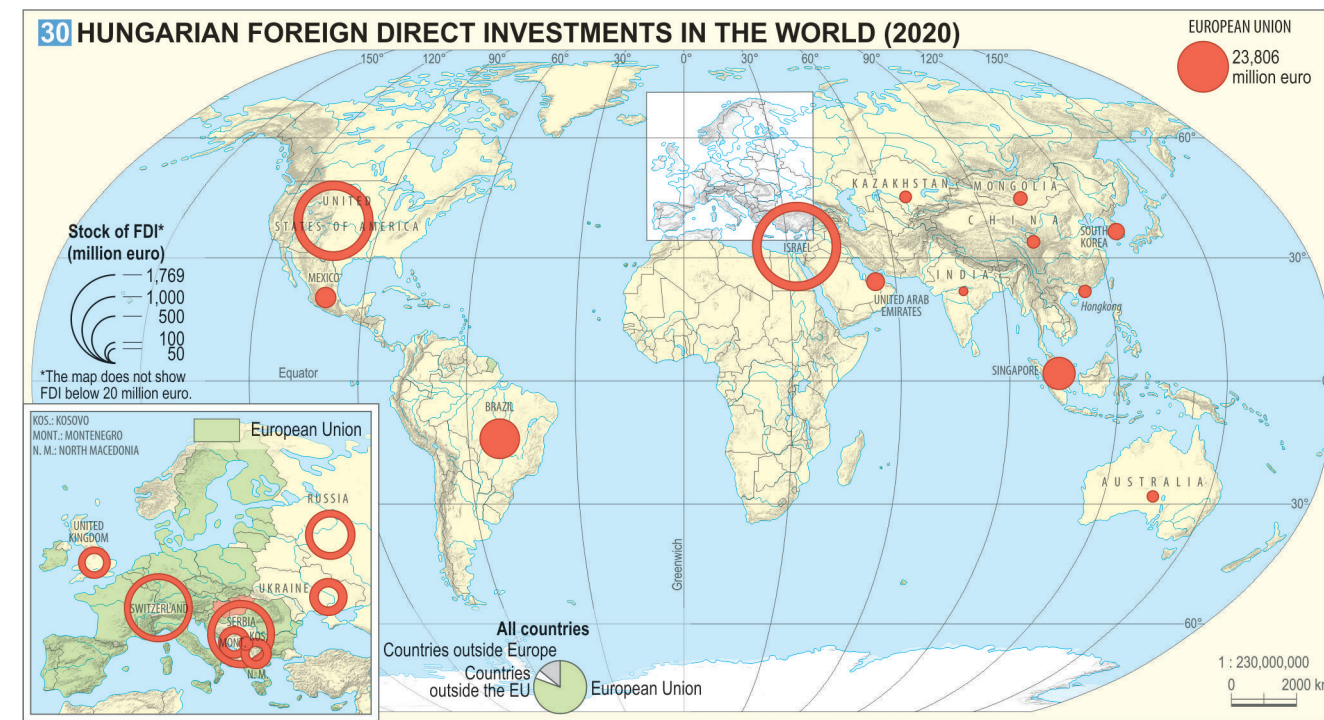
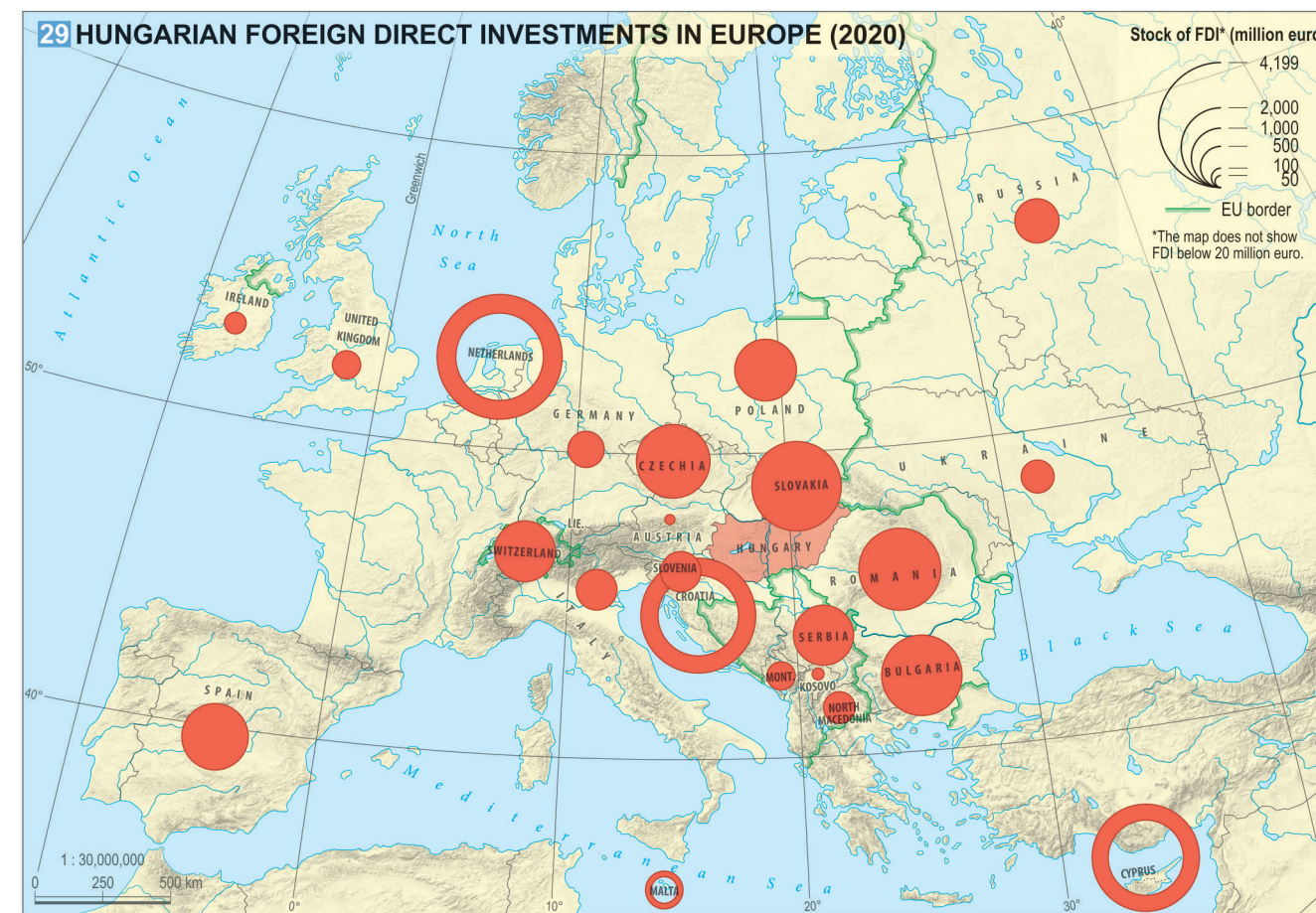
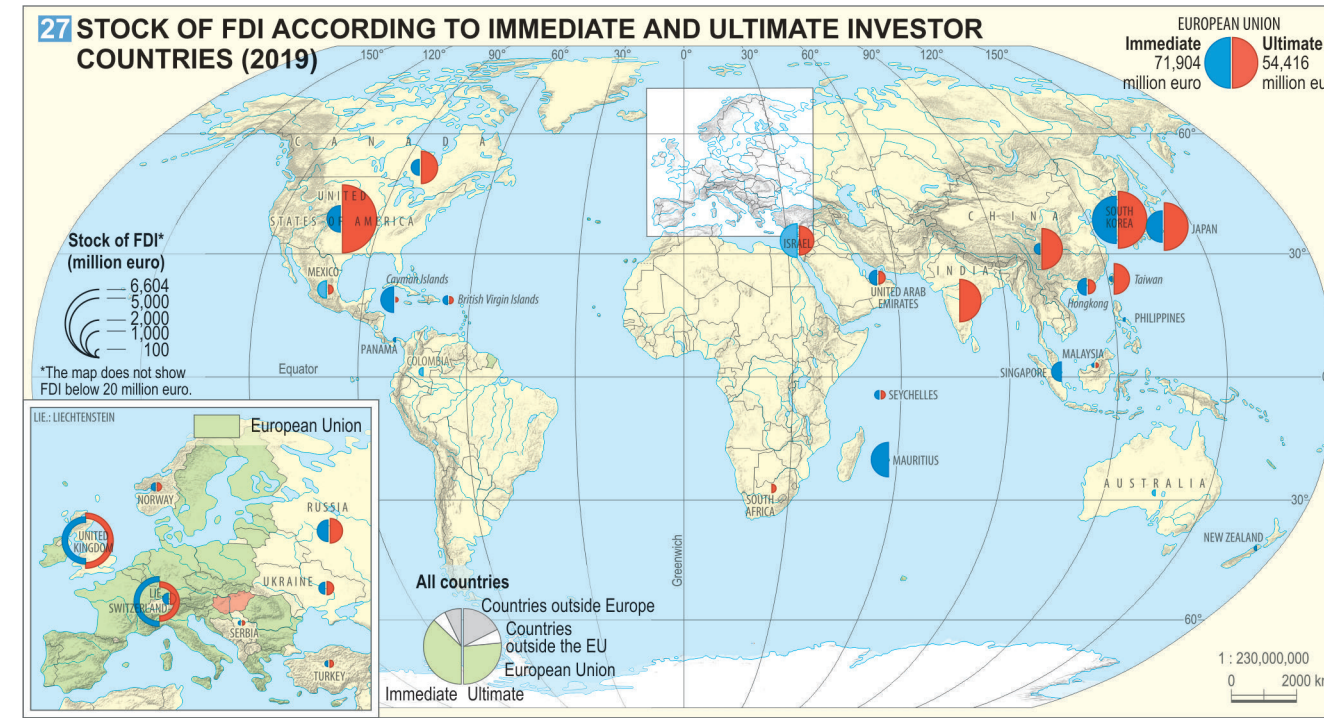
in the early 1990s. A major factor in the capital inflows during the 1990s was the rapid pace of privatization, with EUR 4.6 billion of investment coming into the country between 1991 and 1997. Around 85% of state-owned enterprises were privatized, sometimes at relatively low prices. Reinvested earnings started to play a larger role from 1997, in addition to greenfield investments. The FDI first exceeded EUR 10 billion in 1996, and then surpassed EUR 83 billion in 2020 [XI. 2. 25.](#)

According to 2019 data, the majority (86.8%) of foreign working capital invested in Hungary came from Europe. As regards direct investment, Germany, Austria, the Netherlands, Luxembourg and Switzerland are the most important. Asia's share amounted to 8.2%, while the Americas and Africa contributed 2% each. In fact, foreign ultimate owners often invest in Hungary not directly, but through a Western European company (e.g. Dutch, Luxembourg, Swiss). Data collection by country of ultimate owner does not have a long record. Based on this, the United States ranked third in terms of FDI in Hungary in 2023, while South Korea joined Japan in the top 10, with the Netherlands and Switzerland dropping significantly. Europe's share of final investment in 2019 was 64.8% [XI. 2. 26.](#) [XI. 2. 27.](#) In the sectoral structure of FDI stock in Hungary, the manufacturing industry (e.g. vehicles, pharmaceuticals, rubber, plastic products, computers, electronics) represents a particularly large share.

The foreign investment of Hungarian enterprises started to show in the early 2000s and grew to EUR 30 billion in 20 years [XI. 2. 28.](#) Working capital exports, like imports, reflect a strong European concentration. However, the dominant destinations for capital export differ significantly from the country structures for trade and capital imports. More than half of Hungary's European capital exports go to countries in the Central European and Western Balkans regions. Geographical and cultural proximity, market knowledge, economic development similar or slightly less advanced than that of Hungary are strong incentives for companies to expand. A significant part of Hungarian working capital exports is linked to large companies such as MOL, OTP Bank, Richter, Master Goods, Innomed, Danubius or Jász-Plasztik. The activities of outsourcing mother companies are diverse. The types of investment include the establishment of a new company or acquisition of an equity stake [XI. 2. 29.](#) [XI. 2. 30.](#)

#### The current account

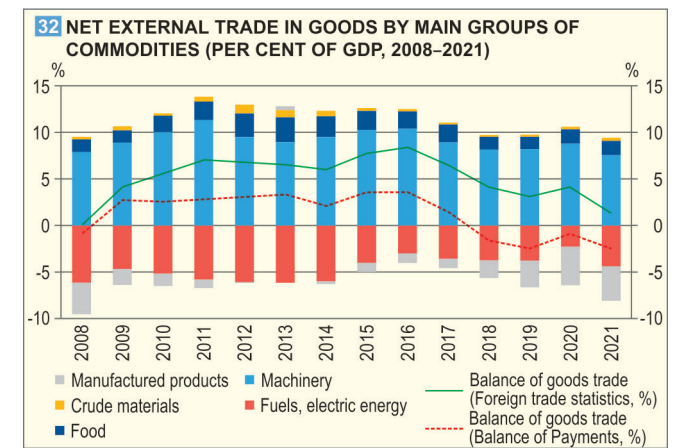
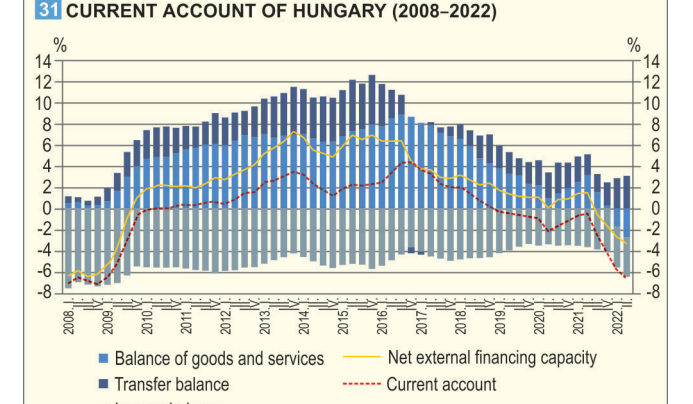
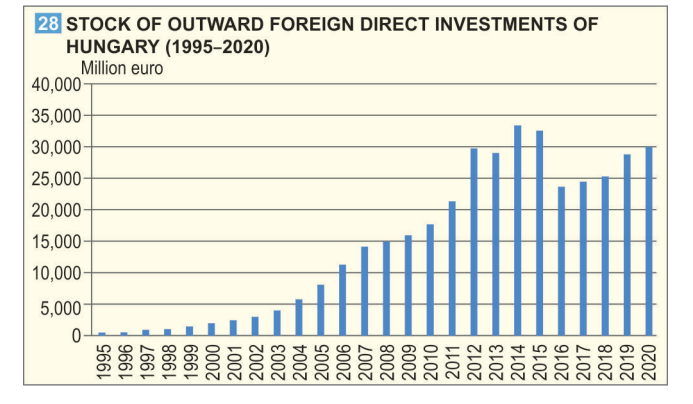
The current account is an accurate reflection of the imbalances that arose in Hungary's external economy from the 1970s onwards. In the period of the transformation crisis that followed the regime change, the difficulties with the current account continued to grow. The collapse of the former export markets in Eastern Europe led to a serious structural crisis in the processing industry, a forced fall in output and the need to consolidate the commercial banks that financed the processing companies. The simultaneous (twin) deficits that appeared in the budget and the current



account in the mid-1990s required a macroeconomic adjustment: the situation involved a temporary forced restriction of domestic demand. The adjustments increased the confidence of international financial institutions and foreign investors. Exports grew strongly, but the deficit in the balance of foreign trade remained. However, the latter was mostly covered by foreign working capital inflows from the second half of the 1990s onwards.

After the turn of the millennium, imbalances emerged

again. The foreign trade balance showed a widening deficit due to growing domestic consumption. After Hungary's accession to the EU, the situation deteriorated further, with initially limited transfers from Brussels. Another macroeconomic adjustment was required. At the same time, the world economy experienced the deepest financial and economic crisis since WWII from 2008 onwards. The crisis forced a strong adjustment of the balance of payments in the Hungarian economy. The balance of Hungary's trade in



goods and services showed a modest surplus by 2008 [XI. 2. 31.](#) One of the important factors in the current account deficit was the repatriation of profits, which was based on the substantial amount of FDI that had previously taken place. If the stock of FDI is high, which is also the case for the Hungarian economy, other components of the balance of payments can also create equilibrium: above all, the surplus in the trade balance of goods and services, the additional inflow of working capital and the local investment of the profits generated. The current account had reached equilibrium by early 2010. At the same time, the room for manoeuvre was further increased by transfers from the EU. The Hungarian economy's financing capacity improved at this time.

The balance of current account continued to improve in the 2010s. There was a significant surplus in trade of goods and services, while the deficit of the income balance narrowed. Regarding the trade in goods, there was surplus in the groups of machinery, raw materials and foodstuffs, while a deficit emerged in the trade of energy and processed products. Regarding trade in goods, there is a surplus in the groups of machinery, raw materials and foodstuffs, while there is a deficit in the trade of energy and processed products [XI. 2. 32.](#)

By the mid-2010s, the Hungarian economy had an external financing capacity of around 6–7% of GDP, which was never achieved in the last century. In the early 2020s, however, the surplus of trade in goods and services narrowed. Moreover, there was an increasing deficit in the trade of goods according to the national accounts. This was further exacerbated by the Covid-19 crisis and the shock of the war in Ukraine as well as the energy crisis that arose as a consequence of the previous factors.



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