

# Central European Transformations as Seen by a Japanese Diplomat<sup>1</sup>

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## Introduction

At the conference where this paper was initially presented, I was asked to speak about the Central European transformation as seen by a Japanese diplomat. As I shall explain later, what I experienced in Hungary in the mid-1990s was the special attention of that country to Japan. It seemed to me the Hungarian leaders of that time did not spare any efforts to strengthen bilateral relations with Japan. Was this only an illusion a Japanese diplomat accredited to Hungary had in Budapest at that time, or was it a calculated policy of the then Hungarian Government to put some priority on their relations with Japan? If it was not an illusion, was it a policy pursued by specific leaders of that time or a more general policy of the Hungarian government towards Japan? If the Hungarian policy towards Japan was as I perceived, was it still continuing when entry into the European Union became the most important and imminent issue in Hungary at present?

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1 I was very happy to attend this Central and Eastern Europe-Japan Forum for the 21st Century, organized by the Slavic Research Center of Hokkaido University. I participated in the past in a series of CEE-Japan conferences organized in Central Europe and attended by scholars from both Central and Eastern European countries and Japan. Thanks to the extra efforts of Professor Hayashi and his academic colleagues who cooperated closely with him, I could meet again many familiar faces, this time in Sapporo, Japan. As was the case in the past, this conference and publication will definitely contribute greatly to strengthening academic ties among scholars in Central and Eastern Europe and Japan.

## 1. First Encounter with Central Europe

When a great change took place in Central Europe at the end of the 1980s, I was not on the scene personally. But I had spent nearly half of my diplomatic career working in the former socialist countries both before and after their historic transformation. I started to work in our Embassy in Moscow as an attaché in 1959 and served my last diplomatic post as ambassador to Hungary in 1995-97.

My first encounter with Central Europe was at the beginning of the 1960s. I was then assigned to the Soviet and East European Affairs Division in the Japanese Foreign Ministry. Though I had already served in Russia, then the Soviet Union, I had never had an opportunity to see any other socialist countries. My boss, the division director, then ordered me to visit those capitals of Central European countries which were under the jurisdiction of our division. I had to acquire at least some first hand knowledge about these countries so that I could properly discharge my duties in our division.

I flew willingly to Warsaw, Prague and Budapest and stayed two nights in each capital as an official duty. Young Japanese Embassy officials took me around the cities in order to enable me to acquire necessary knowledge in a most efficient way. More than 40 years have passed since then. I do not keep diaries and naturally cannot remember many of the details of those visits now. But some vivid impressions still remain in my mind.

In Warsaw I saw a completely destroyed city. Rehabilitation work was already under way in the central part of the city. But the views from the window of my hotel room looked very much like a small Moscow city. One high-rise building of Stalinist style overwhelmed the city. I was told it was a cultural palace. When I revisited Warsaw in the middle of the 1990s, I wondered if I was visiting the same place. All the architecture of the old central part of the city had been rehabilitated as before the destruction and it became an integral part of a lively, prosperous Polish capital. I visited the historical Royal Palace, where every detail, interior decorations and even some furniture, were restored faithfully as

they used to be. I could feel the extraordinary emotion and passion of the Polish people toward what they had in the past. Warsaw returned to a genuine Polish capital.

In Prague I saw an old, historic city mostly covered with dark colours. This city did not suffer wartime destruction. Old historic architecture remained as it was. The Japanese Embassy there was also an old historic building which had belonged to the pre-war Japanese Empire. I entered into the counsellor's room on the second floor. Though in other countries we had to resign ourselves to small embassy buildings, reflecting our limited national strength at that time, I was impressed by a large dignified room. Then, the counsellor warned me to be careful because the floor might fall in at any moment if we brought in heavy objects. When I revisited Prague in the middle of the 1990s, I was surprised to find the entire city was covered with such bright colours. Old historic parts occupied their proper places in the flourishing Czech capital. The Japanese Embassy building was still the same at that time, but it was packed with many embassy staff members and became one of the most congested buildings among our embassies abroad.

In Budapest I was told by our embassy staff that the city had been called the Small Paris of Central Europe. I was not very much impressed at that time. Then in the evening I was taken to one nightspot after dinner. There was nothing special according to the standard then prevailing in the capitalist world. A young lady served us some drinks and that was all the service we received there. But I did not expect such a nightspot ever existing in a socialist country of that time. I felt instinctively that Hungary might become a most attractive country if only it ceased to be a socialist country. I did not expect that I would see that happen in my lifetime.

## 2. Assignment to Hungary

In March 1995 I was appointed as Ambassador to Hungary. In the period in-between the 1960s and 1990s, I had other opportunities to visit Hungary, since I served in our Embassy in Austria in the middle of the 1970s. From Vienna I drove less than 100 km

to reach the Austro-Hungarian border. As there is a beautiful lake in the border area, I often visited the region. Even if I was driving on just a small country road in that rural area, it was suddenly divided by barbed wire and I could not go further on the other side. I strongly felt it was really a very artificial boundary that separated Austria and Hungary into opposing camps. All the natural flows of people and goods in the region, which once constituted a single empire, were completely cut and blocked by outside forces. That was the strong impression I had at that time.

I drove not only to the border region but to Budapest as well. It took nearly five hours, though Vienna and Budapest are nowadays connected by an express highway in a two hours' drive. Crossing the iron curtain from the Western side, I had the impression that Hungary was least reminiscent of socialist countries in the then Soviet Bloc countries. I visited shops and restaurants in Budapest. It seemed to me they were trying to keep their own traditions and individual character to the greatest extent possible within the framework of the socialist system, quite unlike the typical Soviet-style shops and restaurants I was so accustomed to in the former socialist Russia, which were often just numbered without any individual names, sold the same commodities and served the same menu everywhere. I found, then, Hungary to be succeeding in maintaining a unique status within the Soviet Bloc.

Even if that was the case, the Hungary which I saw in 1995 was already a completely different country. As I had experienced so many restrictions and prohibitions as a Japanese diplomat in the former socialist countries, it was really a pleasant surprise that I could meet anyone, could visit anywhere, could organize anything or could contact anybody and any organization in the newly assigned Hungary. I could enjoy for the first time, as a Japanese diplomat, complete freedom in discharging my duties in a former socialist country.

While I was working as Japanese Ambassador in Budapest, I called on the Vice-Minister of the Interior more than once to discuss the question of mutual abolition of short-term entry visas. The purpose of our consultation was to abolish the old immigration regime imposed upon our relations with the former socialist

countries. The question itself was solved in a mutually satisfactory way and Hungary became the first former socialist country with which Japan agreed to abolish such entry visas mutually and attained equal status with the West European countries in this area. The reason why I refer to this visit now is that the Ministry of Interior was then in the same building where the secret police used to be housed during the old socialist regime. Recalling those old days of ruthless repression, I said to my colleague while going out of the building after the first meeting, 'If it were in those old days, we could enter but, perhaps, could never go out of this building'.

Even such routine work in the newly-transformed Hungary was for me a fresh, very exciting experience.

### 3. Tasks to Be Tackled

There were many questions I had to deal with as Japanese Ambassador to Hungary when we considered it our goal to raise the level of our relations with this newly-transformed Central European country to the same level with the West European countries. That was really a challenging experience for me.

At that time Hungary, like other Central European countries, was still in the process of transforming itself to establish a free and competitive market economic system. Such a transformation process was not at all easy. For each individual case of industrial transformation, strong leaders with a wide range of knowledge and firm determination were required to direct the destruction of the old system and the rebuilding of a new one. Skills, technology and capital were badly needed to realize such a transformation. It was urgently needed for Japan, the world's second largest economic power, to extend full assistance to such transformation efforts. We approached this question from two angles.

On the one hand, we extended direct government assistance to expedite such a transformation process. We, for instance, established a Productivity Promotion Centre in Budapest under the Japanese Government technical assistance program, so that the replacement of old, inefficient factories by modern, more efficient and competitive ones could be realized as quickly as possible.

The Centre chose a model factory, sent Japanese experts there, trained Hungarian workers and engineers, and tried to show in a very concrete way how productivities could be raised by introducing necessary reforms to such a factory.

But I must admit that the activities of private business firms were often more effective in achieving the same purposes in a newly transforming country. Once the Japanese private companies decided to invest in Hungary, they brought together necessary capital, know-how and the latest technology, as well as new employment, and thus could contribute greatly to the reorganization of Hungarian industry. There was no difference in the opinion of both the Japanese and Hungarian governments at that time that private investment from Japan to Hungary must be promoted to the maximum extent. From the point of view of balancing various investments from abroad, the then Hungarian government placed high priority on encouraging investment from Japan.

The difficulty here lies in the fact that such an investment decision could be carried out only by private companies and not by government. Japan at that time was already experiencing the slow-down of its own economy. Japanese business firms were no longer very active in making investments abroad. It was very fortunate for me that the Hungarian government was then very eager to invite private investments from Japan and spared no efforts to achieve such objectives.

#### 4. Hungarian Successes

In the mid-1990s Hungary attracted most of the Japanese investments in the Central European region. Cooperating closely as Japanese Ambassador with the Hungarian leaders in this endeavour, I found three elements were particularly important and effective in achieving such outstanding results.

Firstly, Hungary succeeded in maintaining the confidence of both the Japanese government and private business circles by repaying as scheduled the huge debts they owed to Japan under the old socialist regime. When Hungary started to transform itself into a new economic system, about one-third of its outstanding

foreign debts were from Japan. The debt service ratio was then well over 25 per cent. Since the whole industry lost competitiveness after the collapse of the old socialist regime, it was not at all easy to earn foreign currencies through exports to the world market. And yet the major share of such precious foreign currency earnings had to go for the repayment of their foreign debts. In other former socialist countries cancellation and rescheduling of their foreign debts took place. In Hungary too, there were arguments as to why it did not seek such relief measures. But the very fact that Hungary did not seek debt relief measures in spite of its serious economic difficulties and stood for a rigorous, self-imposed austerity plan created great confidence and succeeded in obtaining full support both from the government and business and financial circles in Japan.

The second element was top sales activities. The Hungarian top leader of that time was determined to persuade Japanese business leaders personally and visited Japan for such a purpose. We could successfully arrange a visit of the Hungarian Prime Minister to Japan to meet many influential Japanese business leaders and promote Japanese private investment to his country in a drastic way.

The general pattern of Japanese investment to Central Europe was greenfield investment. For the Japanese, Central Europe is far away and unfamiliar. When we invest, it is more convenient to start everything from zero. But when I was in Hungary, the privatization process was at its peak. The Hungarian leaders often stressed to me that there were so many chances to do good shopping. Only on one occasion a Japanese business corporation showed special interest in buying a Hungarian asset. That was a top-class hotel standing on the bank of the River Danube in the centre of the city of Budapest. The Hungarian side considered that tourism from Japan could be greatly facilitated if one of the best hotels in Budapest was owned by a Japanese firm. The Japanese side indicated it would offer a sufficiently high price for the hotel in question because they were already cooperating in the management of that hotel during the socialist time. But what happened was the sale by tender of that hotel together with many

other local hotels in Hungary. Since the Japanese side was interested only in one hotel in Budapest, all the hotels were sold to an American company.

Then, the Prime Minister immediately fired the minister who arranged this tender. The whole procedure was reconsidered and the sale of the hotel in Budapest was separated from the sales of other hotels. In this new bidding the Japanese won, and naturally the American Embassy in Budapest lodged a strong protest to the Hungarian government. Unfortunately, by that time this Japanese company was in serious trouble at home because it faced great difficulty in repaying its own huge debts it owed during the bubble economy. It was no longer very eager to buy a hotel abroad, however attractive the offer. So it was soon forced to sell this hotel together with other chain hotels to a foreign company.

I learned afterwards, after my retirement, that the then Prime Minister took a very serious political risk in making the above-mentioned decision. In view of the overwhelming influence of the United States in the Central European countries at that time, the then Hungarian Prime Minister risked even the possibility of being removed from office by outside pressure in moving against such a specific American interest. He took this decision from his conviction that the sale of precious national assets should be done in a balanced way, without favouring any special country group. Because of the economic inability of the Japanese company, the objective the Hungarian leaders pursued at that time did not finally materialize, but I was very moved by the way the then top Hungarian leaders handled this case.

The third element was a very effective follow-up of the investment promotion activities. Even if the decision was made by top Japanese business leaders to invest in Hungary, there were naturally many difficulties to overcome to implement such a decision. As I already pointed out above, Japan and Hungary were geographically very far away and unfamiliar with each another. Hungary was still in the process of transformation, so the prevailing business or social practices were still quite different from what we were used to in the Western world. It required extra efforts to set up in Hungary new competitive modern factories



which could satisfy the Japanese business standard of that time. There were always long lists of questions to be solved for each concrete case of Japanese investment to be successful. The Hungarian counterparts really made extraordinary efforts, in some cases even creating special forums or taking special decisions by instruction from the top of the Hungarian leadership to solve the difficult questions related to individual Japanese investment cases. When Japanese businesspeople began to be convinced that their legitimate worries were well taken care of, Japanese investment in Hungary began to increase sharply.

## 5. Historic Events

The tasks the Japanese Ambassador had to handle in the newly-transformed Central European country were not limited to economic matters. But instead of dwelling upon those tasks, I wish to conclude my paper by referring to the great historic role played by the Hungarians to terminate the old socialist regime dominated by the Soviet Union. As I mentioned at the beginning, I was not on the scene when the great revolution in Central Europe started in 1989. But I later visited the place, the suburbs of Hungary's western border city of Sopron, from where this great transformation process actually began.

At present, it is a small memorial park, but 14 years ago there was nothing but a small open space in a Hungarian village along the Austro-Hungarian border. A narrow, gravel road leads across the border to a small Austrian border town. Old wooden gates divide the road in between. That is the border which also once constituted a part of the Iron Curtain separating the East from the Western world.

It was not so difficult to visualize what had happened on August 19, 1989. A picnic was organized in this tiny Hungarian border village and about a thousand people who moved from East Germany gathered there. In the afternoon of the same day the wooden gates were opened for a few hours to communicate with the villagers on the Austrian side. At that moment, the East Germans, young and old, men and women, who were there, rushed

into Austria through the gates, leaving everything behind them. With this event the exodus started of the East Germans, first through the Austro-Hungarian border, then the fall of the Berlin Wall and soon the collapse of the Soviet socialist regime.

Standing on the spot ten years after the event, I was deeply impressed by the courage and insight of the Hungarian leaders of that time. I recalled that in 1989 Soviet troops, more than a hundred thousand strong, were still stationed in Hungary. If they did not obey orders from the Soviet leadership in Moscow, the Hungarian leaders risked the same fate as their predecessors in 1956. Acquiescing to this historic event as a small gathering in a tiny border village, the Hungarian leaders very accurately judged that the Soviet forces would not move. Their bold decision proved to be right and the Hungarian government formalized the opening of the Austro-Hungarian border in the following month.

## Concluding Remarks

When I started to work in Budapest as Japanese Ambassador in 1995, Hungary was still in the transformation process. Japan was then a big creditor country to Hungary. Japanese industry was far more advanced than that existing in Hungary at that time. But the reforms they were undertaking were really very drastic ones. The Hungarian Socialist Party was then in power. Their basic cause must have been to protect the welfare of the working class. But the policy they were actually pursuing was to cut drastically various welfare expenditures the Hungarian people were so accustomed to under the old socialist regime, in order to recover a necessary balance in key economic sectors under their new market economy.

Such a policy imposed severe sacrifices on most of the people, but thanks to those drastic measures Hungary recovered very quickly from the difficulties of the transformation process. Now, Hungary is recognized as being qualified to become a member of the European Union. I notice that the Hungarian national bond is now rated higher than Japan's. According to the World Competitiveness Yearbook 2002, published by a Swiss research institute

called IMD, Hungary even outstripped Japan last year in the world comparison of competitiveness.

Japan has been in depression since the 1990s and has not yet succeeded in emerging from this difficulty. It has been argued for quite some time that more drastic reforms must be carried out to get out of this situation. But I have not yet seen that degree of drastic measures which I experienced in Hungary in the mid-1990s. The Hungarian political parties in power at that time lost the following election due to those too drastic reforms. But thanks to such courageous steps, Hungary was able to overcome severe economic difficulty quickly and effectively. If I am allowed here to express my humble opinion, it is now for us, the Japanese, to learn more of the boldness, determination and far-sightedness of the Hungarian leaders, shown so remarkably in the last fifteen years in successfully transforming their country.