

Deputy Chairman of the Council of Ministers
of the Hungarian People's Republic

Dear Mrs Thatcher,

I do not think there is need to explain how much I appreciate Your recent visit to Hungary, Your talks and Your attitude. I believe that this had and will have in the long run outstanding importance not only in the relations between our countries and peoples but, taken as a whole, its international effect too, has positive characters. For this I am grateful to you personally as well.

I would particularly like to thank you for Your patience and understanding expressed concerning our international economic and financial problems during the talks of Your programme. I would like to seize the opportunity You were kind enough to offer that - should the occasion arise - I may come back to the detailed explanation of these problems.

For the survival, continuation and, respectively, further development of all those appreciated by You during Your visit, we need, in respect of Hungary, decisive changes manifested now not only in words but first of all or exclusively in deeds, on the part of our industrial trading partners. The practical effect of these changes should be perceptible for us already in the nearest future. As I already mentioned to You during our talks, these changes can be listed according to the following major issues:

1. Improvement in our access to the market, reduction in our disadvantages of non-market nature. For Hungary this means complying with the rules of competition prevailing on the market of the developed industrial countries, - but at the same time, elimination of the direct and indirect discriminations and disadvantageous practices in force and lowering those hidden barriers which are applied against us by these countries. The existence of these barriers are partly linked with the European integration, partly with our bilateral relations.

I deem it necessary to emphasize that our ideas and proposals in connection with the European Economic Community have not changed in the slightest degree in relation to those explained by me during my visit to London last year and which - to our satisfaction - were received by Your colleagues with full understanding.

The essence of the Hungarian position is our country's wish to be judged such as she is - according to her merits - and that this, please forgive me for repeating myself, be fully manifested not only in words but also in the actual regulation and treatment applied to us.

We have already expressed that we find the "state trading country" category meaningless, schematic and incompatible with the reality, because it applies to countries which have different trade policies and systems of economic management. As far as Hungary is concerned, such a treatment is obviously in contradiction with all what You said about our country in relation with her participation in the international division of labour, trade policy, and system of economic management.

We are convinced - and we can prove this with facts - that aside from political prejudice, there is absolutely nothing to support the different treatment of Hungary from other European non-Community countries by the EEC.

Our three-point practical proposition was prepared in accordance with our position of principle. This was handed over to the Commission in writing /please find its summary enclosed/. The proposition envisages:

- a./ the elimination of quantitative restrictions;
- b./ in some agricultural commodity groups an - otherwise modest - improvement for Hungary's export possibilities;
- c./ from the point of view of tariffs, the treatment of Hungary which equals with that enjoyed by other third countries having the same national income per capita.

Our proposal is consistent. For the Community its acceptance would be a move of insignificant degree, but for Hungary already this step would mean a definitive departure towards a relationship free from artificial barriers. Our proposal /the short summary of which is attached/ does not serve as a starting point for bargaining, but constitutes a minimum which, together with the acceptance of the principles, is absolutely necessary for us in order to conclude an agreement with the Community. If the Community, in spite of the political decision of the member countries, is unable to make this extremely modest step, we will be compelled to draw very embarrassing conclusions from this. In this connection it is particularly disturbing that while we comply with the understanding stipulating that before concluding the arrangement on the essential elements of the agreement between the Hungarian People's Republic and the European Economic Community, the public will not be informed, others do not act the same way. This understanding is permanently

violated and the Hungarian position often misinterpreted by various sources, particularly by certain circles of the Community and this can, in most of the cases, discredit us.

2. Bilaterally, the dismantling of barriers and the progress in the field of development and encouragement of economic cooperation with our economic partners in Western Europe are equally important for us. In this respect we have achieved certain results between Hungary and the United Kingdom. We would like to accelerate this development, being also aware of the fact that this offers advantages not only for us. /Please also find enclosed the relevant short summary./

3. Investment of capital in Hungary.

For centuries Hungary has been suffering from scarcity of capital and this hampers her development. Currently this situation is particularly depressing for us. For a long time we have initiated - and recently this has been given greater importance - the participation of foreign capital, particularly in the form of joint ventures, in the Hungarian manufacturing sector and in all other kinds of investment which result directly or indirectly in additional profit or improved position for the investor and which make use of the comparative advantages offered by us. The appropriate legal regulation was created already a while ago, we tried to make it attractive for foreign capital. The required guarantees also exist.

In this respect it is very important for us that appropriate circles in the United Kingdom's economy receive encouragement from Her Majesty's Government.

4. Normalisation of Hungary's treatment in the field of credit and finances.

The temporary credit blockade vis-a-vis us undoubtedly

ceased to exist and now Hungary can - to the necessary extent - have access to credits. These credits are, however, both in regard to maturity and other conditions still so burdensome that a country on our level of development which is poor in capital and which, naturally, has to make use of credits, cannot permanently endure them. Therefore it is indispensable that the International Monetary Fund offer us meaningful credit support, - at least until 1985, - both regarding our adjustment programme and the further development of our economic management system. It is equally important for us that our good cooperation with the World Bank should be further strengthened and that commercial banks restart offering - beside their current short- and medium-term credits - real medium-term, 5-7 year development loans, their interest-surcharge, commission and other requirements being reduced to the minimum.

These are the most important points in which we expect perceptible changes in the short run from the developed industrial countries. They are indispensable for us and we do not want to abandon them.

I request You and, at the same time, I strongly hope that in all these questions we can rely not only on Your personal understanding but active support as well. I also hope that You and Your colleagues will be able to urge the most important corporations and persons in Britain's economic and financial life to do the same.

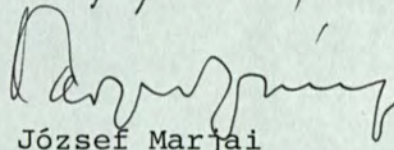
Please forgive me for taking up Your time and patience again but I was convinced that the issues elaborated above coincide with Your beliefs and

with the short and long-term interests of the United Kingdom as well.

Please permit me to make use of this opportunity to wish You personal happiness and further successful activities.

Accept, Madame Prime Minister, the assurances of my highest consideration.

Sincerely yours,



József Marjai

Budapest, 6/4/1984.

The Rt. Hon. Margaret Thatcher
Prime Minister
of the United Kingdom of
Great Britain and
Northern Ireland
L o n d o n