

60 Years of Hungarian Indonesian Relations

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Economic and political relations between Hungary and Indonesia have a long history with diplomatic ties having been established as early as 1955 and the Hungarian Embassy opening its doors in Djakarta in 1957. In the 60 years since then, several changes and dramatic events have taken place in both countries. At the time of building diplomatic ties between the two countries, Hungary was bound to the Soviet Union and was organised along a Soviet type centralised economic and political system. Indonesia had just gained international reputation by the organisation of the Bandung conference in 1955, which then led to the 1961 establishment of the Non-aligned movement. Although the nations' political systems were different, they shared several characteristics with respect to political development and economic challenges.

The development of relations

Despite the vast geographical distances separating the two countries and the contrasting domestic political stances and international relations, ties of compassion began to develop between the two countries when in 1956 Hungary was waging a revolution to gain full independence from the Soviet Union and the Indonesian press was following and reporting on the developments in Hungary as the people of Indonesia expressed compassion and sorrow in sympathy in mass demonstrations for the unfortunate turn of events. Nine years later in 1965 it was Indonesia's turn to face difficult times as the conflict between domestic political forces escalated into long lasting violence and bloody fights. In the years following the conflicts, similar developments and changes had unfolded in Hungary and Indonesia alike. In Hungary the so called Kadarian consolidation and in Indonesia the Suharto consolidation were based on comparable principles: better living conditions, improving economic perspectives with softening central power control. But the signs of democratisation would only transpire at a very slow pace and it had taken several decades for a full transformation to materialize.

The first high level visits in the 1980s were clear testaments to intensifying economic interests between the two countries. In 1984 President Pál Losonczi paid a visit to Indonesia, which was reciprocated by the Indonesian President Suharto in the following year. The intention to improve relations was expressed in the signing of the Double Taxation Avoidance Agreement between Indonesia and Hungary in 1989. The better framework conditions, however, could not be translated into deepening economic ties in the coming decade because the sequence of economic changes and trends in the nineties were completely different in the two countries, which made economic relations difficult to nurture. At the beginning of the nineties, Hungary was facing a very difficult period of economic restructuring, transformational recession and massive macroeconomic imbalances resulting in several years of recession, soaring unemployment rates which could only be stabilized in the second half of the nineties. After stabilisation in 1997, relatively fast economic recovery was witnessed with dynamically expanding exports, nevertheless, imbalances persisted in various fields for years. When economic trends had turned promising in Hungary, the Asian financial crisis beginning in mid-1997 in Indonesia created a very difficult economic situation with soaring indebtedness of firms due to the collapsing domestic and external demand and non-performing loans in the economy, which was crippled by the sharp depreciation of the currency. The crisis had probably hit the Indonesian economy the worst in the region and caused a 13.1 percent drop in GDP in 1998.

From the turn of the millennium onward, however, economic developments had been following similar trajectories in both countries with comparable yearly GDP growth of 4-5 percent, quite until the crisis of 2008. The impact of the global economic and financial imbalances and crisis in 2008, however, had hit Hungary much more severely than expected and several years of recession ensued with no sign of growth. Tangible recovery was only starting to take shape from 2013. Indonesia displayed remarkable resilience during the crisis years with little impact on its economic growth figures. Currently both countries are enjoying relatively high growth rates. In recent years Indonesia was ranked the second/third fastest growing economy in the G20 country group while Hungary became one of the most dynamic economy in the European Union in 2014.

In 2005 the Hungarian Prime minister visited Nangroe Aceh Darussalam after the earthquake and Tsunami causing serious and long lasting trauma for the people of Indonesia. At that time the building of the children's clinic in Meuraksa Hospital, Banda Aceh, was underway with humanitarian aid from the Hungarian people and government as an expression of sympathy for the people of Indonesia. The impacts of the tsunami really moved the Hungarian people and they voluntarily offered

surprisingly substantial financial aid to help alleviate the impacts of the disaster in Indonesia.

The next breakthrough in bilateral relations came with president Yudhoyono's visit to Hungary in 2013. The Indonesian government and the Hungarian government had agreed on promoting bilateral economic cooperation through trade and investment and on involving the private sector in the process. They also recognised that the economies of the two countries were complementary and there was great potential for cooperation. From the Indonesian side, Hungary may be considered a potential market and a strategic point of entry for Indonesian products to the Eastern and Central European markets and the former Soviet countries. Hungary is also Indonesia's 4th biggest trading partner in Eastern and Central Europe. Therefore, Indonesia has been making efforts to focus on its non-traditional market opportunities in addition to its traditional markets such as the US, Western Europe and East Asia. This objective fits in well with Hungary's strategy of opening towards non-European countries with the intention of taking advantage of more diversified international economic relations.

Agreements and areas of cooperation

Beside presidential or prime ministerial meetings, the past few years have also witnessed several high level visits from ministers and respective speakers of the house. In addition to the growing number of such high level visits, several bilateral agreements were also signed in demonstration of the strengthening economic, cultural and educational relations. Between 1955 and 2015, Indonesia and Hungary signed nearly 40 bilateral agreements including ones granting economic cooperation and visa exemption for diplomatic, service, and education passport holders; and other, business related agreements in order to facilitate business. Some of the most important agreements include the Agreement on Technical and Scientific Co-operation (1967), Agreement on the Avoidance of Double Taxation (1989), Agreement on the Mutual Protection of Investments (1992), Air Traffic Agreement (1994), Framework Agreement between Central Banks (1994), Co-operation Agreement between the Chambers of Commerce (2004), Agreement on the establishment of a Joint Business Council (2004), Economic Co-operation Agreement (2005). President Yudhoyono's visit had greatly contributed to the subsequent launch of cooperation in the sustainable water management sector. Hungary has a strong reputation for its expertise in the field and boasts more than 200 years of experience in water management. For Indonesia, clean water remains an important issue not only for today but also for the future, particularly in its effort to fulfil the demand for clean water in remote areas. In this respect,

in 2014 a very important agreement was concluded between the two countries creating favourable conditions and opportunities by offering concessional credits to Indonesia in the range of USD 50 million through the Hungarian Eximbank, a state owned development banking institution supporting Hungarian exporters in their internationalisation efforts. The funds can be used to finance Indonesian development objectives with the involvement of Hungarian firms offering products, services and knowledge in the execution of the projects. Currently several water supply projects are being implemented in a number of remote areas in Indonesia with the help of this financial instrument. (See further information about that on page 71.)

There are several prospective fields where agreements and joint efforts are expected to contribute to furthering the relations between the two countries. These areas are most likely to include tourism, cultural exchange (which has become quite significant in recent years) and programs in higher education. On the Hungarian side great opportunities are being created by the *Stipendium Hungaricum* program for students who would like to study in Hungary. This Scholarship Program was founded by the Hungarian Government in 2013 with the aim of enabling students from the countries of the 'Global Opening'¹ to finish their full-time bachelor, master or PhD courses in Hungary and later to facilitate economic and cultural development in their countries. It is expected that in 2016 Indonesian students will also take advantage of this program. On the Indonesian side, the *Darmasiswa non-degree scholarship program* is deserving of mention. This government-financed scheme offers foreign students the opportunity to study in 54 selected Indonesian higher education institutions in different cities across Indonesia. The program was established in 1974 originally admitting student only from ASEAN countries but later, in 1976 it was extended to other countries such as Australia, Canada, France, Germany, Hungary, Japan, Mexico, the Netherlands, Norway, Poland, Sweden, and USA. The number of eligible countries was further extended in the nineties. The main purpose of the program is to increase and foster interest of mainly young people in Bahasa Indonesia and Indonesian culture. It is also designed to enhance mutual understanding and provide stronger cultural links. Educational cooperation has also been furthered by regular meetings between Hungarian and Indonesian rectors since 2013 and the conclusion of several Memorandums of Understanding on future fields of cooperation in higher education. In addition to the contacts between public higher educational institutions, private universities in Hungary also offer several scholarships for students from Indonesia.

¹ Global opening has been designed to develop bilateral relations, including economic, cultural and educational cooperation, with countries that Hungary did not traditionally have strong relations or Hungary had neglected relations with in the beginning of the nineties.

Conclusions

Improving economic, cultural and higher educational relations between geographically distant countries is never easy. The difficulties are easy to see thanks to the well-known gravity model of world trade. The law of gravity states that the gravitational attraction between any two objects is proportional to the product of their masses and diminishes with distance. As a result, the trade between any two countries is, other things equal, proportional to the product of their GDPs and diminishes with distance.² But this general rule does not rule out anomalies, which means that long distances do not necessarily prevent improving connection leading to relatively strong trade, capital relations and developing contacts in fields like cultural and higher education cooperation and exchange. But in order for this to happen, several prerequisites must be met.

The first in the line of such prerequisites is the responsibility of diplomacy. High level support of bilateral relations always facilitates the expansion of all forms of international relations. Frequent high level meetings inspire active relationship building endeavours on a lower level as well e.g. cooperation of chambers of commerce or between universities. Political contacts may also help set up financial funds to facilitate grassroots business development with publicly funded projects.

The second important prerequisite relates to shared interests. In the 60 years of bilateral relations we have never witnessed such a constellation of common interests as we see today. And this interest is related to efforts of opening towards third countries in an era of global economic and power restructuring, when the competition between corporations and countries is steadily increasing. The growing pressure for improving competitiveness has developed along with growing opportunities: rapid economic development, improving transport and communication systems facilitate more and better business and cultural contacts.

But the third prerequisite is the most problematic one. If we want to capitalize on the opportunities, lots of work and effort will be required. This work must include the desire to want to get to know each other better, understand the attitude of the people and cross-cultural differences, explore prospective fields of trade, capital and other business relations, and finally, we must facilitate the flow of information between the two countries. If these objectives are achieved, relations can reach a higher level.

² Paul R. Krugman, Maurice Obstfeld, Marc J. Melitz 2012: International Economics: Theory & Policy, 9th ed. p. 12.

Without putting in this arduous day to day work, the currently existing window of opportunity cannot be used, and the moment may be squandered.

And finally, one additional aspect should be raised. Building relations between countries oftentimes require personalities who do not shirk their responsibilities, are willing to travel a lot and communicate with all stakeholders on a regular basis. These personalities could well be instrumental in the process. Finally, let us remember the famous eighteenth century Hungarian traveller, András Jelky, who arrived in the then Batavia (currently Jakarta) after unbelievably adventurous travels. He went on to become a much respected businessman and diplomat, which clearly proves that distance cannot prevent the development of business, cultural or educational relations if endeavours to achieve are strong.

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