

THE WHITE HOUSE

MEMORANDUM OF CONVERSATION WASHINGTON

SUBJECT: Gyula Horn, Prime Minister of Hungary (U)

PARTICIPANTS: U.S.

The President
The Vice President
Warren Christopher, Secretary of State
Anthony Lake, Assistant to the President for
National Security Affairs
Donald Blinken, U.S. Ambassador to Hungary
Lawrence Summers, Under Secretary of the
Treasury
Richard Holbrooke, Assistant Secretary of
State for European Affairs
Daniel Fried, Senior Director for Central
and Eastern Europe, NSC Staff (notetaker)
Interpreter

Hungary

Prime Minister Gyula Horn
Lajos Bokros, Finance Minister
Gyorgy Suranyi, President, National Bank
Ferenc Somogyi, State Secretary for
Foreign Affairs
Gyorgy Banlaki, Ambassador
Interpreter

DATE, TIME June 6, 1995 at 9:50-10:27 a.m.
AND PLACE: The Oval Office

The President: I'm glad to welcome you and your very distinguished delegation. I admire what you have been doing in Hungary and support it. (U)

Prime Minister Horn: Thank you. My government's financial leaders are in this delegation. This indicates what a central position economic issues have for us and how much Hungary hopes to develop its economic ties with the United States. Thank you for the invitation. I have an excellent program and am looking forward to my visit in the United States. To tell the truth, I have never spent nine days out of Hungary on any official trip before, but I have a concrete purpose in doing so this time. And things are off to a good start. No matter how small Hungary is, the interest in it here seems quite large. (U)

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Prime Minister Horn: I conducted some tough negotiations with the IMF yesterday. In this connection, I greatly appreciate your position and creative approach to Hungary's relations with the IMF. I had always known that the IMF was not a charitable organization, and I was fully convinced of that yesterday. (At this point, the President and delegations on both sides responded with laughter, joined by Horn). Hungary is taking tough economic measures already, but nothing seems good enough for the IMF. We have undertaken to reduce real wages by 15 percent; we are engaging in strong steps to reduce the deficit, though we cannot reduce it by half in a single year, as the IMF is demanding. We will continue our negotiations with them, but it is not easy. (C)

The President: We will urge the IMF to conclude a standby agreement with you. You have indeed taken a strong stance on the economy and should receive this sort of support. We must maintain the IMF's standards, but there are areas for discussion where progress can be made. I agree that you have taken a strong stance. It is hard to bring down deficits; although such steps are necessary, they are not easy. (C)

Prime Minister Horn: Indeed it is not easy. We will try to conclude an agreement with the IMF on the basis of which we can reach a standby. Consultations with the U.S. Administration are important in this context. Hungary is indeed making progress in its reforms, and these are important throughout Central and Eastern Europe: no other country in the region has taken such radical steps recently, and we are in regular contact with interested Central European governments and with Russia. (C)

The President: I'm sure the Russians are very interested in your program. (C)

Prime Minister Horn: I would like to express thanks to you and to the Administration for your policy on the enlargement of NATO. Our discussions with the United States have made it clear that Hungary may become one of the first countries in the first circle of new NATO members. The fundamental conditions already exist for Hungarian membership in NATO, and membership meets the aspirations of Hungarians. Hungary will take necessary steps with its neighbors to ensure that NATO membership can proceed. Hungary is pursuing a basic treaty with Romania, and we hope to have it ready in time for the EU summit in Cannes on June 27, to which Chirac has invited me. I hope that (Romanian President) Iliescu and I can sign the treaty at that time. This would be a good signal throughout the region. (C)

The President: I agree. We hope you can succeed with Romania. I believe Hungary should be integrated over time with all

European political and security institutions. We have sought to establish a deliberate and open policy of NATO expansion. We are still pursuing it. It will take some time this year and next to clarify how NATO should expand and why it should expand. Then we will take up the question of which countries shall join NATO first and at what time. (C)

The President: As you know, this has created some tension in relations with Russia. In Moscow last month, I made two points to President Yeltsin on this issue. First, I told him that NATO was a defensive, not an offensive, organization. The only operation NATO has ever taken outside the boundaries of its members has been in Bosnia, and it has done so in cooperation with Russia in order to try to stop the destruction of Sarajevo. Second, I pointed out that NATO was directed against the USSR, which no longer exists. Yeltsin says that this is a reason NATO is no longer needed. But I told him that NATO serves another purpose that is important not to overlook: NATO tied the United States to Europe in a security partnership for the first time; over the past fifty years, NATO kept the United States from moving away from Europe. The history of the 20th century shows that it is better for all for the United States to be in partnership with Europe than it is for us to withdraw. NATO is the vehicle for this partnership at this time. I don't know whether I was completely successful in convincing Yeltsin, but we did get Russia to join the Partnership for Peace. So we are moving down the road. (C)

Prime Minister Horn: I'm happy to hear this and was pleased to learn that Foreign Minister Kozyrev signed two Partnership for Peace documents. I greatly appreciated your letter outlining for me your discussions with President Yeltsin. For the first time in many, many years, we were given direct information about a U.S.-Russian dialogue that concerned us. This was a good indication of your intentions, and we appreciated being informed. Hungary began discussions with Russia about NATO last fall. I had a long talk with Yeltsin in Budapest last December, during the CSCE Summit, and in March I went to Moscow and met with Yeltsin, Prime Minister Chernomyrdin and Kozyrev. (C)

Prime Minister Horn: Two things worry us about Russia. First, they are not even thinking in a new way about NATO. Yeltsin himself has made an internal Russian political issue out of NATO enlargement. This in turn has made possible a change of Russian political direction in December's parliamentary elections. A different sort of coalition could come to power then and effect the Presidential elections next June. I was quite impressed by Chernomyrdin, however. He is pragmatic and a supporter both of order and of reforms. Second, the Russian military is gaining political influence. This was shown by Chechnya and more.

Yeltsin is becoming a hostage of this military factor. Positive changes are occurring in Russia as well, and these also will effect Russian politics but elements of concern are present. Others may come to power. Changes are taking place in relations between nations composing the CIS. Ukrainian-Russian and Kazakhstan-Russian relations are becoming tense, though it is not possible to restore a set of relations like those that existed during the years of Russian dominance. Given this, it is important not to close NATO's door to Russia. Keeping it open could have a positive impact in Russia. Even with all the difficulties, progress can be made. Hungary, as OSCE Chairman-in-Office, is active on issues such as Chechnya, and we have succeeded in getting Russia to accept a OSCE mission there whereas earlier they would not hear of it. (S)

The President: We also have high regard for Chernomyrdin. Vice President Gore works closely with him and together they cover a great number of issues. (S)

The Vice President: We had tried and failed to persuade the Russians to allow the OSCE to play a role in Chechnya, so we appreciate Hungary's role and success in this regard. (S)

Prime Minister Horn: This would not have been possible without the influence and support of the United States. (S)

The Vice President: I would also like to add my congratulations to you for the March 12 package of economic measures. I am pleased to meet your senior economic team. The March 12 package generated an upswing of optimism about Hungary and bilateral relations. We realize this was difficult but we are impressed with your political courage. (S)

Prime Minister Horn: Thank you. It is gratifying to be appreciated by you. I look forward even more to the time when these economic measures will be appreciated by Hungarians. (Both delegations responded with laughter, again joined by PM Horn.) (U)

President Clinton: It's the same for us all. (U)

Prime Minister Horn: It is genuinely difficult for the public to understand the need for these tough measures. It is not possible to go on for years with austerity. Ironically, Hungary is doing well; the country is getting rich while the government gets poorer. (U)

Prime Minister Horn: I would like to turn to Yugoslavia. We are neighbors, and the situation worries us. I thank Secretary Christopher and Mr. Holbrooke for consulting with us on this

issue. It remains important to prevent Croatia from stepping up its expansionist efforts. This could be a danger in the region, and we have the position of the Hungary minority to consider. The situation could bring on disaster and waves of new refugees. I understand the effort being made from the air and Hungary stands ready to participate if a contribution is needed. (S)

The President: Thank you for your support on AWACS flights. We have indeed worked very hard to prevent a spread of the conflict. Our goals are first, to prevent a spread of the war and; then, to reduce casualties to the lowest possible level, and then, to work toward a diplomatic solution to the conflict. We don't see an alternative. Many in Congress want to force an end to UNPROFOR and lift the arms embargo. But we believe this would increase the killing and the likelihood that the war would spread. The press and public are understandably frustrated that such a thing could happen now, in the heart of Europe, but we must do what is possible. No one believed that the United States could impose a peace in the Middle East. But we could and did take steps to stop warfare there. We then were able to take advantage of chances for peace, as we are doing. My instinct is that Bosnia is much the same sort of problem: we cannot resolve the issue by an invasion or by snapping our fingers to make peace. We must contain the war and prevent its spread to Hungary and FYROM. I would welcome your thoughts on what can be done. (S)

Prime Minister Horn: I believe that Karadzic can be influenced only by really enforcing the embargo. What he and his people are doing is terrorism. We may not be able to avoid a greater international commitment to stop this, possibly including some role for ground forces. This is difficult and I don't want this to come about, but it may not be avoidable in the end. Of course it would be preferable if Milosevic were able to make progress, using his ties to the Bosnian Serbs. (S)

The President: Milosevic wants the sanctions lifted and he understands the conditions: he must recognize Bosnia and enforce the embargo against the Bosnian Serbs. (S)

Prime Minister Horn: I hope I can count on your support for Hungary's accession to the OECD. This is important. We are not seeking special favors, but want to be integrated into Europe. In 1996, Hungary will celebrate the 1100th anniversary of its statehood and we must have something to mark this occasion. I invite you and the First Lady to return to Hungary next year for this occasion. (S)

The President: For more than six hours this time. I'd like to come, if I can. (U)

Secretary Christopher: The United States would be glad to support Hungary's accession to the OECD, though meeting the conditions will of course take time. Let me add that the recent NATO Ministerial meeting was very favorable to Hungary and other countries of Central Europe. We made no concessions to Russia about NATO enlargement and there is no slowing down of the timetable. President Clinton convinced Yeltsin to cross the threshold and join the Partnership for Peace. NATO ministers welcomed that development. I look forward to discussing this and the possible Hungarian-Romanian treaty with you over lunch today. (C)

Prime Minister Horn: I hope to do so as well. Let me note what a fine Ambassador the United States has in Budapest. The Americans last evening praised (Hungarian) Ambassador Banlaki so let me do the same for Ambassador Blinken. Sometimes our Ambassador represents American views and interests to us in Budapest, and I'm sure yours represents Hungarian views in Washington. (C)

The President: Your Ambassador represents you very well (U)

Prime Minister Horn: Of course, he receives no great salary for this, but I'm glad to hear it. (U)

Prime Minister Horn: Let me say a few words about U.S. investment in Hungary. We welcome this for two reasons. First, it brings high technology directly to us. This is not the case with every Western country investing in Hungary, and we appreciate it. Second, it generates jobs which is very, very important for us.

The President: We have worked very hard to encourage U.S. firms to invest in Hungary. We held the Cleveland Conference last January. American investment in Hungary is now about \$4 billion and growing. I believe the Overseas Private Investment Corporation has around \$300 million in projects in Hungary, and we want to do even more. Your progress in economic stabilization will inspire greater investor confidence, and we will be supportive. Speaking of investment, I would like to thank you for Hungary's investment in Anniston, Alabama. We like it a lot; both the Vice President and I have a fond memory of busses from the 1992 campaign. (U)

Prime Minister Horn: So we, too, create jobs through investment and in the United States. (U)

The President: We like this a lot. (U)

-- End of Conversation --