

THE FUTURE OF U.S. FOREIGN POLICY (PART I):
REGIONAL ISSUES

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e Future of U.S. Foreign Policy (...)

HEARINGS
BEFORE THE
COMMITTEE ON FOREIGN AFFAIRS
HOUSE OF REPRESENTATIVES
ONE HUNDRED THIRD CONGRESS

FIRST SESSION

FEBRUARY 2, 3, 17, 23, 24,
AND MARCH 18, 1993

PART I

Printed for the use of the Committee on Foreign Affairs



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¹The Brookings Paper on Economic Activity (2:1992), written by Dr. Sachs, is reprinted with permission of the Brookings Institution, Washington, DC.

U.S. POLICY TOWARD THE MIDDLE EAST

TUESDAY, FEBRUARY 2, 1993

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC.

The committee met, pursuant to call, at 10:05 a.m. in room 2172, Rayburn House Office Building, Hon. Lee H. Hamilton (chairman) presiding.

Chairman HAMILTON. We meet in open session to discuss U.S. policy toward the Middle East. This is the second in a series of hearings the committee is holding to review key foreign policy issues facing the United States.¹

Today we hear from Dr. Lisa Anderson, Associate Professor of Political Science and Director of the Middle East Institute, Columbia University; Ambassador Richard Murphy, former Assistant Secretary of State for Near Eastern and South Asian Affairs; Dr. William Quandt, Senior Fellow, The Brookings Institution; and Dr. Ken Stein, Associate Professor, Near Eastern History and Political Science, Emory University.

We are interested, of course, in the Middle East peace process; the situation in Iraq and Iran; progress toward democracy and pluralism in the region; Islamic fundamentalism; and Middle East arms control.

We really want to keep the focus of these hearings on American policy: What is most important for Members to know about the Middle East? What is right and wrong about current U.S. policy? And what recommendations do you have for our policy?

We all have many questions we want to raise with these witnesses. I want to say to the Members I am interested in keeping to the 5-minute rule. Members should try to finish asking their questions by the time the yellow light appears.

When the red signal appears, I am going to pass you a note to advise you that your time has expired.

I am pleased we have these excellent witnesses with us today. Their prepared statements, of course, will be entered into the record in full. I am asking them also to keep their opening remarks brief, 5 minutes or so, if possible; and then we will turn to Members for questioning.

Mr. Gilman.

¹The first hearing in this series appears in a companion volume, "The Future of U.S. Foreign Policy (Part II): Functional Issues."

OPENING STATEMENT OF CONGRESSMAN GILMAN

Mr. GILMAN. Thank you, Mr. Chairman. I just want to take the opportunity to thank you once again for convening this series of hearings on our foreign policy and today's focus on the Middle East is an area which poses complex problems and requires unique and sensitive solutions. I, too, want to welcome our witnesses this morning, some of whom have given us the benefit of counsel in previous subcommittee and committee hearings.

It is good to see Ambassador Murphy back with us once again. I know the committee will appreciate having these witnesses' insights. I am certain their perspectives will help us as we try to seek viable and lasting solutions to the many challenges facing this part of the world.

I hope our witnesses will give us their frank opinions about what direction our foreign policy should be taking and whether there are specific issue concerns that should be given closer scrutiny in the formulation of our Nation's policies.

As our committee continues to address the issues facing this region, I am certain the information gathered this morning will be invaluable. Accordingly, Mr. Chairman, I want to thank our witnesses for giving us their time and expertise.

Thank you, Mr. Chairman.

Chairman HAMILTON. Thank you very much, Mr. Gilman.

We will begin with our witnesses. We will proceed from my left to right.

Dr. Quandt, please begin.

STATEMENT OF WILLIAM QUANDT, SENIOR FELLOW, THE BROOKINGS INSTITUTION

Mr. QUANDT. Thank you very much, Mr. Chairman. I submitted a written statement. I will not read it here. I will focus my brief comments on the Arab-Israeli peace process.

FAVORABLE CIRCUMSTANCES FOR ARAB-ISRAELI AGREEMENT

I would like to start by saying quite strongly that the new administration comes into office at a time when there is a real opportunity for moving the Arab-Israeli conflict toward a negotiated settlement. Rarely in the past have the circumstances surrounding the Arab-Israeli conflict been more propitious for diplomatic initiative.

The reasons for this judgment are the following developments: First, the end of the cold war has really changed the nature of the Arab-Israeli conflict in a way that makes it more susceptible, in my judgment, to a diplomatic solution. The cold war, frankly, made it more complex, made it more difficult, and made it more dangerous to conduct Arab-Israeli peace diplomacy.

Secondly, the defeat of Saddam Hussein and Iraq in the Gulf War led to the emergence of the working coalition of Arab states that included Egypt, Syria, Saudi Arabia, and has more recently been joined by Jordan and the Palestinians, all of whom are seriously committed to negotiating with Israel. That is an unprecedented degree of Arab support for the peace process. I think it can be turned to good advantage.

All of these countries, all of these regimes, at least, want to see the conflict with Israel resolved. They all want to have good relations with the United States. And they all feel threatened by the growing power of Islamic extremism.

The third reason for my relative optimism about the peace process is the victory last summer in the Israeli elections of a Labor-led coalition which now has recommitted Israel to the underlying principle of U.N. Resolution 242 of seeking a negotiated settlement based on the exchange of land for peace.

In addition, the Rabin-led government has agreed to slow down settlement activity in the occupied territories. So two issues that had been difficult to deal with in the past are at least more manageable today.

NEED FOR AMERICAN LEADERSHIP

Now, had it not been for our presidential elections last fall, I think a high-level American effort around late August or early September to move the parties forward in the Arab-Israeli peace process would have been warranted. In fact, if Secretary of State Baker had remained on his job, I suspect he would have gone back to the Middle East and tried to bring the parties to at least preliminary agreements. We all know that opportunity was missed. Now a new administration faces the immediate challenge of just getting the parties back to where they were last fall.

I believe that the parties to the negotiations want and need American leadership. It is true they are able to negotiate directly under the Madrid negotiating formula. And yet that process has not yet yielded substantive agreements, and I don't think on its own it will.

The reason for the difficulty of bringing the negotiations to a conclusion through the Madrid process alone is that decisions in the Middle East, and perhaps elsewhere as well, are not made by negotiating teams. Particularly in the Middle East, most of the regimes are very close to being one-person regimes, one-man regimes. In the case of Syria or Jordan or even the Palestinian movement, it is pretty clear that one person, or a very small number of people, make the key decisions and those are not the people who are represented in the negotiating teams in Washington. Likewise in Israel. The decisions are going to be made by the Prime Minister, not by his negotiators in Washington.

So at a minimum, a supplementary track to the existing diplomacy needs to be opened up and I believe an American mediating role will be necessary for that to happen.

The political leaders, as much as they may want a peace settlement and want to communicate directly with one another, are under considerable pressure from forces within their own societies, within their own governments sometimes who oppose the peace process. They do not feel that they can make far-reaching concessions to their historic enemies. This leads to a certain rigidity in the negotiating framework.

Each party is inclined to say if the other is prepared to move, then we might reconsider our own positions; but we will not make any concessions up-front. Now, in that kind of a situation where the parties themselves are reluctant to move, I believe a mediator

is needed in order to break the logjam. Historically the Arab-Israeli conflict moved toward settlement only when an active mediator moved between the parties trying to find areas of compromise between them, offering suggestions, helping to bridge the gaps.

This is not a call for an American blueprint. We do not have the wisdom to impose a design that would be satisfactory to all the parties to the Arab-Israeli conflict; but our goal should be, and I believe is, to get the parties to agree to terms of a settlement that will provide the basis for long-term stability. This requires that our role be more than that of a mailman. We cannot just pass messages back and forth; and our role is considerably less than that of the designer of the overall settlement. I would say what is needed is an American mediation or mediator who offers ideas and has influence.

BENEFITS TO U.S. OF PEACE AGREEMENT

Why should we bother? Why is the Arab-Israeli issue of such importance for the United States? There are, after all, many issues in the world that demand our attention. I would argue that first we made a commitment as part of the Camp David Accords to be a full partner in the search for a comprehensive Arab-Israeli peace settlement. We made that commitment in writing. I think it was a serious commitment at the time and should be taken seriously now.

We wasted a lot of time in the 1980's. Perhaps the circumstances were not ripe, but nothing was really achieved in terms of a breakthrough in Arab-Israeli peacemaking. President Bush and Secretary of State Baker did succeed in setting the stage for bringing the parties back to the negotiating table. Now I think the Clinton administration has an opportunity to move from formal negotiations toward actual agreements.

Success in the negotiating process, even if just partial, can help to bolster moderate forces in the Middle East. Success in the Arab-Israeli peace process could help to slow the arms race in the region and the rush for weapons of mass destruction. Failure, I believe, could be costly, adding to the region's instability and straining our relations with a whole host of countries with which we now have friendly relations.

Let me simply conclude by saying that I assume we will find a quick solution to the immediate roadblock in the path of the negotiations. The issue of the deportees has been a problem. The news from yesterday suggests we are on our way to finding a solution.

I don't intend to dwell on how that should be resolved but it certainly should not be allowed to prevent the negotiators from getting back to the table as soon as possible.

The last point I would like to say is I think we need to recognize, and I am sure my colleagues among the witnesses will emphasize this even more, that the Middle East is going through very rapid changes. There are new challenges on the horizon. There is a problem of proliferation of weapons of mass destruction in the area; the overarming of this region. There is a problem of the weakness of most of the regimes in the area.

Things could change very rapidly if one or the other leader in the region were to disappear. The region is plagued by

underperformance of governments in the economic sphere, in the social sphere, in the political sphere. There is a serious challenge from opposition elements, particularly those waiving the banner of radical Islam.

The Arab-Israeli peace process will not solve all of these pending challenges but will put us in a better position, along with our friends in the region, to deal with the new agenda of challenges in the Middle East. If you doubt that proposition, try to imagine how we would have dealt with Iraq's invasion of Kuwait if Egypt and Israel had not been at peace.

The Arab-Israeli peace effort is no longer, in my judgment, the central issue in the region. Maybe it never was. But it still is the central issue we are involved with in a constructive way, where we are trying to improve a situation and bring a longstanding conflict toward a diplomatic settlement. I think there is a chance of success, but time should not be wasted.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Quandt appears at the conclusion of the hearings.]

Chairman HAMILTON. Thank you, Dr. Quandt.

Without objection, the Chair will include in the record testimony submitted by the Americans for Peace Now.²

Professor Stein.

STATEMENT OF KEN STEIN, ASSOCIATE PROFESSOR OF NEAR EASTERN HISTORY AND POLITICAL SCIENCE, AND DIRECTOR, MIDDLE EAST RESEARCH PROGRAM, EMORY UNIVERSITY

Mr. STEIN. I appreciate being here today.

If I may, I would like to build upon what Dr. Quandt has just left us with: that is, that the region is plagued by many, many more issues than just the Arab-Israeli conflict. Crafting our foreign policy toward this region comes at a very interesting time in our history and in the history of the region.

END OF COLD WAR IN THE MIDDLE EAST

We are at the juncture in which there is the end of the cold war, not only between us and Moscow but the end of the cold war in the Middle East; we find ourselves at the beginning of the end of the conflict. We have to begin thinking about making foreign policy toward the region where we are not consumed by the Arab-Israeli conflict, but focused on many other issues.

What is interesting for the United States is the cold war and the Arab-Israeli conflict both truncated the natural historical evolution in the Middle East. They truncated the experiment in the late forties with democracy; they truncated the experiment with Islamic fundamentalism in Egypt; and both these issues, issues of democracy and issues of Islamic fundamentalism are appearing again, in part, because the cold war is over. The deflection of time, opportunity and investment in both has now come to a conclusion or is coming to a rapid conclusion.

²The statement referred to appears at the conclusion of the hearings.

When we had the cold war in the Middle East, we had Arab States who consistently and regularly decided that it was better to play off one superpower against the other. The end of the cold war in the Middle East means they are going to have to shoulder greater responsibility themselves. Blaming a superpower for failure to accomplish a goal has virtually ended. Blaming external powers for internal shortcomings will be less marketable to domestic constituencies because populations are much more literate, much more aware, much more eager to have their domestic problems solved.

I would also argue, Mr. Chairman, during the cold war and during the Arab-Israeli conflict, Arab political leaders were able to use Israel's presence as a lightning rod for political mobilization. That, too, is coming to a conclusion. Correspondingly, Israeli leaders were able to use Arab rejection of the Jewish State as a means to weld internal cohesion and seek to broaden external support for the sustenance of Israel's existence.

ARAB WORLD IN TRANSITION

Today in the Middle East, Mr. Chairman, many traditions are becoming unhinged within the Arab world. The family, the village, methods of governance, gender roles, respect for elders, and a re-definition of relations with the West. While new rules of behavior have not yet fully crystallized, the region's people are in profound transition, seeking answers that reflect both customary values and nontraditional standards.

At one extreme there is the proud support of rich political and religious cultures that stress solidarity in a common outlook, ethnic unity and defense of the community. At the other end of the spectrum is the blasting intrusion of westernizing values of social behavior that assert the validity of criticism, defense of separate interests, and promotion of individual rights.

For most Middle Eastern Arabs, answers are not definitive. Some want to make peace with Israel. Others find the prospect abhorrent. Some condemn the allied air attacks against Iraq as intended to retard Arab scientific development and to deny the emergence of Arab power; others laud the aggression because they fear Saddam Hussein's hegemonic interests are pervasive.

Both Egypt and Kuwait were disappointed by the January 1993 allied air attacks against Iraq: Egypt found them too heavy-handed, Kuwait found them insufficient. Some people accept Islam as a platform for political mobilization; others dread the prospect that individual freedoms will be abridged by Islamic beliefs.

At the end of the cold war and at the end of the Arab-Israeli conflict, I believe that we have a unique opportunity because the United States is perceived as, one, being the key beacon for democracy and democratic values; two, we have proven that we will deliver our forces if necessary into the region to protect the stability of the Arab states; three, we remain committed in a bulwark fashion to a long-term commitment to the State of Israel.

The three of these axioms could be continued after the end of the cold war and after the end of the Arab-Israeli conflict, which Dr. Quandt spoke about earlier.

BUILDING ON SUCCESS OF PEACE PROCESS

I believe it is very essential for us to understand that we have had more success in our foreign policy in the last 45 years at the eastern end of the Mediterranean than we have had perhaps in the Persian Gulf. We have been successful in welding together an Arab-Israeli peace process, a negotiating process based upon U.N. Resolution 242, but we have been less successful in maintaining stability at the northern end of the Gulf. Perhaps it has been more distant from us, perhaps because we haven't been as involved in it, and perhaps because our interest in it has more to do with our natural resources than the compatibility of moral values.

That leaves us with the conclusion that our successes in the Middle East peace process should be built upon. Forty years ago, if I am not mistaken, Alan Dulles would have had little time to speak to Nasser or he to him.

Twenty years ago, President Sadat's adviser couldn't get Henry Kissinger's attention to talk about a negotiated settlement before the 1973 war. This past weekend, President Mubarak's political adviser was in Washington talking about a plethora of issues, including how to resolve the deportation problem.

We have come a long distance in building this relationship because we have good bilateral relations with Arab states and should continue to build on that relationship with Egypt, and also with Jordan and with Syria, and ultimately with Lebanon as well.

Certainly we have reason to believe the Syrians are more willing today to enter an arrangement with the Israelis. We have reason to believe the Jordanians are interested in moving forward to cure some of their social and economic problems at home.

FINANCIAL SUPPORT FROM ALLIES

I think it behooves the United States to be prepared to support that process. We cannot do it alone in terms of financing.

I think we have to call upon the Japanese. We have to call upon the countries of the Pacific Rim. We have to call upon the European countries to play a role, ante up, provide these countries loan guarantees, whatever they need for the capital development.

For certainly we understand that it is the naysayers in the political process, those people who receive support from a fear of having their economic well-being not advanced, those are the very same people who support Islamic fundamentalism or Islamic extremism. It is in our interest to provide economic support and assistance to these countries in order to take away some of the steam of recruitment many Islamic fundamentalist groups now have in many of the countries of the Mideast.

NEW KINDS OF INTERVENTION IN MIDDLE EAST

In conclusion, I think we have a important commitment to demonstrate our democratic ideals to the Middle East but not as Warren Christopher said at his confirmation hearings on January 14, it is not up to us to create democracy in regions of the world where the political cultures may not be appropriately adept at accepting it. Individual freedoms in the Middle East are ideals, values that

are subscribed to and are wanted. We should continue to move forward in that direction.

But we have to be prepared—and I will conclude with this—to think about new kinds of intervention in the Middle East that is not necessarily physical intervention. What happens if we are in a position where Islamic fundamentalists or extremists threaten the very regime of Hosni Mubarak in Egypt?

What are we going to do as a country? How will we respond?

What shall we do if the Jordanian Government decides the parliamentary elections scheduled for this coming August should be postponed for they fear an Islamic regime, Islamic parties will take control over the parliament?

Should we wag a finger at King Hussein for trying or be patient with him as he tries to push his pioneering experiment in democracy forward?

I think we have to be very careful in our judgments. We have to be aware that these countries are making an effort in moving toward democratic ideas, if not toward democracy; and I think we have to be prepared to ask our allies to play their role and shoulder their responsibility as they did during the Gulf War.

Thank you very much, Mr. Chairman.

Chairman HAMILTON. Thank you, Professor Stein.

[The prepared statement of Mr. Stein appears at the conclusion of the hearings.]

STATEMENT OF LISA ANDERSON, ASSOCIATE PROFESSOR OF POLITICAL SCIENCE AND DIRECTOR OF THE MIDDLE EAST INSTITUTE, COLUMBIA UNIVERSITY

Chairman HAMILTON. Professor Anderson.

SHAPING THE FUTURE OF THE MIDDLE EAST

Ms. ANDERSON. As the end of the 20th century approaches, the United States enjoys unparalleled opportunities to shape the future of the Middle East. Until very recently, American policy in the region was largely a reflection of the imperatives of the cold war, but the demise of the Soviet Union has prompted reexamination of American purposes there.

Freed from the requirement of constant vigilance against Soviet aggression, the United States may now go beyond merely protecting the peoples of the Middle East to helping improve their lives. This opportunity is not without its dangers, but for the reasons of both expedience and principle, we have no real choice but to seize it.

I would like to take up some of the themes with which Professor Stein ended his remarks.

With the end of the era of European imperialism at the close of the Second World War, the United States took on the role of principal outside power in the Middle East. Having had little direct contact with the area previously, the United States defined its interests there narrowly to include only three significant concerns: Continued access to assured and affordable supplies of oil, maintenance of the security of Israel, and prevention of Communist subversion and Soviet expansion.

During the decades that followed, there was debate about the merits of these aims and about the measures taken to secure them. The continuing hostility to Israel on the part of the Arab states, including the world's major oil-producers, meant that the first two of the American aims—the security of both oil supplies and Israel—were sometimes difficult to reconcile. The overwhelming priority of the third goal, the limitation of Soviet influence, permitted the United States to postpone fully satisfying any of the parties to the Arab-Israel conflict; however, for as long as the Middle East was a vital arena of cold war competition, local preoccupations would be subordinated to the global conflict.

By and large, the instruments used to further these interests reflected the priority of security concerns, and military aid and sales played a large role in American relations with the states of the Middle East.

CONSEQUENCES OF POLITICS OF EXPEDIENCE

The end of the cold war and the dissolution of the Soviet Union reopened these local preoccupations. Although limitation of Soviet influence soon became moot, the other two of the original American interests—access to oil and security of Israel—continued to be important, as the current definition of the region's "hot-spots"—the Persian Gulf and the Arab-Israel arena—indicates. As the cold war ended, the Bush administration adopted a pragmatic approach in the Middle East: Old friends were not abandoned without cause, and help in advancing one or both of the remaining American interests was rewarded. Thus, countries that helped insure continued Western access to Gulf oil through their cooperation in the coalition against Iraq or that aided in enhancing Israel's security by participating in the peace talks begun in Madrid were viewed with favor.

This politics of expedience aided in creating convenient political alliances but it had the disquieting effect of enhancing the stature of some old foes, including the reprehensible regime in Syria, and undermining the position of some old allies, such as the far more liberal Governments of Tunisia and Jordan, without a consistent or principled rationale. Moreover, now that the challenges to regional security no longer include extra-regional military threats, it is not self-evident that the most effective instruments for guaranteeing American interests are the old standbys of increased military aid and military intervention. As the outcome of Gulf War suggests, the dilemmas posed by Saddam Hussein's Iraq to both the stability of the Gulf and the prospects for Arab-Israel peace may not be amenable to simple military solutions.

The end of the Soviet menace has meant that the United States must reassess both the criteria by which it defines its friends and foes and the means by which it encourages approaching those standards in the Middle East.

CHALLENGES FACING MIDDLE EAST GOVERNMENTS

The challenge is particularly significant in the Middle East today because many of the region's governments—friend and foe alike—are marked not only by remarkable records of abuses of their own people but also by increasingly tenuous holds on power. If we do

not reassess our policy in a number of countries, we risk being associated not only with tyrants but with losers.

The governments face burgeoning populations whose education is poor, whose employment prospects are dismal, but whose aspirations are limitless. These disaffected young people are the constituents of the Islamist movements that have appeared throughout the Middle East to threaten the regimes now in power.

The incumbent governments are right to be worried about these movements. Islamists openly call for the replacement of rulers they—accurately—describe as corrupt and unjust. In response, the governments, appeal to outside powers to protect them from revolts among their own people, characterizing the Islamist movements not as symptoms of their own failures but as manifestations of a dangerous international movement bent on destabilizing the region.

Indeed, in ironic and hardly unintended echoes of the past, the Islamists are frequently characterized by those they challenge in language virtually identical to that once used to describe communism: Internationalist, revolutionary, fanatical, totalitarian, anti-American.

Tempting as it is, we should be careful not to take these descriptions at face value. As political movements, Islamist causes are very varied.

RULING ORDER MAY NOT SERVE U.S. INTERESTS

Insofar as the United States has supported the ruling order in much of the Middle East, Islamic movements have often opposed American positions, but where common enemies have encouraged making common cause, as against the Soviet invasion of Afghanistan, Islamist movements have had no difficulty cooperating with the United States.

There are certainly points of political theory upon which many Islamists and many Americans would disagree, but what brings Islamist movements into overt political conflict with the United States is American support of governments they, and many others, consider despotic.

Thus, what Americans must ask themselves is not whether the Islamist movements threaten some historically friendly regimes, for they clearly do, but whether these increasingly fragile, and often increasingly oppressive, regimes any longer serve American interests. Now that anticommunism is no longer a useful litmus test, in other words, we must ask what we expect of those we call our friends.

Without preempting what should be a long and open debate about American foreign policy in general, I think it is fair to say we have an opportunity now to return to the basis of our original abhorrence of communism and renew our commitment to democracy and human rights around the world, including the Middle East. To qualify for American aid, protection and patronage, governments must become more accountable and less predatory toward their own people.

Both expedience and principle dictate that we discriminate not on the basis of cold war friendships and favors. There are many objections raised by those who fear change in the Middle East to the

reforms implied in American advocacy of human rights and democratic change. Two are particularly troubling to American policy-makers and I would like to examine these in closing.

DEMOCRATIC POLITICS AND ISLAMIST MOVEMENTS

First, as the governments of the region repeatedly point out, many of the parties and movements that would benefit from the extension of human rights and the establishment of democratic institutions, particularly but not exclusively the Islamist movements, are avowedly or tacitly undemocratic. Were they permitted a larger public role, it is said, they would undermine respect for human rights and democracy.

This assessment of the oppositions may be true, but since all but one or two of the incumbent regimes in the Middle East are themselves avowedly or tacitly antidemocratic it is not a particularly telling indictment. Moreover, there is considerable liberal political opinion in the Middle East which deserves a far better hearing than it has thus far gotten; the governments of the Middle East should be urged to attend to their own policies and practice before accusing others of failure to respect human rights or democracy.

Just as the "campaign rhetoric" of the governments requires a skeptical hearing, that of their opponents should not be taken at face value. One must assume, that many of the opposition parties and movements in the Middle East, leftist as well as Islamist, will make extravagant claims for themselves knowing that they will not be held accountable for them.

Particularly in circumstances where democracy has been until recently only a theoretical exercise, the claims of its practitioners—positive and negative—will have to be measured by their performance. This, of course, requires giving untried parties an opportunity to perform, and implies that the United States should have regular contacts with the political opposition in these countries so as to encourage respect for democratic competition by all parties.

Our interests are not served by obedience to the wishes of governments who would keep up the pretense that they alone can divine the desires of their people.

DEMOCRATIC POLITICS AND U.S. FOREIGN POLICY INTERESTS

In general, though, we run the risk in encouraging democratic political competition of giving voice and eventually power to positions and groups with whom we disagree.

After all, there was a strong and, to the United States disturbing, correlation in the Arab world between the extent of domestic political liberalization and the level of opposition to American policy in the recent Gulf War. Hence from the point of view of the United States—and this brings me to the second objection to a policy of encouraging respect for human rights and democratic change—democratic politics may well produce undesirable foreign policy results.

Uncertainty is a cornerstone of democratic policies. So too, however, is the opportunity of citizens to assess how well their interests are served by policy, and over time, such assessments usually prove quite predictable. New democracies will probably exhibit

wider swings in policy than do their established counterparts as the acceptable boundaries of such policies are explored.

As they become more strongly rooted, however, democracies are far more likely than authoritarian governments to pursue moderate and peaceable foreign relations. Ultimately American interests, including both assured access to oil and the continued security of Israel, will be far better guaranteed in a region where citizens can speak their minds freely, where candidates for office must explain their policies openly, and where defeated governments will leave office peacefully. The solution to the concern about the instability of new democracies is to permit them to grow into old, established democracies, not to prevent their emergence altogether.

We must expect, of course, that democratic politics will sometimes produce governments who see their own countries' interests better served in opposition to American interests or policy than in consonance. The temptation to wish for (or even to be content with) regimes that are no more than pliable clients is a very strong one, particularly for a superpower. Although all the available evidence suggests that in the long run democracies are more stable, moderate, and liberal in their foreign policies, that run may seem very long to policymakers who must explain why we should support democratic politics even when it may produce temporarily recalcitrant or hostile governments.

The answers to this objection seem to me to be fairly straightforward. In the first place it is a question of expediency: If we do not encourage reform now, we will be witness to revolution miracles.

We cannot expect countries with virtually no experience in democracy to adopt it wholesale and overnight. We must be willing to work closely with governments that are initiating reform toward greater citizen rights and government accountability, just as we must be prepared to oppose, by both word and deed, any reversals in this process or erosion of respect for human rights and responsible government.

Finally, however, we must make explicit our stand on principle. We must risk temporary difficulties for the long-term gain of greater freedom and justice elsewhere in the world both because we do in fact believe that democracy is ultimately a better form of government than the alternatives, and because we are committed to making the world a more peaceful place to live not only for ourselves but for our children.

Thank you, Mr. Chairman.

Chairman HAMILTON. Thank you, Professor Anderson.

[The prepared statement of Ms. Anderson appears at the conclusion of the hearings.]

STATEMENT OF HON. RICHARD MURPHY, FORMER ASSISTANT SECRETARY FOR NEAR EASTERN AND SOUTH ASIAN AFFAIRS, DEPARTMENT OF STATE

Mr. MURPHY. Professor Anderson and I share residence in the city of New York. I think what I am about to say is an example of the diversity of opinion in the city of New York.

I will submit my statement for the record. I will confine my remarks to the Persian Gulf.

U.S. DOMINANCE IN PERSIAN GULF

In the Gulf, the United States has ironically broken with its former dictum we would oppose domination of the Gulf region by any single power. We have become that power and now we have to accept the consequences of that fact.

Although we shun the role of world policeman, we are nonetheless committed to play the policeman's role in the Gulf in order to ensure accessibility of the region's energy sources. We cannot shirk a responsibility which we nominally assumed from Britain in 1971 but which we carried out pretty much on the cheap until Desert Storm and its aftermath.

We will have to be able to implement this policy with considerable firmness coupled with sensitivity to the national pride of regional peoples and leaders. We must also maintain a balance between our arms sales programs and efforts to slow the regional arms race.

To play this role requires us to accept it will be unpopular with both Iraq and Iran. Their history, size and resentment of foreign involvement in the Gulf and in Gulf security matters will inevitably lead them to resent and challenge us no matter who rules in Baghdad or Tehran.

My understanding of current U.S. policy toward the Gulf, Iraq, and Iran is we have no ambition either to build up or play off Baghdad and Tehran against one another in order to restore a balance of power comparable to what existed in the 1970's.

LACK OF COMMITMENT TO ARMS RESTRAINT

I further understand we are continuing to seek the requisite access to the Arab Gulf states to play our security role. How could our Gulf policy be improved? First and foremost, we have deployed an inadequate effort aimed at controlling the arms race in the region.

The previous administration was notably deficient on this score. It was far more interested in making arms sales than in stimulating serious regional thinking about slowing the arms race, whether it be in the Arab-Israeli conflict or in the Persian Gulf.

Secondly, and this may strike you as a detail, but let me get it off my mind, policy governing the sale of dual-use equipment would benefit from a joint review by the executive and the Congress. Present regulations which forbid the sale of dual-use equipment to various countries are highly complex; at the same time, the general guideline that such sales should not occur if they would—quote, unquote—significantly increase the recipient's military capability is remarkably vague and has created an unfortunate tension between the two branches of government.

OVEREMPHASIS ON OUSTING SADDAM

A third failing has been the overemphasis on getting rid of the present leadership of Iraq. The survival of leaders opposed by us such as Castro in Cuba and Qadhafi in Libya remind us of the limits of our power. When overthrow of the leader becomes an important goal of policy, the people in those countries suffer, not their leaders.

I say this not to pardon Saddam Hussein for the horrors he has inflicted on his own people in the region, but simply to note the need to be more honest with ourselves. Like it or not, he may continue to be the President of Iraq indefinitely.

We need to frame a policy which does not pit us against the interests and welfare of a whole people who cannot be said to deserve their leadership and who are, in any event, impotent to rid themselves of their President.

In this connection, the relationship between American policy and the Iraqi and Iranian opposition movements must be carefully monitored. To date, we have not actively supported either opposition movement; however, our maintenance of Operation Provide Comfort and the no-fly zone in northern Iraq has not only given a deserved and an increased sense of security to the Kurdish people, but also, U.S. Government policy notwithstanding, has encouraged those of their leaders who privately hope to build an independent Kurdish state. This has, I believe, been less true of the effect of the other no-fly zone over southern Iraq. There our protection of the Shiite population is less far ranging and the separatist urge much less pronounced.

We should be careful not to stimulate expectations of future support of a Kurdish state unless we are prepared to deal with the anxiety this will cause Turkey and the anger it will cause Baghdad, whether under Saddam or a successor leadership.

ISLAMIC FUNDAMENTALISM

Fourthly, Islamic fundamentalism has attracted considerable attention in the West as a phenomenon threatening established regimes in several Arab states. This little understood but decentralized force I believe is less likely to grow in the Arab Gulf states than in North Africa and Egypt and among the Palestinians. The wealth of the Gulf states, combined with and particularly because of the relative closeness of the Gulf citizen-to-governor relationship, has constrained the appeal of the fundamentalist.

Many young people in the Gulf have been educated in the United States and Europe. They understand Western practices and values. In fact, they understand our systems of government rather better than we understand theirs. Accordingly, we should remain modest in urging structural changes in their governments to fit with our preconceived ideas. We can help keep those governments open to international concerns about broadening popular participation in government.

Finally, our energy policy deserves mention for its effect on U.S. policy in the region. We are quick to say we don't wish to be dependent on oil from the Gulf. But we have not shown the willingness and steadiness of purpose to devote major budgetary resources to developing alternative energies or sources of supply.

There is also a great deal more to be done in the way of conserving energy than we have done as a nation. That said, however we redesign our energy policy this will not affect in the near term our need to maintain a sizable military presence in the Gulf.

Thank you, Mr. Chairman.

[The prepared statement of Ambassador Murphy appears at the conclusion of the hearings.]

Chairman HAMILTON. I want to thank you, Ambassador Murphy and each one of you for excellent statements.

We will begin with questions.

I want to remind Members that I would like to enforce fairly strictly the 5-minute rule, so when the red signal appears, I am going to advise you by a note your time has expired.

Questions will begin with Mr. Gejdenson.

U.S. POLICY ON DUAL-USE TECHNOLOGY TRANSFER

Mr. GEJDENSON. Thank you.

The panelists were all terrific. I have a couple questions to ask.

To begin with, Ambassador Murphy, I am sure you did not mean to imply the transfer of technology to Saddam Hussein was a function of any confusion in our dual-use laws or regulations. It was, rather, the intentional policy of the administration based on the President of the U.S. signing of a national security document to transfer these technologies to Saddam Hussein. There is no question we need to make changes to this policy, but the problems with the Arabs were specific to the desires of the administration and the result of serious debates within the administration of transferring that technology to Saddam Hussein.

Mr. MURPHY. No. Correct, Mr. Congressman. I was not directing that remark specifically to Iraq.

I think there is a problem here between the Executive and the Congress. I hope it can be looked at by all concerned.

ARMS SALES TO THE MIDDLE EAST

Mr. GEJDENSON. Thank you.

Let me focus on a couple of points I find most relevant. First of all, in medicine you say you should do no harm. It seems to me if there is a harm, we led the way, in all of us who represent our own districts, manufacturing weapons systems we are eager to sell. It is for that reason we are the single-largest proliferator of weapons in the Middle East. If there is anything destabilizing it is in the sense that it makes people feel confident enough that they may be able to effect a military solution and diverts revenues from the necessity of increasing the standard of living in the region. Why, for God's sake, don't we lead the world in an effort to have an arms embargo on the region that is virtually absolute?

It is hard to convince the Chinese not to sell missiles to Syria if we sell weapons to anybody with cash or credit. Is there a reason not to try to get a worldwide arms embargo on the region?

Mr. STEIN. There is no reason not to try but it is naive to believe we are going to succeed. I would say this: Countries in the region still need to defend themselves. We have to provide for their self-defense or someone else will.

Mr. GEJDENSON. If we look at the weapons in the region, we see that this is one of the most heavily armed areas in the world. It seems to me that we make people more insecure with the sale of higher-technology weapons in that region.

Mr. STEIN. You can't all of a sudden cut off arms sales when individual countries still have fear about their security and well-being. How much do you want to tax the Israeli political system during

a prolonged peace process by cutting off arms sales to a country that may want to trade land for security?

Is that something you want to do? Will it help the peace process?

PROMOTING DEMOCRACY IN THE MIDDLE EAST

Mr. GEJDENSON. My perspective is that nobody's security increases with our continued elevation of technology. It makes everybody more insecure.

I understand your argument, but I still think we could do a lot better there.

I am a basic believer that we ought to press for democracy everywhere around the globe; that it is almost like a white Western wisdom that when we get to Asia, we shouldn't have to worry about democracy.

In the Middle East you hardly hear the terms in reference to most of the countries. The previous administration constantly talked about how difficult it is to negotiate in Europe about peace without democracy. On the other hand, when totalitarianism left the former Soviet Republics and Yugoslavia, we have some of the worst savagery we have seen since World War II.

How do we get from where we are with the totalitarian governments toward the beginning of democratic institutions without incredible savagery and destabilization?

Mr. STEIN. Some interesting beginnings have been made. It is not like we are beginning at zero and going to 180 degrees. Many of these countries tried parliaments, democratic systems, and freely organized political parties back in the thirties and forties; it didn't succeed for a variety of reasons.

The creation of Israel diverted attention. Military groups came to office. The point I want to make to you is that there are experiments that have begun, not necessarily with democracy, Congressman, but with the rights of the individual to participate in determining his own future within these restricted systems of government.

In other words, they are moving slowly; they are devolving responsibility for government action on to the shoulders of more and more people. That may not be Jeffersonian democracy, and maybe Jeffersonian democracy will never exist in Syria; let me put it differently:

I doubt sincerely that an Attorney General-designate in Iraq is going to have to withdraw her nomination because of public pressure.

Chairman HAMILTON. Professor Anderson, did you want to respond to the question?

SUPPORT FOR LIMITS ON MILITARY SALES

Ms. ANDERSON. Let me suggest—first of all, that I think on military sales, I agree we ought to try, at least insofar as possible, to limit these sales in part because they, of course, are used for domestic repression as well. We must take some of the responsibility for the capacity of these governments to abuse their own citizens.

ENCOURAGING DEMOCRATIC TRENDS

On the issue of democracy, I think Professor Stein is quite right: There are already movements in liberal directions of which we should be cognizant and supportive.

There have been elections held in places where there hadn't been any before. There have been openings of press freedoms, and so forth, in places there had not been before. That I think we ought to be prepared to support and celebrate.

The argument that in the Gulf, for example, the regimes are "authentic" and everyone is happy with them, I am perfectly prepared to accept as long as we say we have a free press in which everyone is actually saying that. As long as there is no free press, I am not sure I am comfortable simply buying what the governments are telling us. I think there are a lot of ways we can support movement toward more democracy without having to require immediate wholesale change.

Chairman HAMILTON. Mr. Gilman.

REINVIGORATING THE PEACE TALKS

Mr. GILMAN. Thank you, Mr. Chairman.

I would like to direct a question to Mr. Murphy, Ambassador Murphy, who was so actively engaged in some of the Middle East peace negotiations.

What do you feel, Mr. Murphy, is needed by the new administration to reinvigorate the peace talks? Should we play a more assertive role in trying to bridge differences? Do the parties themselves want a more assertive role by the United States?

Do you think President Clinton needs a special Middle East negotiator?

I welcome the panelist's comments, also.

Mr. MURPHY. I am convinced, Mr. Gilman, that the parties to the talks that were assembled in Madrid in 1991, that have met in bilateral, multilateral sessions throughout 1992, welcome an assertive American role. We do not have a blueprint about what each session should accomplish.

I think we all share a general goal of what the—what peace should consist of, but there still is a lot of work needed to nudge, to cajole, and we are the only one that can do that.

SPECIAL MIDEAST NEGOTIATOR

On a special negotiator, I think the only question is one of timing. A special negotiator appointed today could be read in the region, at least in some of the capitals that I am familiar with, as a cop-out because the new administration has not engaged itself yet.

Now I am struck that Secretary Christopher has already announced he plans to travel to the principal countries in the peace process in the second half of February. Let him take their measure. They will be taking his—through him, President Clinton and the interest of the new administration in the process.

I think it is high. I think it is a sign of the commitment that Secretary Christopher is traveling so quickly to the region.

But for a special negotiator to be named when there is nothing right now for him to tend to on a daily basis could give the wrong signal that the President was simply putting up someone who would act as if he was able to do more than the Secretary of State or was needed on a steady basis. That could come.

I hope it will come quickly as it did come after Camp David, after the Egyptian-Israeli peace treaty when there was a daily negotiation going on between Egyptians, Israelis and Americans over the next stage.

Mr. GILMAN. Thank you.

Would the other panelists care to respond?

Dr. Quandt.

Mr. QUANDT. I would like to address this issue of the special Arab-Israeli peace negotiator. We have had experience with this model.

There have been probably seven or eight presidentially designated envoys for Middle East peace negotiations. The striking thing to me, as someone who just completed a book on the process, is that no one can recall any achievement by any of these quite distinguished individuals. It is not their fault. They are simply not taken seriously in the region.

In the minds of Israeli Prime Ministers and Syrian Presidents is when the Americans get serious they send their Secretary of State or a message from the President. These negotiators operate under a liability of being seen as the second team. That is unfortunate, but that is the recent history.

Perhaps we can persuade the Middle East parties at some point in the negotiating process to work effectively through a special envoy; but at this stage, simply to get the talks going, to focus on substance, I don't think the naming of a special envoy would send the right signal. As Ambassador Murphy mentioned, there may come a time when we are in a more technical phase of facilitating the last stages of a negotiation, where that kind of hands-on, day-to-day involvement by a special negotiator might help, but not to get the process started at this stage.

Mr. GILMAN. Thank you, Dr. Quandt.

Professor Stein.

NEW STAGE IN THE NEGOTIATING PROCESS

Mr. STEIN. Just quickly, we should be assertive but not coercive in the peace process. We don't need to be a surrogate of one side or the other. Before and since Madrid, we handled ourselves very well in cobbling this process together.

I think people have faith in our ability. They respected our ideals. They respect our interest in what they are trying to accomplish. I think that we are in a new stage of the Arab-Israeli negotiating process where the sides don't have to have their heads knocked together to talk to one another. They are doing it of their own volition. The Rabin compromise on the deportee issue is a clear desire of not having the process falter because of an intervening variable.

Mr. GILMAN. You think it is moving in the right direction?

Mr. STEIN. I think it is moving in the right direction. I subscribe to what Ambassador Murphy said, appointing an envoy sends a sig-

nal that the President of the United States is not as interested as he should be in overseeing the peace process.

Ms. ANDERSON. I would reiterate that. For the moment the President and Secretary have to be involved.

Mr. GILMAN. I thank the panelists.

Thank you, Mr. Chairman.

Chairman HAMILTON. Mr. Lantos.

COLLECTIVE SECURITY ARRANGEMENTS FOR THE PERSIAN GULF

Mr. LANTOS. Thank you, Mr. Chairman.

I would like to begin with a statement from Ambassador Murphy's testimony.

You say, Mr. Ambassador, in the Persian Gulf, the United States has ironically broken with its former dictum that we would oppose the domination of the Gulf region by any single power. "We have become that power," you say, "and now we must accept the consequences of that fact. Although we shun the role of world policeman, we are nonetheless committed to play the policeman's role in the Gulf in order to ensure the security and accessibility of the region's energy resources."

To whatever extent your statement is accurate, and my judgment is that it is accurate to a very large extent, I wonder if it is not incumbent upon us to look for more palatable, more reasonable, and more multinational alternatives.

Let me expand on that. It seems to me if you take a look at collective security globally, you have three kinds of paths: No. 1, you have NATO, which is enormously powerful, enormously capable, and was designed to deal with the Soviet menace, which clearly no longer exists. So here we have the quintessentially perfect multinational mechanism designed to deal with an entity of the Soviet Union which has vanished but impotent apparently to deal with the crisis in Yugoslavia next door.

Parenthetically, I think the whole Yugoslav crisis could have been prevented had NATO indicated with an ultimatum that military moves in Yugoslavia will be met by NATO. I understand that under present circumstances, NATO cannot function out of area; but that is a decision of the NATO partners and the NATO partners can change that decision.

So my first question is would it not make sense, since the Middle East and the Gulf will continue to be an enormously troublesome and turbulent and dangerous arena, to expand NATO's sphere of operation to this area?

MULTINATIONAL PEACEMAKING CAPABILITY

Secondly, since the other collective peace apparatus we have is U.S. peacekeeping forces, while in point of fact what is called for is U.N. peacemaking forces. What is needed is to create a multinational standby military capability that with rapid deployment can deal with crises across the globe.

And finally, if I may, would it not make a great deal of sense to focus the energies of our administration in the foreign policy field. We clearly have a multiplicity of crises from Bosnia-Herzegovina, to Somalia, to obviously the Middle East, to Armenia and Azerbaijan. Creating such an international capability is essential so the

United States will not be left with the role of international policeman, which is unpalatable politically and unacceptable financially.

Would you mind beginning the response, Ambassador Murphy?

Mr. MURPHY. Yes, sir.

My remarks were designed to get us through the next 4 years. I would predict it is going to take you—take all of us that period of time to do either of your three suggestions: Expanding NATO out of the area, building a multinational military capability; but to—for the first two, I think it will take us those 4 years.

To begin now to focus the energies of our administration on creating such an international capability, yes, I would be right with it. I just repeat I am trying to think in terms of the immediate, the near-term, not the ultimate; and if we can persuade NATO, that will be fine. If we get a relationship with the United Nations that—

NATO COOPERATION ON OUT OF AREA MISSIONS

Mr. LANTOS. Do you think we need to persuade NATO? Aren't we an important part of NATO? Why should the American taxpayer pay for NATO when its present function is not relevant?

Mr. MURPHY. I don't have a good answer to that. I just remind us all that during the height of the Gulf War of 1980-1988, when it was between Iraq and Iran and we did ask certain NATO countries to join us, they came. They had problems; they had hangups politically in the chancelleries of Europe, but they had no problems in the Gulf on the water. There was excellent cooperation between NATO members.

There is an ability to cooperate. There is a reluctance to get engaged out of the area. It certainly should be further explored.

EXPANDED POST-COLD WAR ROLE FOR UNITED NATIONS

Ms. ANDERSON. I think we have to think more creatively about what we do with the institutions and structures of the world that were designed around the cold war. I think you are quite right that we have to think, frankly, about more than simply what will get us through the next 4 years, but where do we want to be going, what direction do we want to be going?

I am inclined to think that at this stage, the United Nations is a more interesting focus for attention than it has been for some time, as we consider reviving or revitalizing some of the functions it was originally designed to serve.

CAUTION AGAINST UNILATERAL ACTION

Mr. STEIN. There are two fears in the Middle East. I just came back from a 2-week trip to Arab states. One, fear is that we will act in an arrogant fashion at the end of the cold war or that we will act in an isolationist manner. Rarely do you hear people talk about something in between.

I think the fear of arrogance is something we must listen to carefully. Yet, we cannot hope to be the policeman of the world, nor should we act in regions of the world without the cooperation and collaboration of individual countries and local defense organizations.

If we want to do that for the Gulf, the Gulf Cooperation Council has to play a role. They can't abrogate their responsibility. The Arab League has to play a role. They can't abrogate their responsibility to assist if they want to stop the slaughter of Muslims in Bosnia. But they haven't.

The point is it is nice to have these options on paper. They have to take the responsibility and give teeth to interventionist action. Arab Muslim states cannot just sit there and blame us for inaction. We must align ourselves to regional organizations. If we can't do it in cooperation with a regional organization or with NATO, it will be known as neoimperialism.

Mr. QUANDT. I think the most intriguing suggestion you made, Congressman, and others have been thinking about, is to try to create under a U.N. umbrella a real peacemaking force. We do not have that at present.

It would have been very useful in Somalia. It is hard to imagine that in a full-scale Gulf crisis one could count entirely on such a force. It might, however, create some degree of deterrence before a crisis and help ensure a kind of burdensharing from the outset. So I would say in terms of creative restructuring of the security environment for the Middle East and other parts of the Third World, to move in the direction of a multilateral, U.N.-based peacemaking force is a very challenging and interesting possibility.

Mr. LANTOS. Thank you.

Chairman HAMILTON. Mr. Smith.

He will be followed by Mr. Ackerman.

RELIGIOUS INTOLERANCE IN THE ISLAMIC WORLD

Mr. SMITH. Thank you very much, Mr. Chairman.

I want to thank the panel for an excellent presentation.

Mr. Chairman, for many years the underpinning of U.S. policy vis-a-vis the former Soviet Union and East Bloc has been human rights. In fact, I have traveled with Mr. Lantos and many others as a Helsinki commissioner for the last 11 of my 13 years here, and always central to the Helsinki relationship in any policy consideration has been human rights.

It seems to me that as we look at the Islamic world, there is a gaping double standard when it comes to protection, preservation, and even the raising of human rights questions in those countries. I think human rights have been significantly downplayed by the United Nations, by this country, and by many of us who have been in contact with many of these Islamic countries. Nowhere is that more apparent than in the area of religious freedom.

Look at Saudi Arabia, where our most recently written Country Reports on Human Rights Practices points out, "freedom of religion does not exist." In Saudi Arabia, we have very definitive, declarative interests. The report points out, "the public apostasy is a crime . . . punishable by death" and illustrates the point that on September 3, the authorities publicly beheaded a Saudi Arabian citizen, Sadiq Ma'alallah for "the crime of apostasy based on charges of importing a Bible and other religious materials." It goes on from there.

I would like perhaps the panel to focus a few moments on this fact and this unfortunate situation. As we know, the Mutawwai'm

or religious police in Saudi Arabia routinely beat, and at times torture, and very frequently verbally abuse anyone found to be carrying a Bible or any religious materials, even the display of a crucifix, or a cross, or some other religious symbols that are not Islamic.

What would your recommendations be to the United Nations, to the United States, and to this committee as to how we might work to decriminalize being a Christian in these Islamic countries? How does one not face the extreme penalty of actual death by beheading as we have seen in this case or other kinds of punishments?

We know even foreign nationals, such as Filipinos who are working in these countries, are cruelly dealt with. Americans perhaps don't get the same kind of treatment because of our relationship to that country diplomatically. But we, too, have to hide the fact that we are Christians when in that country.

There are no Christian churches. Yes, there are many mosques. How do we decriminalize being a Christian in Saudi Arabia and these other countries?

What policy recommendation do you make to us to raise these issues of human rights? Simply claiming this is an Islamic country based on Islamic law does not cut it. Just as in a secular sense claiming the Communist model allowed the Communist dictators to carry out its repression didn't cut it either.

I would yield to the panel.

FOCUS ON PROMOTING FREEDOM OF BELIEF AND EXPRESSION

Ms. ANDERSON. I think we have to be careful about how we make these sort of arguments. I am, I think it is apparent, a great advocate of human rights. I think we need to be far more aggressive in our support of human rights. I think we should be requiring that the governments of this region, as we do elsewhere in the world, pay far more attention than they have to international standards of human rights.

That is not to say, however, that I think what would be understood as special pleading makes a lot of sense. I don't think the issue is decriminalizing being a Christian. The issue is freedom of belief and expression. Period. That, I think we can say, other things being equal, we do advocate.

We would like to see freedom of belief and expression more widely respected in a number of other places. That, I think we can say, and to some extent, I think there are a lot of discussions like that that we should be having with friendly regimes.

But again, I think we have to be careful that we do not make it a matter of special pleading. These are general principles that hold around the world for all states. Therefore, freedom of religion, belief or expression, and so forth, is as important for the Bahais in Iran as it is for anyone in Saudi Arabia.

RELIGIOUS FREEDOM VARIES THROUGHOUT REGION

Mr. STEIN. If I may add, I think we have to be careful about generalizing. There are some real problems, as you mentioned. But there are more than a billion Muslims in the world. Not all of them feel that way about Christians nor do they feel that way about Jews.

You can go to a church in Amman or Damascus. The Damascus regime is not what you would call a central hallmark for protecting human rights. But you can practice your religion, if you want to, and if you do it quietly, and not in an overtly threatening manner.

So I would just be cautious about making sweeping generalizations about an entire people or entire religion.

Mr. SMITH. My question was to Saudi Arabia in particular.

Please don't.

Chairman HAMILTON. Is there any further response from the panel?

Mr. MURPHY. As one who has lived in Saudi Arabia perhaps longer than most, it is not to condone their practices on the observance of other religions and profession; we should stand up to that question. We do speak to that, I know.

One reaction a few years ago, no longer valid, was that the Saudi Arabians see themselves in a very special relationship to Islam given their custodianship of Mecca and Medina. They noted that it—at least at that point in history, about 10 years back, there was no mosque in Rome. No longer a significant defense, because there is a mosque in Rome today.

Chairman HAMILTON. Mr. Ackerman.

PLURALISM AND THE DEMOCRATIC PROCESS

Mr. ACKERMAN. Thank you very much.

Welcome to the whole panel, and a special welcome for Ambassador Murphy who, in his official capacity, has served our country so well and has appeared here so many times before.

I have a basic question to follow up on Congressman Smith's inquiry. It basically goes to the heart of what should the thrust of our policy be with regard to some of the countries in the region?

Should we be stressing democracy or should we be stressing pluralism?

And I think there is an important difference as we formulate and pursue policies.

Democracy, I think, sometimes is more of a process than anything else, and it comes down to whether we are going to stress process or values, our values sometimes being different than those in the region.

For example, we have seen nations that have the ability to institute democracy as far as process, conduct a general election; and by virtue of democratic process, eliminate all kinds of pluralism and the practice of various freedoms that we hold so dear; and then by virtue of almost the powers of an oligarchy, be able to impose the will of the majority and then claim to us that it was democratically instituted.

How do we deal with that? What should we be doing rather than just talking in generalizations of democracy?

Should we be trying to impose our will in some gently persuasive way as far as what American values are in the region?

Ms. ANDERSON. Well, let me say two things about that. First of all, I think, yes, democracy is a process. Although we tend to associate values with it, I am inclined to agree with de Tocqueville who said about democracy in America, the way people learn to be democrats is by doing it. I think that is, in fact, likely to be the case

in other parts of the world as well. Therefore, were people to have local elections in municipalities, they would see what it is like to vote, they would see what it is like for people to differ, they see what it is like to lose an election, to win an election, so forth. It is a way for people to learn.

I am, therefore, inclined to think there are a lot of opportunities which will not necessarily challenge the national-level governments in which the process of democracy can be experimented with and learned. There are local elections, municipal elections, partial elections, so forth. These kind of experiments teach people how to be democrats with a small *d*.

THE ALGERIAN EXPERIENCE

I also think there is a very real danger in the lessons that were learned in the Algerian experience last year. The Algerians held what were conceded across-the-board to have been free and fair elections. The electoral system was designed to ensure that the biggest party's votes were magnified in the allocation of seats in parliament because the ruling party thought it would be the biggest party, but it guessed wrong.

What happened as a result of the military intervention and the interruption of the democratic process is that every Islamist movement across the world learned that if you play by the rules, you will still not be allowed to win. That is a very unfortunate lesson.

The United States should have said at that point, it is not clear that the Islamists who would have taken legislative power under a constitution that permitted the President to dissolve the legislature, constituted a threat. There was a long way to go before we knew that the Islamists would take complete control and prohibit subsequent elections. President Bendjedid in Algeria believed he would be able to dissolve the parliament if there were a problem. We never gave that possibility a chance; rather the Algerian military didn't give it a chance.

Mr. ACKERMAN. What would have happened if they had played by the rules and been permitted to win?

Ms. ANDERSON. There would have been a FLN President.

Mr. ACKERMAN. Would we have had to comply with the results?

Ms. ANDERSON. There would have been an FLN President and an FIS-dominated legislature. That difference between the executive and legislative branch is not something we have never experienced. In the Algerian constitution, had the Islamists decided to do things the President didn't want the parliament to do, he would have dissolved parliament. This is a very powerful executive.

The point is, I think the military could have stepped in considerably later and the experiment could have been allowed to go on for longer.

I think we need to take the risk of some experiments.

ENCOURAGING MOVEMENT TOWARD GREATER PLURALISM

Mr. STEIN. Suppose you take the risk and think the unthinkable, Congressman, suppose an Islamic group wins and runs the affairs of a particular country; then suppose they are proven incapable of delivering the goods and services like some of the secular regimes or military regimes.

Then perhaps people won't have so much appeal for the Islamic cause because it will prove that a pronounced Islamic orientation will not be able to deliver the goods and services either; that wouldn't be a bad lesson to learn, would it? Is Iran since 1979 a success story?

Mr. ACKERMAN. Do I have time to respond to the question, Mr. Chairman?

Chairman HAMILTON. If you like.

Mr. ACKERMAN. I don't think the question was so much the delivery of goods and services and waiting for the financial crunch so people finally rise up and revolt. But what happens when you elect a regime that not only rejects pluralism but is completely intolerant and institutes by legal fiat, a constitutional decree, human rights violations.

Mr. STEIN. Elections, are no guarantee for democracy. Supposing there are Palestinian elections. The wrong people may be elected. The wrong results may delegitimize the current West Bank political leadership and do harm, severe harm, to the negotiating process. On the other hand, caring about election results may not be any of our business.

Mr. ACKERMAN. But the question is do we insist on pluralism as part of democratization? The ideals get tied in to the process or do we just accept the process for the sake of process?

Mr. STEIN. Why don't we just accept the notion of individual rights and freedoms and let them decide whether it is pluralism or democracy.

Mr. ACKERMAN. Because there are some philosophies that don't view human rights as a legitimate end because there is a greater good.

Mr. STEIN. That is the turmoil I was talking about in the Middle East today, allegiance to a concept of community versus the support of rights of the individual. That is what is happening. We have to take care in identifying those countries in the region that have made progress and stimulate them along a little. Jordan and Egypt, for example, need to have our support. Maybe we will not be successful in Libya, or Iraq. OK, we may not be successful there. That is OK. Let us be selective in our support, especially where there is an indigenous desire and intent to care more for the individual.

Where we can make progress and support them, let us support them.

Mr. ACKERMAN. We are successful in Jordan and Egypt because you have more democratic regimes in power.

Mr. STEIN. But they are also threatened by fundamentalism, sir.

Mr. ACKERMAN. When the fundamentalists finally win—to be continued, I am sure.

Chairman HAMILTON. Mr. Hastings.

STATUS OF JERUSALEM

Mr. HASTINGS. Thank you so much, Mr. Chairman.

I, too, welcome the panel.

Professor Stein, I hate to keep you up, but I am interested in—

Mr. STEIN. I got up early at 5:30 to make a plane. It is OK.

Mr. HASTINGS. I, among many folk, have expressed the view that Jerusalem should be the undivided capital of Israel and that the States' embassy in Israel should be moved from Tel Aviv to Jerusalem as early as is practical.

Can you just give me the benefit of your views on that, sir?

Mr. STEIN. Yes. I subscribe to the former but not to the latter.

Very briefly, I don't think there is anyone in the Arab world or Israel that wants to see an undivided Jerusalem. I don't think anyone does.

The question is how do you control access to it; how do you determine sovereignty? Maybe it is co-sovereignty at some point. And maybe there is a borough system. I think Jerusalem is a very sensitive issue to Jews, Muslims and Christians, and all the religions need to have their rights and sensitivities taken into account and respected.

I think the manner in which the Israelis have handled Jerusalem has been exemplary since 1967. I think they allowed everyone access to the holy sites. The policeman on the temple mount near the Moslem mosques are Muslim policeman, not Jewish ones. There is a sensitivity there. I am not in favor of transferring the U.S. Embassy to Jerusalem in the middle of Arab-Israeli negotiations.

It will offend a good deal of the people in whom we are trying to create confidence. I don't think it is something critical to do at this juncture. Maybe the best thing for us to do is leave some of the difficult issues off the agenda and worry about it at the end.

PROSPECTS FOR LIFTING THE ARAB BOYCOTT

Mr. HASTINGS. Professor Anderson, anyone on the panel, aside from waging economic warfare against Israel through the primary Arab boycott, the Arab League, it seems, has sought to use the secondary boycott to hurt the American companies that have trade relations with Israel. Without trying to background you, I know you know a great deal more about this than do I, but I am curious, how important do you view ending the Arab boycott on Israel and what sort of pressure would you apply to Saudi Arabia, for example, to end its participation in this boycott, or Kuwait, or Jordan?

And in your view, what could the United States be doing in OECD for us to impress our allies to end their compliance with the Arab boycott?

I am interested in yours or any panel member's views.

That would be my final question, Mr. Chairman.

Ms. ANDERSON. Actually I think, as several people have said in response to a variety of questions, the issue is timing. I think right now there is probably a consensus on the panel that this is a moment of enormous opportunity on the Arab-Israeli front, that there is a chance here for a real breakthrough. Therefore, you do not want to take piecemeal, parts of what would be a whole package, and say, well, let us make an issue about this, anymore than you want to move the embassy at this moment. The ending of the Arab boycott of Israel would presumably be part and parcel of a comprehensive agreement. That is what you want to see.

So although I think we can say, as we have in the past, we think this is reprehensible, what we want to do is concentrate our attentions on actually getting the parties who are ultimately going to be

the people who sign together and to make sure their work bears fruit.

Mr. MURPHY. It was tried, Congressman, at some point in 1992. It was brought up as an idea the secondary boycott be ended in, I think—in exchange for cessation of settlement construction in the Occupied Territories. It didn't fly, but it is clearly recognized, I think, in the Arab world as a chip that is on the table.

Just when they are going to play it is not clear. I think—that is right. On settlements: their point was you want us to dismantle the boycott office throughout the Arab world in return for what could be a temporary cessation of settlements. We don't trust it as a deal. But it is in the air; the idea is well and alive.

Mr. HASTINGS. Thank you.

I yield back the balance of any time I have, Mr. Chairman.

Chairman HAMILTON. I might say to Members the next person will be Mr. Wynn. That will complete the Members who were here when the session began.

Then I will call on Members in order of their appearance in the room after we had begun, which is pursuant to committee rules.

Mr. Wynn.

SUPPORT FOR RESTRAINT IN ARMS TRANSFERS

Mr. WYNN. Thank you very much, Mr. Chairman.

First, my compliments to the panel. I thought it was an excellent presentation.

I have two questions. First, in terms of foreign aid, what role and what direction for foreign aid in terms of contributing to the peace are our objectives in the region generally.

Second, I would like to go back to the question of arms sales. I agree with Professor Stein, we cannot be naive. Arms sales are legitimate. How can we downsize the arms situation in the region?

Mr. QUANDT. If I may begin by answering your question, Congressman. The way to start to downsize the transfer of American arms to the region is just to say no occasionally.

That is not a complete answer. There always will be some specific cases where we will feel some need to respond to a legitimate security request; but we are a very substantial part of the problem. We cannot elicit cooperation from others, the British, the French, to say nothing of the Russians and Chinese, if we are not showing some restraint ourselves. It is particularly important at the high end of technology to get some controls.

In addition, we are, of course, financing the import of American arms in both Israel and Egypt. They would not be buying American arms today if we were not making it financially possible for them to do so; they would probably be going to other suppliers.

CONDITIONING ASSISTANCE ON ECONOMIC REFORM

Insofar as Egypt and Israel are concerned, just look at the amounts of money we provide. Perhaps for the moment there is no alternative than to keep some of that aid going, but I do think the increasing challenge for most of the countries in the region is going to be economic performance. This is where governments, time and time again, have failed to meet the expectations of their own peoples.

Insofar as we have economic aid to be distributed, it seems to me, as in the case of Egypt, for example, we ought to be conscious of how it is contributing to Egypt's capability to develop its own economy on a long-term basis. Some headway has been made.

I would not say it has all been money that has gone for nondevelopment purposes, but I think we know the kinds of conditions that get the government's attention. If we reinforce IMF standards and say aid will be made available if a government moves toward economic reform, that has an impact, at least in a country like Egypt where they have made some progress.

RESCHEDULING OF DEBT

Another big issue for some countries is not just getting more aid, but dealing with outstanding debt. We were very generous in the way we dealt with the Egyptian debt problem in the aftermath of the Gulf crisis, but there are other countries in the region, such as Turkey and Algeria, that face very, very serious problems of indebtedness.

A substantial way of helping their economies is sometimes to re-schedule repayments on debts. Often that is not exclusively an American concern, but we have some influence with our allies, our own financial sector, and sometimes international financial institutions. So management of debt is actually a very big problem.

For Algeria, for example, it is much more important for them to get debt relief than to get simply more aid piled on top of the outstanding debt that they already have.

I think increasingly, the old aid as a kind of economic payoff for some foreign policy benefit that we have received is not going to be justifiable in the eyes of the American public. We are going to be talking more and more about credits for serious development efforts, with some expectation that nonperformance entails a penalty. I think we have to understand we will also have less influence when we move to that model of foreign aid, but it seems to me that is the direction we are heading. Fewer giveaways; more concern with economic performance; and more multilateralism in aid programs.

MULTILATERALISM IN FUTURE AID PROGRAMS

Mr. MURPHY. I would agree that we are probably never going to play the role again as we did single-handedly after the Israeli-Egyptian peace treaty saying that "the U.S. Treasury was open" and others stood back. If there are going to be further negotiations, we have every right to expect other countries would join in.

In that regard, I think there is something more to be encouraged in the region itself: that the oil-producing states look more carefully at the needs of the poorer Arab states. A lot of capital comes out of that part of the world, goes into investments in Geneva, London, and New York.

LIMITED PROGRESS ON REDUCTIONS IN ARMS SALES

On arms sales, I did not mean in my comments to imply the previous administration did absolutely nothing. They did start a suppliers' dialogue among the Permanent Five. It has just seemed to

be very tentative in its approach and limited in the progress that it has made; but downsizing those talks have started between Britain, France, China, Russia, and ourselves.

We supply 75 percent of the arms to the area. Those talks can be pushed harder. Certainly in the region I do not have the sense that in terms of confidence-building measures we have yet seriously tackled the measure of slowing the arms race.

Chairman HAMILTON. Mr. Manzullo.

PESSIMISTIC ASSESSMENT OF SITUATION IN THE MIDDLE EAST

Mr. MANZULLO. Thank you.

Professor Stein, I have a question and a couple of comments. I do not subscribe to your theory which I think you are trying to postulate that the Arab-Israeli conflict has become a little bit less dangerous, more normalized in light of the fact that the cold war has ended, because the cold war may have ended, but all hell has broken loose in the countries that formerly comprise the Soviet Union. What I see developing is the fact that the Soviet Union or Russia, as we know it, will eventually be the only nuclear nation.

It is selling three diesel electric submarines to Iran; and with the signing of the new treaty to limit nuclear weaponry in that area, we have now succeeded in removing nuclear missile sites from areas that can be spotted to areas that are now under the sea; and now we have the interesting situation of at least two of those three Russian subs that are floating somewhere around the waters of the Middle East with rockets, the heads of which we have no idea as to what is happening.

So I would propose to you, sir, that to postulate a theory that we are moving toward a post Arab-Israeli conflict when the old Soviet Union is exerting more down pressures, perhaps is premature.

The second comment is with regard to—on page 4 of your prepared payment—written where in you state: “These same stable, reliable friends have either established themselves as democracies or are moving in that direction. They have populations interested more in protecting individual rights.”

Well, the populations may be interested, but the leaders aren't. I read in the Washington Post, I believe 2 days ago, where somebody in Bahrain was executed for making moonshine in violation of the religious law of that country.

I do not consider that to be a major effort toward the establishment of freedoms in the particular areas.

The third point, perhaps your enthusiasm to resolve this situation has raced 10 years ahead of where we are; but on page 7, you state: “Arab recognition of Israel's presence in the Middle East acknowledges a failure to rid the region of the Jewish State, which is itself a major cultural admission. Pan Arab goals have become historical fossils.”

I know of only one state in the Middle East that has formally recognized Israel's right to exist, and that is Egypt. The boycott continues. American blood was shed in the Middle East; and when it came time to have a peace conference, Saudi Arabia didn't show up.

So perhaps we are trying to use Western type of thinking to a people who simply do not rationalize or reason the same way we do.

PROGRESS IN NEGOTIATING PROCESS NOTED

Mr. STEIN. Mr. Congressman, thank you for reading my statement so carefully.

The Saudis did show up at the peace conference, sir. Not only did they show up at the peace conference, they provided the funds for the first multilateral talks that took place in Moscow.

I don't have any illusions that peace is about to break out in the Middle East, like the Olympics are going to break out in Atlanta in 1996.

But I think I am on reasonably safe ground when I say the three other people on this panel believe that we have made extraordinary progress in moving down the path toward an Arab-Israeli peace. It will take 5, 10, 15 years to implement, to secure; maybe even longer.

There isn't one single Arab or Israeli negotiator, Mr. Congressman, who has been part of this current process who hasn't in the last 2 or 3 months indicated not only the fact that we have traveled a arduous route and made progress, but there is even optimism expressed. All you need to do is look at the footnotes I have in my statement as just represented. I can find you more, if you like.

The end of the cold war only removes from the Arab-Israeli conflict one aspect of that conflict. It makes the respective sides no longer find alternatives to dealing with one another instead of special pleadings to the respective superpowers. They now have to deal with one another. They have to live together. They have to turn down their tones of animosities and apprehensions.

I don't claim Israel is ever going to have relations with Syria like the United States has with Canada. It probably won't happen in my lifetime, yours, or your grandchildren's. That still doesn't mean that the negotiating process has not moved forward and not made major strides. I think we are at the beginning of the end of the Israeli-Arab conflict. Otherwise, there wouldn't be people coming back for the bilateral talks, people wanting to make compromises for the multilateral talks.

I think when we make distinctions in the Middle East, I am not talking about Bahrain, I am talking about Jordan and Egypt. They are trying. They are making efforts. They are moving forward with democratization efforts.

If multilateralism is to mean anything and economic assistance is to mean anything, those countries need to be supported. And those countries that don't support them need to be urged to do so.

We need to urge Arab states to change their value system, not to be exactly like ours but to protect individual rights and freedoms. I go back to what I said earlier to Mr. Smith. I think cavalierly sometimes we make generalizations which are inept and wrong about the region.

Chairman HAMILTON. Mr. Andrews.

IMPACT OF A PEACE AGREEMENT WITHIN SYRIA

Mr. ANDREWS. Thank you, Mr. Chairman.

I would also like to thank the panel for their efforts this morning.

I have a question about Syria. Let us assume hypothetically that a bilateral agreement is struck between Israel and Syria that is similar in structure to that which exists today between Syria—between Egypt and Israel. To what extent do you think that the striking of that agreement would be destabilizing within Syria?

What kinds of economic development assistance and in what amounts would be relevant and helpful in preventing that destabilization, which is another way of asking this question from an Israeli point of view: If I am the Prime Minister of Israel and I sign an agreement with the Syrians, how do I know the person with whom I signed the agreement is going to be in office a week later? How do I have any reasonable assurance that the people who will be in office a week later will recognize that agreement in any meaningful way?

Mr. MURPHY. Let me make a first cut.

I think it is fair to say—I have not been in Israel for a few months—but I think it is fair to say that the Israeli leadership today is more interested in an agreement with Syria than with any other party; and in no small part, that is because they have watched the very scrupulous compliance with the disengagement agreement on the Golan Heights that it reached in 1974 with Syria, not a single act taken across the Golan Heights to—in contravention of that agreement.

They would like to make this agreement with President Asad. Well, will he be in power a week from now? I think that the only one that can answer that is the Lord himself. I would say he will be in power as long as the Lord agrees. He has been there 23 years. There is no challenge to his leadership.

So would it be destabilizing within Syria for a comparable agreement to be reached? No, in the sense that the Syrian opinion leaders, to the best of my knowledge, defer to the President's leadership. If he thinks the time has come for an agreement, if he can make that agreement, they will support it.

Yes, if he would try—and I do not believe he will try—for a separate agreement such as with Egypt and Israel. The effort in Damascus has been to remind all concerned: no separate peace. Let us work with Jordan, with the Palestinians, with the Syrians, for a general settlement. That doesn't mean they can't move at different speeds, but they are—that has been such a prominent principle in their foreign policy for this past generation, no separate deals, that weakens everyone and will add to instability in the area.

PEACE WOULD SERVE SYRIA'S ECONOMIC INTERESTS

Mr. QUANDT. I might add a word.

I basically agree with Ambassador Murphy that both Prime Minister Rabin and President Asad are pretty savvy negotiators. Asad will take no action which, in his view, risks destabilizing the regime. Asad will not do it as long as he is around. Nor will the Israelis enter into an agreement that depends only on the goodwill of their negotiating partner.

They will insist on concrete security arrangements that they monitor over a very long period of time, precisely to guarantee against the possibility that midway along in the course of implementing any agreement the regime changes. They want to know what will happen if there is a regime change.

I think you can count on the parties to look after their core interests. Asad is a survivor. The Israelis put security at the top of their agenda. I think we will see a tough negotiation revolving around the respective concerns of the regimes.

I do not happen to think a peace agreement would be destabilizing in Syria. I think many Syrians are fed up with the price their country has had to pay for pursuing the conflict with Israel.

Syria has spent an enormous amount on arms at the expense of its civilian economy. The Syrians historically have been entrepreneurs; they have been traders. They have demonstrated a capability to participate in an open economy in the past. That has been sacrificed over the past generation.

I think there are many Syrians who would welcome the advent of peace as a way of getting their economic interests first and foremost on the agenda. I don't think Syria will need the kinds of aid Egypt needed, for example. Syria is a considerably wealthier country, potentially, and even in reality today.

Insofar as they will look for aid, it will be from other Arab countries, not from the United States, in my judgment. I don't see there is any drawback from our perspective in encouraging a Syrian-Israeli negotiation. If they succeed, it is a plus and it is not going to cost us in any significant way, as far as I can tell.

Chairman HAMILTON. Because of other commitments, I am going to have to leave at this point. I do want to express my appreciation to the panel. It has been an outstanding morning for us.

I have not more than a couple hundred more questions for you, but you are going to get a break because I have to go on.

I will ask Mr. Lantos, if he would, to take the chair.

The Chair recognizes Mr. Roth.

QUESTIONING PROMINENT U.S. ROLE IN THE MIDDLE EAST

Mr. ROTH. Thank you, Mr. Chairman.

Mr. Chairman, I want to congratulate you for the panel you have here this morning. I am not that well-acquainted with three of the panelists, but I am with Ambassador Murphy, as are all Members, Republican and Democrat. He has done a great job for our country and we appreciate that.

We all say we are looking forward to creative thinking. I appreciated our Chairman Mr. Lantos' comments here today.

I think I would probably end up with at least—I say I would end up with the same conclusion, but I want to take a completely different path. We all say we want creative thinking and new thinking.

Professor Stein, you said something, half facetiously, when you said, well, what happens if a fundamentalist government takes over in some Middle East country. They fall flat on their face.

They lose some of their umfph or their glitter that they have to some people. My question is why do we have to have such a high

profile? Why do we have to be the dominant power in the Middle East?

What would happen if we pull our horns back? I am not saying isolationist, because when you make an argument like that, you are an isolationist. There is nobody in the world today who is an isolationist.

There is a big difference between being in with both hands, both feet, and stepping back somewhat and looking at it more objectively. I would like your views.

Mr. STEIN. Well, we have a strategic interest in being able to go through the Suez Canal, going from the Mediterranean to ultimately the Indian Ocean; so a regime in the region that closes the Suez Canal will not be in our interest.

I am not suggesting Mr. Mubarak is in that kind of trouble, but certainly the noises which are being raised in Egypt today by the Islamic groups have created him some problems. These are groups that are indigenous to Egypt because Islamic fundamentalism or those using Islam as a political platform goes back to the late twenties and thirties with the Muslim Brotherhood, but today it has also to do with the exportation of extremism, radicalism from Iraq. That is a source of concern to us, not only as far as, let's say, Egypt is concerned, but it might be for countries in the oil-producing regions of the Middle East as well. I am not suggesting that we should be deeply involved, physically have basing privileges in Suez City or Port Said. What I am suggesting is we have to be prepared to help countries that are fending off threats to their stability. We do it quietly. You don't have to be overt about it. But we have to be prepared to assist them.

FUNDING SECURITY COMMITMENTS TO GULF ALLIES

Mr. ROTH. Professor, if I may say this, you know, in the Soviet Union, they allowed certain freedoms in Hungary and some of the other countries. Then pessimists would say they can do that, but they will never let Poland go. Then they let Poland go. Oh, if they do that, the whole world will come to an end. Things did change.

Ambassador Murphy said that we have to have a—concluding his testimony, in the near term we need to maintain sizable military presence in the Gulf.

My question is where is the money going to come from? Driving to work here this morning, on a radio talk show, we had a Senator from the other side of the aisle, but a powerful one who determines where the dollars are going, who said, What, cut social security? Clinton is way off base. He said, Where do you cut? He said, cut in the military.

Well, you know, Colin Powell in this room told us in September of this year our military forces are going to be smaller than they were on December 7, 1941.

So I would pose a question, for example, to Ambassador Murphy: Where is the money going to come from to keep these high profile troops? We have 25,000 troops in Somalia. You know that goes on in the United Nations. How long will it take for us to get the troops out of there?

Six months? No way. It will take much longer than that. The United Nations will not go in there.

I am saying we have a lot of problems here. We need new thinking. Where is the money going to come from to take care of these troops?

Mr. STEIN. You don't have to answer our problems with the dispatch of troops, sir. That is not the sole answer to these problems.

Mr. ROTH. All right. You were saying we could take less of a profile?

Mr. STEIN. That is exactly what I am saying. We can use multilateralism; the regional financial support that exists. We co-op with our friends in collaboration. We want them to cooperate. We want them to participate.

Go back to my opening statement: We want them to show the responsibility. That doesn't mean we must withdraw.

Mr. MURPHY. It is how much money they will need, Congressman. I say we are the dominant power and it is in our interests to stay the dominant power until such time as these other efforts on multilateralism can become effective. We are going to have to push that—push hard to get to that goal.

It is not that easy to—for me to conceive of either the Arab League or the GCC, being substantial military partners in the Gulf. Until that day arrives, until we get NATO out of the area, we just have to be ready to play the leading role.

I don't think it is going to take all that much in terms of U.S. resources. We have put an enormous effort into cutting back, through the U.N., bilaterally on the Iraqi strength. Yes, Iran has now a \$10 billion 5-year rearmament program. But where is it starting from? It was at ground zero, flattened by Iraq as of 1988.

So you are right to ask about the money on both sides of the aisle, but we are going to be the ones, I believe, that are committed—have to be committed for the next, I think, 4 years. For me that is kind of a magical number in this town.

Mr. ROTH. My time is up. The chairman will be kind enough for 30 seconds. I want to say that sounds great in theory. But go do it sometime. It is not going to work.

They are going to expect us to pick up the full load. The money will not be there.

Mr. STEIN. It didn't happen in the Gulf War, sir. Did it?

Mr. ROTH. The Gulf War was different. There Bush got everybody together. We had one—

Mr. STEIN. But it is not a bad model upon which to work. It will not be repeated exactly the same, but we have to co-opt in the region the people who can help finance it. They know their security is at stake. They are not naive, sir.

Mr. ROTH. Well, my time is up. I appreciate your frankness. My time is up.

Mr. LANTOS [presiding]. I look forward to my friend's support for my legislation on the multinational stand by capability in the military forms.

Mr. ROTH. Will it cost money?

Mr. LANTOS. Much less than being the policeman of the world by ourselves.

Congressman Berman.

REEVALUATING U.S. POLICY TOWARD THE ARAB-ISRAELI CONFLICT

Mr. BERMAN. Thank you, Mr. Chairman.

I have two questions, to be addressed before the 5 minutes elapses. The first is very specifically to prove quantity.

In your statement you wrote the collapse of the Soviet Union in relation to the globalist bias that has often adversely affected American policy in the Middle East has lost its rationale. Public opinion is more prone than ever to support an evenhanded stance toward the Arab-Israeli conflict. I would be interested in your elaborating on the nature of the bias and the aspect it adversely affected policy in the Middle East, and what evenhanded means in this new world we are in.

U.S. POLICY TOWARD IRAN

The second question is addressed to everyone. It deals with our policy toward Iran now. I would like to quote from a short report written by Patrick Clausen where he describes the nature of the problem. "Tehran is shopping in the ex-Soviet bloc for arms seemingly designed to give it a seat and aisle capability vis-a-vis the U.S. Navy." Your point about dominance in the Gulf, Ambassador.

"Iran is pouring resources into a nuclear energy program that makes no economic sense, fueling fears that it intends to build nuclear weapons. Iran has pressured Gulf states in ways ranging from expelling several hundred United Arab Emirates residents from the disputed island of Abu Musa to renewing a disputed claim to the territory of Bahrain. Iran stepped up its opposition to the peace process for the Lebanese hezbollah and the Palestinian Hamas. The governments say Iran provides training and support for Islamic movements that have taken up arms against them. There are conflict roles with Turkey especially over ethnic separatism. Iran is continuing its terrorism by raising the bounty on Salman Rushdie and assassinating several Iranians in the West."

Would you folks be willing to propose or craft an apology to Iran in the context of these new developments?

POST-COLD WAR REALIGNMENTS

Mr. QUANDT. Very quickly, Congressman. What I meant by globalist bias—and it takes us a little into history—is that for many, many years the United States looked at the Middle East as part of the great cold war checkerboard. If a country was supported by the Soviet Union, we had a great inhibition in dealing with it.

When Sadat came to power in 1970 and began to make overtures in early 1971 that he might be interested in some kind of deal with Israel, how did we react to this? We reacted with great caution because he was still viewed as a client of the Soviet Union. We didn't explore very seriously his intentions. It took a war, the 1973 war, before we became convinced that Sadat was interested in peace-making; and then we could become a broker between Egypt and Israel.

What I sensed over and over again during the cold war is that that was a common perception. We looked at a country's foreign policy alignment and labeled it as radical and, therefore, beyond the pale in terms of our dealings with it.

That is no longer the case. We can now afford to test, for example, Syria's intentions, not because we have too many illusions about Mr. Asad and the way he runs his country, but without the cold war overlay, we can at least explore whether he is prepared to make an accommodation with the Israelis, without thinking that we are somehow appeasing a pro-Soviet regime. That is what inhibited us in the past.

What I mean by evenhanded is simply for the United States, as a broker in the Arab-Israeli conflict, to be able to move between the parties to look for possible areas of compromise. I know this is a loaded word. Many people have gotten upset about it in the past.

I don't intend it to have any strong connotation. But if we are going to be an effective peacemaker, we have to have the capacity to talk effectively with both sides of this conflict. I think we have that today. I would say that means we have the capability of being an evenhanded mediator.

That doesn't mean every issue gets split down the middle. That is a silly way of interpreting "evenhanded". It does mean we try to broker deals that the parties can agree to. That doesn't assume a priori the United States has a measure and says halfway along this ruler is where everything has to come out. On some issues one party's concern may be more important than on another.

SYRIAN BEHAVIOR REMAINS AN ISSUE

Mr. BERMAN. Does it mean, for instance, ignoring Syrian issues about support for terrorism or supplying Hezbollah or what they are doing in Lebanon?

Mr. QUANDT. No, not at all. I don't see it is at all.

Mr. BERMAN. In the name of pursuing the peace process?

Mr. QUANDT. On the contrary. If the peace process is going to work, the Syrian regime has to understand that that kind of behavior is ultimately fatal to the peace process. We cannot sustain the role we want to play as a peace broker between Syria and Israel if a Syrian regime is engaged in terrorism or engaged in abusing its own people in dramatic ways.

There has to be a political dialogue about the expectations that go with an effective American role as a peace broker. I think we can have that kind of dialogue. I don't know if Mr. Asad, or his likely successors, pay attention to it, but there is reason to raise those issues.

We also have to keep a focus on what it is we are primarily trying to achieve with the Syrians. Of course, getting them out of the business of supporting terrorism is a high priority. I think we have made considerable headway on that as far as I know.

We also want them to be more explicit about their vision of peace with Israel, the kind of security arrangements that go with that. Yes, we have an interest in how they—how the Asad regime governs its own country. On the scale of priorities, I think it is the issue of peacemaking with Israel, support for terrorism that is first and foremost on our agenda of discussion with the Syrians.

POLICY TOWARD IRAN

Mr. MURPHY. May I start on Iran? Then I think our policy should be based on the recognition that Iran is an important country in

the Gulf. But we should not exaggerate its capabilities in the field of evangelizing its particular brand of Islamic fundamentalism. It had a direct tie to Lebanon in terms of funding, training, arming the Hezbollah.

Fundamentalism is not a centrally directed force in the Muslim world, and the Iranians, in fact, have a problem convincing non-Shiite Muslims that they have any particular wisdom to share with the rest of the Islamic world.

The posture we have had for several years is not a bad one, Congressman. It is, "Look, we are ready for dialogue, but it will have to deal with some of the issues that have divided us, including terrorism out of Tehran. We don't buy that you have a right to assassinate in the streets of Paris or Geneva the critics of your regime. We are ready to talk about the issues."

They like to talk about the problems in The Hague and the frozen balances. Those balances have been steadily unfrozen and negotiated out over the last few years. Maybe it can be done more quickly.

But I recommend the posture of waiting for them to come to us. The day has not yet come that they are ready to do so, to open up, to get into normal relationship with the Gulf States, with us, with the West more generally. You can see in the—just through the media, some of the back stabbings going on, political back stabbings going on in Tehran that are dividing that leadership. They are not ready yet.

When they are, I assume the signal will be very clear; neither of us will misunderstand it. Till then, we can try to discourage sales to Iran from Russia, from China. Our success is going to be limited if it is tackled just in regard to the Iranian market, but arms control talks should go full speed ahead.

Ms. ANDERSON. I think I differ with Ambassador Murphy's sense of things as basically all right to some extent. Yes, I don't think we should embrace the Iranian regime. It is a regime with which we differ on a variety of scores.

On the other hand, I think isolating a regime leaves fewer incentives to normalize. I think you want to make sure there are carrots as well as sticks. You want to make sure there are rationales for discussions.

I think it is important to keep that in mind. I would probably go ahead and explore that a little bit more.

One of the other things I want to say about Iran is that the impact of the export of fundamentalism or Islamic politics on the support for Islamic movements in other parts of the Islamic world is a very murky one. I don't think we should take at face value the claims of governments that the Islamic problems they face at home are reflections of some other government's efforts to subvert them.

They face those problems for their own domestic reasons. Neither Iran nor the Sudan will disavow movements in other countries. Just as the governments like to say this unrest is caused by outside agitators, it is not our problem, not our people, we have no people complaining about us, Iran and the Sudan would love to be portrayed as important as is suggested in that kind of claim.

So they are not going to deny it. But I think we should not necessarily take regional or international linkages as important as

both the putative exporters, like Iran, and the allegedly receiving governments, like Tunisia, like to say it is.

ECONOMIC DISPARITIES SPUR ISLAMIC GROUP RECRUITMENT

Mr. STEIN. Let me just conclude by saying I tried to address the problem of Iran in my statement on pages 27 to 31. Iran remains instinctively aggressive and instinctively antiestablishment. They are opposed to the West. They are opposed to our allies in the region.

They are opposed to our presence in the Gulf. They don't want us to defend Gulf countries. They are opposed to the Arab-Israeli peace process. They do meddle in troubled waters.

They know Islamic groups exist in many countries. They wanted to appeal to those groups. They use those groups to enhance themselves. There is an overlap, as Professor Anderson indicated.

I think the best that we can do is to listen for different shades and tones in their remarks. I think the best we can do is also to try and find ways to discourage their success in many areas of the Middle East by providing necessary assistance through multilateral outlets so that fundamentalist groups don't receive that appeal, that appeal which is so relevant and prevalent amongst the lower classes who join these groups.

In other words, there is an economic link to recruitment in some Islamic groups. And if we want to, at least, halt or at least—maybe not even halt, at least slow down the process of recruitment, economic disparities have to be addressed in many countries.

Mr. BERMAN. The Middle East equivalent of rebuilding.

Mr. LANTOS. I want to thank my friend for the responses. Before I turn to my colleague from Ohio, I recognize the Ranking Republican member of the Foreign Affairs Committee to make an introduction.

INTRODUCTION OF UKRAINIAN PARLIAMENTARIANS

Mr. GILMAN. Thank you, Mr. Chairman. I will keep my comments brief. We are proud to have with us today a very distinguished group of parliamentarians from the Ukraine. Their delegation is headed by Mr. Alexander Kasupa, a chairman of the Committee on Legislation and Lawfulness in the Supreme Rota, and Mr. Ivan Zents, also a parliamentarian and chairman of the Subcommittee on Economic Reform in the Supreme Rota; and they are accompanied by their staff. We welcome them to our Committee on Foreign Affairs.

Thank you, Mr. Chairman.

Mr. LANTOS. We are pleased to have all of you.

Congressman Fingerhut.

ARAB RECIPROCATATION OF ISRAELI CONFIDENCE-BUILDING MEASURES

Mr. FINGERHUT. Thank you, Mr. Chairman. I appreciate the panel's patience. You know you are getting to the end when there are more of you than there are of us.

On the question of the peace negotiations, I recall when they were first commenced there was a push on both sides to take steps that would indicate that they were negotiating in good faith—the

so-called confidence-building measures. I certainly recall when the new government was elected in Israel, Prime Minister Rabin took a variety of confidence-building steps.

Even in the midst of this crisis, with the deportation question, the Israeli parliament took steps to loosen rules with respect to the Palestinians. I have two quick questions. What steps has the other side taken to match the steps taken by the Israelis. Where should I be looking to see that good faith steps are being taken?

Mr. QUANDT. If I could maybe start an answer to that, Congressman?

I think the Syrians began with a very formal approach to the negotiations, with the Israelis, where there was very little real exchange in the negotiating room. There was no evolution in the formal position of the Syrians.

In the course of the year, we began to see some signs in public that the Syrians were perhaps reciprocating some of the confidence-building measures that the Israelis had taken. For example, the Syrians for the first time began to speak about a full peace and normal relations with Israel as part of a peace agreement.

That may not sound revolutionary to your ears, but for old Middle East watchers that was a new phrase for Asad. For the Syrians to accept that they were only negotiating bilaterally on Syrian-Israeli issues was also a new development. Of course, this change greatly facilitates the prospects of reaching an agreement, as opposed to the Syrians feeling they represent all of the other Arab parties.

It is also the case now that the Syrian and Israeli negotiators, when they meet, have had more informal exchanges outside the formal setting, and I think that that is at least a small step in the right direction of normalizing the nature of the diplomatic dialogue.

In addition, there was, at least at the outset of the negotiations, an agreement by the Syrians to allow Syrian Jewish citizens to leave the country, which has long been a bone of contention. There is some indication that process has slowed; but out of 4,000 Jews in Syria at the beginning of the negotiations, I think something on the order of 2,000 to 3,000 have been allowed to leave. So there has been some degree of reciprocity.

On the Palestinian side, it is harder to identify exactly what the quid pro quos have been, but it is noteworthy—at least to me—that the Palestinians swallowed a lot of conditions they weren't happy about. For example, their negotiating team could not include anyone from Jerusalem, even though many of their main leaders in the occupied territories happen to live there. So they have accepted a formula whereby nobody from Jerusalem enters the room. That is a fairly significant political concession, as they see it.

They have also agreed—as one who helped negotiate Camp David, I find this remarkable—they've essentially accepted the Camp David formula that the final status issues, including the status of Jerusalem, the final political status of the Palestinian areas, will be deferred to a later stage. All they are going to talk about in the negotiations now is the interim agreement.

Those are steps in the direction of realism and accommodation. Now, they qualitatively may have a different feel to them than some of the things you see on the other side. I think it is fair to

say the Jordanians, the Palestinians, the Syrians, and the Israelis have all made gestures toward one another. That is why I think the negotiating process is not a fraud.

The regimes want to move. They want an agreement. They are willing to make some gestures even at the early stages. You can't expect people to give away their fundamental positions at the outset of the negotiations.

PROSPECTS FOR RESUMPTION OF PEACE TALKS

Mr. MURPHY. If your question was what should you expect, could you hope to hear from the Arab side in the immediate future—

Mr. FINGERHUT. That was part of the question, and what you are about to address.

Mr. MURPHY. From the Arab side what we all hope to hear is an agreement to reconvene in Washington in the coming few weeks. The deportation, I believe, was a great source of frustration in the Arab capitals because they could not turn their back on the Palestinians.

They deeply resented they were being jerked around by the Hamas element in the Palestinians which does not want these talks to go forward. Now the test will be how they can work with the other elements in the Palestinian community, including the PLO leadership in Tunis, to get general agreement the talks should go forward.

I don't think there is any question that in Damascus, Beirut, Amman they want these talks to proceed; certainly in Cairo. That is going to be the next piece of evidence you get as to who has been successful if those talks convene soon.

Mr. LANTOS. Thank you very much.

Congressman Deutsch.

FUNDING SOURCES FOR HAMAS

Mr. DEUTSCH. I wanted to spend a little bit of time focusing in on Hamas and their financial wherewithal. It just seems from press accounts they are being significantly funded by Saudi Arabia and Iran. I was curious in terms of your response, what you are aware of, about the funding, what does it mean as a statement by Saudi Arabia that says they are part of the peace process of funding an organization that by any definition is a terrorist organization? If you can respond to that? Anyone?

Mr. STEIN. Yassar Arafat has said that Hamas has received over \$30 million in assistance from the Iranians. He considers Hamas to be a threat to the internal affairs of the PLO. There is evidence to suggest according to recent *New York Times* publications that there is a link here in the United States to funding to Hamas sympathizers in the territories.

It is easy to transfer money, Congressman. During the early part of the Palestinian uprising, moneys came from all parts of the world into the territories. Money is washable, fungible. With the ability to transfer it, there probably are other sources of outside assistance for Hamas. It is very difficult for, for example, Syria to provide logistical support for Hamas because it is not in territorial proximity to it.

The Israeli expulsion and deportation was, I think, a miscalculation on a lot of people's part. But it doesn't detract from the reality that Hamas is totally and unalterably opposed to any negotiations with Israel, and opposed to and opposed to any recognition of the State of Israel. That is their flat out policy. They make no bones about stressing that position.

Mr. MURPHY. As far as the Saudis go, it is certainly not Saudi policy to support Hamas. They want to see this peace process succeed. They want to see a settlement.

Are there individual Saudis who may be transferring money to Hamas? Quite possible. I doubt—in fact, I am convinced it would not be the Saudi Government. They have had their frictions, very deep frictions with Arafat and the PLO leadership over their view of how they were betrayed in the fall of 1990 in the lead-up to Desert Storm. They pulled away from that leadership; but that has not driven them to support Hamas.

STRENGTH OF HAMAS

Mr. GILMAN. Will the gentleman yield?

Mr. FINGERHUT. Yes.

Mr. GILMAN. How strong is Hamas in the other Arab nations?

Mr. MURPHY. Strictly speaking, it doesn't exist, sir. It is a Gazan outfit that started to spread in the West Bank. It is a manifestation of fundamentalism, if you will. It is not per se in other Arab nations.

Mr. STEIN. It is also antiestablishment. It is not just fundamentalist; it is definitely against the PLO leadership.

Mr. GILMAN. Thank you.

I thank the gentleman for yielding.

Mr. LANTOS. Congressman Schumer.

DOUBLE-STANDARD SEEN IN U.N. ACTIONS

Mr. SCHUMER. Thank you, Mr. Chairman.

My first question relates, again, to Hamas and the reports that in the U.N.—particularly launched by the Arab countries—there is a double standard in the American posture at the U.N.; that we expect prompt enactment of U.N. resolutions on Bosnia, but there are protests against sanctions regarding Israel. It seems the far more direct double standard was the fact when the Kuwaitis expelled 100,000, some say 300,000 Palestinians, not on the basis of terrorism, without any recourse, without any due process, that that is never mentioned.

That, to me, is the direct analogy. For someone like myself, new on the committee, I wonder what all the drumbeat is about the first double standard, and to me the situations are not analogous at all and not even a peep about the second, which seems to me directly on point.

So maybe as a new member of this committee, some of the panelists could explain to me whether there is any justification for that; and secondly, even if there isn't, why it seems to happen.

For instance, why wouldn't our Government say, fine, we will impose the same standards on Israel as we impose on Kuwait. Is it just politics? Maybe Ambassador Murphy could answer it first?

Mr. MURPHY. Well, I think the administration has spoken to it, Congressman; that they do not equate the invasion, annexation of Kuwait with the Israeli deportation of Hamas members. That has created problems of its own, but I don't think there is anybody in our administration equating the two situations, what flowed from the Iraqi invasion—

Mr. SCHUMER. But you read in the reports that we are under pressure in the United Nations because this is the drumbeat there; and the flaw was in the initial resolution, which did not mention what Kuwait did and did, of course, mention—you know, was aimed at Israel. So my question to someone much more seasoned in this than I am, as you are, is, is, the only reason we don't bring up the Kuwaiti injustice politics, there are many more votes at the U.N. on the other side?

Am I incorrect the analogy is far more direct as to what Kuwait did in terms of the Geneva Convention, the expulsion of people because they are a particular race, religion, whatever?

Mr. STEIN. It is no secret Israel is held up to a higher standard.

Mr. SCHUMER. I wondered if Ambassador Murphy agrees with that at the U.N.?

Mr. MURPHY. Yes. At the U.N. there is an itch which we have seen over the years to poke Uncle Sam in the eye if we don't support all positions of each of the member states; then, as we are seen very enthusiastically to be protecting or very ardently protecting Israel, they use any incident like this to cry foul and say it is a double standard.

The mistake may have been in the original resolution which we supported of a condemnation. From that point the platform was built to accuse us of double standards if we are not willing to apply sanctions to Israel. We say obviously it is a totally different situation, a unique situation; and obviously, the administration has been scrambling to avoid any further votes at the U.N.

But we have critics up there who for their own purposes will try to use our support of Israel for completely unrelated aims.

ISRAEL DEPORTATION/KUWAITI EXPULSION OF PALESTINIANS

Mr. SCHUMER. You do agree the Kuwaiti situation is analogous?

Mr. QUANDT. May I speak to that for a moment?

There are similarities. I would by no means want to say that what the Kuwaitis did is justified. But Palestinians who were in Kuwait went there as workers, voluntarily seeking jobs and employment in Kuwait and held Jordanian passports.

Perhaps unfairly, the Kuwaitis never gave them citizenship. They never had political rights within Kuwait. They were there as tolerated foreign workers. They did have a passport of another country which could conceivably receive them.

The Palestinians in Gaza were living in their homes and came under occupation in circumstances we know about in 1967, and have been living under Israeli occupation since 1967. They don't have another country whose passport they hold that they can go to. They certainly do not have Lebanese passports. When they were told they couldn't stay in Gaza, in their homes, they didn't have another place to go to of the Palestinians—

Mr. SCHUMER. Wait a second, Dr. Quandt. Are you saying that you think that the Israeli expulsion of the 415 Hamas people is less egregious than the Kuwaiti expulsion—

Mr. QUANDT. I specifically started by saying I don't think one should excuse the Kuwaitis. You are asking are they identical? No. Are they similar? Yes, there are similarities.

Mr. SCHUMER. Are they more similar than the relationship between these 415 and what is happening in Iraq and Bosnia?

Mr. QUANDT. Yes. I think Iraq and Bosnia are different kinds of international crises. But there is at least some legal and technical difference between what happened in Kuwait and what happened recently with the Israeli deportations.

Mr. SCHUMER. Thank you, Mr. Chairman.

FURTHER POLITICIZATION OF U.N. FORESEEN

Mr. STEIN. Mr. Chairman, may I make one remark? I think there is a broader question which your question poses. That is that in the absence of the cold war, many countries are now going to use the U.N. as a barometer for testing American logic and consistency in foreign policy. They will argue that what we do in one area, we don't do in another, and, therefore, we are inconsistent and therefore how can we be a superpower?

I think more is expected of us now, as Ambassador Murphy said in his opening remarks, because of the end of the cold war, because we are sitting out there all alone. The only alternative which countries without a patron possess is to use the U.N. as a vehicle against us for political purposes.

So we have to be prepared for more questions from you when we get asked here again.

Mr. LANTOS. Congressman Menendez.

SITUATION IN IRAQ

Mr. MENENDEZ. Thank you, Mr. Chairman. I had the privilege of hearing all of you before I had to step out, and reading your comments.

I am particularly—some of your comments made me come back to ask one or two questions. I am thankful for your patience, merely knowing the only thing between lunch and you is me.

Let me just get to my first question. That is to Ambassador Murphy: You made the comment that when the overthrow of a leader becomes an important goal of policy, the people in the country suffer, not their leaders.

To me, particularly in the case of Iraq, it perplexes me because, in fact, it is because of their leader that they suffer. I particularly look in terms of domestic policy, domestic support. As I think one of you mentioned, domestic support is a function of making sure foreign policy is successful.

How do we reconcile that? In the case of this American public, I think time and time again they have said we should have created a—the focus under which ultimately Saddam Hussein would not have stayed in power.

So that would seem to contradict your position. Could you elucidate for me?

Mr. MURPHY. Congressman, I am just trying to say that the people didn't elect him, in any sense we would use the word election, and they are impotent to get rid of him. Our dilemma is we would love to get rid of him. He deserves to be gotten rid of. But we are not very good at that. We cannot get rid of individual leaders.

Objectively you would have thought in the fall of 1990 that by putting an embargo on Iraqi oil exports, instantly blocking, I think, some 98 percent of their foreign exchange earnings, it was argued by very serious people in this Congress, in the media, I argued it at one point myself in October of 1990, that sanctions should be given a good try, because the power of those sanctions was far greater than anything we have been able to focus on other countries to whom we applied sanctions and that the leader would have been humiliated and forced out.

The leader was humiliated. He was not forced out. The leader went to war. He could have paralyzed President Bush on January 14 by withdrawing 5 kilometers to the border, staying in just part of the territory. After the war, the assumption, the wishful thinking was that his people would get rid of him. The silver bullet in the bodyguard's pistol would take him out. It didn't happen.

And the people have suffered, and the people are continuing to suffer. The standard of life is degrading. We have a dilemma here.

To that extent, we brought it on ourselves by over personalizing and emphasizing the personality of Saddam Hussein.

Mr. MENENDEZ. I understand what you are saying. Except for the fact it seems we would always be in quicksand there for so long as he continues. It is obvious that part of what he views as retaining his power is to make sure that he does whatever he can to violate international resolutions and the like.

So it seems to me that ultimately while it may be difficult, that the short-term pain is hopefully for long-term gain.

I appreciate your comments.

CARROT AND STICK APPROACH TO MIDEAST DIPLOMACY

I have one question of Dr. Quandt who, on page 4 of your statement, said, "carrots and sticks must be used sometimes in combination to influence reluctant parties as it relates to the Israeli-Arab peace process."

Can you describe what you believe some of those carrots and sticks to be that should be used?

Mr. QUANDT. Yes. I will mention one I am sure many of you will disagree with me on; but I think President Bush demonstrated in the way he handled the loan guarantee issue to the Israelis there were conditions under which the carrot would be offered, namely \$10 billion in loan guarantees in return for a slowing down of the settlement activities and if that condition wasn't met the loan guarantees wouldn't be offered.

Many people didn't like that form of linkage. I happen to think it contributed to an outcome we should all be pleased with, namely the Israelis changed their government. It was not the only reason they did, but it contributed to it. And they have, in fact, embarked on a policy of slowing down the settlement process in return for which we have given them a fairly nice carrot. That is normal di-

plomacy. If we are expected to come up with significant commitments, there are certain conditions that need to be expected.

If those conditions aren't met, I don't think we are under any obligation to fork over. That is basically what I meant. No blank checks to any of the parties in the Middle East.

For the Egyptians, if they get economic assistance from us, then there are certain conditions concerning economic reform so the aid is actually used effectively. Those are the kinds of things I have in mind. I don't have a laundry list to offer in the abstract.

I think much of this depends upon specific issues, conditions that arise between us and other countries; but insofar as we are going to be expected to commit resources, whether diplomatic or arms transfers or economic aid. I think we can insist on a degree of conditionality. That is what I mean by carrots and sticks.

Mr. LANTOS. Congressman Gilman.

EVALUATING PROGRESS IN PEACE TALKS

Mr. GILMAN. Thank you, Mr. Chairman. I will be brief. I know the hearing has gone on for an extended period of time.

How would you evaluate the progress in the peace talks to date? When Prime Minister Rabin was first elected he predicted an Israeli-Palestinian agreement on a transitional authority within 6 to 9 months and Palestinian elections by April of 1993. What do you see as a realistic timeframe for all of this?

What are the major differences between the Israelis and the Palestinians at the present time?

I ask that of the entire panel. Who would like to—Dr. Quandt?

Mr. QUANDT. I will start.

I think the negotiations on both tracks, Syria, and Palestinians, have not gone as quickly as the optimists hoped. More progress has been made on the Syrian-Israeli front than most people expected. I think the parties on their own have begun to move toward some kind of statement of agreed principles and with a bit more effort might actually reach agreement within, let's say, the next 6 months.

On the Palestinian-Israeli front, the problem is that the negotiations really have not moved substantively forward. A whole series of procedural roadblocks have been overcome in the past year, but as far as I can tell, no real progress on substance. Partly maybe that is just the dynamic of the negotiation.

Neither side is ready to start playing their cards because they don't sense the other side is ready. It seems to me that here a mediator could help to simplify the agenda. The formal proposals on the table from the Israelis and Palestinians are very, very complicated proposals. They are almost trying to solve everything at the outset, rather than seeing the interim period as one in which a change will begin to take place that can continue, preparing the way for the final stage of negotiation.

If I were in the business of trying to mediate this, I would say let's start with a simpler objective: trying to set a target date for holding elections for the Palestinian governing authority; to define the initial minimal set of responsibilities for that authority, and there is some agreement on at least a minimal set; and then to

reach an agreement that, as the interim period unfolds, the parties will continue to talk about expanding the scope of that authority.

The parties should try to identify the "starter kit" for this Palestinian government; not everything it will ever conceivably do, but what it will start to do: control over economic decisionmaking, some degree of control over internal security, things where there is a fairly broad consensus.

That strikes me as a much more promising approach, to start with a fairly limited objective and say that the final status negotiations will begin within 3 years of the interim period and that is where some of these issues will ultimately have to be addressed.

But the way the negotiations are going, you can sense each party is trying to resolve final status issues in this initial interim negotiation. That is just a formula for deadlock. They don't agree on the final status issues.

EFFICACY OF IMPOSING DEADLINES IN NEGOTIATING PROCESS

Mr. STEIN. Let me just make this comment: that both the Syrian-Israeli track and the Israeli-Jordanian track are headed down the same path or same track toward some set of declaratory principles about nonbelligerency or nonresort-to-force. Whether that takes the shape of some formal declaration or some formal agreement, I am not sure. We do know there is a draft agenda agreed upon between the Jordanians and the Israelis which speaks about mutual commitment, not to threaten each other by any use of force. If that is not an outline for nonbelligerency, I don't know what is.

There is a lot of progress which has been made in the Israeli-Jordanian track. I suspect we will learn more about the Syrian-Israeli one within the next 6 months.

Congressman, I give you a plea. When we said that Resolution 242 was the outline and framework for a negotiated settlement in the Arab-Israeli conflict, we never said what the borders should be. We never said it meant full withdrawal. We never said the Israelis could keep it all. It didn't preclude one or the other. We should be ambiguous on this issue.

The other thing we have not done is not put a time limit on people; and I think when we do, we make a big mistake in Arab-Israeli negotiations. You asked the question: What can we expect in the near-term timeframe? I think the biggest mistake is to put a clock on this. I think we have to believe in terms of calendars and years, rather than clocks.

Mr. MURPHY. May I disagree?

I think Rabin was right to put a time limit, the one you quoted. I think that can operate as an incentive. As long as he and the rest of us recognize that it is the Palestinians that have the hardest decisions to make and they are the weakest of the parties by far. It is going to take a lot of care and feeding.

You go out there, you talk to them, there is still a very strong degree of local-itis; there is the pull of Hamas, Tunis, everything. They have a very, very tough job trying to hold the delegation together and speak with one voice.

I think Rabin was right to put that carrot out there, that target out there.

Mr. GILMAN. Thank you, Ambassador Murphy.

Professor Anderson.

Ms. ANDERSON. I guess I would like to reiterate that I do think that time is of the essence here. This is not something that can drag on for a long time. Six months, 9 months, some specific deadlines may pass without catastrophes, but I think we could lose a generation if this doesn't go reasonably well and with some alacrity.

I think the leadership of the PLO is challenged now by Hamas and needs to reestablish its authority; there are concerns about the health of the King in Jordan. There are a lot of reasons to think this isn't something with which we can really afford to meander around.

Mr. GILMAN. I want to thank our panelists for their patience and for their very astute observations.

Thank you, Mr. Chairman.

Mr. LANTOS. I wanted to add my thanks to all four witnesses. This has been an extraordinarily informative hearing. We look forward to having you back. We look forward to further progress in the peace negotiations.

This hearing is adjourned.

[Whereupon, at 12:35 p.m., the committee was adjourned.]

U.S. POLICY TOWARD LATIN AMERICA

WEDNESDAY, FEBRUARY 3, 1993

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, D. C.

The committee met, pursuant to call, at 9:31 a.m., in room 2172, Rayburn House Office Building, Hon. Lee H. Hamilton (chairman of the committee) presiding.

Chairman HAMILTON. The House Foreign Affairs Committee will come to order.

We meet today in open session to discuss U.S. policy toward Latin America. This is the third in a series of hearings the committee is holding to review key foreign policy issues confronting the United States.

Chairman HAMILTON. We will hear testimony today from Mr. Peter Hakim—do you pronounce that “Hay’-kum”?

Mr. HAKIM. “Hay’-kum” or anyway you would like.

Chairman HAMILTON. “Hay’-kum,” all right. Let’s get it right. Acting President of the Inter-America Dialogue.

Dr. William Perry, Senior Associate of the American Program at the Center for Strategic and International Studies.

Dr. Joseph Tulchin, Director of the Latin American Program at the Woodrow Wilson International Center for Scholars.

We have a number of topics of interest to the committee: the consolidation of democracy and market economic reform throughout the hemisphere; forthcoming consideration of the North American Free Trade Agreement by Congress; the Enterprise for the Americas Initiative; the direction U.S. assistance should take as needs change and resources decline; Haiti; Central America; the status of relations between the military and civilian society in the region.

We want to keep the focus of the hearing on the most important things for members of this committee and the Congress to know about Latin America, what is right and what is wrong with current U.S. policy, and what recommendations you make.

We will all have questions, of course, to raise after your opening statements. The chair will repeat that he wants to keep the 5-minute rule in operation, and when the red signal appears I will advise members that their time has expired. I am very pleased indeed to have these witnesses with us. Your prepared statements, of course, will be entered into the record in full, and I hope that you will summarize those statements in approximately 5 minutes, and then we will proceed with questions.

Let’s just proceed, Mr. Hakim, across the table from left to right. You may begin.

STATEMENT OF PETER HAKIM, ACTING PRESIDENT, INTER-AMERICAN DIALOGUE

Mr. HAKIM. Thank you, Mr. Chairman. I greatly appreciate this opportunity to discuss U.S. policy toward Latin America. This oral statement will necessarily be a broad overview, particularly now that I am limited to 5 minutes rather than the 10 that I was told I would have. Although I will be presenting my own views today, much of what I have to say will be drawn from two recent reports of the Inter-American Dialogue, one a comprehensive policy report and the second an earlier report issued by a special Dialogue task force on Cuba.

Back in November, Bill Clinton said to a group of Latin American leaders that he wanted to create a "Western Hemisphere community of democracies." This is, obviously, an ambitious goal, but it is the right goal for these times. The main challenge for the United States in Latin America today is not resolving old conflicts, although there are still many of those are still recurring. Instead, it is effectively managing new opportunities for cooperation between the U.S. and the region.

The North American Free Trade Agreement will be the first crucial test of the new administration's commitment to regional economic partnerships, and a great deal is riding on the North American Free Trade Agreement. It will be a crucial determinant of our relationship with Mexico, which is our most important bilateral relationship in the hemisphere. The defeat of NAFTA would gut the core of any future hemispheric trade relations. Conversely, if it is approved, it would set the stage for free trade negotiations with other Latin American countries. President Clinton is right to demand that NAFTA be fortified by supplemental accords protecting the environment and workers' rights.

Beyond Mexico, the administration should move quickly to transform the NAFTA accord into a hemispherewide free trade area. Indeed, consultations should begin very early with other countries to move in that direction. It will be particularly important to engage Brazil, which has 40 percent of Latin America's population and 40 percent of its economic output.

On the political front, the best way for President Clinton to uphold his vow to support democracy and human rights in Latin America is to fortify the role of the Organization of American States. We know that the OAS has not made as much progress as we had hoped in Haiti or Peru, but that does not mean that Washington should give up on it. Instead, what is needed is U.S. leadership to help reshape the organization into a more effective instrument of multilateral action, and there are a number of specific recommendations that I make toward this end in my written statement.

In the specific cases of Haiti and Peru, which I will be happy to speak about at greater length, the key there is that the United States and other OAS members must keep sustained pressure on all sides to negotiate until an agreement is reached. The pressure cannot be removed from either side whether in Haiti or Peru.

There are other individual initiatives the United States can take to promote democracy in Latin America. One of the most important is to help contribute to the struggle for social justice in Latin

America. Bill Clinton would surely recognize that progress toward democracy cannot be sustained as long as mass poverty and profound economic inequalities plague the hemisphere, and it is not only U.S. aid that is necessary but U.S. influence in a variety of institutions.

There are a number of other issues that I would like to discuss. These are some of the old issues that refuse to go away. One of these is Central America, where democratic rule remains weak, where abject poverty remains pervasive, and most of the countries are economically distressed. The best way to contribute to political opening and reconstruction in that region is to reverse the sharp decline in our aid dollars over the past few years.

Then we get to the very troublesome issue of Cuba. The Inter-American Dialogue's report, put forth this past September, presents a sensible alternative to current policy, a policy which is stale and unproductive in that region. The core of the policy is that the United States ought to be seeking greater cooperation with Latin America; most of the recommendations follow from that. Basically, the choice is whether the United States simply wants to sit back and wait for Fidel Castro to pass from the scene or to really begin to mobilize an international coalition and to try to bargain with Cuba.

Decisions also have to be made about international drug policy. Right now the evidence seems overwhelming that U.S. antidrug efforts overseas have no impact on our drug problem at home. Funding for drug initiatives in Latin America, in brief, should either be sharply curtailed or more effectively directed to helping Latin American governments deal with their drug problems, not ours.

In sum, President Clinton has inherited a well-defined policy agenda for Latin America. We now have a reasonable bipartisan consensus on what issues deserve attention, and that consensus, by and large, is shared with the countries and governments of Latin America. The challenges are still great, however. The battle for democracy in the region could be lost, economic progress is not assured, and cooperation between Latin America and the United States is still incipient.

The real task of the Clinton administration is not to break new ground, but to build on what has been accomplished and seek to structure an enduring relationship that serves the interests and values of both the United States and Latin America. By grasping the historic moment, the Clinton administration would benefit all Americans, North and South.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Hakim appears at the conclusion of the hearings.]

Chairman HAMILTON. Thank you, Mr. Hakim.

Mr. Perry.

STATEMENT OF WILLIAM PERRY, SENIOR ASSOCIATE, AMERICAN PROGRAM, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES (CSIS)

Mr. PERRY. Thank you, sir. I appreciate the opportunity. I am suffering from the mother of all colds and hope that you will bear with me.

The Foreign Affairs Committee of the U.S. House of Representatives is to be commended for allocating its scarce time at this crucial juncture to a general review of U.S. foreign policy and to devoting this particular session to the Western Hemisphere.

Despite many obvious problems, the situation within the region has been extremely favorable in recent years. The vast majority of Latin America and the Caribbean countries have been ruled by more or less democratic governments. A truly amazing process of market reform has swept over the region, establishing the basis, and in many cases the reality, of economic growth. Formerly contentious politico-security issues among Latin American countries and between them and the United States have seemed in general abeyance. And the taboo which long existed against open cooperation with Washington appears largely to have fallen away.

In response to these positive trends and with an eye toward enhancing U.S. competitiveness on the new global stage, the Bush administration resolved to enter into negotiations aimed at incorporating Mexico within the North American Free Trade Area, and it offered the other regional nations, through the Enterprise for the Americas Initiative, eventual inclusion in a truly hemispheric commercial zone. The positive response from Latin America has been truly phenomenal, and there are numerous subregional efforts in the process of being established and a very long line of Latin American countries forming up to our south desirous of inclusion.

But, while circumstances are generally better within the region, their circumstances are certainly not as universally favorable as our sometimes self-congratulatory rhetoric might have seemed to imply. Many of the democracies in the region remain imperfect and potentially unstable. Violence is an active reality or vivid prospect within a number of societies. Social conditions, aggravated in many cases by the exigencies of necessary but inevitably wrenching economic reform programs, are extremely difficult and acute. And numerous countries have either been unable to successfully execute economic readjustment measures or their populations have yet to feel tangible benefits from the sacrifices made to effect them.

The list of enduring problems, and, indeed, in some cases aggravating problems, is lengthy and well-known—Peter has mentioned a lot of them—poverty; deficiencies in housing, health care and education; lack of legal and social justice; environmental degradation; corruption; massive emigration; drug trafficking and burgeoning common crime; bureaucracy and inefficiency; chronic political contention; insurgencies and terrorism; and still difficult patterns of civil-military relations.

In fact, it was never likely that the positive trends that we witnessed through the eighties and early nineties would continue forever or result in universally favorable and permanent outcomes. We have seen a good many indications already that the peace accords in Central America are having difficulties that there are continuing problems with insurgencies in Colombia and Peru, that Haiti and Peru have experienced at least a temporary reversal of democratic practice there. There have been a couple of military coup attempts in Argentina and Venezuela that indicate that there might be some ultra-nationalist, new political forces below the nominally democratic surface, and I think we are going to see that

some advocates of reform are defeated in the upcoming round of presidential elections even in countries where democratic institutions hold on.

That is not to say that all the gains of the past few years will be lost in a majority—in all cases. In fact, I don't think that is true. I think we will be at a much higher water table for sometime in the future. But it does mean that things will not go as swimmingly in Latin America in the future as they have in recent years, particularly if we don't pursue a sufficiently attentive and effective policy toward the region.

I think the importance of Latin America to the United States—it is not just a question of designing policy that is beneficial to Latin America. We are in the process of reformulating our foreign policy objectives around the globe, and I think in that context we are going to find that Latin America is a lot more important to the United States for the post-cold war foreign policy paradigm that we have to create now.

The imperative of the United States in terms of forging that new approach to international affairs is that Latin America become a decided asset, and certainly not a debilitating liability, as we confront the hopeful but increasingly competitive new global environment. That will require that the region be accorded a decidedly higher priority than has been accorded since the second world war. The effort to include Mexico in the North American Free Trade Area has to be expedited, and movement toward an expansion of that in the direction indicated by the Enterprise for the Americas Initiative, possibly with movement on the Chilean front fairly soon after Mexico, really needs to be attended to. I think we are a little behind the power curve and we have got to accelerate to keep pace with unfolding events in the region.

We also have to turn, as Peter also said, to improvement of the mechanisms of inter-American politico-security cooperation. The old machinery of the Organization of American States, while having improved, clearly has not kept pace with the change in the economic realm, and the closer economic and social relationship with the countries of the region creates a need for common and effective action on New Age problems like the defense of democracy, control of drug trafficking, illegal immigration, and the protection of the environment.

I think there are other ideas that might be explored in terms of cooperating with the Latin American countries in global peacekeeping and in global trade liberalization where they are in many respects our natural allies, and thinking a little bit about hemispheric energy security as well, because in the hemisphere we do right now have an energy self-sufficiency which we might find some way to take advantage of.

In sum, we stand at a crucial juncture with respect to the Western Hemisphere, while we simultaneously seek to forge a fresh overall strategy more appropriate to our domestic needs in the new international era that we are entering. I think old priorities have to change, and Latin America, I think, should find a much higher place in the priorities, moving along with, as Peter said, the general consensus strategy with particular emphasis on the NAFTA

and the Enterprise for the Americas Initiative that has been entrained now for 2 or 3 years.

Thank you.

Chairman HAMILTON. Thank you very much, Mr. Perry.

[The prepared statement of Mr. Perry appears at the conclusion of the hearings.]

Chairman HAMILTON. Mr. Tulchin.

STATEMENT OF JOSEPH S. TULCHIN, DIRECTOR, LATIN AMERICAN PROGRAM, WOODROW WILSON INTERNATIONAL CENTER FOR SCHOLARS

Mr. TULCHIN. Thank you very much, Mr. Chairman. I want to begin by thanking you for the opportunity to come before the committee and offer my views on the major issues with which this new administration and the new Congress should deal between Latin America and the United States, and I also want to state the obvious, that the views I offer are my own and do not necessarily reflect those of the Woodrow Wilson Center.

The Clinton administration already has had to deal with one of the major issues in hemispheric affairs, and that is, restoring democratic government in Haiti. But, as I shall explain in a minute, in paying attention to Haiti, the new United States Government appears to be looking through the wrong end of the telescope. The new administration has become involved in Haiti principally because of domestic political pressures, concern for the human and constitutional rights of Haitian refugees and a concern for the painful and costly burden a massive immigration into southern Florida would impose on the people of that State and of our Nation, rather than focusing on the main issues, which are how to restore democratic government in Haiti and how to improve the quality of life for the people in Haiti so that they will no longer wish to leave and come to the United States?

If the Clinton administration deals with Haiti mainly as an issue in United States domestic politics, it will lose a major opportunity to lead the hemispheric community in a collective effort to preserve and consolidate democracy throughout the region, and not incidentally, it will fail to staunch the flow of people attempting to leave Haiti for a haven in the United States.

The major issues in hemispheric affairs confronting this Congress and this administration are not hard to list. You, yourself, in your brief remarks, Mr. Chairman, listed most of them. The hard part is knowing how to deal with them, dealing with them in a constructive manner, a manner that protects and promotes our national interests while at the same time enhancing the well-being of the varied community of nations that comprise this hemisphere and fortifying our position as the leader of the hemispheric community.

Let me begin with the easy part, listing the issues for the United States agenda. In what time remains I shall attempt to explain my perspective on how best to deal with the issues of our hemispheric agenda.

I have already mentioned the issue at the very top of my agenda, the consolidation of democracy throughout the hemisphere. Let me list, briefly, a few more: consolidating the economic reform pro-

grams launched in virtually every country in the region in order to resume economic growth as quickly as possible; continuing and accelerating the expansion of trade with Latin America—for unless the nations of Latin America can trade with the United States, the largest market in the hemisphere, the sacrifices they have made to deal with the debt crisis and to restructure their economies will have gone for naught; alleviating poverty and improving the quality of life for the people of the hemisphere; reducing illegal migration of people from one nation to another; reducing the production of and the trade in arms of mass destruction; reincorporating Cuba into the hemispheric community; protecting our common environment; eliminating drug traffic; establishing a common juridical framework for the respect of human rights.

But, you may say, this is a long list and we don't have the resources to deal with all of these problems. My reply to that simply is that it is not a question of resources. It is knowing how to deal with our agenda. The key, in my opinion, to dealing effectively with this agenda is that all of the issues I have listed have in common one characteristic, the understanding of which is essential in formulating effective foreign policy. The characteristic that all these issues share is that none of them, I repeat, none of them can be solved or even dealt with in an effective manner by the United States acting alone. These issues are known in the academic world as "global issues," by which is meant that they affect all of us while not being subject to the control or manipulation of any single State no matter how powerful or rich.

Therefore, Mr. Chairman, if there is one single idea that I would leave with you today it is that an effective foreign policy designed to deal with Latin America in general or with any of the issues I have listed must take into account the interests, the perspective and the concerns of the other nations in the hemisphere. The best mechanisms or instruments for dealing with these issues in the coming years will be multilateral instruments or mechanisms. Collaboration and cooperation must become the *modus operandi* of any United States policy in the hemisphere if it is to be effective.

In closing, let me refer briefly to two examples to show how I would deal with the issues on our agenda for Latin America. For example, how are we to deal with Haiti? First, we must understand that we cannot coerce people into democracy. Nearly 80 years ago we sent marines into Haiti for humanitarian purposes to restore stability and stayed for 20 years to teach the Haitian people how to be democratic. When the marines left, Haiti was scarcely more democratic than when they first had landed. I have written a book about that episode, *The Aftermath of War* (NY, 1971) but I won't bore you with it this morning.

Second, once we understand that we cannot force a people to be democratic we must decide to act in concert with other nations in the region. Democracy is more widespread in this hemisphere today than at any time in our collective history. We should take advantage of that historically unique development to bring other nations in the hemisphere into our council and encourage other nations to join us in assuming the responsibility for the good behavior of all members of our community. We cannot be the world's policeman. We should not want to be the hemisphere's policeman.

The responsibility for good government is the responsibility of all of us. We must show our leadership in getting other nations in the hemisphere to share that responsibility with us. We should begin now in concert with others to formulate a plan for the economic recovery of Haiti. Without some economic hope, Haitians will continue to seek to come to the United States even after democracy is restored in their country.

My last example deals with drug traffic. I hope we have learned our collective lesson that unilateral interdiction does not work as foreign policy, and that foreign drug policy that focuses only or largely on supply and ignores demand is doomed to failure. More important, we should have learned that we cannot ignore the legitimate concerns of other sovereign states in attempting to stem the flow of drugs into our nation. We must begin by establishing a community of shared responsibility among the nations in the region affected by the drug traffic. In the last analysis, all of us are diminished by the culture of drugs, and all of us would benefit from its eradication.

Mr. Chairman, let me close by reminding the committee that we have an historic opportunity to create a community of nations in this hemisphere bound by an allegiance to democratic government, by respect for human rights, and by a shared responsibility for the well-being of all members of the community. By sharing responsibility with our neighbors, we can accomplish our common goals and defend our national interests.

Thank you very much.

Chairman HAMILTON. Thank you very much, Mr. Tulchin.

[The prepared statement of Mr. Tulchin appears at the conclusion of the hearings.]

Chairman HAMILTON. And thank each one of you. We will begin now with questions from members.

The chair will recognize first the distinguished chairman of the Subcommittee on Western Hemisphere, Mr. Torricelli, and then the ranking member on that subcommittee, Mr. Smith, before turning to other members.

Mr. Torricelli.

HAITI

Mr. TORRICELLI. Thank you, Mr. Chairman. Mr. Chairman, I would like to thank you for holding this series of hearings in general and this hearing in particular. It appears that our country can never strike the proper balance in recognition of the problems of Latin America from Cuba to Salvador and Nicaragua and Panama. They either dominate our foreign policy where we can see little beyond them or they escape our consciousness entirely. We are now in the latter phase. The fact that we hold these hearings at this point when, for better or for worse, Latin American issues are not dominating the American media is a good example of what both this committee and this government should be doing: looking beyond the crisis to the broader policy issues. I would like to focus on several of those broader issues for the next few minutes.

Somewhere between the establishment of the New World Order and the sad reality of Haiti and the response of the international community, some of us were of the hope or belief that at least in

Latin America there would be a commitment not to accept an interruption of the democratic order, that nations would see their responsibilities beyond their borders when democratic governments lost power; the responsibility of the OAS or other collective means to withhold recognition or assistance, or sometimes in selected cases even intervene. We would find that governments that seize power would not only not be accepted, but by considerable action be forced from power. The reality of Haiti contradicts all of those hopes.

I wondered if you would react to the possibility of a Clinton policy trying to seize on that hope again, and not accept some of these unfortunate realities, and to make the OAS and the restoration of democracy everything that in other theaters the United Nations has attempted to be to preserve both the peace and, just as importantly, the principles of sovereign and democratic governments.

Mr. HAKIM. Well, let me start off. Number one, I would disagree a bit with your characterization. I think the Organization of American States and U.S. policy have made mistakes toward Haiti and have, not been as effective as they might be. However, we have to recognize that Haiti's problems really emerge in Haiti. I mean Haiti is a country with absolutely no experience with democratic rule, no traditions, and no institutions. This was a very, very new experiment in Haiti.

Secondly, the States of Latin America, and the United States have responded to Haiti in a way that was virtually unprecedented. If we go back to the sixties and seventies when military dictatorships were taking over in country after country, everyone was silent. And the day after the coup, the day after the military took over, it was business as usual with the country. Virtually for the first time, the countries mobilized together and tried to organize some kind of collective action.

My sense now is, that Haiti is in many respects more a management problem than a conceptual problem. The task in Haiti is to keep pressure on all sides, keep them bargaining, keep them negotiating, don't let many months go by when nothing is going on.

LATIN AMERICAN AND CARIBBEAN EFFORTS

Mr. TORRICELLI. The thrust of my question was not to deal with the Haiti problem so that where it would consume all of the few minutes that we have. My question was is there a possibility in Latin policy to do more than offer words when the democratic order is interrupted? We did get words when Haiti lost democracy. We got a lot of them. That is all that we got.

An offer by just a few states of the Caribbean and Latin American nations to send forces to help restore that order at the critical moments after the coup, or at least compliance with the boycott might have changed the sad reality of Haiti.

The truth is that beyond American borders and a few states in the Caribbean, nobody cared, and that is what has created this reality today. My question to you was not concerning the particulars of the Haiti crisis, but to ask are we at a point where just as we were able to construct a large international effort in the Middle East 2 years ago, today we can hope in the OAS or through another mechanism that if another government is lost in the Western

Hemisphere that through economic, diplomatic or even in special circumstances military, collective action would be sufficient that we could restore a democratic order.

Mr. HAKIM. I don't know if it is going to be sufficient. I do know that the nations of the hemisphere are prepared to work together. The OAS is not yet an effective mechanism. There is a number of things that can be done: increasing the authority of the Secretary-General, expanding the mandate and resources of some of the key democrat agencies of that organization and streamlining the OAS. There has to be a way to finance this. There has to be a burden-sharing mechanism for special initiatives like sending civilian missions. The U.S. has to repay its arrears to the Organization. The Organization can be made more effective. It will take time. It has made unprecedented progress over the past 2 or 3 years that is somewhat unprecedented. I don't think military force is the way you are going to bring democracy back to Haiti. I think it is the wrong way to go in that situation, and in almost every other in Latin America. It would, perhaps, bring a temporary change, but eventually the country has to solve its own internal differences.

Mr. TORRICELLI. In my mind, if you will forgive me, those are all incidentals: whether we pay our arrears, whether we believe in the Organization. The real condition predicate to any of this happening is whether philosophically the nations of the region have arrived at the point where they believe that, as we have seen elsewhere in the world from Somalia to Bosnia, there are limits on the concept of national sovereignty, and that it is not the right of a military to intervene into civilian affairs.

Mr. HAKIM. I think the nations of the hemisphere have reached that point. They are moving in the right direction, and it is going to take time to consolidate that. This is not a 1 day to the next proposition. There has been a gradual evolution. We are seeing change, and I think we will see more change. And we need U.S. leadership to help make that change occur.

Mr. TORRICELLI. Mr. Chairman, if I could, before I yield the time, if anyone else wanted to respond to that series of points.

Chairman HAMILTON. Sure.

Mr. PERRY. I guess the short answer is no, I don't think it has reached the point there—if you are talking about intervention, that the OAS would be particularly in a case of actual intervention. There is a long history of Latin concerns about sovereignty of nations involving us. To a certain extent, that is one of the paralyzing there. And Haiti is a particularly difficult case because it is a question of what you are intervening on behalf of. There are some defects in the—even with the elected president that cause a lot of people problems.

I think we should have been pressing the OAS and pressing the countries of the hemisphere in the context of our increasing the close economic dealings with them to get them to understand better at least what we understand are the requirements of politico-security cooperation. If we are going to have a closer economic and social relationship and the positive end game is a hemispheric free trade area, then we need some politico-security counterpart to that. Try the OAS. Try everything you can with the OAS, and if it doesn't work, start thinking about something else. Because we

don't want to end up in this process somewhat in the same position of the Europeans where they have a very, very close degree of economic unity and can't do very much of anything with respect to problems right on their own doorstep and often leave them, or want to leave them to the United States.

Mr. TULCHIN. If I may, Mr. Chairman, I think Mr. Torricelli in his second intervention hit upon the critical issue involved in creating a community of democratic nations in the hemisphere, and that is, will the nations of Latin America cede some of their sovereignty in order to defend democracy everywhere. And, in order to do that, I think American leadership is indispensable.

We should not get locked into a zero sum game with the OAS. In the short run, I agree with Mr. Hakim, the OAS is going to be a clumsy, imperfect instrument. It is a consummation devoutly to be wished that at some time in the future it will be an effective, fluid instrument for the protection of democracy. Until that time I would urge the United States to be very flexible in adapting to a series of ad hoc groups.

An example in our recent past with which all of you are familiar is the success of the Esquipulas process in Central America, where the nations in that subregion, after many years of local civil wars, realized that they had common interests and banded together. Without that, the peace process in El Salvador could not have gone forward.

It seems to me that what we have to do, for example, in the cases of Peru, in the case of Venezuela and others, is that you have to move—and I think the United States should take the lead—to create ad hoc coalitions of nations to defend democracy wherever threats to it appear. If the OAS proves to be effective in any of these episodes, so much the better. But I would not sit back and say "If the OAS can't do it, I am not going to do anything" or "We're going to act alone." I think that would be a mistake.

Chairman HAMILTON. Mr. Smith.

U.S. POLICY TOWARD DEMOCRACY

Mr. SMITH. Thank you very much, Mr. Chairman. And I want to thank our panel for their very fine insights to this committee. Just a couple of questions. You know, I think all of us have become very much aware looking at Latin America and looking at Eastern Europe and the former Soviet Union that the very bright hopes that everyone had for a rapid democratization globally may have been unrealistic at the outset. That certainly democracy is a very messy business very often, compromises, give and take, and it doesn't happen overnight, and that is I think self-apparent and self-evident in Latin America today.

But I think one of the things we need to be looking at—as a matter of fact, Mr. Torricelli and I will be holding a series of hearings on country by country in Latin America starting tomorrow with Nicaragua, to look at how U.S. policy can be calibrated, perhaps changed, reformed, reinforced in areas where it might be working so that we can promote democracy, hopefully mitigate—if not outright prevent—war, and meanwhile being ever vigilant to try to stem human rights abuses.

We look at Nicaragua and we see that there has been under the Chamorro government, unfortunately, because we all had such high hopes for that government, the continuance of political killings. Some have higher numbers and higher estimates, some perhaps are exaggerated, but there have been contras or have been others who have been killed—former contras, that is—over those years with very few investigations being undertaken.

My question to the panel, if you would, if you could give a brief assessment, Mr. Hakim—is that it?

Mr. HAKIM. That is fine.

STRENGTHENING THE OAS

Mr. SMITH. You indicated that there needed to be an expanded mandate, in your response to Mr. Torricelli, to the OAS or how we might strengthen like the OAS its democracy unit and other international as well as our own initiatives to really promote human rights. I mean the last thing we want to see happen, which can happen I think, would be a reversion back to and empowerment of the FLMN in El Salvador and a resumption of that war, the contras because of dashed hopes taking up arms, as they are in a very limited way, and a resumption of the killing in Nicaragua. How do we put a tourniquet on those, provide that semblance of hope again that people now are beginning to feel, you know, that democracy is not inevitable in Latin America?

And, if you could go country by country. In Panama, it seems that corruption is one of the main problems. Your advice would be much appreciated by this committee.

Mr. HAKIM. Well, in fact the way you really have to go is country by country. When the military is in power, or when a personalist dictatorship is in power, the goal is rather easy. Push them out, and install an elected government that rules by due process, by the rule of law. Once you have the turnabout, however, once you have a democratic government in Nicaragua, in Panama, in Peru, then it becomes much more difficult. Then each country's history and traditions come into play. In many countries there are weak legislatures, weak political parties, and a weak tradition of popular participation in government. The United States, of course, has several institutions like the National Endowment for Democracy and others whose task has become much more difficult since the elections have taken place.

How do you define—and it really does have to be country by country. I think the OAS, for example, can play an important role through several of its agencies. I think these do need stronger mandates than they now have. The Inter-American Commission on Human Rights, the new unit for democracy. But by and large, I think that the way to protect democracy is principally through increasing collective action and increasingly establishing common regional norms: We have some regional norms on things like human rights, but they are not always lived up to. We ought to make very clear when they are not lived up to.

And where you have a situation of democratic breakdown it is vital to move both contending forces toward sitting down and talking about it. That is the way democracy has been restored almost

everywhere in Latin America, through negotiations that resolve a situation and allow the country itself to develop internally.

Mr. PERRY. I agree, and I mentioned it in my initial statement. That perhaps we were too optimistic overall. Life doesn't work that way. The gains are important and shouldn't be discounted. But, you know, you are talking of advancing in four countries and then stepping back in one, and then pushing the ball forward, and so on and so forth.

And some of these cases are extraordinarily difficult. Americans have a penchant to believe that things can be definitively fixed. That isn't true, particularly in a short period of time. I had a period of time where I was on the National Security Council staff and Haiti was one of my responsibilities, and I remember saying—thinking and saying that, this was in the epoch, the period of Namphy, that there is maybe a 25 percent chance you can get this guy to hold elections. And, if he does, the person elected stands about a 10 percent chance of serving out his term.

Nevertheless, you have to keep trying to roll the ball up the hill. There is no alternative but trying to do it. And you shouldn't despair if a particular case fails.

With respect to the OAS, I certainly agree that it is a general imperative to try to work with the countries in the OAS and with subregional groupings if that is appropriate. But since they are not always capable of doing what needs to be done at a particular moment, I don't see an immediate term prospect of alleviating the U.S. responsibility for its own bilateral policy in the region. If Port-au-Prince dissolves into chaos this afternoon, the dean of the diplomatic corps is not likely to call the OAS. He is likely to call the White House. And there is a reason for it and it still exists. I would like to see it fixed, but I don't have any great confidence it will be fixed very quickly.

And we should have been pushing—along with this economic agenda, we should have been pushing a politico-security agenda. The Latin American countries want certain things out of us in an economic sense, which it is in our interest to respond to by itself, but they also should understand the politico-security requirements of closer association.

Mr. TULCHIN. If I may add just a very few brief remarks to that, Mr. Smith, I would say, first of all, that we are unfairly categorical and harsh in evaluating democracy in other countries such as Nicaragua and El Salvador where it is admittedly fragile and very recent. Our own democracy, is in a slow, 200-year process of perfection, and we haven't reached perfection yet, but we are still working on it. To expect that Nicaragua or El Salvador, 6 months or 2 years after an election signal the return to civilian government that their democracies function perfectly it seems to me is unrealistic and unfair to them.

We have been sending mixed signals to those countries in Central America over the last 4 years, and I think that is something that is relatively easy to work on without talking about tripling aid or quadrupling aid, which may be politically more difficult in the coming months. I think the signals we have sent, for example, to Nicaragua about stopping that aid, or by keeping it at a very low level, much lower than we had given them reason to hope

at the time of the radical changes that brought Mrs. Chamorro into power run counter to our demands that they treat their opposition better. I think if we could be a little more consistent in encouraging them—reminding them that we are still dissatisfied, but not indicating that they have slid back to the point where they are no longer worthy of our encouragement and support.

And again, I will repeat over and over again, because I think it is important to remember, when it comes time to put pressure, if indeed it comes time to put pressure, say, on Mrs. Chamorro or the Nicaraguan government or any government, that it should not be unilaterally pressure from the United States Government. Unilateral pressure, though it may seem innocent to us, fits into a context of historical memories of painful interventions. We intervened in Nicaragua with U.S. troops eight times in this century. It may seem innocuous and innocent to you that we make a request of the Nicaraguan government. But every Nicaraguan schoolchild carries into his or her adult life the memory and the history of that involvement, which is much more important to them than it is to us.

I am sure schoolchildren in this country have no knowledge whatsoever of those interventions, but everyone in Nicaragua does, and we should bear that in mind. If they are seemingly too sensitive, they have reason to be. So we should act in Central America with a concert of Central American nations. The United Nations has been remarkably effective in El Salvador. I personally would have hoped that the OAS would have been more effective, and perhaps it will become so.

They are now working in concert in Haiti. I think that is a tremendous step forward. They seem to be working in concert in El Salvador. Friction but working in concert. I think that is a step forward also.

Mr. SMITH. If I could just respond very briefly, Mr. Chairman, I know my time is out. Nobody is expecting perfection in any of these democracies because, obviously, we are nowhere near it in this country. But there are some ominous signs like UNO backing off from Mrs. Chamorro when it had been one of her chief backers. Those kinds of things should not be dismissed lightly, and I know you are not doing so.

What our hope is, is how do we best from our point of view craft a policy that, again, mitigates the possibility of war re-emerging and bloodshed, and curtailing the human rights abuses by anyone, whether it be a rightist, leftist, centrist government in Central America or South America.

Mr. TULCHIN. It is important to understand, I think, Mr. Smith, that politics in Nicaragua occur with two fora in mind: Managua and Washington. You do not conduct politics in Nicaragua without taking into account what happens in Washington. And a lot of what UNO has done and what UNO leaders say is to catch your attention and see what your response is. And I think we have overreacted.

If our response systematically had been, "we think it would be better if you got back into the arena and worked out your differences, we think that there are real differences and I think it is important for everyone to work together is best." It might have worked. Instead our response has been, "gee, those are serious is-

sues." They *are* serious issues. I don't mean to diminish them. But, if we took the same perspective, for example, on the complexities of democracy in the United Kingdom we would have severed relations with Great Britain a long time ago. Obviously, that is out of the question.

We are taking a very severe stance on the standards of democracy in dealing with countries that have every reason to expect of us more tolerance, more patience and more guidance.

Chairman HAMILTON. Mr. Martinez.

U.S. INTERESTS IN LATIN AMERICA

Mr. MARTINEZ. Thank you, Mr. Chairman. I really don't know where to begin, you know, it is all so complex. And it is all so inconsistent too.

You know, Mr. Tulchin, I really would appreciate reading your book, because I think you have really zeroed in on some of the real problems that we would have over the years when you mention the invasion of Haiti 80 years ago. You know, we militarily occupied a lot of those Central American countries after President Polk decided after success with the war with Mexico that he would move on to the Central American countries for "our national interest," as someone here said, and I am wondering what our national interest was.

I know our national interest at that time was economic, and only economic, because we really didn't do anything to leave democracies in those places. We left dictators like Batista and Somoza and his two idiot sons. But the problem is that we had a chance then to train and teach people democracy and our concept of what democracy is. You mentioned our democracy is still evolving. You know people forget that in the first 13 years of this country there were no free elections, and when there were free elections there were only landowners to vote. And then it took so many years for the blacks and minorities and women to get the vote. So we are still evolving. And sometimes we have a very difficult time amending the Constitution for a simple thing like the Equal Rights Amendment.

And so we are evolving, but we are not patient, like you say, with the South American countries. And we have not really done what we should do to invoke democracy in those countries. Chiang Kai-Shek was a military imperialistic government, not a democracy. I don't think that Imelda and Ferdinand Marcos were a real democracy. I think even to some extent in Mexico, our neighbor, when you have only one party that is predominant, and you do not have the chance for a minority party even to gain any success, when they win elections they are taken away from them, and that you know who the president is going to be some years before, and all of these things occur—Hey! It is a form of democracy, but it is not democracy like ours, and we have got to be tolerant of that.

But the point is what are our national interests now in Central America? To stem the flow of people who are escaping political oppression and economic oppression, or the drugs, which is an important factor? I think they are twofold, but there are different groups of people in the United States who want to oppose the influx of people whom they perceive as a threat to their jobs and their econ-

omy and others that feel that the drug influx is a threat to their well-being and their neighborhoods and communities.

But, you know, we have not dealt with the situation in that way. I am wondering if we are ever going to come to terms with the issues at hand. We talk about free trade with Mexico. Everybody agrees that initially it will hurt us. Well, maybe we have to suffer a little bit so that we can raise the standards of living in those countries so, as Mr. Perry has said, they are not all flocking here to escape political and economic oppression that they are suffering in their countries.

I think that is partially what you have said. I agree with a lot of what all of you have said. I have made that as statement, not really a question, but you might respond to some of my comments and clear some of my skewed thoughts on this matter, if it is skewed.

Mr. TULCHIN. Just if I may, one very brief note. It would be an honor to send you a copy of my book, Mr. Martinez, in hopes—and perhaps, you and I are the only two who have read it in the last few years.

Mr. HAKIM. I have read it, Joe.

Let me just take up one point. You talked a lot about the U.S. national interest. I would like to change that around. I think what we have in Latin America is not the need to protect U.S. national interest so much as a series of new opportunities for forging more productive economic relations with Mexico and beyond, and developing more constructive political relationships to deal with a whole range of issues that have been discussed here.

If we continue to talk about protecting our interests, we will be looking at Latin America too narrowly; we ought to begin thinking of how we can work together to exploit the opportunities that have emerged over the past several years.

Mr. MARTINEZ. I agree, Mr. Hakim. I think that for too long, for too many years we have just tried to protect our own interests whether they are economic or national security, and I think we have got to go beyond that and start thinking in terms of being a good neighbor. We now seem to want to be a good neighbor to Mexico, who has been next door to us for as long as we have been a country—since they have won their independence. We have literally ignored them. In fact, we have literally ignored the Western Hemisphere in favor of Europe and Asia.

Thank you.

Mr. PERRY. If I may.

Chairman HAMILTON. Go right ahead, Mr. Perry.

Mr. PERRY. We have ignored the region, and the world has changed quite a bit with the demise of the cold war. During that period we had, I guess it was an intellectual advantage. That we were presented with such a stark threat that we didn't have to think about opportunities. I consider a positive policy toward the United States to be in our national interest. I mean enlightened self-interest. It is a little hard sometimes, especially for those of us who grew up during the cold war when the imperatives were so clearly drawn for us that we didn't need a road map to figure them out. Now, we have to use our mere intelligence to think about tak-

ing advantage of opportunities to further the national interest in the positive sense of the term.

And we have had in Latin America a tremendous opportunity. And you have two Democrats and a Republican here more or less telling you the same thing. That there is an opportunity by extending our economic relationships with Latin America, via free trade in particular, which was always a bone of contention actually, we can advantage our—I disagree with one point. I think the Mexico trade agreement will advantage the United States immediately and in the future, although some sectors will clearly be hurt here. It provides you with, I think, economic benefits. It makes the United States more competitive vis-a-vis Europe and Japan. It solves or tends at least to ameliorate, although you will never solve completely, the social and socio-political and politico-security problems that you are talking about. A prosperous Mexico will export less people. A stable Colombia will have better luck enforcing its drug policy, and so on and so forth.

Also, I think it improves our negotiating position vis-a-vis our friends and competitors on the international stage to be in closer relationship economically with the Latin American countries. So I don't see any contradiction between our national interest and what we are doing. What I see is that we need a new, sort of a new foreign policy paradigm that takes advantage, that is looking in a positive sense rather than dominated by threat perceptions. I think to the extent that there are still threats, that taking advantage of those opportunities reduces those threats at the same time.

Mr. MARTINEZ. Thank you, Mr. Perry. Thank you, Mr. Chairman.

Chairman HAMILTON. Mr. Diaz-Balart.

Mr. DIAZ-BALART. Thank you, Mr. Chairman. I appreciate the opportunity to listen to the gentlemen this morning. Unfortunately, I didn't hear your remarks but I had an opportunity to read them. I would assume that they conform in writing to what you said, and so I will base my comments and/or questions based on what I read. Of course, I have listened with regard to answers to previous comments and questions.

One point that I saw brought out, first by Mr. Torricelli and has been mentioned consistently, or at least thought of consistently, is the balance between the need to respect the principle of non-intervention vis-a-vis the need to assist people when their sovereignty is, if you will, kidnapped by people—military governments, dictators or others—that are denying them their sovereignty.

Mr. Tulchin—is that how you pronounce it, sir?

Mr. TULCHIN. Yes, sir.

WHEN DOES THE U.S. INTERVENE?

Mr. DIAZ-BALART [continuing]. Made a point that perhaps we need to be working toward the ceding of some of the sovereignty on the part of some nations in order for them to have their democracy protected, and I tend to differ with that. I don't think, for example, that when a bank president acquiesces, or people that are running a bank acquiesce to the right of the police to come in and expel a bank robber that they are ceding in any way the right to run the bank.

I think that when governments acquiesce and expect that the international community or the regional community will come in and assist the people to recover their sovereignty whenever that sovereignty is kidnapped that that is not ceding in any way any amount of sovereignty, but rather it is simply a responsible way to recognize that occasionally all peoples run into problems and sometimes have their sovereignty kidnapped by illegitimate regimes.

One point that I see—I think one matter that I have noticed in the three of your statements, and I at least appreciate Mr. Hakim mentioning it as one of the old issues that refuse to go away: Cuba. I guess my question to the three of you, because I don't see a 34-year dictatorship which I consider the mortal enemy of the interests of the United States and the people of the United States and the Government of the United States anywhere near the priority position in your surveys of the region that I believe it should have.

I guess my question is how long do a people have to be under a brutal dictatorship, how profound is the animosity and the enmity of a dictatorship have to be to the interest of the United States before you consider that problem, if you will, in a priority position of your survey of the region?

CUBA

Mr. HAKIM. Let me try that first. Number one, I think Cuba is no longer a mortal enemy to U.S. interests. It may have been at one time, but with the end of the cold war, with the end of the flow of Soviet arms and aid to Cuba, and with the virtual collapse of the Cuban economy, I think Cuba is a nuisance. It is a repressive police state to its own people and Cubans are undoubtedly in a horrible situation. However, I don't think it is a mortal enemy to U.S. interests at this stage.

I don't know how to get rid of Fidel Castro, and clearly the U.S. Government, which has been pursuing that course for 32 years, doesn't quite know how to get rid of him either. Given the choice between two policies whose effectiveness we don't know, between squeezing harder and harder on Fidel Castro and Cuba or trying to liberalize our policy, I would choose the one that is more likely not to divide us from our natural allies in this; i.e., the nations of Latin America, who are also interested in changing Cuba. Current policy is dividing us from Latin America, and we could find more common ground to work on.

Secondly, and this is particularly important to me, and I will explain why in a second, is if I had to choose between two policies without knowing which one is going to be more effective in getting rid of Fidel Castro. I think I would choose the one that would be less harmful to the Cuban people. I know the Cuban people are suffering very dramatically, and I know that in part because my wife is a Cuban American and travels back to the island, and we have relatives coming here. The situation is dismal, absence of medicines, absence of food, not knowing where the next meal is coming from, inability to travel even short distances between towns.

All that I am saying is that if we don't know what the geopolitical consequences of the different policies, squeezing or liberalizing, I would choose the policy that would be less harmful to the Cuban people.

Mr. PERRY. I guess I would have to disagree with you, since there has been so much harmony on the panel, and agree with George Bush and Bill Clinton that we are on the verge of, frankly, of Castro's demise. I don't know when it will be or how long it will take. But his days seem certainly to be numbered to me, and I don't see any point at this stage in throwing him a life preserver which opening economic and political relations or any kind of dialogue with his regime would essentially do.

We were anxious to get rid of military dictatorships, and we put our shoulders to the wheel on that and got rid of it—got rid of many of them, and I think we should all put our shoulders to the wheel and squeeze as hard as we can to terminate this dictatorship as well. I think I would just caution that the last days of the Castro government are going to be difficult and dangerous ones for the United States, and I hope that the new administration is prepared for that. I don't think, given Castro's record, that he will go quietly into the night, unless some of his colleagues decide to remove him, and we may face a very serious situation there. But I see no reason now to loosen up and give this regime any negotiating position whatsoever in the future.

Mr. TULCHIN. Well, my opinion is that Cuba is not a mortal threat to the security of the United States. Further, I would argue that the current policy or the policy of the previous administration does more to buttress the dictatorial regime in Cuba than any other policy might. In fact, it is the last remaining weapon that administration wields to remain in power.

I follow Milton and Jefferson in the search for liberty. Unfettered truth is the strongest defense of liberty. If there is a dictatorship in Cuba, if there is a harsh repressive regime in Cuba so close to the United States, let's talk about it. Let Cuban scholars in. Suggest to Cuba that they let Americans in. Have equal and free exchanges.

By barring exchanges, it seems that the most powerful nation in the world, the oldest, most solid if still imperfect democracy in the world is afraid to engage even in academic discussion with people from a small, now increasingly impoverished and repressed island 90 miles off the shore of Florida. People in Latin America do not understand our fear of open discussion and debate.

Such free and open discussion might be a way of subverting the dictatorship. It seemed to be the core of our policy in dealing with the Soviet Union and Eastern Europe and was remarkably effective. The Xerox machine was one of the most powerful weapons in the cold war as underground manuscripts in the Soviet Union were copied with increasing impunity and distributed and so on and so forth.

Let's talk to Cubans. I have been to Cuba. I have seen the difficult situation there. And what is amazing is that as few people in the United States seem to understand that like Nicaragua, like Mexico, like Haiti, people in those countries understand and read their history. We have forgotten our histories. We have got a 100-year history of involvement in Cuban internal affairs. Cubans are fairly sensitive to it. And, if we are unilaterally involved in overthrowing the current government, we will have a period following

the overthrow that will be every bit as painful as any in this century.

Chairman HAMILTON. Mr. Menendez.

ECONOMIC SANCTIONS AGAINST CUBA

Mr. MENENDEZ. Thank you, Mr. Chairman. I want to continue where Mr. Diaz-Balart left off. Let me just suggest that I find it interesting at a time in which U.S. policy seeks to use economic sanctions and in conjunction with diplomatic efforts throughout different parts of the world—and certainly as a vital step before pursuing military interventions in different parts of the world, where we are seeing with some significant degree a degree of success in South Africa divestiture attempts to break down apartheid, where we have seen President Aristide call for economic sanctions to bring back democracy in Haiti, and in other parts of the world where we suggest that economic sanctions would work—that in fact we would seek to move away at this period of time from what finally could be, not an old policy, but a policy that could actually work. Between Mr. Torricelli's recent law passed by the House and the fact that the world has changed, the fact that the Soviet Union no longer pumps an incredible amount of money into Cuba, billions of dollars a year, and when we talk about what is going to happen to the Cuban people, at the height of Soviet aid, Cuban people were under a system of rationed goods.

As a matter of fact, at the height of Soviet aid—I don't know, what is it, \$3 to \$5 billion a year? The fact of the matter is that Castro sent people to Angola, sought to destabilize parts of the Caribbean and Latin America instead of feeding his people.

So, in that regard, it would appear to me that at a time that their aid has been dramatically reduced and that our embargo has actually been given teeth, that then a government, for lack of a better word, that has been short on progress and long on abuses could actually create an opportunity for people in Cuba to have a democratic process and to be able to enjoy the very fruits of their labor. The fact of the matter is that Spain, for example which has been an ally of Cuba, stopped its milk shipments. Because what were they doing? They were being unloaded on Cuban docks and then transferred by the Cuban government for exportation elsewhere.

If you fly over Cuba, as some people have recently done on their way to other countries, you see a tremendous amount of cultivation of lands, but it is not being used for the Cuba people.

So, when we talk about this issue about the embargo hurting the Cuban people—just like Saddam Hussein hurts his people—Fidel Castro is hurting his people. It is not necessarily the embargo that is hurting his people. And yes, we want to bring back Cuba into the community of nations in the Western Hemisphere, but in doing so Fidel Castro has all the power in the world by himself to accomplish that. And despite his allies having given him a series of international rebukes, including Spain at his recent visit there he has been the most recalcitrant.

It would seem to me, Mr. Hakim, and I would like to also hear from Mr. Tulchin, isn't this the wrong time to not give the opportunity when we see people coming, such as the balseros, or "raft people." When we see people coming—the airlifts that we re-

cently saw—we are seeing all the signs that it is finally going to work and that the new law should be given the opportunity to prove once and for all whether or not we accomplish democracy in Cuba by virtue of the economic sanctions we have pursued as we have in other parts of the world.

Mr. HAKIM. I think you may have misunderstood my comment. I am not sure whether the embargo on Cuba will work or not, but I am not recommending that we remove it. What I am suggesting, and what has been laid out in a report of an Inter-American Dialogue task force, which I agree with, is that the embargo ought to be used as a bargaining lever. In other words, we ought to have something we want. Is it only to get rid of Castro? It probably won't work to do that alone.

The question is how can we make the embargo, and combine it with some other items like allowing for greater movement of ideas, people and information between Cuba and the rest of the hemisphere. The major point that I want to emphasize is that when the rest of Latin America has become democratic and is concerned that Cuba is not democratic. For example, Latin America democracies do not want Cuba back in the Organization of American States; they want to make it a democratic club. The Mexicans, the Venezuelans and the Spanish have all been trying to press on Cuba. At a time when there is a possibility for the United States to join forces with other countries in Latin America, we have been following a policy that divides us from them, as we saw in the recent vote at the United Nations.

Rather than dealing with it alone, we should develop a genuine hemispheric, and perhaps international, policy for dealing with Cuba the way we are trying to deal with so many other problems. I am definitely not advocating that we remove the embargo from one day to the next. It should be a matter of leverage and we shouldn't allow the embargo to prevent us from taking some positive measures that might alleviate the situation of the Cubans in Cuba.

Mr. TULCHIN. Mr. Menendez, in response I would simply quote to you the statement of Mr. Martinez, your colleague, a few moments ago. You can't force people into democracy. Woodrow Wilson in his frustrated efforts to turn the Mexican revolution at the beginning of the century into a democratic revolution said one night in anger and frustration, "I will shoot those people into democracy." I don't think that by unilaterally expressing our peak, our anger with a regime in Cuba that we are going to impose democracy on that island. We could succeed in removing Mr. Castro, but we will embarrass the transition to democracy if we do it unilaterally, vindictively, without using, for example, any efforts to encourage a dialogue. That has been our policy in the Mideast. We are trying to get people to get to yes, not to beat up on one another. And yet in our policy toward Cuba, without using any of these policy instruments to secure a quid pro quo, we are instead unilaterally acting.

The phrase Mr. Hakim used, it seems to me, is an important one to try and understand and keep in mind. For the first time in our history, the nations of Latin America form a democratic club. And, though they were seriously upset and made nervous by U.S. threats of intervention in Cuba and other places in Latin America,

they are willing to stand together and tell the government in Cuba of their displeasure if they aren't forced to do so by the threat of United States intervention.

Again, if we were to stand back from our current policy and allow the colleagues in Latin America to create a common front in favor of democracy, my opinion is that you would find far more pressure applied to the current regime in Cuba than could possibly be applied by unilaterally tightening the noose, the economic noose around the island. Right now we are causing disquiet to our allies and we are providing yet another instrument of power to the government in Cuba.

Mr. MENENDEZ. Mr. Chairman, I know my time is up. I just want to make one last statement, if I may?

Chairman HAMILTON. Certainly.

Mr. MENENDEZ. I believe that in fact you cannot force democracy on a people, but you will never force democracy on a dictator. And secondly, that in fact we can work with our allies throughout Latin America while we still have an embargo to accomplish some of the goals that you suggest. I don't believe that they are necessarily mutually exclusive.

Thank you, Mr. Chairman.

Chairman HAMILTON. Ms. Ros-Lehtinen.

Ms. ROS-LEHTINEN. Thank you, Mr. Chairman.

DON'T BLAME AMERICA FIRST

Gentlemen, from reading your statements and from the tone of your responses to the questions and continuing with the discussion on Cuba it seems to me that a lot of what you are saying could be classified under what Dr. Jeanne Kirkpatrick calls the "blame American first" crowd. She used it in another context, but it seems to be at work here. As if Castro is a cruel dictator and if Castro has all of these problems, somehow it is the fault of U.S. policy. And, if we were to change United States policy toward Cuba, then somehow things would change, and as if Castro had no responsibility over his behavior. And, if the Cuban people are suffering that somehow it is the fault of the United States, as if Castro is not the one who is in charge of his country and is the one, in fact, to blame for all of the troubles and all of the suffering of the Cuban people. He is the one who is responsible. He is the one to blame, and not the United States policy.

If there is any effect that the embargo and the U.S. policies have had toward Cuba, it is in further isolating Castro, diplomatic, economically, politically, from opportunities that he would only seize upon to further solidify his stranglehold on the people of Cuba.

And from the statements that Mr. Hakim has given to us, he calls the U.S. policy stale, unimaginative, unproductive and perhaps it has come time or the President will have to decide whether to begin a possibility of bargaining with Cuba and calls for a new course. I fear that this new course will only further strengthen Castro's hold on the people, will give Castro the economic boost that he so desperately needs.

And we should keep in mind that the cruelest economic embargo that takes place in the world is the one, as Congressman Menendez has stated, the one that takes place right in the island of Cuba,

and that is the embargo that Castro has on his own people, the apartheid that goes on daily in Cuba where Cubans, native Cubans are not allowed to visit certain restaurants or are not allowed to go to certain hotels. They have restrictions on where they can go. Those are their own policies that Castro inflicts on his people, the embargo that Castro has on the Cuban people, the apartheid that Castro continues to impose on the Cubans. And that has nothing to do with U.S. policies.

Certainly, Fidel Castro can get his goods from every country in the world. He can bargain, he can deal with every country. If he has those goods or does not have the goods, it is his position to have them or to not have them. It is not related to the U.S. policy.

And certainly the time has come to see the effects of this new law that we passed, to see what effect that will have. And, if anyone believes that the cruelty inflicted upon the Cuban people as a result of U.S. policy, I think that that is a sad mistake to believe that. That is certainly what Castro would like for people to believe. That is certainly his statement to the Cuban people. That it is because of the cruelty of the American people. But I don't believe that that has any credibility.

We should not blame America first. It is the fault of Fidel Castro. He is the cruel dictator. He is the one who sets those policies. And it seems that we are acting as overeager Boy Scouts, trying to force the little old man to cross the street when in fact he does not want to cross. There are many groups around the world who believe that we should somehow steer the man across the street. He does not want to go. He has said it time and time again. He does not honor even one comma of any U.N. resolutions against him.

So why do we want to continue to say it is our fault that the Cuban people suffer and Castro would somehow want to deal with the U.S.? Don't you get the feeling that he does not want this and that in fact he is the one responsible for the suffering of the people?

I would like for these groups to really say it directly and clearly. That it is not the fault of U.S. policy. That it is the fault of Fidel Castro, all of the suffering that has been inflicted upon the Cuban people. That we should start from the framework and not blame America first.

Mr. PERRY. I only hope you are not addressing your remarks to me.

Ms. ROS-LEHTINEN. No.

Mr. PERRY. Ok.

Ms. ROS-LEHTINEN. Just to all, if you want to comment on that.

Mr. HAKIM. Frankly, I find your remarks insulting. I think that if you read my statement, if you listen to what I have said today, if you read the Inter-American Dialogue's report on Cuba, if you read anything I have ever written or said, you will see that I have never "blamed America first". I have always stood against the Castro dictatorship. I have always made that very clear. Nothing in the record says that I have ever blamed America first.

Secondly, I think that Cuba is a very important issue for the United States, and I get reminded of it every night when I go home because my wife is a Cuban American. And I know it is very important, but I also think there are large opportunities out there in Latin America. Of the 400 million people that make up Latin

America, Cuba is only 10 million people. If we focused the U.S. attention only on Cuba, that would be a mistake. We would miss a great opportunity to strengthen the U.S. economy and to develop cooperative relationships on a wide range of issues from the environment, to immigration, to drugs.

We can focus on Cuba, and we can use all of our energies. I think it would be a mistake.

Mr. TULCHIN. Do I have to object? I mean, I didn't say America was to be blamed. I am not sure why your remarks are diverted at us. No one here has said what you import to us.

RACIAL DISCRIMINATION IN CUBA

And I might say that your use of the term "apartheid" I find rather odd since it refers, on the one hand, to a racially discriminatory regime in South Africa, and on the other you referred to the inability of Cubans to go to dollar shops. To compare those two I find very strange, Congresswoman, I am sorry.

Chairman HAMILTON. Mr. Wynn. Go ahead.

Ms. ROS-LEHTINEN. I didn't use the term "dollar shops."

Mr. TULCHIN. But that is where they are excluded and that is what the exclusion refers to. When you refer to people being barred from certain stores and shops, it refers to the tourist duty-free shops, which is exactly what happened in the Soviet Union and elsewhere. To compare that with a regime that divides races because of the color of their skin, I just don't know how to respond to that.

Ms. ROS-LEHTINEN. I didn't use the word shops. Cubans are not allowed to go to certain beaches, whether you want to admit it or not. That is, whether you want to call it racial, ethnic, whatever. Native-born Cubans are not allowed to go to certain beaches. They are not allowed, sir. They are not allowed to go to certain restaurants. They are not allowed to go to certain hotels. They are open for tourists. They are open for certain people involved in the military and in the government, and Cubans are not allowed entry to every place as we are allowed entry in these United States. You want to call that apartheid. It is not a racial policy, it is a policy of discrimination that Castro imposes on his own people in that island.

And also, if I had had more time I would want to comment on how I don't think that it is correct to change United States policy toward Cuba just in order to please our Latin American neighbors. As important as we would like to have better contacts with them, I don't think that that is the correct impetus to change U.S. policy.

Chairman HAMILTON. Mr. Wynn.

HAITI

Mr. WYNN. Thank you, Mr. Chairman. I also would like to compliment the panel on their presentations this morning.

I would like to return to the issue of Haiti, and I would like to ask a couple of questions. First, I really would like a candid assessment of the likelihood that the military will agree to the restoration of Aristide and democracy in Haiti. It seems to me we are looking down the barrel at another, perhaps less ideological Cuba.

Second, I sense not a waffling, but a divergence with regard to whether sanctions, embargos versus increased aid is the appropriate response in Haiti, and I would like to get your assessment of where we ought to come down from a policy standpoint on that issue.

And third, in terms of drug interdiction, I believe Mr. Tulchin talked about shared responsibility. I would like to talk about specifically U.S. policy and foreign aid and what role that plays in the whole drug problem in Latin America.

DRUG POLICY IN LATIN AMERICA

Mr. TULCHIN. Well, since you invoked my name, let me start, Mr. Wynn. I will start with the drug policy. My point there is that we have had a dialogue, North and South, concerning the drug policy for many years, and it has been flawed, in my opinion, because too often in the North, in the United States, we have focused on supply; i.e., the South, without taking into account the fact that there is a demand problem as well.

Campeños in the Altiplano in Peru and Bolivia have raised coca leaf, as far as we know, for at least 2000 years without causing a cocaine problem in the United States. So, we have something to do with it. And the problem must—can—only be solved through an effective dialogue between the United States and the countries in Latin America where the leaf is produced and where the production facilities are, which includes, obviously, Colombia.

Mr. WYNN. What would be the nature of that dialogue?

Mr. TULCHIN. I think it is important first to say that it is a common problem. It is not our problem and we want you to solve it, which is caricaturing a little bit in essence what our policy has been over the last decade. We have even offered to send United States troops to Peru, Colombia and other countries. That is not a solution to a problem on Peruvian or Bolivian soil.

We must get those countries to recognize that it is in their interest as well as ours to deal with us collectively to solve our common problem. The drug traffic has caused tension, for example, between Peru and Brazil. It is now causing problems between Brazil and Venezuela. It will continue to roil relations in the hemisphere. But everybody is standing back, everybody in Latin America is standing back and being passive because over the last decade the United States has taken a very assertive, unilateral and very aggressive posture. And it is time for us to sit down with the countries in the hemisphere that are deeply affected. Their sovereignty is undermined. Sovereignty of the Colombian nation is seriously undermined by the drug cartel and the drug traffic. So I think we have to begin a policy by discussing with those countries affected how collectively we are going to deal with it.

Mr. WYNN. I would like to get a comment on the Haitian situation—I know time is passing—from any panel member.

SITUATION IN HAITI

Mr. HAKIM. Well, my own sense is that eventually I think the military will give way. I am not sure exactly when that will happen. I think what is important is that pressure has to be kept on the military to the greatest extent possible. I also believe that

President Aristide and his supporters will have to make some concessions and some compromises. I don't know what the final outcome will be, but I am sure it will be a negotiated end to this stalemate. That is the way that democracy has generally been restored throughout Latin America when military has taken power, and I think it will happen in this case, with both sides making concessions, making agreements and trying to put into place some kind of new institutional structure that can work.

Mr. WYNN. Not to interrupt you, but what is the motivation for the military to make these concessions? They are in charge. Where is the lever, the carrot, the stick? What is it that moves the military from their current posture of being in charge?

Mr. HAKIM. The military is clearly excluded from any kind of normal international transaction. It does not participate in the OAS. It does not participate in the U.N. as a full member. There is an embargo on the island. In other words, they aren't really governing the country under those circumstances.

Mr. WYNN. Because they are not in the OAS.

Mr. HAKIM. Excuse me.

Mr. WYNN. Because they are not in the OAS.

Mr. HAKIM. It is excluded now. The de facto government does not participate in the—

Mr. WYNN. No, I understand that. But I mean practically speaking, does lack of membership in the OAS equate to an inability to govern?

Mr. HAKIM. Well, no. No. I am saying the whole series of things that prevent Haiti from engaging in normal international transactions.

Secondly, generally speaking, when a military stays in power there are institutional divisions among the various groups in the military which affects the military institution itself.

Third, moral exclusion from the community of nations is a strong incentive in itself. Now, clearly if the military doesn't want to give up power, they have a monopoly of force there, and no one can challenge that force except externally. I, myself, would not propose the use of force. An important step would be to bring to Haiti a group of 400–500 civilian observers that can begin to create a new climate of hope.

This process of change is a slow one. I don't think it is going to happen one day to the next. I think to the extent you can begin defending human rights more, people are not quite so vulnerable, I think there are ways that you can begin to nudge and push and encourage the situation. I don't think you can, from one day to the next, turn the lights on.

Mr. PERRY. I think it would be a mistake to cast this thing completely in terms of military versus civilian president. There are a good number of people, particularly, obviously, upper-class people and business people in Haiti who have problems with the Aristide government and its compartment. So that whereas I think you could get a reinstatement of democracy, you would probably have to do it in the context of some of kind of a deal, unless you were willing to use force to restore Aristide to his total situation.

So the answer I guess that I would have is yes, you could get a restoration of democracy that would involve Aristide but not with-

out some kind of a deal which would take other interests into account.

DRUG POLICY IN LATIN AMERICA

With respect to drug interdiction, I guess I agree that everybody that is looking at this problem should realize that it is not just a problem of supply but also a problem of demand, and that we are in large measure responsible for that demand. But, if you think we are going to get out of the enforcement business because of that blinding insight, I think you are also barking up the wrong tree. There is going to have to be a concerted attack involving the co-operation of the Latin American countries across the whole chain of production, distribution, consumption, and supply and consumption. It has to be approached full press at each of the stages, and not just any one of them.

Mr. WYNN. Thank you. Thank you, Mr. Chairman.

Chairman HAMILTON. Mr. Hastings.

HAITI AND THE RETURN OF PRESIDENT ARISTIDE

Mr. HASTINGS. Thank you so very much, Mr. Chairman. And, gentlemen, I compliment you as well on the fine presentations that you have brought forth this morning. I have had an opportunity—although I didn't hear each of your vocal presentations, to read what you are supporting for the record.

As a segue to my colleague with reference to Haiti, let me give you what I think is a little bit of an overview. I don't think that Haiti's problems are on the top 25, if you will, of the Clinton hit list. I am curious, though, as to what your views would be if you are of a mind, as am I, or living in Florida knowing that this week in America and in Florida, there will be some of the largest demonstrations concerning Haiti that have ever taken place. And, in South Florida perhaps as large a demonstration that has ever occurred. We know for a fact that boats are poised to come to America, and perhaps it is hope or any number of other things that have kept people there. It would seem to me that there is at least some undergirding belief that Aristide or democracy will be restored.

With these considerations as a backdrop, I would call for and ask your opinion of President Clinton perhaps meeting with President Aristide and setting a definite timetable, which will lead to other things that must be thought of. My understanding, with no intelligence information at all, and just from the media, is that the Haitian bank situation will collapse within the next month their oil situation is near collapse, within the next 5 weeks. That means the total collapse of the infrastructure.

My question is: should there be a timetable for the return of President Aristide? And, as a footnote to that, Mr. Perry, I heard your veiled reference regarding the defects of the president as thought by some. I don't know what those defects are. I am very naive to this process. And I don't mean to be facetious, because it is true, I think there may be some people who think there are defects in the present administration and the one that just preceded it here in this great country. So Aristide is elected, for whatever it is worth, and that is good enough for me. They elected him, whether the elitist think he ought to be there or not.

With these things in mind, should there be a timetable for the return of Aristide? And, if he is returned, should America have responsibilities in assuring his safety, and that of Sadros', Bazin's, and the military's? And what, if anything, should we have in the way of involvement with reference to infrastructure development and/or redevelopment in Haiti?

You know, I did want to say just one other thing. Mr. Hakim, I totally disagree with you regarding Haiti's problems arising in Haiti. While I have to agree that geographically and physically that is true, America's guiding hand was there during the development of all of their problems.

Mr. TULCHIN. If I might begin, Mr. Hastings, in response on this particular round, I would say that Haiti is difficult to deal with in part because of the poverty of the Haitian people. When you say the economy is verging on collapse, we are talking about a country that before the time of difficulties had the lowest per capita income in the hemisphere. We are not falling very far is what I am suggesting. And I don't mean to be facetious. That does complicate the task to which you have referred.

My answer, as simply as I can make it this morning, is that whatever we do, whatever timetable we propose ought not to be proposed by the U.S. acting unilaterally. You have referred in your remarks and earlier in my oral remarks I referred to that history of U.S. intervention.

History does not repeat itself, but we would be setting ourselves up to be drawn back in there for another 25 years if we were to act alone. It seems to me that Dante Caputo's efforts on behalf, first, of the U.N. and then of the U.N. and the OAS acting together is the most positive step in the last 2 years in dealing with the Haitian crisis. I would, if I were in charge of U.S. policy, support that multilateral international initiative as consistently and as powerfully as I would.

And you referred specifically to who would be responsible for the protection of a series of people, and the answer is not the United States acting alone. That would be an invitation to a long-term involvement that cannot work for the benefit of the Haitian people.

Mr. PERRY. Well, I find myself in a large measure of agreement with Joe. I would support almost anything that tried to put an end to this sad situation because we are grinding an already poor country into the ground through economic sanctions and we have not yet been able to make appreciable progress on the political dimension of it. But I think it will take, frankly, I mean as a practical matter, and I don't mean to be facetious about President Aristide, but it is a well-known fact that his, I should say style, and in some cases his comportment caused problems in Haiti before he left, and has caused problems in coming to a solution since then. I mean certainly he is elected. That is good enough for me too. But it is a fact. And the fact that we are talking about that other people have reason to worry about themselves being protected is the logical extension of what I have just had to say.

So I mean I would like to see President Clinton put it up higher on his priority list, although I would like to be talking more about NAFTA and the Enterprise at this session, and sort of do all that he can do to encourage both sides to make the concessions that are

probably going to be necessary. Otherwise you are going to have to use force, and I am reluctant to do that. And even more reluctant, as Joe is, to see the U.S. do so unilaterally. That, if force were required, we would be just a lot better off if it were Jamaican police and Venezuelan troops, rather than American soldiers.

Mr. HASTINGS. Thank you, Mr. Chairman.

Chairman HAMILTON. Mr. Gilman.

Mr. GILMAN. Thank you, Mr. Chairman. Again I want to commend you for continuing this series of hearings, and ask that my opening statement be made part of the record. And I want to thank our expertise witnesses for appearing before us and for their very cogent comments.

Chairman HAMILTON. Without objection, the statement will be made a part of the record.

[The prepared statement of Mr. Gilman appears at the conclusion of the hearings.]

NARCOTICS PROBLEMS IN LATIN AMERICA

Mr. GILMAN. Thank you. Thank you, Mr. Chairman.

I would like to address some thoughts to our panelists with regard to the narcotics problems. I think Mr. Perry said it well. That we can't just rely on one aspect of the drug problems. We have to battle it on a number of major battle fronts simultaneously reducing supply and reducing demand— supply by eradication at its source, interdiction once it gets into the main stream of supply to other countries, and then to enhance our enforcement efforts once it reaches our own boundaries.

With regard to reduction of demand, we must make certain that we educate our people, particularly our young people to the dangers of drug abuse and experimentation with drugs, and then to also rehabilitate and treat those victims.

We have been engaged, Mr. Tulchin, in reduction of demand for a significant period of time. I would hope you might want to catch up with our nation's efforts. We are spending \$12 billion, and a third of that is on reduction of demand. It has been going on for a number of years now.

But that is the old story of the producers pointing the finger at the U.S. and saying, Hey, if you didn't have the demand, there wouldn't have the supply. But they soon found that they as suppliers were also becoming victims of drug abuse.

So that premise doesn't hold up very well, and you have to address the problem on many battle fronts. And yes, many countries in Latin America today, unfortunately, are involved in the narcotics business. It is a highly profitable business, and we have a great deal of corruption. It has virtually taken over Colombia. Also, Bolivia has become almost hostage to the drug trade. And we have a long way to go.

But you talk about the need for consultation. We have been consulting in a number of areas. There is the Andean conference of nations, producing nations, that we have been working with for a number of years, over 5 years now, where they are trying to have some regional approach to the drug production problem; the interparliamentary meetings with our neighbors in Latin America concentrating on narcotics; the drug summit in Cartagena. You

may recall President Bush brought together the producing countries to try to evolve a regional approach. A Mexican-American interparliamentary exchange that has a committee working on it. OAS has a committee working on it.

So consultations have been going on for a long period of time. It is not a new approach. What we need, though, is more effective cooperation by those countries that we have been trying to work with, and we have not initiated any proposal to send troops in. We have offered to train their military, and we have been training some of their military to try to make their enforcement efforts more effective.

So I would ask all of you, you talk about the need to do something better with regard to the narcotics trade in Latin America, however, what good, constructive proposal do you have? We on our Select Narcotics Committee have been up and down this line and conducted a number of missions to Latin America. We have gone into the Andean region, gone into the hills of Colombia, and gone into the hills of Peru, gone to Bolivia, have worked with those governments, even tried to provide the carrot and stick approach of giving them economic assistance to work on these areas and telling them we would have to cut it off if they didn't eradicate.

What better proposals do you have in mind, Mr. Tulchin? Besides saying we ought to consult, we have been consulting, besides saying we ought to reduce demand, and we have been reducing demand through our efforts, what other constructive proposal?

Mr. TULCHIN. If I may, Congressman, I did not say that the problem was entirely supply or the problem was entirely demand. In fact, the language I used in my written statement was remarkably like yours, that it deals with both. And I think your committee has done some good work on it and there is a lot of progress been made in the last 2 years.

UNILATERAL INTERDICTION

Mr. GILMAN. You're talking about—if I might interrupt, you say unilateral interdiction doesn't work. It has not been unilateral. We have been trying to work with the entire region through the OAS, through the Andean Conference, through all of the meetings we have had. It has not been a unilateral effort. And I am quoting from your remarks on page 5.

Mr. TULCHIN. The negotiations over the last few years from a Latin American perspective have left the impression that the U.S. was either prepared to or wanted to use military force, and indeed in Bolivia, in Peru, and in Colombia there was public debate over whether U.S. troops should be used. Perhaps it was totally in error and a misimpression was left. But all three of those governments suffered domestic attacks because of statements made in the U.S. as a result of those conversations. Specifically, the statements made involving the potential use of U.S. military force in a support capacity or directly by sending U.S. troops onto the ground to train local troops. In every single case it caused difficulty for the host government.

And you may remember, sir, that an American plane was shot at not long ago off the coast of Peru. So there is the presence of the U.S. military and it is a very sensitive issue.

I think a great deal of progress has been made in the last few years. I think Assistant Secretary Levitsky and others have made tremendous progress. I think more has to be done. I don't think you are going to do it in 1 year. I don't think you are going to do it in 2 or 3 years, unfortunately. I think your statement suggests that there has been a turning away from what was very categorical statements in the early part of the 1980's on this issue which rarely mentioned demand, if ever, and now we are seeing a shift. And I don't think it is a question of denying that the previous administration began to make that shift. I am perfectly willing to do so, and I think that your committee and others have made great progress in this. I would like to see some more, and that is going to take time.

And it is not going to be easy. My point is whatever you do to be effective on the ground to deal with supply, to deal with money laundering, must be done multilaterally. That is my only point.

Mr. GILMAN. Well, it is a good point and one we are trying to pursue.

Mr. Perry.

Mr. PERRY. Well, as you inferred from my comments, I sympathize with your problem. It is not an easy problem. It gets back to what we were talking about on democracy. That it is a very nice aspect of the American that tends to believe that things can be fixed. I mean the only problem is it isn't entirely true. I mean there are problems that cannot be fixed tomorrow or 2 years from now and so on and so forth. It requires continuous efforts even to manage them.

And I think efforts have been made to manage them. The problem—nobody can say that it is solved or even on the way to solution. And I guess the only disagreement—I mean everybody agrees on the generalities. The problem is doing the hard work. The only disagreement that I would have with Joe, I suppose, in his most recent statement, is that where it helpful and important that we be cooperative with other governments in the hemisphere and that we try to be cooperative with governments, you know there are some times when we just have to do certain things ourselves and have to have our own policy if that becomes necessary. Now, I don't want to puff that out of proportion and say that we should be bargaining in and so on and so forth. But let's face it, there are some countries and some governments that don't perform for reasons that we can readily foresee and then something has to be done by ourselves alone.

Mr. GILMAN. Thank you. Mr. Hakim, would you have anything to add?

DRUG WAR OVERSEAS

Mr. HAKIM. I think we have had this conversation before, Mr. Gilman. Let me just focus on one part of it, the drug war overseas. I have gone through a lot of the studies that have been produced by the GAO, by private individuals and by different agencies of the U.S. Government. Every one of them point to one single conclusion, that almost everything we do overseas has very little if any, impact on our problem back home. I am not talking about sort of posturing of U.S. officials who are claiming success, but I am saying that the

actual studies of trying to measure what we do in northeast Peru and what kind of effect it has in northeast Washington, demonstrate virtually no connection whatsoever.

If that is the case, and I believe it is because I have not seen any study that has shown anything different then it seems to me that one of three conclusions can be drawn. First we are not spending enough money overseas and we ought to increase the amount of money a good deal in order to begin to have some impact. I think that that is unlikely.

Second is to say that efforts overseas are not going to work and that we should therefore bring the money back home and put it into treatment or law enforcement.

Or third is to say, Well, let's use that money to help Peru, with that money, deal with its drug problem. Let's help Colombia deal with its drug problem, not only the way drugs are affecting the democratic institutions in that country, but are also corrupting young Colombians and creating a criminal society. In Colombia that may mean building up stronger police forces to deal with the Medellin cartel. In Bolivia where the economy is dominated by drugs it may mean making a very strong effort to help that country begin a systematic program of development.

Essentially what I am saying is that if you look at the studies you will see that the money we are now spending is being wasted.

Mr. GILMAN. You make a good point. We have been trying to do some of that of late, and I hope we can do a lot more of what you are proposing: trying to help those countries that are involved do a more effective enforcement and eradication effort and training effort.

I want to thank our panelists for their time. I see my time has run on this. Thank you, Mr. Chairman.

Mr. TORRICELLI. [presiding]. Thank you, Mr. Gilman.

Mr. Deutsch.

Mr. DEUTSCH. Thank you, Mr. Chairman.

ACTIONS WHICH WILL RETURN CUBA TO A DEMOCRACY

I guess to go back to a more general question, and hopefully with some specific answers, and a lot of the questions I know dealt with the situation in Cuba today, and I guess the question that I have is any suggestions in specific ways that the U.S. can take specific action to help bring down the government in Cuba and return democracy to that country. What specifically can we take, proactive specific things that we are not doing today, that we can be doing to help return democracy to Cuba?

Mr. HAKIM. Well, I guess if I were the one having to call the shots in this I think the first thing I would do is begin talking with the presidents of Mexico, Venezuela, Colombia and the prime minister of Spain to begin to try and forge more of a common approach to the Cuban problem. Currently, there seems to be a general appreciation that there needs to be a change toward democracy in Cuba. Everyone agrees that the Cuban situation is intolerable. And now that there is a chance to work with other countries to promote change, that would be the first thing I would do.

Secondly I would certainly open the way for a greater flow of people, information and ideas between the United States and Cuba.

These, by the way, are not my recommendations alone. A task force of the Inter-American Dialogue consisting of Republicans and Democrats, people from the United States and from Latin America, put these ideas together.

It is vital to increase the flow of ideas, information and people. While this may at times violate the embargo, I think small violations of the embargo to increase the flow of information are a good thing. I don't suggest we remove the embargo. Fully, I think that it is a bargaining instrument that we can use at some later time.

Third, I think that I would treat Cuba as more of a humanitarian issue and less of a geopolitical issue. Cuban people are currently suffering a great deal; they are not eating well; they can't get from place to place; the economy is virtually crumbling around them. At least allow Cuban American families in this country greater facility to send food and medicines to their relatives in Cuba. Allow charitable organizations to send more supplies to Cuba, to individuals or church groups.

Those would be three things that I would do.

Mr. PERRY. A dialogue with Cuba is one thing. A dialogue with Fidel Castro to me is quite another. I think it has been the policy of the previous administration and I imagine it would be the policy of this administration too that if Fidel Castro would promise free elections he could have something possibly resembling a dialogue with the United States. But I doubt if that will ever happen, and therefore I sort of agree with Peter in the tactical sense that you want to be consulting with the hemispheric neighbors. But it is essentially to let them know unless there is fundamental change in Cuba, which is almost unimaginable given Fidel Castro's attitudes, that that government is probably going to fall someday.

I certainly want—the word “intervention” was mentioned previously in this context. I am not interested in seeing that, I mean direct, forceful U.S. intervention, although I fear that as Cuba deteriorates that issue may come up. But it should not be a goal of ours, direct intervention.

The ideal solution from my standpoint, frankly, would be if somebody at the second or third level in the Cuban government got the idea, which I believe to be correct, that you couldn't solve this problem while Fidel Castro was in power and that somebody takes some steps to remove him. I am sure that if the people that did that were at least reasonable, or reasonably reasonable human beings, then would say, OK, we did it, we will have elections 9 months from now or a year from now, there might be some possible progress.

But again, I don't see the point in throwing Fidel Castro a life preserver economically or politically at this stage in the circumstance of Cuba.

Mr. TORRICELLI. Mr. Oberstar.

Mr. OBERSTAR. Thank you, Mr. Chairman. I want to compliment the panel on their presentation of broad thought processes for this committee and for the incoming administration on the issues of Latin America, and I have three questions that I want to address to each of the three panelists. I want to start with Mr. Tulchin, and I don't want to be a nitpicker. We don't have time in 5 minutes to

deal with global problems and ones of such vast significance as are dealt with in these papers.

But on Haiti, a subject which I have given some large part of 34 years both as a participant, as an observer, as a student of the area or the country, we need to understand the past in order fully to understand the present and form policies for the future. I think it is a mistake to believe as has crept into American thought process and history that we invaded Haiti in 1915 for humanitarian purposes. We really went in to get there before the Germans.

And our presence over the years that followed was not to teach Haitians democracy, but to establish order. We didn't teach Haitians democracy when the marines killed Charlemagne Poirot and nailed him crucifix style to his mother's door. We didn't have a democratic dimension to the marine presence in Haiti. We really didn't teach Haitians much about infrastructure or economics during the marine occupation, and when we pulled the marines out we didn't have much of a residue of American influence, except paved streets, but no understanding of how to maintain them.

I think our role with respect to Haiti has been pitiful. Haiti, as you said, will establish democracy when the Haitians want democracy. They have wanted democracy. They just have not had a good example either from the French or from the Americans or from their neighbors throughout the Caribbean or Central or South America.

I won't prolong that. Haiti is extraordinarily complex. Perhaps it can best be summed up by the Haitian Creole expression that describes the country: behind the mountains are more mountains, and behind the problems are more problems.

MULTILATERAL MECHANISMS IN DEALING WITH LATIN AMERICA

You said earlier that if you would leave one single idea with the committee it would be that we act in concert with other nations in the hemisphere in dealing with the problems of the hemisphere. I couldn't agree with you more. And you suggest multilateral institutions, instruments and mechanisms. Which are the multilateral mechanisms that you recommend, and what can we do to be more effective working within such multilateral mechanisms?

Mr. TULCHIN. A variety of them exist now. Others, as I suggested, could be created in ad hoc fashion. Those that exist now, ironically, for the most part—I am not talking about the OAS, I am talking about the Group of Rio, the Group of Eight, Group of 3, and so on—owe their existence in part, if not entirely, to an effort and desire on the part of the Latins forming those organizations to protect themselves as they see it from the United States. Each of them has in their germ of initiation not an anti-American purpose, but a desire to protect ourselves against the United States by joining forces. And, in each case, though none of them is perfect, each of these instruments has had some effect.

My argument is that we should turn those instruments to our good use in the United States and create others. They should become instruments in which we participate, not that we set ourselves against them.

The OAS because of its founding and because of its very nature is an imperfect instrument, as I said a moment ago, and will take

years to reform. There are people from Latin America working very hard, and I think with good effect, to reform and strengthen the OAS. I don't think it will happen overnight, and it would be unrealistic and raise unrealistic expectations in this country if we were to say we are going to do everything through the OAS. It won't happen.

Mr. OBERSTAR. Was one of the good turns in policy in this concept of working with or through other forces and leaders in the region, resolution of problems in Nicaragua by having the president of Costa Rica be the author of and be the initiator of a peace proposal. Is that the kind of thing that you are thinking of? That the United States participates but seeks out a thinker, a leader, an initiator, and lets that person take the lead?

Mr. TULCHIN. I did refer earlier to the Esquipulas process as being an example of an ad hoc group brought together by perceived interests of the participants moving toward a commonly defined goal in which, I might add, Mr. Arias brought people to the table with whom he had very serious disagreements—

Mr. OBERSTAR. Yes.

Mr. TULCHIN [continuing]. —and continued throughout the process to disagree publicly on other issues. They defined their common goal and they worked toward it. It wasn't a perfect resolution, I might add, and we have talked here about the difficulties in Nicaragua. But it seems to me that that is an excellent example of what I am trying to get at.

So long as it was a bilateral problem with the United States supporting the contras, the Nicaraguan Sandinistas dug in their heels, and they had either the passive or the active support of other people.

Mr. OBERSTAR. And your advice to the incoming Clinton administration would be to use that model or that paradigm, if you will?

Mr. TULCHIN. Use that energy.

NAFTA

Mr. OBERSTAR. Mr. Hakim, you said that the NAFTA negotiations "are helping to open up Mexican politics in a variety of ways." What do you mean by that? In what ways? In what ways can NAFTA be used to be a force to democratize Mexico further, end the electoral fraud, end the human rights abuses, achieve some social purposes as you are suggesting? Could you elaborate on that point?

Mr. HAKIM. In reference to the first part of your question, I think the NAFTA negotiations have created stronger relations between nongovernmental organizations. For example, in this country we see groups cooperating on environmental issues, on human rights issues that didn't exist before, and those organizations are much stronger in Mexico now than they ever have been in the past. I think they are going to play an important role in Mexican politics over time. This is one example of the impact the NAFTA negotiations have.

I think the Mexican government to take a number of steps, including just recently appointing as attorney general of the country a respected person who headed up the government's human rights' group in Mexico. That is all to the good.

I don't think, however, we should necessarily think that we can accomplish all of our goals with regard to our relations with Mexico through NAFTA. In other words, regardless of the faith of NAFTA, let me say this, we ought to be pressing Mexico, and we ought to try and get other countries to press Mexico to end the electoral fraud, to reduce human rights abuses, and to open up its political system. These are not issues that were invented because NAFTA occurred, and NAFTA will not solve them all. These are continuing problems that ought to be addressed, that should have been addressed more straightforwardly before, and if NAFTA or other kinds of relations with Mexico do not work, there is going to have to be continuing change. In other words, NAFTA is only really the beginning of a long-term process of cooperation, and for that cooperation to work, Mexico is going to have to move toward a more open political system and toward more respect for human rights.

NEW AGE SECURITY ISSUES

Mr. OBERSTAR. Thank you. That is very helpful.

Mr. Chairman, if I may ask Mr. Perry if he would elaborate on what he means by New Age security issues. It is a fascinating concept.

Mr. PERRY. Well, I mean, you know, we talked in the initial presentation there was a time when the axis powers during the second world war, the Soviet Union during the cold war provided a fairly clear threat. I mean it was an integrated worldwide threat to the United States and to its institutions and to its belief patterns. We don't really have that anymore. There are security issues out there—Somalia, and Iraq, and Croatia, and indeed in Latin America—but they are not the same kind of thing as the overwhelming, compelling thing which would indicate to almost anybody more or less what has to be done.

What we are dealing with is, I think, the need to—when we don't have that kind of threats, we are looking more at opportunities to do something for ourselves, and revitalize and protect and preserve American institutions and put this country in the most possible—in the best possible competitive position to go into a new age, the requirements of which we really can't foresee.

In the security realm I think that, you know, the obvious East-West imperative is virtually nonexistent under present circumstances, and we are talking about a lot of—New Age security issues tend to be ones that affect—that are security issues in the sense that Iraq was a security issue, but also we are talking about issues that affect our society and our economy. We are going to have to have, I suspect, a much more broad definition of security, not just the threat of external missile attack or something like that, which was a pretty limited definition of security even for the cold war, and it is clearly not much applicable now, unless the situation in the Soviet, or what used to be the Soviet Union redeteriorates in some fashion.

We are talking about how immigration affects this country's governability and the resources it has to deal with its own social problems. We are talking about the environment. We are talking about, I would say even economic issues in some sense. You know, very consistent, I suspect, with President Clinton's ideas about put-

ting the domestic questions first. A lot of these security issues have domestic implications. They are tied together, and I guess that is what I mean to express, the old agenda. We have a long agenda. I mean I don't want to deprecate it or denigrate in any way. There are probably 14 or 15 major security issues in Latin America.

Mr. OBERSTAR. In short, the specter of communism that dominated the U.S. view or policy in the hemisphere is no longer the fear that it was, if ever it was a real fear, and that we ought to focus on these items that you delineated. That is very clear, and I appreciate your elaboration. Thank you.

Thank you, Mr. Chairman.

NAFTA

Chairman HAMILTON. Thank you, Mr. Oberstar.

I understand there may have been some questions about NAFTA asked. I wanted to follow up on those a little bit with you.

Let's suppose we reject NAFTA, just vote it down, what happens?

Mr. HAKIM. I tried to answer it in my testimony very briefly. The first victim would be U.S.-Mexico relations; in other words, the Mexicans have been negotiating with the U.S. for the past 2 years and they currently have an agreement signed by the President of Mexico, the President of the United States, and the Prime Minister of Canada. They have made lots of concessions on this agreement and it has become a core issue in Mexican politics. Old wounds can heal, but I think U.S.-Mexican relations would be severely wounded, and we should remember that Mexico is far and away our most important bilateral relationship in the hemisphere. In fact, I would say it is only—

Chairman HAMILTON. What does it mean to say the relationship is wounded severely? What does that mean? Spell that out for me.

Mr. HAKIM. We need Mexico's cooperation and Mexico needs our cooperation on a whole range of issues. The economic integration between the United States and Mexico—

Chairman HAMILTON. Let's talk specifics. We turn down NAFTA, a serious rupture in the Mexican relationship. So what?

CONSEQUENCES OF REJECTING NAFTA

Mr. HAKIM. You would again have U.S., or Mexican-U.S. relations coming to the fore as the central issue in Mexican politics. In other words, Mexican elections or in PRI party, the relations with Mexico, you begin to have a set of leaders that would come to the fore that would certainly have more anti-American views than you have now. In other words, that issue would become the central—over the past few years we have begun to develop a really healthy cooperation. There is no longer shooting charges back and forth across the border. Political gains are not won in Mexico now by anti-Americanism.

We don't need anti-Americanism in a country with which we share a 2000-mile border. We are cooperating on a wide range of issues. With no other country are we so intensely cooperating on the drug issue, or on migration issues. The economies of the United States and Mexico are intertwined. We don't want a government in Mexico that will suddenly put new tariffs on U.S. goods to Mexico or one that will ban certain U.S. products from Mexico. We are be-

ginning to develop a degree of cooperation that matches the degree of importance the two countries have with one another, and I think that that would be interrupted and you would get different kind of leadership in Mexico.

Mr. PERRY. I guess I can try to do it quicker, in three categories. One is the pattern of U.S.-Mexican relations. You would get a heck of a lot less cooperation out of the Mexicans on other issues. I mean it would be a real slap in the face.

The second is how would the effect be inside of Mexico. I think you would really serve to discredit the economic and political liberalization process that has been going on in Mexico. I am not sure the Salinas himself would abandon liberalism, and to the extent that it is bringing a little bit of prosperity to Mexico, it might hang around. But it would certainly discredit that move toward economic liberalism and growth on one side and toward political, continued political opening in Mexico, which would have certain political consequence to the U.S.

Finally, I mean you would kill the Enterprise for the Americas initiative right off at the root. I mean you just forget the rest of the hemisphere. Nobody would bother to go through negotiations with us for future hemispheric trade arrangements. And, as you can tell by my commentary, I think it is very important for the U.S. in the context of keeping an eye on its competitive position in the global environment to be engaged in this effort, to work with the Latin American countries to improve our mutual competitiveness in the future.

Mr. TULCHIN. Mr. Chairman, there was something I read into your question. Forgive me if I have erred, but I think you have raised a very interesting point. NAFTA per se is not critical. What is critical is that it represents an extremely important development both in the United States as well as in the other nations of the hemisphere including Mexico, and that is a trend toward expanding international trade. We have gone a long way down that road. We have got a lot invested in GATT. We have got a lot of concern with our own competitiveness in the international system.

What has happened over the last decade to a great degree, thanks to or because of pressures from the U.S. Treasury as well as the international lending agencies, virtually every country in the hemisphere, including Mexico, has made radical changes in the way in which the state operates and the way in which the public and private sectors relate to one another. They have gone through significant economic restructuring programs, some times at great sacrifice to their peoples: as shown by bread riots in Caracas and an attempted military coup in Venezuela, directed related to the difficulties suffered by the people there.

If we are going to turn back NAFTA, it must be done, I would argue, accompanied by a statement by the current administration that it is the form of the treaty, to which we object not the idea and the substance of expanding trade with Latin America, and that the sacrifice that has been made over and over again in almost every country in the region, but Argentina, Chile, are very important cases, that we do support those efforts at reform, and we are going to support them by expanding our trade with them and doing business with them.

PRESIDENT CLINTON'S POLICY TOWARD NAFTA

Chairman HAMILTON. Let me ask you this. President Clinton—if I understand his position—has said that he wants to negotiate some parallel agreements over here with regard to the protection of American workers' rights and with regard to vigorous enforcement of the environment. Is that a good policy?

Mr. HAKIM. I personally think it is a very good policy.

Chairman HAMILTON. Are we going to be able to negotiate those agreements fairly easily?

Mr. HAKIM. From what I understand the president of Mexico has agreed to proceed in this direction. It is not clear precisely what the Clinton administration is going to be demanding. But I think this is crucial to gain a consensus here about NAFTA. If there is not strong U.S. public support and congressional support for these agreements, they are not going to work over the long run in any event.

Chairman HAMILTON. Would you add anything else to the list?

Mr. HAKIM. I would not add anything else. I think those are the two crucial issues, and part of it is U.S. legislation in itself, how we treat our own workers.

Chairman HAMILTON. So it is your expectation those two agreements will not hold up NAFTA and will, in fact, strengthen it?

Mr. HAKIM. I believe both of those to be true. I can't be sure until I see precisely where the Clinton administration starts its negotiations.

Chairman HAMILTON. Do the others agree on that?

Mr. TULCHIN. In putting forward those amendments, if they are to be amendments, or suggestions, I would argue only that the administration should make it perfectly clear that its commitment to Mexico and to the other nations in the hemisphere in the long run is for an expanded economic partnership. But I would not make it hostage to these as if they were bargaining chips in American domestic politics because, once again, the nations of the hemisphere will ask why is it that you have asked us to undergo this massive reform program and then make us pawns in a domestic political game.

Chairman HAMILTON. You all think that NAFTA is very critical and is kind of the linchpin of our relationships, not just with Mexico, but with Latin America; is that correct?

Mr. PERRY. Yes.

Mr. TULCHIN. Yes, sir.

Chairman HAMILTON. You are all in agreement at that point.

Mr. PERRY. May I respond to things they have responded to?

Chairman HAMILTON. Oh, absolutely.

Mr. PERRY. I think that the—I think we have got a fair amount out of the Mexicans in the environmental area, by the way, in the negotiations, and that most of the labor stuff is domestic—is our domestics. I mean what are we talking here. We have said mostly compensation of workers who are, perhaps, being displaced by some of the provisions of NAFTA. So, I just—although I agree that, you know, if the administration wants to undertake negotiations in these areas, and I am grateful sort of that President Clinton has indicated that he wouldn't reopen the negotiations per se, because

that would be very difficult. I just hope that they are not used by people who don't want this thing to go forward, to drag it out to such a point or impose such debilitating and unrealistic conditions that they effectively deep six the thing.

EFFECTS OF NAFTA ON THE AMERICAN WORKER

Chairman HAMILTON. Is the worker in America that is going to be most hurt by this agreement the low-skill, low-income worker?

Mr. HAKIM. You know, I don't know the details of this. There are going to be workers that will be hurt; there are going to be workers that will benefit from this. I think that Bill Perry is right in saying that U.S. labor opposes the NAFTA primarily because of the way we have treated workers who have suffered the loss of their jobs when plants closed, whether those plants have moved from Kansas to Kentucky or from Kansas to Mexico. And I think that the whole set of labor legislation in this country would be a very valuable contribution to assisting us in negotiating these agreements.

Mr. TULCHIN. I think NAFTA must be understood as not existing in a vacuum. Part of the fear expressed by organized labor and their supporters in the U.S. during the Bush administration was that there was very little expectation on the part of the American worker, that is, organized workers, that the administration would support them and defend them against the potential dangers of plant closings.

I think the Clinton administration has made it clear that it sees that danger and will deal with it, and I think that is extremely important.

Mr. PERRY. Well, I would say that, you know, taking measures that would provide assistance to people who are legitimately displaced is important and it is principally the decision of the Congress and the administration. That is something that they have to do.

But I think it is also true that every study that has been done that I have seen and had any use for indicated a net gain in jobs in the U.S.. You are probably right in the sense that jobs where wages was a larger component as compared to technology they would probably tend to be hurt more. That is understandable. But there is an obvious net gain.

And the other factor I think that is sometimes isn't appreciated is a lot of these low-skilled jobs, frankly, are going to leave the U.S. anyway, and you are really not in a position where you can stop it. All you can do is essentially direct traffic. Would you rather have these jobs in Mexico where 70 percent of Mexican exports come from the U.S., creating new jobs in the U.S., or would you rather have them in Thailand or someplace.

Chairman HAMILTON. Well, you know, a politician gets a real disconnect here. I mean it is pretty hard to find somebody in Washington who is opposed to NAFTA. If you go with me to a plant gate in southern Indiana, and shake hands with the workers in the morning as they go in, one out of four of them will fire at me: vote against NAFTA, they are going to take my job away. I mean it is a very big thing with them.

Mr. HAKIM. Global economic change is frightening workers throughout the world as well. Some of the changes have very little

to do with NAFTA that are occurring in the global environment in any event.

EFFECTS OF NAFTA ON CARIBBEAN COUNTRIES

Chairman HAMILTON. What about the Caribbean countries? They are pretty nervous about NAFTA, aren't they? Is it a genuine concern they have got? And if it is, what do we need to do to accommodate it?

Mr. PERRY. Well, there is obviously the fact that they will be losing the comparative advantage that they had through the 1980's. That is to say, they were largely extended one-way free trade preference through the Caribbean Basin Initiative in 1983 and the perfecting amendments that went onto that. When you start taking on other countries, bigger countries like Mexico into a free trade area, those countries lose their comparative advantage, and I can see why they would be nervous. If they lose that competitive advantage, then their higher transportation costs and so on and so forth will be——

Chairman HAMILTON. May I interrupt just to say that I see leaving the room at the moment is Dr. Pane, who is the chairman of the Foreign Affairs Committee, the Czech Republic, and I just want to acknowledge his presence and tell him we are very, very pleased that he dropped in to visit us. I am sorry we don't have time to visit with him. But we are delighted to have you, sir.

I am sorry to interrupt you.

Mr. PERRY. The Jamaican ambassador was at a conference I was at last weekend pushing the idea that any advantage to Mexico over and above CBI advantages that are conceded to Mexico should then immediately be conceded to the Caribbean countries.

Some temporary remedial measures might be needed with the Caribbean country, but, of course, the real problem is that these countries have not integrated sufficiently to comprise an effective economic unit, nor in many cases have they gone ahead with the reforms as far and as fast as other parts of the hemisphere. So we have got to find a way, I think, that helps them out a little bit because they are in a unique and difficult spot but, on the other hand, doesn't encourage them to continue to depend upon U.S., sort of preferential largesse, because that is going to be gone in the long run.

PANAMA

Chairman HAMILTON. Before turning to Mr. Torricelli again, I would just like you to take a shot at Panama. What should we do?

Mr. HAKIM. Let me try to answer that. That was the one issue that I neglected to include as one of these old issues that doesn't go away.

The fact is that Panama should concern us for two reasons. One is that the institutions of democracy are really not sort of taking hold and working the way we had hoped they would. And secondly, we have the problem of transferring the Panama Canal to Panama by the end of the century, with a number of steps in between that have yet to be taken. I am not sure I can spell them all out right now.

Panama has always presented a problem for the U.S. There has been a long paternal relationship with the U.S., so Panama has not always acted as a totally sovereign country. Very briefly, I think the U.S. has to find a way to constructively disengage from Panama. I think that we have been too much involved in trying to push them in or sort of guiding the re-emergence of their democracy. They have to learn to make more choices on their own, not to turn to the U.S. for advice each time they face a difficulty. They have to solve their own problems and negotiate among themselves, similar in some ways to what is going on in Nicaragua.

I think the case of Panama will take time. The U.S. has an interest there, and we probably will be more involved than would be desirable. But the thing is that the Panamanians have to take more decisions. Although I put more blame on the Panamanian government than the U.S. at present for what has gone on over the past 3 years. I think the U.S. has yielded too easily to requests from Panama for advice and for guidance. Panama, in turn, has been too quick to seek our advice and guidance and not manage their own affairs.

Mr. PERRY. While I would agree with you in theory, and it is important that Panama be made at some point sort of a more free-standing country that doesn't have its proclivity to come to the U.S. in quite frequent times of difficulty. Unfortunately, though, sometimes things happen that they can't themselves handle, and that does impose certain requirements on the U.S.. This happened during Noriega's time. It was a situation where this question of, you know, nonintervention is fine, but what happens when you are dealing with a tyrant who is in control of and monopoly of coercive powers inside of a country?

I don't think there is any magic wand solution. It is one of these problems where we are pushing the stone of Sisyphus up the hill a number of times hoping that at some point it will stick and stay. The particular case in Panama, of course, is the canal treaty. I don't think there is much point in opening that can of worms up again.

But we may want to consider some of kind of security arrangement with Panama post the year 2000 that would secure our interests and maybe given them a little bit of a better feeling about the value of our guarantee of their democracy. There is also a case to be made, I suppose, for giving Panama some kind of privileged or preferential or more immediate access to the Enterprise for the Americas Initiative. It is already substantially linked to the U.S. in an economic sense and would hardly cause any adjustment here at all.

Mr. TULCHIN. Mr. Chairman, if I may, I disagree with Mr. Perry. I don't believe that the imperfections of the democracy in Panama impose any obligation on the U.S.. In fact, to think that we have the obligation to act unilaterally to correct flaws in another country's democracy, whether they be in Panama, Nicaragua, or wherever, is a serious mistake, and I think we must wean ourselves away from the hubris and arrogance that that implies.

We have not succeeded, nor can we succeed, in forcing democracy at the edge of a bayonet. The transition to democracy in Panama is complicated, as Mr. Hakim said a moment ago, by the fact that

it is not a completely sovereign nation yet. It is in its earliest stages of moving toward that. How can we expect them to behave in a mature democratic fashion? We have difficulties with tyrants in lots of countries. We don't send in bombers and marines there.

Chairman HAMILTON. Was Operation Just Cause a mistake?

Mr. TULCHIN. That is a tough one. Seen in hindsight, we certainly haven't followed up on it, let me say that. It was conceived badly because it had no followup stage. We left it there. We said, Hey, we got rid of the bad guy. No followup chemotherapy. And I think that has been a very serious mistake.

These countries can only stand on their own if they are allowed to stand on their own. If that sounds like a childish tautology, it is because it is so simple we have ignored it for 75 years.

Chairman HAMILTON. Mr. Torricelli.

U.S. POLICY TOWARD CUBA

Mr. TORRICELLI. Thank you, Mr. Chairman. There are so many issues that I think we all would like to address, but before this hearing ends I feel some need to have the record corrected with regard to American policy toward Cuba and actions taken by this committee.

During this exchange, Mr. Perry, none of my questions or comments would be directed to you. I assume that you are sufficiently familiar with this committee of Congress to know that if you are ignored it is the highest form of compliment.

Mr. PERRY. Thank you, sir.

Mr. TORRICELLI. And from that point, let me proceed.

Mr. Tulchin and Mr. Hakim.

Mr. TULCHIN. You are not now complimenting us; is that my understanding?

Mr. TORRICELLI. Yes. We are now in the second stage.

Mr. TULCHIN. I see. Thank you.

Mr. TORRICELLI. You both mentioned points that confuse me. The first, Mr. Tulchin, is your point about the use of communication and truth as a weapon and your apparent criticism of American policy toward Cuba for the failure to do so. Indeed, that is a foundation of both the actions of this committee and current American policy toward Cuba. We have unilaterally offered to Mr. Castro to restore the cable linking telephone communications, to enhance it by increasing its capacity, to restore regular mail service, parcel post service, expand visas—all done unilaterally. He will not agree to the telephone cable restoration or an expansion of service, and is not interested in restoring mail service.

The use of truth as a weapon was a principal strategy of the Cuban Democracy Act. In truth, we offered it knowing that Mr. Castro would never accept it. Because it is truth that he fears the most. Mr. Jefferson is not the only one to have understood the power of truth to bring democratic reform. Castro has also understood it, and that is precisely why he is denying it.

But the record should be clear that our failure to open communication and to use it as a weapon to restore democracy has been unilaterally offered and singularly refused by Mr. Castro, and not by the United States Government.

And, if that is true for communication, Mr. Hakim, it is equally true for the humanitarian side. Contrary to 30 years of American policy toward Cuba, we have now made provisions to expand the donations of medicine and food, directly contrary to your testimony, to make very clear that our argument is with the Castro government, and that while we want to use economic pressure to bring its demise, we want to provide every facility for donations. Some of those donations in food will be made during the course of this year, beyond what has happened in recent years, because of actions of this committee.

Donations of medicines probably will not occur. But that is not because of the United States Government. It is because Mr. Castro will not permit them; it is because as has been suggested by members of the committee, we have insisted on knowing the end use of those medicines. We insist on knowing that they will not be re-exported after their donation. But that is because of the policies of Mr. Castro, not the United States Government.

Our policy has been clear and is, in my judgement, now a settled issue. For purposes of this hearing, we may be debating American policy toward Cuba, but I consider now, until the end of the Castro government, this debate to largely be settled within the U.S. It is bipartisan, it is broad, and it is finished. That policy indeed envisions expanded communication, humanitarian donation, but also a strengthened embargo that does not include dialogue with Mr. Castro or an improvement in relations and reform under his leadership.

And that may be the most important point. Because, if you will permit me, I think you are each not listening. Mr. Castro has had every opportunity to reform. American policy has been patient for 30 years to give him the opportunity to do so. At some point he must be taken at his own word. There will be no moderation in economic policy. There will be no change in political rights. It is socialism or death. He has made his choice. We have made ours. And now it is only a question of allowing each policy to come to its ultimately inevitable and logical conclusions.

But I did not want this hearing to end without the record being clear that we have used each of the strategies you have suggested. They are a part of this policy, and Mr. Castro, predictably, is allowing neither to be used.

Finally, Mr. Hakim, and Mr. Tulchin, what further confuses me about your testimony is that if I understand you, Mr. Hakim, you are not against the embargo. You endorse the 30-year concept of the American embargo. What seems to trouble you is that we have decided to make the embargo effective. While the embargo wasn't working, you seemed to think it was a good policy. Now, we have decided we are going to fill the holes and make it a policy that works, and that troubles you. This I don't understand.

And finally, Mr. Tulchin, we have all made difficult judgments before about economic embargoes, and if war is the ultimate extension of diplomatic policy, it is all of our hopes that economic embargoes are the step, the extension of diplomatic policy just short to avoid the ultimate use of force. That is what has led in each instance to the use of these economic means.

I think in Cuba it has been the right policy, just as I think in South Africa, in Rhodesia, in Libya, in Iraq, they have also been the right policies. Does it bring some suffering? Of course. But, if it avoids military conflict and the ultimate collision of nations, it is the right policy, and that is why it is being used in this instance, just as it was used in those instances.

Of course it brings some internal suffering. But what has given me the most confidence is to see people coming out of Cuba, and, in risk of their own lives, people within Cuba writing, calling, visiting, and on the public record making clear that they embrace this policy, although they are suffering the most, because it is the only means short of military struggle to bring about fundamental political change.

I would invite your comments, but wanted the record to be very clear with regard to our intentions and why we have taken these steps.

Mr. HAKIM. Well, let me just make three quick comments. One, I hope no policy is terminal in this country. I hope every policy remains open for debate, whatever the measure of support or non-support at any given time. I hope that you didn't mean that when you said this policy is finished, it stays in place and no more debate.

Secondly—

Mr. TORRICELLI. Well, Mr. Hakim, I couldn't have been interpreted as having meant that since in no way did I say it.

Mr. HAKIM. Well, let's look at the record, Mr. Torricelli.

Mr. TORRICELLI. Well, all right. We will look at it right now. I said that the American policy is settled. If you would like to have it read back, I don't think you will see at any point I said that it shouldn't be debated. Would you like to have it read back?

Mr. HAKIM. Well, I understand settled means finished, terminated, that is the way it is going to be.

Mr. TORRICELLI. In my judgment the policy is settled. I did not imply that we should not debate it.

Mr. HAKIM. If you say that is the way it should be, that is fine. If you say that is the way it is going to be, I think that that implies that there should be no more debate on it.

Mr. TORRICELLI. Well, I won't take the time to poll. I guess you are the only person in the room who believes that because there is a settled American policy it shouldn't be debated. Go ahead to your next point.

Mr. HAKIM. Every American policy once it is announced is settled for the time, and then we are going to open it up for debate if we disagree with it.

Secondly, I hope, as much as you, maybe more, that Fidel Castro's regime in Cuba is ended. You say that I am upset because the embargo is going to be made effective. An effective embargo would, in fact, accomplish the end of the Castro regime. I am by no means sure that the embargo will accomplish this. In other words, the embargo has been made tighter. I am not sure that this makes it more effective.

The third point I wanted to make, Mr. Torricelli, is that I understand your point of view. I understand perfectly well, and it is a very rational point of view, that the Fidel Castro regime is stran-

gling Cuba, that the way to help Cuba is to try and get rid of the Fidel Castro regime. I understand that perfectly well, and we ought to use the instruments available.

But I think you can also understand my point, if you read it closely and carefully, that there is more than one way to create and promote change, and that in fact, I don't know which way is likely to cause change in Cuba. Thirty years of an embargo, 30 years of squeezing Fidel has not caused the change. I don't know. Maybe you are right. I will grant you that you could possibly be right and that toughening the embargo will cause change to occur in Cuba. I am not sure of that. I am not sure if what I am proposing will bring about that change. What I am saying is that if I don't know the ultimate outcome of two paths, I want to choose the path that at least advances humanitarian values on one point and allows us to work with some of our closest allies on the other point.

That is my central point. I understand your point perfectly well.

Mr. TORRICELLI. But let me suggest to you—

Mr. HAKIM. I think you have a very logical argument. But I think that those people who disagree with you also have a logical argument, and we can understand both sides of it.

Mr. TORRICELLI. For those who disagree with us, let us make clear we are not ceding the humanitarian point. I do not believe there is anything humanitarian about continuing an embargo which was ineffective, not bringing about an end of the Castro regime. A policy which would give Castro another 10 years of power in no way can be part of a humanitarian strategy for Cuba. It might in the near term deliver some food and increase the standard of living, but it would promise only more repression, and therefore by definition is anything but humanitarian.

Let me also suggest to you for our future discourse on this issue, we define our terms; we are not in the 30th year of the American embargo against Cuba. We are in the third month of the American embargo against Cuba. As long as there was a \$4 billion Soviet aid program to Cuba, there was never a chance that an American embargo was going to succeed.

Like you, I do not know whether ultimately this will bring success: an end to the Castro government. My every instinct, intelligence agencies of this government, and analysts that I respect all believe that it will. We have made a choice, a judgment, but there are, of course, no guarantees. Like you, we want that change. This is the best opportunity available to bring it in the near future.

When I said we had a settled judgment, it is simply because, in my opinion, we have tried everything else. I served in the Carter administration when communications were sent, envoys were dispatched, alternatives were explored. We have spent 30 years trying every other approach. Now, we are on the final approach, and that is that we are not going to allow the Cuban people to lose another decade under the Castro government.

Will we debate it? Of course. No one is suggesting we shouldn't debate it. But let it be very clear—since Mr. Castro seems to watch our actions and listen to our words very closely in this room, if not in this institution—within the institution, within the U.S. Government this is no longer being debated. We are on automatic pilot to

the end of the Castro regime. That is what I was trying to suggest to you.

Mr. HAKIM. Then we spent a lot of wasted time at the hearing.

Mr. TORRICELLI. No. We found it entertaining.

Mr. Tulchin.

RESTRICTIONS ON VISAS OF AMERICAS TRAVELING TO CUBA

Mr. TULCHIN. May I? I don't want to interrupt this dialogue, but I just have one point. Do I understand you, sir, to support eliminating the restrictions on visas of Americans traveling to Cuba?

Mr. TORRICELLI. No. In our legislation and I believe you will see when the regulations are written we have provided some more opportunity for people to visit Cuba. The philosophy has been simply this: any American that wants to go to Cuba in pursuit of human rights, in democracy, with the idea of making a contribution to the debate through academic or other means, I fully want to provide the opportunity for them to visit Cuba. Anyone who will provide a problem by speaking to the truth, to use your own words, should be given not only a chance but an open invitation.

That does not mean that we will open the visa requirements to include people who want to make investment or otherwise contradict the intentions of the embargo.

Mr. TULCHIN. Well, I think the greatest instrument of American democracy is Joe Citizen from Peoria. Why not let him or her go? Why not let them go and visit? If the debate is about the absence of democracy, repression and a dictatorial regime, and the issue under discussion is the fact, or the perception of whether the Cuban people do or do not support that regime because it is so repressive and anti-democratic, bring in 60 people and tell them how good McDonald's are. That will break down the administration completely. How could Castro withstand that?

Mr. TORRICELLI. If we could do that without thousands of Americans arriving and spending hundreds, if not thousands, of dollars, which Mr. Castro then uses to purchase the weapons and the goods that maintain his regime, we would do so.

Mr. TULCHIN. My argument is the message of American democracy is infinitely more powerful than the few dollars that might be spent there. It wasn't our dollars that destroyed the Soviet Union finally. It was the value of our system and our ideals.

Mr. TORRICELLI. Indeed, as in the case with Eastern Europe, we employed both. We denied the technology and some of the economic mechanisms for the regimes of Eastern Europe and the Soviet Union to maintain themselves while opening communication. That is exactly the strategy we are using here. We want the best of both. The truth, but without providing Mr. Castro with the means to support his regime. That is exactly the policy that we have tried to use with other despotic regimes, and it is the same strategy that we are trying to use here.

Mr. TULCHIN. Why not use the same strategy you did in the Soviet Union when the American Government, several Governments said, Let your dissidents go. We will take them. Let them out. Put the challenge on the dictatorship. Make that dictatorship say, We are afraid to let our people go. We are not willing to let them go.

Why put restrictions on the visas into the U.S. and restrictions on people traveling to the U.S.? It looks as if this country is afraid of dialogue with Castro, something that I find bizarre.

Mr. TORRICELLI. Do you honestly believe that there is a person in Cuba who believes that their ability to leave the island is not restricted first, foremost, and primarily by the Castro government?

Mr. TULCHIN. Why not put that to the test, sir, and eliminate the artificial bureaucratic restriction imposed by the U.S. Government? Why give an argument to the dictatorship that you are the one that is afraid to let Cubans in?

Mr. TORRICELLI. Mr. Tulchin, there are a million Cubans living in the U.S. No person alive could believe that the right of a dissident to leave the island is restricted by the U.S. Government in contrast to the Castro government. This may make an interesting academic discussion, but outside of this room I don't think there is a person who would take it seriously. If there was a need to further this understanding of the fear of truth, we did it last year in the Cuban Democracy Act by unilaterally making an offer on telephone and mail communications, so that it was Mr. Castro who would have to say, "you will not be able to contact the outside world." And, like a fat fish on the end of the line, he took the bait. He did say it. He did refuse it. And therefore, I think settled the debate historically and for all time.

Do either of you have anything further you would like to say before I yield?

Mr. HAKIM. Just one thing. I do not think we should be squabbling over small amounts of money that might go to Fidel Castro if it serves other objectives. And that I think is the crucial thing. That you have to use a variety of instruments that are available. Mr. Tulchin has talked about one instrument and you have been talking about the embargo. I have read the Cuban Democracy Act, and its weakness is that it fails to use a mixture of incentives and pressures.

U.S. COLLABORATION WITH OTHER COUNTRIES REGARDING CUBA

And the other thing that you have not addressed in your comments and I would like to address is the fact is that other Latin American countries and the countries of Europe share our objectives in Cuba. We can work with them as we have worked in so many other places, we would be more effective by doing so. The fact is that our current policy separates and divides us from them.

Mr. TORRICELLI. Mr. Hakim, I did see that in your comments, and let me tell you how fundamentally I disagree with that.

Mr. HAKIM. I am sure you would.

Mr. TORRICELLI. In writing this legislation, many of us visited many of these capitals, and almost without exception leaders in Europe and Latin America, if I could paraphrase their comments, suggested that we watch what they do, not listen to what they say. There is no division. There is no debate. There is no problem. Fidel Castro is isolated, and regimes which once gave safe harbor to his thinking and encouraged dialogue have now abandoned him.

Mr. HAKIM. Are they joining us in the embargo?

Mr. TORRICELLI. They are telling us largely do what we have to do.

Mr. HAKIM. Are they joining us? In other words, when we put an embargo on Haiti the other Latin American countries are joining us, at least most of them. Are they joining us with regard to Cuba?

Mr. TORRICELLI. Mr. Hakim, I am here to ask you questions, not to embarrass you. But let me suggest to you there are not European nations complying with the embargo with Haiti.

Mr. HAKIM. I said Latin America. It is not embarrassing me.

Mr. TORRICELLI. First, the rules are I will ask questions, but since you asked questions I will answer them. But then you will at least give me a chance to do so, if we can at least keep that level of decorum.

If the U.S. were to engage in diplomatic or economic policies only when we could get everybody not only to agree in principal but also in action, this government would be completely paralyzed. We don't have all of our allies at the moment complying with embargoes on Vietnam, Korea, Libya, Iraq or Haiti. Indeed, all of our allies are not complying with embargoes on any of them. That is not an argument for us not to proceed.

What is important is that there be a basic common objective. Without exception in my meetings with Latin and European leaders I have been told, Do what you must do. This is disproportionately important to the interests of the U.S. because we are home to a million Cuban Americans, because Cuba is on our shores, because of the historic relationship, and because we are willing to take on the burden to help the Cuban people. For all those interests, if we must we will do it alone. But fortunately, throughout Latin America and Europe at this point that is not necessary. We are largely being told that time has run out on Mr. Castro and they will not contradict our policy or disagree with our objectives.

Mr. ROHRABACHER. Mr. Chairman, I am sorry I am late. Obviously, this is one of the situations where as a Member of Congress you have three different committee meetings at the same time, so I am not sure exactly what has been said here today, so perhaps I will just make one or two general points and leave it at that.

And, number one, I am very happy to hear that you gentlemen are in support of the free trade agreement with Mexico. I come from California, and I believe that the free trade treaty with Mexico will be a great stimulus to job creation and economic growth in my State as well as, I believe, in the rest of the country.

ECONOMIC RELATIONS WITH DICTATORSHIPS

In terms of the embargo issue, just a note. One of the things that has disturbed me over the years in dealing with regimes like Castro, whether you are talking about fascist regimes or you are talking about communist regimes, is that certain intellectuals in the U.S. always are suggesting that actions taking place aimed at the regime is in some way aimed at the country or the people, and I don't believe that asking for actions that are—or planning for actions that are aimed at changing the Castro regime, putting pressure on the Castro regime is any way a reflection on the Cuban people whatsoever.

And I resent it, for example, when people say we have got to—we can't just ignore the existence of China. You know, when people say that we shouldn't give them Most Favored Nation status and

other people claim, Oh! Well, you are just, then, ignoring that China exists. No. What is it? We are talking about with an embargo, and we are talking about American policy. It is what we are doing in order to change the power relationship between a certain group of people who hold power in Cuba and the Cuban people. And is it in our interest to do so? Is it consistent with our principles? The answer is, I believe, yes, and especially in a world now where we can help those people who are struggling and regimes that are struggling to be democratic and struggling to lay the foundation.

For us to open up or to have any type of economic relations with these vicious dictatorships that are left in the world I don't think is defensible in terms of the principles our country is supposed to stand for. I will permit each one of you to comment on that if you so choose.

Mr. HAKIM. Well, just one small point. I think there is a big difference between opposing a dictatorship and using extreme—and what measures you use to achieve your results. I mean one wants to use those measures that are most likely to achieve the results.

I don't disagree with Mr. Torricelli or you that Fidel Castro is a repressive leader, that he ought to be removed, that it would be better for Cuba if he wasn't there. None of us disagree with that. The question is how you deal with the situation, how you achieve that objective, how you achieve an opening.

And it is true that the policy is directed toward Fidel Castro. Not for a moment did I think the embargo was supposed to hurt the Cuban people. But in fact it does. You know, I have had two relatives come from Cuba this past year, two in-laws, and they are suffering a great deal in Cuba because of the embargo.

Now, I am not saying we should lift the embargo, but it does seem to me that you can't just say that it is directed to the government and it doesn't affect the people.

Mr. ROHRABACHER. The difference between us I think is that I would say they are suffering not because of the embargo. I would say they are suffering because of Fidel Castro.

Mr. HAKIM. If both is the case, why can't you say both.

Mr. ROHRABACHER. Because there would be no embargo if you didn't have a regime that had been committing so many—supporting so many acts of terrorism and so many acts of—

Mr. HAKIM. I think they are suffering also for a lot of other reasons, including bad economic policy, stupidities, et cetera.

Mr. ROHRABACHER. OK. Thank you.

Mr. PERRY. I agree with you.

Mr. TORRICELLI. [presiding]. Mr. Perry, you were not supposed to speak during this part of the hearing.

Mr. PERRY. This is very unusual for me. I have been in this body before and with more contention. Thank you.

Mr. TORRICELLI. Mr. Tulchin.

LATIN AMERICAN POLICY IS NOT A SINGLE ISSUE POLICY

Mr. TULCHIN. The only point I would make is that your remarks, with which I agree, must not be elevated on a pedestal or that position taken out of context. I think if I have a disagreement it was

simply to urge you to deal with Latin America not as an isolated single issue democracy, dictatorship, and so on.

And the problem with the hearings, the questions put by members of the committee, with very few exceptions, is that we were brought here to talk about an agenda for Latin America, and in my own prepared statement I listed ten issues involving Latin America. One of the ten dealt with Cuba. Of all the questions put by members of this panel, if there were ten, nine dealt with Cuba and one dealt with something else. I am exaggerating slightly. I don't remember if there were 10 questions.

My point is that your vision of Latin America seems to be suffering from extraordinary myopia. Cuba is important. There are a million Cubans in Florida. There are lots outside Florida as well. There are a lot of issues involved with Cuba. I don't say let's ignore Cuba. But Cuba is not Latin America.

Mr. ROHRABACHER. Well, Cuba is a dictatorship, and Cuba is a dictatorship that has been involved with trying to overthrow other democratic governments. And, if someone was asking us about our policy in Europe in the 1930's, I would hope that they would have focused on how do we get rid of Hitler. And once we get rid of Castro, or once Castro is gotten rid of, well, I think perhaps Latin America and all of America can breathe a little easier.

Mr. TULCHIN. My suggestion, sir, is that they may breathe easier because Castro is gone, and the Cuban people may breathe easier because they have eliminated a dictatorship. But, if Castro is removed because of unilateral U.S. intervention, Latin America will not breathe easier. Most of the countries in Latin America will feel very upset and wonder what is next. Indeed, the next issue for the U.S. will be, What should we do now? Shall we end the marines back into the Cuba, as we have done on repeated occasions?

Mr. ROHRABACHER. I am sure France and Britain would have felt upset as well if we would have helped prevent Hitler. I mean I am sure they said, Oh, these Americans coming in interfering with European business by helping us get rid of Hitler. That is nonsense. That is absolute nonsense.

Mr. TULCHIN. Are you suggesting, sir, by that analogy that Mr. Castro has a blitzkrieg prepared for us?

Mr. ROHRABACHER. I will tell you that Fidel Castro has been involved with trying to overthrow democratic governments.

Mr. TORRICELLI. Mr. Rohrabacher, could we just restore some order?

Mr. Tulchin, we all share the frustration that during the course of the hearing we were not able to be more comprehensive in dealing with the entire hemisphere. Indeed, as I think you acknowledged, your statement is somewhat of an exaggeration. We covered a fair amount of Central America. We were able to talk about NAFTA to some extent. We would have liked to have talked more about the Andean problems, and indeed Brazil and Argentina. It is difficult to do so, given the time constraints, and so to that extent we share the frustration.

But indeed, issues gain importance as you approach the borders of the U.S.. We are entitled somewhat, if not to be myopic, at least to be shortsighted given not only the wants of our own people, but also the proximity to our borders.

Let me with that, if I could, conclude with what I feel would be an appropriate comment based on Mr. Hakim's comment earlier that Cuba was no longer a threat to the U.S.. And I raise this not to conclude the debate on Cuba, but rather to underscore the entire discussion about Latin America, and indeed the larger discussion of foreign policy that has been the foundation of these hearings.

Our national interests, if they continue to be defined by where there is a military threat, will do enormous injustice to the U.S.. Simply because there are not missiles in Cuba aimed at New York or Miami does not make it less of a threat. A country is a threat because it contradicts basic human values, national objectives. A Cuba which imprisons its people and denies basic rights is as much a threat to the U.S. as a Cuba that was harboring Soviet troops. And a Panama or a Haiti which oppresses its people, denies all basic rights, but has no military capability is in my mind as much a threat as any former member of the Soviet Bloc.

And so I would hope that people do not have to justify their ambitions for an aggressive American foreign policy simply based on the scale of military power of a regime, but rather by how they offend our most important national principles and objectives.

With that, there being no further business, we will conclude the hearing. Gentlemen, thank you each for your time, your patience, the thoughtfulness of your comments, and for your participating today.

The hearing is concluded.

[Whereupon, at 12:28 p.m., the committee was adjourned, to reconvene subject to the call of the Chair.]

U.S. POLICY TOWARD ASIA

WEDNESDAY, FEBRUARY 17, 1993

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC.

The committee met, pursuant to call, at 10:11 a.m., in room 2172, Rayburn House Office Building, Hon. Lee H. Hamilton (chairman of the committee) presiding.

Chairman HAMILTON. The Committee on Foreign Affairs meets today in open session to discuss U.S. policy toward Asia.

We will hear testimony from Kenneth S. Courtis, Strategist and Senior Economist with Deutsche Bank Capital Markets in Hong Kong and Tokyo; Harry Harding, Senior Fellow in the Foreign Policy Department of the Brookings Institution; Donald S. Zagoria, Professor of Government at Hunter College; and Edward Luttwak, Director of GEO Economics at the Center for Strategic and International Studies.

We have several topics of interest to us today, including U.S. policy toward: Japan, China, the Korean peninsula, ASEAN, and Indochina. We will want to focus on the economic and security issues of most importance to the United States and on recommendations for U.S. policy.

We will have a good many questions for the witnesses, so I am interested in having the witnesses keep their remarks within that 5 to 7-minute frame that we had suggested to you before the hearing. And then after hearing testimony from each of you we will turn to questions by members.

I am very appreciative of our expert witnesses for their willingness to testify today. Your prepared statements, of course, will be entered into the record in full.

Chairman HAMILTON. We will begin with you, Mr. Courtis, and simply move across the table from left to right. You may begin, sir.

STATEMENT OF KENNETH S. COURTIS, STRATEGIST AND SENIOR ECONOMIST, DEUTSCHE BANK CAPITAL MARKETS, HONG KONG AND TOKYO

Mr. COURTIS. Thank you very much, Mr. Chairman. Good morning, ladies and gentlemen. My name is Kenneth Courtis. As the chairman indicated, I am a strategist for Deutsche Bank Capital Markets in Asia and I lecture at Tokyo and Keio Universities. This morning you have invited me to address questions regarding the most important economic developments in Asia and their impact for the United States during the period ahead.

ASIAN ECONOMIC EXPANSION

The international economy presents an extraordinary paradox. While much of the world pains in recession, Asia continues to be a region of dynamic expansion—even Japan, which many are writing off as now having entered into a decline. I believe it is going through a policy-induced transition and the marathon man of Asia, once this transition is completed, will come back and kick to still higher levels of performance.

As Asian economies continue to expand more quickly than the rest of the world, not only does the importance of the region grow, but also its power, its position, and its place on the world stage. The explosive growth of Asia is creating extraordinary fluidity and flux which opens great new opportunity in the region for America. This change also creates great tension that raises great risks. But, indeed, much is at stake as Asia grows.

Today, Asia is younger, is going to school, it is saving, it is investing, whereas the rest of the world has matured, taken on debt, and aged. As a result, we are witnessing a global shift to Asia. Think of it. In 1960, Japan and East Asia represented 4 percent of world GNP. Today, they represent together almost 24 percent of world GNP. And the trend for the long term over this decade or the beginning of the next decade, indicated by the IMF, is that while the United States would represent 18 or 19 percent of world GNP, Japan and East Asia would represent 30 percent to one-third of total world GNP. It is for this reason, from finance to trade to technology to questions of security and industrial development that developments in Asia today, I believe, are critical for America's own economic future. I believe that these developments will become even more important tomorrow as America attempts to rebuild its own economic base.

ASIA AT CENTER OF WORLD ECONOMY

I would like this morning, Mr. Chairman, to address five issues. First, the issue of the shift in the global center of gravity of the world economy to Asia. Second, I would like to consider briefly prospects over the short term for developments in Asia. I will skip reference to China, as my colleagues will be treating it. Fourthly, I would like to address the issue of the potential for a major upheaval in the global trading system as a result of developments occurring in Asia. Fifth, the issue of the increasingly preponderant role that Japan plays in Asia in the context of the strategic retreat of corporate America. And lastly, very briefly, the issue of regional security.

I submit, Mr. Chairman, that these issues, if addressed positively and with imagination and long-term commitment, create great new opportunities for America. Opportunities for America to address its own diminished economic position. Indeed, Mr. Chairman, I believe that America cannot reverse its current domestic economic position without addressing the developments in Asia in this manner.

Let me address the first issue—the world center of gravity is shifting to Asia. It seems to me that the emerging critical question facing the world economy through the 1990's is the building imbal-

ance between a burgeoning demand for investment capital and the insufficient pool of global savings.

Through the period to 1998, research indicates that the incremental annual demand for investment capital will be about half a trillion dollars above long-term trends, with some 40 percent of that increased demand for capital coming from East Asia. At the same time demographic and political trends at work in Europe and North America continue to weaken the world's savings base. Think of it. For the G-6 members—for the G-7, excluding Japan, from 1970 to 1980 their savings rate was 13 percent. In the interval it has fallen to where it is currently 7.8 percent. Trends in public policy and public finance and demographics together with massive budget deficits indicate, I believe, that those trends to lower savings rates in North America and Europe are not about to be reversed. Asia, in contrast, is going in the opposite direction. With few exceptions, in East Asia saving rates everywhere are above 30 percent of GNP.

A measure of just how fast the shift is occurring, in 1981 central banks in Asia controlled 14 percent of total world central bank reserves. Today, they control approximately 42 percent of such reserves. Even for Japan and despite many predictions to the contrary, the net savings rate, household, government, public sector, continues to run above 20 percent of GNP. The outlook for trends in Asia through the 1990's indicate that the saving rates are set to remain high. As a result, Asia is set to control an increasing portion of total world savings through the decade ahead. That not only means that the global balance of power is going to shift further to Asia, but it also means that the United States will find that the capital it requires from abroad to rebuild its own economy will be increasingly available on terms determined in Asia.

With the service of the public debt in the United States now equal to America's net household savings rate, the United States will remain a huge importer of capital through this decade. It is from this perspective that any financial or economic instability in Asia will be transmitted immediately to North America. In the absence of a long-term and major transfer of consumption to savings in the United States on the order of half a trillion dollars a year, it will be impossible for America to rebuild its infrastructure, to begin work on the infrastructure of tomorrow, to finance the rebuilding of its education system, to begin large-scale work retraining without systematic access to the burgeoning pools of capital in Asia.

This situation also sets Asian economies in a privileged position from other perspectives. Funds will be available locally to fuel growth. From a corporate strategic perspective, it also means that Asian economies, continuing to expand more quickly than elsewhere, offer to firms operating in the region the ability to lever that growth and the pools of capital that are available to them to reposition themselves from a global competitive perspective.

In this regard, perhaps, we could think of the auto industry. Over the 1990's, two-thirds of the unit volume increase in the world automotive market will come out of East Asia. Players then that dominate that growth will be able to lever their position to a stronger, much stronger global competitive position. In this regard

it is troubling that not one North American producer has yet committed itself to making a world-scale automotive production facility in the region.

LONG TERM POLICY APPROACH TO JAPAN

I would like to turn to the second question, Mr. Chairman, that identified as a strategic issue, the question of Japan. Many argue that the sun is finally setting on the Pacific. I would submit, Mr. Chairman, that the sun is currently behind a bank of clouds, but when it burns off the fog it will be shining as bright as it has in the past. Indeed, Mr. Chairman, I would submit that Japan is now in the midpoint of phase two of its response to the Plaza Accord. The transition occurring in the economy today is essentially a purge of the excesses of the 1980's which were themselves a result of the policies that Japan set in place to allow it to adapt to the change in the international competitive environment that Plaza triggered.

So rapid has this adjustment been that Japan is today competitive at current exchange rates. Indeed, since 1985 Japan has essentially moved to turn the Plaza Accord to its advantage. Competitive at these exchange rates, the Japanese market is more difficult to penetrate than ever in the past. And, as we can see from the trade statistics, Japan continues, even as the world is in recession, to gain market share globally.

Chairman HAMILTON. Mr. Courtis, I am going to ask you to move along because I know that members are anxious to ask questions. You have excellent testimony. Try to sum up, if you can, in a few minutes, and we will move on to the other witnesses.

Mr. COURTIS. Mr. Chairman, I raise the question of Japan and the Plaza Accord because in recent days there has been much talk of the need to devalue the dollar further by another 15 or 20 percent. I submit, Mr. Chairman, that experience over the last 20 years does not in my view offer prospects that a further devaluation will help us get out of the situation we are in with Japan. Rather, what is required is a type of integrated long-term policy approach to Japan that we are now starting to see to deal with some of the domestic issues confronted in the United States.

U.S./EAST ASIA TRADE IMBALANCES WITH JAPAN

I will skip the point on Japan, and, Mr. Chairman, I would like to conclude briefly with the issue of trade in Asia, which has been the lever of growth for that region over the last 20 years. Today that lever of growth, I submit, is at stake. Japan and America have been two sides of that equation. Japan has been the supply side, providing capital, intermediate goods and technology to East Asia, and America has been the market. But America through the nineties can no longer continue to absorb the rate of increase in exports from Asia that we have seen in the last 20 years, and that investment in Asia supposes it will continue through the 1990's. Asia will have to look for new markets. It is looking to Europe, but there it is finding increasing difficulty. It has increasing difficulty penetrating Japan, and I submit, Mr. Chairman, that to maintain that lever for expansion that East Asia and America will have to come

together, and the sooner the better, to discuss their joint trade imbalances with Japan.

Mr. Chairman, thank you very much.

Chairman HAMILTON. Thank you, Mr. Courtis.

[The prepared statement of Mr. Courtis appears at the conclusion of the hearings.]

Chairman HAMILTON. Mr. Harding.

STATEMENT OF HARRY HARDING, SENIOR FELLOW, FOREIGN POLICY DEPARTMENT THE BROOKINGS INSTITUTION

Mr. HARDING. Mr. Chairman, members of the committee, ladies and gentlemen: It is an honor for me to testify before the House Committee on Foreign Affairs. The views I will express today are my own, however, and should not be attributed to the trustees or staff of the Brookings Institution.

REDEFINING U.S. POLICY TOWARD CHINA

One of the earliest foreign policy challenges facing the Clinton administration will be the redefinition of our policy toward China in time for the review of China's Most Favored Nation status in early June. Let me lay out some of the principles on which I think that policy should be based, and then apply those principles to the major issues that confront us in our relationship with China.

American policy must, first of all, reflect the complexity of China. China today is experiencing remarkably successful economic reform, but it has huge trade surpluses with the United States. China is more relaxed politically than it was in the Maoist era, but its political restructuring is lagging far behind its soaring economy.

In foreign affairs, China has played an increasingly responsible role on such issues as Cambodia, Korea, Somalia, and Yugoslavia. But its export of advanced weapons systems remains of considerable concern, as does the growth of its own military capabilities. China has welcomed mutually beneficial economic relationships with both Hong Kong and Taiwan, but is not willing to see Hong Kong create fully democratic institutions or to accept equal international treatment for the Nationalist government in Taipei. Sound American policy must acknowledge all these elements, both the positive and the negative, in the Chinese mosaic.

Second, American policy must be based on the multiplicity of interests at stake in China. We have an interest that China be secure, but that its ambitions not threaten its neighbors. We have an interest that China become more democratic, but not that it collapse into anarchy or instability in the process. We want China to be prosperous, but we also insist on fair access to the Chinese market. We want China to modernize, but not that it do serious damage to the environment or become a disruptive claimant on world energy or food supplies. We want Hong Kong to remain democratic, autonomous, and prosperous as it returns to Chinese sovereignty in 1997. And we want Taiwan's future to be determined peacefully, without coercion from the Mainland. A sound policy toward China, again, must take all of these interests into account, and not be preoccupied with one objective at the expense of the others.

Third, our policy must include cooperation with China on issues where we have common interests, but assertive diplomacy to per-

suaide China to modify its position when our interests diverge. The best overall strategy, in my judgment, is to deal with China issue by issue, using a combination of focused negotiations and targeted incentives to pursue American interests. Those incentives, in turn, must include sanctions when China's behavior falls short of international norms, and rewards when Peking's conduct begins to improve. To the greatest degree possible, our policy must be coordinated with like-minded governments elsewhere.

Beginning in 1991, under intense pressure from Congress, the Bush administration finally adopted a strategy along these lines. As President Clinton acknowledged during the 1992 election campaign, that more assertive policy has achieved some impressive results, for which the Congress can therefore take much of the credit. In the economic realm, China has agreed to provide better protection for intellectual property and to open its markets to American exports. It has pledged to ban the export of the products of prison labor, and to ensure accurate labeling of textiles produced in China. Peking has ratified the Nuclear Non-Proliferation Treaty, signed the recent Chemical Weapons Convention, and agreed to abide by the provisions of the Missile Technology Control Regime. Some political prisoners have been released and others have been accounted for. Overall, in fact, it is a reflection of the success of this strategy that an increasing imperative for American policy is to find ways to ensure Chinese compliance with the promises it has already made.

Building on the accomplishments achieved since 1991, it is now necessary for the United States to press for further progress on the issues of greatest concern to us. In the security realm, China must be persuaded to participate in additional arms control discussions and nonproliferation regimes. It is particularly important to convince China to join the emerging multilateral dialogue on regional security questions in Asia.

In our economic relationship, the principal task now is to secure greater market access for American service companies in such areas as banking, insurance, engineering, and law. It is also necessary to complete the process of bringing China into GATT so that Peking becomes subject to the obligations of full membership in the international trade regime.

CHINESE POLICY TOWARD TAIWAN AND HONG KONG

With regard to Taiwan, the United States should encourage Peking to show the flexibility that will permit the establishment of direct air and sea links between the two societies, thus binding their economies more closely together.

Over the next several months, the United States should urge Peking to accept further democratic reforms in Hong Kong. It is neither necessary nor appropriate for us to endorse the details of the Patten plan, since Governor Patten himself has consistently emphasized that his proposals are subject to revision. Instead, our position should simply be that Hong Kong's level of economic and social development requires a further degree of democratization within the terms of the Basic Law.

CHINESE HUMAN RIGHTS PRACTICES

On human rights, we need to press Peking in those areas where further progress is possible. These include releasing additional political prisoners, accounting for still others, opening China's prisons to international inspection, permitting foreign observers to attend Chinese trials, halting jamming of international radio broadcasts, and reopening a dialogue with the U.S. Government on human rights. We should also create an expanded radio service for China, but, in my judgment, we should place it under the Voice of America rather than establishing a separate surrogate station.

Beyond this, we also have to place our human rights policy in a broader context. Far-reaching systemic change in China of the sort we seek will be principally the result of domestic changes, rather than external pressure. Those domestic changes, in turn, will be the result of China's strategy to achieve economic modernization through market-oriented reforms and through extensive engagement with the outside world. We can therefore foster China's evolution toward economic and political liberalization more effectively through continued commercial and cultural interaction than through the imposition of economic sanctions.

CHINA'S MFN STATUS

And this leads us to perhaps the most knotty problem in U.S.-China relations: the annual reconsideration of China's Most Favored Nation status. The withdrawal of MFN is not a step that should be taken lightly. Whatever the hardship that might be imposed on the central Chinese Government, the termination of normal tariff treatment for Chinese goods would do great damage to the interests of people that we would prefer not to harm. It would unquestionably reduce American exports to China and produce a hostile climate for the American firms who have investments there. It would restrict the growth of China's private and township enterprises, which are key to the development of a market-oriented economy and to the emergence of an independent middle class. It would also do great damage to Hong Kong, through which pass 70 percent of China's exports to the United States, and considerable harm to Taiwan, which has shifted much of its manufacturing operations to the Mainland. Moreover, withdrawal of MFN would weaken our strategic position in Asia by leading to a confrontational relationship between Peking and Washington. The withdrawal of MFN is, in short, a severe sanction, the use of which should be reserved for extreme circumstances.

Under the Jackson-Vanik amendment, China's MFN status is subject to review every year. Unless it is to be an empty formality, we must define the standards that we will apply to this annual review. The criteria must, first of all, be credible in that we must actually be willing to apply them to China fairly but firmly. If we set overly ambitious conditions but then routinely waive them in the name of the national interest when they remain unmet, we will quickly lose our leverage and credibility in dealing with Peking. The standards should therefore be appropriate, reflecting the serious cost to American interests of actually removing MFN. This im-

plies that we should threaten the revocation of MFN only when fundamental U.S. interests are at stake.

Over the next several months, the Clinton administration should engage in intensive negotiations with Peking on the full range of issues I have outlined above. We should stress that China's willingness to be forthcoming on these questions will determine the administration's policy on MFN.

The aim of these negotiations, in turn, should be to establish a new benchmark for our relationship with China. If we are successful in this regard, and, as I indicate in my prepared statement, I am optimistic that we can be, we will be, I would then urge that we renew China's MFN this June. I would also recommend that there be a strong presumption of renewal every year thereafter. Only if there were serious and sustained retrogression below the benchmark would we consider the revocation of China's Most Favored Nation status. However, we would continue to use other levers such as diplomatic sanctions, controls on technology transfer, and lesser tariff adjustments to pursue American interests with regard to China.

If adopted, this new policy could be embodied in a Presidential statement explaining how he intends to exercise his authority to annually re-examine China's Most Favored Nation status. There is, in my view, no need for further congressional legislation in this regard given the fact that the Congress already has the right to review the President's recommendation.

Even as we try to deter retrogression below the new benchmark, we must also try to rise above it. I think it is time to offer China the prospect of improvements in U.S.-China relations over the next 4 years if its behavior warrants them. If China indeed provides greater markets for American goods and services, behaves responsibly in its weapons exports, acts as a force for world peace and stability, and resumes a program of political reform, then the following developments would be conceivable: the resumption of summit meetings; a modest but meaningful American aid program for China; a greatly relaxed environment for U.S. technology exports; and a determination that China is no longer a nonmarket economy, is no longer subject to the Jackson-Vanik amendment, and is therefore granted Most Favored Nation status without annual review.

I emphasize that a great deal of progress is required before we can contemplate these positive steps. Still, the complexity of the situation in China requires that we send Peking a dual message: on the one hand, that departures from international norms will not be accepted by the United States, but second, that improved Chinese behavior will meet a positive and forthcoming American response.

Thank you, Mr. Chairman.

Chairman HAMILTON. Thank you, Mr. Harding.

[The prepared statement of Mr. Harding appears at the conclusion of the hearings.]

Chairman HAMILTON. Mr. Zagoria.

**STATEMENT OF DONALD S. ZAGORIA, PROFESSOR OF
GOVERNMENT, HUNTER COLLEGE**

Mr. ZAGORIA. Thank you, Mr. Chairman. Members of the committee, ladies and gentlemen: I too am honored to testify before your committee.

POST-COLD WAR ASIAN STRATEGY

Some years ago Ed Reischauer wrote a book called *Wanted: An Asian Strategy*. That, it seems to me, is the challenge for the United States today, to develop an Asian strategy suitable for the post-cold war era. The end of the cold war leaves the United States without a coherent policy in East Asia and with strange relations with Japan and China, Asia's two indigenous great powers. The two basic pillars of America's cold war policy in Asia, economic supremacy and strategic engagement, are both in doubt. The relative economic weight of the United States has declined substantially in East Asia and the economic power of Japan and other Asian nations has increased.

And, as America draws down its forces to meet its domestic challenges and leaves its bases in the Philippines, there is widespread uncertainty within the region about the U.S. ability and willingness to maintain a significant regional military presence. Moreover, there is growing concern about America's style of leadership, fear that the United States is turning protectionist and bent on lecturing others on human rights even though its own society has vast, unresolved social problems.

Finally, the United States is losing its moral authority in the Pacific as many Asians conclude that the United States is in decline, that it cannot solve its own problems, and that it is increasingly resorting to scapegoating others, particularly Asians, for its own failures.

If the United States is to maintain its position of leadership in the Pacific under the circumstances of the post-cold war world, its style and type of leadership must change. It needs to develop new multilateral structures of cooperation and fresh attitudes while recognizing the enormity of its stakes in the Pacific.

NEED TO REVITALIZE ASIA-PACIFIC ALLIANCES

The most important challenge for the United States will be to revitalize its Asia-Pacific alliances and particularly to forge a new policy toward Japan that integrates security and political, as well as economic concerns. One of the major foreign policy failures of the Bush administration was its inattention to Japan. Former Secretary of State Eagleburger has, in speeches since he left office, twice conceded that the failure to build more comprehensive and durable political ties with Japan was one of his biggest regrets. The single most important test of the Clinton administration's foreign policy in Asia, in my opinion, will be whether it makes a serious effort to build such ties. In recent years, the numerous shared political, economic and security goals between the two trans-Pacific allies have been lost in the fog of trade disputes and endless arguments about minivans and semiconductors. Yet, without a solid and stable U.S.-Japan relationship, there can be no political calm

in the Pacific, no substantial progress in opening global markets to trade and investment, no common policy toward China, and little progress on shared geopolitical goals around the world, including aid to the former Soviet Union. Over the long run, a continuing erosion of the U.S.-Japan relationship could lead to a new security threat to the United States if Japan were to cut itself loose from the U.S. embrace and become a major military power equipped with nuclear weapons.

MAINTAINING FAVORABLE BALANCE OF POWER

A second priority closely related to the first should be for the United States to maintain a favorable balance of power in the Pacific for itself and its allies so that Japan will not be tempted to become a major military power, a Japanese-Chinese rivalry will not again become the dominant feature in the region, the region will remain stable, potential regional troublemakers will be deterred, a new arms race will not develop, and over the longer run the Pacific will not be dominated by a hegemonic power.

To accomplish this goal, the United States needs to maintain a strong naval and air presence in the Pacific and to have forces flexible enough to deal with a variety of contingencies.

STABILIZING RELATIONS WITH CHINA

A third priority for the United States in the Pacific should be to stabilize relations with China. A return to Sino-American confrontation would be extremely destabilizing for China's modernization efforts, for stability in the region, and for the stability of the post-cold war international order. China has the capacity to harm U.S. interests in many areas of the world, particularly in Asia.

The United States needs to prevent or limit possible Chinese expansionism by encouraging present trends toward a market economy and by integrating China into a regional economic and security structure. We should, as Mr. Harding has already suggested, try to work together with China on issues where our interests converge and to bargain hard and even take sanctions where we have significant differences. But blanket trade sanctions are counterproductive because they work against the economic forces promoting openness and reforms. Such sanctions would place U.S. business at a competitive disadvantage in China, and more important, they would make it impossible to achieve a balance among promoting human rights, and U.S. economic and security concerns in the People's Republic. Nor will they be supported by our allies and friends in the region.

CONTAINING NUCLEAR AND MISSILE PROLIFERATION

Another high priority for the United States in Asia, as elsewhere, should be the halting or at least slowing of nuclear and missile proliferation. This means drawing China and North Korea into the nuclear and missile arms control regimes. We may shortly be heading into a confrontation with North Korea on this issue. The International Atomic Energy Agency has demanded to inspect two suspicious sites and North Korea has so far balked. If Pyongyang continues to refuse, the IAEA will probably ask the Security Council

to take sanctions against North Korea. This will be an important precedent for the IAEA and the United States should be prepared to throw its full weight behind the principle of challenge inspections.

DEFUSING REGIONAL CONFLICTS

Another high priority for the United States in the Pacific should be to work together with others to prevent or to reduce regional conflicts. There are three principal sources of conflict in East Asia. These are the remaining cases of divided States, namely, the two Koreas and China-Taiwan; the unresolved territorial disputes in the South China Sea and the unresolved dispute between Russia and Japan; and continuing uncertainty that surrounds the UN-brokered Cambodian peace process.

One of the most promising ways to defuse these conflicts, as Bob Scalapino has suggested, is through developing a situation-specific set of concentric arcs. The first arc should be composed of parties directly involved; the second, of neighboring countries with important stakes in a peaceful outcome, and the third, a variety of regional and international institutions.

In the case of Korea, the first arc is composed of the two Koreas. The prime ministers of the two states are now meeting regularly and have signed several agreements, albeit with uneven results.

The second arc is composed of the four major powers long involved in Korea. All four of them have an interest in stability in the Korean peninsula, and all have been working to achieve that goal.

Beyond the four powers there lies yet another arc, the possibility of involving international bodies such as the IAEA in the nuclear field and the UNDP in the economic arena. In the China-Taiwan case, the first arc is again composed of the two parties most directly involved, the PRC and Taiwan. Economic and cultural ties are growing and a liaison body for handling disputes is in place.

At the same time a second arc exists, namely, the United States and Japan, who together have considerable military and economic influence on both parties. In the case of the South China Sea territorial dispute, these issues have not yet been seriously discussed. The first arc, however, is composed of China, Vietnam, Taiwan, and the ASEAN countries directly involved. The ASEAN Post-Ministerial Conference would be the logical second arc. The United States and Japan could play an important diplomatic role in the third arc.

In the Cambodian case, the first arc has been the four competing Khmer factions supported by a second arc of China and Vietnam. Another arc has been composed of ASEAN members and Japan, as well as the Perm 5 at the U.N. It was this combination of forces which produced the UN-brokered peace effort in Cambodia and which made preparations for the forthcoming elections in May. Unfortunately, the Khmer Rouge now seems to have withdrawn from the peace process and this may lead to a resumption of the civil war.

Even if there is a resumption of the civil war, however, the peace process has achieved some positive results. Hundreds of thousands of Cambodian refugees have been repatriated, more than 4 million Cambodian voters have been registered for the election to be held

in May, the Khmer Rouge is now isolated, and the election will pave the way for a legitimate Government of Cambodia that can gain international recognition and assistance.

In the case of the Russo-Japanese territorial dispute, only the two powers directly concerned are now involved, but the United States and the European Community could influence developments and the United States should try.

In sum, for resolving or preempting regional conflicts in Asia, the United States should encourage a variety of bilateral and multilateral negotiations among the interested parties. This situation-specific, concentric arc approach should be supplemented, however, by broader regional and subregional security dialogues that would include all the powers in the region, especially China. One purpose of such regional security dialogues would be to reduce the likelihood that Japan or any other regional power might feel the need to develop the capacity to project military power within the region as the U.S. military presence declines.

Another purpose of such a forum could be to address cost-sharing for regional security on a multilateral basis. Still another purpose would be to promote arms control and transparency, and to prevent regional conflicts. The time is now right for a North Pacific security dialogue which would include the four major powers along with the two Koreas, China and Mongolia.

RELATIONS WITH REMAINING LENINIST STATES

There is another broad challenge that the United States faces in the Pacific. It is one to which I have already alluded; that is, the challenge of dealing with the remaining Leninist states: China, North Korea and Vietnam. The future policies of these three Leninist states will be one of the critical factors determining whether Asia remains stable in the years ahead. The Asian neighbors of these three states hope for a gradual economic and political liberalization. They want neither a plunge into chaos nor a rigid type of authoritarianism.

The United States needs to consult closely with its Asian allies and friends about how to develop policies toward these three Leninist regimes that will encourage such gradual liberalization. Already there is considerable movement toward a market economy in China and Vietnam, and in North Korea there are indications that some in the leadership see no alternative but to move in such a direction. Because it is impossible to combine an open economy with a closed polity, pressures for political liberalization are bound to grow as economic reform in a market economy continues.

Although there is no immediate and direct relationship between economic development and political reform, the East Asian experience suggests that in the long run economic growth in a market economy fosters a more open and democratic society. This has been the case in Taiwan and South Korea.

The major task for the West therefore should be to support constructive change in the Leninist states through various forms of economic, political and cultural interaction. We should try to draw these countries into a wide-ranging dialogue on the principal issues relating to security and development. Isolating them will only feed the cause of extremism.

It is largely for this reason that I advocate renewing high level dialogue with China, including the Chinese military; lifting the embargo against Vietnam, which none of our friends and allies any longer support; and establishing regular, high-level dialogue with North Korea.

I am going to omit the final section of my written testimony on economic strategy in the Pacific, which essentially urges the United States to develop a more coherent policy to promote exports.

Thank you very much.

Chairman HAMILTON. Thank you, Professor Zagoria.

[The prepared statement of Mr. Zagoria appears at the conclusion of the hearings.]

Chairman HAMILTON. Mr. Luttwak.

STATEMENT OF EDWARD LUTTWAK, DIRECTOR, GEO ECONOMICS, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

Mr. LUTTWAK. Thank you, Mr. Chairman, members of the committee. I don't want to outrage the well-known modesty of Congress, but I have to agree with Mr. Harding that there has been a very beneficial interaction between the characteristic preoccupations of the executive branch and the functioning of Congress to reflect a reality, which is the American refusal to view the outside world through a narrow, materialistic perspective, whether that is a security-oriented or an economic one. It is in that vein that I want to answer the three questions put in the letter.

POLICY TOWARD INDIA

First, about the current situation as I see it, without repeating anything previously said here, in India, not so far mentioned, the world's largest democracy, we should follow carefully a great struggle to maintain democracy in the face of communal strife.

We see also a new struggle to liberalize an economy that was influenced by the baneful theories of socialism in the British manner of 4 years ago. We have not focused on it, largely because we have not been in conflict with India nor allied with India. Nevertheless, there is no need to go into great detail to explain that this large slice of humanity cannot, in fact, decline in distress without wider consequences, even though the conflictual consequence have always been confined to the region. Indio-Pakistan warfare never quite became a cold war phenomenon, and, of course, India as a democracy has exercised characteristic restraint in using its superior military power that is the mark of democracies.

In that regard, there is a very serious complication, which I will refer to again in the Chinese context because of the Tibet issue. The fact of the matter is that, regardless of its disposition, the militarization of Tibet has created a Himalayan Front which is now quiescent, between India and China, whose relations have greatly improved, but it has also really created a wider cross-Himalayan Front where there is fighting almost every day until now between India and Pakistan. That is an unfortunate particular development.

PARADOX OF CHINA

In regard to China, without repeating what we have heard, we face a paradox and a contradiction. On the one hand, the tremendous economic growth which is spreading through certain coastal parts of China is bringing with it, in addition to all the other things mentioned, a very great increase in human dignity. A lot of Chinese are being lifted out from humble and sordid and miserable existences into doing things which are far more dignified. They are also being given hope.

So, what China is doing in its totality, private enterprise in China, insofar as the government allows it to happen, is very great progress for human dignity. On the other hand the Chinese government continues to be the chief remaining advocate, in effect, of rejection of human dignity in its overall polity. This morning, possibly because of these very hearings, Mr. Wang and Mr. Gao were released prematurely in China. I think an announcement has been made, or will soon be made. They were released, and this in itself is a very good development for these two students, who, of course, were the two students of the Tiananmen incident, also shows the type of manipulative behavior that we are dealing with. You have an audience. You have a Congress watching you. Let's play with them.

We used to live in a world in which this sort of attitude was common. It no longer is, and our attitude to China must mark that fact.

SUCCESSSES IN U.S. ASIAN POLICY

When we turn to ASEAN, Korea, Taiwan, that whole area, I think we can congratulate ourselves in seeing, generally speaking, an advance on two legs: economic development and political development, economic progress and progress toward democratization. I would also add, perhaps one can say on three legs because it is as important in the longer term, in the more global term, a 3-leg development because of rising environmental consciousness.

We not only have a belated but certainly massive environmental correction program in a rich place like Taiwan, done by the government of which great things may be expected, but it is particularly heart-warming to see the Thai peasants who 20 years ago were entirely foreign to the idea that you did anything with nature but to predate on it, to find Thai peasants understanding the need to protect the environment. So this is a wonderful development, I think, overall in this ASEAN-Taiwan-Korea area that we should congratulate ourselves on.

And then, of course, there is the exception. I mean Burma. Those of you who have been to Burma, that is the magic land of Asia. It is also now a tragic land. It is not the only one—Laos, Vietnam, and so on. Professor Zagoria did not include Laos as one of the residually Leninist systems. Anyone who knows Laos, to call that place Leninist is really absurd.

RISE OF GEOECONOMICS

But what we have here is simply this. This whole vast part of the planet used to be a region where human rights and democ-

racies were rejected, denied and philosophically opposed, and now they have become the norm except for those particular exceptions. Standing back from it, what we see is a massive, a huge decline in what you call geopolitics in the whole of Asia. The role of military power and diplomacy fade. The rise is in what I would call geoeconomics, which is the logic of conflict and the glamour of commerce as ambitions. There are still nations, there are still national ambitions but they are translated from the ambition of controlling territory by military power or diplomacy to achieving industrial success. Not just enrichment, but the ability to make things and design things. It is not just a question of money, it is a question of making your own computers, selling your own 486-25 SLC computer and not a knock-off. This is the sort of thing we are seeing. A different ambition reflects a meritocratic ambition, a professional ambition.

Japan deserves great credit for this. Japan is the country that proposed the geoeconomic model, proposed the post-military model. Clearly it is influencing everybody, including China.

The second question is what U.S. policy is. In sum, briefly, clearly a mix of fading cold war exigencies, cold war leftovers together with new preoccupations. In the visit of President Bush to Japan we could see with the naked eye, as it were, a turning point. It was a painful turning point. It was clearly—it was evident that President Bush would have been much more comfortable in talking about regional security, military bases, and so on. He was instead forced to open a Toys R Us shop in a manner that many people thought was undignified, but he was certainly forced to raise economic issues. You could really see the tanker turning around from a purely geopolitical perspective in which the economic dimensions were lowly concerns of tradesmen and the aristocrats spoke about strategy and security. This had to change.

SAFEGUARDING U.S. ECONOMIC INTERESTS

Now, finally on the great question, which is what U.S. policy should be, I think that I would like to build on the comments of Mr. Curtis and Mr. Harding and Professor Zagoria as well. I would perhaps state it in a slightly different way. There is definitely a perception of the United States in Asia which is creating problems in itself. Those of you who visit the area—those of us who visit the area encounter commentary across the table, not in a formal setting but, perhaps, alongside the bar, commentary whereby the United States and the American people are increasingly being referred to in the terms and with the adjectives that Juvenal applied to Rome. This is not merely a question of a slowing economy. This is not merely economic incompetence, but it is also presented as moral degeneration—in sum, as corruption. In that regard, the lobbying in Washington, the fact that distinguished Americans who have been given a position of high honor in public service turn around and for money work to safeguard the interests of foreign economic entities is seen—in this geoeconomic world, as an ultimate corruption, truly of Juvenal nature.

The other aspect, and here I don't agree with Professor Zagoria—I, in fact, agree with Mr. Harding and especially Mr. Curtis—that the United States has to show competence in safeguarding its eco-

conomic interests. Now, we all know that in the 1940's after the war we were safeguarding our national interests by disregarding our economic interests. We were very rich. They were very poor. We were afraid they would go Communist, so, of course, we let them have space in a U.S. market so that they would be better off and not go Communist. In the 1950's they were still very poor, we were still very rich, and we were building up their economic strength as a base for strategic development and that also made sense.

The fact is that the continuation of these attitudes into the present is seen as a mark of weakness and incompetence, and when the factor of "lobbying" is introduced there is the element of corruption.

Finally, they see a pattern above corruption whereby every time the United States is on the verge of engaging in serious economic negotiations, let's say with Japan, really pursuing the structural impediments initiative or something of that sort, something happens on the world scene. At that point the United States drops these negotiations and turns, gun in hand, to get involved in the next international crisis. Then you factor in what I think is a matter of capital importance to be repeated a hundred times, which is the question of the U.S. savings rate. With a 7 percent savings rate or 5 percent savings rate versus a 30 percent savings rate, the nature of the future is very evident. Yankee peasants, or farmers, used to know exactly how to compute that.

We have to show, therefore, competence, toughness in safeguarding our economic interests, our failure to do so not only hurts us materially in regard to those interests, but also damages our prestige. We are seen to be too corrupt, too distracted, too out of it to look after our ownself.

PROMOTING HUMAN AND CULTURAL RIGHTS

The other question is human rights. First of all, there no longer is a convincing argument, as there used to be and you will still find in books that fill our libraries, according to which there is a different way that is philosophically equivalent and equal—the Confucian way, or proto-Confucian, neo-Confucian—which purports to be as good as our way. Young Asians at any rate seem quite unanimous—including East Asians, including Chinese—all, in fact, reject the argument fact that there is such a third way or different second way. There is only one way to accomplish human dignity, and that is precisely our concept of human rights, our concept of democratization, which, of course, is not ours at all but belongs to the common heritage of mankind.

In that regard, yes, there is Burma, and Burma is a tragedy. And Vietnam has still not settled the question, but clearly China is the big one. China is the big one not only in its dimensions but also because of the fact that we do have a government which as well as doing all kinds of wonderful things is also, in fact, actively defying the world on this matter and manipulating it, as it did again this morning.

There is also a further issue in the context of China, and that is that here we are dealing not only with human rights but with cultural rights. A world which is so greatly concerned with protecting the tiger, a world which applauds the Indian Government and

its authorities for protecting tigers at the expense of villagers is surely a world which ought to be concerned with protecting cultural rights. Not state national rights, but cultural ethnic rights. The Uighurs are a large people, they are not a tiny people. We are talking 10 million Uighurs. And the Tibetans. And, of course, these are the other minorities in China whose cultural rights are not always suppressed or extinguished, but they are variously violated, limited and constrained. Proliferation is a concern. Of course, we recognize and applaud the fact that Beijing, that China has joined in this post-military vocation and is most restrained in using its great military power in dealing with its neighbors with which it has troubles, like Vietnam. So we recognize that, but we must not walk away from the challenge of upholding our vision of human rights, which again is not ours but is shared by the world in which the younger Chinese are co-equal participants.

Thanks very much.

Chairman HAMILTON. Thank you, Mr. Luttwak.

We will go to questions now, beginning with the Chairman of the Subcommittee on Asia and the Pacific, Mr. Ackerman, and the ranking member, Mr. Leach. Then we will follow the order of those who were here first.

Mr. Ackerman.

EVALUATING SUCCESSES AND FAILURES IN U.S. POLICY

Mr. ACKERMAN. Thank you very much, Mr. Chairman, for holding this hearing. And welcome to the panel. Thank you for your excellent testimony. First, a general question for each on the panel, if you would.

With respect to U.S. policy in Japan, on the Korean peninsula and in China, if you had to make a quick chart, a couple of points, what went right with our policy in each of these areas and what went wrong? And maybe we could start just from left to right with Mr. Courtis.

NEED TO JUSTIFY CONTINUED STRATEGIC PRESENCE IN ASIA

Mr. COURTIS. Well, in Korea and in Japan what went right with our policies over the last 45 years was that our objective was to build strong, stable market-driven economies and that has been extremely successful.

What has been right in our policies in dealing with China, policies that have been inconsistent, over the last decade at any rate, is that somehow we participated and contributed to this emergence, this shift of China slowly toward a market-driven economy.

But the conditions that made our policies successful in Japan and Korea over the past 40 years no longer exist. One, our economic preeminence is now in question; and two, the strategic issues that kept America so permanently anchored in Asia also have changed. At some point, it is difficult to predict when, the two Koreas will probably decide to live together. One of the first clauses in that agreement would be that foreign troops withdraw from the peninsula. At that instant our political rationale for our continued strategic presence in Japan would be transformed overnight. Indeed, it would become difficult at that point to justify politically the maintenance of America's strategic presence in Japan. That then

would set the whole region on course for great instability, I submit, and that is why I believe it is urgent today for America to begin to develop a new political rationale for its continued strategic presence in the region.

Mr. ACKERMAN. Mr. Harding.

CRITICISM OF U.S. RESPONSE TO TIANANMEN SQUARE

Mr. HARDING. Mr. Ackerman, could I ask you what timeframe you are talking about for this evaluation? Mr. Courtis' answer covered the last 45 years.

Mr. ACKERMAN. You mean for your response or the policy over how many years?

Mr. HARDING. Over how many years.

Mr. ACKERMAN. Let's talk about the past decade.

Mr. HARDING. OK. I think, obviously, much has gone right. Let me focus on some of the things that I think have gone wrong in each case, starting with China, which I know the most about.

I think that what happened here was, perhaps, for Americans to become overly optimistic about developments in China in the 1980's, to project forward very positive reforms, and to fail to appreciate the obstacles that China faces as it tries to move toward a more modern and more open society, political system and economy.

I think that the most serious mistake, however, was the effort by the Bush administration for a year and a half after the Tiananmen crisis of June 1989, to sustain too much of the policy of the past and not give voice to the outrage that Members of Congress and members of the American public felt about developments in China. We are still grappling with the legacy of that policy failure.

With regard to Korea, I think that the——

Mr. ACKERMAN. I don't understand. How would you have given voice to that policy?

Mr. HARDING. I think that we simply needed at that time several things differently. First of all, I think we needed a ringing Presidential statement after Tiananmen which would have simply said what Americans felt. That what happened on the night of June 3rd and 4th was an outrage and that Americans could not return to business as normal with China. To the best of my recollection, there was no such Presidential statement ever made.

Secondly, I think that the President could have taken a more cooperative attitude to work with Congress toward a reasonable legislative response.

And thirdly, I think it was a mistake on the one hand to say we would not have high level diplomatic contact with China, and then at the same time send secretly to Peking two high level representatives.

So those are the kinds of mistakes that I think were made. I think they gave both the Chinese and the American public the wrong impression about American policy.

IMPLICATIONS OF PROPOSAL FOR KOREAN TROOP WITHDRAWAL

Now, with regard to Korea, I think that the biggest mistake that was almost made was the Korean troop withdrawal plan of Jimmy Carter in the early part of his administration. As you know, the

plan was never implemented, but it has given rise to continued concern in Korea that the United States might precipitously withdraw its military forces or to scale them back below the level required by the strategic realities of the Korean peninsula.

U.S. LACKS COMPREHENSIVE FOREIGN ECONOMIC POLICY

With regard to Japan, I think the main problem is the one that Mr. Courtis, Mr. Luttwak, and Mr. Zagoria have all talked about: the lack of a comprehensive, effective American policy for economic renewal at home and the lack of a comprehensive American policy with regard to foreign economic relationships. That is a problem that goes far beyond Japan, but it is the failure to develop such a policy that I think is the root cause for our difficulties with Japan.

LACK OF ATTENTION TO JAPAN

Mr. ZAGORIA. Let me also focus on that has gone wrong because I think we could all say a lot about what has been right.

I would say on Japan, in addition to what has just been said about the lack of a comprehensive policy that tries to integrate economic as well as security and political objectives—that the failure of the past 4 years has been simply a lack of attention to Japan. According to Don Oberdorfer, former Secretary of State Baker spent 2 nights in Japan during the 4 years of the Bush administration. I think that is an indication of the priorities of the Bush administration. Those priorities were quite different from the priorities of the Reagan administration where for 8 years you had an Assistant Secretary of State for East Asia complemented by a number of mid-level officials in the Pentagon and elsewhere, and people in the National Security Council, many of them Japan specialists, who placed enormous attention to cultivating the U.S.-Japan relationship, and the result was obvious. So I would say neglect was the first thing that was wrong during the Bush administration.

INATTENTION TO KOREA PROBLEM

As far as Korea is concerned, I would say here again what troubles me—and this is not just the past 4 years, this has been true for as long as I can remember—an inattention to trying to bring about a peaceful resolution of the Korean problem. Compare the number of trips that our Secretaries of State make to the Middle East with the number of trips that they make to Korea or the attention paid to trying to resolve the Korean problem, yet we have 40,000 troops in Korea. Surely a new Korean war would be just as dangerous to the United States as a new Middle Eastern war. Yet we virtually ignore this issue in terms of time spent on it.

And I would add to that the virtual lack of a dialogue, of an official dialogue with North Korea. We may not like the North Koreans. We may despair of their regime, all of us do. But one has to talk with them. We have a dialogue with them in China. I have talked to our State Department people in China who dialogue with the North Koreans. They say it is a completely perfunctory, useless exchange.

The North Koreans now have a high level official at the United Nations. It is a short trip from Washington to New York, but so

far in a year we have only had one meeting between a Deputy Assistant Secretary and the North Koreans. I think this is another example of a lack of attention to the area.

LACK OF DIALOGUE WITH CHINESE MILITARY

And, as far as China is concerned, I think again one of the mistakes was cutting off dialogue, particularly with the Chinese military, which is one of the most powerful forces in the country. Again, there are many things one can disapprove of about the Chinese political system and about Chinese foreign policy, but one must talk to people in order to try to get them to come around to your point of view.

So those are some of the things I would suggest.

SUCCESS IN ASIAN GEOPOLITICS

Mr. LUTTWAK. I think generally we have done the geopolitics very well over 40 years in regard to the greatest Asian military power—the former Soviet Union. We have done the geoeconomics rather poorly.

We have done the geopolitics very well with regard to China because the United States managed to have a strategic relationship with China, balancing the Soviet Union to some degree, without triggering a conflict. As of now, we are very conscious of Chinese leverage over us because of the Chinese ability to proliferate.

U.S. FAILURE TO USE ECONOMIC LEVERAGE

But we are not conscious of the enormous leverage we have just acquired over the Chinese in regard to the very same things. We can now say something to the Chinese we could never say before, which is, you can either sell billions of dollars worth of underwear to us and Europe or you can sell a few tens of millions of dollars of weapons in dangerous parts of the world. That gives us enormous leverage.

America used to be a great trading and commercial nation. We acquired the strategic vocation. We learned to become master geopoliticians. But we have failed at using our economic leverage. In regard to China, which I mentioned. In regard to Korea, the same thing. If you want to open a U.S. auto distributorship in Seoul, Korea, you have no protection from those 40,000 U.S. troops. In regard to Japan, if one just opens up, looks into the details of any of these great negotiations like the SII—the structural impediments initiative—what you see is a pattern of weakness, inattention, lack of high level support, as Professor Zagoria points out, but also a sense of ignorance.

U.S. LACKS GEOECONOMIC STRATEGY

One of the big things is we have been pressing the Japanese on is to license supermarkets. The large Japanese corporations shall be the owners of the supermarkets and will fill those supermarkets with their goods, the great conglomerates and some keiretsus. They are using the United States as the mercenary, attacking the 8–9 million small shopkeepers of Japan and saying, well, we have to

now license supermarkets. We have to destroy you and take away your living. That is because of the Americans.

So what we have is an American-invented negotiation called SII—the Structural Impediments Initiative—being successfully manipulated by Japanese big business to pursue and to achieve businesses' goals, and what we get out of it is the odium of the dispossessed by such measures, and we get no benefit from it.

So I would say the overall pattern is greater geopolitics, lousy geoeconomics. We happen to live in geoeconomic times.

ECONOMIC ADVANTAGE OF STRATEGIC PRESENCE

Mr. ZAGORIA. Could I just add one comment? I completely agree with what Ed Luttwak just said, and I would like to say that there is a relationship between our strategic presence in Asia and the potential for economic leverage which I don't think we exploit. For example, in Korea there have been a number of stories in the Wall Street Journal suggesting that our Ambassador in Korea has been able to—

Mr. ACKERMAN. I am sorry. When you say our strategic position, do you mean our military position?

Mr. ZAGORIA. In part, yes. Our forward deployment, our alliances, our navy. In Korea, our Ambassador, Don Gregg, is regarded, because of our strategic position, as one of the most powerful men in the country, and Korean businessmen listen to him when he talks to them. He has spent a lot of his time over the past 2 years telling the Koreans that they have got to start doing more business with American companies, and he has been very successful in doing this.

Similar things have happened in other parts of the region. But I think there is a relationship that needs to be noticed between the fact that we are the leading strategic power in the region and the fact that from this we could derive considerable economic leverage if we had a coherent policy to exploit that strategic presence.

Chairman HAMILTON. Mr. Leach.

ONGOING DISPUTE OVER CHINA POLICY

Mr. LEACH. Thank you, Mr. Chairman. Because this is our first hearing on Asia the minority would like to take this opportunity to congratulate Mr. Ackerman for his ascension to the chairmanship. I would also stress that we intend to be a very competitive minority in the sense that we want to make this the greatest model of bipartisan cooperation of any subcommittee of the Congress, and so I hope the majority is aware of that.

As members understand—

Mr. ACKERMAN. We are up for the challenge.

Mr. LEACH. Fair enough. Change is the mantra of the moment in domestic politics. But it strikes me that in foreign affairs, and perhaps Asia in particular, there is a case that continuity ought to be stressed as well. We all recognize, of course, that the cold war is over and that the world is moving to geoeconomics from geopolitics. But it would seem that in the Pacific Rim in general that a commitment to an open, multilateral trading system is crucial. It would also seem that with China in particular a commitment to an open door has been both historically wise and is also very critical

to stability in East Asia. If there is consensus on a China policy it is very simple. We have enormous support for the liberalization that is occurring economically in China, and we have virtual American consensus opposition to the closed Leninist polity that still governs their society.

But where there is not precise consensus is whether supporting the first enhances the prospect of a more liberal system or whether closing the door on trade enhances the likelihood of a more open political system, and here is where the fundamental difference in distinction occurs between President Bush's approach and some of the contrasts that were hinted at by Mr. Clinton during the campaign.

Now, Mr. Harding has used some very strong terms about saying mistakes of the Bush policy, but they don't add up to a lot in the sense that you have also concluded, as I heard your testimony, that we ought to be very forceful in terms of a new radio, standing up rhetorically for American values, but not to toy with the basis for nondiscriminatory trade.

I would like to ask each of the four panelists, if you were advising Mr. Clinton, would you suggest that we ought to be at this time withdrawing MFN or would you be advising that there is a greater likelihood of getting more positive political change by working with people in a freer economic environment? This is really the fundamental question on China policy.

Now, am I right, Mr. Harding, your advice is largely to stick with the current MFN policy and to stress politics in other kinds of ways? Is that a valid—

VIEWS ON CHINA'S MFN STATUS

Mr. HARDING. Yes, sir.

Mr. LEACH. Is that your view, Mr. Courtis?

Mr. COURTIS. Mr. Chairman, I don't know of any example where countries have become more democratic in a situation where you have falling real incomes.

Mr. LEACH. Fair enough.

Mr. COURTIS. First point. Second point, there remains, however, a fundamental issue here. Over the 1990's, if we stay on the present course we will see 350 to 400 million Chinese along the coast integrated into the world economy, and they have an average income of \$2 a day, working in a labor market that is under extremely tight security and administrative control.

Mr. LEACH. But you are not saying that MFN ought to be withdrawn at this time?

Mr. COURTIS. No. But I am saying that that issue has to be very seriously considered, and it is not yet being considered seriously.

Mr. LEACH. Mr. Zagoria, would you agree with the thrust of Mr. Harding, or at least the way I have tried to describe it?

Mr. ZAGORIA. I would agree with Mr. Harding's formulation of the issue regarding MFN. It seems to me that under present circumstances quiet dialogue with the Chinese over the next 2 or 3 months indicating to them our concerns about missile exports, about trade deficits, about human rights, and about a variety of other concerns should be undertaken. I would expect that we would be more likely to make progress on a whole variety of fronts

through that approach than through this kind of blanket trade sanction and withdrawing MFN.

Mr. LEACH. Fair enough.

And, Mr. Luttwak, would you agree?

Mr. LUTTWAK. Well, I certainly agree that it is very important that U.S. policy show very great respect for the Chinese Government. They are not cynical gangsters. However, in addition to the trade imbalance between the two countries, we must focus above all on the issues of human rights and cultural rights. I think we cannot just proceed as if we approve of their behavior.

I think China is a large enough case to be treated in a very specific individual way, and I think that Congress should do again what it has done in the past, and that is to come up with terms, definitions and conditions.

The question in regard to the Soviet Union, many years ago there was the issue of immigration. In regard to China, I think similar issues should be identified. In other words, the MFN should become much more conditional.

Mr. LEACH. But not withdrawn.

Mr. LUTTWAK. Not withdrawn, but only if it is made much more conditional.

U.S. ROLE IN KOREA

Mr. LEACH. Fair enough.

Just one final observation. I thought one of the most interesting things said today was Mr. Zagoria's comment on Korea. I mean on the plus side it is very impressive that Seoul's terms of trade with the United States are almost in balance, which is a stark contrast with a number of the other Asian tigers and it is partly a reflection of the role of the United States in Korea.

On the other hand, if there is any place in the world where American troops are tripwired into a potential conflict that we have seemed to have forgotten about it would appear to be Korea today. Do any of you know of another circumstance where American military presence based upon factors largely outside of our control were more likely to be intertwined in a larger way than on the Korean subcontinent, and does that not raise some of the concerns that were reflected here about showing more interest in the Korean problem and trying to make it clear that we are engaged? Would everyone agree with Mr. Zagoria with this? Or is this an exaggerated position?

Mr. LUTTWAK. Well, in 1977, following President Carter's decision, impulsive decision, which he himself withdrew, to withdraw forces from Korea, I had the occasion to work professionally in my role as a defense consultant on the matter. And indeed, the situation was and continues to present some basic aspects which are very dangerous.

We all know that the large Seoul conurbation—a conurbation then of about 9 million people, now much larger—is within 50 kilometers of the frontal axis. Even the oblique axis is very close.

On the other hand, we have to be careful about some optical illusions here as well, which is the constant repetition of the claim that the North Korean regime is very bellicose. This should not obscure the fact that they haven't attempted anything since 1953.

There have been a couple of commando incursions in-country and a couple of exploits outside. This is a frightening regime but it is not, in fact, a regime that has been seriously irredentist.

Please note that it was 1975 when U.S. helicopters were lifting people off the embassy roof in Saigon. That was the moment for the North Koreans to attack. They were reasonably deployed for that. They didn't move.

So, it looks very dangerous. It may well be less dangerous than it looks.

URGING EXPANDED DIALOGUE WITH NEW ZEALAND

Mr. LEACH. Mr. Chairman, my time has expired, but I would like to make one other comment. In terms of this issue of dialogue we also over the last half dozen years have not been dialoguing with, of all people in the world at high levels, a government in the region called New Zealand. I find it an extraordinary circumstance that we are treating some other countries with which we have little in common and no historical ties much more forthcomingly than we have one of our oldest historical allies. I would hope that the new administration would re-examine that particular aspect of our Asian policy.

Thank you.

Chairman HAMILTON. Mr. Menendez.

ELEMENTS OF COMPREHENSIVE JAPAN POLICY

Mr. MENENDEZ. Thank you, Mr. Chairman. I want to thank all the panelists for their testimony and their insights.

Several years ago I had an opportunity to visit Japan on an exchange and heard then Ambassador Mansfield say that the relationship between the U.S. and Japan was the most important, bar none. And, as I listened to Mr. Curtis' testimony today I would like to use some of what he said, and some of what all of you said, as a backdrop to my questions. In your written testimony you talked about the role of Japan and Asia and about the strategic retreat of corporate America; talked about that between our retreat and Europe's preoccupation at home that Japan, in essence, has even been further strengthened in its role, and in doing so, however, hasn't been able to have the dominance or the leadership role as it relates to the area in noneconomic matters, and you talked about the security issues regionally as they relate to Asia's nuclear powers and potential tensions territorially. And, listening to some of the other panelists talk about our lack of a comprehensive policy and our lack of attention, the questions that I would like to hear you respond to are: What are the elements of a comprehensive policy as it relates Japan? What do we want from Japan on economic and security issues? What does Japan want from us? And what should U.S. policy toward Japan be in terms of best protecting and promoting U.S. interests?

And, for those back at home who say that we should be tougher on Japan as it relates to trade issues, (1) do you agree, and (2) if you do, what does tougher mean?

U.S. NEEDS ACCESS TO ASIAN CAPITAL AND MARKETS

Mr. COURTIS. Thank you, Mr. Menendez. I start from two basic points. The first point is that the United States does not have today the autonomy to rebuild its domestic economy. To rebuild its domestic economy, it is going to have to have over the 1990's systematic access to the huge pools of capital being generated in Asia. In this respect, Japan is essential. If Japan were to generate a current account surplus of 2½ percent of GNP over the 1990's, as is the forecast of the IMF and the OECD, that would mean that Japan will generate a surplus to be reinvested in the world economy of between \$1.2 and \$1.3 trillion dollars over this decade. This is more than twice the surplus that Japan generated in the 1980's.

The second observation I make in that regard, is that to reverse our own trade position we have to have access to the megamarkets of Asia. That market of 600 million people, from Tokyo down to Jakarta, including only Guangdong and Fujian in China, is growing at 7 to 9 percent per year, that today is the size of the German GNP. A decade from now it will be the size of Germany, France, Spain and Portugal combined. So that is one set of issues that I think is where we have to start from.

The third is that with Japan representing two-thirds of the economy of all of Asia, we can't have an Asian strategy unless we have a Japan strategy. That has to be the starting point of building our larger strategy toward Asia.

So against that background I would propose that we have to have an intermediate term policy of dealing with Japan that sets out a framework that integrates financial policy, macroeconomic policy, trade policy, foreign exchange policy, that deals with questions of aid and security.

CALL FOR STRATEGY TO ATTRACT JAPANESE CAPITAL

On the financial side, and thinking of the recycling of Japan's current account surplus through the 1990's, it is conceivable that this decade Japan will be making direct investment in the world economy of about \$500 billion, and \$700 to \$800 billion in portfolio bonds and equity investment. A large portion of that, obviously, will be coming to the United States in the context where we have virtually no savings. We will have to then manage this politically in a manner to assure that those funds are able to flow into this economy in a way that doesn't create great political backlash.

I would think that one area we have to reflect about is if we are going to rebuild the infrastructure of the United States that we would want to somehow attract a large portion of those Japanese funds, say, to buy bonds to support that infrastructure investment. That then would suppose, for that money to stay over the long term to support that investment to rebuild our infrastructure, that we would have to have a stable yen-dollar rate. Otherwise, those funds would only be available to us through yen bonds which would over the long term impose a control on our own autonomy that I think many would find unacceptable.

RECYCLING SURPLUS FUNDS FOR ENVIRONMENTAL CLEANUP

Two, I think that in recycling those surplus funds we will have to have an agreement with the Japanese on their role in funding a global environment fund and a global nuclear cleanup fund, for which the funds would be largely accessible to American corporations on favorable terms.

DEALING WITH JAPANESE UNDERCONSUMPTION

Three, I think that we have to come to terms with Japan to deal with the fundamental issue that a country that is running a current surplus, not for a few years, but now going back for 30 years, year in and year out, is essentially a country that is underconsuming. Consumption only represents 56 percent of their GNP compared to 68 percent of our GNP, which is one of our problems.

But essentially we have to come to an accord with the Japanese on an intermediate term approach of how to release the pent-up consumer demand in that society, and I suggest that that turns around fundamental land reform, fundamental tax reform, deregulation and more deregulation.

ENCOURAGING JAPANESE MARKET REFORM

Fourthly, to reduce the tensions that I see building in trade in the region. Japan is running a \$45 to \$55 billion trade surplus over the long term with the United States, and now running a \$35 billion trade surplus with the rest of Asia. In fact, both sides of the Pacific now have a Japan problem. I think we also have to work with our neighbors and friends around the Pacific and Japan to try to orient Japan to adopt the market reform measures required so that Japan could use the power of its own market as a lever for continued expansion in East Asia.

It is within such a larger macroeconomic and financial framework that I think then that the sectoral and microeconomic issues find their meaning, the trade negotiations would find their meaning, and also against this background of our need to have permanent access to those markets and that capital that we should think through again our security commitment to the region.

Chairman HAMILTON. Mr. Gilman.

U.S. FORCE STRUCTURE IN ASIA

Mr. GILMAN. Thank you, Mr. Chairman. I want to join you in welcoming these distinguished panelists who are with us today, and I want to thank you too, Mr. Chairman, for focusing the attention of our committee on our U.S. policy toward Asia and the Pacific. In the past, neither the Congress nor the executive branch gave near enough attention to this important region, and since the collapse of the Soviet Union and the end of the superpower rivalry our policy has lacked clear definition.

Mr. Chairman, I would like to ask that my opening statement be made a part of the record. I regret I wasn't able to be here at the opening due to another committee meeting.

Chairman HAMILTON. Without objection.

[The prepared statement of Mr. Gilman appears at the conclusion of the hearings.]

Mr. GILMAN. I would like to address this to all of the panelists. President Clinton spoke during the campaign about reducing our U.S. presence in Europe, but there was little mention of a U.S. presence in the Pacific. Do our panelists believe that we should change our force structure in Asia? We have already drawn down forces in Korea from some 43,000 to 30,000. Do you think that some deeper cuts are now in order, or would they be prudent? Moreover what in a post-cold war era is a political and strategic rationale for continuing to station well over 100,000 U.S. troops throughout Asia?

I would welcome any comments from any of our panelists.

OPPOSITION TO FURTHER CUTS IN PACIFIC FORCE STRUCTURE

Mr. ZAGORIA. I will have a try at it. I do not think that much deeper cuts in the force structure in the Pacific are warranted now. The Pentagon has drawn up a strategy which envisages three different phases of reductions in U.S. forces in the Pacific during the 1990's. In Korea, for example, we are now in phase two, I believe, but the phase two reductions were wisely held up because of the lack of progress in the North-South dialogue and because of the lack of North Korean forthcomingness on the nuclear question.

I think there is kind of a bottom line to the American military presence in the Pacific over the next decade or so that I would like to see maintained. The first would be continuing to homeport a carrier in Japan. The second would be to continue some ground force presence in South Korea. I don't think it is wise to insist on any particular number, but some number as a continuing deterrent to North Korea and reassurance to South Korea.

And I think we need to maintain a strong navy and air presence in the region. As far as the rationale for this, I see a number of rationales. First of all, this is half the world we are talking about, the Asia-Pacific region and the Indian Ocean theater. We want that region to be stable, to continue to be stable and peaceful. If there is a perception that America is withdrawing substantially from the region, the result is going to be an arms race, which has already begun; it will encourage Japan and China particularly to try to fill that gap, and that in turn will encourage a Japanese-Chinese rivalry of the sort we saw in the Thirties; and it might encourage the powers such as North Korea to become bolder. We know that the North Koreans are already trying to hire former Soviet scientists to develop missiles. We know that they are talking with the Iranians about building missiles. These are the kinds of potential conflicts in the Pacific that we want to stem before they get started.

In addition, it seems to me that over the longer run the United States has a critical rationale. We should want to maintain a favorable balance of power in the Pacific for ourselves and for our allies. We fought three wars in the Pacific in the past several decades. We do not want ever again to see a new hegemonic power, such as Japan tried to be in the Thirties and Forties, such as Russia tried to become in the fifties, or in the sixties and seventies, arise in the Pacific.

So I think for a variety of reasons we need to maintain a strong strategic presence there, and I would repeat that I think—getting back to the geoeconomic question, that there is a relationship between our being the dominant military power and the fact that we do have economic leverage.

I would add one other factor, Congressman. There is not one country in the Pacific Region, with the possible exception of North Korea, that wants the United States to reduce its forces substantially. Everybody else, including Russia and China, wants us there because they fear each other more than they fear the United States. It is not that the United States is loved. But the United States is the least feared external power, because Japan has a history of aggression, China has a history of revolutionary subversion, Russia has a history of subversion and great instability and uncertainty about its future. The United States for almost every country in the region, is the key to Asian security, so that over the next 10 years or so until we can create some kind of Asian security system which we should be trying to help create, I think there will be an important role for our forces.

Mr. GILMAN. Thank you. Do any of the panelists disagree? Mr. Luttwak?

U.S. INTERESTS EXTEND BEYOND MAINTAINING REGIONAL SECURITY

Mr. LUTTWAK. Well, I would like to add that if we maintain our vocation for upholding regional security, if we listen to these voices saying to us, please stay, and we only do that, we shall not be admired for our altruism. We will be ridiculed for it. We are the spark. We have to be balanced. We have to go on three legs. Yes, uphold regional security for all the reasons Professor Zagoria pointed out.

Yes, uphold our economic interests much more effectively than we have done. Congressman Menendez asked, for example, about managed trade. We now have a chairwoman of the Council of Economic Advisers who is an advocate of managed trade. It works in regard to Japan, in some sectors at least.

And the third leg is human rights and cultural rights. If we are standing there maintaining regional stability as if we had a vocation to do that, we are acting like the unpaid guards in front of somebody else's bank. We shouldn't be doing that.

Mr. GILMAN. Thank you. Any other comments from the other panelists?

[No response]

Mr. GILMAN. Thank you, Mr. Chairman.
Chairman HAMILTON. Mr. Martinez.

ASIAN PERCEPTION OF U.S. AS CORRUPT SOCIETY

Mr. MARTINEZ. Thank you, Mr. Chairman.

I had to chuckle a little bit when the question was asked about our present military presence and the response was we are the least aggressive force that they are worried about. I guess they didn't watch us in Grenada or watch us in Panama. We certainly were aggressive there.

I have more a statement than a question, but you might want to respond to it because maybe my perception of what you said

wasn't quite accurate and you might want to correct it. And here again I am not attempting to kill the messenger. I am simply—I know you are relating to what their perception of us is, and if there is a common thread here it is that we need to through our foreign policy change our perception with those people in those countries.

But I don't agree with their perception of us, and I don't find any validity in their perception that we are corrupt because we succumb to special interests when they bring their arguments to us here through lobbyists. There is nobody that lobbies more than Taiwan with the United States. They wine and dine Members of Congress over in their country and show them what they have to offer, and really work hard to keep that Most Favored Nation status. And China has done the same thing. Korea—in fact, the Ambassador of Korea was in my office yesterday to talk to me about relations and trade relations and how we could better form business alliances. So this is unusual for an ambassador to do, really, I think, because that is not really a matter of the state of affairs.

But, although we have as our trade representatives our embassies and our Ambassadors, although I don't think that is a wise idea because Ambassadors are taught to be very diplomatic and not offend. And, if you are going to have good trade agreements with other countries, then you have to have a hard tough bargainer.

And that brings me to the point that I do agree with what you said, Mr. Luttwak, is that they perceive us as being weak. They perceive us as having tried to buy friends because that is what we have been doing. I recommend to my colleague Jim Leach to read an article that was printed in U.S. News and World Report about "Dancing with Dictators." You know we have supported anybody that waves a flag of democracy and encouraged them, but we haven't, as Mr. Zagoria has spoken about, talked with the people we don't like or people whose government we don't agree with their governing methods or policies, and so—or system of government.

So, I think he also said that if we talk at least we can convert them to our point of view. There is a chance. I think we have lived in a world where we have gone to the greater importance of economic conquest rather than military conquest, yet over the past couple of administrations we have still had a mentality that the military might makes right.

But the bottom line is, really, what a couple of my colleagues have talked about is when we set policy toward these countries do we do it from a standpoint that we are going to buy their friendship to us and thereby not insist on good trade relations, fair trade relations—forget free trade. How about fair trade?

U.S. TREATENED BY LOW SAVINGS/INVESTMENT RATE

Mr. LUTTWAK. Mr. Congressman, when an ambassador calls on you, that is not a symptom of corruption, and I don't exaggerate the importance of this factor. If we do not increase our savings rate, we will undergo Third Worldization. We will become a sort of larger, cheerful Brazil; a former United States. That shall happen. The corruption is a phenomenon on the edge. It usually goes along with Third Worldization.

But, if you heard Dr. Courtis here, he was explaining how one balances a capital future in which we continue not to save and they

continue to save and we continue to run deficits and they surpluses, and he talked about Japanese investment in U.S. infrastructure. So the next time you go down the New Jersey Turnpike you will be paying your money over to a Japanese corporation which has built this with capital accumulated by selling to Americans foibles and fripperies that Americans have long ago thrown away and junked, but which they have invested the capital thereof. And that is how the British East India company took over the mogul empire. Eventually selling in exchange for access to the tax revenue.

The equilibrium prospected by Mr. Courtis is an equilibrium that I wish to have no part of, and I certainly do not wish my children to have any part of. Here we have the issue, and we are still stuck at the stage of trying to deal with Japan out of textbooks, theory. And here, as Courtis has correctly pointed out, we are devaluing the dollar to cheapen American products, thereby, by the way, cheapening American labor, and yet finding that our products still don't sell. If you want to know why it doesn't sell, just look at the last great achievement in U.S.-Japan trade negotiations, which was the paper agreement, where we have the Japanese Government earnestly promising to induce Japanese corporations to buy foreign paper when foreign paper is cheaper and better.

Now, why should the government have to come in and tell you to go to eat in a restaurant because it is cheaper and better? Clearly there are things going on here that the writers of economic textbooks have never heard of. Yet we continue down that track. Even now people are advocating devaluing the dollar to deal with the problem. We have been doing that since 1985.

So the corruption issue merely adds an edge to it and a smell to it. By the way, it is not an ambassador visiting you. It is roughly \$100 million dollars last year just from Japan, not counting Taiwan and Korea and the others.

Mr. MARTINEZ. Thank you. Thank you, Mr. Chairman.
Chairman HAMILTON. Mr. Payne.

JAPANESE FOREIGN POLICY ISSUES

Mr. PAYNE. Thank you very much.

I just wonder, you know, given the sensitivity to the past history of Japan and militarism, what do you think that Japan's role should be in the future? There have been requests that they have peacekeeping troops in places around the world. What is your feeling on it, the deployment of Japanese or the remilitarization of the Japanese population?

And also, I wonder what you think about Japan receiving a permanent seat on the U.N. Security Council, if that has been kicked around? The other question about Japan is regarding the rice farmers and the whole question about the GATT talks and our relationship with the farmers. Is there any kind of movement on that?

INDONESIA

And just a final question, not related to Japan, but no one has mentioned anything about Indonesia, and you know they have had a ruler for 20 years or so. You have got a person who took over in a military, I guess, sort of a conflict, getting older, population

growing, probably that of the USA, maybe even greater. What about Indonesia and where do they stand with the industrialization and I guess the moving offshore of manufacturing from Japan and Taiwan to Malaysia and into Indonesia for industrial, sort of free trade relationships? No one seems to talk about that, and even with the question of Timor and with the Portuguese there, and the question of human rights' abuses from time to time.

So, if you can just deal quickly with, maybe, the Japanese situation, and then if you could share the rest of your time with Indonesia.

DISCOURAGING JAPANESE MILITARISM

Mr. LUTTWAK. I think that the PKO debate, the debate on Japanese troop participation for peacekeeping, showed that the defenders of the world against Japanese militarism are the Japanese people themselves. The Japanese political elite has a very healthy awareness of the problem. That problem is not that there is some sort of inherent wickedness. It is only that the Japanese military situation works the same as other Japanese institutions. It compels and extraordinary level of loyalty. The loyalty, Congressman, as I am sure is easy to appreciate, has the potential there for abuse when it is unbalanced by other considerations.

But I don't think we have to worry about Japanese militarism. We can let the Japanese do that. Our role, by the way, as you know, has been perverse. We have been preaching to them to militarize. That is a very serious mistake.

On the question of rice farmers, that is a classic one as far as I am concerned. A classic one because we have the United States being wheeled in as the bad guy dealing with the many millions of Japanese who think that they are rice farmers. The actual number of real rice farmers is, maybe, 1 million or 2 million, but there are lots of others who dabble in rice farming. The fact is that it is very central to the culture. The dollars and cents value to our trade balance will be negligible. Yet we are being manipulated into it. So this is another case where we need a special committee of Congress on U.S.-Japan relations, so that it will start holding people's feet to the fire.

On the question of Indonesia, just one word, which is we have had the pattern of winking at their human rights violations since the mid-1960's. Originally winking at the mass murder of the Communists and suspected Communists. This regretfully has continued through many years.

INSTITUTIONAL STRUCTURE FOR SECURITY ISSUES

Mr. COURTIS. Mr. Payne, I don't believe that political cultures or constitutions would stop Japan from developing the means to protect itself if there is a fundamental change in the security balance in Asia. In the context of a region where you have five—Russia, China, Korea, Pakistan and India—five unstable nuclear powers, were America to make a further strategic retreat from the region, Japan would have to face the issue of how it would protect itself, and I have little doubt that in that context that Japan would continue to move in the direction where it would be able to protect itself.

The constitution of Japan has never been amended, and yet that constitution, through an ability to interpret it in different ways and different contexts, has allowed the Japanese Government essentially to move in the direction that it feels it needs to over the long term.

The inherent instability you have in the region from this perspective is that on one hand you have this burgeoning economic power and you have the inability of the region to generate political leadership. The natural political leadership in the region would be Japan. But the rest of Asia, because Japan is unable or unwilling to come to terms with its past in a manner that the rest of Asia can accept, means that the rest of Asia is very reluctant to see Japanese leadership. So you have got this tremendous and I think still building instability in the region, and that is why I think it is very important, as some of the other colleagues on the panel have mentioned, that over the 1990's the United States work to try to establish in the region an institutional structure for dealing with these security issues.

May I turn, in conclusion, to the role that Japan is playing in Asia. It is playing an extremely important role outside this military sphere. It has an integrated strategy of trade, investment, controlled technology transfer, official development assistance, and education. That really means that the decisions made by Japan are the driving forces for the economic integration of the region. For example, we have talked for 20 years about an ASEAN car. Toyota and Nissan are building it.

SECURITY COUNCIL SEAT FOR JAPAN

Chairman HAMILTON. Gentlemen, I know you have been there a long time, and I want to try to wrap this hearing up. I have a few questions on various aspects of U.S. policy. I would like to get you on record if I may, and ask you to try to keep your comments reasonably brief.

First is the question of a seat for Japan on the U.N. Security Council. Do all of you support that?

Mr. LUTTWAK. Yes.

Chairman HAMILTON. Does anybody not support it?

Mr. HARDING. I would say I don't oppose it. I am not sure I support it under these circumstances. If you are going to expand the permanent membership of the U.N. Security Council, it is going to be part of a much broader package and I would like to hear what the package is going to be.

Chairman HAMILTON. Should it be conditional in any way?

Mr. HARDING. I would like to see Japan make further progress in reducing some of the historical suspicions that exist in Asia.

Chairman HAMILTON. Is this a big item for Japan, getting a seat on the Security Council?

Mr. COURTIS. I think it is increasingly a big item for Japan.

LIMITING JAPANESE ACCESS TO U.S. MARKETS

Chairman HAMILTON. On limiting Japanese access to U.S. markets, Mr. Courtis, how do you look at a reauthorized section 301, super 301?

Mr. COURTIS. Well, if we remain in the present position where we have no savings, we can't do it. We can't both get their money and limit their access to our markets.

Chairman HAMILTON. So you are against it?

Mr. COURTIS. You can't do it, period. Economically, I mean. Balances have to balance. You can't close them from our markets and at the same time get access to their capital.

Chairman HAMILTON. It would then be a big mistake for us to try to enforce the provisions of a super 301?

Mr. COURTIS. I think a super 301 and other trade legislation can only make sense if we develop an overall framework in which we present our Japan policy and drive our Japan policy. The problem at the moment, it seems to me, is that we don't have an overall integrated policy dealing with Japan.

Chairman HAMILTON. So absent that, given the fact that we could be confronted with a super 301 vote in this Congress this year, you would advise a no vote?

Mr. COURTIS. I would say that a super 301 vote would only make sense in the framework of developing an overall Japan policy.

Mr. LUTTWAK. May I?

Chairman HAMILTON. Yes.

Mr. LUTTWAK. That is only true in the context of an overall equilibrium. The fact is that a super 301 does give the U.S. negotiator a tool which can be used to break down obnoxious barriers in particular sectors.

Chairman HAMILTON. You would favor enacting a super 301 this year?

Mr. LUTTWAK. Yes. I would.

Chairman HAMILTON. Would you, Mr. Harding?

Mr. HARDING. Yes, I would.

Chairman HAMILTON. Would you, Mr. Zagoria?

Mr. LUTTWAK. Without any illusion that it is going to balance your trade.

Chairman HAMILTON. OK. Mr. Zagoria.

Mr. ZAGORIA. No, I wouldn't.

CHINESE ADHERENCE TO NONPROLIFERATION COMMITMENTS

Chairman HAMILTON. All right. Mr. Harding, with regard to the proliferation of nuclear and chemical weapons and delivery systems, has China kept its commitments to the United States and to the international community with respect to proliferation?

Mr. HARDING. I think the answer is not entirely, no.

Chairman HAMILTON. Explain that to me.

Mr. HARDING. Well, there are, as you know, some reports that the Chinese have delivered some kind of missile to Pakistan, and the question is whether it violates the MTCR or whether it violates bilateral promises that were made to the United States.

Chairman HAMILTON. They are supplying what, Pakistan and Syria with these systems?

Mr. HARDING. I am not sure. I am not in the intelligence business, so I can't give you an informed opinion—

Chairman HAMILTON. How do we handle it?

Mr. HARDING. Pardon me?

Chairman HAMILTON. How do we handle it?

Mr. HARDING. Once the Chinese have agreed to subscribe to an international regime, then there should be a series of sanctions against violations. For relatively minor violations, I think that restrictions, and they should be multilateral, if possible, on technology transfer to China is the way to go. The kind of severe and sustained retrogression that I talked about in my testimony require an even tougher response.

SALE OF U.S. AIRCRAFT TO TAIWAN

Chairman HAMILTON. On the selling of advanced aircraft by the United States to Taiwan, was that a violation of the 1982 U.S.-PRC agreement?

Mr. HARDING. One can make the case either way. I choose to say it was not a violation. But the Chinese say it was and that, of course, makes it difficult for us—

Chairman HAMILTON. Why do you say it was not?

Mr. HARDING. Because, as I understand the negotiating history, we reserved the right to continue to make improvements in the level of technology we provided to Taiwan as the previously provided technology became obsolete.

Chairman HAMILTON. If any of you want to comment on this—

Mr. LUTTWAK. The aircraft in question was an ultra-modern aircraft at the time of this accord. It is no longer. It is the same aircraft. Therefore the real issue here, what is most unfortunate, was the nature of the sale. The election context created, correctly, a perception that the major interests were being sacrificed for electoral advantages.

Chairman HAMILTON. Was this a mistake in U.S. policy?

Mr. LUTTWAK. A very serious mistake.

Chairman HAMILTON. Was it a mistake, Mr. Harding, in your view?

Mr. HARDING. I would have waited until after the election and then let the French sell the Mirage.

Chairman HAMILTON. And let what?

Mr. HARDING. And let the French sell the Mirage to Taiwan.

Chairman HAMILTON. So it was a mistake for the United States to sell the F-16s to Taiwan, in your view?

Mr. HARDING. I would not have done it that way, no. But if you are asking me if we should reverse the decision, the answer is also no.

Chairman HAMILTON. No, I wasn't asking you that. I was asking you if it was a mistake.

Do you think it was a mistake, Mr. Luttwak?

Mr. LUTTWAK. A mistake because we could have simply made the statement that the sale shall take place. It was the exploitation of it for crass electoral advantage that created an awful perception. The perception that we are willing to junk strategic interests off the cuff in this way. This is extremely damaging.

Mr. COURTIS. But it remains, Mr. Chairman, that that sale did not upset the negotiation of the super 301 and the trade agreement with China.

Chairman HAMILTON. Yes. We didn't get the kind of reaction we could have gotten.

Mr. LUTTWAK. No. Because it is an old aircraft and because the systems that go into it can be controlled, and are being controlled, to reduce the threat.

[Following is a statement by Mr. Luttwak, subsequently submitted for the record, in further reference to this issue.]

STATEMENT OF EDWARD N. LUTTWAK ON THE U.S. SALE OF F-16 COMBAT AIRCRAFT TO TAIWAN

It is most unfortunate that the F-16's were released in the course of a Presidential election campaign, with the decision being announced on the production site itself. The clear implication was that the foreign-policy priorities of the United States were subordinated to the need for "jobs", proffered for the sake of votes. That sets a terrible example to the PRC and others in regard to arms sales—their need for "jobs" being far greater.

On the other hand, I certainly approve of the substance of that decision. It is entirely appropriate to sell aircraft such as the F-16s, very suitable for defense air combat, to a friendly country whose security is not only a very important U.S. interest, but also a matter of disinterested concern to many Americans, of which I am one. The sales is consistent with U.S. foreign policy in its totality, and does not contradict any relevant USG-PRC understanding. It should have been approved earlier, and without need of electoral motivations.

Thank you for your consideration.

FUTURE OF TAIWAN

Chairman HAMILTON. What about Taiwan? Are we going to see a declaration of independence in the medium or long-term?

Mr. HARDING. I hope not.

Chairman HAMILTON. Well, will we is the question?

Mr. HARDING. I think that everyone involved in the Taiwan issue needs to understand a very basic fact, and that is that Taiwan at present is de facto independent. It is not governed by the People's Republic of China.

Chairman HAMILTON. If that is the case, why shouldn't they just declare independence?

Mr. HARDING. Because if you try to move from de facto to de jure, then the chances of a provocative PRC response are very high.

Chairman HAMILTON. What does provocative response mean?

Mr. HARDING. The use of force to reverse that decision.

Chairman HAMILTON. Do you think they would invade Taiwan?

Mr. HARDING. Probably not invade them, but they would use other kinds of military pressures against the offshore islands that are still held by the Nationalists or against the sea lines of communication linking Taiwan to the rest of the world. I see very little to be gained from an attempt to codify the status quo that would justify the risks involved.

Chairman HAMILTON. The United States should not support the independence of Taiwan.

Mr. HARDING. It should not support a unilateral declaration of independence by Taiwan.

LIFTING OF EMBARGO/NORMALIZATION OF RELATIONS WITH VIETNAM

Chairman HAMILTON. What about lifting the trade embargo and establishing nominal relations with Vietnam. Should we do that?

Mr. ZAGORIA. I think we should do that.

Chairman HAMILTON. All of you agree on that?

Mr. LUTTWAK. Yes.

Mr. HARDING. Yes.

Mr. COURTIS. Yes.

Chairman HAMILTON. And we don't need any more POW-MIA information; we should just lift the embargo and establish a diplomatic presence?

Mr. ZAGORIA. I think whatever more information is there we would be more likely to get after we lift the embargo and establish normal relations.

Chairman HAMILTON. How about human rights, should we be worried about that with regard to lifting the embargo or establishing normal relations.

Mr. ZAGORIA. We should be concerned about it, but it should not be a precondition for lifting the embargo.

Chairman HAMILTON. Do all of you agree with that position?

Mr. LUTTWAK. Yes. You lift the embargo and immediately point out that there is conditionality to establishing normal trade.

SITUATION IN CAMBODIA

Chairman HAMILTON. Now, what about Cambodia? We have seen reports that the situation is unraveling in Cambodia, it is going to be very tough to hold these elections, the Khmer Rouge is not cooperating, and the government trying to undercut the elections. What do we do?

Mr. LUTTWAK. Mr. Chairman, this is not an Asian problem, it is a global problem. The U.N. formula of peacekeeping that was developed in the Middle East doesn't work in the Balkans. It doesn't work in Cambodia. That formula works when the U.N. interposes itself between parties that wish to be restrained. Here we are confronting the reality of peace enforcement. Unfortunately, the present structure, and here Japan comes in again, the way they have been handling it has inclined the whole thing toward an extremely soft version of peacekeeping in a climate that requires a particularly harsh form of peace enforcement.

Chairman HAMILTON. So what do we do?

Mr. ZAGORIA. I think we want to get to an election as quickly as possible. We are going to have one in May. I think there is a fair chance—Mr. Bush has just come back from Cambodia. I think there is a fair chance—

Chairman HAMILTON. You are not referring to President Bush.

Mr. ZAGORIA. No. I am referring to Richard Bush of the committee staff, who is sitting in back of you. I think there is a fair chance of a reasonably good election in May. We have already got two Leninist factions in Cambodia worried.

Chairman HAMILTON. Do you think there is a good chance for a fair election in Cambodia?

Mr. ZAGORIA. 4.6 million people have registered for the vote, and unless the Khmer Rouge—

Chairman HAMILTON. Is the government supporting the election?

Mr. ZAGORIA. The government is part of the problem. The government is still led by Leninists who are worried about the outcome of the election. But that suggests that the outcome of the election might very well be salutary for those who believe in democracy.

Chairman HAMILTON. So the Khmer Rouge is against it. The government is against it. Who is for an election?

Mr. ZAGORIA. Part of the government is against it. I don't think this is a monolithic government. But people in the government who think they may be losing their job, or some of them, are harassing—

Chairman HAMILTON. Let me repeat here. What should the United States do right now with regard to Cambodia?

Mr. ZAGORIA. Lend all our moral and political support to getting to an election. Then talk at the U.N. about a continuing U.N. presence after the election, because I think it would be very unwise to think that after the election the U.N. can pick up and leave. This is a country without a single Ph.D. in economics, without any trained engineers, economists or people of that sort.

Chairman HAMILTON. Do we just give up on the Khmer Rouge and say we are going to go ahead? If they are not going to cooperate should we just forget about them and try to proceed?

Mr. ZAGORIA. That is right.

ENLISTING ASIAN SUPPORT FOR CAMBODIAN ELECTIONS

Chairman HAMILTON. How about the Thais and the Chinese? Are they helping us in this situation?

Mr. ZAGORIA. The Chinese have cut their military supplies to the Khmer Rouge and are, in fact, supporting the present government and Prince Sihanouk. The Thais, however, remain part of the problem because they have not cut their ties with the Khmer Rouge in the gem and mining parts of the area near the border.

Mr. COURTIS. Mr. Chairman, I would use the prospect of opening diplomatic relations with Vietnam to help encourage Vietnam to be more helpful in this situation, the renewal of MFN with China to try to encourage China to be more helpful—

Chairman HAMILTON. You would make both of those things conditional on their helping us in Cambodia?

Mr. COURTIS. They should understand that that would be part of our thinking as we go through that process.

Chairman HAMILTON. What does that mean, part of our thinking? Is it conditional or not?

Mr. COURTIS. No, it wouldn't be the condition, but would be part of our thinking as we make policy. And also, I think we have to work much more closely with Thailand to get their cooperation.

Mr. LUTTWAK. Mr. Chairman, the Vietnamese have already, by withdrawing, created conditions. I think there is an intention there. As regards Thailand, the problem is not Thailand. The problem is that, like in other parts of the world we have very extensive criminal phenomena and a twist of history acquiring important political dimensions for the first time in centuries on the international scene. It is not only the gems, it is the timber and the massive looting of some bits of archaeology which is unraveling this whole situation. And I just wonder—it is going to be a race against time whether an election can be pulled off before the whole thing collapses in disorder.

CONSEQUENCES OF FAILURE IN CAMBODIA

Chairman HAMILTON. And let's say you don't have an election. Let's suppose the process collapses. Then what?

Mr. LUTTWAK. I am afraid you will have to start again. We do have the Chinese playing a constructive role. We have the Vietnamese, I believe, having already played a constructive role. I believe that we have to be very willing to make sure that we get the cooperation of the democratic elements in Thailand.

Chairman HAMILTON. What difference does it make to us what happens in Cambodia?

Mr. LUTTWAK. There is a residual moral responsibility because of the U.S. involvement. Also, we do have great progress across the board on the Asian scene, and this sort of sticks out. Insofar as we do have this role of a regional stabilizer, this is part of the picture.

Mr. ZAGORIA. This is the largest U.N. peacekeeping effort in history, at a cost of \$2 billion. The international community has an enormous stake in the success of the outcome.

Mr. LUTTWAK. And it is not working.

Chairman HAMILTON. How many Japanese troops are there?

Mr. LUTTWAK. A few hundred.

Mr. ZAGORIA. Several hundred; yes.

Mr. LUTTWAK. It is a construction battalion.

POLICY TOWARD BURMA

Chairman HAMILTON. We will let you go after one final question. What do we do about Burma? Should we impose economic sanctions on Burma?

Mr. LUTTWAK. There is no history of U.S.-Burmese relations. I think a history has to be created by at least statements. We must have at least some declaratory emphasis on it.

Chairman HAMILTON. Saying what?

Mr. LUTTWAK. Saying that we remember the existence of Burma. We remember the fact that there is oppression. We do not forget. We don't overlook. And that is the most important point.

The trade is not going to play a role given the structure of Burmese trade.

Chairman HAMILTON. Would you move to impose sanctions on Burma?

Mr. LUTTWAK. I would defer to the other members of the panel on that.

Mr. ZAGORIA. Well, at the very least I would speak out more about Burmese human rights violations, and I certainly would consider imposing sanctions.

Chairman HAMILTON. Would you take away their Most Favored Nation status?

Mr. LUTTWAK. Yes. I would take it away.

Mr. ZAGORIA. I would certainly consider taking that away.

Chairman HAMILTON. OK. Thank you very, gentlemen. We have had an excellent morning. We appreciate your testimony greatly.

And we stand adjourned.

[Whereupon, at 12:15 p.m., the committee was adjourned, to reconvene subject to the call of the chair.]

U.S. POLICY TOWARD AFRICA

TUESDAY, FEBRUARY 23, 1993

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC.

The committee met, pursuant to notice, at 10:05 a.m., in room 2172, Rayburn House Office Building, Hon. Lee H. Hamilton (chairman) presiding.

Chairman HAMILTON. This meeting of the House Foreign Affairs Committee will come to order.

The committee meets today in open session to discuss U.S. policy toward Africa. We will hear testimony from Carol Lancaster, Professor of African Studies at the School of Foreign Service at Georgetown University; C. Payne Lucas, President of Africare; Randall Robinson, Executive Director of TransAfrica; and George B.N. Ayitay, Professor of Economics at American University.

We have several topics of interest we have conveyed to the witnesses: what is most important for Members of Congress to know about Africa today; what is your understanding of U.S. policy toward Africa; and what do you think is right and what do you think is wrong with that policy.

The members, of course, will have a good many questions for the witnesses and when we do get to the question period the Chair will ask members to respect the 5-minute rule.

We would like the witnesses to sum up their statements as succinctly as they can. Their prepared statements, of course, will be entered into the record in full.

The Chair is very appreciative of the willingness of the witnesses to come before us and to testify today. We look forward to your testimony and the discussion that follows.

Ms. Lancaster, we will begin with you and move across the table. After all of the witnesses have spoken, we will turn to questions.

Ms. Lancaster.

STATEMENT OF CAROL LANCASTER, PROFESSOR OF AFRICAN STUDIES, SCHOOL OF FOREIGN SERVICE, GEORGETOWN UNIVERSITY

Ms. LANCASTER. Thank you, Mr. Chairman. Thank you for inviting me to share a few thoughts with you on the United States and the countries of sub-Saharan Africa.

SITUATION IN ZAIRE

I would like to make four brief points and I would like to start by referring to what I think is a pretty horrendous story in the

Post this morning about the situation in Zaire. The story, of course, is that you have there an extremely corrupt dictator, Mobutu Sese Seko, who has driven his country's economy into the ground and has looted his nation's considerable wealth. He is actively and openly opposed by his people at this point and he appears to be willing to do virtually anything to hold onto power, including destroying what remains of his economy, killing opposition figures and even provoking ethnic strife.

It is hard to read that article and read other articles about Zaire without coming to the conclusion that the country is heading toward something like the situation in Somalia and Zaire is not alone. There is a virtually identical situation in Togo and we have seen similar situations in Liberia and other countries.

The case of Zaire raises in a very stark form all of the questions I want to address and attempt to answer this morning.

REASONS FOR U.S. ENGAGEMENT IN AFRICA

The first question which I am sure must be on the minds of many and is continuously on the minds of all of us who work on Africa is why should we care about Zaire or, for that matter, most of the rest of Africa? Why should we as Americans continue to be interested and involved in the region?

It is clear that Africa is no longer important in a strategic sense to the United States. The cold war is over; it was an arena albeit a minor arena of cold war competition. And that competition is, of course, gone and our concerns related to that competition have abated.

Africa is unfortunately not at this point in time an attractive economic partner, with all of the economic problems of the region, although there is great potential for the future. But it is hard to justify an active U.S. engagement there on the basis of immediate economic gain.

However, Africa is an area where the values underlying U.S. foreign policy are most clearly challenged. And there is another reason for our continued concern with what goes on in Africa and for our continued engagement there: a significant proportion of our population is concerned about Africa.

Ten percent of our population in the United States is drawn from sub-Saharan Africa and many African-Americans and others as well continue to be concerned and interested in what happens there. I do not think we can turn our back on the region without turning our back on a significant proportion of our population.

The remaining three points I want to make involve the issues that confront the United States in its relationships with the countries of sub-Saharan Africa over the next 10 years and, indeed, over the next 10 months. These all deal with values and they are raised in very sharp form by the situation in Zaire.

PROBLEM OF PEACE AND SECURITY

The major issue we must confront in Africa is the problem of peace and security. We hoped that the end of the cold war would bring greater peace and security to the region but that unfortunately has not happened. And what we see right now in sub-Saha-

ran Africa is not one or two conflicts but nine conflicts as I count them today, five of fairly recent vintage.

Somalia is familiar. Sudan is increasingly familiar. Angola we read about frequently. Rwanda we do not read about very much. There is a conflict in the south of Senegal, Liberia, Togo, Zaire, and in the northern part of the Sahelian countries where the Tuaregs are challenging the authority of their governments.

What has given rise to all these conflicts?

The basic reasons involve the fragility of African governments, which preside over peoples with diverse clan, ethnic and religious loyalties. And what we have is the potential for conflict arising from those different loyalties. These are not, however, the blood feuds that we see in the Balkans. Most of these are potential but not actual sources of conflicts. But we have seen in every single one of the conflicts in Africa today that mismanagement, abuse, and authoritarian misrule have generated ethnic animosities and those animosities have led to conflict and, in some cases, anarchy.

Ethnic and religious conflict is not specific to Africa, of course. We see these problems in other parts of the world. So why should we care about these conflicts in Africa?

I think that there is one aspect of the conflicts in Africa that is special. And that is that these countries are very, very poor. A breakdown in civil order can mean death and destruction for large numbers of African citizens and this is what we have seen in country after country there.

MECHANISMS FOR CONFLICT RESOLUTION

Maintaining peace and security in the fact of conflicts between states is the major challenge of the new world order to the United States and other countries in the world. These problems have been addressed in pretty much an ad hoc fashion up until now. I think there are several things that need to be done to deal more systematically and effectively with these problems.

The world community needs to develop guidelines on how and when intervention from outside countries can take place in efforts to mediate conflict, resolve conflict or halt conflict. Without guidelines, it is hard to get consensus on what to do, either in the Organization of African Unity, in NATO, in the U.N. or elsewhere.

We also need mechanisms involving how conflict resolution will take place. We do not have these mechanisms for intrastate and we need to finance them as well. These are a set of challenges to the world community and, of course, the United States cannot by itself meet all of these challenges.

But I do think that there is a role for the United States in helping to prod the world community and, in the case of sub-Saharan Africa, perhaps to prod African regional organizations, into developing the guidelines and mechanisms that will allow external forces to help resolve some of these conflicts.

It would be sensible for the administration to appoint an ambassador at-large to prod the international community on these issues, to try to develop a consensus with our allies within the U.N. and with regional organizations. This is a long run solution to the problem. We still have the short run problems of what to do about Zaire and cases like it.

U.S. PASSIVITY TOWARD REPRESSIVE REGIMES

It is my view that the United States over the last 5 years or so has been inexplicably passive on the problem of Zaire and on some of the other autocrats whose time has clearly ended, whose people are clearly dissatisfied with them. We have no interest now and we have had no interest for a while in supporting Mr. Mobutu.

U.S. policy is beginning to change on this and we are beginning to take a more aggressive stance with talk about freezing his assets. I am not sure that this is going to be enough but it seems to me that because we cannot effectively go it alone, we ought to be prepared with our allies to take a more aggressive stance, a more active stance against dictators that refuse to abide by the will of their people.

CONSOLIDATING DEMOCRACY IN AFRICA

My second point is the challenge to the United States of realizing its policy of extending and consolidating democracy in Africa. And here I think we find some very hopeful signs. You can look at Africa as a cup half full and a cup half empty. There are many problems there. But I think the degree of political change in the last 2 years is really quite striking in the region and is often unrecognized. But there is no doubt that many of these new governments partially democratized or wholly democratized, which are very poor and struggling, need help.

They need two things from us. They need our words. Our words are even more important than our money. Our words must be consistent in supporting political change, consistent between Washington and the field (that has been a problem in the past) and above all consistent with our allies. There is a problem in Francophone Africa in particular as the French Government seems to be backing away from its support for democratization there and giving signals to some of the African autocrats that maybe it is not so important to abide by the will of their people. We will have to face the question of whether we are in line with the French, and whether they are in line with us. But it is not only the French, it is others as well.

We can also provide economic support for newly democratic forces as we have in the past. I do not think we should provide so much support that the new governments will be overwhelmed and their independence undermined but I think there is plenty of scope for helping with training and advice for political parties, for newly independent judiciaries, for the media and so on. We could do more there.

DEVELOPMENT IN AFRICA

Third, and I think most basically, we still face the problem of development in Africa and I hope we will not forget it in the face of all of these other problems.

Without peace and without good government, there is not going to be development. But even with peace and good government, development is still a challenge. Africa is still the poorest part of the developing world, the one that is making the least progress, the one that has the most challenges. These challenges will be with us,

and the problems of poverty in Africa will be with us, for the foreseeable future.

We need to continue to support the economic reforms that African governments have implemented but we have to do more than that. We are going to have to get involved in reconstruction in states that have been ravaged by civil conflict. And we have to expand and strengthen our efforts to help human resource development and infrastructure so key to the future of growth in the region.

The Africans still need our help more than almost any other place in the world as well as our words and our actions. But we have to tailor that help to the needs and opportunities of the countries we are dealing with. We must have flexibility and we must be present in those countries to do that.

DANGER OF DISENGAGEMENT

Finally, Africa has never been among our top foreign policy priorities. I know that very well from my time in government as well as my time in the academy. We have a lot of other crises in the world right now and a lot of crises at home. And so there is a danger that we disengage and drift. I hope that will not happen. This is a region in the world where more than any other our values will be tested. And it is a region where we can really make a difference. I hope that we will stay involved; I hope we will be able to take initiatives where they will be beneficial, and I hope we will be able to continue to help Africans gain better lives for themselves.

Thank you, Mr. Chairman.

Chairman HAMILTON. Thank you, Ms. Lancaster.

Mr. Lucas, are you ready, or do you want us to go ahead with Mr. Robinson? You came in a little late. I would be glad to give you time to adjust if you would like.

Mr. LUCAS. Well, I always like to follow Randall Robinson. I never want to go before him.

[Laughter.]

Chairman HAMILTON. All right.

Mr. Robinson, we will let you go ahead and then we will go to Mr. Ayittey and then back to you, Mr. Lucas.

Mr. Robinson.

STATEMENT OF RANDALL ROBINSON, EXECUTIVE DIRECTOR, TRANSAFRICA

Mr. ROBINSON. I am afraid to ask Mr. Lucas what his comment means.

Thank you, Mr. Chairman.

This opportunity comes at a propitious time in U.S.-Africa relations. The cold war has ended. A new president is in the White House. A new Congress will puzzle out American foreign policy toward the world in the post-cold war era.

LACK OF U.S. SUPPORT FOR DEMOCRACY IN AFRICA

It was Africa's great misfortune that colonialism ended during the cold war. Buffeted by the theories of struggle between the Western democracies and the Eastern Bloc countries, Africa had no real chance in the 1960's to cultivate democratic institutions, val-

ues and habits. After centuries of slavery and colonial exploitation, Africa launched into independence with arbitrarily drawn borders, fewer colleges than the city of Boston, over 90 percent illiteracy and no infrastructure of consequence.

If democracy was the objective of African elites trained in metropole Europe, it clearly was low priority for the former colonial powers, the Soviet Union and the United States. The dominating priority for us was Soviet containment. Where geostrategic interests could not be reconciled with American underpinning for nascent democratic institutions, democracy went unsupported, if not by our rhetoric, quite demonstrably by our resources.

TRAGIC RECORD OF U.S. AID RECIPIENTS

In the 30-odd years of sub-Saharan African independence, we have given the bulk of American foreign assistance, lamentably much of it military assistance, to six countries: Somalia, Liberia, Sudan, Zaire, Ethiopia and Kenya. Only one of the recipient heads of state was elected, Daniel Arap Moi of Kenya, and he only once fairly, notwithstanding the Kenyan elections last December 29th.

Of the six, all are virtual economic disasters, outperformed in the main by countries with less original infrastructure and with considerably less help from the United States. Not one during our period of assistance has enjoyed anything close to authentic democracy. All have been, save Ethiopia, recently notorious human rights violators.

The tragedy of Somalia is to some significant degree a further consequence of cold war rivalries. After 9 years of fractious civilian rule, Siad Barre, a colonel in the Italian colonial force, in 1969 seized power in Mogadishu. For 21 years, until his overthrow in 1991, he first with Soviet military support and later with ours ran brutally roughshod over Somalia, destroying virtually all of its political and social institutions.

From 1977 to 1989, American support for his tyrannical regime ran to \$884 million, including \$200 million in military aid in the form of tanks, surface-to-air missiles, recoilless rifles and armored personnel carriers. Today, the precolonial pastoral Somalia of centuries can barely be discerned under the rubble of cold war arms.

Liberia lies in wreckage for much the same reason. During the 1980's after Sergeant Samuel Doe had overthrown Liberia's flawed democracy, we provided this decidedly undemocratic ruler with \$500 million in wherewithal to devastate his country.

Some have said Africa is largely responsible for its own plight. I do not believe this to be the case. I have never flinched from pointing up the wrongs of African governments, whether visited upon their people by the undemocratic whites of South Africa or the undemocratic blacks of Zaire. One should take time to distinguish tyrannical and forcibly imposed African governments from those millions of Africans involuntarily abused by such governments.

For that matter, no one can persuasively argue that the people of Zaire at the end of the colonial era had any real chance for democracy, although they likely cherished it as much then as they do now. It is no longer a subject for debate that President Mobutu Sese Seko of Zaire was installed 27 years ago with the assistance

of the Central Intelligence Agency. Through the years since, his kleptocracy has survived with American assistance. To this day, he and his loyal forces remain the principal impediment to democracy in Zaire. Only in the last months has the United States requested that he step aside.

SUPPORT FOR DEMOCRATIZATION IN AFRICA

Mr. Chairman, we are in a watershed period in U.S.-Africa relations. Cold war considerations no longer drive American policy. Over 20 African countries are in some stage of democratization. We must give them our unalloyed support.

By all accounts, President Eduardo dos Santos won the United Nations monitored national election in Angola. We must signal our support for democracy there immediately by recognizing his government.

In South Africa, the African National Congress and the government have agreed that there will be before the end of this year national elections for a constituent assembly that will write South Africa's first democratic constitution. Mired in recession, with 7 of 28 million blacks living in self-erected shacks, the new democratic government of South Africa will have no easy go of it under the best of circumstances.

With its elections and as democratic gains are negotiated and executed, we must help with considerable American assistance South Africa consolidate those gains. Much the same we should do or must do for Namibia, Benin, Botswana and several other countries moving toward democracy with scarce resources.

With respect to the governments that continue to impede the democratization process, I strongly urge a cutoff of all U.S. assistance saving that going through the channels of private volunteer organizations.

MOTIVE FORCES OF SOVIET CONTAINMENT AND RACISM

I deeply believe, Mr. Chairman, that for the last 30 years U.S. policy toward Africa has essentially been shaped by two motive forces, neither of which has been helpful to a continent struggling to stabilize its political and economic systems.

The first motive force, of course, was the Soviet containment imperative that often resulted in American support for corrupt African rulers and a tarnish to our own ideals.

The second motive force is the ugly business of racism as a silent undercurrent in American policymaking. As a general society, we know less about Africa than any other part of the world. As a government, we give Africa less and value it less. The democratic idealism that makes our nation great has traditionally not marked our policy toward Africa. One is led inescapably to conclude that race has more than a little to do with this.

OPPORTUNITY FOR NEW U.S. POLICY

We now have an opportunity to turn our policy dramatically in the right direction. To African democrats and despots alike we must signal our unqualified support for authentic democratic gov-

ernment, strict compliance with human rights standards, and honest economic management.

We would urge the Congress to appropriate at least a billion dollars for African economic assistance this year. Those countries struggling to democratize must get our help. All the rest must get our message.

Thank you, Mr. Chairman.

Chairman HAMILTON. Thank you, Mr. Robinson.

Mr. Ayittey.

STATEMENT OF GEORGE B.N. AYITTEY, PROFESSOR OF ECONOMICS, AMERICAN UNIVERSITY

Mr. AYITTEY. Mr. Chairman, distinguished Members of Congress. I would like to take this opportunity to thank you for giving me this great opportunity to testify.

AFRICA ON THE BRINK OF COLLAPSE

Many African governments do not invite those with alternative viewpoints to testify. As a matter of fact, they are liquidated. It might surprise you that this a matter of fact in many African countries. It is this intellectual barbarism on the part of educated African leaders which is one of the root causes of our crisis in Africa.

As distinguished Members are well aware, the continent of Africa teeters on the brink of economic collapse, political chaos and social disintegration. The crisis is particularly alarming in sub-Saharan Africa, or black Africa.

The World Bank projections for the 1990's hold out very little hope for black Africa.

Africa's human rights record is worse than appalling, and as the previous witnesses have testified, there are atrocities meted out against innocent civilians in Zaire, Togoland, Sudan. In Sudan, you have a government which has been dropping bombs on civilians. The catastrophe looming in Sudan would make Somalia look like a picnic. Already 500,000 people have perished in Sudan. Sudan is also an African country where today in these modern times blacks are still enslaved.

Somalia has been destroyed. Ethiopia destroyed. Liberia destroyed. Angola, Mozambique destroyed.

Mr. Chairman, in the 1960's, we Africans fought for our freedom and independence from colonial rule, and there are many of us who are angry because true freedom never came to much of Africa, nor did prosperity come to much of Africa.

Out of the 52 African countries, only 12 of them can be said to be democratic. And Africa's tyrants and dictators are among the richest in the world.

We all know that President Mobutu of Zaire has amassed a personal fortune of close to \$10 billion in Swiss banks, and that personal fortune exceeds the entire foreign debt of his country, the foreign debt of Zaire.

President Honphonet-Boigny of the Ivory Coast has also amassed a personal fortune close to \$6 billion. And then we have President Moi of Kenya with \$3 billion, Eyadema of Togo with \$3 billion and Hastings Banda of Malawi with about \$2 billion.

It is not the responsibility of the United States to clean up the mess in Africa. And, as a matter of fact, there is no earthly reason why U.S. Marines should die in Somalia. But they did. Because of our own stupidity and mad obsession with political power.

AID DIVERTED FROM INTENDED PURPOSE

Africa is now the only place where we cannot change the government without destroying our own countries. Things will get worse in Africa in the coming years and there will be more insistent demands for more aid to Africa by African governments, and I personally would like to appeal to you that these demands for increased aid should be ignored.

It is not that Africa is not deserving of aid. As a matter of fact, more than \$300 billion has been pumped into Africa since the 1960's. But there is nothing to show for this aid. We all know that the aid does not reach the needy in Africa.

If a bucket is full of holes, it makes little sense to pour in more water, as it will all leak away. To the extent that we have leakages in Africa, corruption, senseless civil wars, economic mismanagement, capital flight, no amount of aid will save Africa. Common sense suggests that we plug the leakages in Africa.

Let me give you an example. Every year, \$15 billion is siphoned out of Africa by vampire elites and kleptocrats and also every year African governments spend about \$12 billion to import weapons and arms and to maintain the military in Africa. The weapons are not used to establish peace and order and stability in Africa but to slaughter the African people. If you add these two sources of leakages alone, you get \$27 billion, which is twice as much as the total aid Africa receives from all sources.

FAILURE OF U.S. AFRICA POLICY

Mr. Chairman, distinguished members, U.S. policies have not been effective in bringing about change in Africa. There have been several reasons.

First of all, the objectives have been muddled and conflicting and there has been lack of coordination between the various USAID agencies.

Second, partisan politics. The Republicans have one agenda, the Democrats have another agenda. The White House might have a different agenda. And quite often there have also been turf battles between the various departments. Human rights, for example, is the domain of the U.S. State Department. It may certify an African country as ineligible for aid but it can be overruled by the White House. All these send very, very conflicting messages to Africa.

Third, the United States has been too soft on black African dictators. Western guilt over colonialism and the slave trade have prevented condemnation of the brutal acts of black African leaders. Whites are not willing to criticize black African leaders for fear that they might be labelled racist. And black Americans have not been criticizing black African leaders. As a matter of fact, they have been unwilling to do so but would rather express solidarity with their black brothers and sisters in Africa. These sensitivities are understandable, but they do not help us in Africa.

All of us know that aid to Africa has not been effective. There are many of us in Africa who would like to see this aid cut, but you cannot cut it because if you do the black caucus will scream racism.

Mr. Chairman, the failure of black Africa to develop has nothing to do with the alleged inferiority of blacks as a people. It has more to do with our leaders pursuing the wrong policies and imposing the wrong economic and political systems on Africa.

POLICY RECOMMENDATIONS

A growing Africa should serve the interests of both the United States and Africa, because there are many minerals in Africa which are of interest to the United States. A growing Africa can also purchase more goods and services from the United States and provide job opportunities. And to help Africa grow, there are certain principles that I would recommend that the United States abide by.

First, there should be scrupulous neutrality among the various political parties in Africa and the warring factions in Africa.

Second, standards applied must be done so with rigorous consistency to all the African nations. We cannot condemn apartheid in South Africa and yet turn a blind eye to the de facto apartheid regimes in Mauritania and Sudan and also what black African leaders are doing to their own people.

We must also distinguish between African governments and African people. The two bodies are not necessarily identical. African governments do not represent their people. For a long time, Americans have operated on this rather naive assumption that helping African governments necessarily helps the African people. This is false. Many of the governments in Africa are illegitimate and woefully out of touch with reality and their own people.

The U.S. Government should listen more to the true African people, not to illegitimate governments and the lobbies who act on their behalf.

Mr. Chairman, the Government of Uganda had employed lobbies here in Washington, D.C. and pays these lobbies \$400 an hour. The U.S. Government should listen more to African people. There are lots of African exiles here in the United States. Ethiopians, for example, number 20,000.

CONDITIONING U.S. ASSISTANCE

U.S. aid should be denied to any African country which is ruled by a military dictatorship or a one-party state system. The U.S. aid should also be denied to any African country which spends more than 10 percent of its budget on the military. And U.S. aid should also be denied to any African country where there is a civil war raging. It makes no sense whatsoever to provide aid to build bridges, schools and roads and have them blown up by insurgents.

We should also require that the recipients of U.S. aid explain to their people how much aid they received from the United States and to what purpose they were put. We have people in Africa being helped and yet we do not know what the aid and the assistance are being used for. There is too much secrecy enshrouded in this aid

allocation business. The process needs to be opened up so that ordinary Africans can make an input.

ENCOURAGING THE TRANSITION TO DEMOCRACY

Finally, I would like to recommend that whatever the United States does in Africa it should remember the following principles and that is, one, not all blacks share the same viewpoint. There is as much diversity of opinion within the black community as in any other community and that the United States should seek as diverse a source of opinion before formulating its policies in Africa.

Second, we should all realize that ultimately it is Africans who have to solve Africa's own problems. The United States can help but the initiative has to come from Africa itself.

Towards this end, the United States needs to identify reformers in Africa and help them. For far too long aid has been pumped to governments which are not willing to reform themselves instead of the reformers in Africa.

Third, we should all realize that prevention is better than cure. And for far too long we have been treating the symptoms of diseases in Africa and not getting to the root causes of our economic crisis. One of the things that we lack most is the absence of peaceful mechanisms by which we can transfer political power. We also lack mechanisms, as witness Carol Lancaster said, for the peaceful resolution of conflicts in Africa. These two mechanisms have to be established in Africa with utmost urgency.

Where there is a transition to democracy, we must ensure and insist that the rules are agreed to by all parties and not manipulated and controlled by one side.

Where there is a political stalemate as in Angola, Ghana, Cameroon, Kenya, we should insist that all parties sit down at a negotiating table to recognize and to resolve their differences. The United Nations General Secretary Boutros Boutros Ghali, for example, has warned that if the Angolan warring factions do not come up with a cease-fire, he will pull out U.N. troops by April 30th. I think the United States should also follow suit and not recognize any of the governments and take sides in this particular conflict.

We should also—I would like to point out that for a long time the United States and international election observers have allowed themselves to be used by shrewd African governments to whitewash fraudulent electoral processes in Cameroon, Ghana and Kenya, for example. The United States should make clear that it is not going to accept any election results until all parties accept the election results.

And, finally, the United States should not reward corruption and tyranny. The United States should make it clear to the warring factions in Africa that at some time in the future a war tribunal will be set up to try all those guilty of crimes against humanity and the United States should also help Africans—two days ago, the United States and France started a process by which they want to seize international assets of President Mobutu. The United States should also extend similar help to other African countries whose leaders have looted their countries.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Ayittey appears at the conclusion of the hearings.]

Chairman HAMILTON. Thank you, Mr. Ayittey.
Mr. Lucas.

STATEMENT OF C. PAYNE LUCAS, PRESIDENT, AFRICARE

Mr. LUCAS. Thank you, Mr. Chairman, for this opportunity to share with your committee my perspectives on U.S. policy in Africa. They are perspectives formed over more than 30 years that I have spent working on African issues, first with the Peace Corps throughout the 1960's, and since its founding in 1971 Africare, which currently supports development and relief programs in 21 countries in sub-Sahara Africa.

I must admit, Mr. Chairman, I was startled by our previous speaker because for a while I thought he was talking about the billions of dollars in our savings and loan scandal here in America or of the millions and billions of dollars that we continue to pour into the Soviet Union. Perhaps we will come back to that.

OUTSIDE FORCES SHAPING AFRICA'S DESTINY

I will start by conceding that Africa has not fully lived up to our high expectations during its emergence from colonial exploitation. Africans bear some of the blame, but for the most part, they had little or no control over the forces shaping their destiny, notably the cold war rivalry between East and West and the international economic order established and maintained by the industrial world.

It might be interesting to subject Africa to a computer model in which, starting in the early 1960's, we and the other outside players refused to send billions of dollars worth of arms annually to the continent of Africa, in which the terms of trade for Africa's major agricultural and mineral exports were established, in which the United Nations acted resolutely again in an idealized and less polarized world to complete the decolonization process peacefully.

Imagine an Africa that had managed to escape violent liberation struggles, South African destabilization, brutal conflicts in Mozambique, Sudan, Ethiopia, Liberia and so many other places. The savings in life and property and production would be incalculable.

Imagine the millions of refugees and internally displaced persons who would not have become wards of the international community.

Imagine an Africa with a higher and more reliable cash flow which had been able to invest more in education, health, agriculture and manufacturing, to deliver services to its people and to diversify its economy from reliance on cash crops and depleting mineral resources.

When we look at Africa today and survey our many disappointments, there is an inevitable temptation to write off Africa as marginal to our larger national interests. Although we have sent troops to Somalia saving thousands of lives, this clearly is an exceptional ad hoc initiative which does not suggest to me that we understand the need to become more involved in Africa.

CHANGING THE U.S. PERCEPTION OF AFRICA

To the contrary, it adds to the impression that most Americans have of Africa: that its people and its leaders are at best incom-

petent to run their own affairs effectively and that Africa deserves our attention only when we are faced with outright human catastrophe.

It is against this backdrop that the Clinton administration and this Congress must shape an Africa policy which recognizes that the continent and its 700 million people instead of being a ward dependent on our charity have a crucial role to play in building a stable world community amidst inherently unstable post-cold war conditions.

Developing and conducting sound foreign policy, it seems, has been preempted by crisis management. In the Africa context, we now spend more on disaster assistance than on development aid. We obviously need a policy which aggressively reverses this trend by promoting peace, stability and growth and thereby minimizing the social and political conflict which threatens to drag Africa backward to a point of no return.

We have put many of our eggs recently in the democratization basket. However, we often leave African reformers to hatch these delicate eggs into a political environment dominated by economic stagnation, poverty and violence.

We are frankly deluding ourselves if we think that we can help Africa prosper simply by sharing with them our time tested recipe for constitutional democracy. Unless we provide the necessary support, we can expect a period of increasing turmoil in Africa. In almost every country which the United States has considered important over the past 30 years, there is existing or real potential for serious conflict. Kenya, Ethiopia, Somalia, Liberia, Zaire, Angola, Mozambique, South Africa, Sudan. It makes you wonder what, if anything, we have been doing right over all of these years.

NEED TO DEMILITARIZE AFRICA

Each of these situations underscores the need to demilitarize Africa. If I could be granted one wish, it would be to turn every AK-47 on the continent, and there must be millions, into a hoe or a plow. My second wish would be to establish an international compact to prevent governments and arms dealers from reequipping Africa's burgeoning militaries. Apart from saving lives, this would create safer ground for evolving democratic systems and releasing substantial resources for development.

With fewer weapons available, African governments and their political opponents would be free to strengthen their efforts to manage diversity, most probably through devising pluralistic structures and mechanisms which rely more on effective local government than on central authority.

This is far more important, I think, than imposing democratic models of European or North American origin. Africans have democratic traditions of their own based on consensus building and should have the opportunity to adapt these to their particular circumstances.

NEED FOR ECONOMIC GROWTH

Next to peace, Africa needs economic growth. Beginning with the slave trade, the outside world has systematically stripped Africa first of its human resources, and more recently, its mineral and

other natural wealth. There has been little investment in African productivity, especially in agriculture and manufacturing. Some of these have been witting. Some have not. The point is that we cannot expect Africans to benefit from peace and democracy unless we are willing to include them as full and equal partners in the world's increasingly high tech economic order.

If we fail to help create an external enabling environment for sustained economic and political growth and stability, we can expect in the years immediately ahead to see a rising level of violent disintegration of post-colonial Africa. We have already seen Somalia and Liberia virtually self-destruct. Angola is now experiencing its worst bloodletting ever. In spite of having held under the aegis of the United Nations its first fair election, Zaire is on the verge of breaking apart and South Africa is teetering on a disaster.

STRATEGIC SIGNIFICANCE OF AFRICA

The natural tendency of our foreign policymakers may be to deal with specific countries and situations where our interests are greatest and to abandon the rest of Africa to its own devices. This would repeat our past mistake of tying ourself to a few large countries and to "big men" like Mobutu Sese Seko without paying attention to the broader international framework in which they and the rest of Africa fit.

The United States can no longer afford to relegate Africa to the back burners of its foreign policy. This vast continent contains 53 of the key minerals required to fuel America's industrial growth. It borders the major sea lanes of the world and its 52 states constitute an important constituency in a voting bloc in the international fora, which is becoming more and more important.

INTERNATIONAL COMPACT ON AFRICA

First, we need to integrate Africa more effectively in our overall foreign policy.

Second, we need to establish a compact between Africa and the world at large which pledges both to mutually agreed measures intended to make Africa a full partner in building a new world order in the 21st century. A key element to this plan would be an investment in African capacity building.

Third, we must give both economic and political support to these nations struggling with the transition to democracy and free market economies.

I realize this has implications which go well beyond what we can discuss today but I feel very strongly that we in the international community must pursue integrative approaches to counter the opposite forces unleashed by the end of the cold war. Otherwise, and I am speaking not just of Africa, but of the former Soviet Union and the Balkans, we risk consigning vast stretches of mankind literally to the ash heap of history.

An international compact on Africa might have several major objectives. Demilitarization would be one. Broad initiatives on arresting environmental degradation may be another. Others would include improved trade and greater investment in Africa's untapped agricultural potential. Africa would accept responsibility for putting their house in order. We and the rest of the world would pledge

support for development goals, as well as economic and political reforms, proposed by Africa.

The watchword here is not necessarily democracy but good government. It would be a contract on a grand scale and generational timeframe. Properly administered, such a plan could work, but leaving Africa's future to potluck and piecemeal, country specific plans seem almost guaranteed to fail.

OPPORTUNITIES FOR THE CLINTON ADMINISTRATION

President Clinton has a unique opportunity to bring Africa, America and the world together in a common cause. Not since John F. Kennedy assumed office has a newly elected president commanded as much hope and respect among Africans as has Bill Clinton. To many Africans, Clinton represents a "new dawn," a powerful symbol associated with the continent's emergence from colonial domination.

Today, the image reflects the incipient democratization that is replacing Africa's first generation of post-rulers with younger, more pragmatic and better educated leaders who are prepared to live or die politically by the popular vote.

I have just returned from one of Africa's newest democracies, Benin, where I met with President Soglo. Here is a country with six living former presidents, each free to speak his mind without fear of detention or worse. Once a Marxist state, Benin wants help to develop civic and other nongovernmental institutions to strengthen its democratic foundation. It also needs assurance that we will support its embrace of difficult economic reform well enough and long enough to produce growth and jobs. Without these, African democracy will prove to be a shrinking violet.

In his campaign speech on foreign policy, Clinton stressed the importance of helping new democracies, particularly in the former Soviet Bloc, to weather transitional turmoil. Africa's democratic rebirth is no less vulnerable. Africans assume Clinton understands this harsh reality and will act accordingly. They believe that African democracy is inherently as worthy as Russian democracy and that the Clinton administration will take the lead in giving new meaning and substance to African independence.

RESPONDING TO NEW GENERATION OF POLITICAL LEADERS

In spite of its frequent crises, natural and manmade, Africa has the potential to be a keystone of stability in a changing world. A new generation of political leaders and private citizens is advocating democratization, human rights, economic liberalization, environmental protection and the acceptance of ethnic diversity. We need to respond in kind to this groundswell of enlightenment on the so-called dark continent.

While Africa should receive its fair share of U.S. economic assistance, it is perhaps even more important to better target the aid we do provide. We can serve as a catalytic agent in promoting an international compact on Africa. Over time, such a compact could reduce costly military establishments, civil conflict and the displacement of millions of people. Together, these account annually for billions in wasted resources and lost production.

Peace is linked to prosperity. Without tranquility, democratization and economic reform will be aborted. Foreign assistance will be merely palliative. Transnational firms and investors will seek more fertile, less risky terrain. No amount of foreign aid, Mr. Chairman, will be able to compensate for these consequences.

Thank you.

Chairman HAMILTON. Thank you very much, Mr. Lucas.

We will begin questions with the chairman and the ranking member of the Subcommittee on Africa and then proceed after they have asked their questions with the regular order.

Mr. Johnston, the chairman, is recognized.

TARGETING U.S. ASSISTANCE

Mr. JOHNSTON. Thank you very much, Mr. Chairman.

The general theme of all four speakers seems to be to use Mr. Lucas' words, that we better target the aid that we provide.

Mr. Robinson, let me go to your presentation on page 4 and if I could just read in part from that.

"With respect to the governments that continue to impede the democratization process, I strongly urge a cutoff of all U.S. assistance, saving that going through the channels of private volunteer organizations."

And then later in the next paragraph, you say that Africa should receive more money. Is that an inconsistent statement, sir?

Mr. ROBINSON. No, not at all.

Mr. JOHNSTON. OK. Tell me where you want the money to be targeted then.

Mr. ROBINSON. When I suggest that money should be cut off, I am simply suggesting that it should not go through governments. We should be providing more aid to private volunteer organizations, directly to some of the civil organizations that are growing in urban settings in Africa and rural settings that are likely to do a better job toward development than some of the governments of the countries are.

So when I suggest that aid should not go through Mr. Mobutu because it would never reach people, it should go directly to the Zairian people. We are giving a significant amount of aid to South Africa now but not through the Government of South Africa. So that is the distinction to be made there.

Mr. JOHNSTON. Now, you single out six countries here which are economic disasters that we supported substantially throughout the years.

What conduit would you use to get aid into Liberia?

Mr. ROBINSON. Well, the same kinds of mechanisms. There are PVO's—

Mr. JOHNSTON. Can you name an organization?

Mr. ROBINSON. The point is that there are PVO's operating in Liberia. Mr. Lucas might be in a better position to give you a list on those active PVO's in Liberia. Also, there are civil organizations in not only Liberia but places like Somalia, people working very hard on a daily basis to reconstruct their societies. I think we have three or four kinds of problems, if I can just name them.

Mr. JOHNSTON. Please.

PROBLEMS WITH AFRICAN ASSISTANCE PROGRAMS

Mr. ROBINSON. Number one, we have repairs to do for cold war damage to these countries. Arms that were left there by us and by the Soviet Union have to be gotten out. And so there are many Somalias in Africa. Virtually all of these six countries are.

Then we have the problem of countries like Zambia, where President Chiluba is trying to operate a World Bank structural adjustment democracy when in 1991 the price of the staple food item meal rose 1000 percent and he was rocked in the first 9 months of his presidency by 56 strikes and now is facing the discharge of some 50,000 people in the civil service. And at the same time, he has to face voters. And so I think the World Bank often does not have a clue about the on-the-ground hardship occasioned by World Bank policies, and so I think we need to address that as well.

Then there is the problem of American marginalization. We have lost over the last 6 months 70 posts in the Bureau of African Affairs in the State Department. And those people are being moved out of Africa into Eastern Europe and other kinds of posts. The same thing is happening at USAID.

Then there is the problem of the extent to which we really value democracy in Africa. I think in fiscal year 1990, of \$171 million that USAID had in its democracy funding we gave \$73 million to a more democratic Latin America and a little more than \$500,000 to democratic undertakings in Africa. And so you have the problem of a lack of American concern measured in dollars.

So it is not just amounts of money but where we put that money. Technical assistance going directly to people to restart their economies and going to governments where those governments are harnessed and helping governments like the Zambian Government survive if we expect them to undertake programs of structural adjustment.

CRITICISM OF U.S. POLICY TOWARD ZAIRE

Mr. JOHNSTON. Ms. Lancaster, in Zaire, and I quote you, there was an "inexplicably passive" United States. If we had to do it over again, go back not 28 years but go back a decade, what should the foreign policy have been toward Zaire?

Ms. LANCASTER. Our policy toward Zaire almost since Mr. Mobutu came to power in 1965 was one really of pursuing our interests—primarily cold war issues.

The cold war obviously has gone. It had not gone 10 years ago and Mr. Mobutu was helpful in the U.S. Government's efforts to supply arms to the UNITA rebels in Angola.

If you agree with that policy, then you would probably see Zaire as a useful cooperating agent. Without debating that policy, my point is this: that by the end of the 1980's we had almost no interests in Zaire. The Angola conflict was coming to an end. The cold war was gone. And what is inexplicable is the fact that we continued to be rather passive in our pressure on Mobutu to withdraw from power, even in the face of demands from his own people.

I suspect that was a result of the Bush administration's focus on other issues, and the fact that Mobutu had been supportive of policies before. But that was a clear place, what ever one thinks of the

early policies, where a break point was called for. We should have been more aggressive verbally over the past 2 years in encouraging Mr. Mobutu to think about acceding to the demands of his people for a more open political system.

There are all kinds of private ways we could have encouraged him to withdraw from power. We would have had to have done it together with the Belgians and the French. But we really did not pay much attention to this problem. We had some critical things to say about Mobutu but we proceeded very cautiously with Mr. Mobutu.

I think we could have been more aggressive in organizing and cooperating with some of our allies in both pressuring him and perhaps giving him a way to leave the country while saving face. We are now turning to a more aggressive policy. I am hoping that this policy will be more effective and more aggressively pursued.

DETERMINING AID ALLOCATIONS

Mr. JOHNSTON. Thank you.

Mr. Lucas, aid is going to 30 of the 52 countries in Africa and we are giving the entire continent less than a billion dollars. ESF funds are just about to go off the board now. We have gone from \$51 million down to less than \$20 million. Are we cutting the pie a little too thin there in giving it to 30 countries, or should we concentrate on a dozen countries?

Mr. LUCAS. Well, you know, my feeling is that we have to be careful about the Balkanization of Africa. We have said that anywhere countries are engaged in democracy, where they are going through the kind of structural adjustment that makes sense, then we ought to assist those countries.

Based on some of the dialogue that we have seen over the past year in some of our quarters, there are people that would argue that we should not be helping a little country like Benin. And today we see Benin as a bastion of democracy with a leader who has sat for two terms, where the opposition can speak freely.

Mr. JOHNSTON. What is the population of Benin?

Mr. LUCAS. I think Benin is about 8 million. Is it 4? It is 4 million.

Mr. JOHNSTON. All right.

Mr. LUCAS. So the point is here you have this little country called Benin. Should we give our assistance to Benin or to Nigeria? Here is a country surrounded by a place called Togo, which is under autocratic rule. We should stand up now when the country is practicing democracy, inviting private investment, and doing away with corruption. Here is a place that Randall Robinson just spoke about that we ought to be working in.

We should not have anybody at State and AID making the decision to work in what we call countries that are more important. Anywhere a country is practicing democracy and populated is the place we ought to help. No one would ever make that argument for the CIS countries.

MODEL FOR DEMOCRACY IN AFRICA

Mr. JOHNSTON. OK. Last question. Let me just follow up on that. On page 4 you talk about the fact that imposing democratic models

of Europe and North American origin should not be our policy and that, and I quote, "Africans have democratic traditions of their own."

What do you envision would be the model of democracy in Africa?

Mr. LUCAS. Well, my point was that to impose our form of democracy as we know it may not be applicable to all African countries. There are some cases, for example, where it would not be in our best interest to take the transportation system or the public utility system and turn it over to the private sector.

What we are seeing now, for example—what I am saying is that economic free market economies and democracy, as we know it, may not be so compatible in Africa. It is not worth a dime, for example, in some African countries, to make the free enterprise system available to the private sector, and Africans do not have the wherewithal to buy it. We see that happening now with South Africans investing in Zambia.

My point is democracy alone may not work some places.

Mr. JOHNSTON. You were talking more about economics than you were governance, then.

Mr. LUCAS. Yes. I was talking more about economics than governance, but it is also quite conceivable in Africa that you could have a government with intelligent rulers who are not corrupt, where you have transparency, and not have a democracy in the U.S. definition of the word.

Mr. JOHNSTON. Thank you, Mr. Lucas.

Thank you, Mr. Chairman.

Mr. LUCAS. I think good government is what we are looking for.

AID ALLOCATION

Chairman HAMILTON. Mr. Johnston, I wonder if I could follow up on your question.

I would like to hear from the other three witnesses here on the question Mr. Johnston asked. You have a pot of money here. It is not going to get any larger. It goes to 36 countries today. Is that the best use of our aid money? Or should it be targeted on a very few countries? What is the opinion of the panel on that?

Mr. Lucas, as I understood you, you suggested that we keep it spread. This is an important question for us. I would like to hear the other panelists comment on it.

How do you best and most effectively use this \$800 million or whatever the figure is to promote our interests in Africa?

SETTING CRITERIA FOR AID ELIGIBILITY

Ms. LANCASTER. Maybe I could start, Mr. Chairman.

I recall a decade ago spending a fair part of my 10 years in government arguing whether we should concentrate our aid or whether we should distribute it more broadly. It is obviously not a new one.

I would agree with what all the witnesses have said in one way or another here, that we should not exclude any country on the basis of its size but that we must set criteria for how we distribute our aid. And we are freer in the 1990's than we were in the 1980's or the 1970's, to set that criteria according to what we think will

work and what we think is right. We do not have to use our aid so much to support our friends in the cold war.

The criteria I think we probably all agree on or at least there seems to be something of a consensus in this panel is that we must have governments that respond to the will of their people or are trying to respond to the will of their people, evolving toward more open political systems. And that is certainly the will of the majority of Africans I come in contact with. We must help governments that are trying to shape their economies in ways that will promote recovery and growth.

Those are the two main criteria for the distribution of our aid. Perhaps one other thing we might think seriously about doing, again, given the spreading conflicts in Africa, is to set aside some funds to help resolve those conflicts. I must say I am not nearly as pessimistic as my colleague George Ayittey. Civil conflict is a problem but there is much constructive to be done.

Thank you.

Chairman HAMILTON. In applying the criteria you are talking about, do you end up with a lot fewer than 36 countries?

Ms. LANCASTER. I think you probably would right now.

Chairman HAMILTON. OK. Mr. Robinson and then Mr. Ayittey.

U.S. SHOULD SUPPORT ALL AFRICAN DEMOCRACIES

Mr. ROBINSON. Well, I agree with Mr. Lucas, that wherever there is an earnest democratic effort being made we ought to give support.

I recall when Namibia won its independence they did everything asked of them—they put in place the most democratic constitution in Africa, one of the most democratic in the world, at least as democratic as our own. And the Bush administration offered them \$500,000 and that was upped to \$10 million by the Congress at the time, but still too small an amount. And this was for an economy that was saddled by a debt incurred by South Africa that the new Government of Namibia had to honor.

The same is the case for Zambia, where you have a president who is trying with scarce resources to make this democracy work and, at the same time, implement structural adjustment. We cannot abandon a country like Zambia.

But it is not just a question of money. There is so much we can do on the question of Zaire. I would support Congressman Payne's initiative for a freeze in the assets of Zaire, not just in this country but inviting our allies to freeze Zairian assets, Mr. Mobutu's assets really, in Europe. And that will put a stop to that.

So it is not just a matter of bringing it out of government, but there has to be some participation through PVO's, with our own bilateral program, and a more sensitive World Bank that seems to understand more about trade relations and less about technological development and manufacturing, and almost nothing about the consequences on the ground of some of their strictures.

And so in all three areas we can work and it is not just a question of money. But on the basic issue of whether we pick some democracies over others, I think that would be a dangerous thing to do and not well advised at all.

Mr. JOHNSTON. Mr. Ayittey.

AID SHOULD BE LIMITED TO DEMOCRACIES

Mr. AYITTEY. Mr. Chairman, African views have been changing recently and very rapidly, and let me sort of try and give you a sense of this shifting direction of change in African views.

Throughout our history in Africa, we have had all sorts of foreigners come and sort of profess that they have been doing things to help the African people. Colonialism was good for us because it helped civilize us. Slavery was good for us.

Mr. Chairman, I am speaking as an African, foreigners can come to Africa, the United States can come to Africa and pursue its interests. The Soviet Union has been to Africa to pursue interests. Japan pursues its interests in Africa. China pursues its interests in Africa. I do not see anything wrong with the United States pursuing its own interests. But I think the United States should define clearly what its objectives in Africa are.

However, there is now a growing number of Africans who are now saying that we are going to pursue our own interests. And our interest in Africa is that we have leaders who have failed us and we want to get rid of them. If the United States wants to deal with these leaders, it should do so at its own risk. And therefore if we want to reform foreign aid to Africa, the number of African countries receiving U.S. aid should be reduced from 36 to the 12 which are currently democratic.

Chairman HAMILTON. Mr. Burton is the ranking member, and he is recognized.

Mr. Burton.

NEED FOR SELECTIVITY IN DISTRIBUTION OF AID

Mr. BURTON. Thank you, Mr. Chairman. I will not take a great deal of time. I have to leave for another meeting.

I think that it was very interesting. This is one of the panels that I have enjoyed more than any we have had appear before us for a long time, and I even agreed with Mr. Robinson on a few issues. Usually we do not agree very much.

Let me just say that one of the things that struck me as a real positive idea, Mr. Chairman, was Mr. Lucas' idea of some kind of international compact on Africa. We have been giving billions of dollars over the years to a lot of leaders over there and I was making a list.

Mr. Mobutu of Zaire has millions, probably billions, stashed some place. He has to go. But in any event, he has raped his country. I went to Botellite and he spent \$50 million on his home. I mean, can you imagine a \$50 million home? You ought to see that place. It has crystal chandeliers hanging outside.

Mr. Doe in Liberia, before he died, he had compiled considerable funds.

Idi Amin lives in Saudi Arabia, living off the wealth of its people. Mengistu, who raped Ethiopia, is living in Zimbabwe like some kind of a potentate down there, and I can go on and on and on.

And much of this is done with the taxpayers' dollars of the United States of America, and it seems to me that we must be very selective. We have limited resources with which to give foreign aid and we should be encouraging the kinds of changes they have

talked about. All the panelists have talked about democracy and human rights.

SUPPORT FOR INTERNATIONAL COMPACT ON AFRICA

Incidentally, along the line of human rights, I think it is extraordinarily important that if we could come up with some kind of an international compact on Africa dealing with the economic and democratic problems, that we also have some kind of an international body that would condemn if not bring to trial those who are flagrant violators of human rights in Africa.

We are talking about that right now in the former Yugoslavia and I think the same kind of principle should be applied to Africa. We have people over there who have done horrible, horrible things to their people. And if we could bring them to justice, I think it would send a very strong message to other would-be despots and might discourage that sort of thing.

So I guess my view, Mr. Chairman, I will not ask any questions, I think this panel has been very informative. I think that we should be very selective in the resources that we give to various countries in Africa. It should be given to them on the basis of what they plan to do for their country, reviewed on a very regular basis so if they are doing like Mobutu has done in Zaire and has sent his money all over the world to various banks and has all kinds of palatial estates in different countries, that we should curtail those funds and urge our allies to do likewise.

It does not seem to me prudent or proper that when people are running around naked, starving to death and living a terrible, terrible life that we should be giving some sergeant who has ascended to power the life of an imperial potentate or even better.

So I think we should be selective. I think that we cannot possibly with the limited resources that we are going to have in the area of foreign aid adequately take care of all of the countries in Africa. So if we were to give money to those that were doing the things that we thought were proper in the area of democracy and free enterprise and human rights, it would certainly encourage the other countries to fall in line because they would know that they would not get foreign assistance from the United States unless they were willing to do so.

And with that, I want to thank the panel. I think it has been the best panel that we have had before the committee for a long time.

Chairman HAMILTON. Thank you, Mr. Burton.

Mr. Menendez.

DEMOCRATIZATION AS PRIORITY FOR ASSISTANCE

Mr. MENENDEZ. Thank you, Mr. Chairman.

I am perplexed about the importance that the panel gives to efforts of democratization in terms of our aid. I heard Mr. Robinson's comments and I understand how he clarified that in terms of not giving monies to governments but to individuals. Nonetheless, with respect to governments, you just suggested that those that continue to impede the democratization process not get any dollars.

I heard Mr. Ayittey refer to foreign aid to Africa not being effective and his metaphor of a bucket of holes which needs the holes to be plugged first before we continue to move forward and his sug-

gestion that we reduce from 36 to 12 the countries that are receiving aid from us.

Mr. Lucas' commented that we have put many of our eggs recently in the democratization basket and are deluding ourselves into thinking that that is the way in which we are going to have Africans prosper. And yet he finished with saying that without peace and tranquility democratization and economic reforms would be abortive. I wonder how one has peace and tranquility without democracy of some form.

And so my question is: what is the priority that the panel gives to democratization in determining aid to African governments and, if it is a high priority, do we, for example, pursue sanctions such as the Congress did, I believe it was back in 1986, when it overrode the presidential veto creating sanctions in South Africa?

Do we pursue that in Zaire and, if so, what forms should they take?

I would like to hear the panel's comments on that.

POLITICAL LIBERALIZATION AS FIRST THRESHOLD FOR ASSISTANCE

Ms. LANCASTER. Maybe I can start out here while Payne decides how to answer the part of the question that appeared to be directed to him.

I would like to make one point first that the committee might want to bear in mind as it thinks about its own legislation in this area. We are talking about criteria, we are talking about democracy, we are talking about economic reform. We might agree that it is good to promote democracy.

I think it is going to be very difficult, though, to agree on how we judge when a government is eligible for aid, if it is in the process of democratizing, or if it has already fully democratized.

Mr. Ayittey has talked about only the 12 governments that are in the process or that have achieved what we might agree is democracy. I think we are going to also be confronted with the problem of deciding about those governments that have done some way but not all the way. What about Ghana? What about Kenya?

So I throw that out to you just as a problem one is going to have to deal with in the practical world if we go forward with this kind of criteria.

My personal view is that because of our own values—the value we clearly put on human rights and increasingly on political rights—I think we are very clearly in the process of moving in this direction in Africa as we have done in other parts of the world.

It is true, as my colleague C. Payne has said, that you can have weak, ineffectual democratic governments and you can have strong, effective, authoritarian governments and that does pose a problem. There has to be some measure of flexibility here because we do have another goal which is promoting development in the region.

But it is so clear in Africa in the last 2 years that Africans, particularly educated Africans, are really demanding political openings. I think this horse is out of the barn and I think if we do not recognize that and incorporate it into our own policies, we will become irrelevant.

So political liberalization and human rights need to be the first threshold that we pass when we decide on an aid program. Govern-

ments like those of Zambia, Benin or Mali are doing the very difficult task of implementing both political reforms and economic reforms and ought to be the kind of government that we would put the most priority on helping.

Thank you.

NEED TO ENCOURAGE FREEDOM OF EXPRESSION

Mr. AYITTEY. If I may make a few statements. I would like us to remember that there are three types of reform needed in Africa: economic reform, political reform and there is another type of reform which is often not talked about and that is intellectual reform.

In the past two decades in the U.S. dealings with Africa, the USAID, World Bank and IMF has tried to promote economic reform. It was only recently in 1989 that the U.S. added democratization or political reform.

See, the point is the type of economic system Africa needs has to be debated and decided by Africans themselves. The type of political systems, whether it is democratic by Western standards or by Eastern standards, it is Africans who have to determine what is good for them. But they cannot make this determination without freedom of expression. To me, freedom of expression is one of the most important of all the human rights conditions.

Now, Africans cannot make any determination about political freedom or economic freedom when dissidents or those who express contrary opinions are being thrown into jail in Africa. The media is owned by African governments. The TV, the radio, the newspapers.

We ought to get the media out of the hands of corrupt and incompetent governments in Africa so that Africans themselves—in our traditional system, as Mr. Lucas said, we had consensus democracy and, as a matter of fact, I wrote a book about indigenous African institutions, how we governed ourselves, how we ran our economies before the colonialists came.

Every African will affirm the fact the if there is any issue the chief will put the issue before the people under a big tree and we debate it until we reach a consensus. We cannot do this in Africa. And therefore if Americans want to help us in Africa to determine the type of political systems we want, it is not Americans to pre-judge the type of political system that is good for it.

It is us, both the government and the opposition, which have to make this determination to give us mutual satisfaction.

And also in Ghana, Cameroon and Kenya where you have a political stalemate, the United States should not accept the election results there just by the fact that international observers have certified that it is free and fair because the people of Ghana and Kenya are not accepting those results.

AID REQUIRED TO EASE IMPACT OF STRUCTURAL ADJUSTMENT

Mr. ROBINSON. A farmer in virtually any African country undertaking structural reform, economic reform, cannot afford fertilizer. A Harvard-trained professor at the University of Dar es Salaam is now making about \$100 a month because of structural adjustment.

Wages for Zambia have, since Mr. Chiluba's election, fallen 30 percent because of structural adjustment.

It is without assistance almost impossible to reconcile World Bank-ordered structural adjustment with democratic initiative, for people cannot run for office like that. And we ought to understand that well because American candidates are not wonderfully honest during our own campaigns about the kinds of hardships that will be visited upon the American people because people do not like to make those kinds of choices.

Now, that pales in comparison to what has been occasioned by structural adjustment programs for the middle class African in coming to terms with these programs. Ghana, for instance, has put its books in order, gotten a great deal of export earning from the sale of timber. But now its forest is about 25 percent of what it was originally so that Ghana's future has been mortgaged because of these programs.

And if we expect to see economic management, structural adjustment and democratic reform at the same time, we are going to have to help these countries that are doing 30 percent of their earnings out in debt service get over the crest of that hill and we can do that but we need to look at the kind of aid we are giving, to whom we are giving it and for what purpose.

Very little of it has been directed or focused on training, the manufacturing, technological development, programs that will give Africa the capacity to produce for local consumption and export. We have to do things for Africa, help it with its export earning.

The other problem is that we have almost no African economists working in the design of World Bank policy. These policies are made by World Bank macroeconomists and imposed on Africa without a view toward the hardships that will be occasioned by these programs.

And so I think we have to see all of these things in concert and take them carefully under advisement.

CONDITIONING AID ON HUMAN RIGHTS PRACTICES

Mr. LUCAS. Mr. Chairman, I do want to make one comment about where we should put our aid. First of all, I want to say that one has to be very careful about when you talk about Africa and even Africans, because most Africans do not really know a hell of a lot about Africa. Those living in Nigeria know very little about what is going on in Tanzania. So I want to make this clear, when we make this claim about Africa, we want to put the disclaimers in the spotlight, because we know a country like Botswana has \$4 billion worth of surplus and there are a number of countries around Africa that are doing very well, so I want to add that comment.

But my point is, if I were the head of the Agency for International Development and also responsible for the eye to replenishment, I would not provide assistance to any country in Africa violating human rights and freedom of the press. I think those are the minimum conditions that provide for citizen participation in government which in fact gives you transparency and the opportunity for people to speak freely. That, in fact, would be my criteria.

How do you define that? I think working with AID, working with the Congress, working the Bank, et cetera, are necessary instruments of participation. The fundamental criteria, however, is that people have to be free.

AFRICA'S POTENTIAL AS TRADING PARTNER

We must clearly understand, and I realize how much we have been overtaken by the monumental events in the CIS and Eastern Europe, that there is in fact a revolution going on in Africa the likes of which the world has never been witness to before. Either we respond to that revolution by participating in it or the Japanese and others will.

The fact of the matter is here is a continent where we talk about foreign aid instead of foreign trade. However, when you put together the nations of Africa, who collectively have more than 150 million people, the world's greatest natural resources, geopolitically and geographically, we have a continent with enormous unleashed potential.

In a world in which we advocate being "global," the United States would be derelict and the Congress irresponsible if we did not become major economic players in Africa.

Up until this moment in history, U.S. trade to Africa outside of South Africa and the oil in Nigeria and other oil-dominated economies, has been nonexistent. So the instructions to the Bank and the instructions to AID, how do we involve the private sector in developing this continent?

First and foremost, we know we have to get good governance and stability. Once we get that, then we ought to unleash American know how, that will not only provide jobs for Africa, but also provide jobs here at home.

Chairman HAMILTON. Mr. Gilman, and then Mr. Hastings, Mr. Payne and Mr. Wynn.

Mr. Gilman.

AIDS EPIDEMIC IN AFRICA

Mr. GILMAN. Thank you, Mr. Chairman. Again, I want to commend you for holding this fifth in a series of hearings on vital issues affecting America's foreign policy, and I am pleased we have such a distinguished panel here who has given us a great deal of food for thought. Too often we only hear of Africa in times of famine or in misery, and as we look to some of the nations like Somalia, Mozambique, Liberia and other modern tragedies we see images as has already been painted here of extreme poverty, death and destruction.

The AIDS epidemic threatens to decimate entire populations in that part of the world, and refugees from violent conflicts threaten to overwhelm a number of those nations.

So I think it is extremely important we examine these issues and I ask that my opening statement be made part of the record, Mr. Chairman.

Chairman HAMILTON. Without objection.

[The prepared statement of Mr. Gilman appears at the conclusion of the hearings.]

Mr. GILMAN. Mr. Chairman, the medical disaster of AIDS may well become a major problem in much of Africa in this next decade. What should we do to try to prepare for this disaster, to try to lessen the severity of the issue throughout the continent?

Any panelists want to address that?

Ms. Lancaster.

NEED TO ENCOURAGE AIDS PREVENTION

Ms. LANCASTER. Yes. I was just saying I will be the fool that rushes in where angels fear to tread here.

We obviously do not have a cure for AIDS. That would be the main thing that would be helpful. I think we therefore must look at measures involving prevention. And that, of course, involves African governments particularly being willing to help educate their own people about the causes of AIDS. This is something that they have gradually come around to doing for the most part in the last several years.

I think they could probably be helped a little more in the area, both with our persuasion and perhaps with some financial incentives.

There are other more basic things that need to be done, it seems to me. But I am not sure how far we can go in promoting these. One involves changes in the status of women. Women need to know what their rights are, what the causes of AIDS are, to have some way of dealing with pressures on them that involve the transmission of AIDS.

I think personally the health care side of AIDS looks so large that I wonder whether there are resources available in the international community to deal with the now 7 million Africans that are estimated to be infected with the AIDS virus and the succeeding 7 million that are projected to become infected in the next 10 years.

If I had the pot of money to distribute and the authority to decide, I would put the emphasis on prevention.

Thank you.

FOREIGN ASSISTANCE WILL HELP COMBAT AIDS

Mr. ROBINSON. I just want to add to that.

Mr. GILMAN. Mr. Robinson.

Mr. ROBINSON. The World Health Organization predicts that by 1996 20 percent of Africa's labor force will be wiped out by AIDS. Money is, of course, fungible. And the money we provide to governments to implement the kinds of reforms we are talking about, it gives those governments the discretion to come to terms with this and to address some of these problems.

Many of the things that we take for granted in the United States, public education through electronic media, these things are unavailable in developing countries, particularly in the rural areas. And so we see, of course, a heterosexual disease in some places with a 30 percent infection rate without the capacity to address the issues at least in public education available to us in the developed world.

But to the extent that we respond to these countries' efforts to both democratize, reform and develop, I think we strengthen their

capacity to address the challenge, the campaign of public education on AIDS as well.

CONGRESSIONAL MANDATE FOR AIDS EDUCATION

Mr. GILMAN. Any others? Mr. Lucas.

Mr. LUCAS. Mr. Chairman, I would like to point out, one of the things that the Congress did a few years ago was to create this program of child survival. Of all the aid programs that we have mounted in the last decade, none have been more effective than child survival. It was a congressional mandate, the bureaucrats understood it and the PVO's understood that the Congress was interested in it. Due to those factors a lot of wonderful things are happening in our child survival program.

That is not to ignore the fact there may have been one or two other programs that did succeed, but child survival is the most aggressive, intelligent effort that we have done in foreign assistance over the last 10 years.

Having said that, we need to do the same thing with AIDS. The fact of the matter is that we solved the first problem: African governments have recognized that AIDS is their problem and have started public campaigns to address the issue. Initially they denied the AIDS issue. Now they recognize that.

Mr. Robinson has said high tech could help, but, what is fundamentally necessary is a congressional mandate. If we could get a mandate to the community that AIDS is a program and a project that the Congress is interested in, public support would follow suit. Under Secretary Sullivan's administration, as a result of the effectiveness of a national cohesive program, we now have this great place in Atlanta called CDC. If we could establish a political commitment to the AIDS issue and embark on a massive education program in Africa, it would have enormous impact. But that will need a congressional mandate.

FIGHTING CORRUPTION

Mr. GILMAN. It seems we need a summit meeting of the African nations to address this. As you have said in other issues involving African policy, it is the African people themselves that are going to have to wake up to this. The leaders are going to have to wake up to this serious crisis.

I was astounded at Mr. Ayittey's testimony concerning the billions of dollars accrued by some of the corrupt leaders, \$10 billion by Mobutu and Moi \$3 billion, Hastings another \$2 billion, \$18 billion all together in their private treasuries, more than our total foreign aid funding for the year.

What are we going to do about corruption? How do we handle corruption? How do we turn that around in the African nations to stem the tide of corruption?

I address it to any of the panel.

Mr. LUCAS. One issue that is evident of the need for a reorganized U.S. foreign aid program is its inability to identify corruption. In addition to the fundamental preconditions of free press and the protection of human rights, we should create a system that can more effectively manage our money abroad in order to avoid corruption.

Mr. GILMAN. Well, should we deny assistance where we find corruption?

Mr. LUCAS. I believe that in these difficult times when we have to do more with less, any place where substantive corruption exists, foreign assistance should be denied, with the exception of humanitarian assistance.

Mr. GILMAN. We are talking now about corruption in the administration of the government of those nations.

Mr. ROBINSON. Let me disagree with Mr. Lucas on one point. I do not think you can have good government in the long term without democracy. If Lord Acton was right, it is just not possible.

And to the extent that you have democratic opportunity, you get forbearance, you get patience, you get tolerance, you get a culture of democracy in these countries and to the extent that that can be developed, cultivated, I think then there are checks and balances built into systems that limit corruption opportunities.

But if you have a kind of system with one person one vote once henceforth and forever, corruption is unavoidable, even in the best of people.

Mr. GILMAN. Well, then how do we correct that? Should we withhold assistance to those nations where we find corruption is endemic?

Mr. ROBINSON. I think that is certainly the case and I think you will find that corruption and impediments to democracy are hand partners and the same power holders.

EXPOSURE AS ANTIDOTE TO CORRUPTION

Mr. GILMAN. Mr. Ayittey.

Mr. AYITTEY. I think corruption is a very, very serious problem in Africa and should not be taken lightly because Africa loses tremendous resources through corruption, billions have been hoarded and stashed abroad by leaders who condemn colonial exploitation but do not see their own exploitation and rape and plunder the treasuries in Africa.

We want this money back. We want this money repatriated to Africa. And it is a good thing the United States, Belgium and France want to seize international assets of Mobutu. But you see one of the most effective antidotes against corruption is exposure. Exposing it in the media.

And I agree with Payne Lucas that the free media is very, very important in getting corruption exposed but we cannot in Africa because the media is controlled by African governments. And you cannot expose corruption here in the United States also. Why?

Because a lot of people do not want to appear negative on exposing Africa's problems, so nobody wants to talk about it and if we do not talk about a problem, the problem cannot be solved and that is why we need to expose it to the media. The free media in Africa is most important.

And also the CIA is very much aware, I believe, about the transfer of—these days, you know, African dictators transfer their money through electronic kinds of mechanisms. The money is not going to Switzerland any more but it is going to the Caribbean, Cayman Islands, Brazil. And I think these monies, these illegal transfers, should be monitored and published. And where there

have been evidences, I think African governments and leaders should be asked to provide justification for this or U.S. aid should be cut off.

Mr. GILMAN. I see my time has run. I have so many other questions but I hope we can submit some of these, Mr. Chairman to our panelists.

I want to thank you for your very frank and candid views.

CORRUPTION NOT RESTRICTED TO AFRICA

Chairman HAMILTON. Mr. Hastings.

Mr. HASTINGS. Thank you, Mr. Chairman.

I would like to compliment the distinguished panel and allow that I am appreciative of the information that you have reported to us. And like my colleague Mr. Gilman, just simply do not have time to ask all the questions that I would like to. But as a segue to what he was saying, lest we lose sight of the notion of corruption, corruption does not only exist in Africa and so we have to have some intentment to what it is that we are about when we go in a country and I would think that Mr. Lucas' and Mr. Robinson's point and Ms. Lancaster's are specifically salient.

THE CASE FOR AMERICAN INVOLVEMENT

Mr. Ayittey, just to have you clearly understand, America does not have a magic wand that it can wave and cause instant freedom of expression throughout the world. I hear you argue on the one side for the establishment of structures for peaceful transfer and on the other hand arguing that America should do nothing and leave you alone.

I do not know how you accomplish what you would like us to accomplish without some involvement and some stated purpose, with the administration having a clear purpose.

MOST IMPORTANT ISSUES FACING AFRICA

But beyond my statement, let me ask in a more global way what will be the most important issues in Africa as you, the panelists, or any one of you in the interests of time, view the next decade of considering refugees, famine, civil war, ethnic strife, AIDS and the environment, and specifically can I get a yes or no on whether we should take a more active role in the crisis in Liberia and once I have answers, Mr. Chairman, I have no further questions.

PREVENTING FUTURE SOMALIAS

Mr. ROBINSON. Well, one of the things that we have not considered here, Mr. Hastings, is the question of whether we pay now or pay later.

We are spending in the billions in Somalia and the kind of outlay we are talking about now is really essentially prophylactic. If we do not do certain things now, we will have Somalias later.

The same thing is true of the refugee kind of problem. Africa has 50 percent of the world's refugees and you do not have refugees when you have economic and political stability. And so the kinds of assistance that we can give to governments trying to implement these programs now will be very helpful down the road in prevent-

ing disasters like Somalia and Sudan. And so that is why the focus has to be on the two notions of economic stability and honest economic management and the question of democratic reform.

I do want to say just for the record to Mr. Ayittey, he mentioned a couple of things in his testimony I just do not want to let pass. That African Americans were less than eager to be critical of African governments and he said as much about the Congressional Black Caucus. I think the testimony here of mine and Mr. Lucas and virtually everyone I know who has weighed in on these issues really counters dramatically that kind of baseless charge and that is certainly not the case with the Congressional Black Caucus.

I think the focus here ought to be to be critical where the facts warrant it but to be at the same time constructive about what we are going to try to do to repair this damage and what is the best role that this country can play in repairing damage that we had some contributions to make to during the cold war period.

Mr. HASTINGS. Mr. Chairman, I yield back my time because in the interests of time; others may have more for the panel.

Chairman HAMILTON. Thank you, Mr. Hastings.
Mr. Payne.

NEED TO REASSESS POST-COLD WAR FOREIGN POLICY

Mr. PAYNE. Thank you very much, Mr. Chairman.

Let me first of all commend you for having this very important hearing and fine panel. I sort of associate my remarks with the opening remarks of Mr. Hastings on his feelings toward the panel.

I would just like to mention that I, too, think that we have to reassess our foreign policy. I think the whole emergence of post-colonial days in Africa came about the time when the heightening of the cold war was the most important issue before the American government. And, unfortunately for Africa, then it became a pawn in the cold war period.

Our support for NATO and Portugal therefore opposing the freedom fighters of Angola, Mozambique and Guinea-Bissau in those early days I think was a flawed policy because we were on the wrong side.

And as we supported the Mobutus who used covert aid to support Mr. Savimbi in Angola later and the support of Mr. Moi in Kenya because he was anti-Communist, the support of Doe in Liberia, Mingistu before he changed, Barre in Somalia after Mingistu went on the other side. The support for Renamo years ago, the support for Ian Smith. The support for P.W. Botha.

But then when we moved it was all driven by one goal, to defeat the Soviets in the cold war. And therefore we looked the other way and allowed things to occur that were wrong. We did not let democracy flourish, we supported brutal dictators. And I think that the flawed policy of post-colonial Africa is more driven by the flawed policy of the U.S. Government during those years.

I think that it was not only in Africa and therefore disagree with Mr. Ayittey about the fact that Africa sort of stands alone, but if you look at our policy in South Korea supporting dictators there and thwarting democracy because of North Korea and the cold war, the fact that we supported Marcos in the Philippines which had a very brutal, repressive government, the support of King Farouk in

Egypt, we could go on to Taiwan, where there was a lack of democracy. Ten times as many dollars were spent in other parts of the world than were spent in Africa.

And so although I, too, am critical of some of the misguided policies of this cold war period I think that if it is on a scale of 1 to 10, Africa is probably down below one when you compare the billions of dollars spent around the world supporting dictators who only support our policy.

SUPPORT FOR INCREASED AID FOR AFRICA

And so my point is now that we are in the new post-cold war era and we are looking at hopefully different ways to use our foreign aid, the first thing I would like to say is that I am not so sure that we have to feel that this \$700 or \$800 hundred million is all that we can get for Africa.

I would hope that because of the democratization and the tremendous amount of problems happening on the continent that we could have an aggressive push to have an increase in foreign aid to Africa because I think that this is a very critical time.

So would the panel also consider that just as free press and democratization should be ways that we measure where our foreign aid should go we should also tie in the whole question of demilitarization and the reduction of funds spent in the military as being other indices as to where we should see a shift in our foreign aid? And I would just ask that to the panel.

DEMILITARIZATION OF AFRICA

Mr. LUCAS. Mr. Chairman, I think much of what I said was the question of demilitarization of the African continent.

I think in addition to the question of a free press and lack of human rights violations, countries that are spending an inordinate amount on arms, other than the minimum required for internal security and the protection of frontiers, ought not to be receiving money. Even today, we are frightened by events in Togo, what is happening to the people there. We are also very concerned about the amount of arms that are present in some African countries that our AID mission knows about, the U.N. knows about and that Congress knows about. And where arms are being required in places that they should not be, then we ought to make that part of this criteria.

SUCCESS OF SMALL TARGETED AID PROGRAMS

I would like to add one note, Congressman Payne. I currently serve as the acting chairman of the African Development Foundation. Over the last year, I have been stunned by what the \$16 million we provide this foundation has accomplished throughout the countries where we work. It is not just a question of more money, it is a question of targeted assistance.

Here you are taking \$50,000 grants in some countries, grants that AID or a multinational institution would not even consider. They would be too small for consideration. But on my past and previous trips, I have been absolutely amazed at the accomplishments of these funds. Funds that we have not put in the hands of govern-

ments, but in the hands of individuals. What the ADF has been able to achieve through programs of training is economic empowerment. These programs enable Africans to buy tools and to sell their products openly on the market. That is the kind of work we ought to be doing on the African continent.

PROHIBITING AID TO MILITARY REGIMES

Mr. AYITTEY. If I may make a statement, and that is I think in my testimony I have stated that there should be no U.S. aid to any military dictatorships in Africa period.

The problem in the past is that we tried to make exceptions. Take Ethiopia, for example, where you had Mengistu, and Liberia and Zaire. These three countries in the past 10 years have been ruled by military dictatorships and I would like to assure my colleague here, Mr. Randall Robinson, that we very much appreciated his important work that he did in the crusade against apartheid in South Africa.

It is not that I am particularly sort of opposed to the work that African-Americans have been doing to help us and the rest of Africa, but the point which I wanted to bring about is the point that there is a feeling among Africans that African-Americans have not been tough on the dictators in Africa and they have tended—in the rest of Africa, black Africa, they have tended to sort of condemn only those dictators which say they are pro-West and have shielded the Marxist and the socialist dictators in Angola, in Mozambique and also in Ethiopia.

To us, a military regime regardless of the ideology is a military regime and we should also state that we are not going to give any U.S. aid to an African government which spends more than 10 percent of its budget on the military.

Mr. ROBINSON. You will be happy to learn that I was arrested at the Ethiopian Embassy. I am sure you will change course now.

AFRICAN-AMERICAN RESPONSE TO DEVELOPMENTS IN AFRICA

Mr. PAYNE. Thank you. I would also like to clarify the issue. I think that it was the support of the Congressional Black Caucus and black Americans who felt that our policy supporting UNITA was flawed, they felt that the support of Mobutu was a flawed policy, were appalled at the takeover of Doe in Liberia, killing so many of the ruling people there.

And so there is seemingly a lot of misinformation that would seem to be out there but I guarantee you that African-Americans in this country have been as opposed to these leaders. You may confuse the Government of the United States with the people of the United States, just like I think in many of the countries you mentioned people mistake the people of a country for the government of a country and we find that there is always seemingly a big gap between the official government role and position. Take Zaire in particular, I have sent a letter to the president asking for some steps to be taken, for the people of Zaire.

THE ROLE OF PVO'S

I just have a final question since we are probably going to have a vote in a few minutes.

Mr. Robinson, you might—well, this was a quick one for the panel. Would you support U.S. aid going more directly to PVO's and NGO's than in the old traditional government-to-government? Just a quick yes or no.

Mr. ROBINSON. I think I would be a bit irresponsible with a quick yes or no. It varies from government to government. We are talking about 47 countries, a half billion people, an area three times the size of the United States. And I think it is a mistake to talk about Africa. You have to look at this on a country-by-country basis. And in certain situations, PVO funnels would be the useful way to go. In other situations, it should be government-to-government. I think you have to look at it on a country-by-country basis.

Mr. PAYNE. All right.

SUCCESSES OF BILATERAL AID PROGRAM

Mr. LUCAS. Mr. Chairman, I agree but I also think we would convey the wrong impression and having recently heard some remarks attributed to President Clinton about the status of U.S. aid, I think the worst mistake that we could make here and in subsequent hearings is to convey the impression—and no one is a tougher critic of aid than I am—that our aid program, our bilateral aid program to Africa, has been a failure.

The fact of the matter is that there have been enormous committed international civil service and some AID programs that have been magnificent. Those ought to be recognized and continued.

It would be a most terrible thing if with all the advocacy for democracy and political change, we were to ignore the wonderful contribution that this country and our bureaucratic officials have made over the years to help improve the quality of life in Africa.

I must say that one of the things that has hurt us most at AID is that at the top, at the very apex, we have lacked effective leadership. Hopefully in a reorganized foreign assistance program we will get the kind of leadership that we need in order to make our foreign aid program more intelligent and more practical.

POLITICAL ACTIVISM OF AFRICAN-AMERICANS

And, finally, in this day of ethnic politics, God help Africa if you did not have African-Americans organized to take care of our vested interests. The slave trade that took place at Whyddah, Ghana and Dakar, et cetera, provides a history that is important to us. That is what makes this a great country.

Why do you think Walensa came here and went away with \$900 million of cash and credit? Because the Polish community is organized.

Now, we do not intend to work on behalf of corrupt government anywhere. But as an African-American, we intend to continue our program to improve the quality of life in Africa and to make sure that Africa's level of assistance is compatible with assistance that is being received by nations around the world.

Mr. AYITTEY. If I may, I have one point and that is that I believe the United States should follow the Canadian example.

Canada, it may interest the panelists to know, allocates half of its aid to Africa to NGO's because Canada feels that it is more effective—this is aid that is channelled through NGO's, and I think the United States should follow suit.

Mr. HASTINGS. Mr. Chairman, I know that we have to go, if you would permit me, if you would yield just one moment, I would like Mr. Ayittey to know that this man right here, Donald Payne, along with the Black Caucus and countless others, including this chairman, fought to have the Subcommittee on Africa preserved and not eliminated. Otherwise, this hearing would be held with the Western Hemisphere.

Mr. AYITTEY. Well, I thank him.

[Applause.]

CALL FOR DEBT CANCELLATION

Mr. JOHNSTON. Before we close down, Ms. Lancaster, let me pursue the subject of debt, a situation that is strangling African countries. Apparently this is one of your specialties.

What should the United States do about the various debts of African countries?

Ms. LANCASTER. The debt problem is a serious one and I think there is one thing we can do. The debt that has been owed to us by African countries, to us as a government, comes from two sources. One is the bilateral aid program. And if I am not mistaken, much of that debt has been canceled.

The other is export credits, guaranteed export credits, and there we have rescheduled but to my knowledge canceled little or none of that debt. I am not sure about the numbers but it remains.

For those governments, again, that are serious about preserving human rights and political rights and trying seriously to deal with their economic problems, I think we ought to consider canceling that debt. Not canceling the entire stock of the debt, but canceling what is due for repayment periodically over time as long as the governments themselves are dealing with their problems.

I do not suggest we cancel the debt of a Zaire under a Mobutu but I think we ought to consider the debt of a Benin under a Soglo. And I think even more importantly we have to remember the United States is important but it is not the only player in Africa. Anything we do, if it is going to have a major impact, has to be done with our allies. If we were going to go for a bilateral debt cancellation scheme, we would want to bring along the other major creditor nations to make it effective.

Thank you.

BIPARTISAN APPROACH TO AFRICAN AID

Mr. JOHNSTON. Mr. Robinson, Mr. Ayittey, I have heard a new word today, kleptocracy, and I assume that is a derivative of kleptomania. Am I right?

Mr. Ayittey, one last question and then I will turn it back to Mr. Payne.

You gave three suggestions here. First you said AID was incompetent, second you said there was partisan politics between Demo-

crats and Republicans, and third you said we were too soft on African dictators.

I do not have the institutional memory of this committee that you have and certainly Mr. Payne has, but in going back and even talking to Mr. Burton, I do not find that there has been that much partisan politics when it comes to aid to Africa between the Democrats and Republicans on the subcommittee or on the full committee.

Mr. AYITTEY. Well, what I meant was that the Republicans have tended to advocate economic reform and Democrats have tended to advocate protection of human rights in Africa. That is what I mean by partisan politics.

Mr. JOHNSTON. Are either of them bad?

Mr. AYITTEY. No. No. They are not bad but it is sort of promoted as if they are mutually exclusive. They are not mutually exclusive. That is the point I wanted to drive at.

Mr. JOHNSTON. And I cannot agree with you more.

Mr. Payne, any last questions?

PROSPECTS FOR NEW SOUTH AFRICAN ACCORD

Mr. PAYNE. Just a last question of Mr. Robinson or anyone else who would like to comment.

What is your feeling on the new accord that was announced by the ANC and the Nationalist Party in South Africa?

Mr. ROBINSON. I am very hopeful about it. If things go well, we could have a transitional executive council in place in June, July. We could have a transitional constitution by fall and Mr. Mandella has indicated to me that he would expect elections this year. News reports would have them early next year.

But I think this kind of coalition probably helped them to avert a right-wing military coup. It is being, of course, sniped at from both sides, from the left as well as from the right that feels that too many concessions have been made. But in the last analysis, I think it is probably the appropriate way to go.

These things, of course, have to be surfaced at the Congress for a Democratic South Africa meeting in March and ratified and if they provoke too much controversy, there will be a nonracial referendum this summer to approve this formulation for going forward. But I am vastly more hopeful about South Africa in political transition than I am about some other areas.

My problem is that to make this a meaningful and lasting transition an economy that is mired in the worst recession in eight decades, that has lost 10 percent in real income over the last few years, with 50 percent unemployment in the black community and 10 percent unemployment in the white community, we will have to address these enormous social problems to prevent disaffection on both sides.

Where will the money come from?

And we are going to have to, with the world community, guarantee South Africa's democratic transition and so I think the problem is less the political agreement and more what follows in economic and social program reconciliation. That will be very difficult and extremely expensive.

Mr. PAYNE. Do you think Mr. Buthelezi will accept this plan?

Mr. ROBINSON. I do not think he has a great deal of choice. I think that what has happened is that the very government that once courted him is packed with young white ministers who understand that their future really lies with a black electorate. And so where Mr. Buthelezi was useful to the national party, I think he is less useful now. And I think they are talking to him and some of his ideas for decentralization will be incorporated into the final package, there seems to be a good deal of give and take going on, and if he does not accept that formula in the last analysis I think it will go forward without Mr. Buthelezi.

Mr. PAYNE. Thank you.

Mr. JOHNSTON. If I could impose upon the committee, the chairman, Mr. Hamilton, has gone over to vote and is coming back and would like to direct a few more questions to you, if you could stay just a little longer. And so the committee is in recess.

Thank you very much.

[Recess.]

ANGOLA

Chairman HAMILTON. The committee will come to order, please.

First of all, let me apologize to you for the commotion that occurred a little earlier. I had to meet with the deputy foreign minister of Russia about another problem that is before us, Bosnia.

I know you have been here a long time, but I wanted to get your views on a couple of the policy issues that are confronting us at the moment. Perhaps the way to do it is just have you express yourself rather succinctly, if you would. I am really seeking your opinion here, rather than an elaborate rationale for it.

First of all, what should we do with regard to Angola?

Mr. ROBINSON. Well, we asked the Angolans to conduct an election and they did that to the best of their ability. It passed muster with international observers and was thought to have been conducted freely and fairly.

Chairman HAMILTON. Should we recognize Angola?

Mr. ROBINSON. We should recognize Angola immediately.

Chairman HAMILTON. Does all the panel agree with that?

You do not, Mr. Ayittey?

[Mr. Ayittey nods negatively.]

Mr. ROBINSON. May I say just one other thing? The Angolan Government was disadvantaged because they more honestly demobilized their troops during the election process. Mr. Savimbi did not do that. And immediately upon losing the elections, he went back to war and with that advantage he seized 70 percent of the country.

So the government in Luanda is in desperate straits now, and because of that it urgently needs the signal from the United States. And so not to recognize the Government of Angola, to do nothing, is to serve Mr. Savimbi's interests and to retard the cause of democracy in Angola.

Chairman HAMILTON. All right.

Mr. Lucas, Ms. Lancaster, do you agree with Mr. Robinson?

Mr. LUCAS. Mr. Chairman, I think I would. We told Angola what the ground rules were, and for us not to recognize Angola now, re-

ardless of any other circumstances or conditions, would be unforgivable. America's word has to be worth something.

Chairman HAMILTON. Do you agree, Ms. Lancaster?

Ms. LANCASTER. I agree. I would just add I do not know what leverage we have with Mr. Savimbi. I think we ought to explore whether we have any left and whether there is any way we can encourage him to play by the rules.

Chairman HAMILTON. Mr. Ayittey.

Mr. AYITTEY. Well, I do not think the United States can be an honest broker and take sides at the same time. The United States must maintain scrupulous neutrality. The United States should not choose sides between the warring factions in Angola nor the United States should choose any sides among the factions in South Africa. Anywhere.

It is true that the United Nations certified the election in Angola as free and fair. But how can you have free and fair elections when the rules themselves were not fair? It was exactly the same thing which happened in Cameroon, exactly the same thing which happened in Kenya, exactly the same thing which happened in Ghana, where governments in power have manipulated the rules and then they hold free and fair elections, they invite a few number of international observers to whitewash a process which is fraudulent.

The voter registry was defective in Angola. There was no impartial judiciary in Ghana and Kenya. So we should be looking at the rules.

MOZAMBIQUE

Chairman HAMILTON. All right. I am going to move quickly because I want to cover a lot of ground.

Mozambique. What should we do?

Ms. LANCASTER. Well, as I understand it, the peace agreement has held there. I think we should continue to support the government both in its political reforms but above all in trying to help restore the health of that economy.

Chairman HAMILTON. We should fully support the U.N. there.

Ms. LANCASTER. I think so.

Chairman HAMILTON. Any objection to that among you? You are all in agreement with respect to that.

SOMALIA

Somalia. What should we do?

Mr. ROBINSON. Well, if we do not get the guns out of Somalia, and I am not quite certain about how to do that, we will come to grief in the end. The place is teeming with them. And unless we can get the elders back in place as the respected leaders in that society and do something about these warlords, as soon as troops leave and the U.N. takes over, which does not have very much credibility in Somalia—

Chairman HAMILTON. Have the other African countries supported the U.S. intervention in Somalia?

Mr. ROBINSON. Well, the point is that the OAU and the Arab League and other African countries did almost nothing in Somalia before this occurred, and that is not a proud record to stand on. And so I think they have been rather silent about this thing. I sup-

pose they tacitly endorse it but it might have been prevented had we gotten a more vigorous involvement from the OAU and other African countries before this occurred. They all knew about it but for the most part did little or nothing.

Ms. LANCASTER. Mr. Chairman, I understand there are some African troops in the multinational force. That implies a measure of support. The Africans, however, are still dithering about how to deal with the Somali type of problems.

I would just say disarming the Somalis is important. It is not going to be easy. Some of those arms are coming across the border from the demobilized army in Ethiopia, I understand. It is going to be a real challenge.

LIBERIA

Chairman HAMILTON. OK.

Liberia. We have opted out of becoming more deeply involved. Is that the correct choice in Liberia? Should we support more fully ECOWAS?

Mr. LUCAS. Mr. Chairman, we, as a nation, have a historic interest in Liberia. Given the circumstances, if we do not do something, America cannot be proud. The current events in Liberia are just unacceptable and ECOWAS alone cannot alleviate this crisis. ECOWAS needs some support. I think this is a task that the new secretary and others should attack immediately.

Chairman HAMILTON. Through the United Nations?

Mr. LUCAS. Right. The U.N.

Chairman HAMILTON. Mr. Ayittey.

Mr. AYITTEY. Mr. Chairman, I would like to emphasize that in all of these conflicts we should be insisting on an African solution. The United States should, as a matter of fact, demand and ask for an African solution so that the United States can support it.

In Somalia, the disarming of the warlords should be done by African troops. Already you have Botswanan soldiers there and also Nigerian soldiers there. We have to—

Chairman HAMILTON. So in this case, in the Liberian case, we ought to support Nigeria and ECOWAS.

Mr. AYITTEY. Yes. We have ECOWAS but unfortunately ECOWAS led by Nigeria has shown itself to be partial so we should reconstitute ECOWAS.

Mr. ROBINSON. May I make just a brief comment on that?

Chairman HAMILTON. Sure.

Mr. ROBINSON. We have a situation where Mr. Taylor controls everything but Monrovia. And in any democratic election, half the votes would be in Monrovia and Mr. Taylor is disinclined to participate in an election that he fears that he might lose.

At the same time, as this thing grinds on, it raises the hackles of Liberians who are having their cars searched by Nigerian troops. It can only deteriorate. And to the extent that the U.N. can help move this thing off the dime, I think we ought to have that kind of participation.

Mr. LUCAS. Mr. Chairman, I think in all of these crises, the outcome depends upon how we treat them. The fact of the matter is the Liberian crisis needs to be elevated to the assistant secretary level. I think it has been going on for too long. It has cost us bil-

lions of dollars and I think we have to ask Secretary Christopher to put his attention to this problem.

SOUTH AFRICA

Chairman HAMILTON. All right.

South Africa. What should we do?

Mr. ROBINSON. Well, as I said before, I think we are going to have to guarantee this process. We have to weigh in on this thing because this is a kind of fragile formulation that can fall apart with small provocation.

Chairman HAMILTON. In the scheme of things in Africa, where is the priority of South Africa?

Mr. ROBINSON. I think quite high, because it is the engine that drives the economy of the whole southern half of that continent. And if that engine fails, as it well might, so will the engine of Mozambique and Zimbabwe and Namibia and Angola and all of the rest of it. So I think it is terribly important to make a model of it.

Chairman HAMILTON. Do you see a role for the United States in the negotiating process now going on there?

Mr. ROBINSON. I think the negotiations are going well. I do not think that is the problem. The point is that when we reach the appropriation point in this country, looking toward their elections there, when we have an executive council actually in power with the ANC at the helm, they are going to have to show something for it and they are going to have to deliver. And the costs are going to be enormous. And the question is we should be thinking about that now.

I think the biggest role for us will be to ensure the economic repair of the economy and closing these vast disparities that divide whites and blacks.

Chairman HAMILTON. OK. Sudan.

Excuse me, Mr. Ayittey. I do not want to cut anybody off here—

Mr. AYITTEY. Just a brief comment on South Africa, and that is that I think that the United States should try and see if it can put pressure on these black groups to have a conference so that they can come to an agreement on what to do. There are some black groups who do not want to negotiate and there are some black groups who may be opposed to this interim arrangement. We need to have a conference of all the black groups in South Africa, because that would help keep the process along. They have to come up with their own agreement.

ZAIRE

Chairman HAMILTON. Zaire. What do we do? Several of you have mentioned seizing the assets of Mr. Mobutu. What else?

Mr. ROBINSON. Break diplomatic relations if necessary.

Chairman HAMILTON. OK. You support an arms embargo and a ban on imports such as copper and cobalt. A very tough approach, right?

Ms. LANCASTER. Possibly support a Belgian intervention directly.

Chairman HAMILTON. We should go that far? Support Belgian military intervention?

Ms. LANCASTER. I would say so. Mr. Mobutu is bargaining with the opposition and he has the chips.

Chairman HAMILTON. Do you think he has recognized now that he is at the end?

Ms. LANCASTER. It does not seem so.

Chairman HAMILTON. Mr. Lucas.

Mr. LUCAS. You know, politicians like that almost never recognize the end.

Chairman HAMILTON. Are we going to see chaos in Zaire?

Mr. LUCAS. I think you have a real crisis in Zaire. This is a serious situation. From the standpoint of an agricultural base, Zaire is the richest country in Africa. Regardless of what we do in Zaire, the situation will not be remedied until it is elevated to another level. We must come to mutual agreement with our allies to maintain a unified position. If we do not get at least that, any effort in Zaire will fail.

SUDAN

Chairman HAMILTON. Sudan. Are we facing another disaster there similar to Somalia?

Mr. ROBINSON. Larger.

Chairman HAMILTON. Larger?

Mr. LUCAS. Oh, yes. And, you know, we need to respond to the Sudan for the simple reason that not responding to the Sudan may warrant humanitarian intervention. Once the American media starts to put horrifying pictures on television and our young people and advocacy groups start to respond to it, and the pressure and the letters start to arrive here in Washington, we are going to be confronted with the questions of intervention. We need to have an international conference on Sudan so that we can get a solution.

The conflict that has gone on between the North and South over these years just cannot go on forever because the world does not have the kind of resources necessary to deal with such crises.

KENYA

Chairman HAMILTON. Kenya. We have frozen assistance there. Is that the right step?

Mr. ROBINSON. And I think it ought to stay frozen. Mr. Moi, as I understand it, continues to acquit himself as if there were no opposition to him in the way that he always has. There was all manner of intimidation and vote rigging in the election itself. I do not think what happened on December 29th can pass for a freely and fairly conducted democratic election process.

PERFORMANCE OF INTERNATIONAL FINANCIAL INSTITUTIONS

Chairman HAMILTON. Let me get your general impression of the way in which the international financial institutions have performed with respect to Africa.

Ms. LANCASTER. This may be controversial in this committee. African countries, like almost every other country including us, cannot continue to spend more than they earn. The international financial institutions by bringing pressure to bear on those governments to institute reforms have played a useful role.

Reforms are not always smooth. The World Bank and IMF are not always right about the reforms but I think they have played a very important role during the 1980's.

Mr. ROBINSON. Well, all I say in address to Carol's comment is you cannot do that sort of thing without contemplating, calculating, the damage on the ground to the middle and working class, particularly to rural people in Africa who simply cannot function with the consequences of structural adjustment and that is why we have to aid these countries.

On the other hand, when I said this policy has historically been race driven, to the extent that anything we have given to Africa, we have given it for the wrong reasons and there is a fear now that since that reason is gone we are not going to give much of anything at all.

And when you look at what has happened at the State Department and USAID, the stripping of the bureau, of posts, it is a real bad omen for Africa. It seems to underscore that great African fear that we really do not care at all about Africa in the last analysis.

Chairman HAMILTON. That signals a disengagement from your standpoint.

Mr. ROBINSON. I think quite clearly. I cannot imagine what would more clearly signal it.

Mr. LUCAS. Mr. Chairman, I think one of the things we have to be very conscious of when we talk about structural adjustment in Africa, and it is almost invariably present where we have had real problems with structural adjustment, is that the Africans themselves have not been involved in defining the medicine for the cure. We just impose the medicine on them and sometimes it just does not work. On the contrary, it causes instability. Nothing positive will result from structural adjustment in Africa until law, order, and stability are established. Without this premise, everything else will fail.

Chairman HAMILTON. Mr. Ayittey, go ahead.

Mr. AYITTEY. I have emphasized several times that it is we Africans who have to come up with our own solutions. We have to come up with our own structural adjustment. As a matter of fact, in the 1980's, international financial institutions have pumped or supported structural adjustment programs in 27 African nations, with about \$24 billion in funds.

But by 1990, only two African countries, Tanzania and Ghana, have been deemed to have been successful performers in Africa, which means that most of these programs to support structural adjustment have failed. They have failed because they have only looked at the economic side of the equation. They have ignored the political and the other side of the equation.

Chairman HAMILTON. The loans that go out from the international financial institutions are conditioned, are they not, on structural changes in the economy.

Mr. AYITTEY. Yes, they are conditioned.

Chairman HAMILTON. Is that the right thing to do?

Mr. AYITTEY. Well, they are conditioned but many African governments are simply not serious about following these conditions. For example, Tanzania, for example, has almost 450 state-owned enterprises and Ghana has about 240 state-owned enterprises and

it has agreed to privatize them, but less than 20 of the state-owned enterprises have been privatized in Ghana.

IMPACT OF GATT ON AFRICA

Chairman HAMILTON. Would a GATT agreement help the African countries?

Ms. LANCASTER. It is hard to see how.

Chairman HAMILTON. How does GATT affect Africa?

Ms. LANCASTER. The Africans export primarily primary products. The barriers to trade in primary products at this point are not particularly high.

Let me just say two things on structural adjustment, if I may. It may be true there is a lot of pain in Africa coinciding with structural adjustment. There might have been a lot more without it. And I do not think because the reforms have not yet worked we can say they are failures. I think we still have to wait.

MILITARY ASSISTANCE PROGRAMS

Chairman HAMILTON. Should we eliminate the foreign military financing program for all of Africa?

Ms. LANCASTER. No.

Chairman HAMILTON. Where should we keep it?

Ms. LANCASTER. I think we should have the flexibility to provide military as well as economic aid to Africa.

Chairman HAMILTON. Do you agree with that, Mr. Lucas?

Mr. LUCAS. Well, I am opposed to all military aid that is not involved with internal security. I just do not think it works.

Mr. ROBINSON. Africa needs police capacity, not military authority.

Mr. LUCAS. Right.

Chairman HAMILTON. Generalize for me for a minute. Has the military in Africa played a positive role in nation building or a negative role?

Mr. ROBINSON. That is easy. Largely a negative role.

Let me make a comment on your GATT question. The fact is—Carol said no barriers but the fact is that since 1991, I think Africa has lost about \$50 billion in declining export earnings although the volume of exports has gone up because the problem in developing countries, they neither control the price of what they sell or the price of what they have to buy and they are in a no-win situation.

Chairman HAMILTON. All of you are a little cautious or skeptical of the foreign military financing program, FMF, as we now call it. Is that correct?

You seem to be a little more favorable, Ms. Lancaster.

Ms. LANCASTER. If you are talking about a grant program rather than a credit program, I am a little more favorable.

Chairman HAMILTON. Grant.

Ms. LANCASTER. Yes.

Chairman HAMILTON. You favor grant programs?

Ms. LANCASTER. It makes no sense to provide military credits to the Africans. They cannot pay.

Chairman HAMILTON. How about IMET?

Ms. LANCASTER. I would be in favor of IMET.

U.S. PRIVATE SECTOR PARTICIPATION

Mr. LUCAS. Mr. Chairman, may I add one point?

Chairman HAMILTON. Certainly.

Mr. LUCAS. We must maximize the U.S. private sector participation in Africa. Stimulation of the private sector requires security, good infrastructure and skilled manpower. We have only given lip service to the importance of viable trade relationships. That is what the president of Uganda has been advocating. Unquestionably, Africa is a continent that has a vast economic potential, but with the exception of OPIC, our trade relationships with Africa, excluding Nigeria, are almost nonexistent.

How do you unleash the potential of the American farmer, that is dormant in this country, and, instead, use it for agricultural production on a continent whose agricultural lands are not being sufficiently exploited even in the midst of drought?

REASSESSMENT OF U.S.-AFRICAN POLICY

Chairman HAMILTON. Let me conclude so far as I am concerned. Mr. Payne may have another question or two.

What impresses me as much as any single thing as I look at the African situation is that it is the only place in the world, I think, in the last decade where per capita income has declined.

What is wrong with our development program?

What do we really need to do?

Can you sum up for me in a couple of sentences what we need to do to get Africa turned around?

Ms. LANCASTER. Could I just say that I do not think we can turn Africa around. This is one of the few things I think I may agree with Mr. Ayittey on.

Chairman HAMILTON. Well, define "we" broadly. What has to happen?

Ms. LANCASTER. I think there has to be political stability. There has to be peace and security. You have to have good government, government that abides by the rule of law. We need to encourage governments to do that.

Chairman HAMILTON. Should the United States put all of those conditions on its aid and say, if these circumstances do not exist, no aid?

Ms. LANCASTER. I believe we should.

Mr. ROBINSON. I agree.

Chairman HAMILTON. You agree to that?

Mr. ROBINSON. Yes.

Chairman HAMILTON. Do you agree with that, Mr. Ayittey?

Mr. AYITTEY. I think there is one basic fact we all have to understand. It is Africans who have to turn things in Africa around. And I think the United States should sort of shift its policy to help Africans do this.

In the past, people were trying to turn Africa around without the participation of the African people and I think that was wrong. The focus should have to be on the initiative from Africa itself. Very important.

Mr. LUCAS. Mr. Chairman. In answering your question, I think we have to look at each individual country. South Africa is a spe-

cial place. Botswana is a special place. Angola is a special place. What I am saying is that in the context of scarce resources, the Congress has to do whatever it can to stimulate viable trade relationships, which does not necessarily require more money, but rather, effective policy. In order to stimulate trade and investment, peace, security and stability, hopefully accompanied by good governance, are fundamental.

Chairman HAMILTON. Mr. Payne, do you have anything further?

CLOSING STATEMENT OF CONGRESSMAN PAYNE

Mr. PAYNE. No. Just that I certainly once again appreciate what the panel has said in general and I also commend the chairman for having a hearing of this nature so that we can start to have more discussion and dialogue on Africa. I think that there needs to be more attention drawn, more information and I could not agree more with C. Payne that we have to take each country independently. I think there are successes. There has been, I think, one area where an army has helped and that was Mr. Mugabe's army to support and defend the railroad as it went through Mozambique. But that was a rare instance.

And I agree that there has to be demilitarization. There should be exceptions made. I think that we should have gone in and given some support to Zambia's new president. He was just asking for some basic things, sheets for beds and equipment on the shelf, medicines at the hospitals, some basic things where we could have shown that we supported that new regime but it was very difficult to come by and so I think that by having continued discussions of this nature and I still do have some hope that we can push to give Africa more of a priority.

We know we have a pie of about \$14, \$15 billion for foreign aid but I think that if we look at the particular problems with Africa and the potential, as C. Payne keeps talking about the possibility of trade, if you look at Singapore after World War II and Formosa or Taiwan and you take a look at it now, with some wise investment and with some prudent industrialization and agricultural programs and so forth, you have an Asia which has probably had the biggest balance of trade surplus than any other region in the world. But after World War II, those countries were just famished.

I think that that whole potential could happen in Africa with some wise attention given to the continent where climactically I do not think that we will have climates as bad as they have been in the past 10 or 15 years. Things will change.

I think that we ought to look at it as a potential for trade, for development, for growth, infrastructure building. All of those kinds of things. So I look at Africa as a great potential for the United States even to exploit its balance of trade deficit, to have a compatible cooperative relationship where both Africa and the United States could benefit tremendously.

I think this is one of the last hopes in the world. I think we need to move in before some of the countries in Asia who are examining that whole possibility move in first.

Chairman HAMILTON. Thank you, Mr. Payne.

I want to say to the panel, we have had a very stimulating morning. The witnesses have been very good. We appreciate your participation greatly.

We stand adjourned.

[Whereupon, at 12:45 p.m., the committee was adjourned.]

U.S. POLICY TOWARD RUSSIA AND THE INDEPENDENT STATES

WEDNESDAY, FEBRUARY 24, 1993

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC.

The committee met, pursuant to notice, at 10:06 a.m., in room 2172, Rayburn House Office Building, Hon. Lee H. Hamilton, chairman.

Mr. LANTOS [presiding]. The committee will please come to order. Chairman Hamilton will join us shortly.

The Committee of Foreign Affairs meets this morning to hear testimony on U.S. policy toward the newly independent states of the former Soviet Union.

This is the sixth in our series of hearings examining key issues in post-cold war U.S. foreign policy. Today's hearing may be our most important one. The future of economic and political reform in the former Soviet Union is, I believe, the single most important foreign policy issue facing the United States today.

Developments in the former Soviet Union have direct consequences for U.S. foreign and domestic policy. Stability in Russia and the other states, for example, will give the United States greater flexibility in addressing its economic and social problems. Instability in that region or a return to a confrontational relationship would divert resources and attention from urgent tasks here at home.

The United States needs to be engaged in the former Soviet Union and to have a comprehensive, coherent strategy toward these new countries. I hope this morning's hearing will provide suggestions on what U.S. policy should be, what is right and wrong with present U.S. policy, and how it should be changed.

Today we will hear testimony from Mr. Eugene K. Lawson, President of the U.S.-Russia Business Council; Dr. Jeffrey Sachs, Professor of Economics at Harvard; and Dr. Stephen Cohen, Professor of Politics and Director of the Russian Studies Program at Princeton University.

I should add that I am personally deeply grateful to both Professor Cohen and Professor Sachs for years of penetrating and enormously helpful analysis of what goes on in the Soviet Union and now in the successor republics.

We will conduct today's session in a seminar style round table format. Some might call it a theater in the round. My hope is that this arrangement will encourage a free wheeling, productive exchange among members and witnesses. I will ask the witnesses to

limit their opening remarks to no more than 5 minutes. After these brief remarks, the floor will be open for questions and discussion.

We will try to recognize members in order but no roll will be kept, no timing lights will be used. Members and witnesses may chime in as they wish.

I welcome the witnesses and look forward to their testimony. Of course, your prepared statements will be entered into the record.

Gentlemen, you may proceed and we begin with you, Mr. Lawson.

STATEMENT OF EUGENE K. LAWSON, PRESIDENT, U.S.-RUSSIA BUSINESS COUNCIL

Mr. LAWSON. Thank you, Mr. Chairman.

My name is Eugene Lawson and I am president of the U.S.-Russia Business Council and my remarks, Mr. Chairman, are pegged to Chairman Hamilton's letter to us asking basically three questions:

What are the most important developments in the future in Russia?

Secondly, what is the current U.S. policy toward Russia?

And, thirdly, what is the right or wrong of current U.S. policy? And I will be very brief, Mr. Chairman.

THREAT OF HYPERINFLATION

Concerning future important developments in Russia, clearly hyperinflation is the single most important issue. Hyperinflation, of course, is derived from two reasons: the printing of rubles by the Central Bank given to maintaining employment at defense enterprises, but there is also a second component and that is the scarcity of foreign exchange. So where you have foreign exchange going down and you have rubles going up, Russia today is on the eve, if not there, of hyperinflation.

PRIVITIZATION AND DEFENSE CONVERSION

The second issue is privatization that we should look at in the future. We have a terribly competent Russian Government administrator, Deputy Prime Minister Chubais, who has been in charge of the privatization efforts in Russia. So far, Mr. Chairman, it has been a great success but the toughest tests are yet to come and I mean by that the majority of large, heavy industry enterprises have not yet been privatized and that is the real test.

In the interim, as David Lifton has pointed out, there is much room for mischief because the central planners in Moscow are gone and there is no accountability in many of these defense and large heavy industry enterprises right now.

Thirdly, defense conversion is linked to privatization and it is the tortuous path of moving from the unprofitable heavy sector industry which is geared in large measure to military production to a consumer-oriented manufacturing and services economy. At the heart of the Russian economic problem today is the fact that its industrial sector now is producing goods that nobody wants.

POLITICAL STABILITY AND RISE IN ANTI-AMERICANISM

The fourth major issue for the future is, of course, political stability. As we are all painfully aware, there is a very weak executive branch of government. It is polarized and fragmented. It is not working together. And, in addition, there is the overlay of the struggle between the executive branch and the parliament which creates the current gridlock.

Russia desperately needs a new constitution outlining the balance of relationships between these two entities but the question is how does Russia get that constitution?

Fifth is the rise of criminal elements which is becoming an integral part, I am sorry to say, of the Russian economy. It is widespread corruption, I think, more widespread than ever in the history of Russia, therefore, tremendous inefficiency and a much greater cost of doing business.

Sixth and lastly, the trends to look at for the future is the rise of subtle anti-Americanism. A subtle but unmistakable rise in anti-Americanism in certain circles in Russia. It is based upon the feeling, I think, that the U.S. talks a good game but delivers very little. And, as a result, in these very difficult economic times, nationalist elements are coming to the fore.

There are many different kinds of nationalist elements, but I would characterize the most important one as good old fashioned pre-Communist Mother Russia type of nationalism, which basically says that we do not need the West.

MISSED OPPORTUNITY AT BREAKUP OF SOVIET UNION

Mr. LANTOS. Well, let me stop you there for just a second because I do not want this throwaway sentence that the U.S. talks a good game but delivers very little to just sort of slip by.

It is my considered judgment that the manner in which the breakup of the Soviet Empire was handled by the West, certainly including by the Bush administration, is one of the great missed historic opportunities of the 20th century. So I think it is important that we spend some time on this, and I will ask your colleagues on the panel to react to this, as well.

Let me just offer two preliminary thoughts before I ask you to react to this.

Number one, it seems to me that the liberation of Europe came in two phases. The first phase unfolded in 1944 and 1945. The American and Western response was the Marshall Plan, which in today's dollars amounts to about \$120 billion. And it lubricated the transformation of Western Europe into prosperous and democratic societies. In some instances, both the prosperous and the democratic had to be created. In other instances, only the prosperous had to be created because they were already democratic.

The second phase of the liberation of Europe in 1989, 1990, 1991, with respect to Germany, we had, I believe, last year alone about \$112 billion of West German tax funds flow into East Germany to take care of 17 million East Germans. The West basically has provided a pittance or less in lubricating the transformation into democratic and prosperous societies of both Central and Eastern Europe and the republics of the former Soviet Union.

So in analyzing what happened, and in dealing with the problems you are mentioning and your colleagues will mention, hyperinflation, et cetera, do we not need to begin by saying that a great historic opportunity was missed which is not going to be recreated?

The time for the good decisions is gone. We are now engaged in damage control because there was no reason for the extent of disintegration politically and economically of the various societies had the West been capable of responding more creatively.

What do you think, Mr. Lawson?

AID LEVELS DEEMED INADEQUATE

Mr. LAWSON. I do not know if I would entirely agree with that. I think if you have a political disintegration of Communism and you unleash the glue that kept in check the ethnic cleavages that were so apparent in the former Soviet Union you are always going to have some element of political instability.

If your basic point is that we did not give enough aid and assistance at the right time, then I think I would agree with that.

Mr. LANTOS. That is all I am saying. I am not saying that all problems would have been solved.

Mr. LAWSON. Yes. If that is your basic point, then I would agree with that.

AID PROVIDED IN LOW QUALITY FUNDS

Mr. LANTOS. But I think the solution of all problems would have been lubricated and it has not been lubricated.

Mr. Sachs, how do you feel about this sort of fairly basic issue?

Mr. SACHS. Well, surely I agree with you, Congressman Lantos. We even announced last year a decision to move ahead with substantial assistance predicated on a careful analysis of the financial situation. We just did not deliver. So I think it is quite self-evident that we missed major opportunities in 1992.

Mr. LANTOS. We, the West collectively?

Mr. SACHS. We, the West.

Mr. LANTOS. Promised \$24 billion, how much of that, in your judgment, was delivered?

Mr. SACHS. About \$11 billion. But of very low quality funds in the sense that these were very short-term market interest rate loans, much of which is coming due and is already in default. So we gave almost no grant assistance, as the Marshall Plan did, for example.

NEED TO FORGE CONSENSUS ON AID PROGRAM

Mr. LANTOS. Professor Cohen.

Mr. COHEN. I agree with Professor Sachs that it has been a missed opportunity. But it would be there that Professor Sachs and I would begin to disagree.

Even if you gave us tomorrow \$20 billion for next year he and I would disagree on how it should be used, what conditions should accompany it, and what political expectations we should have.

The first struggle is, of course, get a consensus to devote a lot of money to this essential cause. Then we will have to argue about the best way to use it.

Mr. LANTOS. All right.

Mr. Lawson, will you continue?

Mr. LAWSON. Yes, sir. Thank you, Mr. Chairman.

Mrs. MEYERS. Mr. Chairman.

Mr. LANTOS. Yes. Congresswoman Meyers.

Mrs. MEYERS. Just to comment about what Mr. Cohen just said, I think that is absolutely right. The first thing is to get a consensus in Congress; and I would ask you to remember how difficult it was, and has been, in recent years, to pass foreign aid bills of any kind.

We struggled even last year, even at a time that people knew it was extremely important, and that time was of the essence in getting assistance to the Soviet Union. We struggled in Congress.

I ask you to remember the many speeches on the floor about the homeless and the poor here in this country, and then look at all of this aid that we are giving to the Soviet Union, and on and on it went.

I mention this because I think the difficulties are going to get greater as time goes on. We do not now have a major adversary to fight against, and therefore the idea of giving aid may seem even less important to some.

So if you think there were missed opportunities in the past, I would say we are going to have to struggle to have opportunity in the future.

NEED FOR AMERICAN LEADERSHIP

Mr. LANTOS. Well, I do not disagree with my friend from Kansas except to suggest that we are not talking about U.S. foreign aid, we are talking about U.S. foreign policy leadership. Saudi Arabia and Kuwait today would be the nineteenth and twentieth provinces of Iraq had we not landed a half a million troops there and had we not defeated Saddam Hussein.

It does not stretch the imagination too far to suggest that some leaning could have taken place on Saudi Arabia and Kuwait to supply some funds. Some pressure could have been applied to Japan to supply some funds. What was lacking was not American dollars but American leadership.

We all are fully cognizant of our domestic needs. The greatest deficit was not our financial deficit but it was the deficit of leadership which resulted in missing this great historic opportunity.

Mr. Lawson.

Mr. FINGERHUT. Mr. Chairman.

Mr. LANTOS. Congressman Fingerhut.

Mr. FINGERHUT. Since we are in this informal setting, the last comment Professor Cohen made, that he and Professor Sachs would probably disagree on the manner of spending, if in a brief synopsis—

Mr. LANTOS. We will get to them in just 1 minute so they can develop that point.

Mr. Lawson.

LINKING U.S. ASSISTANCE TO REFORM EFFORT

Mr. LAWSON. Thank you, Mr. Chairman.

On the second cluster of questions that Chairman Hamilton asked us, the current U.S. policy toward Russia, obviously the administration's policy is still evolving but it does appear from background newspaper reports and background briefings that administration officials have given that Russia is either first or certainly near the top of U.S. foreign policy concerns and I think that is appropriate.

The U.S.-Russia Business Council wishes to applaud the nomination of Strobe Talbott to be U.S. Ambassador At-Large of the State Department in charge of coordinating aid to the former Soviet Union and the appointment of Tom Pickering as U.S. Ambassador to Moscow, who is one of the most respected career officers in the Foreign Service.

The conditions of assistance that the United States should bear in mind are first of all, in my view, U.S. assistance ought to have some linkages, conditionality but it should not be overly coercive lest there be a backlash. Let us not be heavy handed when we give our lectures to the Russians.

In the end, Russia will do what it wants to do. We need to remember where Russia was about 2 years ago, when people were predicting riots in the streets, wholesale famine, complete economic chaos, civil war. There is certainly economic turmoil in the Russian economy today but there is not economic chaos. So let us not judge Russia by Western standards.

Having said that, U.S. assistance, in my view, should be linked to the reform effort in the following six ways:

U.S. assistance should help prevent hyperinflation.

It should help to stabilize the ruble.

It should help the steady reduction and conversion of military enterprises.

It should help continue progress in privatization.

It should be given in coordination with the G-7.

And, lastly, the point that the Congresswoman from Kansas raised, it should have the support of the Congress and the American people and this latter point, I think, being almost the hardest to obtain.

IMPORTANCE OF MAINTAINING CURRENT FUNDING LEVELS

Lastly, U.S. policy should maintain the current funding, at least the current funding levels for Russia, in order to do serious trade and investment with that country. The Ex-Im Bank budget has, unfortunately, been frozen for 2 years at the same levels which really means that it is a drop in their budget authorization. OPIC's loan authority, which is about 40 percent of its budget, has been pared back.

The Department of Commerce has not yet received from AID the up to \$12 million that was stipulated for or authorized for in the Freedom Support Act to open American business centers throughout the former Soviet Union. I think it should receive the \$12 million so that the funding levels of trade credits and the trade invest-

ments that the U.S. Government gives to Russia must be maintained.

ESTABLISHING PRIORITIES FOR POLICY TOWARD RUSSIA

On the third issue that the chairman asked us to comment on, the right and wrong of current U.S. policy, in my old administration which I was a part of, the Bush administration, having been the Vice-Chairman of the Ex-Im Bank and I share the responsibility for this, I will say that we may not have had the most conceptual overview of our policy toward Russia. I think we were very good on many technical fronts here but there is a need to establish priorities.

What is the basic thrust of U.S. trade and economic policy or political policy toward Russia?

Is it to give credits?

Is it to give technical assistance?

Is it to stabilize the ruble?

Once the priorities are clear, then one can organize to meet those priorities.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Lawson appears at the conclusion of the hearings.]

Mr. LANTOS. Thank you very much.

Professor Sachs.

STATEMENT OF JEFFREY D. SACHS, PROFESSOR OF ECONOMICS, HARVARD UNIVERSITY

Mr. SACHS. Thank you very much, Mr. Chairman.

AGREEMENT ON COMPONENTS OF AID PROGRAM

I think the good news, and I hope Steve Cohen will agree that it is good news, is that we basically agree on what should be done, as I understand his testimony. We have almost identical categories of assistance and they match what Gene Lawson mentioned as well: a social safety net support, help for military to civilian conversion, stabilization, and so forth.

I look at the list that Mr. Cohen gives about military conversion, a program to start small business firms, another to subsidize unemployment benefits. Those are almost the identical categories that I would propose. He also suggests debt relief which is an absolute imperative.

So I think if we go down the list, the happy news is that we, I think, basically see eye to eye on the practical steps forward, even if we somehow see the past in somewhat different ways. And I would like to underline that.

MARKETS BEGIN TO FUNCTION SPONTANEOUSLY

My own view of the situation is quite similar to what Gene Lawson has described. Many parts of the Russian economic transformation are going forward with remarkable vigor and success.

There are many aspects of the change to a market economy and in broad terms the commercialization of Russian society, that is, the beginning of doing normal business rather than getting a com-

mand from the center, that have actually taken hold to a remarkable extent. And we should expect that, because we see in Eastern Europe that the fears that a market system could not be put in place turned out to be groundless.

So in Russia as well, we see the ability of markets to begin to function spontaneously, both on the wholesale and retail level. We see lots of trade with China on a very decentralized basis, commercialization of relations between enterprises, entrepreneurship, and regional development. I think the movement toward a market economy is going forward very well.

There is an article in the Financial Times today by the governor of Nizhni-Novgorod who points out, if you look to the regions, you can see that there are substantial and very exciting developments underway and a market economy taking hold.

PROGRESS ON PRIVATIZATION

Privatization is also going forward and there I completely agree with Mr. Lawson that this is to a remarkable extent due to the great leadership of Anatoly Chubais meeting fertile ground in Russia. The Russian people want private property and he feeds into that desire. He has demonstrated stupendous administrative and political capabilities.

There have been 50,000 privatizations carried out in 1992 and now large scale firms are being privatized at a very significant rate. The voucher program of large scale industrial privatization is moving forward at a pace that most people doubted could be managed, and I think Mr. Chubais deserves our support and an enormous amount of credit.

CONTINUING THREAT OF FINANCIAL DESTABILIZATION

There is one major, indeed fundamental, problem which puts all of this at risk. And that is the profound financial destabilization that continues to confront the country. This is a destabilization that grew up over many, many years.

By the time that Mr. Gorbachev left office, the budget deficit in Russia was about 25 percent of GNP. A mountain of rubles had been created which led to what economists call the monetary overhang, meaning that there was an excess demand for goods, that there were no goods in the shops and black market prices were three to five times higher than official prices.

And in a table that I have given you, we see that the balance of payments crisis was also profound. I will not go through the numbers but just point out that what was inherited by the Yeltsin government at the end of 1991 was a financial catastrophe, unrivaled, I think, in the 20th century in its complexity and its depth. Imports had already collapsed from \$82 billion in 1990 to \$45 billion in 1991 as the financial unraveling of the old system took hold, as the huge mountain of debt started to call for repayment rather than new inflow of funds.

So there was an extreme financial crisis. That financial crisis is not solved yet. And that is what keeps Russia on the edge of hyperinflation.

Since this is a seminar, an academic cannot resist showing a couple of tables and I have handed out four pages.

Mr. LANTOS. Just do not get carried away.
[Laughter.]

MONETARY SUPPLY AND HYPERINFLATION

Mr. SACHS. I will not. I would only point out to you one table that I think summarizes what happened in 1992.

It is a table called Monetary Data for Russia 1992. It is the first page of a handout that I hope is available to you.

Mr. LANTOS. Yes. We have it.¹

Mr. SACHS. If you look at the middle block, you see that the monthly growth of the money supply lagged behind the inflation rate through August 1992. Starting in September, however, the money supply started to grow at a hyperinflationary rate in Russia, at about 30 percent or 40 percent per month.

It had been more or less under control for the first half of 1992. There was a change in leadership of the Central Bank in mid 1992 and a change of monetary policy. That was based on an enormous expansion of trillions of rubles of credits to the heavy industrial sector. That started the money supply growing and what this table purports to show, and I think does show, is that as the money supply accelerated so, too, did price inflation. So you have the standard workings of a hyperinflationary process.

Similarly, as soon as the money supply started to grow, the ruble started to collapse and that is what is shown in the bottom panel of this table.

What all of this means is that we have an identifiable problem and a very dangerous situation. Russia is on the verge of hyperinflation but is not there yet. Inflation is about 30 percent per month right now.

The government of Mr. Chernomyrdin has been very clear that this is absolutely the number one priority facing the government. President Yeltsin, Prime Minister Chernomyrdin, Deputy Prime Minister Shumeiko, Deputy Prime Minister Fyodorov, have all explained in the last 6 weeks to the Russian people and inside the government that the highest priority for all of them is financial stabilization. Irrespective of whether it was Mr. Gaidar or Mr. Chernomyrdin, they understand that hyperinflation is the greatest risk facing Russia right now.

FOREIGN ASSISTANCE SHOULD CONTRIBUTE TO STABILIZATION

The government has formulated a policy in this regard which was published a couple of weeks ago but it remains an unimplemented document at this point. They key for Russia is to get from the stage of talking about stabilization to really doing it before the hyperinflation overtakes them.

The essence of foreign assistance is to help them succeed in doing that by helping them to fund vitally needed obligations in a way that does not directly contribute to hyperinflation. So what foreign assistance can do, if the Russians carry out nine-tenths of the reform on their side, we can help meet them one-tenth of the way by helping to finance some essential expenditures that otherwise ei-

¹The tables referred to by Professor Sachs precede the material submitted for the record in support of his oral statement, all of which appear at the conclusion of the hearings.

ther would not be financed or would be financed in a hyperinflationary manner by printing money.

That is the traditional role of external assistance to other countries of Eastern Europe and historically, whether it is Germany in the postwar period, the Marshall Plan, League of Nations loans in the 1920's, Turkey in the end of the 1970's, or Israel in 1985. It is the same basic financial mechanism to achieve stabilization.

And I think that all of us agree on the areas, I hope, of greatest urgency for helping them to meet that need. It seems to me that because hyperinflation is so virulent and therefore calls into question all the other progress that is being made, this is the issue to which we should devote our most urgent attention.

[The prepared material submitted by Mr. Sachs appears at the conclusion of the hearings.]

Mr. LANTOS. Thank you very much, Professor Sachs.
Professor Cohen.

STATEMENT OF STEPHEN COHEN, PROFESSOR OF POLITICS AND DIRECTOR, RUSSIAN STUDIES PROGRAM, PRINCETON UNIVERSITY

Mr. COHEN. Both Professor Sachs and I, no doubt, like this university setting you have created for us, the seminar environment. But both of us probably are unhappy that we do not get to do the grading today and that we did not get to write the questions.

On the other hand, the questions are very good and I congratulate you on them. So good that I broke off working on a book that I hope to finish before going back to Moscow and found myself writing a long essay in response to your questions, which I have given you. Now I am asked to summarize it in 5 minutes.

Mr. LANTOS. Will you list me as a coauthor?

Mr. COHEN. I will indeed.

[Laughter.]

FAILURE OF BUSH POLICY TOWARD RUSSIA

Mr. COHEN. I was told to summarize that statement in 5 minutes. I think I can do it in 5½ minutes.

I come here as a very strong advocate, as do Professor Sachs and Mr. Lawson, of very large Western and American aid to Russia. But I come here also as a bearer of bad news, partly because I share Chairman Lantos' premise that the primary foreign policy concern of the United States for the foreseeable future will be Russia and secondarily the other former republics.

And yet, I think that the United States has no well conceived or workable policies toward Russia.

After the breakup of the Soviet Union in 1991, the Bush administration pursued a twofold policy. One part of the policy sought to carry out a kind of American missionary crusade to transform Russia into a democratic capitalist system by urging and supporting, at least in rhetoric, the shock therapy policies of the Yeltsin-Gaidar government against its Russian domestic critics and by promising to mobilize large scale Western support, which in fact it did not do.

On that basis, the other part of the U.S. policy was to transform post-Communist Russia into our friend and partner in world af-

fairs, thereby solving the problem of "loose nukes" left over from the breakup of the Soviet Union.

Both of these policies to date have failed and failed badly. Russia's so-called transition to democratic free market capitalism—and here Professor Sachs and I no doubt disagree—is going very badly both economically and politically. Russia is not nor will it ever be a "friend and partner" of the United States in foreign policy in the simplistic ways conceived by the Bush administration.

The nuclear threat on former Soviet territories remains very great and certainly greater than it was under the Soviet regime. START II, may turn out to be a bogus or failed set of agreements, never ratified or implemented as promised.

Meanwhile, uncertainty remains about the full location and control of Soviet tactical nuclear weapons. Little if anything has been done about exceedingly dangerous Soviet-built nuclear reactors. And little has been done about the proliferation of Soviet nuclear components and know-how.

Still worse, returning to the failure of the Bush policy, missionary and intrusive U.S. policies have generated a profound and still growing political backlash in Russian political elites and in society against excessive American interference in that country's internal and foreign policies.

And finally, nor did the Bush administration ever develop stable constituencies inside the United States for helping Russia perform. There is little American support, at least in public opinion polls, for doing anything substantial to help. And yet if that is the judgment of the American political leadership, it is its obligation to help create and nurture those constituencies.

FALSE ASSUMPTIONS ABOUT POST-COMMUNIST RUSSIA

Why then did these U.S. policies since 1991 fail?

They failed because they rested largely on false assumptions about post-Communist Russia, in particular, the following assumptions: that the Soviet breakup of 1991 was a new Russian revolution that swept away the old Soviet regime and most of the major obstacles to creating a democratic capitalist system in Russia; the false assumption that the United States had the wisdom and the power to intervene directly in Russian affairs in order to shape that transition to an American style system; and the false assumption that post-Communist Russia, where Marxist Leninists were no longer in power, could not possibly have important foreign policy interests different from those of the United States.

Operating on the basis of these conceptions since 1991, U.S. policy has not only failed, it has undermined our own purposes and interests in Russia, while breeding American disillusionment about helping Russia. These are serious failures.

This does not mean, and here Professor Sachs, Mr. Lawson and I evidently agree, that Russia is incapable of democracy, markets or good relations with the United States. It is capable of that. None of what I have said means we should not help Russia. Certainly we must help, and generously.

DEVISING WISER U.S. POLICIES TOWARD POST-COMMUNIST RUSSIA

All of it does mean, however, that much wiser U.S. policies toward post-Communist Russia require much wiser American understandings about Russia and about ourselves.

Here, in my judgment, are the most important ones:

First, the United States must help Russia reform but never in ways that are missionary or intrusive. We lack the power, the wisdom and the right to dictate Russia's reform strategy and its pace, or to interfere excessively in internal Russian affairs.

Second, Russia will change, but its future will not be a replica of the American system. Our system cannot be transplanted into that very different civilization. Russia will borrow from the West, but it can find a stable future only within its own historical experiences and its own existing circumstances. I could give you many concrete examples if we had the time.

Third, nor can Russia leap to a market system or democracy. No real revolution or total collapse occurred in Russia in 1991. The old Soviet system still exists in many fundamental ways that are still essential to people's everyday well-being and even their survival. Until a new system emerges gradually and incrementally, any more leaps, any more shock campaigns to dismantle the old system, will be impractical and inhumane, if not catastrophic and detrimental to democratization.

Fourth, it is impossible for us, Americans, to identify all the good and bad guys in Russian politics today. Profound struggles are raging over many fundamental and complex issues, not just over markets and democracy. Today's Russian political spectrum is exceedingly broad and complex. It is not just democrats versus reactionaries, or Yeltsin vs. Communists, as many U.S. analysts think. If even my well-informed Russian friends cannot decide which Russian political leaders and policies to support from month to month, how can we do so?

Therefore, fifth, the U.S. Government must considerably broaden its official political relations in Russia. It must, of course, focus on the Russian president. But it has been a grave mistake for the United States to ignore, even ostracize and thereby offend, other official Russian governmental institutions and particularly the Russian parliament.

The United States must have normal, good relations with all these institutions and it must have open, respectful relations with a broad range of Russian public opinion and movements.

If we do not do this very soon, the United States will have few Russian friends, partners or even acquaintances under a post-Yeltsin leadership.

REALISTIC THINKING ABOUT RUSSIAN FOREIGN POLICY

Finally, we also need realistic thinking, not illusions, about Russian foreign policy. Russia's foreign policy will be based on Russia's own perceived national interests and on positions that can be politically sustained in Moscow, not on interests that are desired and positions that can be sustained in Washington.

We can reasonably hope that Russia's interests will coincide with American interests more often than not but we may be sure that

they will not always do so. And unless we learn to live calmly with that natural inevitable reality, there will never be a truly new, American-Russian relationship. There will only be a very cold peace after the very long cold war.

Within all these strictures and principles, there are many things that we can and must do to help Russia's reforms. And here Professor Sachs and I may agree. But I leave those issues to our discussion, if they interest you, and I thank you.

[The prepared statement of Professor Cohen appears at the conclusion of the hearings.]

Chairman HAMILTON. Let me express my appreciation to the panel. I regret that I was unable to be here for the opening of this hearing due to a meeting this morning with Prime Minister Major.

I understand we are proceeding in a more informal way, so I will just open it up. I want to encourage a thorough and wideranging discussion and make this as productive as possible.

Mr. Lantos and then Mr. Sawyer and then Mr. Brown.

DOMESTIC CONSEQUENCES OF FAILED POLICY TOWARD RUSSIA

Mr. LANTOS. Thank you very much, Mr. Chairman. And let me say, I want to commend and congratulate all three of our witnesses for excellent presentations.

I would like to begin my question with a statement that I would like all three of you to react to because unless we can answer my statement in a satisfactory fashion I think confusion will continue to plague both American policy toward Russia and public opinion.

My colleague from Kansas, and I am sorry she left, made the point which, of course, is made ad nauseam and ad infinitum, that when we have homeless in the streets and the AIDS epidemic and unemployment and so on, how can we in fact think of problems as geographically removed as the problems of Russia?

It is my judgment, and I would like each of you to react to this, that there is in fact a very close and unbreakable linkage between our success in dealing with Russia and our ability to solve this long list of domestic problems.

It seems to me that if in fact a worse case scenario unfolds in Russia or even a likely scenario unfolds in Russia, taking Professor Cohen's scenario which is not a happy scenario, we may be confronted with a very nationalistic Russia, possibly with a military dictatorship, which will compel us to reverse our policies of downsizing the military and will force us to again reshape our priorities.

So the notion that we cannot deal with Russia or the Ukraine or any of the others until all our domestic problems are solved to me is an absurd notion. The world will not stop. And even in areas geographically as removed as Bosnia, unless we get cooperation from the Soviet Union to the maximum possible extent, our international failures will have a very negative, potentially devastating, impact on domestic policies we wish to pursue.

INTERNATIONAL SECURITY IMPLICATIONS OF ECONOMIC BREAKDOWN

With this as the statement, I would like you to react to what I see as a dichotomy between the number one Russian problem and the number one problem from our point of view.

The number one Russian problem, as all three of you kept emphasizing, in my judgment, correctly, is an economic problem. The number one problem from our point of view is the security and political implications for the United States of a deteriorating Soviet internal economic situation.

Let me be specific.

It is clear that as Professor Cohen wrote last November, "Fugitive tactical nuclear weapons in the former Soviet Union pose a greater nuclear danger to the world than what was present during the Soviet system." I believe you added to that the danger of poorly maintained internal nuclear reactors.

Secondly, the sale by Russia and other republics of weapons of all types to singularly dangerous and unstable regimes such as Iran poses a very serious problem. Last month, the Russian Defense Minister, General Grachev, led a delegation to the United Arab Emirates which led to a protocol of understanding for future arms sales. Two years ago, Moscow delivered 100 T-72 main battle tanks to Teheran. Further, 400 tanks are understood to be considered for export. Two submarines have been delivered to the Iranian navy, maybe three.

My question to all three of you is to deal with this problem that I raise. They may have domestic economic problems which are quite obvious. But from our point of view, the failure to solve these domestic economic problems does not just mean that people will be unemployed and hungry and disenchanted, but that it will have enormously significant international security ramifications for the United States, from the former Yugoslavia, to Iran.

Professor Cohen.

AID IS INVESTMENT IN U.S. NATIONAL SECURITY

Mr. COHEN. I have thought a lot about this. I was raised in Indiana and Kentucky and therefore in a conservative way but also by my parents to be what is sometimes called a bleeding heart liberal.

If you were to tell me that I had to make a choice between helping our own folks here who need help and helping Russia, I would choose helping our own people. But that is a false choice.

If the United States would spend \$3 to \$6 billion a year for 4 or 5 years on assistance to Russia, it would be only 1 or 2 percent of our current defense spending. It would be the cheapest national security we could buy, and plenty would be left to help our own people.

The connections that you make between the future of American economic development and a potential catastrophe in the former Soviet Union is absolutely right. I do not know of anyone who denies that.

Cold war reflexes in this country remain strong just below the surface. It would not take much to trigger a new military buildup in this country. Evans and Novak, for example, have already maintained that cold war winds are blowing from Moscow. There may even be in some influential quarters a kind of yearning for cold war certitudes. And the slightest sign in Moscow seems to arouse that yearning. In this respect, a dangerous situation exists in our country as well.

CHANGING RUSSIAN PERCEPTIONS OF THE U.S.

I would mention one other thing that may seem to be a little sentimental, but I speak now as a person who has lived and studied Russia for about 25 years. Much Russian thinking today about that country's future is based on the assumption that the United States is a society that is fully democratic but also full of social justice for all of its people. If you tell Russians, yes, much of that is true but lots of American people do not get a fair shake, they find it hard to believe.

Now, however, there is a great flow of information to Russia about the United States. And as Russians begin to perceive that we have fundamental problems, that we have people living in the streets and in real poverty, they begin to think, well, maybe the American way is not our way after all. So there are, as you say, all sorts of political, military, psychological, and economic connections between what we do here, what we do to help Russia, and what eventually happens in Russia.

NEED FOR FOLLOW-THROUGH ON DELIVERY OF AID PACKAGE

Mr. LANTOS. Congressman Sachs—Professor Sachs.

Mr. SACHS. Not yet, not ever. But thank you, Congressman.

Mr. LANTOS. You do not get demoted that frequently, do you?

[Laughter.]

Mr. SACHS. I think that the way to frame the issue is exactly as Steve Cohen has said, that it is a form of security. And what is important to understand is, as you have stressed, that our assistance would be part of a multilateral package which means that the direct obligations to you as Congressmen, to us as taxpayers, would be shared throughout the entire industrial world.

I have looked at these numbers carefully. I have spent 6 months, more or less, banging my head against the wall, trying to make the \$24 billion announcement into something that would be delivered but only finding out in the process that there was nothing there to grab onto, it looks to me as if the U.S. budgetary obligations for what would be an adequate package are on the order of about \$3 billion or 1 percent of our defense spending.

You mentioned the Marshall Plan. In fiscal years 1948 and 1949, the United States donated, in grants, 2 percent of GNP to Europe. Three billion dollars is one-half of one-tenth of 1 percent of GNP. So the analogy to the Marshall Plan is correct in economic terms but it should not scare the American people. We are talking about something which is minuscule in effort compared to what we did at that point.

The problem is that nobody worked on delivering the multilateral package last year. It did not really exist. And probably the single most corrosive thing that we did last year was to announce it and then not follow through. What I find particularly disturbing is the continued self-protection of some of our international institutions like the IMF, which makes statements such as "we did everything we promised last year," a demonstrably false statement. Yet these institutions continue to make these statements and thereby breed cynicism and corrosiveness in Russia.

Let us announce what we can do and then follow through. And we can certainly do the scale of efforts that we announced last year. It just has to be mobilized. It has to be mobilized internationally. Japan has a major role that they have not fulfilled yet. And it has to be turned into meaningful programs of the sort that all of us agree on: small business development, military conversion, a stabilization fund and so forth.

And then we get something meaningful. But that was most corrosive, I think; announcing something and then having nothing there in the end.

Mr. LANTOS. Mr. Lawson.

NEED FOR U.S. PRIVATE SECTOR INVOLVEMENT

Mr. LAWSON. Well, I do not think you are going to get any particular disagreement from me about the tradeoff between domestic priorities and foreign policy and aid and assistance to Russia. Having spent some 50 years and over \$1 trillion to make sure that the USSR did not succeed, we now find ourselves in the position that we cannot afford to see Russia fail. So I agree with the thrust of your statement, Mr. Lantos.

I think when we start to talk about a laundry list of what we can do to aid Russia we are on very weak conceptual ground. I would agree with, I think, Steve Cohen. Because we do not really have any role models to follow here. This is all brand new stuff for us. We have never had a command economy go into a market economy. We have the examples, perhaps, of Poland, Hungary and Czechoslovakia, and perhaps Poland is going to be—and I would like to hear Jeffrey Sachs talk about this a little bit later on—perhaps Poland is going to be in fact a successful model of a transition from an essentially planned economy into a free market economy and we can learn some lessons from that and most especially the Russians can learn some lessons from that.

But one point I would make, when we start talking about, say, \$3 billion of U.S. Government assistance to Russia, the U.S. private sector's efforts in Russia are going to simply dwarf what the U.S. Government can do. The real action, the real economic assistance and power of this country is going to be generated through the U.S. private sector in technical assistance, in managerial skills, in goods and services and examples about how to get enterprises up and running. All of that is going to be done by the private sector.

And what the U.S. private sector needs is the right atmosphere that is generated by the U.S. Government to allow that to go forward.

Mr. LANTOS. Thank you, Mr. Chairman.

Chairman HAMILTON. Mr. Sawyer.

CRITERIA TO EVALUATE ECONOMIC PERFORMANCE

Mr. SAWYER. Thank you, Mr. Chairman.

You could not have played more directly into a couple of questions that I want to ask about. They really do not require long responses, I do not think.

There are two areas that relate to the business of building constituencies both in the former Soviet Union and within the United States. Most of the economic data that we get about Russia is in

large scale terms, for example, macroeconomic data that comes from the IMF and the World Bank.

We do not get very much of the detailed measurements of the fundamental workings of a market economy in a way that can either allow us to track the aid that we offer, in whatever amounts we send, nor that allows the Russians to evaluate the performance of their economy in market terms and, perhaps most critically of all, allows American observers, potential investors, to witness an environment stable and secure enough to put their money into.

It seems to me that for a very small investment in technical assistance that could be coordinated at the level of government to government we could help to build, using one of the largest statistical bureaucracies that the world has ever seen, the capacity to make the kinds of measurements that could make a difference in all of those terms and build constituencies that make some sense.

I would appreciate it if you would comment just in terms of whether or not you think their analysis, and ours, of their condition may be limited by this absence of data, whether or not they, or we, are making decisions based on faulty or incomplete data and whether or not that kind of investment makes sense.

The second question is much shorter.

INTERPARLIAMENTARY EXCHANGES

Interparliamentary exchanges are not uncommon at all. It seems to me that that would be a worthwhile thing to undertake. My question is who do we talk to? Who would be best to talk to in the course of the coming year?

STATISTICS TO MEASURE ECONOMIC PERFORMANCE LACKING

Mr. LAWSON. Well, let me respond to your question about the statistics. Of course, we have an increasingly difficult time getting proper statistics out of Russia. With the demise of GOSPLAN a couple of years ago, the statistics that we have gotten are fragmented. They do not really reflect reality.

I think there is a consensus among most private sector people that Moscow is really ignorant of what is happening in the countryside. Moscow really does not have the foggiest idea of what is going on out there. As I think Jeffrey Sachs mentioned, there is grass-roots capitalism springing up all over Russia today and Moscow is simply not tracking that. It is totally unaware of it. And it is totally out of its control, I might add, too. And the proper methodology or procedures now for U.S. firms to do business in Russia is to go directly to the private enterprise or right to the enterprise itself in the locality and avoid the ministries in Moscow. They are just a waste of time. So I would agree with you that the statistics are very hard to come by.

VALUE OF GOVERNMENT-TO-GOVERNMENT ASSISTANCE

Let me give you two more examples here.

The ways that U.S. Government assistance could be extremely helpful to the U.S. private sector would be, for instance, in the government-to-government areas, would be in the building—in the ad-

vice and counsel for, say, building capital markets, the stock market. Or helping with the tax code.

One of the reasons for the rise in criminality in Russia is that the Russian central government's tax receipts are about 40 percent down from where they were before, 2 or 3 years ago. They cannot pay the police. They cannot pay the internal security.

I wonder what would happen in this country here if you had a 40 percent reduction in the police force in this country, you know. So government-to-government assistance could be extremely helpful.

MOSCOW MUST PROVIDE WORKING MONETARY STANDARD

Mr. SACHS. I think that it is important to keep in mind, as Mr. Lawson already said and in which I would concur, that the most important and riskiest aspect of the economic situation is the financial destabilization. I took some pains to provide you with some data because that is something we know something about. And there is no mystery in broad conceptual terms as to what is happening. If the money supply grows at a rapid rate, price levels will grow at a rapid rate also. That was not universally viewed to be the case in Moscow this summer.

I had long discussions with the governor of the Central Bank as he embarked on these policies and we had a sharp disagreement about what would happen. I am sorry to say that I was right and that he was wrong. You cannot increase the money supply at 40 percent per month and get away with it without putting the country on the edge of the cliff.

The point I would make is that all of the real life of the economy in the long term will be outside of Moscow. That is where the real activity will go on. But that is not the same thing as saying that what goes on in Moscow is irrelevant because the one thing that Moscow must do above all is provide a stable unit of monetary value to allow all the rest of the economy to live.

Economies cannot live without a working monetary standard and no region, no governor, no local province, no private sector investor can do that. The only ones that can do that are the central government and the Central Bank.

So that is the central government challenge and I think it is important to keep this conceptually clear. There is one main thing that the center should do and that is to stabilize the monetary system so that life can go on in this vast country of 11 time zones, so that the regions can get on with their business and so Moscow does not dictate to them. And that is what is happening on the ground.

But our investors cannot function, their investors cannot function, nobody can function when inflation is running at 30 percent per month, which is 2200 percent per year, much less 50 percent per month, which they are heading for, which is 12,000 percent per year. There is no deep conceptual mystery about where this comes from. When they tightened money, the ruble was strengthening and price inflation was cut. Then there was a change of policy which was most regrettable.

The government has recognized all of this. But the money printing is not just coming out of a vacuum. To some extent, it is wholly

misguided, but to some extent it reflects absolutely crucial obligations of the government that it cannot meet out of its own revenues in the short term.

And that is where we come in. There is no mystery with the data. While there are conceptual issues, the ruble money supply is a measurable variable for which we have the numbers. I can provide them to you in considerable detail. The problem is what is happening with the money supply and what that reflects in the underlying political economy. And that is where we come in.

They have to close this gaping hole which is going to destabilize the whole society because societies cannot resist hyperinflation nor can nascent democracies resist hyperinflation.

On the rest, let the regions do their thing.

Chairman HAMILTON. Mr. Royce and then Mr. Brown.

POLICIES TO ENCOURAGE MONETARY STABILIZATION

Mr. ROYCE. Thank you, Mr. Chairman.

I think, Mr. Sachs, I think that your point may go right to the heart of it.

The comment has been made that the Marshall Plan bailed out Europe and I do not think that is the European view. I think the European view is that what bailed out Europe was Adenauer's policies and Ludwig Erhardt's policies of giving Germany a stable monetary unit, of giving Germany a system that scrapped the old national socialist system and set in place basically a free market system where within about 10 years the society went from a situation where every factory had been destroyed to one where they had surpassed England in terms of productivity.

And so the question, it would seem to me, is what could be done to encourage the center to duplicate what Adenauer and what Erhardt did in 1946 so that—and the other point was made that there seemed to be some irony in the fact that we had tried for years to destroy this society and now, of course, we are in the position of trying to encourage it. Well, that is not unusual. That is exactly the position we were in in 1946.

The question it seems to me is what can be done to bring about that type of stability.

And, Mr. Sachs, you already agree with that policy.

I would like to hear Mr. Cohen, if I could, whether he agrees with that position or not.

MARSHALL PLAN ANALOGY NOT RELEVANT TO RUSSIA

Mr. COHEN. I do not know if I can answer the question unless you give me the leeway to tease out some of the latent disagreements that might be among us here. It might be helpful for you. Let me dissent a little from what has been said.

I find myself agreeing with much that is being said but as I think about it I know much of it is not fundamental. That it does not address some central issues. We are assuming that Russia is comparable, for example, to Germany or even Japan after World War II. It is not true.

I like the analogy with the Marshall Plan in so far as it commits us to spending a lot of money to do what we should be doing. But the Marshall Plan analogy does not really apply to Russia.

The defeated European countries and Japan had histories of markets, capitalism and even democracy. Russia does not.

Professor Sachs and colleague have written a fascinating——

Mr. ROYCE. Well, that is not true of Japan.

Mr. COHEN. Well, there were markets in Japan.

Mr. ROYCE. Yes, but one of your analogies was democracy and there certainly——

Mr. COHEN. Excuse me?

Mr. ROYCE. Your analogy was there was democracy in Japan and that was not true.

Mr. COHEN. Those countries had varying traditions from country to country.

Professor Sachs and a colleague, David Lifton, for example, have written an interesting paper and kindly sent it to me. You should look at it. But it seems to me to be fundamentally flawed in one crucial respect.

Professor Sachs is convinced that Russia can be compared with Poland but not with China. He has to make this argument to sustain his own economic program for Russia but, alas, it is not valid. Russia has very little in common with Poland. It does not have a lot in common with China but more, in the context of our discussion, than it does with Poland.

If we begin from this premise, we begin to think differently about what ought to be done economically.

Let me use another example raised here today.

ENCOURAGING AMERICAN PRIVATE INVESTMENT

I believe, as everyone does, that if you want to have full-scale American private investment in Russia, Russia has to create laws that protect private property and protect investment. But I would go on to say that if tomorrow all those laws suddenly existed in Russia it would not greatly increase American private investment in Russia because few U.S. investors would be certain that the laws were stable, there to stay, or that Russians would abide by them. A real Russian legal culture will take a long time to develop.

But there are things that the U.S. Government could do that it has not done to encourage American investment. It could provide some of its own guarantees. It could negotiate agreements with the Russian government, which it has not done.

SITUATION IN THE PROVINCES

And, finally, let me comment on the question of the Russian provinces.

I disagree with Professor Sachs, if I understand what he was arguing, that throughout the provinces of Russia there is a broadly spreading grassroots capitalism. I have travelled the Russian provinces, I have many provincial friends who come to Moscow to see me during the 3 to 4 months that my wife and I spend there each year. Professor Sachs' picture is not what I see or hear. There are exceptions, Nizhni Novgorod, for example. But let me add that the architect of the Nizhni Novgorod economic reform, the Russian economist Grigori Yavlinsky disagrees with Professor Sachs about the kind of economic programs that Russia needs.

For the most part, people in the Russian provinces, are still living much as they did under the Soviet regime, both politically and economically. It is a myth, an illusion, to assume that what has happened in Moscow and a few other cities is what has happened throughout these 11 vast time zones.

Therefore we have to think differently about Russia as a whole.

CAUTION ON LINKING SUPPORT TO MONETARIST CONDITIONS

Mr. ROYCE. But does that answer the question as to whether it is wise—all that aside, it seems that the fundamental question is should our policy be to promote that stable monetary unit and to promote setting up some sort of system where there is private recognition of transactions, private property rights?

And do you support that?

Do you think that is the answer for Russia?

Mr. COHEN. Well, I support encouraging that. But I do not support giving help to Russia solely on those monetarist conditions. I do not support imposing a monetary policy on Russia, insisting that there is no other way.

Nor do I think that Moscow itself is in position to impose a reform strategy on the whole of Russia. Since about 1989, when democratization began, much real economic and political power has migrated from Moscow to the provinces, and that process is accelerating today.

Chairman HAMILTON. Dr. Sachs.

ALL ECONOMIES REQUIRE STABLE MONETARY SYSTEM

Mr. SACHS. I would like to stress that China and Poland and every other economy that I have ever studied needs a stable monetary account to function. Part of China's problems at the end of the 1980's was that inflation was reaching what was then, by their standards, viewed as the horrendous rate of 40 percent per year. There was a major contraction plus the social instability that many specialists feel contributed to Tiananmen, that is, the inflationary unrest.

In Russia, we are talking about a beast of a much more significant and dangerous kind, near-hyperinflation. When money supply is growing at 30 percent per month, that is so grossly dangerous and fundamentally destabilizing to the society that it becomes the primary and most urgent task of reform.

That is not just my view, that is Mr. Chernomyrdin's view, Mr. Yeltsin's view, Mr. Shumeiko's view, Mr. Fyodorov's view, and others in the government. As Samuel Johnson said about hanging, the prospects of hyperinflation wonderfully concentrate the mind. They see the dangers. This is evident.

Monetary factors work in Russia quite the same way as every place else. That was the test, in fact, last year. The Central Bank chairman said, I can double the money supply, no problem. We will get expanding output, not inflation. What they have gotten is near-hyperinflation by policies that have quadrupled the money supply.

Do we know how to address that?

PARALLELS DRAWN BETWEEN RUSSIA AND POSTWAR GERMANY

Yes. I would say that it is a standard process of budgeting and a credit target policy that is common throughout the world. And the Russians have to do the same thing.

But there is a fundamental, deep problem, which is that some of the monetary creation reflects heavy fiscal burdens that they cannot meet right now other than by borrowing from the central bank and therefore printing money.

It is important to remember in your example, Congressman, that Mr. Erhardt and Mr. Adenauer just barely scraped by. In 1949, Chancellor Adenauer became chancellor by one vote. It was his own vote that put him over the top. Mr. Erhardt, who was later viewed as the father of the German economic miracle, was reviled in Germany in 1949. He was accused of being the father of German unemployment. What helped them to make it through that extraordinarily difficult period was our financing, which helped the government maintain its basic social functions during the period of transition. The same exact model applied there.

Erhardt has written eloquently about the pessimism that gripped German society in 1948. We look back and say sure, the Marshall Plan, that was an easy call. Who could say Germany had a democratic tradition?

This was after 13 years of Nazism, this was after the failed short period of the Weimar Republic and then hundreds of years of no democracy in the German principalities or in the German empire. And so that was a hard call to make in 1948. The kind of pessimism that grips Russia now gripped Germany then and we had to help them past that critical juncture.

If we give aid, it should be directed toward this fundamental concept, and it should be step by step with the Russians carrying out the monetary stabilization required to make the aid successful.

Our taxpayers have to know that the aid is going to be effective. It sure is easy to lose a lot of money if you are printing money at 40 percent a month. So we can only call on our taxpayers to give assistance if we are sure that the Russians are going to take adequate and firm and meaningful measures to make this aid successful to carry out the basic task.

POLITICAL INSTABILITY EXACERBATES HYPERINFLATION

Mr. LAWSON. May I comment on that, please, if I may?

Chairman HAMILTON. Mr. Lawson.

Mr. LAWSON. I am sorry, Mr. Chairman.

I think we are missing a very important point here when we talk about trying to stabilize the ruble here and prevent hyperinflation. The difference in China and Poland and the current situation in Russia is very simple. In both of those countries, in Poland and China, you have a very strong executive and you have some measure of political stability.

In Russia today, you do not have political stability. At the heart of the inflation problem in Russia is the fact that you have a Central Bank that is being pushed by the parliament to print money to keep the defense enterprises in business. And until there is a constitution that clearly lays out the balance of powers be-

tween these two entities and clarifies the role of the Central Bank, you are going to keep on printing money here because they are pushed by the parliament and you are going to keep on having hyperinflation.

So it is wonderful to talk about all these macro economic things but until you get the basics down, which is a strong executive, political stability, all this other stuff is just talk.

THE POLISH EXPERIENCE

Mr. SACHS. May I respond to that?

That is the first time in history I've heard of the Polish executive being called a strong executive. I was there, Mr. Lawson, in 1989 and the task of monetary stabilization was anything but straightforward. Doing this always requires an extremely concerted effort by an economic team which fights a lot of opposition.

The Polish executive at the time was extremely weak but the urgency was also clear and the Western support was timely. And so the combination made it possible to get past this.

Poland was on the brink of hyperinflation also. In fact, it hit hyperinflation in October 1989. It was also said at that time that because it was a socialist economy it would not respond to the basic measures and that turned out to be wrong. Poland was able to move quickly to convertibility and on that basis generated an enormous boom in exports which made Poland the most dynamic country of Eastern Europe by far and the only one that is growing right now, in fact, based on the stability of the currency.

To do it required a combination of an economic program and Western assistance and doing that in the face of a lot of opposition. In Russia, it can be done as well if you look at the source of the money growth and go carefully, step by step, on how stabilization can be achieved. They have it within their grasp, but it will require our contribution and appropriate steps on their part.

PROSPECTS FOR RUBLE STABILIZATION

But just to be clear about it, the monetary policy was hamstrung last year by the problem of the other republics also issuing rubles, which made it hard to get a coordinated monetary policy. The IMF gave very bad advice. It pressed the other republics to keep their rubles rather than introducing new monies. This postponed monetary stabilization.

We are beyond that point now. Now there is the administrative and legal basis for Russian ruble stabilization that cannot be undone by the central banks of the other 14 republics. This eliminates about a quarter of the monetary increase of last year and so brings us much closer to monetary stabilization.

About 40 percent of the total monetary increase is directly under government control. What remains is about 35 percent which is technically under Central Bank jurisdiction which is mainly rediscount facilities to commercial banks. But even there the government has an important role in various administrative ways. It is my judgment that with a concerted policy of the sort that the government itself has announced, with a solution to the ruble problem, with Western assistance and with the conditions attached regarding monetary policy, we can see the prospect for ruble stabilization

in extremely practical terms. But it requires putting several pieces together. The technical basis for doing this is present or is becoming present.

Chairman HAMILTON. Dr. Cohen wants to respond and then we will go to Mr. Brown.

POLITICAL REFORM WILL NOT SOLVE ECONOMIC PROBLEMS

Mr. COHEN. I feel it is my duty, since you have brought me here, to sharpen the disagreements among us so that you can evaluate our different perspectives.

Will political reform and a new constitution solve Russia's economic problems?

They will not. Not even Russian democrats believe that to be the case. Today, many of them do not even want to talk about a new constitution in these dire circumstances.

Mr. BERMAN. Who said these changes would solve Russia's problems?

Mr. COHEN. I beg your pardon?

Mr. BERMAN. Who said these changes would solve Russia's problems?

Mr. LAWSON. I did not. I did not say that.

Mr. COHEN. Well, he suggested that there was a fundamental need, in order to get at these economic problems, to get a constitution that would separate the president's power—

Mr. LAWSON. The parliament's power, defines the role of the Central Bank.

Mr. COHEN. Yes.

Mr. LAWSON. Right.

Mr. COHEN. This was widely believed in Russia 8, 9 months ago. But not even all democrats themselves today believe it. Many believe that democratization now should be frozen until major economic problems are solved.

I do not agree with that argument but there is a strong case to be made for it.

PRICE LIBERALIZATION RESULTS IN HYPERINFLATION

Secondly, and the most important question in my mind, does the technical monetarist approach for which Professor Sachs has become famous and much admired but also much criticized—does it address the central issues in Russia today?

He fervently believes that it does.

Shake him though I have, I cannot get this bone of out of his mouth. He always returns to this issue because he fervently believes it is the key. He is to be admired for his consistency. But I believe his position is wrong for two reasons.

First, Russia lacks the kind of preexisting market infrastructure that the other countries Professor Sachs has studied and advised had when he began his work. Russia lacks it, so it is not going to respond in the same ways to his policy. Let me give you an example.

If you liberalize prices in an entirely monopolistic setting, as Professor Sachs advised the Russian government to do in early 1992, predictably, inevitably, inexorably, tragically, the result is

hyperinflation. Now he tells us the main problem is hyperinflation. Of course, now it is hyperinflation.

THE CASE FOR SELECTED INDUSTRY SUBSIDIZATION

Even more fundamentally, what is the central issue today for the everyday life of the Russian people? It is the fate of the existing state economy.

Do I like the state economy? I do not.

Is it a good economy? It is not.

Should anyone emulate this economy? They should not.

But 90 percent of ordinary folks in Russia today are still dependent on the functioning of this state economy. Dependent for food supplies, for baby formula, for aspirin, for an electrical cord for an appliance, for school supplies. They are dependent on it. No alternative productive economy has yet emerged. Only private sector trading in state-produced goods has emerged.

And therefore the question is what should Russia do with this Leviathan economy?

The problem with Professor Sachs' policies is that they are so overarching and overweening they cannot, do not and will not discriminate among and between those state industries and enterprises that must be protected in order to save people, and those that can be left to a market fate. The approach he advocates does not and cannot make those life and death distinctions.

Who should decide which aspects of the state economy should be subsidized and salvaged?

Not Professor Sachs, not Professor Cohen, not the U.S. Congress. The Russian government must decide. It must decide whether or not to subsidize baby formula industries and protect them from Professor Sachs' approach. It is not our decision. And there are dozens, if not scores, of such essential state industries.

This is literally a life and death question in Russia today. And we can talk abstractions, we can talk about Erhardt. But they do not address this central reality. And it is the death of democracy or any hope of democracy in Russia if this problem is not addressed first and foremost.

Professor Sachs' approach does not do that.

Chairman HAMILTON. Professor Sachs, do you want to respond to that? The members are having a hard time getting a word in today, but the discussion is going very well.

And then we will get to you Mr. Brown.

Mr. BROWN. That is all right.

FREEING PRICES DOES NOT CREATE HYPERINFLATION

Mr. SACHS. Where to begin. I do start from a fundamental proposition, a fundamental tactical proposition, that societies that are increasing the money supply at 30 or 40 percent a month are not going to do very well. I believe that is a generalization that can be checked out. I think it stands up.

I feel I can say this with some justification, because in advance of the change in monetary policy last summer I made the warnings as vigorously as I could within Russia that this was going to lead to exactly the problems that are now confronting the country so seriously.

It is not true that freeing prices creates hyperinflation. I want to be absolutely clear about this. Many countries have gone through this. Poland freed its prices January 1, 1990 and it let out the steam of what I called the monetary overhang before. But after 1 month of a jump of prices, the inflation basically ended. And that is what you expect if you get your monetary and fiscal policy under reasonable control.

In Russia, too, the burden of the data that I have given you is that inflation was also being sharply reduced. The monetary policy in the first half of 1992 was not as tough as it was in Poland, that was to Russia's loss, in my view, but it was tough enough to bring the inflation substantially down.

Then there was a clear turnaround which you can see in the data started in June with the political change at the Central Bank and all of a sudden the problems came. Why did that political change occur?

Well, it is important to note that the concessions that were made to heavy industry, the large subsidization, came for the most part when the reform government realized that there would be no Western assistance coming. They felt that they did not have the internal ability to sustain their policies because there was not the financial backing to fill in the gaps that had to be filled in.

There was a clear sense in April and May that the \$24 billion was nothing, it was a vaporous idea. This led to a shift internally and I think a misjudgment, but it was a political judgment that was made. That produced a monetary phenomenon which I think is extremely dangerous for Russia.

EASTERN EUROPEAN EXPERIENCE WITH TIGHT MONETARY POLICY

The effects of these kinds of policies are, I think, clearly seen in Eastern Europe. I know, I think, the institutions of the Russian banking system and the Polish banking system and the Central Bank as well as anybody, and I would say in some considerable detail. I do not see any material difference in the basic mechanisms.

Russia has many disadvantages, no question, but the basic mechanisms of overall financial stabilization are similar.

What I also see to be the case is that the degree of entrepreneurship, the ability to develop new markets, the ability to shift markets is as great in Russia as it is in Eastern Europe. And there is vigorous trade going on on a decentralized level.

In fact, you could say Russia has even better prospects than Poland in many ways because of the great extent of technology which has never been commercialized. It has been all locked up in the military industrial complex and now it is turning into commercial operations and this will occur over a number of years.

If one looks at the experience of Eastern Europe, you see that a tight monetary and fiscal policy does cause a decline of the state industrial sector—a quite sharp one but a very clearly understandable and appropriate one. What happens is that output falls in sectors that cannot sell their goods. In sectors that can sell their goods, you get increases of output because they have customers now.

And so food processing in Poland, the famous baby food case, that was not specially subsidized in Poland. But they are growing

tremendously right now, it is one of the fastest growing areas in Poland, one of the most successful sectors, because people need to buy food products.

THE CASE FOR FREEING MARKET FORCES

What is not growing is the old heavy industry and I have given you a table which shows just how peculiarly imbalanced the Stalinist style model of heavy industrialization was and how that continues to form the structure of the Russian economy.

If you look at the second table in this handout, what you see is that Russia produced at the end of the 1980's 163 million metric tons of steel—163 million metric tons of steel in a year in which the United States produced 90, even though in purchasing power terms we are about eight times larger. That means that the steel intensity of the Russian economy is almost 20 times greater than a normal market economy. They produced too much steel. Steel output has been going down sharply because people do not want to bring home a ton of steel to their apartment flats. There is just no demand for the stuff.

And so who is buying the steel now in Russia?

Mr. Gerashchenko at the Central Bank is the only customer for a large part of the output. He is giving them credits to keep producing this stuff. There are no customers for it. And this is what market forces in a very straightforward sense differentiate.

And so you get a tremendous divergence all through Eastern Europe in the kinds of industries that are growing and those that are not growing, between the old heavy industry and the new pulp and paper, specialty chemicals, household appliances, and food processing industries, which are all booming today in Poland.

Today, incidentally, in the Financial Times, two typically rather down in the mouth reporters covering the Eastern European scene have a story called "Poland Poised to be a Post-Communist Success Story" where they say "Strong export growth to Western markets, a fast growing private sector and signs of greater efficiency in the public sector have combined to produce sharp productivity gains and the basis of an export-led economy. Poland appears poised for sustained economic growth, which the government hopes will double GDP over the next decade."

Three years ago the appeal to you was for emergency food shipments. And Poland since then has doubled its exports to Western markets and now has a boom going in consumer based sectors. Most importantly, the state sector that Stephen talks about comprised as high a proportion of the industrial sector as it does in Russia now. Today, Poland has an economy that has more than 50 percent employment and gross domestic product coming out of the private sector because 1.6 million private firms have been generated in the past 3 years.

So to conclude, I think that the basic case for a central stabilization is clear right now. No society in the world has been able to sustain hyperinflation for more than a short period of time because it is absolutely devastating to society in many ways. It is the greatest risk of political destabilization in Russia today and it is not a mystery, thank goodness.

Chairman HAMILTON. Mr. Brown.

RUSSIAN AGRICULTURE

Mr. BROWN. Thank you, Mr. Chairman.

Since prices in Nizhni Novgorod have gone up 38 percent since the beginning of your debate, let me switch to a couple of less contentious, perhaps less contentious, questions. One for Jeff and one for Steve, I think.

Agriculture. There has not been much mentioned of that. Steve, you have written and talked in the past of Gorbachev's mistake of not concentrating more in the mid-1980's on agriculture. Russia prior to World War I and maybe during the NEP period, I am not sure, was a grain exporter.

What do we as a nation do, missionary work notwithstanding, missionary rhetoric notwithstanding, what do we as a nation do and what does Western Europe and perhaps Saudi Arabia and Japan do to help with helping to build sort of a small agricultural base, if that is the way to do it, agriculture or smaller unit-based agriculture in Russia, especially the problem of getting things to market where so much of the waste has happened in Russian agriculture? First question.

STRENGTHENING CIVIC INSTITUTIONS

The second question, on the whole issue of—lots of people talk about civil society and building sort of that teaching of democracy in the schools, the exchange programs with creating various kinds of community organizations, Boy Scouts, Kiwanis clubs, all those things that, again, our missionary zeal notwithstanding, what and at what cost can we—and proscriptively give me, if you will, what we ought to do about helping Russia and the other former Soviet republics in doing that? Both those, agriculture and the civil society issue.

THE CASE FOR AGRICULTURAL PRIVATIZATION

Mr. SACHS. Well, agriculture has long been the subject of debate in Russia. No one could accuse Russia of having done shock therapy in agriculture since, in my reading, the debate over agriculture has been going on at least since 1857 when Alexander II, after the Crimean War, said that it was time to emancipate the serfs and create private ownership.

They took a very bad turn by not creating real private ownership but by bolstering the *obschina*, the commune, and creating communal ownership.

Starting in 1878, they tried again to move toward real private ownership. That failed when Alexander III lost interest in reforms.

Stolypin tried to promote private land ownership in 1906. He was killed in 1911 after having lost the favor of the reactionary *duma* and Nicholas II.

Now we are 75 years after the Russian revolution and they are still debating private land ownership. I think it is past time, frankly. I do not think that this is a question of shock therapy. I think 140 years of debate on this is too much. They need private farms.

And here is a case where the Congress has blocked the basic changes in land ownership. It is one of the things that Yeltsin has most vigorously fought and where we have a real political problem.

So I think that the basic direction for Russian agriculture is through privatization. There is a framework being put into place, but still with lots of confusion over private landownership of the kind that should have been overcome back in the 1850's or soon thereafter. This debate has gone on for over 100 years in Russia and it has had a very sad result, it seems to me. Every time peasants have been given the right to private land claims, they have grabbed at it vigorously.

And, as you say, there were enormously successful private farms created under Witte's and Stolypin's reforms in the 1890's and early 20th century. But here is one of the areas where you see most vigorously the political problems of a quite conservative Congress that continues to block things.

There is overwhelming support in Russia for private land ownership and in a recent opinion survey which I have, a quote in an article that I am giving to you says that this is one of the areas where everybody agrees, 75 percent of the population in this survey said that they would be better off if most farming were done by private owners on private land, and so they want it and it is a key area for reform.

VALUE OF EXCHANGE PROGRAMS

On exchange programs and the like, these are extraordinarily important, I think, and useful. But not as a substitute for the harder things which require more money. So while I am in favor of student exchange programs and support bringing Russians over for training in our universities, I think that the problem comes when this is viewed as the only thing we are going to do rather than as a complement to real financial assistance.

So it has been an easy way out because it has been a substitute, a highly symbolic substitute, for the more expensive course.

I was reading in the Post as I was coming in that Turkey alone hosted 10,000 Central Asian students in its universities last year. Turkey. We had no effort of anywhere near that scope. I sat on the admissions committee for the Harvard Economics Department. We had the most extraordinary flow of applicants from Moscow with brilliant training and capacity but no way to fund them right now. And so this is obviously a general problem which we should address. But, please, not as a substitute for the real financial assistance.

Mr. COHEN. It is not clear to me, if Harvard is getting such brilliantly prepared young economists from Russia, why Russia needs American economic advisors.

Mr. SACHS. These are not economists, these are mathematicians who want to learn economics.

CAUTION AGAINST INVOLVEMENT IN INTERNAL RUSSIAN POLITICS

Mr. COHEN. The short answer to your two questions is, in my judgment, in terms of democratization, under no circumstances that I can think of or imagine should any U.S. Government agencies, representatives or funds be directly involved in internal Russian politics. That includes the AFL-CIO, the American Congress, the National Endowment for Democracy. This is a grievous mistake. These direct intrusions are building a gallows for pro-Amer-

ican sentiments in Russia. We should not do this. The degree of intrusion has been abysmal and there ought to be a withdrawal.

Advice, discussion, exchanges, the more the better. But we should not be traipsing around on the Russian political landscape doing what a lot of American officials and other citizens are doing. The private parties we cannot control but no U.S. funds should be used for these purposes.

Just imagine if Russian funds were being used for those kinds of purposes in our country. Just imagine the reaction.

AGRICULTURAL PRIVATIZATION WILL BE A GRADUAL PROCESS

Agriculture is more complicated. Professor Sachs is right about Russian history, but he believes that if we could just get rid of today's Russian parliament we could reinvent 150 years of Russian agricultural history. It is impossible, of course.

The poll he cites was an urban poll. Seventy percent of people who live in cities think that if the 30 percent of the population that lives in the countryside would have privatized land, urban folks would eat better. So it is a biased poll.

There are several fundamental problems here. All meaningful agricultural capital is controlled by state and collective farms, the country is still dependent on their food production. There are perhaps 150,000 private farms in Russia. Many of them are fictitious, just garden plots. And many of the others are failing or subsistence family farms.

There are all sorts of technical problems and legal problems facing private farming. For example, most of the agricultural equipment in Russia is built for very large acreage. Small horsepower equipment virtually does not exist in Russia.

It is impossible to simply abolish the collective agricultural sector unless you want to starve the Russian population. Therefore, it must be a very gradual process. Russia needs private farms. It also needs the cooperative farms and state farms. Privatization of farming will be a long gradual process, and the pace must be decided by Russians themselves. We can help the private sector but we must not try to impose it.

Hardly anyone in Russia disagrees about this any longer. Few Russians believe that collective farms should be abolished immediately or that they should be preserved forever. This is one area in which there is considerable consensus but a lack of resources to move ahead.

Bear in mind also that the agricultural population is rather old. It has become a kind of welfare population. And one dependent on collective and state farms for its well being. So it would be impossible or very cruel to impose a quick transformation in the countryside.

Chairman HAMILTON. Mr. Berman.

CONTROL OVER MONEY SUPPLY SEEN AS BASIC ECONOMIC REQUIREMENT

Mr. BERMAN. Thank you very much, Mr. Chairman.

I grew up in California, so I was raised as a bleeding heart liberal without the conservative inputs of Indiana and Kentucky. I never thought I would see the day when I would be arguing some

monetarist position. However, I do not understand, Professor Cohen, how you cannot agree that stabilization is needed.

You agree that for America and the industrial world, it makes sense to help in a variety of different areas, including stabilization.

But I do not understand how you could assume that our help would work, or that it would ever pass through a political process, unless it was tied to some kind of money supply agreement. I do not know exactly what Professor Sachs' opinion is on other issues, but you say it is overarching. But maybe a lot of the other things you are talking about are very true. However, at that particular point, just having watched what has been done in a few other situations—Israel is perhaps one example that I was most particularly following at the time—where those kinds of agreements were reached and aid was provided; stabilization occurred and inflation decreased dramatically. I do not know—I have heard Professor Sachs speak once before about Bolivia. Without being a real Bolivia specialist, my guess is that they did not have a massive infrastructure, a tradition of democracy, or a heritage of markets. But these things notwithstanding, when they dealt with the issues of money supply and stabilization, they were also able to address issues of hyperinflation.

That is my question.

MONETARIST APPROACH VIEWED AS CAUSE OF HYPERINFLATION

Mr. COHEN. And it is a good question and a complicated question. If you and I left this room agreeing only that there are no simple solutions to these Russian problems, then we would have moved far ahead because I believe that the approach Professor Sachs represents is a very simplistic one.

It is not entirely fair to answer your question by replying that many Russian economists who are well regarded in the United States as liberal pro-market economists blame the shock therapy policies, these monetarist policies of the last year, for the hyperinflation. It is not a direct answer to your question but—

Mr. BERMAN. Could you say that again?

Mr. COHEN. That there are a large number of liberal pro-market Russian economists and American economists who believe that the shock therapy policies pursued in Russia since early 1992 were themselves mainly responsible for the hyperinflation.

Mr. BERMAN. Because price controls were taken off.

Mr. COHEN. And because there was no private production. There was no competition. In other words, what Russian monopoly producers did was produce less and charge more.

That is not a direct answer to your question but you have to understand that in the real world many Russian economists are now convinced that this approach caused the hyperinflation and therefore that it is not fair for the advocates of shock therapy now to say, you see, we have hyperinflation, so you must do even more of this.

Mr. BERMAN. May I interject here. Why not at any time would the initial inflation be—

DIFFERENCES BETWEEN RUSSIA AND POLAND

Mr. COHEN. Well, you are right. But let us take the example Professor Sachs gave us. He said look at Poland. He read from an article that says Poland is going to begin to export farm produce. And 3 years ago, we were talking about sending food to Poland. He fails to tell us that when communism collapsed in Poland around 90 percent of agriculture was already in private hands. He did not mention that.

Mr. SACHS. I also did not say anything about agricultural exports.

Mr. COHEN. But in Russia, virtually no large- or even medium-scale agricultural production is yet in private hands. This is a crucial difference.

So in your judgment, does that mean that the same policies toward Polish agriculture should be pursued in Russia? Obviously not.

Mr. BERMAN. But it does not address the need to control the money supply, either.

Mr. COHEN. No, it does not. I come to that now.

This first is for the Russians to decide. They should tell us what their decision is and then we can decide if we wish to support it. We have been doing it the other way around. Essentially U.S. advisors said to them, do shock therapy and you will get \$24 billion. That is the way we proceeded. It should be the other way around.

They must decide which economic reform strategy they wish to pursue. They must bear the consequences, not us.

Mr. BERMAN. But that is not a point of disagreement. He says we never produced what we said we would produce, and that is why now you have them falling back into their own terms—

RUSSIAN ECONOMIC PROGRAM WAS SELF-IMPOSED

Mr. SACHS. Just for the record, Steve, they decided on their policies well before there was any announcement of aid. The program went into effect, as you know, on January 2, 1992. The announcement of the aid program was April 1, 1992. This was a policy created by the Russians and it was a policy that was geared toward a situation that was extremely grave at the time and clear to them.

They already had a hyperinflation. That is the irony. It was a repressed hyperinflation. There were price controls so the hyperinflation was in the black markets, not in the official prices. There were no goods in the shops. Gaidar confronted a situation when he came in on November 6th of no grain being procured from the countryside because the free market price for grain was three to five times higher than the official price, so they had to move forward.

We did not bribe them to do it. Quite the contrary. Once they started their policy, we did not help them sustain it. That is the difference.

CALL FOR SELF-DETERMINATION ON ECONOMIC POLICY

Mr. COHEN. Unfortunately this is not the place to sort out the political and economic history of this question. I believe that my

version of it is closer to the truth than is Professor Sachs', but let us leave it at that.

The basic question is this: do we pursue a policy that imposes conditions, restrictions and essentially ultimata on the Russian leadership in order for it to receive our support on the grounds that we, either Steve Cohen or Jeff Sachs, know best what is best for them? That is a policy full of folly and we ought not to pursue it.

What would the Russian Government do if it was left to its own decisions but knew that we would support them?

What would they do? They would not do shock therapy.

Professor Sachs' answer is that would be a mistake if they did not do that. My answer is to have imposed shock therapy was and is a mistake, and that there are other ways. Those different ways, however, will not enable us to continue with IMF type of conditions and restrictions.

What might that way be?

Russia first has to decide which parts of the state economy must be subsidized for the sake of its own people. That is the first decision. Again, shock therapy cannot make those distinctions. It isn't even interested in them.

Professor Sachs says do not worry. OK, he says, in the beginning, baby food will be in short supply but in a year there will be plenty of baby food. There will not be. There is no way that Russia can demonopolize or privatize baby food industries quickly enough to feed infants a year from now, and the evidence is in.

Ask any of the U.N. or other Western medical teams that have studied the nutrition of young children in Russia today. It is a year since shock therapy began, and a grievous situation.

U.S. CAN OFFER SELECTIVE SUPPORT FOR RUSSIAN ECONOMIC PROGRAM

Chairman HAMILTON. Would the gentleman yield a moment?

Mr. BERMAN. Sure.

Chairman HAMILTON. Dr. Cohen, I am not sure if I understood you a moment ago. Did you say that American aid should not be made conditional? That we should not require economic and political reform as a condition of U.S. aid?

Mr. COHEN. No. What I said was that the first approach should be to ask the Russians themselves to present to us their basic policies of reform. Not we go to them and say here is your strategy of reform. That is the approach of Professor Sachs and the IMF. They tell Russia, if you do this we will support you.

It should be the other way around. They should decide what their basic approach is. I speak now of the economy, not primarily of political reform. And we would then decide which aspects of that approach we felt we could or could not support.

For example, if Russia's leaders come forward and say we are going to subsidize 50 percent of the state industry for the next 5 years, and at the same time we are going to try to create a network of land and crediting banks to start up private enterprise, the U.S. Government may say it will not give Russia a dime to subsidize state industry because it is communism or socialism; get that money yourself. But the U.S. Government may say it is prepared to help set up a fund to subsidize the startup of small enterprises.

And, by the way, that, I believe, is the overall approach Russia will eventually take.

A POLITICAL EXERCISE

Chairman HAMILTON. Excuse me, Mr. Berman.

In a sense, that is what happened. President Yeltsin comes over here and gives a speech to the Congress, saying he supports market reforms and democracy. He says all the things we want to hear with regard to developments there. We applaud enthusiastically as he shares his vision for his country. The Congress then passes the Freedom Support Act, in which we condition U.S. assistance on progress toward democracy and free market reforms.

Is that procedure wrong?

Mr. COHEN. Of course, President Yeltsin came to tell you what he was told you wanted to hear in order to get that support. I suppose that is politics everywhere.

RUSSIAN GOVERNMENT WANTS TO STABILIZE

Mr. LAWSON. I just wanted to say I think we are dealing with a hypothetical that we need not deal with because the Russian government is saying two things: First, that they want to stabilize. We hear every day from the prime minister that this is the most urgent task and that it involves tight credit controls. This is what both Mr. Chernomyrdin and the First Deputy Prime Minister, Mr. Shumeiko, are saying very, very clearly.

So they have announced what they want to do. They want to cut back sharply on credit.

There is a document that details in considerable detail the technical steps that are necessary to do that. I think it is highly professionally done. They cannot carry this out, though, with a high probability of success without our help.

So I think we are in a situation that is certainly not at all what Steve is worrying about of someone dictating to them. That is not the situation we are in. They are trying to stabilize.

By the way, they are doing this without our help because they are not very much convinced that we are going to give them very much so they are going ahead to try to do this. It is just my judgment that their chance of success in this is rather low unless they have substantial assistance to help them carry out some of the functions.

LIBERALIZING CONDITIONS ON ASSISTANCE

Mr. BERMAN. Why can't the social safety net approach deal with the short-term problem of a lack of baby food rather than subsidizing inefficiency in a state-run baby food formula plant?

Mr. COHEN. Let us say you were an unemployed Russian father and you were given some sort of benefit. And yet you allowed the state industries that produce essential baby goods to go under. Where would you buy them?

Mr. BERMAN. In other words—I am taking this is an example—part of the program that you all seem to sort of agree on calls for some level of participation to guarantee a certain minimal level of

reasonable cost, given prices, of U.S. support; ensuring, in a sense, humanitarian assistance.

Mr. COHEN. I have not articulated my point well so let me try one last time.

If we do that, if we give them money to help subsidize unemployment benefits—

Mr. BERMAN. Or maybe we could give them baby food.

Mr. COHEN. If you can do that, it would be very good. I do not think you can do it easily. But I hope you can get that organized. I mentioned that kind of relief in my statement.

But even if we do this for them, if we do these compassionate, humanitarian and wise things, while at the same time insisting that they continue these shock therapy policies, it is a certain road to catastrophe. That is the point.

I would rather do it in a more liberal, flexible, nonconditional way. Not without conditions, but even Professor Sachs favors liberalizing the conditions of the IMF, as I understand.

Mr. SACHS. No.

Mr. COHEN. You do not? I thought you said you did.

DELAYS IN DELIVERY OF AUTHORIZED ASSISTANCE

Chairman HAMILTON. I am told here that each of you pleaded for more resources for Russia, more assistance.

Let me tell you the problem we confront here.

In the fiscal year 1993 authorization, we authorized \$417 million for aid to Russia. As near as I can figure out, at the end of 1992, we had expended about \$20 million of that. President Clinton comes in and asks for \$300 million more.

Now, why should we give an administration \$300 million more if they cannot spend the \$400 million that we have already made available?

Mr. COHEN. What was the \$400 million earmarked for?

Chairman HAMILTON. It is for all different kinds of assistance. That includes privatization, technical assistance, all these things. The funds provided for the destruction of nuclear weapons are additional but that expenditure rate has not been all that great, either.

Mr. BERMAN. Yes. It is still very low.

Chairman HAMILTON. It seems to me our problem here is not just the resources that are going out, not just the totals, but that we cannot spend what we have. We are so tied up in bureaucratic red tape we cannot get the assistance moving. And we are not talking about new ideas. We have been talking about technical assistance for 3 years.

Mr. SACHS. Well, Mr. Chairman, there are many aspects to this. One is that the administration last year simply failed in this task so there was not an adequate effort on many different fronts. This was not a high priority issue and so it did not work out very well in the end.

A second thing is—

Chairman HAMILTON. Let me interrupt you there, if I may.

Mr. SACHS. Yes.

Chairman HAMILTON. Would all of you agree that the most important foreign policy problem the United States confronts today is Russia?

Mr. SACHS. Yes.

Chairman HAMILTON. You would all agree on that point. OK. Go ahead.

AID SHOULD SUPPORT BASIC REFORM STRATEGY

Mr. SACHS. So this was one aspect. Second, of course, there are many complicated, modestly funded projects in that \$400 million. So lots of—I hesitate to say little because it is a lot of money—but many of these projects are quite complicated to get started.

The kind of assistance that I would advocate as the basis for helping with stabilization is somewhat more direct and it is of a different character. The social safety net funding, for instance, should be a high priority, then the number of smaller projects that involve detailed exchanges or detailed infusion of technical assistance

Our aid program was not really worked out with the Russian government last year. It was not really worked out with a vision of how to support the basic strategy of reform that the Russians were pursuing. Part of the problem, therefore, comes in the delivery, that it does not really mesh with what they most need and it does not mesh with their most urgent priorities.

I think to do it right this year the first thing that I would seriously recommend is that we sit down with the Russian government officials responsible for economic policy, and there are officials directly responsible for the international aspects of this, and talk to them about the design of the program.

Chairman HAMILTON. We have not done that?

Mr. SACHS. We did not do that. No.

Chairman HAMILTON. That would seem to me to be pretty elementary.

Mr. SACHS. With respect to the \$24 billion, I can tell you that there was never a discussion once with the Russian government on the overall framework, how it fit into the basic strategy. It became clear that there was no \$24 billion program period. But we never talked about it with the Russian Government.

PROBLEMS WITH DISBURSEMENT OF ASSISTANCE

Chairman HAMILTON. Did we mislead the Russians on that \$24 billion figure?

Mr. SACHS. Surely we did.

Chairman HAMILTON. Why? I do not understand the dynamics of that. We come up with a \$24 billion figure, we persuade ourselves that we are supplying—the West is supplying—\$24 billion to the Russians. You talk to the Russians about it and they say they did not get a dime. And it just is incomprehensible to me how we can be so far apart in our perceptions.

Mr. LAWSON. Let me comment on that, Mr. Chairman, if I may. One of the difficulties last year in dispensing and disbursing the funds was because we had 10 different U.S. Government agencies that had 10 different U.S. Government programs trying to disburse some of the money that was voted in the Freedom Support Act.

And the point of coordination I do not think is going to be—was not as potent in the previous administration as it will be in this administration. I think with the appointment of Strobe Talbott you have a power base there and a point of influence that is going to be able to coordinate the different agencies much better than it was done in my own administration, to be honest.

Having said that, it is simply not true that some of this money was not disbursed. A lot of the money was disbursed.

Chairman HAMILTON. You are talking about the \$24 billion or the \$400 million?

Mr. LAWSON. No, the \$400 million. I am talking really about technical assistance here and I am talking now about things that fall into the realm of business facilitation, really, for the private sector. Things like the American business centers, things like the SABIT program, things like the United States and Foreign Commercial Service Expansion, things like BISNIS, the business information service, the consortia programs.

Chairman HAMILTON. How much money do you think was expended?

Mr. LAWSON. Well, my own personal view is that about \$200 million of the \$400 million was disbursed and I think we can probably disagree on that but I think if you really sat down to try to trace it out, I think you would come up with about \$200 million of that.

Chairman HAMILTON. That has actually been expended?

Mr. LAWSON. Yes, sir.

Mr. SACHS. Mr. Chairman.

Chairman HAMILTON. Yes.

Mr. SACHS. This question of misleading I think is an important one and I would like to draw you attention to something that I found distressing. Statements were recently made in Russia by the managing director of the International Monetary Fund who claimed, even after the fact, that the money had been disbursed and he cited an accounting of this money which was quite extraordinary, saying that Russia had received everything that was promised except for the 6 billion ruble stabilization fund. In Mr. Camdessus' accounting, Russia had received debt relief for \$7.2 billion.

Now, we had a long discussion last year on this question about debt relief and there are two points to be made. One is that there was, in fact, no rescheduling. The Russians are still trying to get a Paris Club agreement, so to count this as money that was given is, I think, hard to understand.

NEED FOR DEBT RESCHEDULING

Chairman HAMILTON. Do all of you believe they should have debt rescheduling?

Mr. SACHS. Yes.

Chairman HAMILTON. That is critical.

Mr. SACHS. And the second thing, Mr. Chairman, is there was an understanding from April 1st on that in the accounting of the \$24 billion principal, rescheduling of debt was not to be counted. There was a convention about what this was, and there was \$2½ billion out of the \$24 billion that was interest rescheduling of the debt.

For Mr. Camdessus to come late in the day for an agreement which was never completed and all of a sudden say, well, there was \$7 billion of debt rescheduling, is both wrong as to the facts about the debt rescheduling, which has not occurred, but also absolutely contrary to the understanding of what this package was, which was other than principal rescheduling of debt.

And I think that this leads to the corrosiveness of relations right now. This is a very cynical way to put this, in my opinion. These are harsh words, but I was disappointed to see it because with his position, his bully pulpit, Mr. Camdessus should be telling the world that this year we must provide some real support, not say we have done everything.

If we say we have done everything, maybe a few bureaucrats can feel good that they are covered, but since we are not doing it, the impression that is left worries me.

INADEQUACY OF AID FROM RUSSIAN POINT OF VIEW

Chairman HAMILTON. Well, if you talk to the Russian ambassador to the United States today, he will tell you, I believe, that Russia has not received any aid from the West at all.

Mr. SACHS. And there is, I think, a reason for that. That is not literally the case, of course, but what is true is two things: first, that the nature of the aid in quotation marks has been what I call low quality in that it is in the form of short-term loans at market interest rates, and it is all coming due, so it is not viewed as real—certainly not as grant assistance, for example.

And the second thing is that it was not programmatic. A number was floated, it was not delivered, but there were no programs underneath it that you could sink your teeth into and say, yes, the West did fund the small business development program. Or, yes, the West did fund the energy restructuring project. Nothing like that happened last year.

INTERNATIONAL AID NEEDED FOR IMF PROGRAM TO SUCCEED

Chairman HAMILTON. What are we to make of the IMF loans? An agreement was reached last year, I think in August, between Russia and the IMF and that agreement had certain economic targets that had to be reached. Russia has not come close to meeting those targets and will not do so anytime in the foreseeable future.

So what do we do?

Do we just say you have not reached these targets, the IMF is not going to loan any more money?

Or, do we say Russia is a very special case, and loosen up the conditionality so far as IMF is concerned?

Mr. SACHS. In my opinion, the IMF cannot function unless it brings a realistic amount of support to the table. And that is what is missing. It is not that we should say life is tough, therefore go ahead and print money at a 30 percent rate of increase per month. That is no favor to the Russians or to anybody else. That will create hyperinflation.

So it is not that the conditions are wrong, but you cannot meet them without external assistance. And that is what the IMF failed to mobilize and what we failed to provide.

So the conditions that Russia should have monetary stability are appropriate but they cannot be met without substantial international assistance accompanying the IMF program.

DIVERSIFYING U.S. CONTACTS IN RUSSIA

Chairman HAMILTON. Dr. Cohen, you said in your remarks that we need to diversify our contacts in Russia. I am switching now from the economic to the political side of things.

I would like you to spell out for us what we need to do. Who is it we need to talk to and what do you mean by diversifying political contacts?

For example, I saw a leader of the Civic Union yesterday and he claims that the only person we know is Yeltsin and the only person we deal with is Yeltsin and so we have a very strong bias toward Yeltsin. And he makes the point that that is not the whole—Yeltsin is not the whole Russia.

Expand on that a little bit for me.

Mr. COHEN. There is a limit to how much we can diversify. Russia is an enormous country. But even dealing with Moscow, the U.S. Government should at least have good normal relations with the Russian parliament and its leadership.

I would begin with the speaker of the Russian parliament and I would work down to the relevant committee heads.

Mr. SAWYER. Thank you. I asked about that a little bit earlier. I appreciate that.

Mr. COHEN. To me, that is critical not only because it is good manners, it is civil, but it is important also because strong anti-American feelings are building in the Russian parliament precisely because the leadership feels ostracized by the United States.

But still more, if you are going to proceed to have the more systematic talks with the Russian government that Professor Sachs recommends, the parliament is likely to have a lot of say about what that government will look like in the next few months or years. And therefore you are going to have to hear more than one side of the Russian political spectrum.

Chairman HAMILTON. I do think the speaker is coming here. I am informed he is going to be here.

Mr. COHEN. Excellent news.

Chairman HAMILTON. Maybe we are making a little progress.

Now, there is a kind of a power struggle going on between Yeltsin and the speaker, is there not?

Mr. COHEN. There is.

Chairman HAMILTON. Well, how should we deal with that as a matter of U.S. policy?

How should we play that?

Mr. COHEN. I think we should play that exactly the same way that you would wish a foreign government to play any struggle that might unfold between you and the American president: stay out of it. Talk to both sides.

We do not ask foreign governments to come here and decide on a given issue whether they stand with the president or with the House of Representatives.

CONTACTS WITH OTHER REPUBLICS

Chairman HAMILTON. How about diversifying with respect to the other republics of the former Soviet Union?

What is your sense there?

Do we need to do a lot more in terms of contacts with those other republics? Or with a few of them? And, if so, which?

Mr. COHEN. This for me is one of the hardest questions. The easy answer is that we should do everything for all of them but the reality is we cannot.

Chairman HAMILTON. You cannot do that.

Mr. COHEN. We cannot. Moreover, there is at least the possibility that within a few years there may be a regrouping of a few republics around Russia and that is something we have to think about. There are, after all, proposals even in the non-Russian republics for some new federal or confederal state. There is also great opposition. And probably there would be great alarm in the United States if that would happen, as it might.

The second level, of course, are the critical republics: Ukraine—

Chairman HAMILTON. And which others?

Mr. COHEN. Well, certainly Kazakhstan. I mean, it is folly—

Chairman HAMILTON. Kazakhstan because they have the nuclear weapons?

Mr. COHEN. Not only that but because it is a large republic, abutting Russia, and half Russian. The folly of U.S. policy after the Soviet breakup was the notion that we were going to encourage all 15 former republics to become democratic capitalist systems. This was and remains preposterous.

YELTSIN'S FUTURE

Chairman HAMILTON. We had a statement by Mr. Armitage earlier this week. I think he did some very good work for the administration last year trying to move this thing forward, but he said that Yeltsin is—I think he said no longer useful.

What is your assessment of Yeltsin?

Will he still be in power a year from today?

Mr. COHEN. My view is that one of the best things that could happen to Russia would be for President Yeltsin to serve out his elected term.

Chairman HAMILTON. Until—

Mr. COHEN. His run term runs until 1996. Not because I think President Yeltsin has been a great leader. I do not think that. But because it would be the first time in Russian history that any leader so elected had served out his full term at a national level and that would be a very great thing for the country.

May I, at that point, however, add one thing for the record?

The question of what Mr. Yeltsin believes or does not believe is in some dispute. He is often referred to as the representative of an American style capitalist system in Russia.

Chairman HAMILTON. Hold on a minute. You said you thought it would be a good thing if he served out his term.

Mr. COHEN. Yes.

Chairman HAMILTON. Do you think he will serve out his term?

Mr. COHEN. No, I do not. I think that either something unfortunate will happen or there will be early term elections.

Chairman HAMILTON. Now, he is opposing elections at the present. Is that correct?

Mr. COHEN. No, he is opposing near term elections. He wants the parliament elected 1 year early and himself 1 year early but not soon in either case. Nobody wants elections now because they are all afraid they will lose.

RUSSIA AND THE WAR IN BOSNIA

Chairman HAMILTON. Do you think Russia can be helpful to us in the resolution of the Bosnia/Yugoslav problem?

Mr. COHEN. Not if we adopt military measures there.

Chairman HAMILTON. I am sorry?

Mr. COHEN. Not if we adopt military solutions there.

Chairman HAMILTON. Well, we are not adopting military measures as the core of our policy, so given the present play, can they be useful?

Mr. COHEN. As long as the military dimension is absolutely minimal, they can be useful. The moment any Western harm is done to Serbians, Russia will no longer be useful, it can only be detrimental. They will have to vote against any Security Council resolutions or at least stand on the sidelines.

Chairman HAMILTON. Will they vote against the no fly zone enforcement?

Mr. COHEN. I think it depends on how the Clinton administration presents it to them, gives them some guarantees that no fly zones do not mean that Americans will shoot at planes that might overfly—or might fire back at artillery that fires at them.

Chairman HAMILTON. Will Russia vote for the enforcement of the no-fly zone in the U.N.?

Mr. COHEN. Again, I think it depends on private guarantees—

Chairman HAMILTON. You think it is possible that they would?

Mr. COHEN. It is possible if the Clinton administration is prepared to give them certain private guarantees.

Chairman HAMILTON. On the question of—

Mr. COHEN. But it is exceedingly difficult. You must understand, to frame this more directly, anything we do that involves military action in the former Yugoslavia is a blow to the Yeltsin government. It may not be a fatal blow but it is a blow.

CAN THE U.S. MAKE A DIFFERENCE

Chairman HAMILTON. What do you say to people who say that the United States cannot really make a difference here?

That the future of Russia is in the hands of the Russians and whatever we contribute is a mere pittance in such a large country? That our aid really is not critical. And when I say "our" I mean the West's aid.

How do you respond to that?

Mr. Lawson, do you want to go ahead and then Mr. Sachs?

Mr. LAWSON. Well, I think that is absolute nonsense. We have to differentiate, I think, between the private sector and between what the government can do. And I think previous to your coming in, Mr. Chairman, here we all agreed as a panel that what the gov-

ernment can do would be to target very carefully \$2 to \$3 billion in aid to get them to do the things that we would like for them to do.

But in the private sector, that effort is going to be dwarfing whatever we do in the public sector and this money that we discussed earlier, the \$200 million of the \$400 million that I think has been disbursed here is going to go a long way to creating a business facilitation atmosphere and climate in Russia for us to do business there.

We talked about how and where we ought to relate to the Russians and the Russian society here. As someone just wrote, I think it was Dimitri Simes, there is an explosion right now in Russia of your professional, civic, media, political kinds of associations. There is a civil society in the making, I think is what he wrote. And these are the areas which I think the private volunteer groups in America can make a significant difference.

THE FUTURE OF RUSSIA

Chairman HAMILTON. Are you optimistic about the future of Russia?

Mr. LAWSON. In meeting the long term, I am. The Ex-Im Bank has always been. It has been the short term.

Chairman HAMILTON. Are you, Professor Sachs?

Mr. SACHS. I think the potential is enormous but I think that the risks are also very great.

Chairman HAMILTON. So where do you come down?

Mr. SACHS. It depends heavily on what we do.

Chairman HAMILTON. On what we do.

Mr. SACHS. On what we do. Yes. I believe that history shows repeatedly that timely assistance in economic crises like this can make a profound difference, not in doubling living standards in a country, not in creating by the aid itself big economic expansion, but rather by helping realistic policies to take hold, thereby creating the basis for deeper changes.

Chairman HAMILTON. Are we going to have a U.S. foreign aid program for Russia in the year 2010?

Mr. SACHS. Absolutely not if we do it right right now. And you can see that already countries in Eastern Europe are turning the corner, Poland the first among them. This was a question asked about Poland years ago and because of extremely important and timely assistance on a stabilization fund and on a two-stage debt cancellation, we helped to give Poland the base for its own recovery and this is the key.

Chairman HAMILTON. Dr. Cohen, how about it?

Mr. COHEN. If optimism is defined in Professor Sachs' terms, I am exceedingly pessimistic. If optimism about Russia is defined in a plain, old fashioned, common sensical American way, that is to say that we do not try to turn Russia into America—

Chairman HAMILTON. Is this not common sensical?

Mr. COHEN. In my judgment, it is not. No.

Mr. SACHS. Which particular thing—

Mr. COHEN. If we define our optimism differently, if we do not expect Russia to get where we want it to go quickly and in our own way, if we do not expect Russia to become like the United States

and if we allow for the fact that Russia will have its own foreign policy interests, then, yes, I am optimistic.

WILL RUSSIA REQUIRE LONG-TERM ASSISTANCE

Chairman HAMILTON. Well, we see these things from the perspective of the Congress. We gave \$1 billion of aid to Egypt in the 1970's and it just gets written into the law year after year and it goes on and on and on.

Are we going to be confronted with that in Russia, do you think?
Mr. Lawson.

Mr. LAWSON. Let me give you one precise example of how the U.S. Government can aid Russia right now. There is a way to jump start the Russian economy and a way for the U.S. Government to be very precise in its help.

As you know, in the Russian oil sector, the oil production is plummeting and has been now. It used to be the number one producer of crude in the world and now it has plummeted down to second and it is going to be third in just a short time.

There is in Russia today, Mr. Chairman, about 40,000 idle oil wells which represent about 20 percent of the total oil field production of the Russian oil patch. For a very small amount of credits, \$1 to \$2 billion, if Ex-Im Bank would be willing to loan and guarantee to the Russian oil patch—

Chairman HAMILTON. There are certain sectors of the Russian economy we really ought to focus on, and energy is one of them.

Mr. LAWSON. Yes, sir. Energy is one. And that is the way in which you can get the foreign exchange earnings back up. For just a small amount of money in a relatively short period of time, the oil production decline could be arrested and bottomed out and then it could start the slow climb back up and it could start earning foreign exchange if we could just get—

Chairman HAMILTON. And it might make us less dependent on the Middle East.

Mr. LAWSON. Yes, sir, it would indeed. It solves many problems if we can get the Russian oil production back up to snuff.

HOW RUSSIA SEES ITS FUTURE

Chairman HAMILTON. Well, you folks have been here a long time. I appreciate this session very much. I will give you a last parting shot if there is anything you want to say for the record.

Mr. COHEN. I have a thing to say for the record. I would like to read something President Yeltsin said not long ago because it seems to me it is sobering, or ought to be sobering, to those people who constantly refer to him as the leader of an American style capitalist system in Russia.

He said this to the Russian people in October 1992, this is President Yeltsin speaking to his nation: "We are not leading Russia to any kind of capitalism. Russia is simply not suited for this. Russia is a unique country. It will not be socialist. It will not be capitalist."

Stephen Cohen adds we may believe this or not but most Russians evidently do.

Chairman HAMILTON. OK. On that elevated note, we will call it quits.

Thank you very much for this excellent session.

We stand adjourned.

[Whereupon, at 12:27 p.m., the committee was adjourned.]

U.S. POLICY TOWARD EUROPE

THURSDAY, MARCH 18, 1993

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC.

The committee met, pursuant to notice, at 10:06 a.m., in room 2172, Rayburn House Office Building, Hon. Tom Lantos, presiding.

Mr. LANTOS. The committee will please come to order.

The Committee on Foreign Affairs meets this morning to discuss U.S. policy toward Europe. Today's meeting is the 11th in a series examining key foreign policy issues facing the United States following the cold war.

The collapse of the Soviet Union and the emergence of the new democracies of Central and Eastern Europe has fundamentally altered the political and security landscape in Europe. U.S.-European relations are undergoing fundamental change today.

The challenges and the opportunities are enormous. We must transform existing institutions to enable them to address the new situation in Europe today. We must forge an effective transatlantic partnership to nurture democratic and free market reforms in Eastern Europe and the former Soviet Union. We must find a way to address the ethnic and national tensions that have risen in regions of Europe today and which threaten the stability of the entire continent.

We hope to explore these issues in some depth this morning. We are especially pleased to have with us three specialists who have spent considerable time in and out of office grappling with these issues.

Our witnesses are Mr. Robert Hormats, vice chairman at Goldman Sachs International; Mr. William Hyland, former editor of Foreign Affairs Quarterly; and Shirley Williams, Director of Project Liberty at the John F. Kennedy School of Government at Harvard.

I believe our witnesses have been alerted to the fact that we are using the seminar type roundtable format as we have used in recent hearings. It is our hope that this arrangement will encourage some free-wheeling and productive exchange both among the witnesses and members of the committee.

We have asked witnesses to limit their opening remarks to no more than about 5 minutes. Your prepared statements will be entered in toto in the record. After your brief opening remarks, I will lead off the discussion with a free-flowing patter.

I think we would like to begin with you, Professor Williams.

**STATEMENT OF RT. HON. SHIRLEY WILLIAMS, DIRECTOR,
PROJECT LIBERTY, JOHN F. KENNEDY SCHOOL OF GOVERNMENT,
HARVARD UNIVERSITY**

Mrs. WILLIAMS. First of all, thank you very much, Congressman Lantos, for the opportunity to testify before the House Foreign Affairs Committee. I welcome the opportunity.

The first question I was asked was about what the important developments have been in Europe in the last few years so let me say this very quickly.

There was a confident movement to the single—

Mr. LANTOS. Could you pull the mike a little closer to you?

SETBACK FOR MAASTRICHT TREATY

Mrs. WILLIAMS. A little closer.

I was asked to respond to three questions, the first of which was what were the important developments in Europe in recent years and what will be the important developments in the future.

The European Community moved relatively confidently toward the conclusion of the single market at the end of 1992 and that was achieved with very few exceptions. However, buoyed up by their achievements in the single market, the Community's Council of Ministers then moved on to the Treaty of Union, sometimes known as the Maastricht Treaty, which was signed December 1991.

That treaty embodied three major principles.

The first was the idea of a European Monetary Union, a common currency, and a central reserve bank for Europe.

The second element in it was a proposal to move toward a more coordinated European foreign policy where by a unanimous vote the member states, the 12 member states, could decide to adopt a common foreign policy and all the details of that policy would then be worked out by a qualified majority vote, a kind of Federal principle.

Thirdly, they decided to work more closely together in the field of internal security, specifically on issues like organized crime, terrorism and drug trade.

The Maastricht Treaty proved in many ways to go beyond what public opinion in Europe had been prepared for and, as you know, Congressman Lantos, and your colleagues know, there were several sharp setbacks.

The first of these was a Danish referendum in the spring of 1992 which rejected the Maastricht Treaty. The second was the extremely narrow win in France with another referendum, a win by a whisker. And the third was the long drawn out and somewhat bitter debate in the British Parliament which has still not been resolved and another debate in the German Parliament which though it ratified the treaty ratified it only after adding certain crucial conditions, including the key condition that no further sacrifice of German sovereignty could be made without a return at every stage to the Bundesrat and the Bundestag, the German parliamentary houses, to accept and to agree to any such further sacrifices of sovereignty.

The effect of the Maastricht Treaty's difficulties has been to blunt in many ways the confidence of the European Community and to lead to a period which has lasted for about a year now of

very close self-examination and questioning about the direction of the Community.

PROSPECTS FOR EC ENLARGEMENT

The second major issue facing the Community apart from the completion of the Maastricht Treaty and the consequences of that treaty is the issue of enlargement. At the present time in this year, 1993, the Community has already embarked upon negotiations with four candidate members. These are Sweden, Finland, Norway and Austria. All of them are likely to be full members of the Community in the course of this year and none of them present any very great difficulties to the Community about being accepted in it since they are all relatively wealthy countries and stable democracies.

But beyond them lie the four countries of the Eastern and Central European group who are associates of the Community, the two parts of what was formerly Czechoslovakia, Hungary and Poland. All of these countries have applied for full membership of the Community, most of them hope to get it by the end of this decade, but all of them present both economic and political problems to the Community because obviously economically they are not up to speed in terms of the position of full Community members.

Beyond them lie yet another group of would-be members, Malta, Cyprus and Turkey. Malta and Cyprus are sometimes called the European orphans. Turkey is a much bigger proposition. And all these countries between them will bring with them a revolution in the institutions of the Community because it is highly unlikely the Community can deal with 20 or 22 members in the way that it has dealt with 12. Therefore, there will be a fresh intergovernmental conference in 1996, unless it is brought forward, which will consider the constitutional and institutional repercussions of a very much larger Community. Implicit will be one central principle. That principle is whether there should be a Federal union growing out of the Community or whether there should be a two or three speed Europe with the different member states moving at different speeds.

EXPECTATIONS FOR LARGER U.S. ROLE IN EASTERN EUROPE

Let me turn for the last few minutes to the second question that you asked me about the attitude of the United States to Eastern Europe and to Yugoslavia and whether U.S. policy should change.

Very briefly, the United States continues to be regarded as the mentor and beacon of freedom to most Eastern and Central European countries and to the CIS. But the problem is that the United States has, perhaps largely because of its own internal preoccupations, played a much smaller role in Central and Eastern Europe than the Central and Eastern Europeans expected it to do.

I passed a table around which is available and also in the record which shows that of the total aid given to Central and Eastern Europe, 62 percent came from the Community, 12 and a half percent from the United States.¹ These were not the proportions that the

¹The table referred to appears at the end of Ms. Williams' prepared statement.

Eastern Europeans expected. They thought the United States would play the largest role in the building up of democratic institutions and in the transition to market based economies of any of the Western world powers.

There has been much more emphasis on the economic transition than on the democratic one and I think that many of us who work in the region are now profoundly concerned by the lack of adequate efforts to develop democratic institutions and a civil society in Central and Eastern Europe, let alone in the CIS.

We may pay a very heavy price in terms of the move toward chaos and disorder in the former Soviet Union because of our relative neglect over the past couple of years of the crisis as it began to form.

NEED FOR U.S.-EC COLLABORATIVE PROGRAMS

Finally, you asked me what we thought the policies of the United States should be. Let me just say three things:

First, there is a real danger that trade disputes may escalate although the sum involved in these trade disputes, important though they are, is a relatively limited one. They are mainly steel on the one side, the Buy American Act on the other side and agriculture on both sides. There is a real danger that these trade disputes, which are souring at the present time, will overshadow the crucial need for a new initiative toward Central and Eastern Europe and the CIS on the part of the United States and its allies in Western Europe. I can think of nothing that is more desperately needed than this at a time when Russia is facing chaos.

How can one bring it about?

First, by beginning to see that some of the agencies that we have, both in the United States and in the EC, insist upon an exclusive territory and exclusive jurisdiction. It is therefore very difficult to mount collaborative programs. USIA and USAID will only finance American missions, PHARE in the Community will only finance Western European missions. What is most badly needed is joint collaboration between the allies, not the least because Eastern Europe plans in the end to join the Community and therefore needs to understand Community law.

I would therefore conclude by saying first that I believe it is absolutely vital for the United States and the European Community to mount collaborative programs in this area, not the least the area of strengthening democratic institutions. I have put into the record an example of this, the work that Project Liberty is doing in running workshops for civil servants and for ministers throughout the region, most recently in Ukraine, Poland and Czechoslovakia, as it then was. We have been invited to do so now in Estonia by the Prime Minister and in Hungary by the Director of the School of Public Administration. We have both European and North American faculty teaching in all these workshops.

SITUATION IN THE FORMER YUGOSLAVIA

Last of all, Yugoslavia, just one word. The Yugoslav situation presents us, I think, with two challenges and I will say a sentence about each.

First, the challenge of making even the unsatisfactory Vance-Owen Accord work. It accords to the Serbs much less territory than they now hold. My own view is that it will be impossible to drive the Serbs back into the area the peace accord gives them without at least the threat of possible military action. Without such action, we will see the Serbs take a larger share of the former Bosnia even than the peace accord gives them.

And finally, the rape crisis in Bosnia which is very serious. There is evidence from the Warburton report that it is a systematic act of policy. I would very much like to see the Congress press the State Department to take action to make systematic rape into a war crime and to take immediate action to give some emergency help to those countries trying to establish refuges, medical help and counselling help to the thousands of women that have been raped in Bosnia, some of them girls as young as 6 and 7 years old.

Thank you, Mr. Lantos.

[The prepared statement of Mrs. Williams appears at the conclusion of the hearings.]

Mr. LANTOS. Thank you very much.

Mr. Hyland.

STATEMENT OF WILLIAM G. HYLAND, FORMER EDITOR, FOREIGN AFFAIRS

Mr. HYLAND. Thank you, Congressman.

I am going to take advantage of the very nice letter from Congressman Hamilton to comment a little bit on some broader topics of foreign affairs, since the committee is engaged in trying to understand what the post-cold war foreign policy of the United States might be.

CALL FOR REEXAMINATION OF U.S. FOREIGN POLICY

First of all, I think as a country we are in the process of redefining ourselves after a 50-year period; a very long period in the history of a country that is just a little more than 200 years old, it began with Pearl Harbor and ended with the fall of communism and the dissolution of the U.S.S.R. We are now at a point where I think we have to re-examine almost all aspects of foreign affairs. I would urge this committee as well as the executive branch to do so in a bottoms-up approach.

In other words, I do not think anything should be off the table or sacrosanct. We ought to look at things that we have taken for granted, that we have assumed for many years, mainly because they were required by the cold war but also, in some degree, from force of habit. I think the Clinton administration has a rare opportunity to reexamine foreign policy in circumstances that are probably better in terms of the safety of the United States, better than any of his predecessors since Franklin Roosevelt and, perhaps, since Herbert Hoover. There is a chance, I think, to take a look at some issues that have not been examined for a very long time; that includes our relationship to Europe, which was formed long ago, but has mainly been shaped by the cold war.

WEAKENING OF U.S.-WEST EUROPEAN ALLIANCE

In such an examination, I would hope that we would look into the question of our global commitments and which ones are absolutely required by our vital interests and those which might be turned over to local or regional forces.

With that as an opening background, I turn to Europe. I think our interests in Europe are fairly clear. I see no reason at all why we should abandon the alliance that we have had with Western Europe in military, political, economic, social, and cultural relationships. But we must recognize that it is far less important on both sides of the Atlantic than it was during the cold war. The relationship, I think, between the United States and Europe is becoming weaker. American influence is declining. That is understandable if you realize that the coalition that was formed in the late 1940's to oppose the expansion of the Soviet Union was, like all coalitions, held together to some degree by a common threat. There are other aspects of that coalition that go well beyond the common threat but I think without the threat we have to recognize our relationship with Western Europe will be weaker and that trend is already in place.

DEALING WITH RESURGENT NATIONALISM

The question for us is how to manage the new relationship: whether we should continue to maintain troops in Europe, for example; whether we should reduce those troops further, perhaps reduce them altogether; how to cope with the problem of Germany. There is no doubt that there has been a revolution, a geopolitical revolution, in Central Europe with the unification of Germany. It is the most powerful state in Europe and we must recognize it. I think the Germans are having some trouble coping with it themselves but it is a new element that we have not had to face for some time.

Finally, there is the revival of nationalism throughout Europe—and not just in Europe. It takes the form of protectionism and it takes the form of ethnic conflict. I think we have to recognize that nationalism has been liberated, so to speak, by the end of the cold war. How to deal with European nationalism or nationalism throughout the world is one of the major problems for American foreign policy.

So after 30 or 40 years we have to recognize that Europe has turned out to be less than we had hoped for, certainly less than Jean Monet and DeGasperi and Adenauer and even deGaulle had hoped for. The end of the cold war raises the question whether the continuation of Western Europe and the integration of Western Europe as a separate entity is advisable any longer.

COUNTRIES OF EASTERN EUROPE NEED MORE HELP

In my view, the principal danger in Europe, leaving aside for the moment Bosnia, the principal danger is that Eastern Europe will be cut adrift and will become a no man's land between Germany and Russia without much attention being paid to it, fragile democracies without American assistance, with some European assistance as has been mentioned but not very much money. Many of

these countries have major ethnic problems; minorities in several of the countries are a problem because of nationalism. There is also the possibility that some of these countries will simply over the years break down.

Western Europe ought to be encouraged, and encouraged by the United States, to do something more vigorous in terms of bringing Eastern Europe into some kind of pan-European organization and doing so earlier. Waiting until the year 2000 is simply not a good idea. I think the United States should take a role in that.

In my view, there probably is a need for some kind of new institution. Multiplying institutions is probably not a good idea, especially when we have some rather strong ones in NATO and the EC, but there is no institution that really is addressed to the new situation in Europe, that is, East and West coming together.

The question in my mind would be whether such an institution should also embrace Byelorussia, Ukraine and the Baltic republics. Perhaps we could even go back to the Gaullist view, Atlantic to the Urals.

ENCOURAGING POLITICAL DEMOCRACY IN RUSSIA

The most important problem for the U.S. policy in Europe is the future of Russia. This is a country in great turmoil, there is no real historical precedent, at least not in the last 1,000 years, for the breakup of the Russian empire. It reverses a trend that started under Peter if not earlier. How do you deal with a major empire that is in the process of collapse?

In this country, there is a tendency to see it in a very bureaucratic, narrow way: how much money should we appropriate this year for Yeltsin?

That is an issue that the Congress has to be seized of and, of course, the President but it is not the only issue. I think we should recognize that a somewhat broader philosophical approach might serve us better. We should not be too preoccupied with whether Yeltsin survives or not. Yeltsin is bound to be a transitional figure in Russian history. His day was heroic. What he did for his country was heroic and we owe him a great debt. But I think his time probably has passed. Who will take his place I do not know and I am not so sure it is important.

What is important, I believe, is that we should encourage in every way, whether it is with money or not, the development of a political democracy in the Soviet Union. Without a political democracy, Russia, the former Soviet Union, will drift back to where it has been over the last 1,000 years, to an authoritarian regime. In fact, if you had to bet, you would say that historically that outcome is the most likely.

That is not necessarily bad for the United States, but it might be bad news for some of Russia's neighbors, the Ukraine and so forth.

What I see as the issue is how to encourage democracy and to build democratic institutions. I think Yeltsin's great failure has been that he has not built a political party of his own that could compete in the political arena. He is really a man almost by himself with a small circle of advisors. Now he has to resort to some rather dangerous possibilities. I think referendum and plebiscites

are not a good way to run a democracy. And if he dissolves the parliament, this raises a very serious question for this country.

I have heard American senators say, well, this might be all right if we have elections down the road. Of course, this is the first step to establishing an authoritarian government. It is an agony for us and it certainly is probably an agony for many of his people, should he do this. It may be better than the Communist dominated parliament but if he does it we have to think very seriously if we want to send billions of dollars to that country or whether to encourage the Europeans to do so.

ENCOURAGING GREATER EUROPEAN ROLE IN FORMER YUGOSLAVIA

Let me just say about Bosnia there is no doubt this is the issue. It is a burning issue, and it is an agonizing issue, and I must say I myself am somewhat torn between humanity and the geopolitics. I think, though, the iron rule should be that the United States should not put military forces into Bosnia. I see no possibility that those forces could go in without having to fight, even as so-called peacekeepers, unless the agreement that is worked out along the lines of Vance-Owen is a really air-tight agreement. I think the chances of that happening are almost nil. I do believe there will be an agreement. I think the war is coming to an end and we perhaps should recognize that this may be the last Serbian campaign. Although that could turn out to be wrong, I do not think the war is going to spread to Kosovo and Macedonia.

I believe this is a European crisis and I am very disappointed with the European behavior in this crisis. We Americans cannot be more European than the Europeans. This is their problem. They have lived with this problem, Balkan wars and disintegration of empires, for a long time and previous generations have tried to deal with it, sometimes successfully and sometimes not so successfully.

The United States therefore should encourage the Europeans to be seized of this problem and in doing so I think we should try to establish a broader principle which is that many of these European problems have to be dealt with by the Europeans. The United States cannot take up the problem of Yugoslavia, of the Czechs and the Slovaks, of the Polish economy, of the Hungarian minority, of the Rumanian regime, et cetera, et cetera. I think it is time to let Europe be Europe and in doing so I think maybe we can help the Europeans.

UNHEALTHY CONSEQUENCES OF U.S. DOMINATION OF WESTERN ALLIANCE

Looking back over the past 40 years, I think American domination of Western Europe and domination of NATO probably has been unhealthy even though it has led to the most successful conclusion you could have wanted in the cold war. The Europeans have become quite dependent upon the United States psychologically. European leaders of this generation, I think, are far less capable than their predecessors. If you think back to the post-war period, Churchill and Attlee and so forth, and compare then with the present set of leaders there has been a decline in Europe and perhaps we are partly responsible for it.

To continue this tutelage of Western Europe is probably not in our interest. It was evident in Bosnia that they would not act without us; they would not act without us even in Somalia, a country that the Italians and the British know far better than we do. They were unwilling to do anything until President Bush decided to put in American combat troops. This is not a healthy situation, and this is the kind of thing that we would be well advised as a country to examine. What are those vital interests that we are willing to fight for, that we are willing to spend our money, our treasure, and ask for the commitment of the American people? What are those issues that might be better left to others?

Thank you, Mr. Chairman.

Mr. LANTOS. Thank you very much, Mr. Hyland.

Mr. Hormats.

ROBERT HORMATS, VICE CHAIRMAN, GOLDMAN SACHS INTERNATIONAL

Mr. HORMATS. Thank you, Mr. Chairman.

I would like to address the economic aspects of the U.S.-European relationship in the 1990's and focus on a couple of key points in this transitional period.

SEA CHANGES FACING WESTERN EUROPE

We have an opportunity to rethink our foreign policy and rethink it in a creative way. I would like to just offer a few suggestions that pertain to the European continent but they might also have a broader international sweep as we go along.

First, I think one could go back a few years and have felt a sense of confidence about the directions in which Western Europe was moving. The centripetal forces of increasing integration and unity were evident; there was a sense of self-confidence about Western Europe's future, a sense that Western Europe would be the model for nations that were undergoing reform to the East.

On the Eastern side, there were centrifugal forces of disintegration and disunity. The Soviet empire was falling apart, nationalism was on the rise and economic difficulties were obviously a major troublesome issue for most of the region.

What has happened more recently is that Western Europe has seen its economy suffer from stagnation and in some countries recession. The momentum toward unity that Shirley Williams has described has been lost or at least slowed down substantially. The visions that some of the leaders had a few years ago of a monetary union, common foreign policy, political union, do not seem to be materializing at the same pace that was contemplated.

In addition, Western Europe faces four sea changes. One is the collapse of the Soviet Union and the dissolution of the Soviet empire with all the economic and nationalist impulses that have resulted from that.

Second is the unification of Germany and the attendant financial costs which have been, of course, quite substantial.

Third, down the road, is the imminent reduction of American troop presence in Europe and, the point Bill Hyland has made, the psychological adjustment that the Europeans are going to have to

undergo as America's interest and role in Western Europe diminishes at least from what it was at the height of the cold war period.

And, finally, the existence of a full scale war, coupled with starvation, concentration camps, ethnic genocide in Eastern Europe, a 1-hour plane ride from Western Europe, most Western European capitals, with Western Europe, as Bill said, being completely unable to do anything about it. It has caused a sense of psychological, political and moral frustration. It is hard to imagine that we have not learned more than we have from the experience of World War II, that this has been allowed to go on with so little moral condemnation and so little in the way of firm action from the West to stop the killings. It is something that I think historians will judge us in this generation, Europe and the United States, very badly with respect to our performance in this area.

U.S. RESPONSE TO A CHANGING EUROPE

Now, the question is how should the United States relate to these changes in Europe?

It strikes me that the preeminent goal of American policy in Europe in the 1990's should be to ensure an orderly adjustment to the post-cold war era. That is, an adjustment that fosters sustained peace and stability on the continent, east and west, strengthens prospects for democracy that Shirley has described so well, and bolsters prosperity and free markets. All these things are formidable tasks but they are all very much interrelated.

At stake in the current turmoil in Moscow is not just who will rule Russia but what kind of country Russia will be.

Will it cooperate with the West in such regions as the Middle East and on arms control and nuclear proliferation?

Will it embark on a nationalistic course harmful to its Eastern and Western European neighbors and the global stability?

Will it fragment into seething and fractious ethnic groups avenging themselves on one another, some of which will have enormous amounts of arms, in some cases nuclear arms?

Will its economy collapse into hyperinflation, a late 20th century version of the Weimar Republic, with all the risks that entails?

And how fast and in what ways will economic and democratic reforms take place?

It is an epic struggle and the implications are enormous, not only for Europe and the Atlantic Alliance but also for American defense spending and for our domestic economy. We have pretty much assumed that we could put the peace dividend in our pockets and move on. If proliferation increases, nationalism increases and Russia takes a more nationalistic and less helpful course, then we are going to have to rethink to a degree, and the Europeans as well, some of the planned reductions in defense—which, of course, has profound economic implications.

What should we be doing about it?

A key point that Shirley made earlier, and I want to underline, is that the United States and Europe have to work on this together. Cooperation between the two with respect to foreign assistance ranges from poor to nonexistent. Western countries use export credits to promote their own exports. They compete for the same goods. They try to outdo one another. One of the conversations I

had with former Acting Prime Minister Gaidar just 2 days before he was ousted in the last meeting of the Congress of People's Deputies indicated that the prevailing view in Russia was that Western aid was designed more to produce jobs in the West than it was to strengthen the economy of Russia.

NEED TO COORDINATE WESTERN AID TO RUSSIA

Advisors deluge these people with ideas, with proposals. No attempt by the West to sort them out, to figure out who could do what best. It has been a pitifully sad show. The will has been there. I think the best of will has been there, but a very poor performance with respect to coordination. And one of the points I would like to leave the committee with is the notion that, as we had with respect to the reconstruction of Europe after World War I and World War II, there were instruments designed to ensure that aid was properly coordinated; and a single individual—after World War I it was Herbert Hoover, after World War II, Governor Lehman of New York—a single prestigious individual was assigned to help coordinate this. And we need a working group of senior officials from the finance ministries and trade ministries, as well as the aid ministries of the Group of Seven, in particular at a senior level, to form a high level, ongoing working group. And we need cooperation at embassy level in Moscow. So the coordination is particularly urgent.

HUMANITARIAN ASSISTANCE FUND

Also with respect to assistance to Russia, humanitarian assistance has been provided. More of it is going to be needed. And probably we are going to have to set up some sort of international fund, probably under the World Bank, for humanitarian assistance, that will give encouragement to the reformers that if there is unemployment, which there inevitably will be if they close these defense plants and other inefficient plants, that there will be a social safety net to help out during this transitional period—not a permanent one but at least a transitional one. That makes a lot of sense. It might be hard to justify in the West when we have our own high levels of unemployment, but I think it helps as a transitional device.

RUSSIAN ENTERPRISE FUND

Second, it does strike me that it would be very useful to create a Russian Enterprise Fund to provide equity or loans to private enterprises that are beginning to develop in Russia. The really bright spot of the Russian economy in an otherwise very bleak picture is that the privatization process has in fact moved ahead. They have managed their monetary policy quite poorly, fiscal policy is in shambles because of huge subsidies, but privatization has proceeded, particularly with respect to small- and medium-sized companies, but even some larger companies. There actually are private entrepreneurs who could benefit from infusions of equity from the West as has been done with respect to Hungary, Poland and the Czech Republic and the Slovak Republic—all of which have enterprise funds.

RESCHEDULING RUSSIAN DEBT

The rescheduling of Russian debt is particularly important. Russia is not a poor country, but for the moment it is unlikely they are going to pay the West as much as the West wants them to repay and therefore reasonable rescheduling is important, because it does allow the food credits and other export credits to go forward.

SUPPORTING REFORM AT REGIONAL LEVEL

The grassroots aspect of lending to Russia, or support for Russia, is something that I want to emphasize. The ministries in Moscow and Yeltsin himself, much as we may support his objectives, do not have great influence in many regions of the country. In some cases, they have virtually no influence in certain regions, the various constituent republics and oblasts in the far flung parts of Russia. And some of these republics, many of these areas, have proceeded much more rapidly to reform. Others have not proceeded with reforms at all. There are some areas, Nizhny-Novgorod, the Volga region, Sakhalin Island, St. Petersburg, where there are real reformists and they are doing major reform efforts. Other areas have not at all. And therefore the targeting of western support should be regional.

Now, I say this but I also want to underscore that there is a risk. Unlike the Western encouragement in some cases, support in other cases, for the dissolution of the Soviet Union, I think the dissolution of Russia would not be useful and helpful from the point of view of the West.

If Russia disintegrates into competing nationalistic groups, it would be a very, very chaotic situation. So that in providing aid to the various regions of the country that are more progressive, it should be made very clear that the goal of western assistance is not the dismemberment of Russia itself but the enhancement of its economic prospects as a unified country by assisting the reforming areas and making them models for other areas, and demonstrating that reform does have its rewards.

POLITICAL NATURE OF RUSSIAN POWER STRUGGLE

I just want to make one other point with respect to Russia. This is the notion that somehow this is a struggle between real reformers and nonreformers. It is a much more complicated picture than that.

Economic assistance can play a major role, but we should also realize that a large portion of the struggle is political. It is the center versus the periphery. A lot of regions, a lot of enterprises want more power vis-a-vis the center, vis-a-vis Moscow.

Second, it is the President versus the Congress, not in the sort of civilized debate we normally have here between the two ends of Pennsylvania Avenue. But the Congress and Members of the Congress, particularly the president of the Supreme Soviet, Khasbulatov, these are people who want more power in their own right. A very large part of this debate is that they want to wrest power to the extent they possibly can from the President. Whether the President is Yeltsin or someone else, they want to increase their power.

And what they are going to do with it is hard to know. They are very divided, many of them are former Communists, many of them are "feudal barons" who have great control over the regions of the country that they represent. So the ability to come up with a consistent economic policy or any other policy, I think, is very suspect if the Congress does gain more power or gain the upper hand against the President.

And these, of course, are key issues: the fast reformers versus the slow reformers versus the nonreformers.

And then there is another debate over seeing Russia as a cooperative member of the global community or as a more nationalistic player; and there are those in Russia who want to assert Russia's interests to defend their ethnic nationals in Ukraine and other parts of the area. That, of course, has major implications. So we have to look at all these things.

Economics can play a role but we should not kid ourselves into thinking it is the only issue. There are a lot of other very complicated, very deep seated issues.

With respect to economic assistance, let me just make three very quick points.

NUCLEAR COOPERATION

Nuclear cooperation is very important. I have identified areas in my testimony where we can do this. There has been legislation by this Congress to appropriate money to help the Russians deactivate their nuclear weapons. A massive effort, primarily by the Europeans and by the United States, is needed for nuclear safety. Nuclear proliferation is going to be a nightmare in the 1990's unless we can deal with it better than we have in the past.

Working with the Russian military is going to be very important. One way of doing this is to finance housing for returning military people coming from Eastern Europe. The Germans have taken the lead in this. We can be helpful. It is primarily a German enterprise, but something the United States can be useful in.

ACCELERATING EC MEMBERSHIP FOR EASTERN EUROPE

Eastern Europe—just one quick point. The point was made we should not neglect Eastern Europe. I just want to underscore that. There is a great danger that with all of our attention to Russia we will marginalize Eastern Europe. The United States ought to take the view, as we did at the founding of the European Community, that we positively and actively support European unity. The United States ought to be firmly on record that it supports an accelerated timetable for the membership of Poland, Hungary, the Czech Republic and perhaps the Slovak Republic in the European Community. I think for a variety of reasons it is extremely helpful to these countries that the EC be a force for stability in the region, particularly if Russia deteriorates. Their membership would solidify the network of institutional linkages that bind Germany to Western Europe and enable Germany policy to the East to be carried out in an EC context. It will harness the prospects of future growth in Eastern Europe to the overall benefits of the European Community. It seems to me we ought to be firmly onboard there, it is in our interests.

RESOLVING U.S./EC TRADE FRICTIONS

The last point is that there are going to be a lot of trade frictions between the United States and Europe over the next couple of years. The hope is that these can be resolved quickly so we can get on with the Uruguay round of trade negotiations. It is critical for the global trading system and certainly critical to providing a framework for resolving many U.S.-European differences. We need fast track authority, negotiating authority, to be passed quickly by the Congress once the President submits it, as I hope he will do relatively quickly.

And one way we can be helpful to the Europeans, to improve the trade environment, is if once again the franc comes under attack and the Europeans attempt to defend that currency to continue the exchange rate mechanism band between the franc and the deutschmark, the United States should assist the Europeans in that effort. If the franc and the deutschmark separate, not only would there be serious financial implications but the political implications and the ability to restore the centerpiece of European monetary cooperation would be badly undermined.

These are just a few items that I think we ought to address. I just would leave the committee with the last point that this a moment of profound change in the world, in America's attitude toward the world and indeed in global conditions. We have to begin thinking in a fresher way and, as Bill says, work from the bottom up. This is a great opportunity for this committee and indeed for the Congress to play a key role. There were Fulbright Hearings, I guess it was 30 years ago or so ago, where we took a look at the world in a very comprehensive way and it does strike me that this is an enormous opportunity to do so again and chart a course for this country in the next century.

Thank you.

[The prepared statement of Mr. Hormats appears at the conclusion of the hearings.]

VISITING GROUP OF WEST EUROPEAN DEFENSE EXPERTS

Chairman HAMILTON. Thank you very much, Mr. Hormats.

I recognize Mr. Gilman to introduce some distinguished guests.

Mr. GILMAN. Thank you, Mr. Chairman. We are pleased to have with us today a distinguished group of experts on defense who are visiting the States to open the door on COCOM and to look at trade. They are here with Mr. Soskin of the Office of the Secretary of Defense on Defense Technology Security Administration and Mr. John Lukey of the U.S. Air Force who is also working with them.

Among the delegates who are seated in the front row are Colonel Vincent Nardonnnes, French air attache to Greece; Colonel Michael DeParis, Secretary General of STEM, which is the Security and Technology Expert Meetings; French Ministry of Defense representatives Pierre Fiole, Denué Dominique and Patricia Simone; and from Italy, Colonel Mario Cetari of the Italian Engineer Corps, Chairman of the Mobility Technology Group; and U.K. representatives Mr. Trevor McKinley, technical advisor to the Ministry of Defense, and Dr. Chris Burton, Ministry of Defense. We welcome

them and I am sure that they look forward to hearing the testimony of our good experts.

And, Mr. Chairman, I want to commend you for holding this additional hearing in our series of hearings on examining issues of vital importance to our U.S. foreign policy. I believe this is the 11th in the series.

As developments in the post-cold war era unfold, it is clear the principles and tenets which have guided our policy toward Europe for the nearly 50 years since the end of the second World War now need to be reexamined just as we have to reexamine once again our position with regard to Mr. Yeltsin's position in the new Russian Republic.

I join you in welcoming our distinguished panelists and look forward to hearing their views and request that my full statement be included in the record.

Chairman HAMILTON. Without objection, it is so ordered.

[The prepared statement of Mr. Gilman appears at the conclusion of the hearings.]

Let me add my voice of welcome to our distinguished visitors. We are very pleased to have them here. And to our panelists, we are delighted to have you.

Now, what I would like to do is set out the issues that I want you to comment on to the extent that you want to, and then we are going to open it up for, I hope, a kind of free-wheeling discussion.

You probably have commented on these to some extent already and to the extent that you have, then just let it go. But these are three things that come to my mind as I think about Europe today that are very important.

THE FUTURE OF NATO

The first one is NATO. How can NATO be transformed into an organization which can meet the challenges that confront it?

We have been very disappointed with what has happened in Yugoslavia, and many have said that NATO should have played a more active role in resolving the conflict. Clearly, NATO's relationship with Central and Eastern Europe has to be looked at, and I would like to hear your conception of how you see NATO developing in the next few years.

POLICY IMPLICATIONS OF A CHANGING EUROPE

The second question I want to throw out relates to Europe in general. A year or two ago Chancellor Kohl was telling us that the 1990's would be the decade of Europe and speaking with great confidence and assurance about Europe's leadership in the post-cold war world. Mr. Hyland has testified, however, about how Europe has turned out to be less than we had hoped for.

What are we to make of Europe? An article appeared in the press the other day about a weary Europe, splintered by public uneasiness, experiencing the most serious loss of self-confidence in 10 years' time.

What are the implications of Europe's mood today for the United States? President Delors is here this afternoon. What should we talk to him about? What should we try to find out from him about

Europe? My principal interest here is what the implications are for the United States of what is happening in Europe today.

U.S. POLICY TOWARD RUSSIA

The third area is the one Bob Hormats was talking about a moment ago, and that is aid to Russia and what is happening in Russia. President Clinton is going to sit down with President Yeltsin in Vancouver on April 3-4. Suppose for a minute each one of you have written memoranda to the President on many occasions. What would you write to President Clinton right now in view of the meeting with President Yeltsin?

Let us take it from there. Who wants to start?

MAASTRICHT OUT AHEAD OF PUBLIC OPINION

Mrs. WILLIAMS. Well, I will start since I started before. Let me say something about each of those very quickly, Congressman Hamilton. They are not easy questions to answer. Can I take them in a different order?

Let me take the second one first.

I do not myself believe that the present mood of loss of confidence in Western Europe should be exaggerated. There is not any doubt that the Maastricht Treaty was a setback because it went ahead of public opinion and the fault there lay, I think, to a great extent with the political leaders of the Community who had taken their public opinion for granted. You should never do that, as every good representative knows, and they did and they made a mistake. My view is that the outcry by European public opinion, about not being consulted, about being taken for granted, was a healthy thing. It is not surprising to me that Denmark, which is one of the most open democracies in Europe, should have been the place that said thus far and no further.

I think we are going to go back to the drawing board, I think we will come up with a solution. I do not think it is worth an awful lot of the committee's time worrying about it.

CONSEQUENCES OF POTENTIAL RUSSIAN REFUGEE EXPLOSION

What worries me much more than that is that I think that if we see the breakdown in Russia to which both Bill Hyland and Bob Hormats have referred, one of the things that could flow from that would be an absolutely uncontrollable movement of population. It is significant that both Poland and Hungary have redeployed their troops to their eastern borders. They both fear the possibility of large numbers of refugees and I am talking about hundreds of thousands coming out of a breaking down in Russia or the CIS.

We have already seen how severely German politics was shaken by the arrival of 500,000 refugees in the last year mainly from Yugoslavia but also from other places. We saw for a brief while the rise of extremist groups of a nationalist kind, though I give great credit to Germany because there have been demonstrations of literally millions of civilians against racism, decrying it, and saying that they will support any efforts the government makes against it.

But I cannot state too strongly, Congressman Hamilton, and to your colleagues too, the extreme dangers to even the most settled parts of Europe of a real breakdown of Russia or the CIS countries. Already we are seeing something close to civil war in Georgia, something close to civil war in Nagorno-Karabach. It is really not long off.

NEED FOR LONG-TERM TECHNICAL ASSISTANCE FOR RUSSIA

Now, that brings me to your third question and I will then go back to your first one.

Your third question was what would one put in a memo. I would put in a memo something very like what Bob Hormats said in the last part of his evidence but I would add a parallel piece to it. Bob has spoken about a number of economic steps that could be taken, including the forgiveness of part of Russian debt, an attempt to try to provide a stabilization fund for the ruble and so on. I agree with everything Bob has said but I believe there is a political parallel as well.

In the United States and to some extent also in Western Europe, there are huge numbers of volunteers waiting to be tapped to assist with the public administration, the training of politicians and all the rest of it, in the CIS and for that matter in Eastern Europe. What we have seen instead, and I cannot put it too strongly, is a steady stream of what I might call 3-day consultants who come and stay in the best American type hotels in these capitals, wait for 3 days, take a hell of a lot of money for it, take the time up of very busy politicians and go home. They know nothing about the region, they have very little to offer and they are doing a very great deal of damage both to the United States and to Western Europe because they are not relevant people.

Relevant people would be people who would go for 6 months to a year to work in local government, regional government and even central government to get across the ideas of democratic accountability, to get across the ideas of public administration, to get across the ideas of working with the public and treating them like real sovereign citizens and not like a bunch of people who are told what to do. I cannot therefore emphasize enough the need for a political initiative along with the economic initiative.

NEED FOR COLLABORATIVE APPROACH TO ASSISTANCE PROGRAMS

That brings me to two final points.

The first semifinal point is something I said when you were out of the room and also Mr. Gilman was out of the room but Mr. Lantos will, I think, be patient enough to let me say it once again and I hope that Mr. Menendez will, too. We are doing ourselves immense damage, it is also something that Bob Hormats said, by the endless turf battles between the United States and Western Europe throughout the whole of Eastern Europe and the Soviet Union as well. We are wasting a hell of a lot of money doing this.

We ought to look at much more collaborative programs and I think Bob is right in saying that we ought to try to go for a common leadership at the top which would actually use the resources we have far more effectively than they are being used today. You cannot get collaborative programs off the ground, as I know very

well because it is what Project Liberty is all about, because USIA, USAID and the PHARE program of the Community will not usually fund collaborative programs. They only accept programs for their own country and that means that we are doing ourselves a lot of damage by not using the best people that we have.

There is one thing to add to that. Most systems in Eastern Europe are parliamentary ones, not separation of power systems. Therefore, quite a lot of advice is quite beside the point because these systems resemble Western European ones more than American ones and therefore you do need to bring mixed teams in the way that we had them under the Marshall Plan, in the way that we had them in the early years of O.E.C.D.

A NEW ROLE FOR NATO

Finally, NATO. I myself believe that one of the great problems of NATO is that its task is still defined in a way that is no longer very relevant. It is about dealing with an attack on Western Europe from out of theater and, of course, the idea is that this attack will come from the Soviet Union. What NATO is not set up to do is the kind of rapid deployment force that would enable policing operations to take place, rapid interventions to take place and so on.

I am no expert in defense but let me just say this. One of the areas that NATO has got to develop is forces essentially for something soldiers hate which is peacekeeping and police operations. They have to be available for service throughout the continent of Europe and they have to be available at very short notice.

Chairman HAMILTON. You see NATO as both a peacekeeping and a peacemaking organization throughout Europe.

Mrs. WILLIAMS. Yes. Absolutely. Though it will need the support of all its members to do so and that means that we have to look at the CSCE principle, which is that you can only act if there is a unanimous decision. I think we need to look at what happens if you have a Serbia and you need to deal with a situation where there may be unanimity minus one.

CALL FOR NEW PAN-EUROPEAN ORGANIZATION

Chairman HAMILTON. Let us have Mr. Hyland and Mr. Hormats comment as they choose on those questions I raised.

Mr. HYLAND. All right, sir. I will go quickly down the three questions.

I do not think NATO can be transformed from what it has been for the last 40 years, and I do not think it should be. It is primarily a military organization to defend Western Europe against the Soviet Union, and it did an outstanding job.

I think what is needed is something new. A new institution should be created that has political and economic dimensions but that is continent wide.

Now, NATO no matter how you transform it will always be dominated by Germany, France, England and the United States. The East European countries will be second-class, I believe. If you broaden it to include Russia, then it becomes a rather strange affair in which you have military plans made in Brussels to defend against one of the members. So I think we really should not try to

transform NATO into something that it was not designed to be and probably should not be either.

RETAINING NATO TO DEFEND WESTERN EUROPE

Chairman HAMILTON. Do you see NATO kind of withering away?

Mr. HYLAND. No, I think NATO should be retained as an organization to do what it set out to do and that is the defense of Western Europe, including Germany, with organized forces. But as a lesser organization to what I would hope would be a larger pan-European organization.

We have to recognize, I think, Mr. Chairman—this is difficult and it is difficult to say—that we are not totally out of the woods when it comes to the former Soviet Union, and I am not just talking about Yeltsin, I am talking about 10 to 15 years from now. If Russia revives, it will put pressure on its neighbors. It has done so for 400 years and it is bound to do so because most Russians regard the neighboring countries, including the Ukraine, the Baltics and even well into Poland, as an area where they ought to have dominant influence. That is bound to lead to a clash with Germany.

Mrs. MEYERS. Would the gentleman yield?

Mr. HYLAND. If I could just finish this one statement.

Chairman HAMILTON. Certainly.

Mr. HYLAND. We should have reserve forces and reserve plans and a reserve organization; Western Europe may need to be defended at some point and if you have a treaty organization you ought to maintain it. It does not mean it needs huge forces and it does not mean that you point a lot of arrows to the East but I would not allow it to wither away.

POTENTIAL THREAT OF RUSSIAN NATIONALISM

Chairman HAMILTON. Mrs. Meyers? And then we will pick up, Mr. Hyland.

Mrs. MEYERS. I do not mean to interrupt you—

Chairman HAMILTON. No, that is fine.

Mrs. MEYERS. Do you think that Russia will put pressure on its neighbors even if democracy takes hold in the country? Democracies do not usually make war against other democracies. If Russia becomes totalitarian again, I can see where it might, but would you comment on that?

Mr. HYLAND. Yes. Well, I am assuming what I probably should not assume, that Russia is not going to be the kind of democracy that we would hope for. It is too soon for it to develop over the next, say, 5 to 10 years, a democracy with the kind of institution and roots that we know. That it is more likely to be a Russian version, maybe a benign authoritarian regime.

But even so, I think we have to recognize that if it were a model democracy, it could still be very nationalistic. There are millions of Russians who do not live inside the Russian Republic and that is a time bomb, even right now. There are Russians who live in the Baltics who are now being denied certain fundamental civil rights. This is a problem. Should we put pressure on Russia? Or should we put pressure on Estonia and Latvia? It does not seem like the

most important issue right now, but it is an issue that could blow up in our face.

So I am rather pessimistic about the outcome in Russia and that is one reason I am not quite ready to say let us abandon NATO. The point I would just like to leave with the committee is there is another way to go, and that is to create an umbrella organization that would bring in Russia, Ukraine, Byelorussia and the Baltic republics, as well as Eastern Europe.

CSCE NOT UP TO POST-COLD WAR CHALLENGES

Chairman HAMILTON. Would that be like the CSCE?

Mr. HYLAND. Well, CSCE is also a relic of the cold war. It did its job. In fact, it did much better than its critics thought it would. I was at the Helsinki conference with President Ford and we got a lot of criticism on the Hill for going to Helsinki. It turned out that it was an encouraging development, that people in Eastern Europe took it as a sign that there might be some hope.

CSCE in the Yugoslav crisis turned out to be too weak. There are too many countries, there is no kind of real executive. And, again, it came down to the question of would the United States act and would France, Britain and Germany support it. So I do think that, again, trying to reform an organization like that probably consumes more energy than it is worth.

So I do not think CSCE is probably reformable. I think you need something new, with a new structure.

EUROPE NEEDS A NEW MISSION

Chairman HAMILTON. We left hanging there a couple of other things I wanted to get you to comment on at some point.

Mr. HYLAND. Just very quickly, I think the second question about Europe, I am disappointed in Europe and I am not sure why or what the reasons are. There is a certain weariness there, but perhaps it is because they carried a huge burden in the cold war. The shock of German unification has been much greater than anyone thought. Everyone welcomed it at the time and it has turned out to be rather a burden in Germany. But it has brought back, and the end of the cold war has brought back some of the old antagonisms in Europe between the French and the Germans. It has also revived in Britain the doubts as to whether it really wants to be committed to Europe or whether it should maintain a position outside of Europe with a special relationship to us. So my answer is that I think Europe needs a new mission.

Jean Monet and his generation gave it a mission which I think was very healthy. I think they need a new mission and the new mission I would say is the unification of the continent in some kind of organization where Czechoslovakia or the Slovaks and Czechs will enjoy the same standing as the Western countries.

CONDITIONING AID TO RUSSIA

On aid to Russia, what kind of memo would I write the President if he were going to Vancouver? I wish I could have written it before he went, which would have been do not go. It is not a very good time. But he is going and that is it.

My feeling about this is—if you were trying to advise the President privately, not publicly—there is a basic bargain here that has to be struck. We talk almost totally about what we can give the Soviet Union, what they need, what we can give. We talk very little about what we should require from them.

We should try to outline, and the President should do it as subtly as he can, that if we are going to continue large economic assistance, which I feel we will have to, although I doubt its effectiveness; I think we do it partly for our own reasons to soothe our own conscience. We should try to get some guarantees from Yeltsin about the continuation of democratic practices, especially in the near term, as well as over the longer term, and we should ask for some guarantees, even if informal, about how they will behave toward their neighbors, the Baltic republics, Ukraine, Byelorussia and some of the Central Asian countries.

We need to really stabilize that equation because I keep reading in the paper some very disturbing remarks, not by Yeltsin but by people around him about how they should be appointed the guarantor or the representative of these smaller countries. It is very dangerous for us not to face up to it, perhaps in private between Mr. Clinton and Mr. Yeltsin, to say that, if you put pressure on the Baltic countries or Byelorussia because of the minority problems, then the American Congress or the American people will not want to send money to a country like that. And, if you (Yeltsin) move to an authoritarian regime, if you dissolve the parliament, as distasteful as that parliament is, that is a step in the direction that we also would not like.

If he has not already done it, my guess is that what Yeltsin is planning to do is to hold a referendum of some kind, and it does not really matter what it is, and point to it as a mandate and dissolve the parliament and take over the government. At that point, it will be an agony for the United States. Is this what we mean by democracy? Is this the kind of country you want to give—

Chairman HAMILTON. If he does that, should we continue to support him?

Mr. HYLAND. I do not think we should. I think that Yeltsin's time has passed in any case. But if it has not, if I am wrong and Yeltsin remains in power, I think this is the direction that we should not want them to go. I am not saying we should go into a cold war confrontation but I do not think it is healthy to say "this is OK, what can you expect from him, he really had no choice."

CONSEQUENCES OF DISSOLUTION OF RUSSIAN PARLIAMENT

Chairman HAMILTON. If he were to dissolve the parliament and announce new elections in 3 months, would that make a difference, in your point of view?

Mr. HYLAND. I think it would make some difference but you would want to know a lot about those elections and who could run and who could not because what he is saying really is that the constitution does not matter.

Once you say that in a country that has had 400 or 500 years of authoritarian dictatorships, that is to me the beginning of a major political change. I think it is going to go there anyway, so

in a certain sense maybe we should not fight the trend but I do not think that we should encourage it.

If I were the President in Vancouver, I would say I hope you do not do it, I hope you can find another way, to hold elections or to do whatever is necessary. But if you dissolve this parliament, this is the kind of thing—if they did it in another country, Germany or France or England, we would think it a disaster.

Chairman HAMILTON. We have a vote pending.

Mr. Hormats, do you want to start?

Mr. HORMATS. Do you want me to wait? Do you want to vote?

Chairman HAMILTON. I think we had better break here for about 5 or 10 minutes. That will give you time to gather your thoughts. That gives you a certain advantage, Mr. Hormats.

Mr. HORMATS. Thank you, Mr. Chairman.

Mrs. WILLIAMS. Could I just add one sentence to what Mr. Hyland said before you go back to what Bob is going to say?

Chairman HAMILTON. Sure.

Mrs. WILLIAMS. I was an advisor on the Russian constitution. I think it is important to say that the Russian constitution is an extraordinary mish-mash. It does not resemble a democratic constitution as we would understand it.

Chairman HAMILTON. It has over 300 amendments.

Mrs. WILLIAMS. For one thing. And, as you know, many of the changes were never made.

Chairman HAMILTON. Yes.

Mrs. WILLIAMS. So the constitution is still in many ways a wish list constitution like the original Soviet constitution.

Chairman HAMILTON. Well, do you agree with Mr. Hyland's comment?

Mrs. WILLIAMS. What?

Chairman HAMILTON. Do you agree with the position Mr. Hyland took?

Mrs. WILLIAMS. Not totally. I would agree with your implication, that if there could be an election under international supervision we might get a very different parliament out of it. That is all I wanted to say.

SELECTIVE CONDITIONING OF ASSISTANCE FAVORED

Mr. HORMATS. Could I also just make one distinction?

With respect to aid, there are some kinds of assistance that I think could go forward and should go forward under virtually any circumstances because it is to specific regions that are reform oriented.

Chairman HAMILTON. Without any conditions.

Mr. HORMATS. Yes. Without any conditions. There is another category of aid where I agree we should try to get clear conditions. Something to ensure adherence to the democratic process makes sense, and then the question of proliferation, which I think is a devilish issue.

Chairman HAMILTON. We will pick up with that when we reconvene following this vote.

[Recess.]

Chairman HAMILTON. OK. We will resume our sitting. We apologize for the interruptions. We will pick up with you, Mr. Hormats, and then take it from there.

ASSISTANCE FOR PRIVATE ENTERPRISE SHOULD GO FORWARD

Mr. HORMATS. Let me make a couple of points with respect to foreign aid.

First a distinction. There are aid programs that I think should be mounted and should be sustained in various regions of the country and to various recipients. That is to say, help to private enterprise recipients—that should be provided in virtually any case. Russia is going to be there long after whoever is ruling it now is out. And there are elements of reform, both regional elements of reform and specific factories and sectors that deserve and could well utilize western support. Therefore, I would have that proceed.

That is not large sums of money. It could be done through an enterprise fund like a Russian Enterprise Fund. And it could be done through specific sectoral and project loans a la the World Bank or the European Bank for Reconstruction and Development, and humanitarian assistance to specific hospitals or specific worthy humanitarian projects should go forward in any case.

CONDITIONALITY AND BETTER COORDINATION FOR EXPORT CREDITS

The broader questions of aid are the ones that I think are more troublesome. Much Western aid has simply been a fiction. The IMF money, to my knowledge, the committee staff may know better—to my knowledge—only \$1 billion of the IMF money has gone forward. If more, it is not much more.

The \$6 billion ruble stabilization fund did not go forward for a good reason. It should not have. The overall balance of payments assistance faltered because the Russians have not gotten their monetary policy under control and have not gotten their fiscal policy under control. So the broad, big chunks of money simply have not moved forward.

The export credits that the West has provided are a disaster. First of all, the Russians are in arrears. Second, the Western countries, as we indicated earlier, have competed with one another to get export contracts to outdo one another.

Chairman HAMILTON. Should they be abandoned?

Mr. HORMATS. I would not go so far as to say they should be abandoned. I think they should be much more closely coordinated and that they should be provided conditionally—and there is where I think the conditionality point makes some sense—because if you provide export credits, or other credits such as balance of payments support, of a large scale nature and there are not some economic and political conditions, particularly economic conditions in this instance, then the money is just going to be frittered away and the Russians will find themselves in deeper debt a year from now than they are today.

So I would not necessarily stop them. I think we ought to be much more rigorous, much better coordinated in providing them.

BALANCING CONDITIONS WITH THREAT OF NATIONALIST BACKLASH

With respect to the memo the President, I would emphasize three points.

First, the emphasis should be on effective coordination among the Group of Seven countries, and to "debureaucratize" it to the point where you have a clearly responsible person who speaks for the G7, a group of senior officials from the key ministries involved who meet frequently to make sure that assistance is coordinated, and the other aspect of that coordination is that there are things we want of Russia in return for this.

Now, I am not fully comfortable with precisely what formulation one would use with respect to the question of "conditions" regarding the democratic process, but clearly something that is akin to a democratic process should be maintained in Russia, otherwise it is going to be very hard to get Western support for the assistance.

The other aspect of it is that I am increasingly concerned about the whole nuclear point that I mentioned in my written testimony. And I would add to that the question of how the nationalities are treated. It seems to me those are the three areas where you would need to get something from Yeltsin. Without that, I think it is going to be hard to sustain congressional or public support for these types of programs.

Now, I have to tell you, Bill was making the point in the interim and I think it is correct, there is a very strong nationalistic argument about Yeltsin's close ties with the West and is he doing the bidding of the West. So whatever conditions are put on this assistance has to be done in a way which takes into account the notion of Russian pride.

DEVELOPING A THEME OF U.S.-RUSSIAN PARTNERSHIP

Chairman HAMILTON. Are we staking our policy too strongly in support of the person of Yeltsin?

Mr. HORMATS. If you look at the alternatives that we see on the horizon, Yeltsin is clearly the best, at least of the leaders I have seen, and I have been there several times of late. He is a democratically elected leader.

The parliament is democratic only in the most loose sense of the word. This parliament resembles a sort of old-time meeting of the dukes and princes of the realm in England.

Chairman HAMILTON. Mr. Hyland, do you think we are putting too many eggs in the Yeltsin basket?

Mr. HYLAND. Yes, sir. I think we should shift our emphasis from Yeltsin to the country, to Russia. I think Bob Hormats made a very important point. Pride is a big thing. Here is a country that was told for a long time that it was a superpower. The people began to believe that that was one of the redeeming virtues of a terrible system, that they were respected around the world, they were powerful and so forth.

It would be well now to develop the theme of a partnership with Russia and to say something to Yeltsin publicly, by President Clinton, that we respect them as one of the great powers and one of the great civilizations, one of the great cultures. What we are seeking is a new partnership with them as equals and that partnership

ought to be based on respect for democracy, respect for the territorial integrity of their neighbors—in a statement of principles. I know it is overdone in politics but if there was a statement of principles between the two governments, then when Yeltsin went or if he stayed, you would have a piece of paper at least to wave at a time of crisis.

REACHING OUT TO THE NEXT GENERATION OF RUSSIANS

Mrs. WILLIAMS. Can I add a couple of things to that?

Chairman HAMILTON. Certainly.

Mrs. WILLIAMS. I very much like what Bill has said about a declaration though I would like to see the Community included, too. I think it is going to be the source, probably, of more funds for anything that we do than the United States is likely to be.

Secondly, one of the reasons that I argue very strongly that we ought to mount a constitutional/political initiative is in order to get some volunteers from the United States and Western Europe out to the next layer down of Russian political organization. I am thinking particularly of public administrators as advisors staying for 6 months or a year at the local and regional government level.

There are a lot of very able young Russians in the next generation down. Mr. Fyodorov is an example of that. We do not know them. We keep going back to the person of Yeltsin because we do not know more than a half a dozen names that appear in the *Washington Post* and the *New York Times* every week.

But we need to get to know the people who are going to be the generation of the democrats if they ever emerge in Russia, and we do not.

Anything from a Fulbright exchange, such as Senator Fulbright brilliantly invented after the second World War, or the offering of a number of scholarships in American universities with the emphasis on public administration and economic administration.

IMPORTANCE OF EXTENDING CONTACTS BEYOND YELTSIN

Chairman HAMILTON. Do all of you agree that we are placing too much emphasis on our relationship with Yeltsin? I am getting that impression from your comments.

Mrs. WILLIAMS. But do not slap him across the face is what I was going to say because that would be——

Chairman HAMILTON. What is that?

Mrs. WILLIAMS. He should not be slapped across the face, that would be a disaster.

Chairman HAMILTON. I understand that.

Mrs. WILLIAMS. We should propose to him a way of getting more deeply into the Russian structure of future democracy, in my view, and that can be done.

Mr. HORMATS. I would call it a strategy of "Yeltsin plus."

Mrs. WILLIAMS. That is right.

Mr. HORMATS. And the plus is that there are a number of other people. Chernomyrdin, the prime minister, is someone. He was the head of a large energy production association. He is pragmatic and he has supported Yeltsin's reforms.

I am not saying he is a successor to Yeltsin but there are others. Fyodorov, the governor of the Sakhalin Island, the mayor of St. Pe-

tersburg, the mayor of Nizhny-Novgorod. There are some very bright people out there.

Chairman HAMILTON. We have clearly got to stretch out and get acquainted with a lot of new people.

Mrs. WILLIAMS. Yes.

Mr. HORMATS. Yes. That is why I say "Yeltsin plus." Not either or, but support of Yeltsin while also reaching out to the various regions of the country where there are some very energetic and reform minded people.

Mr. HYLAND. I would just add, I think this has to be done very delicately and subtly, shifting from Yeltsin to the broader base. The last thing we want to do is insult Yeltsin in the next several weeks when this crisis is really at a high point and for him to go home and his opponents to say, well, even Clinton backed away from you, you are finished, you brought us home \$100 million and we need \$100 billion.

I think that President Clinton has a very delicate problem in Vancouver in making sure that we do not abandon him at a crucial moment.

Mr. HORMATS. That is why the Yeltsin plus idea is important. It is Yeltsin plus a lot of other people who are going to be involved in the game.

Chairman HAMILTON. Yes.

DEBUREAUCRATIZING THE FUNDING PROCESS FOR DENUCLEARIZATION

Mrs. WILLIAMS. Could I add one thing on the nuclear issue very quickly? Bob Hormats brought it up.

The \$400 million. I was in the Ukraine very recently. I am a member of the Council of Foreign Advisors to Ukraine. I raised with them the issue of the strategic nuclear weapons which were part of the recognition of the START agreement.

They pointed out that they had had no certificate from anybody to say that the tactical nuclear weapons that they had sent to Russia had ever been destroyed. They said that they had had no money of any kind for the destruction, including the U.S. money voted for the purpose. They said that they had no registration of the plutonium in the weapons that they had sent to show what had happened to it. And they said that they had read in the world press that Russia was selling plutonium on the world market and they did not know what had happened to that plutonium.

Now, I mention this because I think Ukraine is not ill disposed to trying to recognize and obey START but they feel that there has been no acceptance or recognition of their problems. And I understand one of the difficulties here is that the processes in the United States for releasing money for the purposes of the money that was voted for INF is extremely slow and very bureaucratic.

And one of the points I want to make is that I think if we could somehow debureaucratize the processes of making this money available—we do not need more money. We are using the money we have so badly that what we really need is an overhaul of the way we spend that money and the way we make it available and it is a tragedy because the Congress—

PROSPECTS FOR UKRAINIAN RATIFICATION OF START

Chairman HAMILTON. Do you think Ukraine will ratify the START agreement?

Mrs. WILLIAMS. I think it will providing two things happen: one, that it has a joint declaration from the United States and Russia that its territorial sovereignty will be accepted and guaranteed. It has got to have that because—

Chairman HAMILTON. Guaranteed?

Mrs. WILLIAMS. Yes. In effect, it is a declaration, not a treaty, though. It is a declaration that their territorial sovereignty would be recognized.

Chairman HAMILTON. The United States would guarantee the boundaries of Ukraine?

Mrs. WILLIAMS. Well, you can make a declaration that they would be inviolable. That is all they are asking for. They have not asked for a treaty. I mean, I am rather surprised they have not but they have not. They have asked for a declaration of the inviolability of the territorial integrity of Ukraine.

What most frightens them is the possibility of being cut off from primary energy resources in Russia because that would break their economy completely and they have asked for some American discussion with Russia that that would not happen.

I think given those they would go ahead with the program, providing that that part of the \$400 million that is their part of it for destruction of these weapons is released.

And one final thing, Congressman Hamilton about this, I am very surprised that there is no form of international registration of the destruction of these weapons. My understanding is there is not. That would seem to be one of the easiest things for Mr. Yeltsin to agree with the President when they meet.

POLICY TOWARD ETHNIC CONFLICTS IN THE FORMER REPUBLICS

Chairman HAMILTON. Before we leave Russia, what about these ethnic conflicts that are occurring throughout the country? How should we view those and how deeply should we become involved? Or should we just say, there is no real U.S. national interest involved here, so why bother with it?

Mr. HYLAND. I do not know if I would put it quite that bluntly but I think there is no national interest in being involved. How can you make a decision that a minority in the former Soviet state of Georgia deserves this or deserves that, has this right, that the Russian Army should be there or should not be there, or the same for Moldova. These are incredibly complicated affairs. For the United States to try to take positions, I think it is just a major mistake.

Naturally we do not like to see the fighting. Naturally we would like to see everybody have the same rights. But I think it is a very explosive issue and we should not get tagged—for some of the reasons we have been saying about Russia—we should not be tagged as the kind of country that is anti-Russian. I think the danger is that we will wind up in places like Ukraine being seen as anti-Russian.

The guarantee which the Government of Ukraine is talking about, the only way I could possibly approach it would be through

first some kind of an agreement with Russia that they will recognize and support the territorial integrity of Ukraine. Then we might be able to say to Ukraine on the basis of this declaration with Yeltsin, we are prepared to make another declaration with you, that we support your territorial integrity, which, after all, is part of the CSCE.

But I think we had better watch out that we do not find ourselves embroiled in endless nationalistic quarrels and be buffeted by every side.

ETHNIC CONFLICTS SEEN AS TINDERBOX

Mr. HORMATS. Can I just add one thought to that? I think the whole question of the treatment of minorities in Eastern Europe and the former Soviet Union is a tinderbox. Our ability to get involved in these longstanding and very difficult, complicated issues is very limited.

I do think that this might be a role for something like the CSCE in the sense that there are nationality issues, minority issues, ethnic issues, questions of protection of minority rights, throughout the region. In Eastern Europe, the Hungarians and the Romanians and many other groups where there are irredentists, there are minorities living in other countries. And one way nationalism will really assert itself is in the question of one country that sees its nationals in another country maltreated. That really is the centerpiece for the increase in nationalistic fervor, as it was in the Weimar Republic with Germans in the Sudetenland and Silesia and other areas. And that is a flash point for nationalism.

In the former Soviet Union, there are very large numbers—I think it is 25 million—of Russians living outside of Russia, roughly the same number of non-Russian minorities living in Russia, and then lots of other minorities spread around in Kazakhstan and other areas. A greater emphasis within CSCE on the proper treatment of minorities and protections of minorities would be useful. Not that the United States need do it unilaterally, but in some multilateral fashion I think would be very valuable.

UNITED STATES HAS MORAL CLOUT AS EXEMPLAR OF DEMOCRACY

Mrs. WILLIAMS. Can I quickly disagree? I think the United States underestimates its amazing moral clout. You are still regarded as in many ways the exemplar of democracy throughout the whole of Eastern Europe and the CIS.

I think for the United States simply to say that it regards the treatment of minorities as one of the acid tests of a civilized democratic society is by itself enough. I think if you say that repeatedly in the CSCE and the Helsinki process and the United Nations, you will be listened to.

I do not think you have to get involved in military ways. I do think you have to stick by your principles. I think they are terribly important. And I think you have a bully pulpit and it ought to be used.

Mr. HORMATS. I do not disagree with that. I think that it would have more influence and impact if the United States said it plus there was some forum in the context of the CSCE for reviewing and identifying violations. And I agree the United States has great

moral authority but I think it has to be followed up in some institutional framework.

INSTITUTIONAL FRAMEWORK FOR RESOLVING ETHNIC CONFLICTS

Chairman HAMILTON. Well, what about that question of an institutional framework? You have all of these ethnic conflicts in Eastern and Central Europe, in Russia. Is the CSCE the group we look to for leadership in resolving those ethnic conflicts?

Does NATO have a role? The European Community? The WEU? Does the U.N. have a role? Where do you look?

Mrs. WILLIAMS. The main institution which is supposed to look after this is called the Council of Europe. It is a voluntary organization to which all the member states of Europe belong, not just the Community but far beyond.

It does in fact do a very good job on human rights and it has a court of human rights which has listened to many cases and resolved them mostly in ways that any democrat would approve of.

I think that is a very useful body. It is linked up with the CSCE, they have a link one to the other. They are mutually represented. And that means, I think, that the CSCE, from the point of view of the United States and Canada, is the right place to use your strength.

I think the trouble with CSCE, and here I agree with Bill Hyland, is that it has been terribly weakened by the unanimity principle. Under the Bush administration, for the first time, American representatives at CSCE meetings began to raise the issue of whether unanimity should not be abandoned as the central basis on which policy could be based. I think that is right but I think the CSCE could be converted into an effective mechanism for dealing with, among other things, minority rights and human rights problems short of military intervention.

EARLY INTERVENTION MAY HAVE AVERTED BOSNIAN WAR

And if I may add one word to that, I think that if the CSCE had, and here I agree with Bill Hyland, if they had intervened at the very moment when in Croatia the first ethnic cleansing began right back in 1990, we would not have seen the terrible things that have happened in Bosnia.

Chairman HAMILTON. Intervened how?

Mrs. WILLIAMS. Oh, I think directly intervened by saying we are going to call the Croats before the bar of the CSCE and ask them to explain what is happening here and is the government taking immediate steps. Because do not forget—

Chairman HAMILTON. You think that would have stopped Serbian aggression?

Mrs. WILLIAMS. I do. I believe that if Croatia had been stopped at the very beginning by the indication that she would not, for example, be allowed to trade with the rest of Europe, we would not have seen what later happened because it started in Croatia on a small scale and was then picked up by Serbia on a large scale. And people including, for example, the extremely courageous editor of Vreme, which is the opposition newspaper in Serbia, still editing his newspaper every day bears that out. He says that if intervention had happened at the very beginning we might not have seen

what happened afterwards. The trouble was that none of us paid any attention.

PROSPECTS FOR GATT

Chairman HAMILTON. Let me jump to another area. All of you favor fast track for GATT, I presume.

Mr. HORMATS. Yes.

Chairman HAMILTON. No disagreement with respect to that.

Do you think we will get a GATT agreement, particularly with the French objection to the Blair House agreements?

What are your concerns about GATT and how does it look like it is going to play out to you?

Mrs. WILLIAMS. It is more Bob's field than anybody else's.

I think frankly both sides need to appear before the bar or the dock because they both have some guilt. The Europeans undoubtedly, I think, have a weak case on steel where they have used a lot of protectionist measures to sustain European steel. I think the United States has a rather weak case on the Buy American Act. I think the Community has a rather weak case on the government procurement side.

The truth of the matter is the more closely you look at it, the more you find that nobody has the right to call the other one guilty because there is quite a lot of joint guilt.

The only way to deal with that without wrecking the political process, which is what we are busily doing at the moment and I regret it very deeply, is to go through the painful, slow, dreary, multiple procedures of GATT itself to sort out these problems.

I think we have to go back to the drawing board to sort out these problems, which does not have anything to do with the fast track. It can be going on in parallel.

What I really fear is that these relatively minor things are being built up to become a huge rift between the United States and the EC and it is absolutely absurd that they should. I believe all that is at stake in steel is about \$50 million, so it is a real shame to get this out of proportion and I think both sides have got to make some concessions.

RESOLVING U.S.-FRENCH TRADE DISPUTES

Chairman HAMILTON. How do you look on the recent French statements, that they object to the implementation of the Blair House agreements on agriculture and oilseeds?

Mrs. WILLIAMS. We all know, Mr. Hamilton, that France is virtually on its own in this. The real worry is that the French are going through an election in which they may elect a more protectionist government than the present one. That seems quite probable. And so what the rest of the EC is trying to do is to carry the French on what has been agreed and not have the whole issue reopened.

The danger of footdragging is that the new French Government may insist upon trying to reopen the whole of the agricultural settlement.

Chairman HAMILTON. How long should Mr. Clinton ask for fast track authority? Six months to 2 years is the range you hear.

Mr. HORMATS. My instinct is he should ask for a year. I do not have a strong feeling about it. Six months is too short a period of time. This administration is not yet clear exactly where it wants to go on trade and the Europeans are not clear where they want to go and the Japanese are not either.

Chairman HAMILTON. Do you think the French will go along with the Blair House agreements?

Mr. HORMATS. I do not know at this point. I will tell you what I would do. I will tell you how I would handle this issue.

As soon as the French elections are over, assuming an individual like Balladur is prime minister, which one would have to bet is the likely outcome at this point. I would go to the French and I would say, look, there are clearly areas where there are differences between us, and agriculture is one, air bus is another, steel is another. There are certainly many areas where the United States and France—and I recognize France is part of the Community so one cannot do this in the most open way but one can do it informally—do have common interests vis-a-vis other countries. I would accentuate those aspects where we have common interests and make common cause with the French where we can. And we will find there are a number of areas where that can be done.

Shirley knows this a lot better than I do. She could probably identify those now because she's worked on many of these, but there are a number of issues where we and the French could work together.

Also, the French—there is this currency issue that I referred to earlier. And I think it is very important to underscore the importance the French attach to keeping their currency in the exchange rate mechanism with the Germans. It is not just a monetary issue. It has national pride and a lot of other things attached to it.

Chairman HAMILTON. Is that an issue in the French elections?

Mr. HORMATS. Yes. It is an issue in the French elections. It is a complicated issue because there are those who say the French economy has paid too high a price in terms of high interest rates for keeping the franc in line with the deutschmark and therefore they would say devalue it.

Chairman HAMILTON. If the French election plays out like you suggested a moment ago, will they stay within the guidelines?

Mr. HORMATS. That is one big unanswered question. I would say they will try. I would say Balladur, if he were prime minister, would try but it is a tough call. It is one of the things the currency markets are speculating on even as we speak.

If the French Government does decide to try to maintain this link and there is an assault in currency markets, if the United States were to intervene to support the franc, it would have a very important effect on our relations with the French and with the Germans.

CONCERN ABOUT U.S. APPROACH TO GATT

Chairman HAMILTON. Do any of the three of you have any concerns about the U.S. approach to GATT in the new administration?

Mrs. WILLIAMS. Yes, I do.

Chairman HAMILTON. What are your concerns?

Mrs. WILLIAMS. I think with great respect that the new U.S. trade representative has not given it quite long enough.

Chairman HAMILTON. I am sorry. I did not understand.

Mrs. WILLIAMS. Sorry. I think that the new U.S. trade representative is not giving it long enough to see whether there are less confrontational ways of sorting things out. I think it was a pity that he decided last week to cancel the talks. I think at the very least if he decided to cancel the talks he should have told the Commissioner, that is Leon Brittan, before he made it public, that he was going to cancel the talks.

I happen to know that Brittan is actually very strongly pro-free trade and has a great deal of sympathy with the American position and so this was, to say the least, a rather unfortunate thing to do.

And I very much hope that—but given there are real arguments on the American side, I do not deny that—I think that to try to use the existing institutions instead of trying to break out of them is important to do. I think it is too early to start escalating the whole—

Chairman HAMILTON. Does this new administration give you concern that it is going to be too protectionist?

Mrs. WILLIAMS. I do not know. But there is certainly a concern in Europe that that is so. That could be so.

Chairman HAMILTON. Is that a general perception in Europe today?

Mrs. WILLIAMS. No, it is a general concern. I do not think anybody thinks that the jury has come in again. Nobody knows. But some of the statements made in the campaign worried the Europeans.

Chairman HAMILTON. Are there a lot of pressures in Europe today for greater protectionism?

Mrs. WILLIAMS. Yes. But there is also still a dominant force which is against them.

Chairman HAMILTON. Do we have a single economic market today in Europe?

Mrs. WILLIAMS. Do you have a single economic market in Europe?

Chairman HAMILTON. Do we have one?

Mrs. WILLIAMS. Does the United States have one?

Chairman HAMILTON. No. Do we have a single economic market in Europe—

Mrs. WILLIAMS. Oh, I am sorry. Yes. Virtually. As to 95 percent, I would say.

Chairman HAMILTON. Ninety-five percent?

Mrs. WILLIAMS. Yes. There are some elements that are not.

Chairman HAMILTON. Do you see a lot of U.S.-European trade tensions in the next few years?

Mrs. WILLIAMS. I fear them. I hope I will not see them and one of the reasons that I have been arguing so hard here for a joint initiative toward the real problems in the world is to try to get away from an obsession over what are relatively technical issues. I think it would be a tragedy if this happened.

IMPACT OF NAFTA ON GATT

Mr. HORMATS. Can I make one additional point on trade very briefly?

Chairman HAMILTON. Sure.

Mr. HORMATS. That relates to the link between NAFTA and the Uruguay round. I think unless NAFTA passes, the United States will have very little negotiating credibility in the Uruguay round.

Chairman HAMILTON. You favor NAFTA?

Mr. HORMATS. Yes. I favor NAFTA for a variety of reasons that go beyond the scope of this hearing but the fundamental one is that it is something the United States negotiated, if it fails then other negotiating partners in the Uruguay round are going to say to themselves, look, the Americans could not get NAFTA through which is a limited agreement, emotional but limited in scope. How much more difficulty are they going to have in getting the Uruguay round through, which is much broader and more inclusive? So I think our negotiating credibility in the Uruguay round depends in significant measure on that.

FUTURE MEMBERSHIP IN THE EC

Chairman HAMILTON. Let me ask about the European Community.

Five years from now are we going to see a European Community with Finland and Sweden and Austria, Norway, Switzerland—who else?

Mrs. WILLIAMS. I am not certain about Switzerland. The Swiss are strangely kind of remote from the world. They do not much like being involved in it.

We will probably see Cyprus and Malta, the so-called orphans. We may see Iceland. We will be seeing, I think, the beginning of a much closer political relationship with the so-called Visegrad powers, the major Central and Eastern European countries.

Chairman HAMILTON. Poland? Hungary? Czechs?

Mrs. WILLIAMS. Poland, Hungary, Czechs and Slovaks.

Chairman HAMILTON. Slovaks?

Mrs. WILLIAMS. As long as the Slovaks do not blot their copybook by picking up ethnic hatreds.

Chairman HAMILTON. Let me ask, you expect those countries to be members of the EC—

Mrs. WILLIAMS. Yes, I do.

Chairman HAMILTON [continuing]. Within 5 years?

Mrs. WILLIAMS. No, not within 5 years but I expect them to be politically involved in all the institutions. The problem quite simply, Representative Hamilton, is that economically they cannot at the moment take the full blast of free movement. It is simply impossible for them to do so.

But one of the things that is essential, particularly for the Community, to some extent the United States, is that we stop discriminating against their exports, which we are doing at the present time. The Community is worse than the United States but both of us continue to discriminate against exports where they have a comparative advantage and, frankly, that is absolutely crackers because it is less than 1 percent of world trade and yet we are mak-

ing life hard for them by refusing to accept exports from agricultural areas and steel and synthetic materials and it really is crazy that we should be doing this. We are much stronger than they are.

PROSPECTS FOR BRITISH APPROVAL OF MAASTRICHT

Chairman HAMILTON. Will the U.K. approve the Maastricht Treaty?

Mrs. WILLIAMS. I am part of the debate. I think they probably will, they are just taking a hell of a long time about it. Yes. Around about August.

Chairman HAMILTON. About August?

Mrs. WILLIAMS. When people want to go on holiday.

Chairman HAMILTON. They have a whole series of votes on it, do they not?

Mrs. WILLIAMS. There are something like 106 amendments. Some of those are quite deliberate, they are an attempt to slow the process, there are filibusters and so on. The ruling party of the government, the conservative party, as you know, is somewhat split on the issue though it is very disproportionate. It is maybe one in eight.

There will be a long drawn out debate and it will end in August when people think they want to go and shoot grouse which happens on August 12th and it will end then and there will be a vote.

Chairman HAMILTON. How about your party? How are they going to come down on it?

Mrs. WILLIAMS. My party is passionately pro.

Chairman HAMILTON. Pro.

Mrs. WILLIAMS. Yes.

Chairman HAMILTON. But they are going to vote against some of it, are they not?

Mrs. WILLIAMS. No. We have only voted against the government on the social chapter because we are passionately pro the social chapter, too. The government opted out of the social chapter of Maastricht and we do not agree with them on that.

Chairman HAMILTON. But that will not stop eventual approval by the parliament.

Mrs. WILLIAMS. I have no doubt. I think it will go through. It is just going to be a slow process.

PROSPECTS FOR THE VANCE-OWEN PLAN

Chairman HAMILTON. OK. Let me wrap up with some questions on Yugoslavia. How do you feel about the Vance-Owen Plan?

Mrs. WILLIAMS. Vance-Owen Plan—I have to say what I said before, I think you were not in the room at the time, which is that the Vance-Owen Plan which gives the Serbs just over half the territory of Bosnia, is itself less than the Serbs now occupy. They occupy about 72 percent as far as we know. Therefore, even to make the Vance-Owen Plan work is going to take a great deal of muscle and possibly the threat of military intervention.

Chairman HAMILTON. You support the efforts now, though, that are being built around the Vance-Owen Plan?

Mrs. WILLIAMS. I think there is no alternative.

Chairman HAMILTON. Do you, Mr. Hyland?

Mr. HYLAND. With reservations. I think it is a terrible plan. It is only a step removed from appeasement and rewarding the Serbians but what else there? As Mrs. Williams said, it is the only game in town. I think our approach to it has been half-baked and badly thought through. I have no idea what the policy of the Clinton administration amounts to but I hope it works. The plan is a partition of Bosnia. We should not kid ourselves that what we are doing is not partitioning this so-called sovereign state, and that may come back to haunt us.

Chairman HAMILTON. All of you would agree, I presume, that whatever is agreed upon, if, indeed, there is any agreement at all, will be very fragile, very tough to enforce, and will probably not assure or promise long-term stability.

Mrs. WILLIAMS. Yes.

Mr. HYLAND. I agree with that and that is one reason I do not think the U.S. troops should be part of the peacekeeping operation.

Chairman HAMILTON. We should not be a part of the enforcement of the agreement.

Mr. HYLAND. No. The only way to enforce the agreement is to fight and we will end up in combat. And I think this is not something the United States should do.

PEACEKEEPING ROLE FOR NATO IN THE FORMER YUGOSLAVIA

Chairman HAMILTON. The paper this morning mentioned the possible deployment of 50,000 NATO troops. It would appear that NATO is beginning to take seriously its role in the enforcement of this agreement.

Is that the right thing or the wrong thing for NATO to do?

Mrs. WILLIAMS. I disagree very strongly with Mr. Hyland on this one. I think we have got to intervene. I think it has to be done by NATO. I think the United States will be a minor part of that 50,000 but it has to be there.

I think we cannot allow the unfolding of this to happen.

Chairman HAMILTON. Why do you say we will be a minor part of it?

Mrs. WILLIAMS. Because of the 50,000 troops, I do not think the United States would be expected to provide the majority but a part of those troops.

I also think that what is happening in Bosnia is on a scale so frightful that we simply have to take action to stop it and I hope the United States would at the very least agree to try to press for systematic rape to be made a war crime.

FAILURE OF EUROPE IN YUGOSLAVIA

Chairman HAMILTON. One of the comments, Mrs. Williams, you hear frequently in this institution is the failure of Europe to deal with the problem of Yugoslavia. Do you agree with that?

Mrs. WILLIAMS. It is a moral failure but what many people do not realize is that the Community has no military arm of any kind. It does not exist. It is not there.

Chairman HAMILTON. There was a long time, several months anyway, in our policy when we were looking to Europe to take the lead on Yugoslavia.

Mrs. WILLIAMS. Right.

Chairman HAMILTON. Did we make a big mistake?

Mrs. WILLIAMS. No, you were right to expect that. I merely make the point that as the thing got to the stage where only military intervention could have worked there was no mechanism whatsoever in the Community, which has no defense dimension, as I mentioned, to enable that to happen.

I wish that Britain and France had gone to NATO and said, we think we should intervene and we want American support in doing so. That they did not do so in my view, and especially Britain, was something of a moral failure but I do not feel that any western power can be exempted from what is happening in Bosnia at the present time.

DRAWING THE LINE AT KOSOVO AND MACEDONIA

Chairman HAMILTON. Are we right to draw the line as President Bush did and as President Clinton has reaffirmed on Kosovo and Macedonia? Warning Milosevich if the conflict spreads there we will use force?

Mr. HYLAND. I think it was a very dangerous and irresponsible thing to do by both Bush and Clinton. This is virtually a blank check. This says if anything happens in Kosovo, we are going to fight. I do not believe that anyone came up to the Congress and said that a war for Kosovo is coming down the road.

I think this has been very badly handled.

Chairman HAMILTON. It is certainly a vague commitment, is it not?

Mr. HYLAND. It is a vague commitment, and it is so vague that maybe that is the virtue of it. But since it was private, it is a little bit difficult to know exactly what was involved. But it sounds to me that we are not willing to intervene to save Bosnia, but we are willing to intervene to save Kosovo because we fear the expansion of the war. I think that is a totally nutty policy.

IMPACT OF ARMS EMBARGO ON BOSNIAN MUSLIMS

Mr. ROYCE. Let me interject here if I could.

Chairman HAMILTON. Mr. Royce.

Mr. ROYCE. One of the questions I have, when I in the past have spoken with people from Bosnia who have followed this situation, the perplexing thing to them is that most of the Serb advances occur because of Serb armor and they do not have antitank guns and they do not have any artillery to do any counter battery work against the Serb artillery. And they point out that they at least could have checked Serb advances if the international community had not prohibited, for example, the Moslem world from sending them the antitank guns and sending them the artillery that they could have used in order to get an equilibrium in the situation. And they point out that without an equilibrium, despite the fact that their armed forces have more men under arms, since this daily slaughter when you are up against tank columns, this is a foregone conclusion in terms of how this is going to play out. They are just going to continue to lose territory forever.

And so why is it that the European Community will not rally to the idea of at least allowing the Bosnian state to import arms for its own protection against what now is evidently armor that is

being transported from the state of Serbia into the Bosnian state. I cannot fathom this.

Mrs. WILLIAMS. It is not the Community, it is the U.N. It is a U.N. embargo so presumably we are involved in this embargo.

Obviously if the embargo had worked both ways, it would have made more sense because it would have kept the level of fighting down. But you are quite right, the embargo has not operated effectively against the Serbian forces because they took over almost all of the artillery that the Yugoslav army had and it fell to the Serbs. None of it or virtually none of it fell to the Bosnian Muslims and so there are in fact men fighting with rifles against heavy tanks.

My own feeling is that we should have tried to make the embargo work both ways but, failing that, I have a lot of sympathy with the point you make.

Mr. ROYCE. Well, do you see anything we could do to change this?

Mrs. WILLIAMS. I think all we can do now is to bring in the 50,000 NATO peacekeepers to enforce the Owen-Vance peace treaty.

Mr. HYLAND. I think the embargo was a strange sanction. It had to favor Serbia. Serbia has the Yugoslav army. So if you embargo weapons to all parties, then it automatically favors the Serbians.

WHERE ARMS EMBARGO ORIGINATED

Mr. ROYCE. Who pushed that embargo, if I could ask?

Mr. HYLAND. I think just the mindlessness of the international bureaucracy and internationalism that accounts for a lot of things at the U.N. It sounded like a good thing at the time in order to punish Serbia.

A weird aspect of this is that Croatia, which had almost no forces at the beginning of this crisis, now has a reasonably first-class army, good enough to drive the Serbs out of parts of Dalmatia. Where did they get the equipment? I have seen pictures of Croatian tanks. It is an awfully suspicious affair.

So I am not so sure that the U.N. embargo is all that watertight or that Bosnians could not get weapons.

Mr. ROYCE. Did the U.S. State Department push that embargo?

Mr. HYLAND. Oh, yes.

Mr. ROYCE. Can you name who in the U.S. State Department was primarily responsible? I mean, you follow these events.

Mr. HYLAND. No, I do not know. I think it was just part of the administration's policy.

Mr. ROYCE. Do you think it was Mr. Eagleburger or—

Mr. HYLAND. I do not think it was an insidious cabal or anything of that sort. I suspect it came from the President on down, because they wanted to do something. That is the same with the no-fly zone. What is the purpose of the no-fly zone? To keep whose planes out?

Mr. ROYCE. Thank you.

Chairman HAMILTON. Well, thank you very much for your appearance.

I am sorry for all the interruptions we have had this morning but you are all familiar enough with this institution to know how it

works, so we thank you for your patience. The committee stands adjourned.

[Whereupon, at 12:20 p.m., the committee was adjourned.]

PREPARED STATEMENTS--Middle East

AMERICAN LEADERSHIP IN ARAB-ISRAELI PEACE DIPLOMACY

by
William B. Quandt
The Brookings Institution
Washington, D.C.

**Testimony before the Committee on Foreign Affairs,
House of Representatives, February 2, 1993**

Never has an American president assumed office with a better chance of contributing to peace between Israel and its Arab neighbors. This does not mean that peacemaking will be easy, or that it can be delegated to mid-level bureaucrats. It means, simply, that the parties to the conflict, at least for the moment, seem prepared to negotiate seriously. But they have been waiting since last summer for American leadership to help bridge differences. As a result, frustrations exist on both sides, and the current impasse over the Palestinian deportees in Lebanon could complicate the resumption of negotiations. Still, leaders in Israel, Syria, Jordan and among the Palestinians are ready to get down to business. Egypt, Saudi Arabia, the Europeans and the Japanese are all prepared to play helpful facilitating roles.

If this somewhat optimistic picture is accepted as valid, why not simply sit back and let the parties make peace on their own? After all, it is said, we cannot want peace more than they do. And we do have many competing foreign policy priorities. The answer is that the forces for peace in Israel and the Arab world are not unchallenged. Strong opposition exists. Leaders operate under tight domestic constraints. They are all reluctant to be seen as making concessions to historic enemies. Only with the United States as mediator will leaders move from their well-known positions. And time is not working in favor of the moderates.

The United States, and the president personally, should tackle the Arab-Israeli conflict for one simple reason: to do so serves American national interests. Peace between Israel and its Arab neighbors will serve to strengthen American influence in a region that is still of crucial importance; it will help curtail radical movements; it will make it easier to deal with the potential threats from Iran and Iraq; and it may slow the proliferation of weapons of mass destruction. Few dispute the desirability of Arab-Israeli peace for American interests; some question its feasibility; and many worry about its cost. Suffice it to say that the task is not unmanageable--only difficult; the costs may be substantial, but not compared to the cost of war; and the United States has invested so heavily in Arab-Israeli peacemaking since 1967 that it would be a mockery of these past efforts to abandon the process now that it is about to bear fruit.

Even if I am projecting too optimistic a picture of the prospects for peace, the worst that could happen would be that our efforts might prove inadequate to the task. The differences between Arabs and Israelis may still be too great to bridge. But failure is certain without our engagement. Our fundamental interests will be better protected by making a good faith effort, even if it fails, than by abandoning the course now.

In brief, **the president and the secretary of state, with the full backing of Congress, should try to get the parties back to the negotiating table, and then should begin to play the role of mediator at a high enough level to get political decisions.** The focus of the real negotiations should shift from the official teams in Washington to the decision makers in Middle East capitals, with American officials providing essential lines for communication between them

and helping to crystallize concepts for resolving the issues in dispute. Several guidelines from past negotiations may be useful.

Lessons of the Past

To deal effectively with challenges in the Middle East, the Clinton Administration would do well to learn from the past record of success and failure. When American policies have produced desired results, as in the drafting of UN Resolution 242 in 1967, in the 1974-75 disengagement talks, the Camp David and peace treaty negotiations in 1978-1979, and the diplomacy leading to the Madrid conference in 1991, several common elements can be seen:

--There must be a realistic appraisal of the regional situation. To influence governments in the Middle East, politicians in Washington must be keenly aware of what is taking place there. Sustained dialogue with the parties to the conflict is the best way to develop the necessary sensitivity to the real political constraints that exist. As with medicine, correct diagnosis is the key to effective prescription. An early trip to the region by the Secretary of State should be considered.

--The president and his top advisers must be involved and must work in harmony. Unless the prestige and power of the White House are clearly behind American policy initiatives, leaders in the Middle East will not take them seriously. This is one reason that special envoys from Washington rarely succeed. Bureaucratic rivalries and presidential disengagement will also weaken the credibility of any American policy. When policies have succeeded, Nixon and Kissinger, Carter and Vance, Bush and Baker were seen to be working closely together. Failures are associated with the Kissinger-Rogers rivalry and the long-running Shultz-Weinberger arguments over policy toward Lebanon and arms to Arab countries. In these latter cases, presidents who were ambivalent or uninterested allowed these quarrels to undermine their policies. Had they cared enough, however, each president had the power to end these feuds. One of the few unquestioned powers of a president is to fire any top adviser who does not meet his standards. Bureaucratic rivalries are commonplace, but presidents do not have to put up with them indefinitely.

--The domestic basis of support for American policy in the region needs to be constantly developed. This means that presidents must work with Congress and must explain their purposes to the American public, especially if the costs of the policy are likely to be substantial. Presidents who are unskillful in managing the domestic politics of foreign policy will undermine their own purposes. The ability to mobilize support seems to be very much tied to context: Johnson had broad backing for his Middle East policy in 1967, while he was losing support for his Vietnam policy; Nixon won praise for his foreign policy, while losing his base over Watergate; Carter succeeded in his Arab-Israeli diplomacy, while simultaneously losing ground over Iran and the hostage crisis; Reagan was universally praised for his September 1, 1982 speech on the Middle East, and universally criticized for the Iran-Contra fiasco; Bush won domestic laurels in the war against Iraq, only to see his standing in the polls drop within a matter of months. The lesson must surely be that high-level attention to the home front is a constant preoccupation.

--Success as a mediator requires both a sense for process -- the procedures for bringing the parties to the negotiations -- and for substance. Issues rarely arise that are devoid of substantive implications. The question of who comes to the negotiating table, the structure of

the agenda, and the symbols associated with the peace process are all likely to convey powerful substantive messages to the parties in the Middle East. The United States cannot advance the search for peace between Israel and the Arabs by simply playing the role of mailman; nor can it design a blueprint and impose it on reluctant parties. In between these extremes lies the proper role for the United States -- catalyst, energizer, friend, nag, technician, architect -- some of each of these roles has been necessary whenever the United States has succeeded in bridging the gaps between Arabs and Israelis. Carrots and sticks must both be used, sometimes in combination, to influence reluctant parties. Public acrimony is usually counterproductive, although a display of presidential temper is sometimes useful to underscore serious intent. Threats to abandon the peace process are only effective with the weakest parties, and often lack credibility in any case.

--A substantial investment in quiet diplomacy, in "pre-negotiation" exploration of the terrain, will be required before deals can be cut. Formal settings, conferences, and direct negotiations are important for symbolic purposes, but most progress is made in secret talks with the top leadership in the region. Presidential letters, memoranda of understandings, and private commitments will all be part of the process of nudging parties toward agreement. Leaks of sensitive information and off-hand remarks can complicate delicate negotiations. Tight discipline is needed. Words have consequences. Not everything can be discussed in public, although excessive secrecy can also backfire. Each participant in the negotiating process need not be told exactly the same thing, but any deliberate deception will prove counterproductive. One should assume that much of what one says will eventually be leaked by someone. All the more reason to avoid duplicity.

--Timing is crucial for successful negotiations. The American political calendar does not allow much time for launching initiatives and seeing them through to completion. In addition, the parties in the region may not be ready to move when the politicians in Washington are. One reason that crises are so often followed by initiatives is that crises tend to convince all parties to agree that something new must be tried. Those who argue for a passive stance, in the belief that time will work in favor of accommodation, have the burden of evidence against them. The deliberate policy of doing nothing in the period 1970-73 led to a major war; the stalemate of the 1980s led to the intifada and may have helped create the atmosphere in the Arab world that led Saddam Hussein to believe that he could get away with his invasion of Kuwait. To say that each of these crises was followed by peace initiatives is hardly a recommendation for deliberately provoking crises. Policy that only reacts to crises is extremely dangerous. President Carter demonstrated in 1977 that it was not necessary to wait for an explosion before taking an initiative. Too often, however, initiatives have only come in the aftermath of wars or violence. President Clinton will have the opportunity to tackle the Arab-Israeli conflict without the prod of an imminent crisis, but rather at a moment of some expectancy that positive results can be achieved through negotiations.

The Need for an American Mediating Role

By 1992, the United States had succeeded in launching a new round of negotiations, more promising in architectural design and in scope than any before. The general framework for negotiations could be distilled from previous positions -- mainly 242 and Camp David -- but the road map to peace was sketchy at best.

Almost certainly, the United States will be called upon to help elaborate the contents of future peace agreements if the negotiations are to succeed. Nothing in the historical record suggests that the parties will reach agreement if left alone in direct negotiations.

In many ways, the American role in the future should be easier to play than in the past. The Soviet Union as a rival and potential spoiler is no more. The globalist bias that often adversely affected American policy in the Middle East has lost its rationale. Public opinion is more prone than ever to support an evenhanded stance toward the Arab-Israeli conflict. This provides a degree of tactical flexibility for a president seeking to find common ground between Arabs and Israelis.

Perhaps most encouraging for the peace process is the evidence that many Israelis and many Arabs are tired of the conflict and are finally ready for a historic compromise. Without such sentiment in the region, the United States can do little to promote peace. The Israeli elections in 1992 brought to power a government committed to swift movement in the negotiations, in contrast to the go-slow approach of the Shamir government.

The record of the peace process since 1967 shows that progress is not incremental or continuous. More frequently, long periods of stalemate have been succeeded by bursts of activity that have produced substantial changes in the nature of the Arab-Israeli conflict. Then the parties seem to need some time to absorb the results, to ready themselves for another major move, to build support on the domestic front.

One can credibly argue that the 1980s represented an unusually long lull in the peace process, and that the stage is set in the early 1990s for significant breakthroughs. One possibility would be moves toward a Syrian-Israeli treaty, based on full peace and recognition for Israel, extensive security arrangements to reduce the chance of surprise attack, and Israeli recognition of Syrian sovereignty on the Golan Heights. All of these principles could be implemented over a period of years.

On the Israeli-Palestinian front, the prospects for an overall agreement are less promising. But some form of interim agreement, which would allow Palestinians extensive authority to govern themselves in the West Bank and Gaza, while Israel retained control over security, seems feasible. Eventually, the very complex problem of Israeli settlements and the status of east Jerusalem will have to be confronted, but they may be finessed in the interim stage by common consent. And if progress is made on the Syrian and Palestinian negotiating fronts, the Lebanese and Jordanians will not be far behind.

For the peace process to move ahead in these uniquely hopeful circumstances, American leadership will be needed. That prospect is somewhat challenged by a revival of isolationist sentiment in the United States. This affects Middle East policy less than other foreign policy issue areas, but places a limit on any initiative that is likely to require substantial resources. As a result, the United States, while still playing the key mediating role, will have to find partners who can help underwrite steps toward peace, toward regional development, and toward arms control.

Time is of the essence, not so much because peace must be achieved suddenly or not at all. Rather, the process is likely to take time, which means that political leaders in the region must be able to show results early and often if they are to retain needed support. This is especially true in Israel, where opinion is still deeply divided, and among the Palestinians, where public sentiment plays a larger part than in most Arab regimes. A prolonged stalemate

in the peace process will frustrate moderates on both sides of the conflict, will lead to public disinterest in the United States, and will set the stage for future crises in a radicalized Middle East whose oil resources will be increasingly important for the industrialized west.

If President Clinton and his foreign policy team play their parts well, they can help advance the peace process. If they falter, they risk jeopardizing American interests. For better or worse, they will not be allowed to ignore the region for long.

William B. Quandt

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THE MIDDLE EAST AND THE END OF THE COLD WAR

Mr. Chairman, let me begin by thanking you, the committee members, and your staff for inviting me to provide you with an assessment of the present status and future shape of American foreign policy toward the Middle East.

Over the last forty-five years, American foreign policy priorities toward the Middle East have been relatively consistent and bi-partisan. Our shortcomings have come where we have been unable to curb or control issues that are unfamiliar and anathema to our democratic heritage and western liberal tradition: terrorism, religious extremism, and authoritarian governance. Historically, our foreign policy objectives in the Middle East have been essentially two-fold, with a third component universally and more recently applicable for all regions of the world. First, we have supported and defended Israeli security and have been the central choreographer in the Arab-Israeli negotiating process. Correspondingly, we have sustained those countries that seek normalized relations with Israel. Second, because access to the oil resources remains a priority national interest for the United States in the Middle East, we have protected the territorial integrity of Arab states that produce oil. We sought to deny to the Soviet Union access to and through the region and used our support of both Israel and friendly Arab states to promote that interest. More recently, we added a third component to our foreign policy in general: the promotion of human rights and individual freedoms. In comparison to other regions of the world, the Middle East in general is probably least prepared to advance the pace of human rights and democratic values and yet there are some nascent expressions of progress which deserve notice and reinforcement. The American people have much to be proud about in terms of the foreign policy we have implemented and the goals we have achieved. As we move into the next century, the United States can and should support both these same strategic interests and moral goals. If they are carried out in tandem and with vigor, these interests and goals will reinforce and enrich one another; they will also contribute to broadening democratic processes and limit the growth of the non-pluralistic problems we consider unnerving and deleterious to our interests.

Refining and defining our foreign policy for the region comes at an especially interesting juncture in Middle Eastern history: the end of the Cold War and the beginning of terminating the Arab-Israeli conflict. It comes when indigenously generated issues and in the Arab world are generating new tensions which we must understand fully and factor into a our foreign policy making. Neither the end of the cold war nor the deceleration of the Arab-Israeli conflict should prevent the U.S. from reaffirming, sustaining, and expanding defense of our strategic and moral interests. For the United States the Cold War had many aspects and causes. It was geostrategic and geopolitical; it was anti-communist and anti-Soviet; and, it aimed at restructuring political alliances and extending our military successes after World War II. In the United States, our commitment to win the Cold War effected our reliance on military solutions to world problems. Our military industrial complex grew, our infrastructure decayed, our deficits rose, our level of investments declined, and our executive branch increased its potency in making foreign policy. But our value system triumphed. And now we seek to remedy the impact and consequences of the Cold War's domination of our domestic scene. In doing so we can not abandon our former and present foreign successes; a policy of isolation will not insure the broadening of democratic values nor assure us continued access to the region's oil.

Obviously, the existence of the Cold War and the Arab-Israeli conflict influenced the relationship between the superpowers as well as the historical development of the Middle East. The presence of both disputes, in combination with the century long struggle to eliminate Ottoman, British, French, and Russian imperial presence,

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deflected the natural evolution of political ferment. The few controlled the destiny of many. At the end of World War II, national political figures in the region emerged from a small coterie of bourgeois leaders. The masses were not really represented in political decision-making. Before and after World War II experiments in liberal democratic practices were tried in Egypt and Syria. They failed. Political fragmentation and gridlock ensued. Individual charisma, a politicians region of origin, and family affiliation were stronger attractions than newly organized political institutions such as parliaments or political parties. Sectarian, class, and personal interests prevailed. Attempted government coalitions were short-lived. Compounding the difficulties in the experiments in democratic practices was the sudden failure of Arab regimes to defeat Israel. Those in power were blamed for the Palestine debacle and their nationalist legitimacy tarnished. They were summarily replaced by Arab and pan-Arab nationalist ideologies conveyed by a new class of Arab military leaders. Almost half a century later, after enormous advances in literacy and education in the Arab world, the middle and lower classes now seek a role in political decision-making. The coercive and prolonged nature of military regimes are now being held more accountable for bloated bureaucracies, failed economic systems, employment deficiencies, and abridging individual freedoms. Slowly succumbing to materialism and individualism, general publics in the Arab Middle East want better life styles and they want them sooner. Likewise, the most genuine populist movement in the region in the 1940s, the Moslem Brotherhood, had its evolution truncated by the imposition of pan-Arabist ideology, which itself failed by the end of the 1960s. Fundamentalist Islamic groups in the Middle East today are, in part, revivals of ideas and movements that were outlawed in Egypt, Syria, and Jordan in the 1950s. Their major appeal to many Moslem Arabs today is the sense of disenfranchisement they sense and the inability of current regimes to deliver goods and services in a timely manner. Today in the Middle East, new social classes want to participate in determining the shape of their future. Some will choose the appeal of Islam as a platform for mobilization, others remain glued to the western values focusing on individual and self which have percolated into the region.

In the Middle East, the end of the Cold War, with the demise of communism and centrally planned economies, has debilitated the validity of leftist economic systems and political philosophies. In the Middle East, the Cold War exacerbated existing tensions and generated new ones. But it also provided a framework in which political leaders in the Middle East operated between the superpowers. The process of playing off one superpower against the other was understood. Available and eager, external patrons seeking clients in the area reluctantly allowed and sometimes encouraged local political leaders to become manipulative between Moscow and Washington. There was a pre-existing history in the Arab Middle East of nationalist leaders playing private games of political intimacy with external powers while often publicly proclaiming the virtues of Arab nationalism. Thus, the presence of the Cold War meant refining political practices inherited from predecessors; it did not mean halting the practice of seeking foreign patrons for domestic purposes. In the Middle East, an end to the Cold War meant the inapplicability of behavior based upon managing the tension between the superpowers. Blaming external powers for internal shortcomings became less marketable to domestic constituencies. Political leaders realized that they will have to shoulder more personal responsibility for what they do or do not do. Perhaps it is too early to ask these questions but will political accountability in the Middle East be a by-product of the end of the Cold War? Would it be advantageous for political leaders to involve their populations directly in determining how scarce resources are to be allocated? Is it possible that the end of the Cold War might have a salutary effect on greater participation in the Middle East by the common man in deciding his own future?

Just as the Cold War affected political choices and political behavior in the Middle East, the presence of the Arab-Israeli conflict enabled military classes to leverage influence in defining political power and in allocating and diverting resources. Indigenous economic development in the Arab world and in Israel was hampered enormously by the Arab-Israeli conflict. Claiming the need for political stability and sacrifice for the Palestinian cause, rule by military classes often denied or suspended individual freedoms. Approaching the end of the conflict with Israel, means that Arab political leaders who used Israel's presence as a lightning rod for political mobilization will have to find viable substitutes which, for the time being, seem to focus on evoking pride in national identity, stressing secular mores, and establishing distance from potentially destabilizing Islamic fundamentalist groups. Correspondingly, during the conflict Israeli leaders were able to use Arab rejection of the Jewish state as a means to weld internal cohesion and to seek broad external support for the sustenance of Israel's existence.

INDIGENOUS TENSIONS IN THE ARAB WORLD TODAY

During these last forty five years when there was a Cold war in the Middle East and an active Arab-Israeli conflict, Arab societies did not remain static. The absence of the Cold War and the receding nature of the Arab-Israeli conflict sharpened the focus on a myriad of social, economic, and political tensions. Arab societies have changed enormously resurrecting old issues and presenting new problems. The co-existence of the Cold War and the Arab-Israeli conflict may be seen as a historical interlude or prolonged chapter in Middle Eastern history. The almost simultaneous deceleration of both conflicts, however, does not eliminate regional tensions spawned by indigenous problems or external meddling. For more than the last half century, Middle Eastern Arabs have been emotionally buffeted between customary styles and modernizing norms. Many have had their energies sapped and patience frayed by insufficient or less than permanent job opportunities. In addition, customary social moorings are being redefined. Many traditions have become unhinged from their foundations: the family, the village, methods of governance, gender roles, respect for elders, and a redefinition of relations with the West. While new rules of behavior remain in a constant ambiguous state, the region's people are in profound transition, seeking answers that reflect both customary values and non-traditional standards. At one extreme, there is a proud support of rich political and religious cultures that stress solidarity in a common outlook, ethnic unity, and defense of the community. At the other end of the spectrum, there is the blasting intrusion of westernizing values of social behavior that assert the validity of criticism, defense of separate interests, and promotion of individual rights. Philosophical counter-pressures are prevalent as each person reconciles attributes from both the traditional and modern sides of the menu.

For most Middle Eastern Arabs, there are fewer definitive answers than in previous decades. Some people accept Islam as a platform for political mobilization; others dread the prospect that Islam will abridge newly discovered individual freedoms. Some want democracy to flourish in the Arab world; others fear that democracy will elect and legitimize the "wrong" group with the "wrong" values. Some want to make peace with Israel; others find the prospect abhorrent. Some condemn the allied air attacks against Iraq as intended to retard Arab scientific development and to deny the emergence of Arab power; others laud the aggression because they fear that Saddam Hussein's hegemonic interests are pervasive. Both Egypt and Kuwait were disappointed by the recent allied air attacks: Egypt found them too heavy-handed, Kuwait found them insufficient. Before the 1991 Gulf War, the appropriate Arab adage was, "Me and my brother against my neighbor; me, my brother, and my neighbor against the foreigners." Before the Gulf War, Western physical presence on Moslem-Arab soil was considered offensive at best, harking back to the first half of this century when the Ottomans, British and French dominated the Middle East. Today the United States and foreigners are not only trusted, but accepted and sought after for protection of national interests. We are also seen as a beacon for fairness, freedom, and defense of personal rights.

In parts of the Arab Middle East today, social and intellectual fluidity prevails. Discomfort occurs because answers are amorphous and mercurial. But introspection is directed, prevalent, and compelling. In staggering for resolutions to these issues, hidden failures are now admitted more often in public. A freer Arab press in some capitals passionately chronicle unfulfilled expectations. Frustrated personal and pan-Arab aspirations are prevalent. Although recognition of Israel is inevitable and pending, there is no realistic prospect for the tangible fulfillment of a Palestinian national identity. Arab recognition of Israel's presence in the Middle East acknowledges a failure to rid the region of the Jewish state, which is itself a major cultural admission. Pan-Arab goals are no longer realizable. No Arab leader would deny the presence of profound Arab disunity and powerlessness, reflected in the inefficacy of Arab organizations to foster collaboration in defense and economic matters. Failure to find an Arab political solution to the Kuwaiti-Iraqi dispute prior to the August 1990 Iraqi invasion of Kuwait was symptomatic of gridlock in the Arab League. All these unresolved concerns create a low-grade ferment among many classes in the Arab world. But even in the absence of pressurized political unrest, there is a negative dynamic among many population segments.

Finally, the presence of oil and its derivative revenues are coveted resources. External powers will continue to compete for insured access to the region's oil resources; countries in the region compete for revenues from the oil-producing countries. Although the recent abundance of oil wealth transformed the physical landscape of the region, it also caused national selfishness, petty haughtiness, influenced the work ethic, and falsely inflated expectations. Oil has continued to create enormous jealousy and genuflection within the region. Its presence caused enormous

labor migrations within the Arab world in the 1970s; its decline caused enormous economic dislocations at the end of the 1980s. As much as Arab countries with surplus labor forces enjoyed remittances from their citizens in the 1970s, oil production declines caused equal or greater economic distress on these same countries and peoples. Instead of oil revenues judiciously used for pan-Arab cooperation in social and economic development, there remained in the early 1990s considerable envy if not outright disgust held by the population-rich, oil-poor states for the population-poor, oil-rich states.

THREE AMERICAN FOREIGN POLICY OBJECTIVES AND THEIR COROLLARIES

American foreign policy will have to consider these problems, but perhaps not have to define policy options for all of them. Instead the United States should concern itself with managing the loose ends in three areas where it can demonstrate success and where the national interest is served: advancing the Arab-Israeli peace process, enhancing bilateral relations with Israel and Arab states, and trying if possible to cope with the enormous social and political changes which are occurring in the region. Admittedly, in the last several decades, we have made some mistakes in our foreign policy in the Middle East, such as turning an almost blind eye toward Saddam Hussein's military build-up in the 1980s, trading arms for hostages with Iran, and continuing the absence of a national energy policy. It seems that we have done better with the problems of Middle Eastern states that are geographically contiguous or close to Israel—and that we have had less success or more difficulty in managing problems in our relationships with the countries that sit astride the Persian Gulf. But, overall, we have an estimable track record, one upon which we can systematically build as we aim to preserve American national interests in the region well into the next century.

1. *Support for Israel and the Arab-Israeli Negotiating Process.*—Every president since Harry Truman has supported Israel's democracy and its right to live within secure and recognized borders. Shared values, common interests, and overlapping concerns remain deep between the people of Israel and a very large majority of people in the United States. Our intrepid bi-partisan commitment toward Israeli security and our consistent endorsement of United Nations Security Council Resolutions 242 and 338 as the functional framework for peace have placed us at the beginning of the end of the Arab-Israeli conflict. That moral and strategic commitment to Israeli security and territorial integrity took on a new dimension two decades ago after the October 1973 War, namely diligent American promotion and engagement in an Arab-Israeli peace process. The United States is recognized by Arabs and Israelis alike as the only acceptable catalyst for Arab-Israeli negotiations. Even before the end of the Cold War, Washington was the only trusted mediator. Only the United States has a proven record of accomplishment in fostering Arab-Israeli agreements. We are in the peace-making business in the Middle East, and our involvement in that process is feverishly sought by all sides. We should pursue that obligation in a very vigorous fashion diplomatically. We must establish foreign policy initiatives with allies such as the European community and the economic giants of the Pacific Rim which undergird the political progress. We cannot forget that those who oppose the negotiating process in the Middle East, those who oppose peace between Arabs and Israelis, thrive on the economic hardships faced by many in the Middle East today.

Our prolonged bilateral relations with Israel and individual Arab states have afforded us opportunities to meet challenges and solve problems. Though there are many reasons why Soviet penetration failed to take permanent root in the Arab Middle East, one factor was our strong and continuous commitment to Israel as a democracy and as a strategic asset. The Cold War and other world-wide preoccupations kept us from focusing on the importance of generating more positive relations with Arab states in the region. Forty years ago, John Foster Dulles had anything but a disdainful attitude toward Egyptian President Nasser; twenty years ago this month, President Sadat's national security adviser could barely get the attention of the American Secretary of State and have him focus on Egypt's interest in finding a diplomatic solution to removing Israel's presence in Sinai. Secretary of State Kissinger was focused on wrapping up the Vietnam talks. It took the October 1973 War to engage the American administration's involvement in the Arab-Israeli negotiating process, a process to which we have sustained central and effective commitment. Last week, President Husni Mubarak's key political adviser was huddled with State Department officials about how to solve a myriad of issues, not the least of which is the thorny problem of the Palestinian deportees. Our positive relations with Arab states allowed us to confront Saddam Hussein in 1990–1991. We met the challenge by asking governments in the region to shoulder responsibilities for their own de-

fense. Two dozen other countries joined the international coalition or supported it because they collectively decided not to tolerate the day-light hijacking of another country. Continued, vigorous support of our relationship with Israel and Arab states will allow us to support a structure of peace in the region built upon trust and good will. There need not be an active external threat, such as Saddam Hussein, for the countries of the region to understand that cooperation and economic development are in their respective national interests. That is why twelve Arab countries, Israel, and thirty other states are participating in the multilateral talks that are accompanying the Arab-Israeli bilateral discussions.

2. *Access to Middle Eastern Oil and Stability of Arab Oil Countries.*—In the continued absence of a national energy policy that would steadily wean us away from dependence on imported oil, there remains the need to insure global access to Middle Eastern oil at a reasonable price. Our political leaders articulated a policy stating that the stability of the Persian Gulf and the territorial integrity of Arab Gulf states are in the strategic interest of the United States. President Carter made this point in his January 1980 State of the Union address; toward the end of his administration, President Reagan reflagged Kuwaiti tankers; and President Bush responded with the dispatch of half-a-million fighting men and women as part of the international coalition. Since the end of the 1991 Gulf War, we have continued our policy of protecting the integrity of Arab Gulf states and access to Middle Eastern oil by quarantining Saddam Hussein's belligerent intentions, creating military agreements with Arab Gulf states, and pre-positioning supplies in the area for a future eventuality. The Arab states that sit on the western side of the Persian Gulf continue their deep interest in having a strong American commitment to their security, an interest that meshes with our need for access to Middle Eastern oil sources.

3. *Support for Human Rights and Democratic Ideals.*—Mr. Chairman, few will debate that the end of the Cold War between Washington and Moscow is perhaps the most significant international event to have occurred since the end of World War II. Containment of communism and denial of Soviet influence are no longer the overriding influence in making and implementing American foreign policy. Just as our democratic ideals had an impact on the fall of eastern European communism and an equally dramatic impact on the former Soviet Union, they continue to cause ferment and debate in the Middle East—a region not generally accustomed to supporting the rights of the individual over the interests of the community. The Arab Middle East is not a region of the world where a minister-designate for office, such as Attorney General, would be forced to withdraw their nomination because of the influence of public opinion; it is not a region of the world where talk radio or television personalities readily debate the pros and cons of government policy without some fear of officially sanctioned retribution. But the exportation of our forty-year-old domestic agenda, which has focused on promoting the rights of the individual in society, is having its salutary impact and influence upon some countries in the region. Even without the overt advocacy of civil rights, even without the demand for equal status of women, and even without the creation of a Bill of Rights, many Middle Eastern countries are experiencing changes where we had some influence. Bernard Lewis, who is considered by many to be one of the most gifted Middle Eastern historians alive today recently wrote,¹

The democratic ideal is steadily gaining force in the region and increasing numbers of Arabs have come to the conclusion that it is the best, perhaps only, hope for the solution of their economic, social, and political problems. The prospects for Middle Eastern democracy are not good. But they are better than they have ever been before.

I thoroughly concur with the Secretary of State-designate Warren Christopher's remarks at his Senate confirmation hearings on January 13, 1993: "Promoting democracy does not imply a crusade to remake the world in our image. Rather support for democracy and human rights abroad can and should be a central strategic tenet in improving our own security."

The United States made human rights an integral standard of American foreign policy in the late 1970s. In the Middle East today, there are, for example, growing press freedoms in Egypt and Jordan which we must nurture and support. As the most powerful democracy in the world, we have an obligation not to retreat from our responsibility to aid people struggling to establish democratic ideals. Successive presidents and their secretaries of state have said that protecting Israeli security and its democracy is compatible with the legitimate political rights of the Palestinian people. The United States is in a unique position to support the articulation and defense of human rights and individual freedoms as part of the Arab-Israeli negotiating process and as part of our effort to insure long-term stability in the region.

CONTINUED ENGAGEMENT IN THE ARAB-ISRAELI NEGOTIATING PROCESS

Let me first outline briefly why and how we can pursue the Arab-Israeli peace process. The Clinton administration and this Congress are heirs to an enviable status in the Middle East. There is opportunity of extraordinary potential because we are the only superpower and because we are the only acceptable mediator for Arab-Israeli negotiations. Like Secretary of State Henry Kissinger after the October 1973 War, Secretary of State James Baker shrewdly cobbled together feasible diplomatic processes which resulted in Middle East peace conferences and bilateral negotiations between Israel and its Arab neighbors. When President Carter entered the negotiating process in 1977, significant diplomatic progress had already been achieved. All sides were motivated toward achieving a comprehensive settlement, but individual Arab rivalries prevented President Sadat from moving toward completion of his goal, the complete return of Israeli-held Sinai. Sadat went to Jerusalem and subsequently arrived at the historic Camp David accords and Egyptian-Israeli peace treaty. Presidents Reagan and Bush repeatedly supported the outlines of the 1978 Camp David formula: a two-track approach of seeking peace treaties between Israel and its Arab neighbors and of supporting the legitimate political rights of the Palestinian people in the context of Israeli security. This was the formula developed for the 1991 Madrid Conference and the subsequent bilateral talks. In fostering a negotiating process, Washington has also promoted policies aimed at the stability of Arab states which are willing to commit themselves to normalized diplomatic relations with Israel. Our strong relationship with Egypt is a superb by-product of that endeavor. Most recently—and advantageous to the states of the region—are the considerations given for broader Middle Eastern regional development undertaken through the multilateral talks that have also become part of the Madrid process.

Second, American prestige and capacity to influence regional politics were raised to unprecedented heights by the successful conclusion of the Gulf War. Washington demonstrated an unmistakably firm commitment to preserve the security and territorial integrity of Arab states. We did that and we left the region, thereby countering all claims that Washington was embarked on some course of neo-imperialism aimed at occupying the region as the British and French had done during the past two centuries. While prosecuting the Gulf War, Washington did not waver from its long-term commitment to protect Israeli security. The results of the Gulf War gave all sides either a positive or negative incentive to become involved in the negotiating process. Egypt saw the outcome of the Gulf War as a welcome opportunity to reignite its twenty-year effort to reach a comprehensive Arab-Israeli settlement. A refashioned Arab-Israeli negotiating process allowed Cairo to pursue its favored role as consequential link between Arab states, the PLO, the United States, and Israel. Arab radical fringes were set on the margins. When Syria participated in the international coalition allied against Saddam Hussein, the Arab radicals who opposed the Arab-Israeli negotiating progress possessed no center around which to organize. While the "Arab street" disliked Washington's coordinated military forays against Iraq, the international and UN sanctioned coalition did not violate an Arab capital by taking the land war into Baghdad. If Baghdad had been decimated and its population eradicated, Washington would have faced an inevitable political backlash from its Arab coalition partners. Consequently, after the war, Washington may have been denied the ability to forge the new Arab political coalition that was necessary to support the negotiating process. Both Egypt and Syria deftly dampened respective domestic opposition to the war against Iraq.

Third, at the war's conclusion, Israel felt more strategically secure than at any previous time in its history. From Israel's view, Iraq was militarily devastated and was internationally quarantined. Inter-Arab politics were ripe with divisiveness, tension, and recrimination. The PLO was debilitated politically, and the Palestinian people in the territories were sufficiently disadvantaged economically and politically to neutralize the international attention achieved during the previous five years of the Palestinian *intifadah*. In the post-war period, the PLO needed to repair its tarnished credibility after having backed the wrong side; the Israelis needed money to absorb Russian and Ethiopian immigrants; the Syrians needed an alternative to the Soviet Union; and Jordan needed to show that it was part of the solution, not part of the problem. The results of the Gulf War conclusively reaffirmed that only Washington could wield the authority to guide the negotiating process for the purpose of sustaining political stability. Although these truths were not overwhelmingly embraced, they were not to be denied. Israel was delighted that its closest international ally had a firm and virtually exclusive hand on the rudder of negotiations. Given that reality and Israel's traditional skepticism for resolutions and votes at the United Nations, it is not surprising that Israel wants to continue to keep Arab-Is-

raeli peace-making and peace-keeping away from the influence of the United Nations.

Fourth, as already noted, the end of the Cold War allowed the United States to shape the negotiating process in an essentially unobstructed fashion. As the United States gained prestige, the U.S.S.R. lost power proportionately faster. When the pre-negotiations started for the convocation of the October 1991 Madrid Middle East Conference, the U.S.S.R. played merely a ceremonial role in cobbling together the procedures which spawned the conference. Within months of the conclusion of the Madrid meetings in November 1991, the Soviet Union itself had dissolved. Washington possessed an uninhibited ability to conduct foreign policy without concern for Soviet interests in the region. The United States was able to conceive and to implement a negotiating process undisturbed by outside meddling. For regional actors, the end of the Cold War narrowed political choices and options. Syria and the PLO, in particular, possessed less political room in which to maneuver. There was no longer a Soviet patron capable of acting as a political counterweight to Washington; Moscow could no longer provide adequate military and logistical assistance to any of its long-term associates. The aborted August 1991 coup in the Soviet Union conclusively ended any remaining illusions of a Moscow phoenix.

Fifth, no one could afford to disengage from Washington's assistance in the negotiating process. Washington had the historical legacy of successfully shepherding previously negotiated Arab-Israeli agreements; only the United States was seen as capable of providing the necessary guarantees and assurances. In 1989 and 1990, Secretary of State Baker unsuccessfully tried to bring the Israelis and the Palestinians together. Rather than focusing on contentious issues of negotiating substance in the aftermath of the Gulf War, Baker concentrated on creating a suitable procedural framework for a Middle East peace conference which would be a symbolic opening to direct bilateral negotiations. Baker used the sense of apprehension, vulnerability, and uncertainty about political stability in the region to make all sides dependent upon Washington's good offices. A positive dynamic was created in which all sides understood the benefit of sustaining the negotiations, even if the process was imposed by consensus, even if the progress was slow and arduous. Washington was the acceptable address for fostering compromises necessary to convene the conference and sustain the bilateral talks. There was also a prevalent negotiating axiom: concessions were more easily made to Washington than to the other side in the negotiations before and after Madrid. Without having formulated the negotiating process, the Clinton administration finds itself overseeing the beginning of the end of the Arab-Israeli conflict.

Sixth, after the Gulf War and after Madrid, Syria and the Palestinians were encouraged by the Bush administration's attitudes and actions, which they felt were more compatibly harmonious than previous ones. Damascus perceived an American commitment that the negotiating process would be based on the premise of an exchange of land for peace. In addition, Damascus and the Palestinians were encouraged when the Bush administration withheld Israel's loan guarantees for aiding Russian and Ethiopian immigrant resettlement. Damascus was relieved (and thus more prone to negotiating) when the Likud party was replaced by the more flexible Labor party in the June 1992 Israeli parliamentary elections. After Labor took control of the Israeli-Syrian bilateral talks, the tense and acrid negotiating environment was replaced by more sensitive and sensible tones.

Seventh, the negotiating environment remains very ripe for more progress. In Washington and the Middle East, participants in the negotiating process see great risk in not continuing. During a significant portion of President Reagan's eight years in office, Washington was not willing to become involved in efforts to jumpstart negotiations because neither Arabs nor Israelis were ready to move beyond the Egyptian-Israeli treaty or to agree on the implementation of Palestinian autonomy. The political risk for the American president was too great to try merely to knock unwilling heads together. Washington was not prepared to elevate the intensity of its engagement to a level conducive to failure. Now the chances of failure are marginal at best because the respective sides want to see the process continue, even with such distractions as the issue of the Palestinian deportees. Negotiating sides believe that failure to reach compromises will worsen the status quo. All sides tacitly concur that delayed progress could strengthen regional opponents of any negotiations or recognition of Israel on the one hand, and desired territorial compromise by Israel on the other. These factions in the Arab world include various Islamic fundamentalist groups, government policy in Iran, Iraq, and Libya, and vocal groups both affiliated and not with the PLO. In Israel, Mr. Rabin's government does not have a vast mandate from the Israeli general public to make unrestricted territorial compromises; it does have an opportunity to negotiate arrangements which the Is-

raeli public considers within the realm of acceptable risks undertaken for the prospect of long-term peaceful relations with its Arab neighbors.

Eighth, the Clinton administration entered its transition period and first weeks in office with an on-going and diverse Middle East peace process. It was an unprecedented advantage for an American president. During 1992, outside pressure or leverage was not required to initiate talks between parties or to continue their mutual compromises. In going to Madrid, all sides understood there would be a two-tiered approach: an agreement between Israel and the Palestinians on the one hand, and between Israel and the Arab states on the other. That formula has been adhered to rather rigidly. Discussions are now at an advanced stage about the nature and timing of Palestinian elections to oversee Palestinian self-government in the territories and about how to synchronize the scope and timing of an Israeli withdrawal from the Golan Heights with a similar timetable for Syria's reciprocal implementation of an acceptable definition of peace. All sides agree that the key to progress in the Lebanese-Israeli talks is likely to come after a Syrian-Israeli arrangement is negotiated. Already, Jordan and Israel have agreed upon a draft negotiating agenda for further discussions. Even in the midst of the American presidential transition period, all sides continued to meet in Washington, completing the eighth round of bilateral talks in December 1992. Bilateral negotiations were held before and after Secretary of State Baker joined the Bush reelection campaign—with and without the invisible American hand at the negotiating helm. Highly qualified and seasoned diplomats in the Department of State kept the process moving forward. For that, they are to be commended.

When he came to office last month, President Clinton was the beneficiary not only of peace negotiations between Israel and its contiguous Arab neighbors, but also of two sets of multilateral completed talks on five different issues (arms control, economics, environment, refugees, and water). The multilateral talks had been held in the presence of representatives from several dozen countries, including many Arab states not geographically contiguous to Israel, and with the participation of such international institutions as the World Bank and the United Nations. The international community has thereby become critically involved in the stewardship and commitment toward achieving successful outcomes in the negotiating process. European countries, Japan, and other Pacific Rim countries that benefit from oil and political stability in the region must be convinced to share the burden of Middle East peace-keeping, which will specifically require capital investment for regional economic development.

THE UNITED STATES AND THE ARAB-ISRAELI NEGOTIATING PROCESS: WHAT TO DO?

First, the negotiating dynamic has created reality and responsibility among the respective sides. Therefore, there is little need to adjust the style of our engagement in the negotiations. All negotiating sides (at recognizably different rates) became more pragmatic about their obligations as the negotiations flowed from Madrid. As the euphoria subsided, realistic goals replaced self-serving illusions and even softened deeply hewn ideologies. If progress in the bilateral talks were to be feasible, then it would have to be achieved by leaders making arduous decisions. The negotiating process has put the mantle of responsibility on the shoulders of every delegation. An agreement negotiated between the sides has the greatest chance of survival.

Second, Washington has avoided becoming a surrogate advocate for any side. Significantly, in the process which we catalyzed after the Gulf War and through Madrid, each side had to deal with the other and could not avoid direct negotiations by seeking to make Washington apply pressure unilaterally. Consistency in Washington's procedural association with the pre-Madrid negotiations and during the bilateral talks carried over into the presidential transition period: American participation would not become a substitute for direct negotiations. While Washington has shown disagreement with all sides at different times and over a variety of issues, it has—in an exemplary fashion—refused to use pressure or coercion on any side.

Third, while we have our own view on specific points in the negotiating process, Washington has not superimposed our convictions on the participants. Our position on United Nations Security Council Resolution 242 is a case in point. Every administration has asserted that this resolution is the framework for negotiations. Our interpretation is that the resolution implies an exchange of territory for peace and has application on all fronts. Yet, since the passage of the resolution in 1967, no administration has defined what the final borders should be in a negotiated settlement or what the time period should be for providing peace and exchanging territory. Appropriately, we have neither endorsed nor precluded that the final borders of Israel will be those which existed prior to the June 1967 War. In an almost doggedly deter-

mined and admirably consistent fashion, Washington has retained its active engagement in the negotiations but has had the respective sides make their choices and select their interpretations.

Fourth, while playing its central role in the negotiating process, Washington must continue to seek synchronized progress on the bilateral and multilateral tracks. Only Israel can provide territory, and only the Arab sides can provide security. Time is required for the respective sides to accept the notion that they must provide one of these variables to the other; likewise, each side must be satisfied that what it is receiving is both necessary and sufficient. We can neither overload Israeli risk-taking nor fail to provide for the political rights of the Palestinians in the geographic area of the West Bank and Gaza which they can call their own. We cannot wait for a final inked agreement before undergirding the diplomatic process with economic assistance. The history of Arab-Israeli diplomacy has demonstrated that no Arab-Israeli agreements occur when Israel senses pressure from Washington or duress from the United Nations. Similarly, we must ensure incentives for Arab states and for the Palestinians along the peace-making and peace-keeping route.

Finally, the most enduring arrangement between Israel and its neighbors will be one that is electively concluded in conjunction with active American stewardship. Stewardship does not mean coercion. Any arrangement must be based upon trust and confidence between the negotiating sides and must not be predicated solely on American assurances or guarantees. To be effective, a peaceful relationship must ultimately establish a sense of security for the Israelis, a return of territory to the Arab sides, and at least a minimum degree of self-government among Palestinians. Every negotiated arrangement must indicate a demonstrable change in the region's atmosphere, revealing public acceptance of fears and mutual awareness of aspirations. These measured tones of understanding were absent in the public speeches heard in Madrid in 1991. But a year later, progress is evident in the more positive indications that Arabs and Israelis understand one another's apprehensions. Arabs and Israelis who have participated in the process even suggest optimism for the coming year in making further progress.²

THE UNITED STATES AND CONTINUED ACCESS TO MIDDLE EASTERN OIL AND ASSISTANCE TO THE STABILITY OF OIL-PRODUCING STATES

The end of the Gulf War did not end our dependence on Middle Eastern oil. It did not remove the deep anxiety held by Persian Gulf Arab oil-producing states about their security. Our need for oil from the Persian Gulf has not lessened nor has the fear diminished in the region nor in the international community for Iraq's future intentions. Iraq's defeat in the Gulf War did not change that regime's political behavior. Permit me to add that I do not believe that the Iraqi regime has changed its long-term goals of seeking to influence if not dominate countries and resources in his geographic proximity. I do not believe that opening a broad dialogue with the Iraqi regime will make Iraq publicly repentant or a trusted neighbor. Iraq believes that the action of the international community during and after the Gulf War has been motivated by an effort to curb Iraq's sovereign action. Iraq believes that the international community objects to its sovereignty. We do not object to Iraq's sovereignty; we object to its imposition on others. In circumscribing Iraq's political behavior, the international community is protesting against Iraqi policy which undermines and threatens regional stability and is perniciously injurious to the rights of individuals and ethnic groups under Iraq's control. Regular engagement in curbing the Iraqi regime's political behavior must emanate from the financial and military support of countries in the region which are immediately threatened by Hussein's actions.

Adding to the consternation of these countries is the resurgent nature of Iran as it seeks to assert influence and perhaps supremacy in this extraordinarily important oil-rich region. Iran finds itself well positioned geographically to reinvigorate the spread of its message: political Islam can protect one's identity against the aggressive and nefarious intent of foreign and secular dominance. The Iranian regime is profoundly anti-Western, totally opposed to the Arab-Israeli negotiating process, and strongly determined to rid the Gulf of all traces of Western presence and influence.

Tehran seeks to become the dominant voice in the northern end of the Persian Gulf. Its resurgence was almost instantaneously coterminous with Iraq's defeat and subsequent enfeeblement and quarantine monitored by the international community. The physical placement of Western forces on the Arabian peninsula has provided Iran with constant and immediate notice of a neo-imperial presence. Iran is delighted that, so far, the Arab signatories of the March 1992 Damascus Declaration (Egypt, Syria, and the Gulf states) have failed to implement the defense of the Gulf. Not only does Iran scan the Gulf as a potential area for hegemonic or philosophical

expansion, it sees the Moslem republics of the Soviet Union as a naturally contiguous zone of influence. The Muslim republics on Iran's border are extraordinarily fertile opportunities for Tehran. Specifically, late last year Iran accused Russian influence of perpetrating "Muslimocide" against the Muslim inhabitants in Tajikistan. Iran is assisting or encouraging the development of a joint Irano-Azerbaijan economic commission; in late October, Kazakhstan President Nursultan Nazarbayev visited Tehran and reportedly discussed, among other issues, scientific, technological, and infrastructure development—railways, roads, commercial ties, and other mutual interests as littoral states on the Caspian Sea. In early November 1992, the Energy Minister of Kyrgyzstan met with his Iranian equivalent to discuss bilateral oil cooperation. In late November, Uzbekistan President Islam Karimov visited Tehran to establish a basis for ties in regional cooperation. Creating and developing contacts and links to these areas enables Tehran to be seen as the defender of Islamic belief against non-Islamic political forces. Engendering an Islamic political vibrancy contiguous to itself proved too appetizing for Iran to resist. After carrying its message to sympathetic souls in Lebanon in the 1980s, Iran now possessed an unprecedented opportunity to sell its revolutionary zeal to five weak and disorganized ethnic communities in predominantly Muslim areas of the former U.S.S.R. With the support of other countries, Iran is also seeking the development and implications of its own nuclear capability. Additionally, Tehran was delighted with the success of the Mojaheddin in Afghanistan and the role Iran played in resolving Kabul's internal political turmoil. Experienced former Mojaheddin fighters can now be found in the Sudan, where they are training Egyptian Islamic militants who are helping to foment what can so far be described as minor insurrection against the Mubarak regime. According to Dr. Usamah al-Baz, the influential first under-secretary of Egypt's foreign ministry, "The Iranian Government wants single-handedly to control the Arab countries in the Gulf region so it can impose its hegemony over them. It does not want any country outside the Gulf region to side with these countries in confronting the strategic threats and dangers to which they are being subjected."³

The Iranian leadership sees this moment as a profitable chance to capture the dominant discontent in "the Middle Eastern street." The masses have had their expectations built but unfulfilled by the highly Westernized, monarchical, or secular regimes that have governed sometimes with a heavy hand since the end of World War II. Tehran, like the rest of the world, caught a glimpse of the massive and underlying discontent that was aroused in support of Saddam Hussein's boldness. By invading Kuwait and surviving, the Iraqi president misled his Arab brothers; he unleashed deep-seated popular anger against established ruling regimes, particularly those that are oil rich. Even if Iran does not capture the minds of the disenfranchised middle and lower classes in the Arab world, it can at least foment political opposition to the status quo. Most Sunni Arab regimes see Iran and its exportation of religious zeal as a danger, insidiously poised to undermine their rule. This is certainly the view held in Cairo, Saudi Arabia, Jordan, many of the Arab Gulf states, and among the PLO. Iran continues to use local Islamic-oriented groups who oppose policies of an existing establishment to advance Iran's own philosophical interests. Tehran has proven most adept at doing this with Hezbollah in southern Lebanon and with Hamas, the Palestinian organization which is suffused with pernicious Islamic tenets and which opposes any negotiation, recognition, or acceptance of Israel.

On December 8, 1992, Egyptian Defense Minister Muhammad Tantawi bluntly said, "Iran is the biggest threat to Egypt because of its anti-Egyptian policies and measures and the sabotage activities that undermine peace and security in the region. Iran continues to adopt a policy of exporting the extremist revolutionary ideology through various means and phased strategies."⁴ According to Tantawi, Egypt's methods in achieving this goal are undertaken by strengthening its military, developing conventional, nuclear, and chemical capabilities, obtaining surface-to-surface missiles, and deepening the differences within the PLO in order to sabotage the Arab-Israeli negotiating process. Equally outspoken is Yasir Arafat, who has repeatedly and openly over the last month accused Iran of interfering in the internal affairs of the PLO and undermining its leadership.⁵

Iran remains instinctively aggressive in opposition to most of our values, allies in the region, and to the Arab-Israeli negotiating process. There is no solution to Iran's desire to spread its message, other than to try removing some of the social and political inequalities that are otherwise appealing to those who favor anti-establishment and pro-Khomeyni-like Islamic political activity. Progress in the Arab-Israeli negotiating process that obtains something tangible for the Palestinians will not end Iranian militancy, but it will contribute to a sense that the process is worthwhile. Economic development can also reduce the appeal which Iran and other Islamic fun-

damentalist groups have in destabilizing more secular and Western-oriented political regimes.

In a recent visit to the Gulf, I was repeatedly told how pleased these countries are with their bilateral relation with the United States: the pre-positioning of American military equipment, the regular port-of-call visits, and the continued provision of other military assistance. These oil-producing states appreciate the sanctions, embargo, quarantine, and inspection role which the international community is applying to Iraq. But the containment of Iraq can last only as long as the countries of the area remain vigilant and active in their own defense.

THE UNITED STATES AND THE PROMOTION OF DEMOCRATIC IDEALS

It is both morally appropriate and strategically important for United States foreign policy to be an advocate for human rights and the promotion of democratic ideals. Securing democratic values among Egyptians, Palestinians, and Jordanians, in tandem with Israel, insures greater prospects for long-term stability in the eastern Mediterranean. We must endorse increased participation of individuals in determining their own future. Over the last several decades, many Middle Easterners have been educated in western institutions of higher learning; they have returned to the Middle East with a greater sense of self and individual privilege. They are the propagators for greater inclusion of democratic ideals in the societies in which they live. They will decide the pace and depth their social orders can accept democratic values. We must be advocates for individual freedoms, but not lobbyists for style of governance over another. It is not up to the United States to be prescriptive about how to define or how to implement Palestinian political rights. It is not up to the United States to propagate methodology for Israel's self-generated interest in adopting more democratic forms of domestic political expression or in revamping its economic system. It is not up to the United States to influence Jordan in suggesting how its newly developed political party structures should be refined in their pioneering experiment with democracy. The United States does not need to create an official alliance system with states in the region that advocate and pursue democratic ideals, but we must be prepared to assist such countries along the lines advocated by Mr. Christopher in his confirmation hearings, "We must . . . improve our institutional capacity to provide timely and effective aid to people struggling to establish democracy and free markets."

If we want to have any influence in reducing Islam's power and authority as a platform for political mobilization which threaten the political stability of several states in the region, we must continue our level of economic assistance to countries such as Egypt. We must immediately provide or obtain financial support for Jordan and, at an appropriate moment in the negotiating process, also offer economic incentives for Lebanon and Syria. Disparities of income among Arabs and between Arabs and Israelis need to be addressed. Poverty, destitution, and hopelessness feed Islamic fundamentalism. In the Arab world, the primary obligation in raising the socioeconomic standards of living rests with those Arab states that have sufficient wealth to assist their brethren.

CONCLUSIONS

Mr. Chairman, the old world order is gone. In the Middle East, changes are developing along a path on which our moral and strategic interests in the region can be preserved and enhanced. In the multilateral talks that accompany the Arab-Israeli peace process, there is a real opportunity to help the region strengthen itself by shaping and defining issues of economic development, water usage, and curbing the proliferation of weapons. Success in the multilateral talks must come before final agreements are reached on the bilateral tracks. Success in the multilateral talks can demonstrate to skeptics that the negotiating process benefits them—but not in lieu of political progress. There must be a gradual but consistent removal of the Arab boycott against Israel, which, according to Israel's foreign minister, the boycott causes Israel to lose from \$2-\$3 billion a year in income.⁶

In my view, there is a real chance for this administration and this Congress to promote our long-term objectives in the Middle East: sustaining our relationship with Israel, nurturing the Arab-Israeli negotiating process, expanding and developing positive relations with Arab countries that support Israel (such as Egypt, Jordan, Lebanon, and Syria), maintaining mutually beneficial relations with Arab oil-producing states in the Persian Gulf, containing Iraqi belligerence, remaining vigilant about Iran's activities, and promoting democratic ideals. Failure to promote these objectives, or failure to remain engaged in the region as a pillar of support and guidance, will hasten the coagulation of the region's vast indigenous problems into a debilitating mix that fosters extremism, radicalism, and insidious varieties of

Islamic fundamentalism. To assure access to Middle Eastern oil, we need to nurture our bilateral relations with Arab states while maintaining our interest in the Middle East and our strong support for Israeli security. Countries of the region need military equipment for self-defense, but not the extravagant continuation of arms sales. We should promote democratic ideals by giving advisory guidance, but not by being imperious. As we have learned in our relationship with Egypt, it is possible and advantageous to American national and strategic interests to be supportive of Israel and of Arab states.

We cannot hope to be the policeman of the Middle East. Direct assistance, cooperation, and support of countries in the region are necessary for regional economic and political stability. We can continue to build upon our successes, and now in the absence of a Cold War in the Middle East, we can do so in a less inhibited fashion. We have the luxury to shape and implement a foreign policy that protects and enhances our strategic and moral interests.

Anyone who follows the Middle East knows that it is not a static place. It is full of surprises even for those of us who claim to understand it. In shaping our foreign policy for the coming years of this century, we must be prepared to face new and difficult realities as we sustain previous commitments. We must be prepared in this decade for possible regime changes in many countries. We must understand that the Middle East is a region of vast variety where the pace of the 20th century and space age technology have overwhelmed traditional values.

There are two distinct fears among many Middle Eastern Arabs today about American actions at the end of the Cold War: either the United States will be imperious, arrogant, or demanding because no one is there to check our power; or alternatively, we shall become isolationist and withdraw into a domestic cocoon that forsakes any external commitments whatsoever. It would be a waste of an opportunity for our foreign policy to do either at this juncture because we can be so influential in defining the region's immediate future and build on the same virtues and interests which caused the collapse of the Soviet Union and the end of the Cold War.

NOTES

¹ Bernard Lewis, "Islam and Liberal Democracy," *The Atlantic*, (February 1993), vol. 271, no. 2, p. 98.

² As recently as December 14, 1992, Syria President Assad said that he felt progress had been made, "What is new in their [Israeli] proposal (to consider withdrawal) and what is new that signals, is that they are serious about achieving peace." Remarks by Syrian President Assad before the Syrian General Federation of Trade Unions, December 14, 1992, as quoted in *Foreign Broadcast Information Service—Near East and South Asia* (hereafter noted as FBIS-NESA), December 16, 1992, p. 46. Egyptian Foreign Minister Amr Musa noted in late December said that "the negotiation process, if we exclude the new circumstances of the Palestinian deportation—which is a serious and unacceptable issue—has become more active, and better than before, giving us some reasons for optimism." Remarks by Egyptian Foreign Minister Amr Musa, December 27, 1992, *Uktubar* magazine, as quoted in FBIS-NESA, December 28, 1992, p. 17. According to Lebanese Prime Minister, Faris Buwayz's remarks in early December, "If we examine the general results pertaining to all the delegations, we would find that there were some positive ideas, which, I can say, moved the conference from the stage of discussing the legitimate UN resolutions to what I call advanced principles which, of course, need to be programmed and which require more negotiators, clarification, and scrutiny." Remarks by Lebanese Foreign Minister, Faris Buwayz, *Al-Hawadith*, December 4, 1992, as quoted in FBIS-NESA, December 4, 1992, p. 45. For similar examples of Jordanian, Palestinian, and Israeli positive statements about the pace and content of the negotiating process, see remarks by Jordanian Foreign Minister Kamal Abu-Jaber, that the peace process is about where it should be, note his remarks on Amman Radio on December 5, 1992, as quoted in FBIS-NESA, December 7, 1992, p. 39; remarks by leading Palestinian political figure, Faysal Husayni, "I disagree with those who say nothing has happened [in the negotiations], *Al-Anwar* (Beirut), December 4, 1992; and remarks by Itamar Rabinovich, the head of the Israeli delegation to the Israeli-Syrian talks, about the changes in Syria's tone in negotiations in *Yediot Aharonot*, December 4, 1992.

³ Remarks by Dr. Usamah al-Baz, Middle East News Agency, November 30, 1992, as quoted in FBIS-NESA, November 30, 1992, p. 16.

⁴ Remarks by Egyptian Defense Minister Muhammad Husayn Tantawi at a Cairo seminar on Egypt's national security in 1990 organized at Cairo University, December 7, 1992, as quoted in FBIS-NESA, December 9, 1992.

⁵ Remarks by Yasir Arafat, "I accuse Iran of interfering in the Palestinian people's affairs. It is funding and training personnel from both the leftist and Islamic organizations at the same time, such as *Hamas* [Islamic Resistance Movement], the Popular Front for the Liberation of Palestine-General Command, and the Democratic Front for the Liberation of Palestine. The latest amount paid to these organizations was \$30 million to be used to strike at the stability and unity of the Palestinian factions." Text from Cairo *AL-WAFD* in Arabic, December 19, 1992, p. 6, as quoted in *FBI-NESA*, December 22, 1992, p. 5.

⁶ Remarks by Israeli Foreign Minister Shimon Peres, November 16, 1992, Tel Aviv University, Ramat Aviv, Israel.

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His principal research efforts focus on the political history of the modern Arab world, modern Israel, and the origins and development of the Arab-Israeli conflict. He wrote "The Land Question in Palestine 1917-1939," collaborated with Jimmy Carter in writing "The Blood of Abraham: Insights into the Middle East," and was co-author with Samuel W. Lewis in "Making Peace Among Arabs and Israelis: Lessons from Fifty Years of Negotiating Experience." His last major journal contributions were in the December 1991 issue of *The American Historical Review*, "A Historiographic Review of Literature on the Origins of the Arab-Israeli Conflict" and forthcoming in *Europa Archiv* (1993), "Die Rolle der Vereinigten Staaten im Nahost-Friedensprozess—Perspektiven für die Regierung Clinton" ("The Role of the United States in the Near East Peace Process—Perspectives for the Clinton Administration"). He is presently completing a book length manuscript on the history of Arab-Israeli diplomacy.

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by
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I would like to thank the Chairman and Members of the House Committee on Foreign Affairs for this opportunity to give testimony on U.S. policy toward the Middle East.

As the end of the twentieth century approaches, the United States enjoys unparalleled opportunities to shape the future of the Middle East and North Africa. Until very recently, American policy in the region was largely a reflection of the imperatives of the Cold War, but the demise of the Soviet Union has prompted reexamination of American purposes there. Freed from the requirement of constant vigilance against Soviet aggression, the United States may now go beyond merely protecting the peoples of the Middle East to helping improve their lives. This opportunity is not without its dangers, but for reasons of both expedience and principle, we have no real choice but to seize it.

Let me offer a brief reprise of the history of American policy in the Middle East and a perspective on the challenges the region presents today before returning to the concerns that must shape our policy in the future.

THE POLICY LEGACIES OF THE PAST

With the end of the era of European imperialism at the close of the Second World War, the United States took on the role of principal outside power in the Middle East. Having had little direct contact with the area previously, the U. S. defined its interests there narrowly to include only three significant concerns: continued access to assured and affordable supplies of oil, maintenance of the security of Israel, and prevention of communist subversion and Soviet expansion.

During the decades that followed, there was debate both about the merits of these aims in themselves and about the measures taken to secure them. The continuing hostility to Israel on the part of the Arab states, including the world's major oil-producers, meant that the first two of the American aims--the security of both oil supplies and Israel--were sometimes difficult to reconcile. The overwhelming priority of the third goal, the limitation of Soviet influence, permitted the United States to postpone fully satisfying any of the parties to the Arab-Israel conflict, however, for as long as the Middle East was a vital arena of Cold War competition, local preoccupations would be subordinated to the global conflict. Thus, this three-fold definition of American interests in the Middle East reappeared in the policy discussions of all the Administrations since President Truman.

By and large, the instruments used to further these interests reflected the priority of security concerns, and military aid and sales played a large role in American relations with the states of the Middle East. U. S. policy-makers did little to encourage significant private trade and investment relationships beyond oil and outside Israel, nor did they view encouragement of democracy and respect for human rights as appropriate to this region.

The end of the Cold War and the dissolution of the Soviet Union reopened discussion of American interests and instruments in the Middle East. Although limitation of Soviet influence soon became moot, the other two of the original American interests--access to oil and security of Israel--continued to be important, as the current definition of the region's "hot spots"--the Persian Gulf and the Arab-Israel arena--indicates. As the Cold War ended, the Bush Administration adopted a pragmatic approach in the Middle East: old friends

were not abandoned without cause, and help in advancing one or both of the remaining American interests was rewarded. Thus, countries that helped insure continued Western access to Gulf oil through their cooperation in the coalition against Iraq or that aided in enhancing Israel's security by participating in the peace talks begun in Madrid were viewed with favor. This politics of expedience aided in creating convenient political alliances in the short run but it had the disquieting effect of enhancing the stature of some old foes, including the reprehensible regime in Syria, and undermining the position of some old allies, such as the far more liberal governments of Tunisia and Jordan, without a consistent or principled rationale. In the absence of the overarching logic of anti-communism, the actual and potential contradictions of US policy in the Middle East risk undermining American interests themselves.

Moreover, now that the challenges to regional security no longer include extra-regional military threats, it is not self-evident that the most effective instruments for guaranteeing American interests are the old stand-bys of increased military aid and military intervention. As the outcome of the Gulf war suggests, the dilemmas posed by Saddam Husayn's Iraq to both the stability of the Gulf and the prospects for Arab-Israel peace may not be amenable to simple military solutions. The end of the Soviet menace has meant that the United States must reassess both the criteria by which it defines its friends and foes and the means by which it encourages approaching those standards in the Middle East.

THE CHALLENGE OF THE PRESENT

The challenge is particularly significant in the Middle East today because many of the region's governments--friend and foe alike--are marked not only by remarkable records of abuses of their own people but also by increasingly tenuous holds on power. If we do not reassess our policy in a number of countries, we risk being associated not only with tyrants but with losers. The firebrands of Arab nationalism in the 1960s who founded the current regimes in Algeria, Tunisia, Libya, Egypt, Syria, Iraq, and indeed, of the PLO as well, are growing old and their rhetoric is ringing hollow. They face burgeoning populations whose education is poor, whose employment prospects are dismal, but whose aspirations are limitless. In the erstwhile conservative regimes, both rich and poor--the monarchies of Morocco, Jordan, the Arabian Peninsula--the young people are equally tired of the insecurity of their lives and the arbitrariness of their governments. They are all weary of waiting while their leaders misuse their fortunes, break their promises, waste their resources and, too often, enrich themselves in the process. These disaffected young people are the constituents of the Islamist movements that have appeared throughout the Middle East to threaten the regimes now in power.

The incumbent governments are right to be worried about these movements. Islamists openly call for the replacement of rulers they (accurately) describe as corrupt and unjust. In response, the governments, running scared, appeal to outside powers to protect them from revolts among their own people, characterizing the Islamist movements not as symptoms of their own failures but as manifestations of a dangerous international movement bent upon destabilizing the region. Indeed, in ironic and hardly unintended echoes of the past, the Islamists are frequently characterized by those they challenge in language virtually identical to that once used to describe communism: internationalist, revolutionary, fanatical, totalitarian, anti-American.

Tempting as it is, particularly after the Iranian revolution left many Americans inclined to believe that Islam is opposed to our beliefs and interests, we should be careful not to take these descriptions at face value. As a religion, of course, Islam is indifferent to the United States (after all, the appearance of the Prophet Muhammad predates the establishment of the United States by well over a millennium) and many Americans are themselves Muslim. As political movements, Islamist causes are very varied. Insofar as the United States has supported the ruling order in much of the Middle East, Islamic movements have often opposed American positions, but where common enemies have encouraged making common cause, as against the Soviet invasion of Afghanistan, Islamist movements have had no difficulty cooperating with the United States. Like other major religious traditions, Islam provides a very powerful idiom by which to express popular outrage at irresponsible, corrupt and tyrannical government, and present-day Islamist movements find wide adherence among the disaffected and disenfranchised in the Middle East. There are certainly points of political theory upon which many Islamists and many Americans would disagree, but what brings Islamist movements into overt political conflict with the United States is American support of governments they, and many others, consider despotic.

Thus, what Americans must ask themselves is not whether the Islamist movements threaten some historically friendly regimes, for they clearly do, but whether these increasingly fragile, and often increasingly oppressive, regimes any longer serve American interests. Now that anti-communism is no longer a useful litmus test, in other words, we must ask what we expect of those we call our friends. Without preempting what should be a long and open debate about American foreign policy in general, I think it is fair to say we have an opportunity now to return to the basis of our original abhorrence of communism and renew our commitment to democracy and human rights around the world, including the Middle East. To qualify for American aid, protection and patronage, governments must become more accountable and less predatory towards their own people.

AMERICAN POLICY IN THE MIDDLE EAST IN THE 1990S

We should be encouraging the governments of the Middle East and North Africa to pay far more serious heed to international standards of human rights. No doubt, for some of the governments of the Middle East, the mere prospect of extending freedom of expression, not to say actually standing for election, is daunting, for they know that public opinion freely expressed would condemn their rule. Nonetheless, both expedience and principle dictate that we discriminate not on the basis of old Cold War friendships and favors but on the foundation of our enduring respect for human rights and democracy. There is little to be gained and much to be lost in continued loyalty to corrupt and tyrannical governments. Not only do we undermine our own credibility as a nation committed to human rights and democracy but we run the very real risk of being on the losing side when these governments fall.

There are many objections raised by those who fear change in the Middle East to the reforms implied in American advocacy of human rights and democratic change. Two are particularly troubling to American policy-makers and these merit examination in closing.

First, as the governments of the region repeatedly point out, many of the parties and movements that would benefit from the extension of human rights and the establishment of democratic institutions, particularly but not

exclusively the Islamist movements, are avowedly or tacitly undemocratic. Were they permitted a larger public role, it is said, they would undermine respect for human rights and democracy.

This assessment of the oppositions may be true, but since all but one or two of the incumbent regimes in the Middle East are themselves avowedly or tacitly antidemocratic, it is not a particularly telling indictment. That this opposition may be no better than the incumbents is not a decisive argument for preventing its participation. Moreover, there is considerable liberal political opinion in the Middle East which deserves a far better hearing than it has thus far gotten; the governments of the Middle East should be urged to attend to their own policies and practice before accusing others of failure to respect human rights or democracy.

Just as the "campaign rhetoric" of the governments requires a skeptical hearing, that of their opponents should not be taken at face value. One must assume that many of the opposition parties and movements in the Middle East, leftist as well as Islamist, will make extravagant claims for themselves knowing that they will not be held accountable for them. Sometimes these may be devious declarations of attachment to democracy, sometimes they may be immoderate rejections of democratic government. Since the few Islamist governments of today came to power by coup or revolution, we have no precedent from which to predict the behavior of popularly elected Islamist governments. We do know that no revolution or military coup has produced democratic government; we do not know whether popularly elected Islamists would sustain democracy. Particularly in circumstances where democracy has been until recently only a theoretical exercise, the claims of its practitioners--positive and negative--will have to be measured by their performance. This, of course, requires giving untried parties an opportunity to perform, and implies that the United States should have regular contacts with the political opposition in these countries so as to encourage respect for democratic competition by all parties. Our interests are not served by obedience to the wishes of governments who would keep up the pretense that they alone can divine the desires of their people.

In general, we run the risk in encouraging democratic political competition of giving voice and eventually power to positions and groups with whom we disagree. This is likely to be especially true in the short run in the Middle East. After all, there was a strong and, to the United States disturbing, correlation in the Arab world between the extent of domestic political liberalization and the level of opposition to American policy in the recent Gulf War. Hence from the point of view of the United States--and this brings me to the second objection to a policy of encouraging respect for human rights and democratic change--democratic politics may well produce undesirable foreign policy results.

Uncertainty is a cornerstone of democratic politics. So too, however, is the opportunity of citizens to assess how well their interests are served by policy, and over time, such assessments usually prove quite predictable. New democracies will probably exhibit wider swings in policy than do their established counterparts as the acceptable boundaries of such policies are explored. As they become more strongly rooted, however, democracies are far more likely than authoritarian governments to pursue moderate and peaceable foreign relations. Ultimately American interests, including both assured access to oil and the continued security of Israel, will be far better guaranteed in a region where citizens can speak their minds freely, where

candidates for office must explain their policies openly, where defeated governments will leave office peacefully. The solution to the concern about the instability of new democracies is to permit them to grow into old, established democracies, not to prevent their emergence altogether.

We must expect, of course, that democratic politics will sometimes produce governments who see their own countries' interests better served in opposition to American interests or policy than in consonance. The temptation to wish for (or even to be content with) regimes that are no more than pliable clients is a very strong one, particularly for a superpower. Although all the available evidence suggests that in the long run democracies are more stable, moderate, and liberal in their foreign policies, that run may seem very long to policy-makers who must explain why we should support democratic politics even when it may produce temporarily recalcitrant or hostile governments.

The answers to this objection seem to me to be fairly straightforward. In the first place it is a question of expediency: if we do not encourage reform now, we will be witness to revolution later. In encouraging reform now, however, neither should we anticipate miracles. We cannot expect countries with virtually no experience in democracy to adopt it wholesale and overnight. We must be willing to work closely with governments that are initiating reform towards greater citizen rights and government accountability, just as we must be prepared to oppose, by both word and deed, any reversals in this process or erosion of respect for human rights and responsible government.

Finally, however, we must make explicit our stand on principle. We must risk temporary difficulties for the long term gain of greater freedom and justice elsewhere in the world both because we do in fact believe that democracy is ultimately a better form of government than the alternatives, and because we are committed to making the world a more peaceful place to live not only for ourselves but for our children.

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Dr. Lisa Anderson is Associate Professor of Political Science and Director of the Middle East Institute at Columbia University. She received a B.A. from Sarah Lawrence College, an M.A.L.D. from the Fletcher School of Law and Diplomacy and Tufts University, and earned a Ph.D. in Political Science with distinction from Columbia University. She taught as an Assistant Professor of Government and Social Studies at Harvard University, where she also served as Director of Student Programs at the Center for International Affairs, before returning to Columbia to take up her current position.

Dr. Anderson is a specialist on Arab politics, particularly North Africa. She is the author of The State and Social Transformation in Tunisia and Libya, 1830-1980 and co-editor of The Origins of Arab Nationalism, and has published numerous articles in books and scholarly journals, including Comparative Politics, The Middle East Journal, and The Journal of Middle East Studies. She has also written for major newspapers, including The New York Times and The Washington Post, and has appeared on the major network evening and morning news programs, the McNeil-Lehrer News Hour, CNN, National Public Radio, etc.

She is Vice-Chair of Middle East Watch and a member of the Executive Committee of Human Rights Watch, has served as an elected member of the Board of Directors of the Middle East Studies Association, and is a member of the Council on Foreign Relations.

Dr. Anderson is currently at work on a book about the prospects for political liberalization in the Arab world.

Policy Questions Facing the United States in the Middle East.

Statement by Richard W. Murphy, Senior Fellow,
Council on Foreign Relations, New York to
the Committee on Foreign Affairs, House of Representatives,
February 2, 1993.

There will be two main challenges to American policy in the Middle East during the next few years: 1. how to achieve an Arab-Israeli settlement and 2. how best to shape America's role as the primary military power in the Persian Gulf. Both problems will require sustained American leadership and resources.

Arab-Israel. The Middle East peace process, as reinvigorated at Madrid in 1991, can lead to a general settlement of the long standing Arab-Israeli confrontation. It should be possible to achieve that settlement during the next four years.

Success will require a major commitment of US diplomacy, initially at the level of the Secretary of State although, eventually, the President himself will have to take a direct hand. To forestall any further loss of momentum in the peace process, the Secretary's engagement should begin as soon as possible. The current controversy surrounding the deportation of 415 Palestinians to Lebanon is a reminder of how the unexpected event has always threatened to dislocate progress in Middle East peace talks. The decision to have Secretary Christopher travel to the region in February is an encouraging sign of the Administration's commitment.

The reasons to be optimistic about success in the near term are threefold:

- A. the principal players on the Arab side, as a result of the delegations' meetings in Washington over the past year, have broken through the critical psychological barrier of accepting Israel's right to exist;
- B. the current Israeli leadership accepts that it can relinquish its military occupation of lands held since 1967 if it can negotiate a real peace; and
- C. both Arabs and Israelis have tired of their conflict. They also recognize that, with the end of the Cold War and the surge of tragedies elsewhere in the world, the international community has wearied of Middle Eastern tensions and wars. It is becoming more insistent on the need to resolve that conflict than it has been since the end of the Second World War.

In the Persian Gulf the United States has, ironically, broken with its former dictum that we would oppose the domination of the Gulf region by any single power. We have become that power and now must accept the consequences of that fact. Although we shun the role of world policeman, we are nonetheless committed to play the policeman's role in the Gulf in order to assure the security and accessibility of the region's energy resources.

We cannot shirk a responsibility which we nominally assumed from Britain in 1971 but which we carried out on the cheap until Desert Storm and its aftermath. We will have to be ready to implement this policy with considerable firmness, coupled with sensitivity to the national pride of regional leaders and their people. We must also maintain a balance between our arms sales programs and our efforts to slow the regional arms race.

To play this role requires us to accept that we will be unpopular with both Iraq and Iran. Their history, size and resentment of foreign involvement in Gulf security matters will inevitably lead them to resent and challenge us no matter who rules in Baghdad or Tehran.

My understanding of current US policy towards the Gulf, Iraq and Iran is that we have no ambition either to build up or to play off Baghdad and Tehran against one another in order to restore a balance of power comparable to what existed in the 1970s. I further understand that we are seeking the requisite access to the Arab Gulf states to play our security role.

How could our Gulf policy be improved? First and foremost we have deployed an inadequate effort aimed at controlling the arms race in the region. The previous Administration was notably deficient on this score. It was far more interested in making arms sales than in stimulating serious regional thinking about slowing the arms race whether in the Arab-Israeli conflict or the Persian Gulf.

Secondly, policy governing the sale of dual use equipment would benefit from a joint review by the Executive and the Congress. Present regulations which forbid sale of dual use equipment to various countries are highly complex. At the same time the general guideline that such sales should not occur if they would "significantly" increase the recipient's military capability is remarkably vague and has created an unfortunate tension between the two branches of government.

A third failing has been the overemphasis on getting rid of the present leadership of Iraq. The survival of leaders opposed by us such as Castro in Cuba and Qadhafi in Libya remind us of the limits of our power. When overthrow of the leader becomes an important goal of policy, the people in those countries suffer, not their leaders. I note this not to pardon Saddam Hussein for the horrors he has inflicted on his own people and the region but simply to note the need to be more honest with ourselves. Like it or not, he may continue to be the President of Iraq indefinitely. We need to frame a policy which does not pit us against the interests and welfare of a whole people, who cannot be said to deserve their leadership and who are, in any event, impotent to rid themselves of their President.

In this connection, the relationship between U.S. policy and the Iraqi and Iranian opposition movements must be carefully monitored. To date we have not actively sponsored either opposition movements. However, our maintenance of "Operation Provide Comfort" and the "No-Fly" zone in northern Iraq has not only given an increased sense of security to the Kurdish people but also, U.S. Government policy notwithstanding, encouraged those of their leaders who privately hope to build an independent Kurdish state. This has reportedly been less true of the effect of the other "No-Fly" zone,

over southern Iraq. There our protection of the Shiite population is less wide ranging and the separatist urge much less pronounced. We should be careful not to stimulate expectations of future U.S. support of a Kurdish state unless we are prepared to deal with the anxiety this will cause Turkey and the anger it will cause Baghdad, whether under Saddam or a successor leadership.

Fourthly, Islamic Fundamentalism has attracted considerable attention in the West as a phenomenon threatening established regimes in several Arab states. This little understood, decentralized force is less likely to grow in the Gulf Arab states than in North Africa and Egypt and among the Palestinians. The wealth of the Gulf states combined with the relative closeness of the Gulf citizen-to-governor relationship has constrained the appeal of the fundamentalist.

Many young people in the Gulf have been educated in the United States and Europe and understand western practices and values. In fact they understand our systems of government rather better than we understand theirs. We should remain modest in urging structural changes in their governments to fit with our preconceived ideas. We can help keep those governments open to international concerns about broadening popular participation in government.

Finally, our current energy policy deserves mention for its effect on US policy in the region. We are quick to say that we do not wish to be dependent on oil from the Gulf. But we have not shown the willingness and steadiness of purpose to devote major budgetary resources to developing alternative energies or sources of supply. There is also a great deal more to be done in the way of conserving energy than we have done as a nation. In any event, however we redesign our energy policy this will not affect in the near term our need to maintain a sizeable military presence in the Gulf.



Middle East Studies

Richard W. Murphy

Senior Fellow for the Middle East

Areas of Interest:

- Arab-Israeli issues
- U.S. Middle East policy
- Persian Gulf
- Near Eastern and South Asian Affairs

Prior Experience:

From 1983 until 1989, Mr. Murphy served as Assistant Secretary of State for Near Eastern and South Asian Affairs. After joining the Foreign Service in 1955, he was assigned to the Federation of Rhodesia and Nyasaland, Lebanon, Syria, Saudi Arabia, Jordan and Washington, D.C. He was Country Director for Arabian Peninsula Affairs during 1970-71. In 1971, he was appointed Ambassador to Mauritania, where he served until 1974. He later served as Ambassador to Syria (1974-78), the Philippines (1978-81), and Saudi Arabia (1981-83). From February through April 1989, he was the John Adams Memorial Lecturer in the United Kingdom on a grant from the Fulbright Commission.

In 1985 Mr. Murphy was appointed by President Reagan to the rank of Career Ambassador, one of only five serving diplomats to hold that title. He is the recipient of The President's Distinguished Service Award (1986 and 1988). Mr. Murphy, who has written on Arab-Israeli affairs and Afghanistan, is fluent in Arabic.

Education:

- B.A., Harvard University
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TESTIMONY SUBMITTED TO THE HOUSE FOREIGN AFFAIRS COMMITTEE

BY

GAIL PRESSBERG

PRESIDENT, AMERICANS FOR PEACE NOW

February 2, 1993

Mr. Chairman, I want to take this opportunity to thank you and the other members of the committee for the opportunity to submit written testimony regarding U.S.-Israel relations and the Middle East peace process. My name is Gail Pressberg and I am submitting this written testimony in my capacity as the President of Americans for Peace Now (APN). APN is an organization of 10,000 American Jews with strong ties to Israel's Peace Now movement as well as to the Jewish community in the United States. Mr. Chairman, APN is an ardent supporter of the State of Israel and is concerned for its security and for the well being of its citizens. At this testimony will reveal, APN strongly supports territorial compromise between Israel, its Arab neighbors and the Palestinians and advocates a substantial active role in the peace process for the United States.

Israel, the Palestinians, Jordan and Syria all have their own strategic interests for engagement in the peace process. For the first time since the signing of the Camp David Accords, Jordan, Israel and the Palestinians are committed to negotiating interim arrangements. All parties accept the United States as the convener, mediator, and guarantor of the process.

Because of the demise of the former Soviet Union and the end of the Cold War, there is no significant force outside the region to support radical rejectionist political forces. A successful outcome to the multilateral negotiations and the bilateral talks will serve to reduce the influence of rejectionist political forces within the region. Iraq's military defeat has reduced, at least temporarily, the threat on Israel's eastern border and created a window of opportunity for Middle East peace negotiations.

The recent escalation in the cycle of violence only serves to underscore the need for an active U.S. role in the peace process. Though somewhat counterintuitive, violence on the ground in Israel and the occupied territories creates both the opportunity and the necessity for American involvement.

Having Prime Minister Rabin at the helm in Israel has created enormous possibilities for the establishment of a comprehensive peace agreement in the Middle East. Rabin, precisely because of his long record in the Israeli military, was credible as the candidate for change because the Israel electorate trusted his expertise on security matters. The Israeli Prime Minister's pragmatic willingness to engage in territorial compromise on all fronts has created new possibilities for Middle East peace that reconcile Israeli security requirements with Palestinian Arab territorial claims.

The tracks regarding bilateral issues between Israel and Syria, Israel and the Palestinians, and Israel and Jordan each now have an agreed upon agenda for the talks. Nevertheless, the negotiations have had a number of serious negative dynamics over several core issues. Both Israel and the Palestinians, and to a lesser extent Jordan and Syria, have domestic political problems that hinder their ability to put forth serious proposals that might lead to agreement. Without active U.S. involvement to help resolve the differences that still separate the parties, the negative dynamics in the talks will likely poison the possibility of reaching agreements.

The role that Secretary of State Baker developed for the U.S. was based on reaching agreement to get to the negotiating table. That role, while constructive, only set the conditions for reaching agreement to get to the negotiating table. Now it is time for the United States to play an active and substantive role in the negotiations process itself. After all, no Israeli-Arab treaty or disengagement agreement has ever been successfully concluded without the substantive leadership of the United States government.

United States policy toward the Middle East peace process should continue to be bipartisan. Since their adoption, the principles set forth in United Nations Security Council Resolution 242 and the Camp David Accords have been supported by every Democratic and Republican Administration. Bipartisanship, however, should not deter the U.S. from putting forth "bridging proposals" when the parties are in difficulty.

Because Israel and the Palestinian delegation have now committed themselves to negotiating transition arrangements which have been a cornerstone of U.S. policy since the Camp David Accords, it is important that the U.S. refrain during the transition negotiations from volunteering any statements on final status issues, or suggesting that the U.S. has a preference on final status arrangements.

The U.S. needs to act quickly to re-solidify the strategic relationship between the United States and Israel. Prime Minister Rabin will be greatly assisted in building Israeli public support for the peace process and territorial compromise if there is close consultation and concrete cooperation between Israel and the United States on strategic, economic and security issues. Israel's willingness to engage in territorial compromise entails calculated risks, but it is understood by the present Israeli government to be necessary if Israel is to achieve peace. Israel's capacity to take these risks, however, is largely dependent on continuing unequivocal support from the United States on security matters.

The U.S. should work with Israel, the Arab states and the Palestinians to redefine the concept of security to reflect the new realities in the region. Concern for traditional aspects of security — arms reduction, verification, resolution of border disputes — must be accompanied by the development of regional mechanisms that foster environmental cooperation, economic cooperation and conflict resolution mechanisms. The multilateral tracks of the peace talks provide important fora for these consultations.

Israel and most of the Arab states have expressed concern about the escalating arms race which is pouring conventional and non-conventional arms into the Middle East. The U.S. should work to reverse the arms race in the region through its strong support for the multilateral arms control talks. In addition, it should institute economic conversion plans here at home so that the threat of unemployment in the defense industry does not remain a factor in fueling the proliferation of weapons in the region.

PREPARED STATEMENTS--Latin America

Full Committee Statement of
Congressman Benjamin A. Gilman on
U.S. Interest in Latin America

Mr. Chairman:

Today the Committee continues its series of overview hearings on key foreign policy issues facing the United States in the post-Cold War era by focusing on issues relating to Latin America. No region was more contentious during the past decade and no region offers more opportunities for the United States in the years ahead. I am delighted to participate in this effort.

The Latin America of the 1990s is highlighted by economic reform and liberalization efforts stretching from Argentina to Mexico. There is a wealth of opportunity for the United States to increase trade and investment in this region. But these opportunities do not come without some peril. How we as a nation respond to the unique situations in many of these countries is an issue awaiting consensus.

The governmental upheavals that we have seen in Peru, Nicaragua and El Salvador have led to the more manageable problems of nations first experiencing pluralism. As ballots replace bullets as the means to effect change, we are faced with new challenges in our efforts to support these emerging democracies.

The progress shown by many Latin American countries is — unfortunately — not shared by Cuba or Haiti. In the vital Caribbean, both nations remain isolated from their neighbors, yet pose continuing concerns. Our ability to join with the Organization of American States and other international bodies in dealing with both countries remains a high-priority concern.

We cannot discuss Latin America without mentioning narcotics production and trafficking. Financially beleaguered nations cannot afford to train, equip and pay adequate police forces to combat the drug lords. Despite increased international commitment to narcotics trafficking and money laundering, this is a problem that will last throughout the 1990s.

Today's panel represents a wide range of views on policy in this important region. I look forward to their testimony.



Inter-American Dialogue

Statement of Peter Hakim
 Acting President
 Inter-American Dialogue
 before the
 Committee on Foreign Affairs
 United States House of Representatives
 February 3, 1993
 Washington, D.C.

I greatly appreciate this opportunity to discuss US policy toward Latin America. Although I will be presenting my own views today, much of what I have to say will be drawn from the recently released policy report of the Inter-American Dialogue, Convergence and Community: The Americas in 1993, and an earlier report issued by a special Dialogue task force on Cuba. I have submitted copies of both reports for the record. As many of you know, the Inter-American Dialogue is an assembly of some 100 Western Hemisphere leaders who meet periodically to review and offer recommendations on US-Latin American relations.

Back in November, Bill Clinton said to a group of Latin American officials that he wanted to join with their nations to create a "Western Hemisphere Community of Democracies." This is obviously an ambitious goal--but it is the right goal for these times. The main challenge for the United States in Latin America today is not resolving old conflicts, although there are still some of these hanging about. Instead, it is effectively managing new opportunities for cooperation between the United States and the region.

To meet that challenge, President Clinton and his advisors have to accomplish three fundamental and interlinked tasks: the building of constructive economic partnerships with the nations of Latin America; the strengthening of democratic practice and respect for human rights throughout the hemisphere; and the fostering of social opportunities to reduce poverty and inequality. These are the essential building blocks of a democratic community, and each must be pursued in tandem with the others. The decisions made and actions taken on the following agenda of issues will be crucial.

I. The North American Free Trade Agreement (NAFTA)

The North American Free Trade Agreement (NAFTA), designed to break down trade barriers between the United States, Mexico, and Canada, will be the first crucial test of the new administration's commitment to regional economic partnerships. After two years of negotiation, the NAFTA was signed by President Bush in December and now must be presented to Congress for

ratification.

A great deal is riding on the NAFTA. Its rejection at this stage would be a devastating blow to US ties with Mexico, far and away our most important bilateral relationship in all of Latin America. The defeat of NAFTA would also gut the core of future inter-American trade arrangements. Approval, conversely, would set the stage for free trade negotiations with other Latin American countries and the eventual development of a hemisphere-wide trading system.

Clinton has consistently supported NAFTA. He must now invest the energy and political capital needed to win congressional endorsement of this still controversial accord. He is right, however, to demand that NAFTA be fortified by supplemental accords that adequately protect the environment and workers' rights. These would broaden US public and Congressional support for NAFTA, reduce negative spinoffs, and assure the benefits are more fairly distributed. In addition, while the NAFTA negotiations are helping to open up Mexican politics in a variety of ways, the United States should continue to work directly for a more democratic Mexico, free from electoral fraud and human rights abuses.

II. Building Hemispheric Trade Ties

Although NAFTA takes first priority, the Clinton Administration, together with the governments of Mexico and Canada, should move quickly to transform that agreement into a hemisphere-wide free trade club. Every Latin American and Caribbean nation should be welcome (and encouraged) to join-- provided that it is willing to play by the rules, which should include a commitment to democratic governance.

Even prior to NAFTA's approval by Congress, the three North American partners should begin consultations with other regional governments to establish criteria, procedures, and timetables for building a full-fledged Western Hemisphere trade pact. An economically integrated hemisphere would enable every nation to become more productive and compete more effectively in the global economy.

III. The Collective Defense of Democracy

President Clinton has vowed aggressively to support the promotion of democracy and human rights worldwide, but has given little indication of how he proposes to carry out that pledge. In Latin America, the best way to proceed is to fortify the role of the Organization of American States (OAS) in mobilizing collective efforts to safeguard and advance democratic practice. After years of irrelevance, the OAS has recently emerged as a significant actor in inter-American affairs and, for the first

time ever, has established procedures for responding to violations of the democratic order.

Clearly, the OAS has not made much progress in Haiti or Peru--the first two tests of its new procedures. That does not mean that Washington should now give up on the OAS, however. The challenge for the Clinton Administration is to provide the leadership needed to reshape the Organization into a more vigorous and effective instrument of multilateral action. Most Latin American countries are prepared to join the United States in that effort. It will require such initiatives as bolstering the authority of the OAS Secretary-General, streamlining the Organization's decisionmaking, and expanding the mandate and resources of two key agencies--the Inter-American Commission of Human Rights and the Unit for Democracy--while trimming back the rest of the Organization.

In the specific cases of Haiti and Peru (and in other situations of constitutional breakdown that may arise in the future), the United States and other OAS members must keep sustained pressure on all sides to negotiate until agreement is reached to restore democratic rule. The Haitian generals, for example, should be known that, if they refuse to negotiate seriously, end the widespread abuse of human rights, and ultimately agree to yield power, the currently limited embargo would be tightened and other sanctions imposed. But Aristide and his supporter cannot be allowed to block progress either. They must also be pressed to bargain in good faith. Over the longer run, the only way to stop the outpouring of refugees from Haiti is to revive hope among the country's impoverished majority by ending repressive military rule and reconstructing a devastated economy.

IV. Other Democratic Initiatives

There are several additional initiatives that the United States can and should take to strengthen democracy in Latin America. The new administration should review US military programs in Latin America and, where they are still considered necessary, make sure they are reinforcing, not weakening, civilian authority. All military aid should be channeled through elected civilian leaders, conditioned on respect for human rights, and avoid enmeshing armies in political tasks. Further, the United States should encourage national and regional dialogues among civilian and military officials to develop regionwide norms regarding the missions, size, and weaponry of armed forces.

The United States can also expand nonpartisan assistance to strengthen legislatures and judicial systems, and provide similar help to non-governmental organizations (NGOs)--political parties, trade unions, human rights groups, business and consumer

associations, and civic and community organizations--through which the demands of ordinary people are expressed. Indeed, collaboration with NGOs should become a major new ingredient in American foreign policy.

Finally, US initiatives can contribute to the struggle for social justice in the Americas--and there is much lost ground to be regained after a decade of debt crisis and economic restructuring. Given its domestic commitment to "put people first," the Clinton team will understand that progress toward democracy cannot be sustained as long as mass poverty and profound economic inequalities plague the hemisphere.

Through its own aid programs and its influence on the priorities of the global financial institutions, Washington should work to increase international support for broadening social opportunities and make common cause with those in Latin America who want to turn poverty reduction into a crucial national goal. The Clinton Administration should use US political and financial muscle in Latin America to lean against the political imbalances that exclude the poor from their nations' progress.

V. The Old Issues that Refuse to Go Away: Central America, Cuba, and Drug Trafficking

Although the wars in Central America have largely ended, democratic rule and respect for human rights remain weak in every nation of the region except Costa Rica. Abject poverty remains pervasive, and most of the countries are economically distressed. The United States still maintains considerable influence in Central America and could contribute importantly to political opening, economic reconstruction, and the resettlement of large numbers of refugees and displaced persons. That, however, will cost money, and US economic assistance to the region has been sharply curtailed in the past few years.

The Clinton Administration could partially compensate for the reduced aid flows by providing some additional trade preferences and encouraging increased lending by the World Bank and Inter-American Development Bank. But the fact is that, to play a constructive role in Central America today, the United States will have to come up with more hard cash.

Like his eight predecessors, President Clinton will not be able to avoid dealing with Fidel Castro's Cuba. Nothing that Clinton has said so far suggests that his administration would be disposed to change current US policy, directed at squeezing Cuba economically and isolating it diplomatically. Yet, that approach--which has been pursued for more than thirty years--is stale, unimaginative, and unproductive. It is time for Washington to set a new course rather than be guided by inertia.

This past September, a task force of the Inter-American Dialogue put forth a sensible alternative that should be considered. It proposes combining continued economic pressure with new incentives for political opening, seeks a marked expansion of the flow of information and ideas to the island, and--most importantly--urges greater cooperation between the United States and Latin America in trying to encourage peaceful change in Cuba.

The choice for President Clinton is whether to pursue a fresh and more activist approach, involving an effort to mobilize an international coalition and to begin bargaining with Cuba--or whether to continue a policy of passively waiting for the Cuban authorities to take the first steps or for Fidel Castro to pass from the scene.

Decisions also have to be made about international drug policy. Now that the war against drugs has receded as an issue in US politics, there may now be room for some significant policy changes--and these are justified on both substantive and financial grounds.

As conveyed in a series of private studies and government reports, the evidence is overwhelming that US anti-drug efforts overseas have had no impact on US drug problems at home and probably never will. Given the scarcity of foreign aid resources, funding for drug initiatives in Latin America should either be sharply curtailed or more effectively directed to helping Latin American governments to deal with their drug problems--not ours.

President Clinton has inherited a well-defined policy agenda for Latin America. With the end of the Cold War, a significant bipartisan consensus has emerged in Washington on what issues should be given priority attention in US-Latin American relations, and that consensus is, by and large, shared by most governments in Latin America.

But the fact that the agenda is set and the issues are familiar does not make the challenges confronting the new administration in Latin America any less difficult or important. The battle for democracy could still be lost; economic progress in the region is by no means assured; cooperation between Latin America and the United States, whether on economic matters or on other issues, remains incipient.

The task of the Clinton Administration is not to break new ground, but to consolidate and build on what has been accomplished, and seek to structure an enduring relationship that serves the best interests and values of both the United States and Latin America. By grasping the historic moment, the Clinton Administration would benefit all Americans, North and South. It would also establish a new standard for US leadership worldwide.

The Western Hemisphere in
a New Era of United States Foreign Policy

Testimony Prepared for the
Foreign Affairs Committee of the
U.S. House of Representatives

February 3, 1993

by William Perry

The Foreign Affairs Committee of the U.S. House of Representatives is to be commended for allocating its scarce time, at this crucial juncture, to a general review of U.S. foreign policy -- and for devoting this particular session to the Western Hemisphere. During this hearing its Members should be considering both the on-going course of events within the region and how our approach toward Latin America and the Caribbean should fit into the requirements of the new, post-Cold War foreign policy paradigm that the United States now so urgently requires.

Despite many obvious problems, the situation within the region has been extremely favorable in recent years. The vast majority of Latin American and Caribbean countries have been ruled by more or less democratic governments. A truly amazing process of market reform has swept over the region, establishing the basis for -- and in many cases the reality of -- economic growth. Formerly contentious politico-security issues among Latin American countries and between them and the United States have seemed in general abeyance. And the taboo which long existed against open cooperation with Washington appears largely to have fallen away.

In response to these positive trends and with an eye toward enhancing U.S. competitiveness on the new global stage, the Bush Administration resolved to enter negotiations aimed at incorporating Mexico within the North American Free Trade Area. And it offered to the other regional nations, through the Enterprise for the Americas Initiative, eventual inclusion (should they desire and if they meet the requirements) in a truly hemispheric commercial zone. The positive response of Latin America to these developments has been phenomenal. Numerous sub-regional free trade arrangements are now in the process of formation and a long line of local countries desirous of entering the hemispheric trading area posited by President Bush has formed up to our south.

But, while generally better, the circumstances of our regional neighbors was never as universally favorable as much of our self-congratulating rhetoric might have seemed to imply. (And Americans have an inveterate tendency to generalize about the extraordinarily diverse countries of the Hemisphere in ways they never would with respect to "Europe" or "Asia.") Many of the democracies of the region remain imperfect and potentially unstable. Violence is an active reality or vivid prospect within a number of societies. Social conditions, aggravated in many cases by the exigencies of necessary, but inevitably wrenching economic reform programs, are extremely difficult and acute. And numerous countries have either been unable to successfully execute economic readjustment measures -- or their populations have yet to feel tangible benefits from the sacrifices made to effect them.

The list of enduring (and emerging) problems is as lengthy as it is well-known: poverty; deficiencies in housing, health and education; lack of legal and social justice; environmental degradation; corruption; massive emigration; drug trafficking and burgeoning common crime; bureaucracy and inefficiency; chronic political contention; insurgencies and terrorism; and still difficult patterns of civil-military relations.

In fact, it was never likely that the positive trends so evident in the late 1980s and early 1990s would endure forever or result in universally favorable and permanent outcomes. And a certain retrocession is already in evidence. The peace accords so laboriously tailored in Central America are in clear danger of unraveling. Leftist guerrillas and narco-criminals continue to wage bloody warfare against civil society in Peru and Colombia. Haiti and Peru have experienced at least temporary reversals of democratic practice. The elected government installed by the United States in Panama is floundering. Coups have been attempted in Argentina and Venezuela, hinting at the emergence of new messianic ultra-nationalist political forces below the nominally democratic surface. And some advocates of ongoing reform are likely to go down to defeat during the upcoming round of regional presidential elections, even in certain countries where democratic structures are able to maintain themselves. This is not to say that all the gains of the past few years will be lost in all, or even most, cases. But it does mean that we can not in the future expect an easy time in Latin America -- particularly if we do not pursue a sufficiently attentive and effective policy toward the region.

It is important to appreciate the enhanced value of the stake, both positive and negative, that the United States possesses in the region during the new domestic and international era that we are now entering. To the extent that we and our Latin American neighbors can consolidate and build upon the gains of recent years, significant regional and global objectives of the United States will be advanced. Local democracy will be strengthened and social conditions improved. The prosperity and competitiveness of our country will be enhanced. Our negotiating position with significant extra-hemispheric actors will be strengthened. And we will secure greater cooperation from our hemispheric neighbors in addressing the urgent economic, social, security and foreign policy problems that confront us all.

On the other hand, we can not escape from closer association with the societies of the region even if we desired to do so. The United States is already the fifth largest "Latin American" country in terms of population and the political, economic and social inter-relationships that bind us to the Hemisphere will continue to expand at a rapid rate. The future course of events there will probably affect the day-to-day life of the average American more directly than developments in any other part of the world. And adversities suffered by regional countries will

have increasingly immediate negative consequences within the bosom of our own society.

The imperative for the United States, in terms of forging the new approach to international affairs that we now need, is to see that Latin America becomes a decided asset -- and certainly not a debilitating liability -- as we confront a hopeful, but increasingly competitive, new global environment. This will require that the region be accorded a decidedly higher priority than it has been accorded since the Second World War. The effort to include Mexico in a North American Free Trade Area and extend this arrangement to a hemispheric basis, as envisaged in the Enterprise for the Americas Initiative were inspired strokes. But these endeavors have not been followed up with sufficient vigor and now face considerable domestic opposition. They simply must be accelerated to the most prompt and practicable degree of completion as economic issues take center stage internationally -- and because they provide the indispensable foundation to consolidation of political and social advance and the treatment of new-age security issues.

In this latter regard, we will also have to turn more concerted attention to improvement of the mechanisms of inter-American politico-security cooperation. The old machinery of the Organization of American States has lagged badly behind the pace of change in the economic realm. And a closer economic and social relationship with the countries of the region creates the need for common and effective action on new age problems like the defense of democracy, control of drug-trafficking and illegal immigration, and protection of the environment. In addition, we should progressively enable ourselves to address positive possibilities -- such as cooperation in global fora in peace keeping and global trade liberalization -- and adding an energy dimension to the EAI aimed at preserving present hemispheric self-sufficiency against untoward developments in other parts of the globe.

In sum, we stand at a crucial juncture with respect to the Western Hemisphere, as we simultaneously seek to forge a fresh overall strategy more appropriate to our domestic needs in a new international era. Old priorities must change and we must undertake energetic, foresightful new courses of action. The clear imperatives provided by the Axis and then the Soviet Bloc has passed away. And we must now act on the basis of our intelligent self-interest to take advantage of the opportunities and avoid the dangers that now present themselves. This means a concerted effort to renew the vitality, prosperity and competitiveness of U.S. society vis-a-vis all comers and contingencies as we approach the 21st Century.

Our relationship with the Western Hemisphere will be critical in this regard and stands at a crucial historical juncture. If we can overcome myopic tendencies now and move forward with vision and energy, the prospects are quite bright.

And a failure to do so will represent the squandering of an unprecedented opportunity that we will very soon live to regret.

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**The United States and Latin America:
Setting the Agenda for Cooperation and Progress**

Prepared Statement of Joseph S. Tulchin
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before the

Committee on Foreign Affairs
U.S. House of Representatives
Washington, D. C.

February 3, 1993

Mr. Chairman, I want to begin by thanking you for the opportunity to come before the committee and offer my views as to the major issues the new Administration and new Congress should address in United States relations with Latin America. In addition, I want to state that the views I offer today are my own and do not necessarily reflect those of the Woodrow Wilson International Center.

The Clinton administration already has had to deal with one of the major issues in hemispheric affairs, restoring democratic government in Haiti. But, as I shall explain in a minute, in paying attention to Haiti, the U.S. government has focused on what I consider some of the "wrong reasons." The new administration has become involved because of domestic political pressures - concern for the human and constitutional rights of the Haitian refugees and concern for the painful and costly burden a massive immigration into southern Florida would impose on the people of that state and of our nation - rather than focussing on what I would call the "right reasons" which would be a concern for how to restore a democratic government in Haiti or how to improve the quality of life for the people in Haiti. If the Clinton administration deals with Haiti only or mainly as an issue in U.S. domestic politics, it will lose a major opportunity to lead the hemispheric community toward collective solution of the central issue on our agenda, the preservation and consolidation of democracy throughout the region, and, not incidentally, it will fail to staunch the flow of people attempting to leave Haiti for a haven in the United States.

The major issues in hemispheric affairs confronting this Congress and this administration are not hard to list. The hard part is knowing how to deal with

these issues in a constructive manner, a manner that protects our national interests while at the same time enhancing the well being of the varied, complex community of nations that comprise this hemisphere, and fortifying our position as the leader of the hemispheric community.

Let me begin with the easy part, listing the issues for the U.S. agenda. In the time remaining, I shall attempt to explain my perspective on how best to deal with the issues on our hemispheric agenda.

I already mentioned the issue at the very top of the agenda, the consolidation of democracy throughout the hemisphere. Let me list a few more:

- the consolidation of the economic reform programs launched in virtually every country in the region in order to resume economic growth as quickly as possible
 - continuing and accelerating the expansion of trade with Latin America.
- (Unless the nations of Latin America can trade with the U.S., the largest market in the region, the sacrifices they have made to deal with the debt crisis and to restructure their economies will have been for naught.)
- alleviating poverty and improving the quality of life for the people of the hemisphere
 - reducing illegal migration of people from one nation to another
 - reducing the production of and the trade in arms of mass destruction
 - reincorporating Cuba into the hemispheric community
 - protecting our common environment
 - eliminating drug traffic
 - establishing a common juridical framework for the respect of human rights

This is long list and a list full of difficult problems. They have in common one characteristic, the understanding of which is essential in formulating effective foreign policy. The characteristic all of these issues share is that none of them can be solved or even deal with in an effective manner by the United States acting alone. These issues are all "global issues" in the sense that they affect all of us while not being subject to the control of any single state, no matter how powerful or rich. Therefore, Mr. Chairman, if there is one single idea that I would leave with you today it is that an effective foreign policy designed to deal with Latin America in general or with any of the issues I have listed must take into account the interests, the perspective, and the concerns of other nations in the hemisphere. The best mechanism or instrument for dealing with these issues in the next four years will necessarily be multilateral instruments or mechanisms. Collaboration and cooperation will be the modus operandi of any U.S. policy in the hemisphere, if it is to be effective.

Let me refer briefly to two examples, to illustrate my argument. How are we to deal with Haiti? First, we must understand that we cannot coerce people into democracy. We tried to force the Haitians to be democratic. Nearly eighty years ago, we invaded Haiti for humanitarian purposes and stayed for twenty years to teach the Haitians how to be democratic. When the Haitians want democracy, we can, in league with other nations in the hemisphere, help them in their efforts. Not long ago, I wrote a brief history of our efforts to export democracy to Nicaragua. My conclusion at the end of that study was that democracy must grow from within, it cannot be forced on anyone from outside. With the chairman's permission, I would like to introduce that study into the record, as part of my written statement.

Once we understand that we cannot force a people to be democratic, we must decide to act in concert with others. The spread of democracy in the hemisphere has reached unprecedented levels. We should take advantage of that historically unique development to bring other nations in the hemisphere into our counsel and encourage other nations to join us in assuming responsibility for the good behavior of all members of the community. We cannot be the world's policeman; we should not want to be the hemisphere's policeman. The responsibility for good government is the responsibility of all. We must show our leadership in getting other nations in the hemisphere to share the responsibility with us.

My last example is dealing with drug traffic. I hope we have learned our lesson that unilateral interdiction does not work. More important, we should have learned that we cannot ignore the legitimate concerns of other sovereign states in attempting to stem the flow of drugs into our nation. We must begin by establishing a community of shared responsibility among the nations in the region. In the last analysis all of us are diminished by the culture of drugs and all of us would benefit from its eradication.

Mr. Chairman, let me close by reminding the committee that just a few years ago, President George Bush announced the beginning of a New World Order in the aftermath of the Cold War. That phrase may have been too optimistic, certainly for the world as a whole. If we turn our attention to the Western Hemisphere, we have an historic opportunity to create a community of nations bound by an allegiance to democratic government, by respect for human rights, and by a shared responsibility for the wellbeing of all members of the community. By sharing responsibility with our neighbors, we can accomplish our common goals.

9 | Nicaragua: The Limits of Intervention

Joseph S. Tulchin and Knut Walter

THE ELECTION of Señora Violeta Chamorro in February 1990 as the president of Nicaragua has been understood as part of the alluvial tide running in favor of democracy throughout the world. In Washington, the administration of George Bush, as surprised by the results as most observers, welcomed the outcome as the final vindication of the policy of Ronald Reagan in Central America. To many observers in the United States and in Latin America, that posture appeared disingenuous because for the better part of a decade, the U.S. government had appeared much more concerned with the presence of Cuban and Soviet influence in Nicaragua than with the possibilities for democracy there. Certainly, the manner in which democracy as a policy goal was subordinated to other goals in El Salvador, Guatemala, and Honduras, and the manner in which an armed insurgency against the government of Nicaragua was provided overt and covert support under the justification of anti-Communism, suggested that "democracy" was nothing more than a club or weapon that the United States would use whenever convenient against regimes it considered hostile, in its ongoing struggle with the Soviet Union. In Central America, it was a device to counter what the United States decried as the threat of external intervention in the region.

Given the experience of the past ten years, it is hard to imagine that the U.S. government on several occasions in the twentieth century fervently supported the cause of democracy in Nicaragua and, by explicitly supporting the government there, played a constructive though paternalistic role in the effort to extend the reach and deepen the substance of democracy. That was the case during the first administration of Woodrow Wilson (1913-17) and the administration of Warren G. Harding (1921-23). Indeed, it is harder, still, to imagine the time when the U.S. government did not play any significant role in the internal affairs of Nicaragua. And, yet, such was the

Historical Background

Those in the United States given to silver rattling south of the border and those in Latin America given to U.S. hushing tend to forget or deny that the United States was not always paramount in Nicaraguan affairs. The United States had attempted to project its power in the region in the nineteenth century, but to little effect. The filibustering of William Walker in the 1850s was the only exception and the U.S. government played little or no role in the episode. Great Britain had been the dominant power in the region throughout the nineteenth century, and by the end of the century, the United States had succeeded barely in neutralizing British power, not in eliminating it. Nicaragua had figured in U.S. policy as the site of a potential isthmian canal. As early as the 1880s, Capt. Alfred Thayer Mahan had referred to the isthmus as critical to United States national security. In the early years of the 1890s, the best route for the canal and the rule of the U.S. government in its construction were subjects of political debate in the Congress; and among those concerned with U.S. foreign policy. For several years, the route through Nicaragua was preferred by a majority in Congress and it was only through concerted effort by the lobby favoring a route through the Colombian province of Panama and by the separatist movement there that attention turned in the United States away from Nicaragua.¹

The United States achieved its hegemonic dominance in the Caribbean basin in the years between the war with Spain and World War I. The key to understanding U.S. policy in the area during this period is the nature of its policy objectives—eliminating the conditions that prompted external intervention by European powers, such as fiscal irresponsibility and political instability—and the evolving debate within the government over the appropriate means by which it would accomplish its goals in each intervention in Mexico, Central America, and the Caribbean.

In this early period, the United States shifted from a reactive policy toward European intervention in the Caribbean Basin to a proactive or preventive interventionist policy. The first step in this process came during the so-called Venezuelan debt crisis of 1902, in which the government of Theodore Roosevelt explicitly gave permission to the other "civilized" nations, as they were called in those days, and the governments representing the holders of the bonds on which the Venezuelan government had defaulted, to "police" the area by using force to extract payment from the Venezuelan government. Public opinion and Congress reacted immediately with a passion that surprised Roosevelt, forcing him to ask the Germans, who had dispatched a naval force to the coast of Venezuela, to speed up their civilizing mission and get out of the Caribbean. Worse, an international tribunal in The Hague, seized with a dispute among Venezuela's creditors regarding how the debts should be repaid, found in favor of the creditors who had taken the trouble to send ships to the region to force resumption of payments.

case during most of the nineteenth century. Perhaps it is hardest to realize that the policy of the United States toward Nicaragua has gone through a number of important changes and that the government in Washington, when it first turned its attention to events in Nicaragua during the administration of William Howard Taft (1909-13), was uncertain how to act and uncertain how to achieve its goals. A review of the history of U.S. relations with Nicaragua in the twentieth century prior to the Sandinista accession to power in 1979 is extremely useful in understanding the evolution of the concept of democracy in U.S. foreign policy thinking and how changes in that concept affected relations between the two countries. It is useful also in enabling us to see more clearly how U.S. policy makers have viewed democracy as an export commodity and how the defense of democracy may be used to this day as the rationalization for armed intervention in the affairs of another state, as in the invasion of Panama in December 1989.

Recounting the history of U.S. intervention becomes a morality play that suggests compellingly that democracy as an export commodity tends to be long on form and short on substance; that in attempting to impose the trappings of democratic government on Nicaragua over the years, the U.S. government has made little attempt to consider the needs, concerns, or interests of the Nicaraguan people; and that efforts to impose democracy, even when limited to constitutional form and elections, never succeeded in establishing stable democratic conditions in the country. The history of U.S. efforts to impose democratic government on Nicaragua suggests also that there has operated an iron law of intervention under which a little intervention in the domestic affairs of another nation, for the purpose of imposing a certain kind of government or a certain pattern of political behavior, leads inexorably to more intervention. The iron law operates until and unless the U.S. government explicitly decides to limit its intervention and to give up the policy objective of forcing democracy on the intervened people. At that moment, the political forces in Nicaragua return to their traditional patterns of behavior in which governance is organized by personalistic dealings rather than by free expression of the popular will and in which power is considered a zero-sum game, not to be shared or given up except under force. Nicaragua is a penetrated political system in which the U.S. government is a vital actor, passive or active, to be appealed to by Nicaraguan actors for the purpose of achieving or maintaining control over the government. In the current cycle, the Nicaraguan actors appear to know their roles very well. At this writing, it remains to be seen how the United States will respond and whether the Nicaraguans will be capable of sustaining a pluralistic democratic polity that is responsive to the needs of the Nicaraguan people without the suffocating tutelage of the United States.

In truth, the central government had very little authority over a national territory that was defined only in the most imprecise manner. National boundaries had not been fixed at the time of independence and their location was a question of elite politics, something for the regional bosses to fight over but with little or no symbolic meaning for the nation. To make matters worse, the east coast was virtually cut off from the central plateau and the west coast. There, the British were all but sovereign, English was the dominant language, and the population was Afro-Caribbean and Indian, not mestizo or Indian of the highland tribes. As a consequence of this legacy, there was a marked lack of national cohesion throughout the century characterized by remarkably primitive communications. There was very little state formation and no attempt to make of the central government anything more than the symbolic prize of warfare among the regional caudillos. At the same time, the lack of state formation and lack of definition of the national territory led to a pattern of meddling across international boundaries throughout the region. It was common for caudillos to meddle in the affairs of their allies or enemies even though they might be in a land called Guatemala, or Costa Rica, or Honduras.

So weak was the national state, that a filibuster from the United States, William Walker, invaded Nicaragua in 1855 with an army of mercenaries, under contract with the Liberals, to help them oust the Conservatives. First, he was military chief under a puppet regime and then, in 1856, he declared himself president of the republic. The British provided financial support for a coalition of Conservative forces in the region who managed to oust Walker in 1857. The Liberals were so discredited by their alliance with Walker that the Conservatives held power until 1893, when the Liberals managed to install their leader, José Santos Zelaya, as head of the national government.

Zelaya's subsequent anticlerical policies and persecution of the Conservative faction subjected his government to constant insurrections by his opponents. The Conservative revolt against Zelaya in 1909 was the fourteenth during his rule. In this case, however, it upset the U.S. Department of State because it threatened the property and lives of foreigners and contained the potential to provoke foreign intervention, which the United States was determined to forestall. To alleviate his financial difficulties, Zelaya previously had tried to sell the rights to a canal route across Nicaraguan territory to interests in Europe and Japan. This did not sit well in Washington either, and the agents of the U.S. government in Nicaragua exerted their best efforts to eliminate Zelaya and install in his place General Juan Estrada, a dissident Liberal leader who had thrown his lot in with the Conservatives.

In intervening to tip the scales in favor of the Conservatives, the Department of State expected to repeat what they considered to be their success in preventing European intervention in the Dominican Republic by restoring

When a similar episode occurred in 1904, in the Dominican Republic, President Roosevelt knew he could not allow the European creditors to step in. The United States would have to assume the responsibility of the policeman of civilized nations in order to keep the Europeans out. As he told his son in February 1904, "The United States should assume an attitude of protection and regulation in regard to all those little states in the neighborhood of the Caribbean." Later the same month, he told a friend, "It is our duty, when it be ones absolutely inevitable, to police these countries in the interests of order and civilization."²

The Congress was not certain it wanted to assume an imperial role in the sense that such roles had been assumed by the European nations. When the executive proposed a formal treaty in 1905 to certify the U.S. activity in the Dominican Republic, the Congress balked. Roosevelt was uncertain as to how to proceed. On one thing, however, he was clear. At the end of the year, as the government discussed its options in the Dominican Republic, he told Secretary of State Elihu Root, "I have about as much desire to take over more territory as does a gorged boa constrictor to swallow a porcupine hind end to."³

Thus, the United States approached its first military intervention in Nicaragua in the context of defining its role as a great power. The nation's leaders were confident that they could and should assume such a role but, aside from rejecting the territorial implications of empire, they had not defined carefully what their responsibilities as a hegemonic power might entail. They knew that their basic objective had to be to prevent European intervention in the Caribbean. There was a sense that lapses in international behavior by nations in the region, especially those involving international debts, created the conditions for intervention and that such intervention was justified under international law. In order to prevent intervention by the European powers, the United States would have to act to teach the lessons of civilized international behavior to their client states. What this might mean was anything but clear in the thinking of U.S. policy makers.⁴

Enter Nicaragua

Nicaragua had made little progress in nation building in the seventy-five years since Spanish authority had been overthrown. During most of the nineteenth century, the central government was in the hands of one or another of the regional barons who, calling themselves Liberals or Conservatives, dominated society and economics around León, in the north, or Granada, in the central south. These bosses, cattle barons and merchants, were caudillos in the classical mold of nineteenth-century Latin America. Their power was regional but within their region, it was virtually without significant limitations. No formal institutions, local or national, curbed the power of these caudillos.⁵

the consolidated loan held in New York. In 1913, the same law held the National Bank. Both became U.S. corporations, administered by boards in New York City.

In many ways, some of them totally unanticipated by Washington when it first posed the option of intervention in Nicaraguan affairs, the U.S. government had become an actor in Nicaraguan politics in a manner that would make it difficult to distinguish between internal and external influences. Factionism in Nicaragua and the Nicaraguan government itself began to play to the U.S. government in an effort to increase their leverage within the Nicaraguan political system. Still, in 1909, the nature of the government in Nicaragua had not become an issue of U.S. policy; stability, not democracy, was the issue.

When Wilson became president in March 1913, he began immediately to fulfill one of his campaign promises to end dollar diplomacy. His first target was the consortium of bankers intent on using U.S. government influence to make major loans to China. His secretary of state, William Jennings Bryan, was a long-standing critic of Wall Street and greedy capitalism. Yet neither man for a moment questioned the basic goal of avoiding European intervention in the Caribbean, or the assumptions underlying the need to protect U.S. strategic interests in the Caribbean by avoiding the conditions that might precipitate foreign intervention.

Confronted with the critical Nicaraguan situation of 1913, Bryan first tried to get the Senate to ratify the Knox-Carrillo Convention, which contained an option for the United States to build a canal across Nicaraguan territory and a clause similar to the Platt amendment giving the U.S. government authority to maintain order and fiscal equilibrium in Nicaragua. To his dismay, the Senate rejected the convention because it was unwilling to assume the imperial responsibilities it implied.

Bryan then renegotiated the agreement, now called the Bryan-Chamorro Treaty. In place of the explicit assumption of imperial responsibility, Bryan proposed a scheme that anticipated the multilateral lending agencies after World War II. He suggested that the U.S. Treasury float loans on the domestic market at 3 to 4 percent and then lend Nicaragua the money it needed at 5 to 6 percent, significantly under the market rate of 9 to 10 percent for such poor risks as the Nicaraguan government. The U.S. government would use the difference to amortize the loan. Agents appointed by the U.S. government would advise the Nicaraguan government on the disposition of the loan funds and help in the collection of revenues in Nicaragua.

Now, it was Wilson who rejected the scheme, on the grounds that it would commit the United States to unnecessary involvement in Nicaraguan domestic affairs. Yet, just one month later, to keep Nicaragua solvent, Bryan was forced to approve the loan contract negotiated by Brown Brothers in October 1913 under which the U.S. government appointed two members of the board of the National Bank. As a result, all disputes with the Nic-

conditions of fiscal responsibility. At this point, little mention of politics was made in setting the terms of U.S. intervention in Nicaragua. After the fall of the Zelaya faction in 1910, the U.S. government sent financial advisers to Managua to help President Estrada straighten out his government's budget. This action was consistent with the U.S. policy of dollar diplomacy elsewhere in the world, under which U.S. capital was expected to become "the instrumentality to secure financial stability and hence prosperity and peace in the region."⁶

To accomplish its limited objectives, the State Department solicited support from investment banking houses in New York to consolidate Nicaraguan bonds and pay off the European bondholders, thereby eliminating the need for European intervention. At the same time, the department presented a treaty to Congress under which the United States would guarantee loans to Nicaragua and help end the fiscal irresponsibility that had become an international embarrassment. Much to the consternation of the half administration, Congress rejected the treaty in 1910.

At this point, the bankers already were committed to proceed with the consolidation loan and the State Department gave them informal assurances that they could expect government support for their activities. But in 1911, Estrada was replaced in a bloodless coup by Adolfo Diaz, a Conservative. Tension increased until the political situation collapsed completely the following year. Fearing that they could not get a fair deal in the upcoming congressional elections, both Liberals and Conservatives prepared for an armed conflict, as they had so many times in the past. This time it would be different because the U.S. government was committed to maintaining stability in the region and was unwilling to accept the traditional pattern of intractable conflict in Nicaragua.

At Diaz's request, marines landed in August 1912 to protect U.S. lives and property and restore order. When they departed in November, they left behind a legion guard of one hundred soldiers. This was the first time the U.S. government had used troops to restore order and bolster the established government of a Latin American nation. It would not be the last.

The nature of U.S. imperial responsibilities in the Western Hemisphere changed as a result of this episode. Now, there was a presence of U.S. marines to support the constituted government and prevent the usual play of violence in the change of national authorities. The man who directed the legion guard, the U.S. minister, became the arbiter and mediator of Nicaraguan politics, consulted by leaders of both major factions, by ministers of the national government, and by leaders of the national congress concerned about new legislation. The role of this proconsul was expanded as a consequence of the world economic downturn that cut back on revenues earned by the Nicaraguan government through customs receipts, now collected by an agent of the U.S. government. At the end of 1912, the Ferrocarril del Pacifico de Nicaragua, the national railway, became collateral for

their regional balliwicks violated the letter and the spirit of the constitution. Emiliano Chamorro, the Conservative caudillo and presidential candidate, proved more adept than his opponent in manipulating the new instruments of democracy in building a coalition that looked remarkably like the old-fashioned alliances based on regional loyalties. Chamorro mastered the new procedures by adapting them to traditional Nicaraguan political culture. He manipulated the situation with such skill that the electoral agents sent to Nicaragua by the State Department virtually guaranteed his election. As further demonstration that he understood U.S. political culture much better than any North American understood Nicaragua's, he created the first institutional, legally recognized lobby of a Latin American nation in Washington, hiring Chandler P. Anderson to represent the interests of the Nicaraguan government. Time would prove Anderson a very effective lobbyist.⁹

After the war, Wilson was convinced that the threat of European intervention in the hemisphere had all but disappeared. He also was disillusioned with his efforts to implant democracy in Mexico, Haiti, the Dominican Republic, and Nicaragua. As a consequence, he was determined to reduce the intervention by the United States in the domestic affairs of nations in the Western Hemisphere. In Nicaragua, that meant accepting the form of democracy while conscious that its substance was being violated. In the elections of 1920, Chamorro manipulated the rules to insure the election of his uncle, Diego Chamorro, while he remained the power behind the president. The State Department held its collective nose and publicly accepted the hollow shell of electoralism in order to avoid deeper intervention in Nicaraguan affairs.

The succeeding Republican administration adopted and extended Wilson's postwar reluctance to intervene in the domestic affairs of the Latin American nations. So long as the form of democracy was maintained, the State Department sought to remain above the local fray, no matter how dirty it might become.¹⁰ As Paul Drake explains clearly in another chapter in this volume, the political factions in Nicaragua continued to use the U.S. government as a player in domestic politics as they had for years.¹¹ Each was prepared to do whatever was necessary to precipitate U.S. intervention on their behalf because that was the only way they could have access to power. Without such intervention, either in the form of suasion and pressure by the local representative of the U.S. government or by the threat of force from officials in Washington, it was impossible to effect a peaceful change in control of the central government. Even Augusto C. Sandino, a liberal who opposed Chamorro and would become the father of Nicaraguan anti-American nationalism, started out wanting elections, supervised elections. His innovation was to request supervision by Latin America observers, not by gringos.

The State Department tried to counter the idiosyncracies of Nicaraguan political culture by imposing additional reforms, correcting the abuses of

nicaraguan government automatically became diplomatic disputes involving the government of the United States. The involvement of the U.S. government in Nicaraguan domestic affairs had become complete. This financially induced involvement was broken only by the export boom after World War I, which enabled Nicaragua to pay off its long-standing loans and get rid of the offensive U.S. agents. In the period from 1917 to 1929, 43 percent of total government outlays went to cover public debt commitments. The debt crisis of the 1980s was trifling by comparison.

Wilson was not content to be drawn into the domestic affairs of Nicaragua as the sardary of New York bankers. At the time he was discussing events in Managua with Bryan, the two men were deeply involved in the unfolding drama of the Mexican Revolution. There, as well as in the Dominican Republic, Wilson was convinced that the U.S. government had a constructive role to play in exporting democracy to countries that wanted it but were somehow unable to establish democratic governments without the assistance of the U.S. government. In the case of Nicaragua, Wilson undertook to revise the constitution and take steps to insure the fairness of the coming elections in 1916. For the first time, the achievement of democratic government and the projection of democratic process became an explicit feature of U.S. policy toward Nicaragua, always as a means to secure the basic policy goal: to prevent European intervention by eliminating the conditions that made it possible.

Although it is fruitless to debate Wilson's motives in attempting to export democracy to Nicaragua—it seems clear, as Arthur Link has argued, that Wilson believed a democratic form of government would enhance the quality of life for all Nicaraguans, and it is just as clear that Wilson understood that the imposition of democracy on Nicaragua would enhance U.S. security and expand its influence in the region—it is remarkable that he adopted so limited a conception of democracy in its export version and that he never for a moment questioned whether the governmental institutions and procedures he was prepared to export would have to be adapted in any way, shape, or form to fit the local milieu.⁷ It was as if he believed that democracy was *der roccacy*, and that it could be exported to another country without any alteration whatsoever, without reference to the historical or cultural context in which it had evolved, and that honest local politicians would behave in a fully democratic manner if only they could be taught what it was. This cultural ethnocentrism and the certitude that accompanied it are the very essence of what we mean today by a "Wilsonian attitude."⁸

As it turned out, the Nicaraguans adapted the mechanisms of democracy to their own political culture with amazing virtuosity. In the run-up to the election of 1916, both factions, the Liberals and the Conservatives, complained to the U.S. minister that their opponents were violating certain laws and using illegal campaign methods and that their control of the press in

democracy's substance or spirit with more procedures. The Nicaraguans adapted to them. In 1923, the so-called Dodds Law was imposed on the Nicaraguan government, creating for the first time an explicit requirement for bipartisan politics. This law was drawn up initially by a U.S. professor of political science, Harold Dodds, under contract by the State Department. After some discreet pressure on the Nicaraguan government by the U.S. ambassador and some minor changes in the draft version, the electoral law went into effect in 1923 and remained on the books with some amendments until the 1960s. While the law allowed any political grouping to become a party by submitting a petition signed by a number of citizens equivalent to 5 percent of the total number of votes cast in the previous election, in fact the law institutionalized the two-party system by reserving all appointments to electoral posts to members of the majority parties (the Liberals and the Conservatives). Not only that, but the majority of officials at the various levels of the electoral machinery would be chosen from the ranks of the party in power at the time. With this control of the electoral process, the party in power could proceed easily to disqualify voters from the other parties, count the ballots to its advantage, and in general make it impossible for a contender to mount a successful electoral challenge.¹²

It should come as no surprise that after 1923, with but two exceptions, no opposition party ever came to occupy the executive office of government by means of an electoral process. The first exception took place in 1928 when the U.S. Marines supervised the registration and voting procedures that established José María Moncada, the Liberal presidential candidate, to defeat Adolfo Díaz, the Conservative politician who owed the United States his entire political career. The second was in 1990, when an army of civilian observers patrolled the polling places and an opposition force, armed by the United States, camped in the countryside and across the border in Honduras. Moncada's victory was assured by the settlement imposed by President Coolidge's special emissary Henry Stimson to end the brief civil war between Conservatives and Liberals in 1927. Frustrated by their inability to win power through elections, the Liberals had resorted to the traditional device of an armed rebellion, hoping to drag the United States into the fray. Reluctantly, Coolidge intervened, but he ordered Stimson to do the job as quickly as possible and get out. Only Sandino objected to the terms of the arrangement; Stimson negotiated and proceeded to fight the Marines from his strongholds in the north of the country. The U.S. government would not withdraw the Marines until the country was pacified. To accomplish its purpose, it adapted the advice of the Marine commander and created a local "professional police force" to keep order. This was born the Guardia Nacional.

The international environment in which the United States dispatched the Marines to Nicaragua in 1927 had changed in several important ways after World War I, reflecting the manner in which democracy was used as an

instrument of policy. While the decline in European imperial influence in the Caribbean as a result of the war certainly enhanced United States power and security, thereby diminishing the need for interventions, the nationalistic and security characteristic of European politics of the era began to permeate Latin America as well. U.S. meddling in Nicaragua exacerbated the ongoing crisis in U.S. relations with Mexico.¹³ The new revolutionary government in Mexico was determined to counter U.S. influence in the region and made its voice heard with increasing effect during the decade. The U.S. intervention in Nicaragua and the subsequent war between the Sandinistas and the Marines prompted the first concerted effort by Latin American nations to denounce and curtail U.S. hegemony when they met at the 1928 Pan American Conference in Havana. The fact that the intervention was justified by Washington in terms of protecting democracy did not move the critics at Havana. Nevertheless, the need to appear as the defender of democracy became even more useful to U.S. policy makers at the end of the decade, when then Secretary of State Stimson tried to emphasize the distinction between Japanese actions in Manchuria and the way in which the United States operated in Latin America. Democracy was an instrument of foreign policy, to be used against rival powers outside the hemisphere. It was no longer an objective in its own right, as it had been for Woodrow Wilson.¹⁴

The Somoza Years

When Franklin D. Roosevelt became president of the United States in March 1933, there were indications that his administration would return to the interventionism in Latin American affairs that had characterized the first administration of Woodrow Wilson. Roosevelt himself, as assistant secretary of the navy had been involved in the occupation of Haiti. The secretary of state, Cordell Hull, was an avowed Wilsonian in his belief in the universal applicability of democratic norms, and the administration's chief Latin American expert and under secretary of state, Sumner Welles, had been deeply involved in the efforts during the Harding and Coolidge administrations to implant democracy in the Dominican Republic.

Soon after Roosevelt's inauguration, in which the president had declared his special interest in Latin America by promising a policy of the Good Neighbor, Welles went to Cuba to insure a smooth transition to democracy following the overthrow of the cruel dictator Gerardo Machado. Caught up in the factional infighting, Welles soon found himself forced to escalate his threats of intervention in order to encourage the various players to follow the straight and narrow path to democracy. Increasingly frustrated, Welles finally called for military intervention to bring order to Havana. Roosevelt and Hull refused and Welles was forced to retract his threats and swallow Batista as the strongman who would impose order. The U.S.

would have had the desired result. Welles, who had carried Roosevelt to Havana, was convinced that getting Somoza to behave in a primarily Atlantic fashion would have required more than idle threats. It would have sucked the United States deep into the vortex of Nicaraguan politics. U.S. public opinion would not stand for military adventures in the Caribbean basin. Besides, few policy makers in Washington were persuaded that even massive, prolonged intervention would have the desired democratic effect. Not even Secretary Hull, the most Wilsonian of the senior State Department officials, thought imposing democracy on Nicaragua was feasible or that it was worth the political risks to other New Deal programs in Congress. Hull, too, had learned his lesson from the experience in Cuba. He was more interested in what was happening in Europe and in getting the Congress to cooperate with his broad policy goals such as freer trade and cooperation with Great Britain in an effort to preserve peace in Europe, than he was in getting bogged down in the difficult task of exporting democracy to a nation whose leaders seemed uninterested in living by its rules and immune to its spirit.

There were external forces working against a policy of intervention to impose democracy on Nicaragua, or on any nation in Latin America. Escalating intervention by the United States in Nicaragua, even in the name of democracy, would alienate governments from Mexico to Argentina. The gathering storm clouds in Europe made running the risk of alienating potential allies in Latin America much too costly. Consolidating those ties became the top policy priority by the end of the decade. The U.S. government even had adhered without reservations to a resolution at the Inter-American Peace Conference held in Buenos Aires in 1936 to the effect that no state had the right to intervene in the domestic affairs of another. As further elaboration of this Good Neighbor Policy, the United States had sought to insure friendly relations with Mexico, imposing a settlement of the oil expropriation negotiations that the oil companies considered grossly unfair.¹⁸ Consistent with the emerging policy, the Roosevelt administration sought to bolster Somoza, not undermine his rule by insisting on closer adherence to democratic norms. It invited President Somoza García to Washington in 1939 as the official guest of President Roosevelt, including a parade down Pennsylvania Avenue and a speech before the Congress. An initial policy of nonintervention combined with official recognition and public apothosis in the U.S. capital provided Somoza García with the key elements to consolidate his government within and without Nicaragua.

The United States would do much the same with other dictators in the region. In the face of a perceived threat from outside the hemisphere, the U.S. government would sacrifice democracy and embrace dictators to insure their support. This same policy would be employed during the cold war, on the grounds that any form of government was acceptable so long as it was supportive of the United States in its struggle against hostile forces outside

government had resisted the temptation to get caught in the quicksand of intervention in the internal affairs of a client state in the Caribbean Basin, although with dubious benefit for the client. A few months later, at the Inter-American Meeting at Montevideo, Hull could accept a motion condemning intervention with only a mild reservation that international law might permit intervention under certain circumstances. Three years later, at the special meeting in Buenos Aires, Hull would accept a similar motion without reservations. The Latin American pressure against intervention of any kind was growing more insistent, to the point that the Roosevelt administration considered it a logical feature of the evolving Good Neighbor Policy.¹⁵

The effects of the Good Neighbor Policy on U.S. relations with Nicaragua are clear in the episode in which Anastasio Somoza García took power in Nicaragua. Somoza García never hid his presidential ambitions from the incumbent commanding U.S. general turned over the control of the Guardia Nacional to him. But he was very careful to respect the democratic and legal guidelines set down in the Dods Law and the Nicaraguan constitution. By gradually winning over the national legislature and putting his own followers into key positions in the Guardia Nacional, he was ready in 1936 to force the resignation of President Juan Bautista Sacasa, his wife's uncle, and capture the leadership of the Liberal party.¹⁶ The entire procedure allowed Somoza to reach his goal at the beginning of 1937 with a minimum of bloodshed and just a little bending of the law. Somoza García emerged, thus, as a president elected with apparent bipartisan support, the first of a series of similar arrangements that the Somozas would organize in the future. Strictly speaking, no law had been broken openly but the pressure and intimidation exercised by Somoza and his Guardia Nacional, together with his control of the state bank and guardia funds, enabled him to persuade and threaten his way into the office of the presidency.

The cables from the U.S. legation in Managua indicate that the State Department was aware of what was going on. Moreover, in tried and true Nicaraguan tradition, the Conservatives who had refused to participate in the election and the Liberals who had been turned out of office after Sacasa's forced resignation organized a delegation that went straight to Washington to complain to the State Department about the disguised coup d'état that had taken place and the phony elections that were coming up. To their surprise and dismay, the State Department officials told the unhappy politicians that the internal affairs of Nicaragua were the responsibility of the Nicaraguans themselves and that the United States would do nothing.¹⁷

In retrospect, it is clear that the United States could have threatened to act under the treaty signed in 1923 that forbade the recognition of governments that came to power by force, or it could have frozen the assets of the National Bank of Nicaragua held in U.S. accounts, or that it even could have invoked the treaty of 1928 that created the Guardia Nacional as an apolitical, nonpartisan body. It is not clear, however, that any of those efforts

emy, and, altogether with the other nations assembled in Bogotá in 1948, declared its unwillingness to recognize the puppet regime in Managua. For a brief while, I considera Trujillo of the Dominican Republic, was the only Latin American head of state to recognize the Nicaraguan government. Through it all, Somoza managed to retain his undisputed control over the Guardia Nacional, the bottom line of his hold on political power in Nicaragua and the one institution that the United States would not risk alienating. By this time, Braden was gone from the government, and the iron zero-sum logic of anti-Communism ruled in the State Department.

Somoza's hold on power was strengthened by a number of social and economic changes that took place in Nicaragua after 1945.²⁰ These changes also contributed to an evolution in the practice of democracy in Nicaragua. Together, these changes, more than the passive acceptance of the U.S. government, help to explain the extraordinary longevity of the Somoza dynasty. First, there were fundamental economic changes that shifted power among elements of the national elite, thereby ending forever the regional factional politics that had characterized Nicaragua for a century. Part and parcel of these changes were a dramatic expansion of the state, traditionally feeble in Nicaragua, and a significant mobilization of popular forces, mainly through corporatist organizations manipulated by the state, but in some measure through unions with class consciousness and through a number of new political groups that began to address specific social questions.

These changes made Nicaragua appear a more open political system compared with the regimes in El Salvador, Honduras, or Guatemala until the fall of the Ubico dictatorship. And, if we keep in mind the Wilsonian concern for elections and constitutional forms and procedures that characterized the democracy-for-export imposed on Nicaragua by the United States in the decades prior to and following World War I, then we can understand the Somoza system as consistent with that model. The infrastructure of democracy was in place, elections were held, constitutional norms were followed. Of course, they were manipulated shamelessly to keep Somoza in power and to allow the opposition approved by the regime some room for maneuver. For example, Somoza's overthrow of Argüello in 1947 was followed by a heavy-handed persecution of Conservatives and dissident Liberals, but in anticipation of the 1950 elections, Somoza made sure to woo the Conservatives and have them participate in the election. The pre-electoral agreements reached were so explicit that the distribution of elected positions was mostly decided even before the polling took place: the Liberals and the Conservatives would be the only parties running, and the Conservatives would get seventeen of the sixty seats in the legislature and representation in all town councils. They also would get a certain number of judgeships, all in exchange for participation and acceptance of the results. General Chamorro, who had been expelled from the country in 1947 for plotting a coup against Somoza, was persuaded to return and sign, with

the hemisphere. But democracy did not disappear as a goal of U.S. policy in Nicaragua, or in other countries of the region for that matter, either in the struggle against the Axis or in the cold war. There were leaders in Washington for whom the content of the concept was as vital as the form of the procedures. The U.S. government continued to be concerned about the nature of democracy during the government of the first Somoza and expressed that concern publicly on some occasions. Even in those moments, however, it is clear that concern for the purity of democracy in Nicaragua was subordinate to other national concerns.

Somoza García understood the priorities of U.S. policy and the dynamics of its domestic politics and manipulated them in a brazen and shrewd manner. During World War II, he was quick to declare his participation in the crusade against the Axis. He declared war on Japan and Germany, confiscated the property of Axis nationals, and moved (with help from the FBI) to stem the activity of German agents in Nicaragua. But even he was caught in the postwar concern for democracy that forced Vargas from power in Brazil and made Perón's life so difficult in Argentina. The wartime crusade against the Axis and the anti-Communist crusade of the cold war reduced foreign policy to a zero-sum game. "You are either with us or against us," as John Foster Dulles put it during the 1950s. Within such a scheme, if the U.S. government feared subversion or intervention by the "enemy," then stability and the ability and disposition to oppose that subversion were more important than the quality or nature of the regime. It was the purpose of Somoza and his allies in Washington to make sure that the State Department understood Somoza's support of U.S. policies within the context of that zero-sum game.

The one time he failed, in the "soft" period after the war, clarifies the nature of this mechanistic calculation of policy priorities within the U.S. government. When Somoza made clear his intentions to remain in office past 1947, his relations with the State Department soured noticeably. Spruille Braden, a fervent Wilsonian known best for his public campaign against Juan Perón in the Argentine presidential elections of 1946, tried while he was assistant secretary of state for Latin America to persuade Somoza to relinquish the presidency once his term expired in 1947.¹⁹ In fact, Somoza dropped his reelection plans and put forth the candidacy of Leonardo Argüello, an old Liberal whom Somoza thought he might control easily. Braden wanted Somoza out of the picture entirely to the point of even relinquishing his post as commander of the Guardia Nacional. When Argüello, already inaugurated as president, demanded Somoza's resignation from the guardia, he had reason to expect the United States would back him up.

Somoza moved fast. He had the Nicaraguan congress declare Argüello unfit to occupy the presidency, appointed a new interim president, and chased Argüello into exile in Mexico. The United States responded with the withdrawal of its ambassador and the commandant of the military acad-

leaders that the best way to end their region's backwardness and poverty was to open their economies to the influx of private entrepreneurship and foreign private investment.²⁷

The conflict with Costa Rica came to a halt temporarily with the assassination of Anastasio Somoza in September 1956. Somoza García was running for reelection when he was shot. There is no doubt that he would have won the 1957 elections given the control his government exercised over the electoral machinery. Thus, when Luis Somoza, the elder son of Somoza García, was chosen by the Nicaraguan congress to fill out the term of his father, and when he ran unopposed as the presidential candidate in the 1957 elections, the U.S. government had nothing to offer but congratulations to the new head of state.

The timing of the transition in Nicaragua shows a bit of Somoza luck. By the end of the Eisenhower administration, democracy regained some of its value as a tool of U.S. policy. For the first time since the administration of Woodrow Wilson, the absence of democracy was considered a destabilizing factor that could lead to subversion and outside influence in the area. It is instructive to compare the very different response of the U.S. government to the ouster of Batista in 1959 or the assassination of Trujillo in 1961.²⁸

When Kennedy was elected in 1960, a true Wilsonian disposition to export democracy and the conviction that democratic government was infinitely exportable and adaptable returned to U.S. policy. Now, however, it was explicitly tempered by a fear of the Communist menace and manipulated to undercut pressure in Latin America for radical change. As it had been for Wilson, democracy was a reasonable political system that would end the appeal of more radical solutions to the region's problems.²⁴ Both the Eisenhower and Kennedy administrations tried to get the nations of Latin America involved in a struggle against Cuba in which the presence or absence of democracy would be a critical feature. In the case of Nicaragua, Kennedy was prepared to sacrifice Somoza, if necessary, but he would not act alone. He was surprised and disappointed when there was so little positive response from Latin American leaders.

Luis Somoza realized that his government's good standing in Washington required a boost. The coffee and cotton boom of the 1930s intensified the growth of the export sectors and widened the gap between the rich and the poor. More serious to liberal critics in the United States, the Somozas had used the growth of the Nicaraguan economy to turn Nicaragua into a family fiefdom. Of greatest concern in Washington was the founding of the Frente Sandinista de Liberación Nacional (FSLN) in Havana in 1961. The FSLN made it clear that it would employ armed struggle to rid Nicaragua of the Somozas and that it perceived the United States as the principal cause for Nicaragua's underdevelopment. Castro was attempting to export Marxist revolution the way the United States exported capitalist democracy. To observers in Havana and Washington, the most corrupt dic-

Somoza, the so-called Pact of the Generals, which set the stage for the electoral charades of the following decades.²¹

Factors outside Nicaragua continued to have a determining impact upon the perception of and concern for democracy in Nicaragua by the U.S. government and upon its policy toward the regime in Managua. First, the establishment of pluralist democracy in Costa Rica after 1948 altered the calculation of priorities within U.S. policy to the detriment of Somoza; and, then, the radicalization of the Castro regime in Cuba after 1959 served to restore the delicate balance of the zero-sum game to forestall any moves in Washington to bring the Somoza dynasty to an end.

Somoza García had been close to the deposed Costa Rican president, Angel Calderón Guardia, and relied on him to provide a measure of international support for his regime. Costa Rica was one of the first to recognize Somoza's puppet president after the overthrow of Argüello in 1947. But as the democratic regime in San José was consolidated, it began to use the machinery of the Organization of American States (OAS) and the rhetoric of the cold war to ostracize Somoza and to try to push him from power. José Figueres made his attacks on Somoza part of a crusade for democracy and freedom. He joined together with other democratic colleagues in the region to form the Caribbean Legion with the avowed purpose of ousting all of the dictators in the Caribbean Basin. The OAS provided the military hardware necessary to defeat the Costa Rican rebels armed by Somoza and coming from Nicaragua.

The U.S. government was happy to have the OAS intervene and apply pressure on Somoza to cease trying to overthrow the Figueres government. It was embarrassed by the conflict and uncomfortable under the pressure from the democratic forces in the area, coming as it did so soon after the military intervention in Guatemala to overthrow a democratic regime whose reformist policies were seen by the U.S. government as discriminating against U.S. capital, dangerously destabilizing, and subject to subversion from outside the hemisphere. The issue was raised whether supporting the Somoza dynasty was more destabilizing than attempting to remove it. It was a delicate balance in which the more conservative posture in Washington was to do nothing unless coerced. Latin American pressure made intervention a popular and necessary alternative. As ever, the global concerns of U.S. policy would determine the relative weight accorded to democracy and stability as policy goals in any given episode.

Aside from the conflict with Costa Rica, Somoza earned high marks in Washington during the first Eisenhower administration. He protested his anti-Communist loudly and often. And, thanks in large measure to the soaring prices for the country's principal export crops, cotton and coffee, the economy enjoyed a prolonged period of expansion so that Somoza never asked for U.S. aid, only trade and private investment—the perfect model for a conservative business-oriented administration that told Latin American

his father's sense of balance and his brother's political skills. These deficiencies together with boundless greed would be his undoing. When Luis Somoza died in 1967, Tachito ran for president in elections held that same year. He won easily despite public expressions of protest, which the Guardia repressed violently, leaving hundreds dead in the streets of Managua in January 1967.

The Johnson administration decided not to protest these activities. It had become so concerned with Vietnam that it did not have the collective energy to engage in a protracted effort to force Somoza to clean up his act. Latin American policy had come under the control of Assistant Secretary of State Thomas Mann, a career official whose decidedly conservative approach led to the rejection of the active thrust of the Alliance for Progress. Members of the Johnson team felt they had been forced to intervene in the Dominican Republic in 1965 to prevent a chaotic situation out of which groups sympathetic to Castro might emerge. In this context, it did not seem to make any sense to Mann and others to destabilize the guardia in Nicaragua.

In the course of the Nixon administration, as the war in Vietnam was brought to an end, opposition in the Congress and in the public to U.S. support for unpopular and corrupt dictators grew in size and vehemence. Nixon and his chief foreign policy adviser, Henry Kissinger, had little interest in Latin America and began to distance themselves from the more reprehensible of the region's rulers. According to Nixon's formula, the dictators would get only a handshake. A warm embrace would be reserved for the region's democrats, the true friends of the United States.

Under increasing internal and external pressure, Somoza decided to repeat a move used successfully by his father in the 1940s. He called on the Conservatives to join his Liberal party in revamping the political system. The Conservatives, under Fernando Aguero, behaved just like they had under Chamorro in 1947 and 1950: they jumped at the opportunity and signed a pact with Somoza's Liberal party in March 1971 that guaranteed them a share of the seats in the legislature, judgeships, and positions on the municipal councils.²⁷ The deal became known as "Kupia Kumi," the Misquito words for "one single heart" with which Pedro Joaquín Chamorro, the young editor of *La Prensa* and son of the earlier Conservative leader, baptized and ridiculed the agreement. Kupia Kumi was followed by a legislative decision to hold elections in February 1972 for a constitutional convention that would, in turn, choose the three-man junta that would run the country until a new president, elected under the new constitution, took office in January 1974. Somoza resigned from the presidency and turned power over to the junta on which Aguero sat.

In December 1972, an earthquake devastated Managua. Anastasio Somoza Debayle, as commander of the Guardia Nacional, declared himself head of the National Emergency Committee (Coordinador de la Junta de Reconstrucción) to handle relief and reconstruction in the Managua area.

lators were the most vulnerable, and the U.S. government's support for these dictators was a potential cause of embarrassment.

This combination of internal and external events and circumstances prompted Luis Somoza to push for reforms along a number of lines. The regime decided to reform the constitution in order to allow for third-party representation in the legislature, while guaranteeing the opposition at least one-third of the seats in the congress regardless of the electoral outcome. Control of the electoral machinery would remain in the hands of the government party so that there was no real danger of an upset. The regime also decided that it was convenient to place a non-Somoza in the presidency. The person chosen was René Schick, a long-time associate of the Somozas who had occupied a variety of posts in government since the 1930s and who would be completely tractable.²⁸ After Schick's election in 1963, Luis Somoza stepped down to head the Liberal party and participate in legislative affairs.

The government proceeded to enact the first land reform law in Central America since Arlenz's ill-fated attempt of the early 1950s in Guatemala. Extremely mild and cautious, the law did speak about "elevating the standard of living of the peasant masses" and of redistributing land, but stopped short of expropriating private property unless it was totally unused and restricted the land reform program to national lands or those purchased by the land reform institute. To no one's surprise, the results of land reform were quite limited. Agrarian policies tended to favor private export producers, especially those engaged in meat and cotton production.²⁶

These political and socioeconomic measures, together with others that sought to moderate the state's role in national development, were more than sufficient to allow the United States to channel large amounts of Alliance for Progress funds to Nicaragua. Within the alliance vision of a democratized and modernized Latin America, Nicaragua appeared to be doing the right things. Of course, Nicaragua was involved in equally important activities for the United States, such as providing unrestricted use of its territory for anti-Castro activities (including training the troops for the Bay of Pigs invasion) and keeping a very close leash on leftist activities within Nicaragua.

Thus, U.S. interest in democracy in Nicaragua during the 1960s was tempered and limited by security concerns that became paramount after the triumph of the Cuban Revolution and the increasing Soviet presence in the Caribbean. The Guardia Nacional, long the heart of the Somocista regime within Nicaragua, became the most cordial ally of the United States within the Central American region. The creation of the Central American Defense Council (CONDECA) in 1963 gave the commander of the Guardia Nacional of Nicaragua an unrivaled position of influence in the entire region, as well as within Nicaragua. The commander of the Guardia after 1956 was Anastasio Somoza Debayle, Somoza Garéñ's younger son. "Tachito" lacked

the economic decline that set in after 1983 made it increasingly difficult to maintain the social services and economic subsidies that constituted the basis of the revolution's redistributive and development policies. Politically, the triumphant revolutionary coalition had begun to break apart by 1982 and those who were never convinced about the Sandinistas' intentions now saw a chance to make common cause with the United States.

The Sandinistas tried to defuse the growing crisis by seeking a political arrangement with the United States through talks with Washington officials held in Manzanillo, Mexico, during 1984. But these conversations led to nothing; on the contrary, the assistant secretary of state for Latin American affairs, Thomas Enders, who thought that a negotiated settlement was possible, was sacked and replaced by Elliott Abrams, a hard-liner who identified totally with President Reagan's beliefs about the inherent evilness of Sandinismo. Within Nicaragua, the Sandinistas attempted a rapprochement with the internal opposition by renewing their promise to hold elections by 1985. Such a promise had been made in 1981 and formed part of the Sandinista pledge to take Nicaragua down the road to pluralist democracy, a mixed economy, and international nonalignment.

Ever since 1981, the Sandinista party had held conversations with the other political parties of Nicaragua in order to reach agreements on the organization of the electoral process. As a result of these contacts, legislation was passed by the Nicaraguan legislature in 1983 and 1984 that set the basis for the holding of elections for president and a constituent assembly in November 1984. The supervision of the electoral process would be in the hands of a five-person Supreme Electoral Council with opposition party representation, remarkably similar to arrangements made between the Liberals and the Conservatives during the Somoza years. The participating political parties were defined as contenders for power and would be allotted material resources by the state in order to carry out their campaigns.¹¹

The response to the electoral initiative was mixed. Within Nicaragua, a number of parties decided not to participate, even though they conducted extensive negotiations with the Sandinista Front until only a few weeks before the election itself. One group of opposition parties and business associations, the Coordinadora Democrática, put forth the candidacy of Arturo Cruz, but he dropped out of the race when conversations in Rio de Janeiro with Sandinista representatives broke down. The presidential candidate of the Independent Liberal Party, Virgilio Godoy, also withdrew although many of his party's candidates continued to campaign.

In the cases of both Arturo Cruz and Virgilio Godoy, the United States exercised strong pressure to achieve their withdrawal. By doing so, Washington sought to undermine the legitimacy of the electoral process and of the entire political system. However, seven parties remained in the running, three of them to the right of the Sandinista Front and three to its left. The results gave the Sandinista Front the presidency of the Republic, and three-

country within a region where U.S. security concerns overwhelmed any policy considerations about development, reform, or democracy.

The U.S. election campaign of 1980 dragged Nicaragua back into its traditional role of a geostrategic issue for U.S. policy makers and politicians. As during the early part of the twentieth century, Nicaragua again was reduced to a place on the map that could not be allowed to "fall" into the hands of an extranational, hostile power and whose "falling" had nothing or very little to do with internal factors or indigenous causes. Under such a scheme, the "loss" of Nicaragua could be prevented by external forces alone. The elimination of both the shah in Iran and Somoza in Nicaragua became an important topic of Ronald Reagan's campaign for the presidency. President Carter stood accused of "losing" those two countries by not doing enough to help their erstwhile leaders and by insisting on a respect for human rights that undermined the old regimes' strength. While Iran probably could not be returned to the fold by the forceful reinstallation of a pro-United States regime, Nicaragua, much closer and much more vulnerable to U.S. pressure, seemed an ideal place for Washington to work its will.

As explained in the Same Fe Memorandum that summarized the Republicans' campaign interest in the hemisphere, Central America was a region under attack.¹² The Soviet Union and its allies had taken advantage of U.S. weakness to penetrate into our very backyard: It was time to strengthen the nation's will. To show the Soviets and the rest of the world that the United States was prepared to reassert its dominance and stop and even reverse the falling dominoes, Central America, because of its proximity, would be the ideal place to begin with a quick victory.

The Reagan administration lost little time in putting together a policy toward Central America that sought the military defeat of the FMLN in El Salvador and the overthrow or replacement of the FSLN government in Nicaragua. The second objective was never spelled out publicly in such terms. After all, Washington maintained diplomatic relations with Managua during all the Reagan years and insisted that it only wanted the development of a full-fledged democracy of a Western type in Nicaragua. Still, the extraordinary efforts made by the Reagan administration before Congress to secure funding for the counterrevolutionary forces operating out of Honduras make it clear that the real objective was to achieve some sort of military victory. On the other side, the Sandinista government perceived U.S. objectives in similar terms and proceeded to gear up its forces for a protracted and costly war.

Within this confrontational environment, the space for political expression and competition within Nicaragua became more restricted. The government of Nicaragua had to face both the military attacks of the contras and the severe consequences of the cutoff of U.S. and multilateral aid. The establishment of the military draft proved particularly unpopular, whereas

the economic decline that set in after 1983 made it increasingly difficult to maintain the social services and economic subsidies that constituted the basis of the revolution's redistributive and development policies. Finally, the triumphant revolutionary coalition had begun to break apart by 1982, and those who never much convinced about the Sandinistas' intentions now saw a chance to make common cause with the United States.

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contras, with remnants of Sumaya's *Guardia Nacional* prominent in its leadership, seemed inconsistent with the achievement of that goal. In addition, from the very beginning, the Sandinistas appeared sensitive to the power of democracy as a bargaining chip in its dealings with the United States, with the NATO nations, with its own opposition, and with the nations of Latin America. All of these factors kept democracy on the table for discussion as a policy goal and kept increasing as a priority in the policy process.

The increase in the levels of military confrontation in Nicaragua (and El Salvador) also engaged the attention of a number of Latin American countries, four of which came together to form the Contadora Group. The Contadora peace initiative finally put together a draft treaty by the middle of 1986 but the Central American countries, which had participated in the discussions over the draft, never got around to signing. The United States government, which gave formal support to the Contadora initiative, did not like the form that the final draft took, especially because it recognized the existing governments; set limits on foreign troops, arms shipments, and military maneuvers and bases in the region; and demanded an economic sanctions (which the United States had imposed on Nicaragua).¹⁶

Although Contadora was stillborn, it laid the basis for another regional peace initiative introduced by President Oscar Arias of Costa Rica in early 1987. The Arias Plan succeeded to some extent precisely because it was not as ambitious as the Contadora Plan; it centered on the political aspects of the problem (dialogue, amnesties, elections) and left out the military components, which would have affected the United States most directly. Even though Washington described the Arias Plan as "flawed," it was embraced by the other Central American presidents when they met in Guatemala in mid-1987 and took shape in succeeding meetings.

The Arias Plan bore its most immediate and important fruits in the case of Nicaragua. The agreement signed by the government of Nicaragua and the contras (by then formally known in the United States as the Nicaraguan Resistance) at Sapoia in March 1988 committed both sides to initiate negotiations for a long-lasting solution that included the freeing of political prisoners in Nicaragua, the disarmament of the contra fighters, and a general amnesty for everyone who had left the country for political reasons. At the same time, support in the U.S. Congress for assistance to the contras waned in the aftermath of the Iran-Contra scandal and President Reagan cut a deal with the Speaker of the House, Jim Wright, that included tacit support for a negotiated settlement to the Nicaraguan war. From that moment on, the prospects for the success of the Arias peace initiative in the case of Nicaragua looked especially good.

The government of Nicaragua also was desperate for an end to the war and the economic sanctions that had destroyed the promises of the revolution in the fields of education, health, and employment. For its part, the

quarters of the seats in the National Assembly in elections that were remarkable for their calm and high voter turnout. Still, the U.S. government refused to acknowledge that elections in Nicaragua had produced a legitimate government. The elections themselves were dismissed as "farcical" by Washington. After 1984, the United States increased the pressure on Nicaragua by openly seeking assistance in the Congress for the contra forces, which by now had been identified as "freedom fighters" and likened to the "Ironing Fathers" of the United States. It was clear that Washington's concern for democracy in Nicaragua was a function of its desire to rid itself of the Sandinistas.

The role of democracy in Reagan's Central American policy grew over time. At the outset, it seemed an afterthought or a cynical use of rhetoric to appease domestic liberal critics. By the end of the decade, it was the driving force behind the administration's policy in the hemisphere.¹⁷ The shift must be attributed to a series of miscalculations by the administration of U.S. public opinion, of its expression of that opinion through the Congress, and of the consistent and stubborn pressure of our European allies. The decline of the Soviet Union, the accommodation of the Sandinistas to their geopolitical reality, and the growing determination of the nations in the region to end the bloodshed also gave democracy greater weight in the policy calculations of the U.S. government.

The Reagan administration thought it could apply force as it chose in El Salvador in its quest for a quick, uplifting victory. As soon as armed Green Berets were shown on the evening news, the public indicated its bipartisan opposition to any adventure that threatened to escalate out of control—what came to be called the Vietnam syndrome. The congressional counterpart of this phenomenon was the reduction in the executive's leverage over the policy process in the aftermath of the war in Vietnam and Watergate, which strengthened the disposition and the capacity of fairly small groups of legislators to question the legitimacy of the executive's policy and its interpretation of events in the region.¹⁸

The varying interpretations hinged on the relative importance attributed to internal or external factors as causes of the unrest in the region. Reagan and his senior advisers were convinced the problems had external causes and would be solved once those causes were removed. Liberal opposition could be ignored.¹⁹ What could not be ignored was the fact that most of our allies disagreed with the U.S. government's official explanation of what was happening in Central America, rejected its Manichaean association of the struggle in El Salvador and Nicaragua with their security, and insisted with growing conviction that a negotiated settlement was preferable. In each of these factors, the concept of democracy as a goal, as an objective of policy, was crucial. In El Salvador, it became important because it was notoriously absent from the concerns of the government we supported there. In Nicaragua, it was important because our support of the

ues. The same events and several groups that made them appear less threatening to the United States implied a decreasing commitment of the Soviet bloc countries in Nicaragua's development projects and its military defense, making them more vulnerable to external pressure. In the case of UNO, its working ties with the principal business groups of Nicaragua effectively mandated a normalization of relations with the United States in order to gain access to U.S. markets for sugar, beef, and coffee. Business groups also pressured for normalization of relations with Nicaragua's Central American neighbors.

On February 25, 1990, Nicaraguans went to the polls to elect a government that would chart a new course for their country. They had heard campaign speeches, watched television debates, participated in numerous rallies and street demonstrations, and discussed among themselves what the best choices might be. During the entire campaign, the country was invaded by hundreds of observers from the United Nations and the OAS, as well as numerous private groups and organizations from the United States, Latin America, and Western Europe. Although some argued that Nicaragua's sovereignty was compromised by the very visible role of foreign political actors in the electoral process, such a presence also helped to assure a high level of participation and to legitimize the results both within and outside Nicaragua.

The election of February 25, 1990, proved a turning point in Nicaraguan political development. After ten years of confrontation with the United States, the people of Nicaragua were tired and poverty-stricken. They knew that to end the war and initiate some sort of economic recovery, they had to come to terms with the United States. The Sandinistas had recognized this for some time. The election results left no doubt that Mrs. Chamorro was seen as the political leader with the best credentials to begin a new relationship with Washington. The Nicaraguan people did not turn their backs on the Sandinistas strictly out of ideological convictions. Mrs. Chamorro got over 54 percent of the vote to Daniel Ortega's 41 percent. In the legislative branch of government, the UNO coalition ended up with fifty-one seats to thirty-nine for the FSLN.¹⁷

The results surprised most observers. President Ortega commented after the vote that the Nicaraguans had gone to the polls "with a gun to their heads." It was not the first time they had done so. The transition to democracy will not be easy. The Sandinista Front remains the strongest single political organization within the country, with a solid voting bloc in the assembly and considerable support among peasants and workers. UNO, on the other hand, was created with a purely electoral objective. Now that it is in government there is no assurance that it will remain united, even after changing its name from Unión Nacional Opositora to Unión Nacional Organizada. For example, Mrs. Chamorro has no party affiliation of her own nor does she exercise any special authority over the remaining con-

gress allowed further nonmilitary assistance for the contras on condition the administration pressure contra leaders to return to Nicaragua and participate in the electoral process. Bush argued that the efforts to democratize the Sandinistas required the armed threat of the contras. But, the events in Eastern Europe made the Soviet menace pale as an argument in congress and the spreading crisis in the savings and loan industry made spending money on the contras seem frivolous. To assure "a level playing field," the U.S. government assigned funds for the opposition parties and groups through the National Endowment for Democracy and encouraged private citizens to help out in this new crusade against the Sandinistas. Once a viable opponent to the FSLN was organized in the form of the Unión Nacional Opositora (UNO), Washington did little to hide its electoral preference. The fourteen parties that made up a fractious UNO stretched from the Communists on the left to a faction of the Conservatives on the right but Violeta Chamorro, the presidential nominee of UNO, was deemed a strong candidate to face incumbent President Ortega. Mrs. Chamorro was received by President Bush at the White House and she toured a number of U.S. cities with large Nicaraguan émigré populations.

Once the campaign got underway, it became clear that the underlying issue was the United States. The Sandinistas identified Mrs. Chamorro as the candidate of the Bush administration and criticized her willingness to work with contra leaders who had returned to the country. Her promise to end the military draft and dismantle the economic policies of the Sandinista government left her open to the accusation of being a contra herself. Mrs. Chamorro, in turn, accused the Sandinistas of provoking the United States and turning their backs on the Western democracies that had helped them in their struggle against the Somoza dictatorship.

Once committed to the electoral option, it became clear that the Sandinistas would seek a working relationship with the United States to wind down the war and gain access to the credit of the multilateral lending agen-

Notes

1. David McCullough, *The Path Between the Seas: The Creation of the Panama Canal, 1870-1914* (New York: Simon & Schuster, 1977); Walter LaFeber, *The Panama Canal: The Crisis in Historical Perspective* (New York: Oxford University Press, 1978); and Walter LaFeber, *Inevitable Revolutions: The United States in Central America* (New York: Norton, 1983).
2. Eling E. Mevius, ed., *The Letters of Theodore Roosevelt* (Cambridge: Harvard University Press, 1951), 3: 235.
3. *Ibid.*, p. 463.
4. See E. R. May, *American Imperialism: An Interpretative Essay* (New York: Atheneum, 1973), for a synthesis of the contemporary debate over the nature of U.S. imperialism.
5. For a general discussion of the nineteenth century in Central America, see R. L. Woodward, Jr., *Central America: A Nation Divided* (New York: Oxford University Press, 1976). For a discussion of caudillismo in the nineteenth century, see John C. Chasteen, "Twilight of the Lances: The Saravia Brothers and Their World" (Ph.D. dissertation, University of North Carolina, 1981); and Mark Stuchman, ed., *The Middle Period in Latin America* (Boulder, Colo.: Lynne Rienner, 1989).
6. Quoted in LaFeber, *Inevitable Revolutions*, p. 23. For a detailed account of these events, and a very different interpretation from the one offered by LaFeber, see Dana G. Munro, *Intervention and Dollar Diplomacy in the Caribbean, 1901-1921* (Princeton: Princeton University Press, 1964).
7. Arthur Link, *Wilson the Diplomatist* (Baltimore: Johns Hopkins University Press, 1957); and LaFeber, *Inevitable Revolutions*.
8. Only in the case of Mexico would Wilson admit publicly that local players might have to adapt democracy to their own milieu. See Mark Gunderbuis, *Wilson and Mexico* (Albuquerque: University of New Mexico Press, 1985). Link's defense of Wilson is in his biography, *Woodrow Wilson* (Princeton: Princeton University Press, 1964-64), vols. 3 and 4.
9. See Joseph S. Tulchin, *Aftermath of War* (New York: New York University Press, 1971), chaps. 1 and 2.
10. *Ibid.*, chaps. 3 and 7.
11. See the chapter by Paul Drake in this volume.
12. The text of the law is in *La Gaceta/Diario Oficial*, vol. 27, nos. 71-74 (March 3-6, 1923).
13. Richard Salisbury, *Conflict in Central America* (Wilmington, Del.: Scholarly Resources, 1989).
14. It is worth noting that the leader of the Marine force in Nicaragua, Smedley Butler, was convinced that he was fighting to bring democracy to the country and that Sandino was an obstacle to the achievement of that goal. Correspondence cited in James B. McKenna, "Smedley Butler in Nicaragua," unpublished manuscript in the possession of the author. See also Neil Macaulay, *The Sandino Affair* (Chicago: Quadrangle Press, 1967).
15. This period is described in detail in Bryce Wood, *The Making of the Grand Neghbhor Policy* (New York: Columbia University Press, 1961).
16. For a detailed account of Somoza's rise to power, see Richard Millet, *Guardians of the Dynasty* (Maryknoll, N.Y.: Orbis Books, 1977).
17. The U.S. reaction to Somoza's communism can be found in *Foreign Relations of the United States, 1945*, vol. 9 (Washington, D.C.: U.S. Government Printing Office, 1969), pp. 12,15-30. For a discussion of elections in Nicaragua under U.S. influence, see Alvaro Argüello, "Tres modelos de elecciones en Nicaragua," *Ensayo* 32 (1984).
18. For a comprehensive discussion of this policy, see Wood.
19. For a detailed history of the Argentine episode and the debate within the U.S. government over democracy as a policy priority and the willingness to intervene in the affairs of Latin American states in order to impose democracy there, see Joseph S. Tulchin,

tra forces. Ironically, her government will need the support of the Sandinistas more than from her own political following during the difficult transition from war to peace as the contra forces are demobilized. She will also need the strong economic and financial support of the United States to insure that her promises of a better future for all Nicaraguans do not remain a purely electoral ploy. The decision in May 1990 by the U.S. Congress to reject President Bush's proposal for emergency aid to Nicaragua was not encouraging.

What is really at stake is a new political system for Nicaragua. For the first time in the twentieth century, all political forces in Nicaragua, large and small, made their case before the Nicaraguan people and sought their votes. For the first time, a democratically elected head of state turned over the office to a democratically elected candidate from the opposition. For the first time, no one (except the more recalcitrant contra forces) has denied the legitimacy of the new government. The 1990 election in Nicaragua is the closest that country has ever come to practicing the basic principles of pluralist democracy, albeit within the worst possible social and economic conditions and under severe external pressure. If the U.S. government wants to claim credit for promoting democracy in Nicaragua, it should do so with extreme caution.

The United States intervened in Nicaragua politically and militarily at least once in each of the first four decades of this century to set up a democracy, but the end result was nearly half a century of Somoza dictatorship. In the 1980s the United States intervened again in defense of democracy, but the result is a country with a devastated economy and deep social and political divisions. It is tempting to suggest that if democracy does flourish in Nicaragua during the succeeding decades, it will come to pass not because of the United States but more likely in spite of it. The United States has been remarkably unsuccessful in its efforts to implant its special version of pluralist democracy in Nicaragua. So startling is the historical record that it is tempting to suggest, further, that democracy in Nicaragua will have a better chance if the United States lets it develop on Nicaragua's terms rather than trying to dictate and impose its own version "for export only." But the same historical record suggests that the United States has been a critical actor in Nicaraguan politics for eighty years. There is no reason to believe that it will end that role in the near future. The question that the United States and Nicaragua must face together is how the role of the United States can be made constructive and positive in the effort to create a democratic and just society in Nicaragua. It is a question that will not be easy to answer.

- Argentina and the United States: A Conflicted Relationship* (Ithaca: Twynne Publishers, 1991).
20. This period is covered in Kurt Walter, *The Regime of Anastasio Somoza García and the Military in Nicaragua* (Chapel Hill: University of North Carolina Press, forthcoming).
21. The agreement was ratified formally by the Nicaraguan congress as "Decreto Convocatoria a elecciones para Asamblea Constituyente y Presidente de la República," *La Gaceta/Diario Oficial* 34, no. 75 (April 15, 1950).
22. On the economic situation, see Walter; and V. Bulmer Thomas, *The Political Economy of Central America since 1920* (Cambridge: Cambridge University Press, 1987). On the business approach to development at this time, see R. Harrison Wagner, *United States Policy toward Latin America* (Stanford, Calif.: Stanford University Press, 1970); and Stephen Rabe, *Eisenhower and Latin America* (Chapel Hill: University of North Carolina Press, 1984).
23. The transition in policy during the second Eisenhower administration is chronicled in Rabe.
24. This period is discussed in Tulchin, "The United States and Latin America in the 1960s," *Journal of Inter-American Studies* 30, no. 1 (Spring 1988): 1-36.
25. "Reforma parcial de la Constitución Política," *La Gaceta/Diario Oficial* 66, no. 116 (May 26, 1962).
26. See Robert G. Williams, *Export Agriculture and the Crisis in Central America* (Chapel Hill: University of North Carolina Press, 1986). The land reform law is in *La Gaceta/Diario Oficial* 67, no. 85 (April 19, 1963).
27. The text of the legislation is in *La Gaceta/Diario Oficial* 75, no. 207 (September 11, 1971).
28. See "Decreto de creación del comité de Emergencia Nacional," *La Gaceta/Diario Oficial* 77, no. 31 (February 10, 1983).
29. For discussion of Carter's policy in Nicaragua, see Robert Pastor, *Condemned to Repeat: The Neoliberal Dilemma: A Portrait of Washington at Work* (Boston: Houghton Mifflin, 1989); and, on the human rights issue, Lara Schwallt, *Human Rights and U.S. Policy toward Latin America* (Princeton: Princeton University Press, 1985).
30. Roger Lunaine, et al., "Las relaciones interamericanas," *Cuadernos Semestrales* 9 (1981).
31. For a general analysis of the 1984 elections in Nicaragua, see the report published by the Latin American Studies Association entitled *The Electoral Process in Nicaragua: Domestic and International Influences* (November 15, 1984) (Pittsburgh: LASA, 1984).
32. See the chapter in this volume by Thomas Carothers and his excellent new book, *The United States and the Resurgence of Democracy in Latin America* (Berkeley: University of California Press, forthcoming).
33. The impact of these factors on U.S. policy has been discussed in Joseph S. Tulchin, "F-111's y crisis en Centroamérica: una perspectiva histórica," in Juan del Aguila, et al., *Revolución y Desafíos de las Relaciones Entre España y América en las Océanos* (Madrid: Instituto de Cooperación Iberoamericana, 1984).
34. The debate over U.S. policy has produced a flood of books and articles. For a sample that defines the term of the debate, see Howard Wiarda, in *Search of Policy: The United States and Latin America* (Washington, D.C.: American Enterprise Institute, 1984); Richard Luper, *Empire Peace: The Challenge of Central America* (New York: Basil Blackwell, 1987); Andrew S. Meyer, 1982; and Robert Wesson, ed., *Communism in Central America and the Caribbean* (Stanford, Calif.: Hoover Institution Press, 1982).
35. On the European role, see Jordi Solé Tura, et al., *Las relaciones entre España y América Central (1976-1989)* (Barcelona: Asociación de Investigaciones y Especialización

whose terms interamericanas and the Central Iberoamerican (The inter- or Iberoamerican) are interchangeable, see Michael Long and Central American Studies, 111 Center for Strategic and International Studies, 1989; and Wolf Grubbs and Daniel Roett, eds., *Latin America, Western Europe and the United States* (New York: Praeger, 1985).

36. On the Latin American perspective, see Cristina Eguizabal, ed., *América Latina y La Crisis Centroamericana: En Busca de una Solución Regional* (Buenos Aires: Grupo Editor Latinoamericano, 1988); and Luis Guillermo Solís and Francisco Rojas, "Subditos o aliados? La política exterior de Estados Unidos y Centroamérica (San José, Costa Rica: Editorial Porvenir, 1987).

37. For complete official results of the voting, see *Barricada Internacional* (March 10, 1990). A comprehensive evaluation of the elections has been put together by a commission of the Latin American Studies Association under the title *Electoral Democracy under International Pressure* (March 15, 1990) (Pittsburgh: LASA, 1990). For a Nicaraguan appraisal of the parties and the electoral process, see Elia María Kuant and Tirth O'Kane, *Nicaragua: Political Parties and Elections 1990*, Working Paper (Managua: CRIES, 1990).

PREPARED STATEMENTS--Asia

STATEMENT OF THE HON. BENJAMIN A. GILMAN

Mr. Chairman:

I want to thank you for holding this important hearing on United States policy toward Asia and the Pacific. In the past, neither the Congress nor the Executive Branch gave near enough attention to the region. Since the collapse of the Soviet Union and the end of the superpower rivalry, our policy has lacked clear definition.

Nations that we have been allied with and whom we share common interests are worried that we may be disengaging from the region. Some are concerned that Japan may rearm, others see China's military buildup as reasons for alarm. There are critics who feel we pursue our ideals regarding democracy, human rights, free market economies and the environment too strongly. Others believe we do not pursue them vigorously enough.

China has clearly emerged as the preeminent military power in the region and her economic strength is increasing at an astonishing rate. A congressional delegation that very recently passed through Thailand heard from regional policy-makers and media representatives about their concern for the future of Asian democracy in the growing shadow of the dragon. Today in Bangkok, the Dalai Lama, along with six other Nobel laureates, is pressing and praying for Ang Sun Suu Kyi's release from house arrest in Rangoon. The Chinese strongly protested Thailand's admittance of his holiness onto Thai soil but our Thai friends refused to back down, setting a courageous example for the other budding democracies in the region.

Unfortunately, the Thai relationship to the communist Khmer Rouge is not as definitive. Thai businessmen continue to violate U.N. sanctions against trading with the dreaded Maoist group, thus jeopardizing the Paris peace accords. The Khmer Rouge refuses to disarm in violation of the accord to which it is a signatory. And SOC (the ruling state party of Cambodia that was installed by the Vietnamese) murders and harasses its political opposition as they attempt to gear up for the U.N. sponsored elections in May.

As democracy finds it difficult to take root in Indochina, the possibility of nuclear conflagration threatens it in South Asia. The conflict between India and Pakistan regarding separatist movements and human rights violations continues to brew religious fundamentalism and threatens pluralist secular institutions.

Where there are strong democratic traditions, such as in Australia and New Zealand, there are weak economies. Our friends "down under" are attempting to more fully integrate in the region, and we could learn from and support their efforts. I hope that our witnesses today will comment on the future of ANZUS and other regional U.S. military alliances during this post-Cold War era. While the world appears to have changed dramatically in some respects, the Cold War moves full steam ahead in North Korea.

I again thank the Chairman for holding this important hearing and look forward to hearing from our expert witnesses.

PREPARED STATEMENT OF THE HON. GARY L. ACKERMAN

February 17, 1993

Thank you, Mr. Chairman. I am delighted to welcome this distinguished panel in my new capacity as chairman of the Asia and Pacific Subcommittee. I look forward to working with the distinguished gentleman from Iowa, Jim Leach, the subcommittee's ranking Republican member. I have long considered him one of the most thoughtful Members on either side of the aisle. I also wish to commend the chairman of the Foreign Affairs Committee, Lee Hamilton, for holding this series of hearings.

It is my understanding that the purpose of this hearing is to educate new Members on some of the more critical foreign policy challenges our Committee will face in the months ahead, as well as to critique past U.S. policy towards Asia. Those are both salutary objectives and I support them entirely.

Asia and the Pacific is a region where we are constantly reminded that global interdependency exists in both the economic and security realms.

While the dissolution of the Soviet Union signified an end to the Cold War, in Asia, North-South tensions between the Koreans and India and Pakistan constantly remind us that the pall of nuclear weapons must somehow be eliminated.

We are also reminded that in our interdependent world each player in the global economy is intrinsically linked to each other.

We have made great progress in creating an even playing field in Korea. In Japan, we desire to work together with the Japanese to resolve our bilateral trade disputes. So many are quick to criticize Japan for not playing a large enough role in defense burden sharing.

Let me just say that stationing American troops in Japan is a bargain. The Japanese pick up all host nation support costs for our troops except their salaries.

Name-calling and Japan bashing is not the way to conduct business with Japan. I firmly believe that with good intentions on both sides, we can learn to compromise.

I look forward to hearing your testimony on these issues, as well as the whole concept of pushing for democratic reform in the People's Republic of China, Burma, and some of the other nations of the Asian and Pacific Rim region. Thank you.

PREPARED STATEMENT OF THE HON. ENI F.H. FALEOMAVAEGA

As the United States enters the twenty-first century -- what many have called the dawning of the Pacific century -- our nation's interests are substantial in this increasingly important region of the world -- the Asia-Pacific.

In this decade and into the next century, the countries of the Asia-Pacific shall play an increasingly crucial role in the economic, political, strategic and security needs of the U.S. and the world. As has been often-stated, the twenty-first century -- the Pacific century -- shall truly be an era marked with miraculous advancement by this, the world's most dynamic and rapidly developing region.

I have long advocated that America has a fixation with the affairs of the North Atlantic that has resulted in failure to pay proper attention to the countries of the Asia-Pacific. The evolving events of the world make it imperative that this change.

The economy of the Asia-Pacific region today is staggering in size and breathtaking in growth. Our country has a substantial stake in the region's economy.

In 1991, America did just shy of \$325 billion worth of total trade with the countries of the Asia-Pacific -- easily matching, and nearly doubling, the trade we conducted with western Europe. Trade with the region is projected to increase to \$400 billion by the end of this decade.

Today, over 2.6 million American jobs are dependent on trade with the Asia-Pacific, with U.S. investments in the region exceeding \$62 billion, and American exports there surpassing \$310 billion.

With the "four tigers" being joined by the "little dragons" and the emergence of "greater China," all of these countries having vigorously expanding economies, some up to 11% annually -- these facts paint a picture that has experts in international finance predicting that the Asia-Pacific region will shortly replace the North Atlantic as the center of World Trade. My feeling is that this has already occurred.

With this explosive economic boom in Asia and the Pacific, our nation's state of relations with countries of the region has become increasingly volatile and acrimonious as our balance of trade deficit has ballooned. America's rocky relationship with our most important partner and ally, Japan, is illustrative.

In the security realm, despite the tremendous transformations taking place around the world, one thing that has remained unchanged is that the United States has key interests in the Asia-Pacific region that demand America remain a predominant military power there.

Numerous flashpoints exist in the Asia-Pacific that pose threats to regional stability and peace. One that comes immediately to mind is the Korean peninsula. North Korea's desperate quest for nuclear weapons, in combination with her intimidating military force numbering over a million soldiers, bears watching.

The People's Republic of China (PRC) has increased her military budget by over 50% since 1989, negotiating the purchase of advanced jet fighters and bombers, an aircraft carrier and other high-technology weaponry. At a time when relative peace is at hand, many in the region question the PRC's heavy military buildup. In light of the PRC's renewed claims to the Spratly Islands and Taiwan, Chinese expansionism in the region is feared.

The withdrawal of U.S. forces and closure of bases in the Philippines mandate that developments in that nation are closely watched. Widespread poverty, a weak economy, and long-existing communist-Muslim insurgency present a volatile challenge to the Ramos administration. Unquestionably, security of the Philippines and the sealanes surrounding her are essential to the stability of all of Asia.

Mr. Chairman, in conclusion, I look forward to hearing from our witnesses today, and their thoughts and recommendations for U.S. policy on the security and economic concerns in the Asia-Pacific I have touched on briefly. Thank you.

Washington,
February 17, 1993

CHALLENGE ACROSS THE PACIFIC

ASIA'S NEW AGENDA AND ISSUES FOR THE UNITED STATES

Kenneth S. Curtis

Introduction

Good Morning, my name is Kenneth Curtis. I am First Vice President for Deutsche Bank Capital Markets, and lecture at Keio and Tokyo Universities. As Strategist and Senior Economist for the Deutsche Bank Group in Asia, I conduct analysis on major economic, industrial, financial, technological and policy developments in Japan and the Pacific, and attempt to assess their impact on the world economy. It is an honour to be with you today.

You have invited me today to address the questions of the most important economic developments in Asia that the United States will confront during the period ahead. In addition, you have requested that I offer an assessment of U.S. economic policies toward Asia, and present suggestions for addressing the challenges that the course ahead may hold.

The international economy presents an extraordinary paradox. While much of the world pains in recession, Asia continues to be a region of dynamic expansion. From Thailand to Taiwan, from Guangdong to Jakarta, growth is explosive. China is again booming, and the decisions announced in Peking since the trade agreements with the United States and the meetings of the 14th Congress of the Chinese Communist Party last fall set the country on course for a period of continued, albeit at times unstable expansion.

Many, however, now believe that the region's marathon man, Japan, which has run out in front of the pack for so long, has seen its best days and has begun to slide irrevocably into decline. But, the 1990's will later be seen as but a pause, before Japan begins a still more powerful kick to higher levels of performance.

As Asia's economies continue to expand more quickly than the rest of the world, not only does the importance of the region grow, but also its power, position, and place on the world stage are in constant mutation. This explosive growth, and resulting flux, and fluidity create great new opportunity in the region. But occurring in a context where the patterns of history remain so poignantly present, these changes are also the source of much tension. It is in this resulting tension that much of the dynamism, will, and purpose of the region are born. But more is at issue. Much more.

While Asia is becoming younger, is at school, saving, investing, and building for tomorrow, much of the rest of the world economy has matured, taken on debt, and aged. The resulting global shift is very much in Asia's favour. In 1960, the Asian economies represented four percent of total world GNP. Today, they constitute a quarter, and a decade from now will be a third of the global economy. Almost all of that expansion has come from the explosive growth of the dynamos of East Asia: Japan, Taiwan, Korea, Hong Kong, Singapore, and over the last decade Thailand, Malaysia, Indonesia, and China. It is for this reason that from finance to trade, from technology, to security, demographics, and the new issues of ecology and society, developments in Asia are today so relevant to the America's own future. They will become even more vital tomorrow as America moves to rebuild its own economy.

In this all-embracing movement, indeed largely because of it, these same developments carry heavy risks. The region is laced with deep and dangerous fault lines, contradictions with the potential for the most complex of conflicts. For example, galloping urbanization is creating a type of society previously unknown, and with it new, complex issues of health, and environment are posed. The mixture of rapid growth, the lightening dissemination of new technologies, and urban massification, sets much of Asia on a direct course for difficult transition to the politics of participation. Recent experience speaks tragically in this regard. Asia is also the region of the world where spending on armaments is growing most rapidly. In a context of numerous conflicts of territory, of ambition, and of power, this situation creates the risk that an instant of miscalculation, of inattention, or worse, of irresponsibility could kill cold the still so fresh and fragile blossom of prosperity.

Asia's New Agenda

As the shift to Asia accelerates, the issues that confront the region today also find themselves increasingly relevant to the new agenda for America's own renewal. From this perspective, the critical issues on the new agenda are:

1. the shift in the center of gravity of the world economy to Asia
2. the current economic situation and prospects for Japan, the region's central engine for growth
3. the pace of reform in China
4. the building potential for major upheaval in the global trading system

5. the increasingly preponderant role of Japan in Asia, and the strategic retreat of corporate America
6. regional security

Dealing with the issues that these forces create will require an uncommon exercise of leadership, vision, and will, within the region, and on the part of the United States.

Addressed positively, with imagination, and long-term commitment, they create enormous new opportunities for America to lever a dynamic domestic strategy to redress its own diminished economic position. Although it is yet widely to be understood, the stakes at issue for the United States in the region are now such that creatively addressing these issues has become increasingly critical to the success of rebuilding the foundations of America's own economy.

1. The World's Center Of Economic Gravity Shifts

Emerging as the critical question for the world economy through the 1990's is the building imbalance between a burgeoning demand for investment capital and an insufficient pool of global savings. In the period to 1998, global capital requirements will increase annually by close to half a trillion dollars, above long-term trend, with some forty percent of the new demand coming from Asia.

At the same time, demographic and political forces at work in Europe and North America continue to weaken the world's savings base. For example, the average savings rate of the six western members of the G-7 was thirteen percent of GNP in the ten years from 1970 to 1980. A decade later it had fallen to 8.1%. It is currently running at 7.8%. Trends in demographics and in public finances, particularly the massive budget deficits and declining tax bases of North America and Southern Europe, are all now working to slow still further the pace of savings.

Asia, in contrast, is moving in the opposite direction. With few exceptions, saving rates are above 30% of GNP for all of the major economies of the region. A measure of just how far and fast this shift is occurring is that in 1980, the central banks of Asia represented some one sixth of total world central bank reserves. Today, they control almost two-fifths of reserves.

Even for Japan, despite widespread predictions to the contrary, the savings rate continues to trend above a fifth of GNP, some two and a half times the average for the other members of the OECD group of industrialized economies.

The outlook for economic growth, policy trends, and demographics all indicate that the savings base of Asia, particularly of East Asia, will continue expanding during the 1990's. As a result,

savings generated in Asia will form an increasingly portion of total world savings. That means not only that the world balance of economic power is set to continue its shift to Asia, but also that the United States will find that capital it requires from abroad to rebuild its own economy will be increasingly available on terms determined by Asia. With the service of public debt now equal to America's net household savings, the United States will remain a high importer of capital through the decade.

It is from this perspective, that any financial or economic instability in Asia will be transmitted to the North American economy and beyond with a speed and force that is still yet to be widely understood. In the absence of a long-term transfer from consumption to savings in the order of some half a trillion dollars a year, it will be impossible for America to rebuild its economic base, to renew its traditional infrastructure, to begin work on the informational infrastructure of tomorrow, to finance the rebuilding of the education system and large scale worker retraining without systematic access to the burgeoning pools of Asian capital.

This situation also sets fast-growing Asian economies in a privileged position from other perspectives. Funds will be available locally to fuel their growth. From a corporate strategic perspective it also means that as Asian economies continue to expand more quickly than elsewhere, so firms operating in the region will be positioned to lever that growth to improve their international competitive position. In the process fundamentally transform the balance of economic power across the Pacific will be still further transformed.

Take as an example the world automotive industry. Two-thirds of the unit volume growth in the 1990's will come from the blistering expansion of East Asian car market. Firms participating in that growth will see tremendous volume increases as key new Asian markets surge by twenty to thirty percent a year. In turn, this growth will allow major firms operating in the region to slide down the cost curve faster than the competition, and so to lever their increased competitiveness to intensify pressure on markets in North America and Europe. As a result, by the end the decade, firms that have as their strategic ambition to be global players will not remain so unless they are major players in the Asian marketplace. It is troubling in this regard, that no North America auto producer is yet positioned to be of more than a token player in any of Asia's booming mega-markets of Asia.

2. Japan: Sun Set or a Cloudy High Noon?

Japan has finally gone over the edge. The economy is in decline. The stock market has crashed. The political system is paralyzed. The sun has set on the greatest economic success story of the past half century. Or so many would have us believe.

Close and careful analysis, however, reveals a different picture.

It is of a Japan that is purging itself of the excesses of the 1980's, that is cleansing its economy, and that is melting off the fat accumulated during the six years of record-smashing economic expansion of the post-Plaza period. By the mid-1990's, once the economy is brought down again to its rock-hard, competitive core, Japan will be poised for another powerful leap ahead through the end of the decade.

In a sense, Japan is today in phase two of its response to the Plaza Accord. The transition occurring in the economy was set in motion by the decisions made in 1989 and 1990 to reverse the course of post-Plaza monetary policy, and to bring asset markets back into alignment with historic valuation levels.

The decisions to reverse the policy mix set in place as an immediate response to the effects of the Plaza Accord was the result of a growing realization by mid-1989 that Japan was well on its way to repositioning itself to being competitive in the post-Plaza international environment, and the necessity of dealing with the increasingly destabilizing side effects of the ultra-easy money policies and asset market speculation that they permitted.

Indeed, so fast and successfully did Japan adapt to the effects of Plaza that it has in the interval turned the Accord largely to its advantage. Japanese exports are today largely competitive at current exchange rates. As a result, and despite all of the rhetoric and endless negotiations, Japan's market, if only from an economic perspective, is more competitive, and so difficult to enter than ever in the past. At the same time Japan purchases goods, services, and assets abroad at half the cost in yen terms of what was the case in the pre-Plaza period. Finally, as the trade numbers only too clearly indicate, Japanese competitors are back on the attack increasing share in world markets.

It is against that background that the present transition of Japan's domestic economy can be best understood.

Both structural and cyclical forces are at work, of which the most important are the still-to-be completed deflation of the real estate values, the continuing difficulties of the equity market, and the pause in capital investment as firms work to reduce excess capital stock that resulted from the unprecedented cycle of investment of the late 1980s. More recently, the OECD recession has come to have a depression effect on the economy.

More Stimulus Will Be Required in 1993 and 1994

Over the past year, Japan's policy process has moved into high gear as authorities have worked to set in place a floor for the economy.

While much has been done, additional stimulus in the amount of some 10 trillion yen will be required this year and next in order to move the economy back towards its long-term track of 4% annual growth.

From here, the most effective form of stimulus would be a clear reduction in personal income taxes. That would not only put new spending power directly in the hands of the consumer, but it would also constitute a significant boost to confidence, which in turn would work to trigger further domestic demand.

Reliquification Of The Banking System

In addition, sustained public sector effort must continue to free the financial system from the weight of up to half of the some 65 trillion yen in non-performing debt crushing down on Japanese bank balance sheets. The reliquification of bank balance sheets is not only critical to a reversal in the deflationary decline of Japan's monetary aggregates, but also to the smooth recycling of the country's unprecedented current account surpluses to the North American economy.

Should this process be in any way disrupted the implications for the American economy and financial markets would be both immediate and dire. The trade account surplus was \$134 billion in 1992, and is set to reach \$160 billion this year, nearly four times what it was on the eve of the Plaza Accord. The Japanese financial system plays a critical role in recycling these surplus to the North American economy.

But the scope of current policy measures is only short-term. In order to reverse the dynamics of Japan's building imbalances, an intermediate-term, structural programme must be set in place. In many respects such a programme would also constitute a central element of the international side of the new economic policy framework currently being set out for America's domestic economy.

To be successful, such a programme would have to be based on a joint United States-Japan-East Asia effort that would include trade, macro-economic, micro-economic, financial market, foreign exchange, and investment policies, all brought together into a coherent whole to serve as the overarching framework for reversing the ever increasing risk of rupture in world financial markets that trans-Pacific imbalances are now creating.

A key uncertainty is the stability of Japan's political leadership. The fallout from the latest round of financial scandals has, at least partially destabilized the leadership. More turbulence is ahead. This situation increases still further the stakes for America in developments in Japan, and indicates that America will have to provide the impetus for leadership.

3. The Pace Of Reform In China

The decisions announced last fall in Peking with the conclusion of the 14th Party Congress, together with the change in personnel at the top of the state and party, set the country on course for a period of powerful expansion. Taken together with the accord on trade between the United States and China (market access, intellectual property), and the decision to move to make China's economic management consistent with GATT, are all very strong positives for the region.

Although talk optimism is pervasive, the reality of the situation will be one of stop and go as authorities deal not only with their own, increasingly deep conflicts, but also with a most complex and volatile situation as they attempt to steer the economy to a new course, while maintaining in place a strongly authoritarian state, and administratively controlled labour markets.

4. Trade, Asia's Key Lever Of Growth, Is At Risk

The liberalization of trade has been the primary force for global economic expansion over the past three decades. With the type of export-led growth strategy that has characterized the economic policies of East Asia during that period, the region has been one of the principal beneficiaries of the opening of world markets.

For example, from 1981 to 1991, total world trade increased by 48%. During the same period, total trade among the core economies of the Common Market --Germany, France, Italy, and the United Kingdom-- increased by just under 60%. Whereas for all of Asia, it doubled. For Singapore, Hong Kong, Korea, and Taiwan total trade is today four times larger than it was just ten years ago.

In this expansion of trade, Japan and North America have played opposite, but complementary roles.

Through direct investment, and its own finely targeted trade expansion, Japan has supplied the region with capital and intermediate goods. Japan's activity has been instrumental in the supply side development of Asia. The resulting transfer of technology, widening industrial base, and increasing competitiveness have been key to Asia's dynamic expansion of trade. In the process, however, Japan has generated huge trade surpluses with key countries in the region. By the end of this year, Japan's trade surplus with the principle market economies of East Asia will some 35 billion dollars, equal to its surplus with the entire Common Market.

In contrast, the United States has played the role of market for Asia. For example, in 1991, net exports of manufactured goods from Singapore, Hong Kong, Taiwan, Korea to the United States exceeded

exceeded 50 billion dollars. While consumer products form the bulk of Asia's manufactured exports to America, intermediate goods and capital equipment are becoming increasingly important. For example, since the mid-1980's, Korea, Taiwan, Hong Kong, and Singapore have built an expanding net surplus with the United States for capital equipment. Given the role that it has played on the input side of Asia's economic growth, Japan has also gained immensely from the expansion of Asia's exports to America. For example, about half of the value-added of Korean car exports to North America is of Japanese origin.

This pattern of relations will not be sustainable during the years ahead, for the simple reason that North America is not growing quickly enough. Further, as a base condition for the United States to reverse its own enormous economic imbalances, it must work to reduce its still large, and again expanding trade deficit. Pushed onto the defensive, North America is today a less open market than it has been in the past. Although not fundamentally protectionist in intent, to the extent that the proposed North American trade agreement contains new, and more stringent local content requirements, it puts new constraints on access to the American market.

With America unable to absorb an increasing wave of imports, Asian traders have begun to look elsewhere. In the ideal, Japan should become a net importer of manufactured goods from Asia. To do so, however, would require a major reversal of public policy, of corporate strategy, and of economic structure. In particular, Japan would have to launch a massive programme of deregulation, a complete overhaul of its competition policies, and more generally break the constraints on the release of consumer-centered domestic demand. However, with little prospect of that happening anytime soon, Asia traders have begun moving aggressively into lower-end markets of Europe.

With the high-end and middle markets of Europe under attack by Japanese producers, this new wave of exports from Asia will lead to further trade conflict. In particular, the new economies of Eastern Europe see as the lever of their growth the same entry-level markets that Asian producers are targeting. The dynamics of this situation are clear: more pressure for protectionism.

With Japan so very difficult to access, that means a key lever of Asia's economic success is now at risk. To reverse these forces will require the most adroit trade diplomacy. It is also the key force driving Asia to enhance regional trade, and is central to discussions about an ASEAN trade zone. There is very much to do. Tariffs are higher in Asia than in any other of the world's major economic regions. Non-tariff barriers are even higher. For Asia, like for much of the rest of the world, more rather than less competition would be further positive force for development.

A still more bold approach would be for economies of ASEAN to forge direct trade ties across the Pacific with the new North American trade area. Because of profound differences of structure, values, and experience, it is unlikely that such trans-Pacific would lead to effective economic integration. But they would provide Asia with a strategic new approach to diffusing the dynamics of protectionism, while opening more fully to the economic momentum of Asia. It would also provide a balance to Japan's increasingly preponderant weight in Asia.

5. Role of Japan in Asia, and the Strategic Retreat of Corporate America

Japan has provided the focus, and much of the momentum for Asia's thrust ahead. Its economy represents two-thirds of the entire Asian economy. It has set the pattern for development, and provides the model for economic management that in its many variations sets Asia in such stark opposition to the doctrines of Smith and Ricardo.

From Japan, capital and technology flow throughout the region. The countless decisions made by Japanese firms, -where to invest, where and what to produce, where to source, and how and what to sell--not only powerfully amplify the broader dynamics at work in the region, but also accelerate the pace of regional integration. But Japan is master of the process. Talk of the Asian car. With their complex Asian production capacity, Toyota and Nissan already produce it.

But the power of Japan is so dominant in the region that it also provokes constant anxiety. A measure of that power is that average annual growth in the Japanese economy generates new wealth equivalent to the annual GNP of Korea, Asia's second strongest economy. Even if the rest of Asia continues to grow more quickly than Japan, the balance of power would not change soon.

The strategic retreat of America from Asia, and Europe's increasing preoccupation with developments at home, work to strengthen still further the position of Japan in Asia. It reduces, and substantially, the options of countries of the region. Who controls much of the excess investment capital? Where increasingly is the technology? The answer is Japan.

But Japan's increasing dominance, together with its inability or unwillingness to reassess its own deep and difficult history in Asia generates throughout the region unhealthy tensions, and raises constant interrogations of intent and objective. Many, for example, in the region have raised the question of why Japan's emperor did not visit Nanking during his historic trip to China last year.

An obvious result is that much of Asia remains extremely reluctant to see Japan exercise the role of spokesman for the region, or assume a position of increased power in the United Nations. These

divisions reduce the weight of Asia in international councils. Further they contribute to maintaining the increasingly unstable state where the global shift of economic and financial power to Asia fails still to have a commensurate political currency. Nowhere is this situation more problematic than in the area of regional security.

6. Regional Security

Asia has three nuclear powers --China, India, and Russia--; a fourth, North Korea is well on the road to going nuclear; perhaps a fifth in Pakistan, and yet another, Japan, completely masters the technology and could become nuclear overnight.

During the Cold War, America's unquestioned commitment to Asia stability, and its equally unquestioned economic might set limits to the extent of conflict in the region. But with America's hegemony fast waning in the region, new dimensions of security and power are beginning to express themselves in Asia.

With renewed territorial tensions in Asia, any shift in the region's security balance carries dark implications for North America.

Of immediate concern are transportation routes, particularly links by sea. For example, all of the shipping lanes from Asia to the energy sources of the Middle East, and to the markets of Europe are among the least protected and most vulnerable in the world. A threat to these --real or imagined-- could lead more quickly than is widely realized to a sharp increase in the potential for conflict in the region.

The instability of the former Soviet Union is already working to expand that potential. Recently, China purchased a large fleet of tactical fighter-bombers from the Ukraine. Reports continue to surface concerning attempts by China to purchase a still to be completed aircraft carrier from the Ukraine. Should that happen, the power balance in the region would be immediately and fundamentally transformed. In the context of region territorial disputes, that would obliged Japan and much of South East Asia to take adequate counter measures, and to turn again to America.

But Asia cannot continue counting on America to play forever the role of stabilizer. It will have to come to terms itself with the new security issues that economic success, and the shifting global and regional balances of power create. But that will require an uncommon act of leadership throughout the region. Unlike Europe, or North America, Asia does not even have an institutional setting in which to discuss such issues. The painful process of peace-making in Cambodia has been made all the more so by the absence of such institutions. It is urgent that such a setting be created. To wait until crisis forces its creation would be in

itself a failure of leadership.

Challenge Across The Pacific

It is in the issue of leadership that Asia finds its greatest challenge for the 1990's. The responsibility of leadership is to generate the vision that allows to surmount the past, to see beyond the immediate, to represent the future to the present. Having come so far, so fast, the failure now to generate the determination to lead, the will to act, the vision to see, could dash the promise that for Asia is so close at hand.

But that it is also for America to participate in that building of that new vision. In successfully meeting that challenge, America and Asia would be working to set in place the bases for a reversal of the current drift of forces across the Pacific. To do less or to do otherwise would deeply compromise prospects for success in just beginning effort for America's own renewal. But in squarely addressing the new trans-Pacific agenda, not only would the United States assure for itself a stronger base for its own economic renewal, but it would also be making a powerful contribution to broadening the dynamism that has not only so fundamentally transformed Asia's economic prospects, but that today positions the Pacific to lead the renewal of the world economy.

Mr. Chairman, I would ask permission at this point to submit for the record a series of charts on charts of key data related to economic developments in the Pacific,.

I would be happy to respond to any questions. Thank you.

KENNETH S. COURTIS.
Washington, D.C.
February 17, 1993.

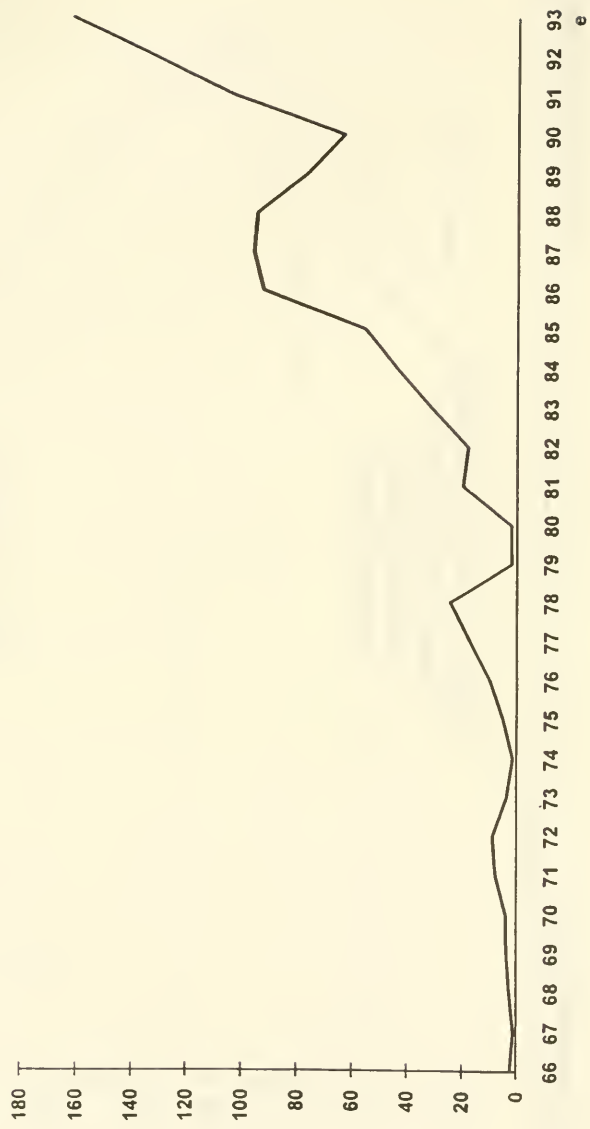
A QUARTER CENTURY OF EXTERNAL SURPLUSES

KENNETH S. COURTIS

STRATEGIST AND SENIOR ECONOMIST
DEUTSCHE BANK CAPITAL MARKETS
(ASIA)

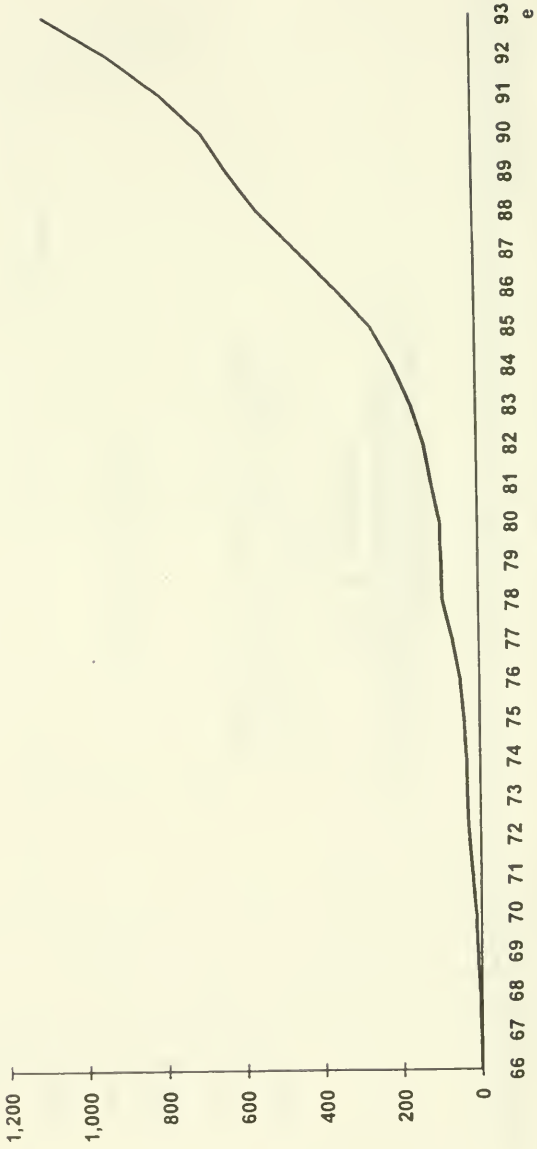
HONG KONG/SEOUL/SINGAPORE/TAIPEI/TOKYO
FEBRUARY 1993

A Quarter Century of Surpluses Japan's Trade Account (US \$ in billions)

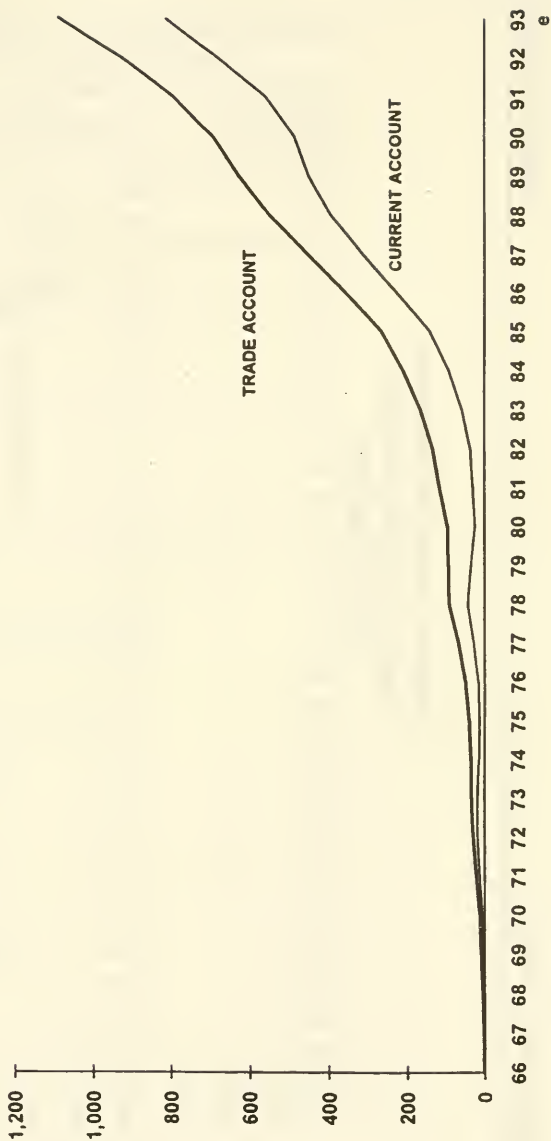




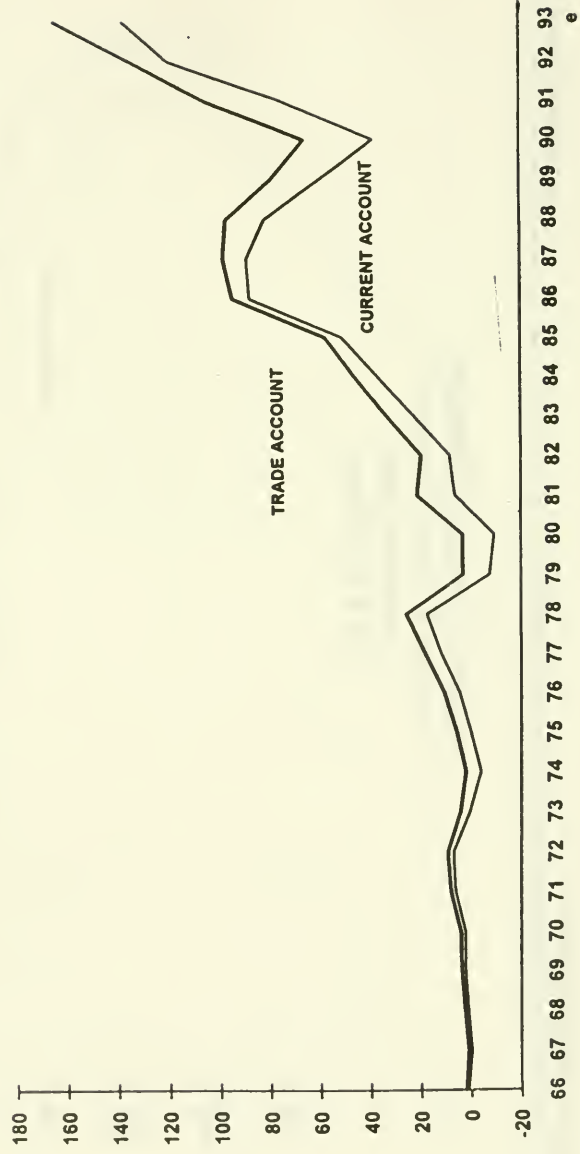
A Quarter Century of Surpluses Japan's Trade Account Cumulative Basis (US\$ in billions)



A Quarter Century of Surpluses Japan's External Accounts Cumulative Basis (US \$ in billions)



A Quarter Century of Surpluses Japan's External Accounts (US \$ in billions)



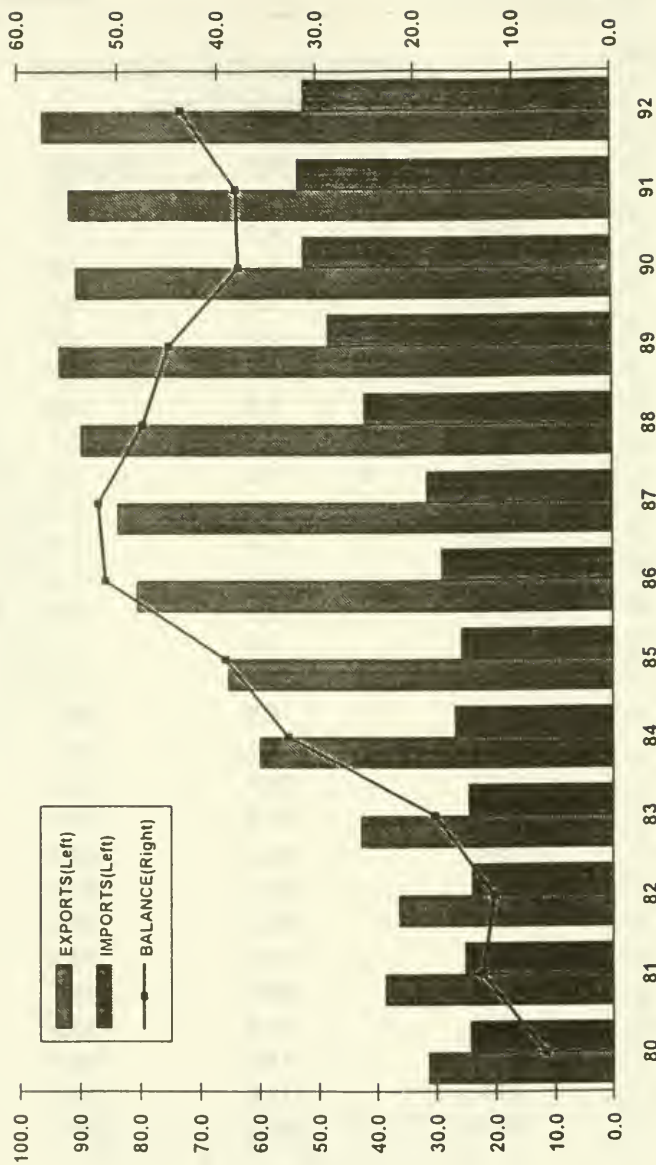
Japan's External Surpluses

(US\$ in billions)

Year	Current Acct	Trade Acct
1966	1.3	2.3
1967	-0.2	1.2
1968	1.0	2.5
1969	2.1	3.7
1970	2.0	4.0
1971	5.7	7.7
1972	6.6	8.9
1973	-0.1	3.7
1974	-4.6	1.6
1975	-0.7	5.0
1976	3.6	9.8
1977	10.6	17.0
1978	16.6	24.6
1979	-9.0	1.6
1980	-11.4	1.5
1981	5.2	20.4
1982	7.1	18.3
1983	20.9	31.5
1984	35.2	44.4
1985	48.3	55.1
1986	84.1	91.0
1987	86.7	96.1
1988	79.5	94.9
1989	56.9	76.7
1990	35.9	63.2
1991	72.6	102.9
1992	117.6	132.6
1993e	135.0	162.0

Note: Figures for 1993 are estimates

JAPAN'S TRADE ACCOUNT TO THE USA



Japan's Trade Account with the United States
(US \$ in billions)

<u>Year</u>	<u>Exports</u>	<u>Imports</u>	<u>Balance</u>
1980	31.4	24.4	7.0
1981	38.6	25.3	13.3
1982	36.3	24.2	12.2
1983	42.8	24.6	18.2
1984	59.9	26.9	33.1
1985	65.3	25.8	39.5
1986	80.5	29.1	51.4
1987	83.6	31.5	52.1
1988	89.6	42.0	47.6
1989	93.2	48.2	44.9
1990	90.3	52.4	38.0
1991	91.5	53.3	38.2
1992	95.9	52.2	43.7

**GLOBAL SAVINGS AND CURRENT ACCOUNT SURPLUSES/DEFICITS
STATISTICS FOR SELECTED COUNTRIES**

by

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**HONG KONG/SEOUL/SINGAPORE/TAIPEI/TOKYO
FEBRUARY 1993**

G-7 NET NATIONAL SAVINGS

(as a % of GNP)

	1960-70	1971-80	1981-90	1990	est. 1991-97
Canada	11.1	13.0	8.9	6.7	7.4
France	19.4	16.3	8.6	9.7	10.5
Germany	19.9	14.2	11.6	14.5	13.4
Italy	20.0	15.9	10.4	8.4	8.2
Japan	25.6	24.6	21.3	23.9	22.8
United Kingdom	11.2	7.6	5.5	5.0	5.0
United States	10.7	9.1	3.7	2.5	3.0
G-7 average	16.8	14.4	10.0	10.1	10.1
G-7 less Japan	13.8	12.7	8.1	7.8	7.8

THE AGEING G-7 POPULATION

(Population aged 65 and over as percentage of total)

	1960	1980	1990	2000e
Canada	7.6	9.5	11.4	12.8
France	11.6	14.0	13.8	15.3
Germany	10.6	15.5	15.5	17.1
Italy	9.3	13.5	13.8	15.3
Japan	5.7	9.1	11.4	15.2
United Kingdom	11.7	14.9	15.1	14.5
United States	9.2	11.3	12.2	12.2
G7 Average	9.4	12.5	13.3	14.6

**GROSS SAVINGS RATE
FOR SELECTED ASIAN COUNTRIES**
(% of GNP)

	1980-89	1990	1991	1992e	1993e	1994e	1995e	1996e	1997e
Japan	21.3	23.9	22.5	23.0	21.9	22.4	23.2	23.2	22.9
South Korea	31.6	33.1	32.7	32.2	31.4	31.2	31.4	31.4	31.4
Taiwan	34.7	30.1	30.7	30.4	30.2	29.8	29.2	28.6	28.0
Hong Kong	32.7	31.7	30.0	29.5	28.8	28.0	27.3	27.0	26.4
Malaysia	25.6	26.8	25.7	26.2	26.2	26.4	26.4	26.3	25.9
Thailand	32.1	32.8	33.6	34.0	35.6	37.1	37.7	38.0	38.6
Singapore	40.9	43.0	44.1	49.7	43.3	43.0	42.9	43.3	43.3
Indonesia	33.1	36.3	37.0	37.3	38.4	39.3	40.0	40.7	40.9
China	31.2	38.8	39.2	39.0	38.5	37.9	37.3	36.9	36.7
India	20.0	21.0	21.9	22.4	22.7	23.0	23.2	24.0	24.5
Average	30.3	31.8	31.7	32.4	31.7	31.8	31.9	31.9	31.9

TRENDS IN CURRENT ACCOUNT BALANCES IN THE G-7

(US dollar billions)

	1986	1987	1988	1989	1990	1991	1992e	1993e	1994e	1995e	1996e
UNITED STATES	-145.4	-162.2	-128.9	-106.4	-92.1	-3.7	-42.0	-70.0	-85.0	-94.0	-86.0
GERMANY	40.1	46.0	50.5	55.4	43.9	-19.9	-23.3	-22.0	-20.0	-17.0	-15.0
JAPAN	85.8	87.0	79.6	56.9	35.9	72.9	117.6	135.0	125.0	120.0	118.0
FRANCE	2.4	-4.4	-3.5	-3.8	-9.9	-6.3	-1.9	-3.5	-4.2	-5.8	-3.4
ITALY	2.9	-1.6	-6.2	-10.8	-16.8	-21.0	-25.8	-26.1	-24.1	-22.8	-19.6
UNITED KINGDOM	-0.2	-7.2	-27.6	-32.5	-23.5	-11.4	-20.6	-23.5	-22.1	-20.1	-19.4
CANADA	-7.3	-6.9	-8.2	-14.1	-13.6	-25.5	-25.1	-20.8	-21.4	-20.6	-18.3
G-7 TOTAL	-21.7	-49.3	-44.3	-55.3	-76.1	-14.9	-21.1	-30.9	-51.8	-60.3	-43.7
G-7 (LESS JAPAN)	-107.5	-136.3	-123.9	-112.2	-112.0	-87.8	-138.7	-165.9	-176.8	-180.3	-161.7

TRENDS IN CURRENT ACCOUNT BALANCES IN EAST ASIA

(US dollar billions)

	1986	1987	1988	1989	1990	1991	1992e	1993e	1994e	1995e	1996e
JAPAN	85.8	87.0	79.6	56.9	35.9	72.9	117.6	135.0	125.0	120.0	118.0
KOREA	4.6	9.8	14.1	5.1	-2.2	-8.7	-7.0	2.1	5.4	6.2	4.8
MALAYSIA	-0.1	2.6	1.8	-0.2	-1.7	-4.5	-0.3	1.4	2.6	3.1	2.8
THAILAND	0.2	-0.3	-1.6	-2.4	-7.3	-7.6	-2.1	1.9	2.8	3.4	2.7
INDONESIA	-3.9	-2.1	-1.4	-1.1	-3.0	-4.1	-3.8	-1.1	-1.4	-0.8	-1.1
SINGAPORE	0.3	0.2	1.3	2.4	2.2	4.2	2.0	2.6	2.8	2.9	2.8
CHINA	-7.0	0.3	-3.8	-4.3	12.0	13.8	13.6	11.8	12.7	12.2	10.8
TAIWAN	16.3	18.0	10.2	11.4	10.8	12.0	11.0	12.0	14.0	15.0	16.0
EAST ASIA(LESS JAPAN)	10.4	28.5	20.6	10.9	10.8	5.1	13.4	30.7	38.9	42.0	38.8
TOTAL EAST ASIA	96.2	116.5	100.2	67.8	46.7	78.0	131.0	165.7	163.9	162.0	156.8

Prepared Statement

SETTING A NEW BENCHMARK FOR U.S.-CHINA RELATIONS

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One of the earliest foreign policy challenges facing the Clinton Administration will be the redefinition of our policy toward China.* This will be a challenge, because the president will have to weigh competing American interests, contending domestic and foreign pressures, and even the conflicting statements he made during the campaign. It must be done soon, because the administration must frame its policy toward China well in advance of the annual review of China's most-favored-nation status in early June. Formulating a new China policy requires an assessment of the situation in China, both present and future, and the development of the strategy that has the best chance of realizing U.S. objectives there.

China's present situation and future prospects

Americans have long portrayed China in overly simplistic ways, viewing it either in exaggeratedly positive terms, or else overstating the negative. Several American historians have chronicled the pendular swings in this love-hate relationship from our earliest contacts with China in the late eighteenth century to our encounters with Maoist China in the 1970s. But the pendulum did not stop swinging either with the death of Mao Zedong or with the normalization of Sino-American relations. In the 1980s, all too many Americans embraced China as a potential ally against the Soviet Union, and then as the first Communist country to renounce Marxism, embrace capitalism, and move toward democracy. After the Tiananmen Crisis of 1989, we heard much more gloomy assessments of China: as a rogue nation on the international stage, as one of the most repressive regimes on earth, and as a country where economic reform was being sacrificed for political control.

Neither of these sets of images of China -- the overly optimistic or the exaggeratedly pessimistic -- has been fully accurate. In fact, China today presents a mixed picture to the objective observer. We must keep both elements in mind, positive and negative, as we formulate our policy toward Peking.

- Domestically, China's progress toward a more market-oriented economy has been extremely impressive. The size of the state sector of the economy is steadily shrinking, relative to the collective and private spheres. China's rates of economic growth, not just in the last year but over the last decade, have been among the highest in the world. In the political realm, however, the Chinese government has refused to develop responsive or pluralistic political institutions that can reflect and respond to the views of a more assertive society. Even so, there has been significant change in China since the death of Mao Zedong. Many of the

*The views expressed in this statement are my own, and should not be attributed to the trustees or staff of the Brookings Institution.

mechanisms through which Chinese Communist leaders once tried to exercise totalitarian controls over their people have been dismantled or have decayed. And, as a result of economic dynamism, Chinese society is therefore becoming increasingly independent of the state. Although political reform has lagged far behind economic restructuring, the Chinese political system has made a fundamental transition from totalitarianism to authoritarianism.

- In foreign affairs, China has played an increasingly responsible role in promoting a political solution in Cambodia and in maintaining peace on the Korean peninsula. It has also supported, or at least acquiesced to, United Nations efforts in the Gulf War, in the former Yugoslavia, and in Somalia. On the other hand, China's export of advanced weapons systems, particularly ballistic missiles, remains of considerable concern, as does the growth of China's own military capabilities. Moreover, an increasing problem is Peking's inability to consistently ensure that local governments and bureaucratic agencies abide by agreements that it has negotiated with foreigners.

- With regard to Hong Kong and Taiwan, China has shown considerable flexibility in its proposals for reunification, and has eagerly welcomed mutually beneficial economic relationships with both territories. And yet, Peking is clearly unwilling to see Hong Kong gain unlimited autonomy or to create fully democratic institutions. Nor has Peking been willing to renounce the use of force against Taiwan, or to accept equal international treatment for the Nationalist government in Taipei.

If simplistic portraits are defective guides to an understanding of present-day China, they are equally inadequate when thinking about the future. Today, four sets of forecasts compete for our attention. One is that, after the death of the present generation of senior leaders, China will pass smoothly and rapidly to democracy, even as it continues successful economic reform. Pessimists, in contrast, argue the opposite conclusion: that economic growth is serving only to strengthen the repressive mechanisms of the Chinese state, and that economic reform could well be reversed with the death of Deng Xiaoping in favor of a return to a planned economy. Still another forecast is that the central government will disintegrate as the result of the contradiction between economic dynamism and political stagnation, and that what is now a unified China will fragment into fully independent or quasi-independent regions. Perhaps the most frightening scenario is that, given the growth in its economic resources and military power, China will try to dominate Asia, and will thus become the principal strategic threat to American interests in the region in a relatively short period of time.

These scenarios indicate the major directions that China could conceivably follow in the future. But each of them is an caricature of much more likely alternatives. Take the most optimistic scenario, for example. It is true that China may well continue economic reform, and begin political restructuring, as elderly leaders pass from the scene. Indeed, this is the most probable scenario for the future of China. But democratization is likely to be gradual rather than rapid, and the process will probably be troubled rather than smooth. Moreover, although China enjoys strong economic fundamentals, it will increasingly have to cope with the less desirable consequences of reform. Along with high rates of growth and rising standards of living, economic restructuring is also producing uneven economic opportunities, bankrupt state enterprises, and sizeable budget deficits. These, in turn, are generating corruption, inequality, unemployment, and inflation. Looking ahead, China will also face serious bottlenecks in energy, transportation, and agriculture that could ultimately hamper its rates of growth.

If reform in China falters as a result of these problems, conservative leaders will certainly argue for the reimposition of administrative controls, much as they did in the immediate post-Tiananmen period. But the state simply does not have the power to secure renewed commitment to ideology, to regain direct control over the economy, or to end the experiment with private ownership. Economic reform, and the relaxation of political controls, are now essentially irreversible. Thus, conservative interludes, even if they do recur, are almost to become weaker in impact and shorter in duration with each passing year. The prospects for a coherent return to central planning and totalitarian politics are increasingly remote.

As a result, the principal alternative to reform is not retrogression, but rather the decay of China's political and economic institutions. Indeed, much decay has already occurred. The system of Party cells and Party committees at the grass roots is weaker than ever before. The growth of private and collective industry is reducing the state's ability to control the industrial labor force. Corruption of Party and state officials is more and more widespread. The next generation of leadership appears weak and divided, and civilian control over the military can no longer be assured. Still, the prospects for national disintegration should not be exaggerated. Although China's breakup along regional lines is conceivable, it is significantly more likely that China will experience more moderate forms of decay, including a paralyzed central government, widespread corruption, more sluggish national economic growth, and chronic political turbulence -- albeit possibly with pockets of continued dynamism, especially along the southeastern coast.

Finally, China's economic growth is indeed supporting an increase in China's military power, including its force projection capabilities. It is also true that the Chinese government has irredentist claims toward Taiwan and toward the South China Seas, and that it seems intent on establishing itself as a major regional and global power in the

shortest time possible. But even as China's national power grows, its international behavior will simultaneously be constrained. China is increasingly enmeshed in a network of economic and political relationships which will help limit its international behavior. Equally important, Asia is a dynamic region, which presents few vacuums of power into which China could easily expand. It is by no means certain, therefore, that China will become a severely destabilizing factor in the Asia-Pacific region, as the pessimists predict.

An overall American strategy: focused negotiations, targeted incentives

What American strategy toward China best fits this complex reality? What policy can encompass both the positive and negative elements in the present Chinese scene? What approach best reflects the fact that our two countries have both common and divergent interests? What strategy suits the uncertainties surrounding China's future: the prospect of continued growth and further reform, but the possibility of temporary setbacks or more chronic decay?

The best overall approach, in my judgment, is to deal with China issue by issue, using a combination of focused negotiations and targeted incentives to pursue American interests. This strategy must be simultaneously tough and flexible:

- It must first of all be based on the multiplicity of American interests at stake in China. We have an interest that China be secure, but that its power and ambition not threaten its neighbors. We have an interest that China become more democratic, but not that it collapse into anarchy or instability in the process. We want China to be prosperous, but we also insist on fair access to the large and growing Chinese market. We want China to modernize, but not that it do serious damage to the environment or become a disruptive claimant on world energy and food supplies. We want Hong Kong to remain democratic, autonomous, and prosperous as it returns to Chinese sovereignty in 1997. And we want Taiwan's future to be determined peacefully, without coercion from the mainland. A sound policy toward China must take all of these interests into account, and not be preoccupied with one at the expense of the others.

- Second, our strategy must include cooperation with China on issues where we have common interests, but incentives for China to modify its position where our interests diverge. Those incentives, in turn, should generally be the same that we apply to other nations: sanctions when China's behavior falls short of international norms, and rewards when Peking's conduct begins to improve. The sanctions can include public criticism, suspension of ceremonial visits, restrictions on foreign aid, tighter controls on technology transfer, and punitive tariffs on selected Chinese goods.

The rewards can include a more forthcoming American attitude toward aid to China, military exchanges, high-level official contacts, and technology transfer.

- To be most effective, our policy toward China must be better coordinated with the rest of the West. America's influence over China will be far greater if we act together with like-minded governments than if we try to act unilaterally and alone. Our policy will also be more effective if it represents a broadly based consensus, including both Congress and the White House and both Democrats and Republicans, than if it continues to be caught in domestic stalemate and gridlock.

In the first eighteen months after the Tiananmen Crisis of 1989, the Bush Administration departed significantly from the strategy that I have recommended here, and paid a very heavy price for doing so. It muted its rhetoric, resisted legislated sanctions, and sent senior officials to China despite a ban on high-level contacts with Peking. Moreover, it attempted to rebuild Sino-American relations by swapping concessions with China, including the unilateral relaxation of some of its own sanctions. This strategy, relying too much on carrots and too little on sticks, failed to lead to significant improvements in China's international or domestic behavior. As a result, it also lost its political base here at home.

Beginning in 1991, however, under intense pressure from Congress and much of public opinion, the Bush Administration adopted a more effective approach, along the lines outlined above. It engaged the Chinese in intensive focused negotiations on the full range of issues in the relationship. It threatened targeted sanctions, particularly in the area of tariffs and technology transfer, if China's conduct did not improve, and promised to reward Peking if its behavior came into conformity with international norms. It also acted in defiance of Peking's wishes on some issues, including the President's meeting with the Dalai Lama in Spring 1991, his support of Taiwan's membership in GATT a few months later, his decision in autumn 1992 to sell 150 F-16 fighters to Taiwan, his subsequent dispatch of the first cabinet-level American emissary to Taipei since 1978, and his endorsement and signature of the U.S.-Hong Kong Policy Act.

As President Clinton acknowledged during the campaign, this strategy has scored some significant results, although more significant in some areas than in others. The Congress can rightfully claim much of the credit for this success. In the economic sphere, China has agreed to provide better protection for intellectual property, and to open its markets to American exports. It has also pledged to ban the export of the products of prison labor, and to ensure accurate labelling of textiles produced in China. In the realm of international security, Peking has ratified the Nuclear Non-Proliferation Treaty, signed the recent Chemical Weapons Convention, and agreed to abide by the provisions of the Missile Technology Control Regime.

In the area of human rights, the strategy of focused negotiations and targeted sanctions has achieved less dramatic progress. That is to be expected. The key to eliminating China's human rights abuses will be systemic change that provides more civil and political freedoms to ordinary Chinese and that creates more responsive and representative governmental institutions. This kind of systemic change, unfortunately, is unlikely to occur while China's present senior leadership still dominates the country's political life. However, there has been some forward movement in more limited areas. Some dissidents have been released from prison; other prisoners have been accounted for; and some critics of the regime have been permitted to leave China for the United States. These steps do not change the overall human rights situation, but they do have a profound and beneficial impact on the individuals in question. In addition, China has opened dialogue on human rights with a range of Western countries, including at times the United States.

Indeed, it is a reflection of the success of this strategy that an increasing imperative for American policy is to ensure Chinese compliance with the agreements it has already reached and with the international regimes it has agreed to join. This will require constant discussions with Peking over the details of its international obligations. It will also require the creation of mechanisms for monitoring trade flows, the status of intellectual property in China, China's arms exports, and other activities of concern to the United States. In all these cases, the U.S. should make clear that it reserves the right to impose tough sanctions against China if Peking violates its international obligations.

One complicating factor here is the sale of F-16s to Taiwan. Although on balance I support the sale, we must also understand that the Chinese view it as a violation of the August 1982 bilateral communique regulating American arms sales to Taiwan, and therefore as justification for China to stretch, or even violate, its own international obligations. It is important for the Clinton Administration to portray the F-16 sale as a one-time occurrence that can not be used to excuse China's failure to honor its own commitments.

Where do we go from here?

Building on the accomplishments achieved since 1991, it is necessary for the United States to press for further progress on the issues of greatest concern to us, as well as insisting on compliance with agreements China has already reached. Our approach should be one of assertive engagement in pursuit of American interests. Where possible, we should use appropriate multilateral forums, and should coordinate our initiatives with other like-minded nations, so as to maximize our leverage over Peking.

In the security realm, China must be persuaded to participate in additional arms control discussions, including the negotiations over the levels of strategic arms, and to rejoin the ACME talks on arms transfers

to the Middle East. Peking should also join the non-proliferation regimes of which it is not yet a member, including the ban on atmospheric nuclear tests, the threshold nuclear test ban treaty, and the suppliers groups on nuclear equipment and chemical components. A further objective of U.S. policy should be to work with our friends in ASEAN to convince China to pursue a peaceful approach to its territorial claims in the South China Seas, and to join in the emerging multilateral dialogue on regional security questions. Serious discussion of such issues with Peking requires the resumption of dialogue between the Chinese and American military establishments.

In our economic relations with China, the principal task now is to secure greater market access for American service companies, in such areas as banking, insurance, engineering, and law. It is also necessary to complete the process of bringing China into GATT, so that Peking is subject to the obligations of full membership in the international trade regime. Once again, pursuing these objectives will require active engagement with the Chinese at the cabinet level. Such dialogue with China in pursuit of American interests should be seen as a normal and indispensable instrument of diplomacy, not as kowtowing to leaders in Peking.

With regard to Taiwan, the United States should again encourage Peking to show greater flexibility. Stability in the Taiwan Strait will be bolstered by the growing commercial ties between Taiwan and the mainland. These, in turn, will be facilitated by the establishment of direct air and sea links between the two societies, which do not presently exist. Taiwan has set down three conditions for the creation of direct transportation links: that China renounce the use of force against Taiwan, that it permit Taipei a more active role in international affairs, and that it acknowledge Taiwan as a distinct political entity. Although China can not be expected fully to meet all three of these conditions, especially the unconditional renunciation of force, Peking should be able to be flexible enough to permit the establishment of direct transportation links with Taiwan.

For our part, the U.S. should refrain from endorsing self-determination or a unilateral declaration of independence for the island, on the grounds that Taiwan is already autonomous from Peking, and that any attempt to change or codify the status quo would bring more risks than rewards. Instead, we should maintain our long-standing position that we would support any peaceful solution of the Taiwan question that was mutually acceptable on both sides of the Taiwan Strait, and would oppose any attempt by either party unilaterally to impose its will on the other, whether through use of coercion by the mainland or a unilateral declaration of independence by Taiwan. In recognition of the island's growing economic importance, however, we should continue to promote Taiwan's membership in the GATT and other appropriate international organizations, and join other Western nations in sending cabinet-level officials responsible for economic and trade matters for consultations in Taipei.

Hong Kong is also becoming a significant factor in American perceptions of China. Over the next several months, the United States should join with other interested governments in urging Peking to accept further democratic reforms in Hong Kong. It is neither necessary nor appropriate for us to endorse the details of the Patten plan, since Governor Patten himself has consistently pointed out that his proposals are subject to revision. Instead, our position should simply be that Hong Kong's level of economic and social development requires a further degree of democratization, within the framework of the Basic Law.

For the immediate future, American human rights policy in China should focus on three elements:

- First, the Clinton Administration needs to make clear that the United States assigns a high priority to human rights in China, not only on moral grounds, but because we are convinced that a more responsive and responsible government is needed to deal with the more independent and assertive society being produced by successful reform. In so doing, we also need to coordinate our human rights policy with like-minded countries elsewhere, so that the Chinese understand that human rights is an international concern reflecting international norms, and not just a unilateral preoccupation of the United States.
- Second, we need to press Peking in those areas where immediate progress is possible. These include releasing additional prisoners, accounting for still others, opening China's prisons to international inspection, permitting foreign observers to attend Chinese trials, halting jamming of international radio broadcasts, and reopening the official bilateral dialogue with the U.S. government on human rights.
- Third, we also should create an expanded radio service for China, as well as for other Communist and authoritarian countries in Asia. But we should place it under the Voice of America rather than establishing a separate surrogate station. A new station will both be more costly and less credible than an expansion of the Chinese service of the VOA.

It is also essential that the United States place its human rights policy in a broader context. The new administration should acknowledge that the Chinese people could be harmed as much by prolonged instability as by continued repression. It is in the American interest that progress toward political and economic liberalization occur as smoothly as possible, without the political chaos or economic collapse that has plagued the former Soviet Union, Yugoslavia, and other post-Communist societies. In addition, we must recognize that far-reaching systemic change in China will be principally the result of domestic changes in Chinese society and in the Chinese leadership, rather than the product

of international pressure alone. Those domestic changes, in turn, will be the result of China's strategy to achieve economic modernization through market-oriented reforms and through extensive engagement with the outside world. The United States can therefore foster China's evolution toward economic and political liberalization more effectively through continued commercial and cultural interaction with China than through the imposition of economic sanctions.

China's most-favored-nation status: the benchmark approach

This leads us to perhaps the most knotty problem in U.S.-China relations: the annual reconsideration of China's most-favored-nation trading status. The term "most-favored-nation" status is seriously misleading. Rather than a special privilege granted to only a few, as the phrase "most-favored" implies, the term denotes the normal tariff status that we grant to virtually all our trading partners. Moreover, most-favored-nation status is not even the most favorable treatment the United States offers foreign nations. We apply even lower tariffs to imports from many developing countries under the Generalized System of Preferences (GSP) -- a privilege which we have never extended to China, and (given China's large trade surplus with the United States) are unlikely to offer in future.

The withdrawal of China's most-favored-nation status is not a step that should be taken lightly. Whatever the hardship that might be imposed on the central Chinese government, the termination of normal tariff treatment for Chinese goods would do great damage to the interests of people we would prefer not to harm. It would unquestionably lead to Chinese retaliation that would sharply reduce American exports to China, threaten the jobs of the 150,000 Americans who produce those exports, and produce a hostile climate for the American firms with \$6 billion of investments in China. It would severely restrict the growth of China's private and township enterprises, which are key to the development of a market-oriented economy and to the emergence of an independent middle class in China. It would also do great damage to Hong Kong, through which pass seventy percent of China's exports to the United States, and considerable harm to Taiwan, which has shifted much of its manufacturing operations to the mainland. Moreover, withdrawal of China's most-favored-nation status would lead to a confrontational relationship between Peking and Washington -- a situation that would severely weaken our strategic position in Asia. This is, in short, a severe sanction, the use of which should be reserved for extreme circumstances.

And yet, China's most-favored-nation status, originally extended to Peking in 1980, is subject to annual review under the provisions of the Jackson-Vanik Amendment. As long as this is the case, it is impractical to speak of the "unconditional" extension of most-favored-nations status to Peking. The issue is the standards, implicit or explicit, that we apply to the review of China's MFN status in the late

spring of each year. Those criteria, in my judgement, must be both credible and appropriate:

- Credible, in that we must be actually be willing to apply them to China, fairly but firmly. If the United States sets inappropriate or overly ambitious conditions, but then routinely waives them in the name of the "national interest" or "national security" when they remain unmet, we will quickly lose our leverage and our credibility in dealing with Peking.
- Appropriate, in that we must acknowledge the serious cost to American interests of actually removing China's most-favored-nation status. The standards, in other words, should reflect the fact that the revocation of MFN is a severe step that should be taken only when fundamental American interests are at stake.

Over the next several months -- between now and May -- the Clinton Administration should engage in intensive negotiations with Peking on the principal issues of concern to the United States, particularly human rights, market access, and weapons proliferation. We should impress upon the Chinese that their willingness to be forthcoming on these questions will determine the Administration's policy on most-favored-nation status.

If those negotiations make reasonable progress, then they will have established a new benchmark for our relationship with China. I would then recommend that we renew China's most-favored-nation status this June, and further that there be a strong presumption of renewal every year thereafter, just as there was before the Tiananmen Crisis. Only if there were serious and sustained retrogression in Chinese conduct below the benchmark would we consider the revocation of China's most-favored-nation status. However, we would continue vigorously to use other levers, such as diplomatic sanctions, controls on technology transfer, and lesser tariff adjustments, to pursue American interests with regard to China.

I would recommend that this policy be embodied in a Presidential statement explaining how he intends to exercise his authority, under the Jackson-Vanik Amendment, to reexamine China's most-favored-nation status every year. There is, in my view, no need for further Congressional legislation in this regard, given the fact that, under the Jackson-Vanik Amendment, the Congress already has the right to review the President's recommendation. In addition, for the sake of equity, I would also recommend that the President announce that he will apply this benchmark approach to all countries whose enjoy most-favored-nation treatment, but whose status is subject to annual review.

What are the prospects that we can work with the Chinese to establish a new benchmark for our relationship? Here, I am highly optimistic. Ever since 1989, the Chinese have repeatedly indicated

that, despite some internal debate, they have wanted to preserve their ties with the United States. Immediately after the Tiananmen Crisis, they rejected proposals to turn away from the West toward an alignment with the Third World or with the remaining members of the socialist bloc. After the Bush Administration's announcement that the United States would sell 150 F-16s to Taiwan, the Chinese response was remarkably muted. After President Clinton's election in November, the Chinese also showed great restraint, rather than pressing him to repudiate his campaign statements on China, as they did with Ronald Reagan in 1980. And finally, my own discussions with Chinese representatives since the election have clearly indicated that Peking is ready to make reasonable concessions to resolve the MFN issue.

The United States has considerable leverage in dealing with China. We are a huge market, that absorbs around 25% of Chinese exports. We are an important source of investment capital and, even more, are regarded as a forthcoming supplier of technology and managerial know-how. There is also much evidence to suggest that Chinese leaders seek the symbolic legitimation of high-level dealings with the United States. We should not refrain from using our leverage over the next several months, so as to set the new benchmark in Sino-American relations that can enable us to conclude our long domestic debate over China's most-favored-nation status.

Indeed, what worries me most is not that we will be unable to engage in constructive dialogue with the Chinese on this issue, but rather that the Clinton Administration is not organizing itself rapidly enough to formulate a coherent policy toward China, and to achieve the new benchmark in our relationship with Peking in time for the annual review of China's most-favored-nation status in May.

Toward a more positive relationship: rising above the benchmark

Even as we try to deter retrogression below this new benchmark, we must also try to rise well above it. The Clinton Administration must warn China that there will be serious consequences if Peking's domestic and international conduct should regress, including the revocation of its most-favored-nation status. At the same time, it is also appropriate to offer China the prospect of improvements in U.S.-China relations over the next four years, if its behavior warrants them.

This should not involve a return to the false euphoria of the early 1970s, or the exaggerated expectations of the mid-1980s. But if China indeed fulfills its new international commitments, offers greater market access for American goods and services, behaves responsibly as an exporter of weapons, acts as a force for peace and stability both regionally and globally, and resumes a program of gradual but sustained political reform, then some of the following developments would become possible:

- the resumption of summit meetings between American and Chinese leaders;
- a modest but meaningful American aid program for China, as well as more enthusiastic U.S. support for lending by multilateral agencies;
- a greatly relaxed environment for U.S. technology exports to China;
- and a determination that China is no longer a non-market economy, is no longer subject to the Jackson-Vanik amendment, and is therefore granted most-favored-nation status without annual review.

I emphasize that much progress is required before we can contemplate taking any of these steps. Still, the complexity of the situation in China requires that we send China a dual message: that departures from international norms will not be accepted, but that responsible Chinese behavior abroad, and continued political and economic reform at home, will meet a positive and forthcoming American response.

STATEMENT OF DONALD S. ZAGORIA

The end of the Cold War leaves the United States without a coherent East Asian policy and with strained relations with Japan and China, Asian's two indigenous great powers. The two basic pillars of America's Cold War policy in Asia, economic supremacy and strategic engagement, are both in doubt. The relative economic weight of the U.S. in the fastest growing region of the world has declined substantially and the economic power of Japan and other Asian nations has increased. And as American draws down its forces to meet its domestic challenges and leaves its bases in the Philippines, there is also widespread uncertainty about the U.S. ability and willingness to maintain a significant regional military presence. Moreover, there is growing concern about America's style of leadership. There is, for example, fear that the U.S. is turning protectionist and bent on lecturing others on human rights even though its own society has vast, unresolved social problems. Finally, the U.S. is losing its moral authority in the Pacific as many Asians conclude that the U.S. is in decline, that it cannot solve its own problems, and that it is increasingly resorting to scapegoating others, particularly Asians, for its own failures.

If the U.S. is to maintain its position of leadership in the Pacific under the new circumstances of the post Cold-War world, its style and type of leadership must change. It needs to develop new structures of cooperation and fresh attitudes while recognizing the enormity of its stakes in the Pacific.

The most important challenge for the U.S. will be to develop a coherent policy in the Pacific and a sense of priorities that reflects the new realities. The first requirement is to forge a new policy towards Japan that integrates security and political, as well as economic concerns. One of the major foreign policy failures of the Bush Administration was its inattention to Japan. Former Secretary of State Eagleburger has in speeches since he left office, twice conceded that the failure to build more comprehensive and durable political ties with Japan was one of his biggest regrets. The single most important test of the Clinton Administration's foreign policy in Asia will be whether it makes a serious effort to build such ties. In recent years, the numerous shared political, economic and security goals between the two trans-Pacific allies have been lost in the fog of trade disputes and endless arguments about minivans and semiconductor. Yet without a solid and stable U.S.-Japan relationship, there can be no political calm in the Pacific, no substantial progress in opening global markets to trade and investment, no common policy towards China, and little progress on shared geopolitical goals around the world, including aid to the former Soviet Union. Over the long run, a continuing erosion of the U.S.-Japan relationship could lead to a new security threat for the United States if Japan cuts itself loose from the U.S. embrace and becomes a major military power equipped with nuclear weapons.

Developing comprehensive and durable ties with Japan that reflect shared U.S.-Japanese goals should be the first priority for American grand strategy in the Pacific now that the Cold War is over. A second priority, closely related to the first, should be for the U.S. to maintain a favorable balance of power in the Pacific for itself and its allies, so that: Japan will not be tempted to become a major military power; the region will remain stable; potential regional troublemakers will be deterred; a new arms race will not develop; and, over the longer run, the Pacific will not be dominated by a hegemonic power. To accomplish this goal, the U.S. needs to maintain a strong naval and air presence in the Pacific and to have forces flexible enough to deal with a variety of contingencies.

A third priority for the U.S. in the Pacific should be to stabilize relations with China. A return to Sino-American confrontation would be extremely destabilizing for China's modernization efforts, for stability in the region, and for the stability of the post-Cold War international order. China has the capacity to harm U.S. interests in many areas of the world, particularly in Asia. The U.S. needs to prevent or limit possible Chinese expansionism by encouraging present trends towards a market economy and by integrating China into a regional economic and security structure. We should try to work together with China on issues where our interests converge and to bargain hard on issues where we have significant differences. But blanket trade sanctions are counterproductive as they work against the economic forces promoting openness and reform. Nor will they be supported by our allies and friends in the region.

Another high priority for the U.S. in Asia, as elsewhere, should be the halting of nuclear and missile proliferation. This means drawing China and North Korea into the nuclear and missile arms control regimes. We may shortly be heading into a confrontation with North Korea on this issue. The International Atomic Energy Agency has demanded to inspect two suspicious sites and North Korea has so far balked. If Pyongyang continues to refuse, the IAEA will probably ask the U.N. Security Council to take sanctions against North Korea. This will be an important precedent for the IAEA and the U.S. should be prepared to throw its full weight behind the principle of "challenge inspections."

Another high priority for the U.S. in the Pacific should be to work together with others to prevent or to reduce regional conflicts. The principle sources of conflict in East Asia are: 1) the remaining cases of divided states, namely the two Koreas and China-Taiwan; 2) the unresolved territorial disputes in the South China Sea relating to the Spratly and Paracel Islands, and the unresolved dispute over the Kurile Islands between Russia and Japan; and 3) continuing uncertainty that surrounds the U.N.-brokered Cambodian peace process.

One of the most promising ways to defuse these conflicts, as Robert Scalapino has suggested is through a situation-specific set of concentric arcs. In the case of Korea, the first arc is composed of the two Koreas. The prime ministers of the two states are now meeting regularly and have signed several agreements, albeit with uneven results. The second arc is composed of the four major powers long involved in Korea — the U.S., China, Russia and Japan. All four powers have an interest in stability in the Korean peninsula and all have been working to achieve that goal. China, for example, played a constructive role in getting North Korea to join the U.N. and to accept IAEA inspection. Beyond the four powers, there lies yet another arc — the possibility of involving international bodies such as the IAEA in the nuclear field and the UNDP in the economic arena.

In the China-Taiwan case, the first arc is again composed of the two parties most directly involved — the PRC and Taiwan. Economic and cultural ties are growing and a liaison body for handling disputes is in place. At the same time, a second arc exists — namely the U.S. and Japan who together have considerable military and economic influence on both parties. These two major powers pose obstacles to any declaration of formal independence by Taiwan, an action that might trigger a militant PRC response. Neither country would recognize such a move. At the same time, they also pose obstacles to any Chinese aggression against Taiwan. Furthermore, both China and Taiwan are now involved in a growing number of regional and international bodies such as APEC. Such involvement makes a resort to force less likely.

In the case of the South China Sea territorial dispute, these issues have not yet been seriously discussed. The first arc is composed of China, Vietnam, Taiwan, and the ASEAN countries directly involved. The ASEAN PMC would be the logical second arc. The United States and Japan could play an important diplomatic role in the third arc.

In the Cambodian case, the first arc has been the four competing Khmer factions supported by a second arc of China and Vietnam. Another arc has been composed of ASEAN members and Japan, as well as the Perm Five at the U.N. It was this combination of forces which produced the U.N.-brokered peace effort in Cambodia and preparations for the forthcoming elections in May. Unfortunately, the Khmer Rouge now seems to have withdrawn from the peace process and this may lead to a resumption of the civil war.

Even if there is a resumption of the civil war, however, the peace process has achieved some positive results. It has succeeded in: repatriating hundreds of thousands and Cambodian refugees from camps in Thailand; registering more than four million Cambodian voters for the election to be held in May; isolating the Khmer Rouge; and paving the way for a legitimate government of Cambodia that can gain international recognition and assistance.

In the case of the Russo-Japanese territorial dispute, only the two powers directly concerned – the first arc – are now involved. But the U.S., the EC and China can influence developments and the U.S. should try to do so. A trilateral security dialogue involving the U.S., Russia and Japan might be a good place to start.

This situation-specific, concentric arc approach should be supplemented, however, by broader regional and subregional security dialogues that would include all the powers in the region, especially China. The purpose of these dialogues would be to promote arms control and transparency as well as to prevent regional conflicts. A Southeast Asian regional security dialogue is now in place in the form of the ASEAN PMC. The time is now ripe for a North Pacific security dialogue which includes the four major powers – the U.S., China, Japan and Russia – along with the two Koreas, Canada and Mongolia.

There is another broad challenge that the U.S. faces in the Pacific. It is one to which I have already alluded. That is the challenge of dealing with the remaining Leninist states – China, North Korea and Vietnam. The future policies of these three states will be one of the critical factors determining whether Asia remains stable in the years ahead. The Asian neighbors of these three Leninist states hope for a gradual economic and political liberalization. They want neither a plunge into chaos nor a rigid, military authoritarianism. The United States needs to consult closely with its Asian allies and friends about how to develop policies toward these three Leninist regimes that will encourage such gradual liberalization. Already there is considerable movement towards a market economy in China and Vietnam. And in North Korea, there are indications that some in the leadership see no alternative but to move in such a direction. Because it is impossible to combine an open economy with a closed polity, pressures for political liberalization are bound to grow as economic reform continues. Although there is no immediate and direct relationship between economic development and political reform, the East Asian experience suggests that, in the long run, economic growth fosters a more open and democratic society. This has been the case in Taiwan and South Korea.

The major task for the West should be to support constructive change in the Leninist states through various forms of economic, political and cultural interaction. We should try to draw these countries into a wide-ranging dialogue on the principal issues relating to security and development. Isolating them will only feed the cause of extremism.

It is largely for this reason that I advocate renewing high level dialogue with Chian, including the Chinese military; lifting the embargo against Vietnam – which none of our friends and allies any longer support, and which therefore largely penalizes American business; and establishing regular, high-level dialogue with North Korea.

Finally, I want to conclude with a few words about U.S. economic policy in East Asia. Because over the last 15 years, East Asia has surpassed Europe as America's most important overseas trading partner, the U.S. needs to recognize that healthy economic relations with the Pacific region is essential to its own economic revitalization. Some estimates indicate that Pacific trade will be double the volume of Atlantic trade by the year 2000. Last year, East Asia absorbed almost one-third of the total \$422 billion in U.S. exports. The ASEAN countries in Southeast Asia are among our fastest growing export markets. They constitute a potential market of some 330 million people. Between 1986 and 1991, U.S. exports to Thailand quadrupled; to Singapore they tripled; and to all the ASEAN countries they increased by about two and a half times. Moreover, many of these countries, along with Korea and Taiwan, welcome American business as a counterweight to economic domination by Japan.

The U.S. needs a more coherent and comprehensive strategy for dealing with its trade deficits in East Asia. Bilateral trade toughness and opening markets abroad through negotiating market access agreements is one prong of such a strategy. A firm approach has sometimes borne real fruit. In 1992, the U.S. negotiated several market access agreements with Japan and, according to U.S. trade negotiators, trade in these sectors increased. And in 1992, U.S. pressure prompted China to accept important agreements on market access and intellectual property rights.

A second, and complementary approach would be to develop a more coherent policy to promote exports. Many trade analysts consider the U.S. to be the world's biggest export underachiever. Only some 7.4% of the U.S. economy, compared with an average of 19% among major trading partners, derives from exports. One big reason for this is that the U.S. has no coherent strategy for promoting trade. Consider the following:

- Support in Washington for export programs is haphazard, underfunded and focused on farm sales, which represent only 10% of U.S. exports.
- The U.S. ranks last among its major trading partners in per capita government expenditures on export promotion.
- The U.S. Export-Import Bank covers less than 2% of export-finance transactions, versus an average of 15% in the developed world.
- Eighteen agencies share export promotion responsibilities while ten have export financing programs.

— Small and medium sized industries are particularly underrepresented among U.S. exports. Just 66 companies account for 54% of all U.S. exports.

— In Japan and Germany, banks, universities and regional governments all get into the act of export promotion.

In East Asia, the biggest economic opportunities for U.S. companies lie in infrastructure development. Building Asia's dams, highways, ports and telecommunications networks are the potentially most lucrative part of East Asia's economic development and many U.S. companies have the capacity to compete effectively with any foreign companies in this area. Yet America lacks a strategy for exploiting infrastructure development in Asia. Japan, for example, is now the largest provider of development assistance to East Asian countries and much of this aid winds up supporting Japanese infrastructure projects. The United States, on the other hand, now provides little development aid to Asia and its aid projects are tied not to infrastructure but to "basic human needs."

Finally, another crucial U.S. economic goal in East Asia ought to be to prevent the development of an exclusive East Asian economic bloc. The Clinton Administration will need to reassure Asian governments that its initiatives, including support for NAFTA, are not aimed at promoting such blocs. Otherwise, schemes for developing exclusive regional blocs in East Asia that exclude the U.S. — such as those put forward by Malaysia's Prime Minister — will gain in popularity. The best hope for avoiding exclusive regional trading blocs lies in a successful conclusion to the Uruguay Round of the GATT and continuing efforts to liberalize global trade and investment rules.



台·灣·國·際·關·係·中·心
CENTER FOR TAIWAN INTERNATIONAL RELATIONS

**TAIWAN INDEPENDENCE AND DEMOCRACY:
 IN THE BEST INTERESTS OF THE UNITED STATES**

A Joint Statement of Taiwanese-American Organizations

President Bill Clinton in his February 17 speech proclaimed that America has entered a new era of democracy. Democracy is indeed something the Americans, including the Reagan and Bush Administrations, are proud of. It is also a value befitting the spirit of our Founding Fathers and in the best interests of the American people. In this democratic era the people of Taiwan are firmly pursuing a democratic system. They maintain that the future of Taiwan should be determined by the people themselves. This goal and demand is a basic human right of the people of Taiwan, and should command the respect of the international community. It is also in the best and long-term interests of the United States.

Unfortunately, in the midst of the Clinton Administration's repeated emphasis on change, we are sorry to hear continued conservative argument for "maintaining the status quo" regarding the question of Taiwan's future, which seeks to prevent the Clinton Administration from changing the "One China" policy. These arguments are against the democratic tide, ignore reality, and at the same time are contrary to the will and wishes of the people of Taiwan.

Initially on January 26, 1993, the Asia Foundation released a report authored by Mr. William Barnds and Mr. Casimir Yost entitled *America's Role in Asia: Interests & Policies*, which stated:

"U.S. support for Taiwanese self-determination, as advocated by some Taiwanese political forces, would bring the present Beijing regime widespread support from virtually all Chinese.... It could also lead to a dangerous confrontation, threatening not only U.S. interests but the safety and well-being of the people of Taiwan."

The report stresses that the question of Taiwan is to be settled by the people of Taiwan and China. Others need only concern themselves with whether it is settled peacefully.

Then, on February 8, 1993, the Atlantic Council released a report entitled *United States and China, Relations at a Crossroads*, a policy paper which advised the U.S. government against supporting Taiwan's declaring *de jure* independence for fear of jeopardizing the autonomy currently enjoyed by the people of Taiwan. The report also pointed out that the ultimate concern of America is that the dispute between Taipei and Beijing be settled through peaceful means.

Most recently, on February 17, in a hearing held by the House Foreign Affairs Committee regarding U.S. relations with Asia, Mr. Harry Harding, a senior research fellow at the Brookings Institution, testified that the United States should refrain from supporting Taiwan's self-determination or unilateral declaration of independence because Taiwan is already enjoying an autonomous status. Any change in the status quo or move toward de jure independence will lead to danger. Mr. Harding also stressed that the question of Taiwan's future should be settled peacefully and without coercion by force from China.

To these "status quo" arguments we would like to offer our own observations as follows:

1) Although it is commonly acknowledged that Taiwan and China are two separate countries, the people of Taiwan are not satisfied with this acknowledgement, because they still lack a sense of security. The people of Taiwan desire that their peace and prosperity should have a genuine guarantee. They wish to exist in the international system with dignity, not just "de facto independence."

2) We are pleased to note that, except for a handful of Chinese who advocate force, all agree that the dispute between China and Taiwan should be settled peacefully. In fact, the people of Taiwan, more than anyone else, desire that peace prevail, not only in the Taiwan Strait but in Asia and everywhere in the world. The people of Taiwan have no desire to become enemies of China or the Chinese people. A unilateral declaration of independence and China's threat to Taiwan should not be equated as a unilateral imposition of will against the other side. Taiwan's declaration of independence will not encroach, and has never encroached, on the authority of Beijing, because Taiwan's authorities will no longer be a competitor for sovereignty over the area under China's jurisdiction.

3) Self-determination for all peoples is self-evident, and is a basic human right guaranteed by the Universal Declaration of Human Rights and the United Nations Charter. As leader of the democratic world, the United States is obligated to support and promote this principle.

4) It is obviously in the best interests of the United States to maintain peace and stability in the Taiwan Straits and East Asia. Maintaining the status quo cannot guarantee this peace and stability in the long run. The people of Taiwan wish to foster mutual respect for sovereignty, territorial integrity, non-aggression, equality, and mutual benefit together with the people of China, in order to usher in an era of common prosperity, co-existence, and mutual cooperation. Independence and Democracy in Taiwan will enable Taiwan to progress and prosper for the long term. It can also help China to become a more progressive and democratic modern nation. This will then be true peace and prosperity for the Taiwan Strait and East Asia, and is also in the best interests of the United States.

5) During the 1992 elections, the "One Taiwan, One China" platform of the Taiwanese people received unprecedented support despite the unequal electoral system. They have effectively expressed the desire for "de jure independence." This democratic reality cannot be ignored by the United States government, which should most appreciate it. It should lead to a reformulation of U.S. policy regarding Taiwan's future vis-a-vis China.

It is the obligation and purpose of the Taiwanese people to protest and resist any movement contrary to the will and wishes of the Taiwanese people. We implore people everywhere to respect their demand that the future of Taiwan be decided by the people of Taiwan.

This statement is cosigned by the following Taiwanese-American organizations:

1. Center for Taiwan International Relations, Washington, D.C.
(President, David W. Tsai Ph.D. Tel: 202-543-6287)
2. First Generation Taiwanese for Taiwanese Independence, L.A.CA
(Spokesperson: S. Huang)
3. Formosan Association for Human Rights, Inc. L.A., CA.
(President, Tim Wang)
4. Formosan Association for Public Affairs, Washington, D.C.
(President, John Chen)
5. North America Taiwanese Medical Association, Libertyville, IL.
(President, Tien C. Cheng, M.D.)
6. North America Taiwanese Professors' Association, Boulder, CO.
(President, Shi-kuei Wu, Ph.D.)
7. North America Taiwanese Women's Association, Inc. L.I.C., NY.
(President, Helen Wang)
8. Pacific Journal, Rosemead, CA.
(Publisher, T. Wang, M.D.)
9. Taiwan Tribune, Temple City, CA.
(Publisher, Richard Wu)
10. Taiwanese Association of America, Gardena, CA.
(President, Joseph Hong, M.D.)
11. Taiwanese Collegian, Ann Arbor, MI
(Spokesperson, Chong-sin Go)
12. Taiwanese Professor & Professional Association of Canada, SK, Canada.
(President, Michael C. T. Tai, Ph.D.)
13. World Federation of Taiwanese Associations, R.P.V., CA.
(President, Min-lu Chai)
14. World United Formosans for Independence (USA), L.A., CA.
(President, Tom Yang)

February 22, 1993

PREPARED STATEMENTS--Africa

Full Committee Statement of
Congressman Benjamin A. Gilman
Hearing on U.S. Policy Toward Africa

Mr. Chairman:

I would like to commend you for holding this fifth in a series of hearings on the vital issues facing American foreign policy. I am pleased that we will hear today from a distinguished panel of experts on U.S. policy toward Africa.

Too often, we only hear of Africa in times of famine, war and misery. As we look to Somalia, Mozambique, Liberia and other modern tragedies, we see images of extreme poverty, death and destruction. The AIDS epidemic threatens to decimate entire populations. Refugees from violent conflicts threaten to overwhelm Kenya, Sierra Leone and other African states. Environmental degradation, malnutrition, and overpopulation threaten millions of poor Africans.

There is, however, a brighter side of Africa's future. The democratic and free market revolution sweeping the globe has arrived in Africa. From Benin to Zambia, Africa has witnessed its first peaceful transitions to democratically elected governments. Long stagnant, state-run economies are being opened to private enterprise and free markets. One-party states are beginning to see pluralism and free expression. This trend toward free political and economic systems holds the greatest hope for breaking the cycle of African dependency and poverty.

I look forward to hearing the views of today's experts on the challenges for U.S. policy in Africa, including how we can help Africa continue along the path to democracy and free markets.

RESHAPING US-AFRICA POLICY IN THE POST-COLD WAR ERA

George B.N. Ayittey, Ph.D.¹

Testimony Before the House Foreign Affairs Committee, U.S. House of Representatives, Washington, D.C. on Tuesday, February 23, 1993.

I would like to thank members of this Committee for giving me the opportunity to present this testimony. Many African governments do not invite individuals with alternative viewpoints to testify. In fact those who do not toe the government's line are simply liquidated. This intellectual barbarism on the part of "educated" African leaders is one of the root causes of the crisis in Africa. If killing or detaining people solves problems, Africa ought to be the most highly developed continent. But the tyrants do not realize this.

As Distinguished Members of Congress are well aware, the entire continent of Africa teeters on the brink of economic collapse, political chaos and social disintegration. Some countries are beyond redemption - totally devastated. The exceptions (Botswana, Mauritius and Namibia) are tragically few and the prognosis is particularly bleak for Sub-Saharan or black Africa. The World Bank's projections for the 1990s hold out little hope for this region. Real Gross Domestic Product (GDP) is expected to grow at a mere 0.3-0.5 percent per year, while East Asia will be growing at 4.2-5.3 percent; South Asia at 2.1-2.6 percent; and Latin America and Caribbean at 1.3-2.0 percent (World Bank, *World Development Report*, 1991; p.3).

Africa's human rights record is worse than appalling. Torture, mass executions and pillage are daily orchestrated by regimes which have palpable contempt for human life and decency. In many African countries, governments are locked in combat against their own people. Last week, police in Togoland opened fire on pro-democracy demonstrators, killing 17 of them, in full view of visiting European ministers from Germany and France. Last month, Zairean soldiers rioted and went on the rampage, killing scores of innocent civilians for not being paid on time. The military is simply out of control in Africa. In Sudan, the military government of General Omar Bashir has relentlessly been bombing civilian population centers in the south. The village of Kajo Kaji near the Ugandan border is littered with bomb craters and there are many women and children suffering from shrapnel wounds. The impending calamity in Sudan would make Somalia look like a picnic. Already about 500,000 people have died from the fighting and the famine. Fighting also rages in Angola, Liberia, Mozambique and Uganda. There are more conflicts being waged in Africa than any other region. These senseless civil wars have disrupted agricultural production and uprooted people, sending refugees streaming in all directions. Africa's refugee population has grown rapidly and now stands at 8 million, not counting those trapped in their own countries.

Somalia is virtually destroyed and it will take years, if not decades, to rebuild. Angola, Ethiopia, Liberia, Mozambique, Sudan, Uganda and Zaire also lie in ruins. More maddening, other African countries (Burundi, Cameroon, Ghana, Kenya, Libya, Malawi, Mauritania, Sierra Leone and Togoland) are heading down the same path of political chaos, destruction and carnage.

Tyranny reigns supreme on a continent teeming with brutal dictators. In fact, Africa has more dictators per capita than any other region in the world. Only 12 of the 52 countries in Africa are democratic. (These are Botswana, Benin, Cape Verde Islands, Congo, Egypt, The Gambia, Namibia, Mauritius, Sao Tome & Principe, Senegal, Seychelles and Zambia). The rest labor under brutal military dictatorships and one-party state systems. True, some are making the transition to democratic rule. But even here, the process has been

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marred by blatant fraud and seems to have stalled. The euphoria that gripped Africans, following the initial successes of the pro-democracy forces in Benin, Cape Verde islands, Congo and Zambia, has given way to gloom. Entrenched dictators are digging in deeper and have successfully beaten back the democratic challenge in Angola, Cameroon, Ghana, Kenya and Togoland.

The plunder of Africa's meagre resources continues unabated. Some of Africa's tyrants are among the richest in the West. President Mobutu Sese Seko of Zaire personal fortune of \$10 billion exceeds his own country's entire foreign debt of \$7 billion. President Daniel arap Moi of Kenya has amassed wealth in excess of \$3 billion. President Gnassingbe Eyadema's fortune has been estimated at \$3 billion and President Hastings Banda of Malawi plays catch up with \$2 billion. Each year, about \$15 billion is siphoned out of Africa by vampire elites and kleptocrats. Even the French are complaining. "Every franc we give impoverished Africa comes back to France, or is smuggled into Switzerland and even Japan," complained the Paris newspaper, *Le Monde*, in March 1990.

Mr. Chairman, Distinguished Members of the U.S. Congress. If you detect a streak of indignation in this testimony, there is a reason. You see, thirty years ago we fought for our freedom and independence from colonial rule. But this was not what we expected. True freedom and economic prosperity never came to much of Africa after independence. We have been betrayed. There is a growing number of us Africans who are simply fed up and angry at our incompetent leaders for the mess they have plunged the continent.

It is not the responsibility of the U.S. to clean up the mess in Africa and there should be no reason why U.S. Marines should die in Somalia. But they died because of our own stupidity and mad, asinine obsession with political power. Africa now seems to be the place where we cannot change governments or leaders without destroying our countries. Those exercising political power in Africa do not have the sense to relinquish it until they are shot in the head or their countries destroyed. It is idiocy at its worst. Nor are the "liberators" any better. In fact, many of them are themselves closet dictators, exhibiting the same tyrannical tendencies they so loudly denounce in the leaders they hope to replace. Liberia and Somalia are typical examples where those who set out to liberate their countries from tyranny ended up fighting among themselves, sowing much carnage and destruction. It is exactly the same stupidity one observes in South Africa, where the black liberation groups we went to help are busy slaughtering themselves. Finger-pointing won't solve the problem in South Africa. For 16 years, Angolan elites kept blaming foreign powers. Their country is now destroyed.

Given the wars, brutalities against innocent peasants, capital flight, and arrant mismanagement, more African economies will collapse in the 1990s. Africa's debt crisis will worsen and progress on economic reform will be stalled. Increasingly, African governments will be making more insistent demands for aid and concessions from the West. They should be ignored.

It is not that Africa is not deserving of aid or has been neglected in the past. In fact, more than \$300 billion in Western aid, credits and loans have been pumped into Africa since the 1960s. On *per capita* basis, Africa received more aid than Latin America and Asia. In the 1980s, Africans, who are about 12 percent of the developing world's population, were receiving about 22 percent of the total, and the share per person was higher than anywhere else in the Third World--amounting to about \$20, versus about \$7 for Latin America, and \$5 for Asia. Between 1980 and 1988 sub-Saharan Africa received \$83 billion of aid. Yet all that aid failed to spur economic growth and to arrest Africa's economic atrophy. The continent is littered with a multitude of "black elephants" (basilicas, grand conference halls and new capitals) amid institutional decay, deteriorating infrastructure and environmental degradation. Foreign aid to Africa has simply not been effective and therefore makes little sense to increase the level of aid. If a bucket is full of holes, it is pointless to pour in more water as it will all leak away. To the extent that there are leakages in Africa (senseless civil wars, corruption, capital flight, economic mismanagement, embezzlement, tyranny and military barbarism), it makes no sense whatsoever to pour more aid into Africa. Common sense suggests that plugging the leaks ought to be the first order of priority.

In fact, the aid African governments desperately needs can be found in Africa itself. Total aid received by Africa from all sources amount to about \$13 billion a year. But each year, African governments spend \$12 billion on the importation of arms and maintenance of the military. In addition, about \$15 billion leaves Africa every year in capital flight. Adding these two sources of leakages alone would give \$27 billion, which is twice as much as the aid Africa receives. More and more Africans are now saying that Africa has to put its

own house in order before Westerners can help Africa develop.

Current U.S. Policies

I would defer to Americans to tackle the issue of whether the U.S. has been successful in achieving its own policy objectives in Africa. From our perspective, however, most Africans feel U.S. policies toward Africa have not been effective in bringing about change. For the entire decade of the 1980s, not one single African country was democratized as a result of U.S. foreign policy, diplomacy or aid conditionality.

Prior to the collapse of communist systems in Eastern Europe in 1989, U.S. policies vacillated between promotion of economic reform (market liberalization) by Republican presidents and human rights under Democratic presidents. A general undercurrent however was discernible: curbing communist expansionism in Africa. New studies now show that the threat of Soviet hegemony in Africa was exaggerated. Even by 1970, the former Soviet Union itself had suffered humiliating reverses in Guinea, Ghana and Mali. Nevertheless, obsession with this objective allowed the U.S. to be duped by shrewd African dictators. For years, it seemed any buffoon with enough charisma who showed up on Capitol Hill and professed himself to be "anti-communist" opened up the flood gates of American aid. Never mind the neo-communist regime established in his African country. Siad Barre of Somalia, Samuel Doe of Liberia and Mobutu Sese Seko are prime examples. Much American aid in the past simply went to prop up hideous dictators in Africa.

Since 1989, U.S. attention has shifted to better governance (accountability and transparency in government operations) and increasingly democratization. In Nov 1991, aid to Kenya, Malawi and Zaire was suspended until steps were taken to establish democratic pluralism. But even here, the U.S. has provided little or no effective assistance to pro-democracy movements in Africa, except in South Africa and Kenya. In Kenya, U.S. Ambassador Smith Hempstone has been outspoken – perhaps a little too strident for a diplomat – in his condemnation of Moi's one-party corrupt dictatorship.

Weaknesses in U.S.-Africa Policies

U.S. policies toward Africa have been rendered ineffective by several factors. First, the objectives are often muddled and conflicting. In addition, they are subject to frequent reversals and often subordinated to overarching economic objectives such as ensuring steady supply of vital minerals (cobalt, columbium, tantalum, titanium, and uranium) from Africa. Second, partisan politics often created a problem. The White House might have an agenda different from that of Congress. In addition, there have been "turf battles" between the various U.S. government agencies. The promotion of human rights, for example, is the domain of the U.S. State Department, which may certify a country as in gross violation and therefore ineligible to receive U.S. aid. But this can be overruled by the administration. Ordinarily, these embarrassing internal contradictions are kept to the minimum but they occasionally erupt into the open. A recent case in point was the attendance of a high-level U.S. government delegation at the inauguration of Ghana's President Jerry Rawlings on January 7, 1993.

As the Washington Post (Jan 9, 1993) reported:

The trip, initially wrapped in secrecy, was considered controversial by some State Department officials who said the original plan was to send a low-profile American diplomat to show U.S. dissatisfaction with Rawlings's election and poor human rights record.

Instead, these sources said, Jennifer A. Fitzgerald, the State Department's deputy chief of protocol and former close aide to Bush, encouraged the White House to enlarge the delegation with presidential supporters and name Phelps to head the group (p.A17).

Third, the U.S. has been too soft on black African despots. Western guilt over the iniquities of the slave trade and colonial atrocities have prevented a condemnation of the brutal acts of African leaders. Furthermore, "political correctness" and prevailing racial climate have not helped. It seems white Americans are often unwilling to criticize the policies of black African governments for fear that they may be labelled "racists." Black Americans, on the other hand, feel the need to defend and express their "solidarity with their black brothers and sisters in Africa." These sensibilities are understandable but they do not help Africa. Rather, they shield African dictators from the test of accountability. Thus for years, there was a conspiracy of silence against the atrocities of black African leaders. Only a scanty few in the West were willing to criticize them. Even now, it is impossible to talk sensibly and honestly about African issues here in the U.S.

because African issues tend to be placed in a black/white or colonial paradigm. Any African issue placed in such a context is quickly usurped by emotionalism, paralyzing the search for effective solutions. Racism still exists in the U.S. but it is not relevant in Sub-Saharan Africa – except in South Africa.

Furthermore, the failure of black Africa to develop in the post-colonial period has nothing to do with genes or the alleged inferiority of blacks as a people. It has more to do with the pursuance of wrong policies and the establishment of wrong political and economic regimes in Africa. Any system which concentrates both political and economic power, regardless of its location, will degenerate into a corrupt tyranny and economic atrophy.

Recommendations

The U.S., as a nation, has the right to pursue its own vital interests. These may not necessarily be compatible with African interests. However, certain areas of common interests can be identified; namely, economic development and reform. A prosperous, stable and growing Africa serves the interests of both Americans and Africans. Expanding trade between America and Africa will provide job opportunities and a higher standards of living. If the U.S. wishes to help Africa grow, it should abide by the following principles.

First, the U.S. should deal with various political factions in Africa with scrupulous neutrality. It should not favor one political group over another – whether in South Africa or Angola. If the U.S. provides assistance to one group, it should provide equal assistance to the others. Second, standards adopted for U.S. policy initiatives in Africa should be applied with rigorous consistency to all African countries. Apartheid in South Africa cannot be condemned while the equally heinous de facto apartheid regimes in other African countries escape denunciation. Nor should Western aid to Kenya and Malawi be withheld until their governments take steps toward the establishment of multi-party democracy while no such conditionality is applied against neighboring Tanzania. Furthermore, opposition groups in South Africa were helped by the U.S. (\$10 million has been earmarked to help with the democratization of South Africa). But opposition groups elsewhere received little assistance.

Third, the U.S. should make a fundamental distinction between the African governments and the African people. The U.S. still operates on the naive assumption that helping African governments necessarily helps the African people. Most of the governments in Africa are not only illegitimate but woefully out of touch with reality and their own people. In addition, there are so many groups, organizations and lobbyists who claim to be helping the African people. Yet a disgraceful few really understand Africans and their culture. How many of these groups know how the average African peasant farmer secures a plot of land to farm?

The U.S. should listen more to the African people, and not to these illegitimate governments and their high-paid lobbyists in Washington, D.C. For example, the Government of Uganda pays the Washington DC firm of Patton, Boggs & Blow \$400 an hour for legal consultation and lobbying Congress and the Clinton Administration on foreign aid, export licensing, and foreign military sales. A down-payment of \$400,000 is scheduled for March this year. Recipients of U.S. aid should either be debarred from such lobbying activities or have lobbying expenses deducted from their aid allocation.

The new Africa Bureau Chief at USAID should be tough-minded reformist, not someone who will continue the same old ineffectual policies. President Clinton's campaign theme was "change" – a word which resonated across Africa, whose people are yearning for even greater "change." There are many Africa aid programs which help advance the careers of aid bureaucrats, consultants and lobbyists but are of little or no value to Africa. These programs should be terminated. More programs should be handled by NGOs (non-governmental organizations). In fact, Canada now allocates about half of its aid to Africa to these organizations.

In addition, there should be no U.S. aid to any African country:

- (a) Which is ruled by a military dictatorship or a one-party state system. In fact, on November 12, 1991, I testified before the House Foreign Sub-Committee on Africa that: **After 1992, any foreign loan or credit to a military dictatorship or a one-party state in Africa, without the authorization of their people, will not be paid back.** Africans are just fed up with provision of foreign aid that does not reach them and instead ends up in the pockets of corrupt despots and elites. Cutting off aid

to the tyrants of the developing countries would save the U.S. about \$3 billion a year.

- (b) Which spends more than 10 percent of its budget on the military and security forces. The military is simply out of control in Africa.
- (c) Where a civil war rages. It makes no sense whatsoever to provide aid for the construction of schools, bridges and roads only to have them blown up by insurgents. In fact, no U.S. aid should be given to repair self-inflicted damage. Negotiation is far superior to the military option.
- (d) Whose government indemnifies itself from lapses in the use of funds. USAID cannot preach "accountability" and allow African governments to exempt themselves from the same test. Recent cases occurred in Benin and Ghana. For example, when Ghana drafted its new constitution in March 1992, Sections 33, 34 and 36 were clandestinely inserted without any debate to give the ruling military regime (the PNDC) blanket and perpetual immunity from "any official act or omission (committed) during the administration of the PNDC." That is, the PNDC cannot be called to account for the \$3 billion in various loans and credits it had received over a ten-year period from USAID, the World Bank, the IMF and other Western governments.

The whole aid allocation business is shrouded in too much secrecy and should be opened up so that ordinary Africans can have a say. Africans who are being helped often have no idea of how much aid has been granted them and what it was used for. This should change. Any African government receiving U.S. aid should be required to:

- (a) Explain to their people how much aid was received and how it was used. After all, aid is not a gift but a soft loan contracted on behalf of the people. They ought to know what the aid money was used for.
- (b) Authorization from the people should be sought for any new aid requests. This authorization should be sought either through parliament or, in its absence, through some mechanism established expressly for this purpose. Hearings should be held so that the opposition and other Africans can have an opportunity to make an input. Recipient of U.S. aid should be required to publish their requests for aid and U.S. embassies should hold public hearings on such requests at appropriate venues. The will of the people should be respected. Back in 1986, for example, the Nigerian government asked the people whether it should accept Structural Adjustment (SA) loans from the World Bank. Most Nigerians disapproved of the loans. But while the debate was raging, the military government quietly sneaked out through the back door and signed a SA agreement with the World Bank. It should not happen again.

Appropriations for specific African countries should also be opened up in the West too. For example, the Paris Club meets behind closed doors to consider debt rescheduling and new aid requests for African countries. These meetings should be opened up so that exiled or opposition groups can make representations to the Club. In April 1992, for example, Malawian exiles met in Lusaka and "called upon the international donors to cut all but humanitarian aid to Malawi. . . until specific demands are met. They also appealed to donors to make no new pledges when they meet with Malawian officials in Paris for a consultative Group meeting in May 1992" (*Africa Report*, May/June, 1992: p.23).

On May 13, 1992, "the World Bank and Western donor countries suspended most aid to Malawi, citing its poor human rights record, a history of repression under its nonagenarian 'life-president' Hastings Banda" (*Washington Post*, May 14, 1992; p. A16).

Provisions should be made to have any group or individuals from an African country testify before the Paris Consultative Group or USAID in the review of aid requests before new pledges are made to that specific country.

Whatever the U.S. decides to do in Africa, it should recognize the following facts:

1. Not all blacks, and for that matter black Africans, have the same viewpoint. And nobody, absolutely nobody, can claim to speak on behalf of all blacks. There is as much diversity of opinion in the black community as in any other group. Chief Buthelezi does not speak on behalf of all black South Africans. Neither does Nelson Mandela. Nor do I speak on behalf of all black Africans. Diversity of opinion in the black community should be respected and the U.S. should consult as many diverse sources as possible in the formulation of its aid policies. For far too long, all sorts of self-appointed

black "leaders" have arrogated unto themselves the sole divine right of speaking on behalf of all blacks and intimidate or detain those who disagree with them. Blacks with alternative viewpoints should be protected from victimization.

There is a large African exile community in the U.S. which should be consulted. (In Washington, D.C. alone, there are about 30,000 Ethiopians). Many of them are highly educated and it is not uncommon to see an Ethiopian or a Somali with a Ph.D. driving a taxi in Washington, D.C. They would rather return home but choose to stay in the U.S. as political and economic refugees. These individuals should be consulted as they have first-hand knowledge of the situation in their home countries.

2. Ultimately, it is Africans who must solve Africa's own problems. The U.S. can help but the initiative has to come from Africa itself. This means reform must be generated inside Africa itself, not dictated from the outside. Internally-generated reform is far more sustainable.

For Africans to be able to solve their own problems, they need the freedom of expression to debate their own solutions. This freedom is guaranteed by Article 19 of the United Nations 1948 Universal Declaration of Human Rights but is lacking in the majority of African countries. It is also guaranteed by Article 9 of the Organization of African Unity's Charter of Human and Peoples' Rights.

3. Prevention is better than cure. Ethiopia, Liberia, Somalia and other African countries would have been saved had they been democratic. Furthermore, it better to attack the root causes of a disease than to treat its symptoms. Humanitarian missions in Somalia, Sudan and other African countries are typical cases of treating the symptoms. The root causes originate from the absence of mechanisms for:
 - (a) peaceful transfer of political power and
 - (b) peaceful resolution of conflicts.

Such mechanisms should be established in Africa as a matter of utmost urgency.

Where a transition is being made to multi-party democracy, the U.S. should make it clear that the both the government and the opposition have to agree to the transition rules, and both the government and the opposition have to agree to the election results. If fraud is alleged, it should be investigated by an independent body. The U.S. shall not recognize any election in Africa until all contestants accept the results.

In countries where there is a political stalemate (Angola, Cameroon, Ghana, Liberia, Nigeria, Kenya, South Africa), a conference of all political parties should be convened immediately with no preconditions. U.S. aid should be withheld if no such meeting is held.

The U.S. and the donor community should not allow themselves to be used to legitimize fraudulent electoral practices. A distinction between rules and conduct of elections should be made. An "election" cannot be certified as "free and fair" when the rules are outrageously unfair. In case after case, the voter registry has been defective, media access denied to the opposition, and judges have not been impartial and constitutions manipulated. Last December, President Daniel arap Moi said the announcement of the election date in Kenya was his "secret weapon." International observers were used to whitewash an objectionable electoral process in Kenya. There were 20,000 polling stations in Kenya but only 800 observers were allowed in. Obviously, an incumbent dictator would not steal votes at the polling stations where the observers were present. Similarly in Ghana's November presidential elections, there were 18,000 polling stations and less than 1,000 international election observers. The conduct of free and fair elections at 1,000 polling stations does not necessarily mean conduct at the remaining 17,000 stations was free from malpractice.

Where a civil war rages, it should be made clear that negotiation is far superior to the military option and that U.S. aid will not be made available to repair self-inflicted damage. Foreign aid should immediately be suspended until the war ends. In Angola, for example, there should be no diplomatic recognition until the war ends. U.N. Secretary General, Boutros Boutros Ghali, has warned that U.N. peacekeeping forces will be pulled out of Angola if there is no ceasefire agreement by April 30. The U.S. should issue a similar statement. In South Africa, a conference of all black leaders should be convened immediately. Any U.S. funds earmarked for the democratization should be placed in escrow until such a conference is convened and black-on-black violence ends.

If warring factions cannot resolve their disputes within a year, they should be submitted to binding arbitration.

4. Institutions last longer than individuals. The U.S. should invest more in institutions and less in charisma and rhetoric. U.S. aid money should be directed toward building independent institutions that will allow Africans to choose their leaders, express themselves freely and go about their economic activities freely. Whether the U.S. likes the leaders chosen by Africans is irrelevant. It is the institutions which are important. These are the institutions of free markets, democracy, independent press, independent judiciary, rule of law, property rights, a neutral army and a bill of rights.
5. Corruption, tyranny and abuse of human rights should not be rewarded. Warring factions which commit hideous crimes against humanity (as in Angola, Liberia, Mozambique, Somalia, Uganda, Zaire) should be placed on notice that they will be tried in a world court for crimes against humanity. For far too long, African dictators and a cohort of elites have plundered their countries, committed brutal atrocities against their people and bolted to the West to enjoy their booty. The U.S. should make it clear that no political asylum would be granted to any African leader or diplomat, who knowingly and willingly participated in the oppression and slaughter of his own citizens. Britain took the lead last May by deporting Dr. Abdulai Conteh, former vice-president of Sierra Leone. The U.S. should follow suit by returning such intellectual collaborators and scoundrels back to their home countries.

The U.S., France and Belgium are considering a highly commendable move of setting up an international commission to seize the assets of President Mobutu Sese Seko. The U.S. should also offer other African countries help to recover the billions of loot stashed abroad by corrupt African leaders and ministers. (I would be willing to work with aid officials on this).

Thank you.

PREPARED STATEMENTS--Russia and the Independent States

PREPARED STATEMENT OF EUGENE K. LAWSON, PRESIDENT, U.S.-RUSSIA BUSINESS COUNCIL

Mr. Chairman, I am Eugene K. Lawson, President of the U.S.-Russia Business Council. I am delighted to be asked to appear before this distinguished committee to discuss U.S. policy toward Russia.

The Council was incorporated last year at the initiative of over two dozen of America's top business leaders. Our Board members represent important U.S. companies that have an impressive history of trade with and investment in Russia. It is the Council's belief that government and private business can assist Russia more effectively in its effort to develop democracy and a market economy by working together rather than by pursuing separate policies and programs.

My remarks will focus on two main issues: first, I believe that while there are many positive developments in Russia, there also are serious problems which must be quickly addressed; and second, I will describe the policies I believe government should pursue toward Russia.

Before I begin I would like to comment on President Clinton's excellent nominations in the area of Russian affairs. I am extremely pleased, as are the many business leaders with whom I've spoken, about the choices of Strobe Talbott as Ambassador at large for issues dealing with the former Soviet Union, and Tom Pickering as Ambassador to the Russian Federation. Both of these men, as you well know, have distinguished careers and, if confirmed, will do a very fine job.

CURRENT SITUATION IN RUSSIA

No one doubts that Russia is undergoing a traumatic transformation as its old institutions give way to democracy and capitalism. Yet despite the many difficulties, positive indicators brighten the scene. Industrial production declined 40 percent in Eastern Europe's emerging democracies during their transitions to market economies. However, Russian industrial production has declined only 28 percent, and appears to have bottomed out. Furthermore, agricultural production has decreased only 5 percent within the last year; there will be no food shortage this winter.

Most importantly, political and economic reforms cannot be reversed. Even if a conservative government desiring to return to the past gained power, the state structure of central control has disintegrated irreparably and a reversal of the basic achievement accomplished thus far would not be possible. Additionally, many government leaders, despite intense pressure from a conservative parliament, have continued to advocate political and economic reforms. While the breakdown of central authority since the collapse of the Soviet system has resulted in much corruption, it has allowed private enterprise to flourish where it otherwise might not have.

While many Russian figures have complained publicly that the newly developing market is akin to a bazaar, this type of grass roots capitalism and entrepreneurship is the most vivid example of a market economy at work today. Unlike 1905 and 1917, Russian youth is participating in this revolution on an economic front as opposed to a political front. Battle lines are along the avenues and on the street corners, where young men and women are exercising grass roots capitalism in their taxicabs and their kiosks, providing hope for Russia's future generations.

Outside of Moscow, privatization continues at a fast but healthy pace. While a majority of large heavy industry enterprises have not yet been privatized, Deputy Prime Minister Chubais has continued to make progress despite a strong conservative opposition. Moreover, as one veteran Russia watcher has written, a civil society is in the making, with the explosive growth of political, civic and professional associations, and the expansion of a very lively media. There also appears to be a resumption of trade between Russian and the other republics of the former Soviet Union, which is a crucial step in restoring Russia's former level of foreign trade.

These developments give us reason for hope, but only if we face up to, and help resolve, the very serious problems that have arisen. First, Russia continues to have difficulty remaining current on its loan payments to the West. The country must keep up to date on these payments if it hopes to continue to have access to foreign capital. But the West, too, must remain flexible by working to create a reasonable repayment schedule.

The Paris Club advocates a payment schedule which Russia has refused to accept. The latest Paris Club proposal requires Russia to pay \$6 billion on its official debt this year, much too large a figure in light of Russia's current budgetary constraints. Until this issue is resolved, Russia's arrears will continue to add up, and, most importantly, other financing will remain on hold. In this regard, Russia's outstanding debt to the U.S. itself, including Lend Lease and the Kerensky debts, should be forgiven.

Second, inflation threatens Russia with economic and political ruin. In 1992, inflation ran at a rate of over 2,000 percent, and in January the rate approached hyperinflation. If Russia hopes to be successful in its reform efforts, inflation must be controlled. There is still immense pressure to provide subsidies, credits to ailing government industries, and wage increases to the population, such as Parliament's increase of the minimum wage by 150 percent on January 1. The extreme inflation has led to a tremendous flight of capital out of the country as Russia's entrepreneurs seek to keep their new fortunes intact. It is imperative that the Russian government remain committed to controlling inflation so that this capital will remain in and grow with the Russian economy.

Fortunately, Russia's current unemployment is less than 1 percent, and this may work to its advantage by allowing it to trade off limited unemployment for a more stable currency. Although Russia has little history of unemployment, it does suffer from underemployment, which will be resolved as the free market forces inefficient enterprises to close. But by postponing this, and continuing to prop up non-productive enterprises, Russia continues to flirt with hyperinflation, which is fueled by credits given by a Parliament which sees reforms moving too fast. A solution would be for Russia to remove Parliament's control over its central banking system. By developing an independent central bank, Russia could begin to make some of the painful reforms that are necessary.

Finally, the Russian Government must find coherence and stability in its governmental structure. The current political crisis between the parliament and the executive branch threatens to derail the tremendous progress that has been made. It is crucial that President Yeltsin and the Russian Parliament be encouraged to solve their difference as quickly as possible so that they can devote their energies to the country's crisis.

THE U.S. GOVERNMENT, THE U.S. PRIVATE SECTOR AND RUSSIA

The United States government and American business can work together to help alleviate Russia's financial arrears, inflation, capital flight and other economic problems. I believe our government should direct its energies to two main areas: first, it should ensure adequate budgetary support for organizations such as the Export-Import Bank and for government programs such as those authorized by the Freedom Support Act; and second, it should provide Russian and American business with a badly needed success story in the form of an oil and gas framework agreement.

Recognizing that exports create domestic jobs, the United States must pledge adequate funding to government projects that promote exports. For example, when an Export-Import Bank loan or guarantee is given, usually an American bank loans money to an American firm that produces American products with American labor that is exported on an American carrier. To free the Exim budget is penny wise and pound foolish.

Another immediate step the U.S. government should pursue is the proposed Eximbank Oil and Gas Framework Agreement to provide credits allowing Russia to purchase U.S. oil equipment and services. Only last year Russia was the number one provider of crude oil in the world, but its oil production, for a variety of reasons, is plummeting. In just the last two years, Russia's oil and gas exports have fallen by over 50 percent, causing a devastating loss of badly needed foreign exchange.

If there is one way to jump start the Russian economy, it is to put credits into the energy sector as quickly as possible. Over 40,000 Russian oil wells, nearly 20 percent of existing capacity, are idle because of lack of spare parts, casing or simple stimulation. For a relatively small amount of capital and in a relatively short period of time, a large percentage of these wells could be restored rapidly.

For transactions involving the export of U.S. goods and services to Russia as to every other country in the world, Eximbank must find reasonable assurance of repayment. Given the Bank's belief that short term Russian risk is very high, and therefore its ability to provide sovereign risk financing is very limited, the Bank can only finance large-scale credits to Russia on a project (or production payment financing) basis.

The framework agreement includes a security arrangement which will ensure that a portion of the foreign exchange proceeds from the sale of oil and gas are deposited directly into an offshore account not subject to control by Russian borrowers, the Russian government or the Russian central bank. These proceeds would be for the sole use of Eximbank and any lenders guaranteed by Eximbank.

The oil and gas framework agreement will be good business, obviously, for U.S. suppliers who will need new markets if they are to continue to employ thousands of American workers. But equally as important, the Eximbank's credits are critical to the Russians if they are to purchase the goods and services they need to revitalize the oil and gas sector is fundamental. Fortunately, much good work has been accomplished already in this area.

Another vital source of U.S. government funding is authorized in the Freedom Support Act. American businesses in Russia often count on a guiding hand from the U.S. government, because of the extraordinary difficulty obtaining information in the Russian business environment. The Department of Commerce, through projects like the Business Information Service for the Newly Independent States (BISNIS), has filled a tremendous need for commercial information in the former Soviet Union. Its information clearinghouse provides access to all trade and marketing information obtained by the U.S. government including business opportunities in the NIS countries, and their changing rules and regulations. The Washington office of BISNIS answers over 800 queries a week from U.S. businesses and has fielded over 25,000 questions since it opened last June.

The Commerce Department is also establishing American Business Centers where United States companies have access to a telephone, fax, copy machine, and a secretary, and where they can conduct business negotiations. These centers will encourage and assist U.S. companies as they explore business opportunities in emerging commercial centers and resource-rich regions throughout the NIS. Unfortunately, rather than the 12 centers originally envisaged by the NIS, it appears that the Commerce Department will only receive sufficient funding to proceed with 7 locations.

These services, like the Export-Import Bank funding, are not just foreign aid programs, but also are domestic job creators. By allowing U.S. companies to increase exports, the U.S. government can serve the dual role of assisting Russian and helping our own economy. This perspective is crucial to maintain, especially in this time of domestic fiscal uncertainty.

Tables for Testimony to the Committee on Foreign Affairs
U.S. House of Representatives

Monetary Data for Russia, 1992

	Inflation (CPI)	Money Supply Growth (M2)	Ruble Ex Rate
Feb	38.3	11.9	170
Mar	29.8	13.8	161
Ap	21.7	10.0	155
May	12.0	9.0	128
June	18.6	27.5	119
Jl	11.0	27.5	136
Aug	9.0	28.3	163
Sep	12.0	31.9	204
Oct	23.0	26.7	338
Nov	26.0	5.5	419
Dec	26.6	20.0 (est)	418

	Inflation	Money Supply change from three months before
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May	12.0	11.9
June	18.6	13.8
July	11.0	10.0
Aug	9.0	9.0
Sep	12.0	27.5
Oct	23.0	27.5
Nov	26.0	28.3
Dec	26.6	31.9

	Exchange Rate Change	Money Supply change from one month before
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Mar	-5.6	11.9
April	-3.4	13.8
May	-17.7	10.0
June	-7.1	9.0
July	14.6	27.5
Aug	19.7	27.5
Sept	25.5	28.3
Oct	65.7	31.9
Nov	24.0	26.7
Dec	-0.2	5.5

Table 2. Indicators of Raw Materials Production and Energy Consumption, 1988

<i>Commodity</i>	<i>Soviet Union</i>	<i>United States</i>	<i>West Germany</i>	<i>Japan</i>
<i>Millions of metric tons, except energy^a</i>				
Crude steel	163.00	90.60	41.00	105.70
Refined copper	1.00	1.86	0.43	0.96
Primary aluminum	2.50	3.94	0.74	0.04
Synthetic rubber	2.44	2.34	0.49	1.30
Primary energy	27.28	38.93	5.53	8.07
<i>Thousands of metric tons per U.S. billion dollars of GDP, except energy^b</i>				
Crude steel	280.00	18.49	34.35	36.47
Refined copper	1.71	0.38	0.36	0.33
Primary aluminum	4.28	0.80	0.62	0.01
Synthetic rubber	4.18	0.48	0.41	0.45
Primary energy	46.78	7.94	4.63	2.78

Source: CIA (1990), International Financial Statistics (IMF, September 1992), and the *Economist* (1990).

a. Commodities are measured as millions of metric tons of production. Primary energy is measured as millions of barrels per day, oil equivalent, of consumption.

b. Commodities are measured as thousands of metric tons of production per U.S. billion dollars of GNP. Primary energy is measured as thousands of barrels per day, oil equivalent, of consumption per U.S. billion dollars of GDP. GDP figures are in 1988 current dollars. U.S. billion dollars of GDP figure for the Soviet Union is from the *Economist* (1990).

Table 5. Russia's Balance of Payments, 1990-92^a

Billions of U.S. dollars

	1990	1991	1992 ^b
<i>Current account</i>	-4.5	4.1	-7.7
Trade balance	-2.0	6.5	-2.7
Exports	80.9	51.6	34.4
Oil	27.1	11.8	9.9
Natural gas	9.6	10.3	7.4
Other	44.2	29.5	17.1
Imports	-82.9	-45.1	-37.1
Service account	-4.1	-4.6	-5.9
Interest due	-2.9	-2.7	-3.7
Gold sales	1.6	2.2	0.9
<i>Capital account</i>	1.4	2.7	3.3
Grants	0.0	1.6	2.7
Long-term capital (net)	2.0	3.8	5.6
Other	-0.6	-2.7	-5.0
Overall balance	-3.1	6.8	-4.4
<i>Financing</i>	3.1	-6.8	4.4
Net international reserves	9.2	0.6	-0.7
Gross reserves (- increase)	5.1	1.5	-1.4
IMF credits	0.0	0.0	1.0
Short-term liabilities	4.1	-0.9	-0.3
Arrears	2.7	-0.1	-2.9
Debt deferral	0.0	0.2	7.9
Other ^c	-8.8	-7.5	0.1

Sources: International Monetary Fund (1992a) for 1990 only, and government of Russia.

a. Excludes inter-republican trade.

b. Figures for 1992 are estimates.

c. For 1990 and 1991, primarily reflects the financing of Russia's trade surpluses with other republics.

Prof. J. Sachs
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Strengthening Western Support for Russia's Economic Reforms

The G-7 countries did not develop a coherent strategy to support Russia's economic reforms during 1992. The lack of a coherent strategy has gravely weakened the Russian reform effort. There is an urgent need to chart a new strategy of Western assistance for 1993 and later years. This memorandum proposes a new G-7 policy.

I. The Aid Effort in 1992

The need for large-scale assistance to Russia arises for three inter-related reasons. First, there is an acute balance of payments crisis, which has led to a plummeting in Russia's capacity to purchase imports on world markets. Second, there is an acute fiscal crisis, which is contributing to hyperinflation, and which is gravely worsened by the fiscal burden of foreign debt servicing as well as new social spending required by the economic transformation in Russia. Third, there is an urgent need to help cushion the shocks coming from the collapse of the old system and the emergence of a new market economy. Foreign aid can give hope to the population, and thereby provide a key to political and social stability during the transition to democracy and a market economy.

The gravity of the balance of payments crisis is not sufficiently appreciated in public discourse about Russia. Russia has been hit by several shocks in the past three years: the loss of markets in Eastern Europe (e.g. for military equipment), which used to help pay for consumer goods; the collapse of energy exports; and the emergence of a debt-servicing crisis, after a six-year period in which the Soviet Government built up a foreign debt of more than \$60 billion. These factors have contributed to a collapse of imports, shown in Table 1. Imports fell by 45 percent between 1990 and 1991, and then by another 25 percent or so in 1992, partly as a result of the fact that the promised financial assistance program never materialized.¹

The fiscal crisis is equally profound, and the demands of debt servicing weigh heavily in the fiscal imbalance. Fiscal and quasi-fiscal deficits (including subsidized credits to industry) total around 20 percent of GDP in the second half of 1992. These

¹Note, however, that official data may understate the level of trade in 1992, because of the prevalence of smuggling, barter, and other under-reported transactions.

deficits are being financed by domestic or contractual obligations on debt servicing, represent the single largest item in the Russian amount of debt servicing demanded by the Paris Club. Its most recent rescheduling offer in December 1991 provides for payments in excess of the total budgetary outlays. The fiscal burden will be intensified next year by increased spending, for unemployment compensation, pension support, and so on. Debt relief will be necessary to bring the budget outlays to manageable levels, and international financial support can play a key role in financing this in a non-inflationary manner.

In view of the critical balance-of-payments and fiscal crisis, and as a tangible demonstration of support for Russia's economic and political reforms, the \$11 billion aid package for Russia for calendar year 1992, announced on April 1, 1992, this package was to include the following elements:

interest rescheduling: \$2.5 billion of
IMF and World Bank: \$4.5 billion
stabilization fund: \$6.0 billion fund
bilateral grants and loans: \$11.0 billion

This package was not fulfilled in any category and the reasons have been as follows:

interest rescheduling: no Paris Club agreement
IMF and World Bank: \$1.6 billion in calendar year 1992, no import financing²
stabilization fund: delayed by IMF and World Bank in 1992³
bilateral grants and loans: \$11 billion in calendar year 1992
credits at market interest rates⁴

²The IMF lent the \$1 billion on the condition that it be used as reserves in 1992, and not be used to finance the World Bank loan which was signed in December 1992, and the amount has not been disbursed.

³The IMF insisted that the stabilization operation only after stabilization had actually begun. In contrast to the case of Poland, in which the operation came into existence at the start of the program, the IMF's political and economic linchpin of stabilization was not in place until after the program had begun.

⁴Humanitarian grants totaled approximately \$1 billion. The Bush Administration and IMF have sometimes coordinated with the German Government for \$1 billion of German financial support for Russia. The German Government has provided clearly to the Russian Government that troop

Total disbursements have therefore totalled around \$11 billion. Moreover, the disbursements are mostly short-term commercial credits, on which around \$2.5 billion will come due in 1993. Remarkably, and contrary to the stated intentions of the G-7, the trade credits were not conditional on the economic reform program.

The absence of Western finance has had several deep and corrosive effects in Russia. Most importantly, the economic hardships have been made much more severe because of the scarcity of imports and the high-cost of foreign exchange. The budget has had to rely on inflationary financing from the central bank, rather than non-inflationary foreign financing. Moreover, the political base of the reformers has been deeply undermined, both because of the precarious economic situation itself, and because the reformers justified their policies in part on the need to garner Western support, which in the end did not materialize.

Russia is now on the verge of hyperinflation, as a result of the weakening of the stabilization effort and the inadequate international assistance. Nonetheless, the overall economic situation is far from hopeless, if the setbacks in stabilization can be reversed. On the positive side, the Russian public is not only acquiescing in, but actually supporting the move to a market system. There has been no social explosion, no important unrest at the grass-roots level. The privatization of the economy is surging forward, with literally thousands of enterprises converting themselves into joint stock companies, with shares already being auctioned for vouchers. Decentralized, market-based behavior is taking root throughout the vast Russian expanse. Manufacturing enterprises are waking up to export opportunities in the West (while official Russian export data show a decline in exports, data from the countries with which Russia trades shows an increase in Russian exports).

Even the decline in industrial production should not be mourned. As in Eastern Europe, much of the shrinkage is in the old military-industrial complex, which was not producing for consumer needs in any event. The decline in production here is freeing up resources for other sectors of the economy. A new service sector is taking root, seen most clearly in the tens of thousands of kiosks that have opened up in Moscow in recent months. Even the most feared consequence of reforms, unemployment, remains at a mere 1 percent of the labor force, vastly below the unemployment rates of market economies. Unemployment will grow, surely, but together with the growth of new opportunities in the economy.

The key for Russia is to persevere in the basic four lines of reform: macroeconomic stabilization; liberalization of economic

not to be counted in the \$24 billion package.

activity; privatization of state-owned resources; construction of a social safety net to support the vulnerable groups in the population left behind by the market changes; and an industrial policy to support market-based adjustments of enterprises in critical areas, including energy, agriculture, and military conversion. Stabilization is most urgent, since a real hyperinflation could derail all of the rest of the reforms. The West still has a chance to play a pivotal role by supporting the main themes of reform.

II. A Western Assistance Package for 1993

The Western assistance in 1993 should be geared to provide maximum political and economic support to the basic contours of reform. Rather than announcing a sum of cash, as the G-7 did in April 1992, the West should work together with the Russians to establish a series of projects, each directed at a key aspect of reform. The following kind of package makes sense.

- An Emergency Social Fund, to help pay for unemployment compensation, health care expenses, and supplements to pensioners. The Fund would be established by direct grants of the Western countries. This program would do an enormous amount to allay current anxieties that the unemployed, the pensioners, and other vulnerable groups will be left to fend for themselves. Obviously, such a fund would help to cover direct budgetary needs without the resort to inflationary finance.

- An industrial restructuring fund, to help finance military conversion and other industrial restructuring investments (particularly in energy and agroindustry). This money would be in the form of long-term loans from export credit agencies, the World Bank, and the European Bank for Reconstruction and Development (EBRD).

- A small-business loan program, modelled on U.S. efforts in Poland and Czechoslovakia, to make hundreds of thousands of loans throughout Russia to small private-sector enterprises. Such a fund could be managed by the EBRD.

- Ruble stabilization support, including three components: debt rescheduling, an IMF standby loan, and a ruble stabilization fund.

It is not possible at this point to put a precise 1993 price-tag on this program. It is important, nonetheless, to make a rough estimate of possible costs. As we explain in Appendix A, the Emergency Social Fund should probably be on the order of \$8 billion in paid-in grants from the industrial nations. The industrial restructuring fund similarly should be on the order of \$8 billion. Commodity credits are expected to be around \$4 billion. The small business loan program should be on the order of \$1 billion for

1993.

The ruble stabilization support has three parts. The debt rescheduling should reduce the annual debt servicing to around \$2.5 billion (including both the Paris Club and the London Club). The IMF standby loan should be on the order of \$4 billion (90 percent of quota). The ruble stabilization fund should be around 2 months of import coverage, or approximately \$6 billion.

Not counting the ruble stabilization fund (which is a line of credit not actually drawn down except in an emergency), and the debt rescheduling, the overall package of support would come to approximately \$25 billion. In the next section we explore the macroeconomic implications of these alternative levels of support.

An aid package of the sort just outlined is obviously ambitious, but it is the kind of program that could fire up the imaginations of the millions of Russians trying to find their place in Russia's rapidly changing order. They would have vastly more confidence that basic needs would be met in the event of unemployment; a better chance to start a private business; and hope for their factory's future if it is eligible for long-term restructuring assistance. All Russians would be vastly aided by a stable, convertible currency made possible by meaningful support from the IMF.

III. Macroeconomic Aspects of International Financial Assistance

The preceding aid package can be justified on "microeconomic" or narrow programmatic grounds, that is, that it would help to support social welfare, to develop small businesses, to encourage industrial restructuring, and so forth. It is important to recognize, however, that there are additional -- and perhaps even more important -- macroeconomic consequences from such an aid program. There are two major macroeconomic effects that should be highlighted.

First, the assistance provides an increased overall level of foreign exchange to Russia. This allows an increased level of imports, and a stronger real exchange rate of the ruble (thereby increasing the purchasing power of wages in dollar terms). The increased imports not only would boost living standards, but would also lead to a higher overall level of output, by reducing the real cost of imported inputs to Russian industries.

Second, the foreign assistance provides a form of non-inflationary financing for the budget and for enterprises, that would permit Russia to achieve a lower rate of inflation for any given level of overall budgetary outlays or credits to industrial enterprises. Thus, the foreign assistance plays a direct role in stabilizing the economy, by helping to finance budgetary spending

and enterprise restructuring.

Since the monetary implications of foreign assistance are often misunderstood or neglected, it is worth describing them in greater detail. Consider the case in which the government receives \$1 billion in aid per month, with an exchange rate of 400 rubles per dollar. In order to use the assistance for domestic ruble expenditures, the budgetary authority must sell the dollars in return for rubles. The rubles thus earned are generally called "counterpart funds." It may sell the dollars in two ways: either directly into the foreign exchange market, or to the Russian Central Bank (RCB). At the prevailing exchange rate, the dollars would lead to budgetary counterpart funds of 400 billion Rbls.

Suppose, for purposes of illustration, that the Government is currently running a budget deficit of 400 billion Rbls per month. This budget deficit is currently being financed by Central Bank loans, leading to a rise of the money supply of 400 billion Rbls per month and high inflation. The foreign aid would eliminate the inflationary finance. If the dollars are sold into the foreign exchange market, they would raise exactly the funds needed to cover the deficit, without resort to central bank financing. The rubles absorbed from circulation by selling the dollars into the foreign exchange market would be placed back into circulation as the government carries out the monthly budgetary expenditures. Despite the budget deficit, there would be no tendency for an increase in the ruble money supply during the year.

If the dollars are sold to the RCB, the monetary mechanism is slightly different, although the end result is the same. Now, the rubles spent by the government would actually lead to a increase in the money supply in the first instance, since no rubles are taken out of circulation in advance of the government's deficit spending. Thus, the ruble money supply would go up by 400 billion Rbls. The ruble exchange rate would tend to depreciate. But if the RCB were pegging the exchange market at 400 Rbls per dollar, it would have to sell its dollar reserves to offset the increased rubles. The Central Bank would then sell the dollars into the foreign exchange market, thereby reabsorbing the rubles. Indirectly, the ruble money supply would be stabilized, just as if the dollars had been sold directly into the foreign exchange market by the budgetary authority.

Since the foreign assistance provides crucial support to stabilization, it is wrongheaded to argue that "aid would be wasted until after the Russian economy is stabilized." The aid itself can be a crucial part of the stabilization program, and will make it vastly more likely to succeed. Therefore, a stabilization program and foreign aid should be seen as simultaneous actions, not as a sequence of actions in which stabilization comes first, only after which Russia qualifies for foreign assistance.

IV. A Financial Assistance Package for 1993: Macroeconomic Assessment

We now examine the macroeconomic impact of a large-scale foreign assistance program. We examine a 1993 assistance program on the scale of the program that was promised, but not delivered, in 1992. To understand the macroeconomic implications of the foreign assistance, we consider three alternative scenarios.

In the first scenario, we assume that the Russian Government receives a full-scale assistance program of \$25 billion, and is therefore able to carry out a macroeconomic stabilization program and at the same time to satisfy pressing social and industrial needs through increased budgetary spending and lending to enterprises. We call this the "S" (stabilization) scenario.

In the second scenario, we assume that the Russian government receives a far smaller assistance program, of \$12 billion, but nonetheless tightens its belt sufficiently to carry out macroeconomic stabilization. This scenario corresponds to a level of international financing for Russia currently envisioned by the IMF. Obviously, the degree of austerity is much greater, and the political viability of such a program would be much more doubtful. We call this the "A" (austerity) scenario.

In the third scenario, we assume that the Russian government carries out the social and industrial policies of the first scenario, but without the foreign assistance. It pays for these policies through inflationary financing. The result, of course, is very high inflation, which itself would undermine the viability of the government and the reform process. We call this the "I" (inflation) scenario.

Foreign financing

Our specific assumptions about foreign financing are as follows. We assume that in the S-scenario that Russia receives an \$8 billion emergency social fund, an \$8 billion industrial restructuring fund, a \$1 billion small business fund, and a \$6 billion ruble stabilization support. In the other two scenarios, Russia does not receive the social funds or the small-business loans, and receives only \$4 billion in investment funds. These assumptions are repeated for convenience in Table 2 (see Appendix B for further details, including a possible allocation of the funding among the creditor governments and international institutions).

For purposes of analysis, we assume that in the A and I scenarios, Russian per capita GNP would be \$1,000. With a population of 150 million, this suggests an aggregate dollar-GNP of \$150 billion. Therefore, the \$12 billion of foreign financing

under the A and I scenarios would equal approximately 8 percent of GNP.

In the S scenario, dollar GNP is somewhat higher because the higher levels of capital inflow lead to a stronger value of the ruble in terms of dollars. Under our assumptions explained in Appendix C, we estimate that the extra inflows in the S scenario raise the dollar GNP by 30 percent, to \$ 191 billion. Therefore, the \$25 billion in inflows would amount to 13 percent of GNP in the S scenario.

The foreign financing can be used for three purposes: to finance the budget; to finance enterprises; or to accumulate foreign exchange reserves. We assume that the IMF standby funds (when available) are used for foreign exchange reserve accumulation; that the social spending and the commodity credits are used for budget financing; and that the industrial investment funds are used for enterprise funding.⁵ With these assumptions, the levels of budget and enterprise financing under the alternative scenarios, as a percent of GNP, is shown in Table 3. Note, for example, that the emergency social fund finances budgetary outlays of around 4.2 percent of GNP.

Achieving stabilization

In our analysis, a successful stabilization program brings inflation down to 2-3% per month by the fourth quarter of 1993, with a pegged convertible currency (the exact inflation paths are shown in Appendix C). Under our hypothetical stabilization program (in scenarios S and A), the government announces a pegged exchange rate on January 1, 1993, and then tightens monetary policies and fiscal policies by enough to stabilize the exchange rate at that level and to reduce the inflation rate to the targetted levels by the end of the year. This is the monetary strategy successfully pursued in Poland in 1990.

According to our monetary analysis, successful stabilization requires a sharp slowdown in overall money supply growth compared with the money supply growth in the second half of 1992. In particular, central bank credits to the budget and to the banking system must be cut back significantly from the rates of credit expansion in the second half of 1992. Based on our rudimentary financial model, we calculate that central bank credits to the

⁵In fact, the commodity credits tend to be used for goods such as wheat which are sold at a subsidized (sub-world-market) price in the domestic market. These implicit subsidies are not counted in the budget. We assume that half of the commodity credits are used to cover subsidized sales, and the other half to finance the budget.

budget plus the enterprise sector must be cut back to around 7.6 percent of GNP, from a level of about 20 percent of GNP during the second half of 1990. Somewhat arbitrarily, we assume that this level of total money financing from the central bank is divided between the budget and the enterprise sector as follows: budget financing, 2.1 percent of GNP; enterprise financing, 5.6 percent of GNP. (From the standpoint of stabilization, it does not matter much how the 7.6 percent of credit expansion is divided between the budget sector and the enterprise sector.)

When we combine the foreign financing and the allowable domestic monetary expansion, we can calculate the level of the budget deficit and overall credit to industry that is compatible with stabilization in 1993, as shown in Table 4. We see that with the foreign assistance program, the Government can run a budget deficit of 7.4 percent of GNP, and can extend enterprise credits of 10.4 percent of GNP. Without the program, the budget deficit must be cut to 3.1 percent of GNP, and enterprise credits to 8.3 percent of GNP.

Based on current budget estimates, we can describe the level of taxes and expenditures as a percent of GNP under the three scenarios, shown in Table 5. We assume that under all scenarios, the government absorbs 31 percent of GNP in revenues. Under the S scenario, spending is 7.4 percent of GNP in excess of that, to-wit, 38.4 percent of GNP. Under the A scenario, spending is 34.1 percent of GNP. The difference, under our assumptions, is that the foreign financing in the S scenario permits a higher level of social spending.

To construct the I (inflation) scenario, we assume that the Russian Government carries out the same level of social spending and enterprise credits as in the S scenario, but without the foreign financing.⁶ These social and enterprise expenses must therefore be covered by domestic credit expansion, as during 1992. Under the I scenario, the Russian Government runs a budget deficit of 7.4 percent of GNP (as in the S scenario), but now 6.1 percent of GNP is financed by money, and only 1.3 percent of GNP by foreign credits (see Table 5). Similarly, credits to enterprises are set at 10.4 percent of GNP (as in the S scenario, Table 4), but now the credits are almost entirely domestic credits rather than foreign credits. The total level of money financing (budget plus enterprises) is therefore 13.8 percent of GNP, which would fuel an explosive inflation in 1993.

⁶In essence, we make the realistic assumption that political considerations force the government to carry out a comparable level of social spending and enterprise assistance, but to do it without international help.

Macroeconomic outcomes under the alternative scenarios

The impact of the alternative financing scenarios on key macroeconomic variables is presented in Table 6. The scenarios differ in several respects, most importantly: the level of imports; the nominal and real value of the ruble; and the inflation rate. (Of course, there are also the microeconomic differences in the level of social spending, enterprise restructuring, small business development, etc.). All variables are presented as year averages, except for inflation, which is the twelve-month rate for December 1992 to December 1993. The formal assumptions underlying the scenarios are described in Appendix C.

The results show the significant effects of the foreign assistance package. The largest differences are between scenarios S and I. In Scenario S, inflation is brought down to 97 percent for the year 1993, while in Scenario I, inflation rages at an annual rate of 830 percent. Government spending and total credits to industry are the same in the two cases; the only difference is the source of funding -- foreign credit in the Scenario S, domestic credit in Scenario I. Note that the dollar wage is higher in S compared with I (\$77 per month compared with \$60 per month), since the purchasing power of the ruble in terms of dollars is strengthened by the greater inflow of foreign assistance. Imports are larger by the amount of the foreign foreign, that is, \$13 billion comparing the two scenarios.

It is also important to compare S and A. In both cases, inflation is brought under control, but in Scenario A, this is accomplished through much greater belt tightening. Not only are government spending (presumably social spending) and enterprise credits much less than in the S scenario, but the dollar value of wages and per capita income are also reduced sharply. Note that in the S scenario, the nominal exchange rate is stabilized at 380 Rbls per dollar, while in the A scenario, the nominal exchange rate is stabilized at the much weaker rate of 500 Rbls per dollar. In the high-inflation scenario, the exchange rate begins at 445 Rbls per dollar, and depreciates to 2,531 Rbls per dollar by the final quarter of the year.

Appendix A. Further Details on the Assistance Program

I. The Social Expenditure Program

The Russian government inherited an enormous fiscal deficit in 1991. Beginning in 1992 the government cut spending sharply, and managed to keep monetary financing of the deficit at low levels throughout 1992. But this has come at the expense of social programs. Ongoing programs such as pension funds and child care benefits have been cut by more than 50% in real terms. The average pension is now at an historical low relative to the average wage, and pensioners' bank savings have been inflated away. In addition, transformation requires new social spending programs. These include unemployment benefits for the newly unemployed as well as extensive retraining programs for productive employment in a restructured market economy.

Given the current extremely tight fiscal situation, and the need for further fiscal tightness in order to stabilize the economy, the government is unable to meet these expenditure needs. Foreign financial assistance can ease the social burden of adjustment. A program of \$ 8 billion in financial assistance during 1993 could provide temporary support for the most needy social groups, and also provide temporary relief to the tight budget situation giving time for other tax and expenditure policies to be adjusted as needed. Below we outline how such assistance can be used:

Pension Funds	\$2.10	billion
Employment Fund	3.90	
Health Care	1.75	
Child Support	0.25	
Total Social Package	8.00	billion

1. Cash assistance to increase pensions: \$2.1 billion

There will be 36.2 million pensioners in Russia in 1993. In 1986 the average pension was 37.2% of the average wage. As fiscal problems increased, pensions were reduced, and by 1990 the average pension fell to 32.3% of the average wage. In 1992 the average pension has fallen to 26.3% of the average wage. In addition, high inflation has completely eroded the savings of pensioners, leaving pensioners as the worst affected social group in the transformation process.

External financial assistance could play a crucial role in improving the pensioners' situation. A \$2.1 billion assistance program would raise pensions by approximately \$5 per month, and

raise average pensions from a level of 26.3% of the average wage, to 31.3% (i.e. still only 84% of the 1986 ratio) in 1993.

2. Cash Assistance to retrain and provide assistance to the newly unemployed: \$3.9 billion.

The government has introduced a modest program to assist the unemployed with temporary benefits and retraining programs. There are substantial initial set-up costs, but in addition this is a new expenditure in the budget. In January 1992 only 0.1% of the labor force received benefits, and while unemployment is growing benefits have been kept extremely low. The average benefit was only 12.8% of the average wage in September 1992. With a coming explosion of unemployed, it is critical that a sustainable, functioning program be introduced.

The envisaged program allows for workers benefits of up to 70% of the average wage for an average of six months. In addition, there are expenditures on job retraining and initial costs of implementing the system. The government projects that nearly 5 million people will seek benefits in 1992.

These expenditures cannot be financed by the revenues of the employment fund independently, and the employment fund is projected to run a deficit of approximately \$3.8 billion in 1993. We assume that this deficit is financed from a targeted foreign assistance program.

3. Health Care and Medicines: \$1.75 billion

The health care system has fallen into crisis, with even the most basic supplies and medicines in shortage and a severely underpaid and demoralized work force. The government has targeted this sector for increased expenditures, rising from 2.44% of GDP in 1992 to 3.53% of GDP in 1993. A targeted program of financial assistance equal to \$1.75 billion would cover this increase in expenditure.

4. Child Benefits: \$250 million dollars

Child benefits, like pensions, have been cut sharply since 1985. Under the current budget conditions, the government is forced to further cut benefits in 1993, and the total benefit program will fall from 0.8% of GDP in 1992 to 0.68% of GDP in 1993. A targeted program of financial assistance equal to \$250 million would raise benefits to the 1992 level.

II. Industrial Restructuring Funds

Russia needs a thoroughgoing industrial restructuring, in several critical dimensions: the internal organization of enterprises; the sectoral composition of production; and the

recapitalization of key sectors. Of course, much of this restructuring will take place on a decentralized basis, as the result of the activities of individual Russian and foreign enterprises. The Russian Government however has a critical responsibility to provide assistance in several ways:

- 1) to facilitate the inflow of capital into critical sectors, such as energy, agroindustry, and military conversion;
- 2) to finance infrastructure projects that are complementary to investments at the enterprise level (e.g., communications, transport, storage, in areas formerly closed to international trade).
- 3) to make available technical assistance to newly privatized enterprises to enable them to function in a market setting;

The pressure on the Russian Government and the Russian Central Bank to provide credits to industry has been the single largest source of inflation during 1992. By placing the industrial restructuring in an international context, in which the West helps to fund and to oversee the restructuring process, several key goals could be met. First, foreign credits would reduce the need for domestic credit expansion, and thereby facilitate stabilization. Second, foreign conditionality would help to depoliticize the allocation of industrial credits, so that the adjustment process would be more forward-looking and market oriented. Third, the active involvement of outside creditors would facilitate the establishment of new linkages between Russian enterprises and Western enterprises.

Several "investment pools" would be established, perhaps coordinated by the World Bank, with funds provided by: export credit agencies, the World Bank, the EBRD, and private investors. The easiest model would be World Bank sector adjustment loans (SECAL), together with extensive co-financing arrangements with other creditors. The SECAL would provide the vehicle for establishing the relevant market-oriented conditionalities for the sectoral financing. The export credit agencies of the major industrial countries would agree to target certain overall sums for investments during 1993 to be included in the overall pool of resources. To start, three investment funds should be established, for military conversion, agroindustry, and energy.

The advantage of the pooling approach, in which the major G-7 institutions are brought together with the relevant Russian authorities, has been made clear by the morass this year in developing a Western policy for financing Russian energy investments. The World Bank fought the U.S. Eximbank for several months over the issue of colateralizing investments in the oil and

gas sector.⁷ The Russians, in the meanwhile, received no financing for the sector, and the World Bank's first \$600 million rehabilitation loan was delayed in part because of the squabbling.

In addition to the investment funds, there should also be established a Technical Assistance Fund for Newly Privatized Enterprises. The enterprises would be able to apply for funding to hire international and Russian management advisors to help with their adjustments to private ownership and market relations. Such technical assistance has been provided successfully, though on a small scale, in several Eastern European countries.⁸ The key here would be to make it widely available to the hundreds of large Russian enterprises now in the process of corporatization and privatization.

The overall levels of funding for each of the industrial restructuring programs would depend on several factors, including: the speed at which investment projects could be analyzed; the urgency of recapitalization in various sectors; the availability of private capital as an alternative to official finance; the negotiation of SECALs; and so on. Based on discussions this year in the key sectors, plausible targets for financing in 1993 would be:

energy	\$3.5 billion
military conversion	\$2.0
agroindustry	\$1.5
technical assistance	\$1 billion
total	\$8 billion

III. Small-Business Loan Program

The U.S. has effectively promoted private sector development in Poland and elsewhere in Eastern Europe through the establishment of "Enterprise Funds," capitalized by a budgetary outlays, with the purpose of lending money to private-sector investments. The European Bank for Reconstruction and Development would be the natural sponsor of such a project for Russia. A Russian Small-Business Fund would be established with regional offices throughout the country, perhaps as an offshoot to the local branches of the

⁷The issue was whether colateralizing oil-sector investments with future oil exports would violate negative pledge clauses on Russia's debts.

⁸In Poland, the Government sponsored a Task Force on Company Assistance, which provided restructuring advice to corporatized and privatized state enterprises.

State Property Agency, or the local branches of the main state banks. The SBF would make small-scale loans to individuals seeking to start individual businesses. It could also sponsor local courses in small-business management, and develop new educational materials in the area.

Such a program would be a highly visible, politically effective vehicle for demonstrating the feasibility of starting new businesses and receiving financial backing, as has been the case in Eastern Europe.

IV. Ruble Stabilization Support

All aspects of the assistance program provide indirect support to the value of the ruble. There is a need, however, for several actions in direct support of the balance of payments in addition to the programmatic support already described. Three kinds of support are most urgent: debt rescheduling; an IMF standby loan; and a ruble stabilization fund.

All scenarios reported in the text assume a deep debt rescheduling, in which Russia services \$2.5 billion during 1993. This has been the Russian offer to the Paris Club in the past months. So far, the Paris Club and London Club creditors have requested a greater amount of debt servicing, on the order of \$6 billion during 1993. Note that debt servicing is a direct budgetary outlay. Increased debt servicing above the \$2.5 billion baseline would therefore require additional financing or further austerity measures in the budget. The \$6 billion debt servicing requested by the Paris Club would exceed, for example, the entire budget outlays for health care in the 1993 Russian budget.

We also assume two kinds of IMF support: a one-year standby loan, of about 100 percent of quota (approximately \$4 billion), and a \$6 billion stabilization fund. According to the current IMF "timetable," the stabilization fund would be brought into place only after several months of stabilization. We should stress that such an approach misses the essential aspect of a stabilization fund: that its mere existence, even if not actually drawn upon, can give confidence in the currency and thereby support the stabilization process itself. The existence of the fund also helps to establish within the government a consensus in favor of exchange rate stabilization as a central feature of the reform program. For these reasons, it will be extremely useful, if not essential, to set up the fund early in 1993.

Appendix B. Financing Sources for the Assistance Program

The financial assistance program should be a multilateral effort, involving the leading industrial nations and the international financial institutions. Table B.1 illustrates a possible allocation of assistance among the various creditors. Note that the only direct budgetary outlay is the \$8 billion Social Fund, shared among the industrial countries. A plausible division of responsibility would be: U.S., \$2 billion; Japan, \$2 billion; EC, \$3 billion; Other, \$1 billion (including Korea, Middle East). The industrial restructuring funds would be shared among the export credit agencies (ECAs), the World Bank, and the EBRD. The small business fund (SBF) would be financed by the EBRD, perhaps with co-financing from private sources. The stabilization fund would come out of the General Agreement to Borrow (GAB) funds at the IMF.

Table B.1 Source of Finance for Assistance Program

	<u>Governments</u>		<u>International Institutions</u>			<u>Total</u>
	<u>Budget</u>	<u>ECAs</u>	<u>IMF</u>	<u>World Bank</u>	<u>EBRD</u>	
Social Fund	\$8					\$8
Investment Fund		\$4		\$3	\$1	\$8
SBF					\$1	\$1
IMF standby			\$4			
Stab fund			\$6			
Total	\$8	\$4	\$10	\$3	\$2	\$27

Appendix C. Technical Details of the Analytical Framework

This note describes in more detail the analytical framework used in the analysis of the economic consequences of foreign assistance discussed above.

C.I The real economy and the balance of payments

We begin by taking an estimate of dollar GDP per capita in Scenario A of \$1,000 (\$150 billion GDP). With wage income equal to one-third of GNP, and with a labor force of 70 million, this implies a monthly wage of about \$60 dollars. Note that the current monthly wage is significantly below this amount (closer to \$30 per month). We are therefore presuming a significant real appreciation of the ruble under the base case scenario.

We assume this dollar GDP is consistent with the current balance of payments program envisaged by the IMF, and built into Scenarios A and I. If more financial assistance is received, the real exchange rate will appreciate and dollar GDP will rise. In order to assess the quantitative impact of aid, we assume that individuals and enterprises spend a constant fraction of their rouble expenditures on imports, that is, a unitary elasticity of demand for imports with respect to the real exchange rate. This determines the rouble demand for imports. The volume of imports (in dollar terms) is set by available proceeds: exports (taken as given for 1993) plus financial assistance plus net services less all other capital account items and reserve accumulation. Since financial assistance raise the supply of imports, it leads to an appreciation of the exchange rate.

Under these assumptions, a 10 percent increase in imports, ceteris paribus, leads to a 10 percent increase in the real exchange rate. Therefore, under scenario S where imports are 30 percent larger than in Scenarios A and I, the real exchange rate is also 30 percent more appreciated. Likewise, dollar GDP and the dollar wage are approximately 30 percent higher.

C.II Financial assistance and the fiscal balance

The government's 1993 budget calls for expenditures of 38.1% of GDP, and revenues of 31% of GDP. The IMF has reviewed the budget and made several adjustments, suggesting that the true budget deficit will be 12-14% of GDP under the current program. We assume the government takes additional measures to close the budget gap. We assume baseline expenditures are reduced to 36.7% of GDP, and revenues will equal 30.8% of GDP.

In order to stabilize the economy, allowing for credits to enterprises and a time path of inflation described in the section below, we calculate that monetary financing of the fiscal deficit should be no greater than 2.5% of GDP. This implies that additional budget tightening is necessary if foreign financing

cannot cover the remaining portion of the deficit in the three scenarios described above.

Foreign financing of the budget comes in different forms. In order to raise revenues to the budget, the most effective form is cash grants to the government. The government is assumed to sell the grants into the foreign exchange market and use the rouble proceeds to finance the deficit. Commodities credits, by contrast, are sold to importing enterprises. Some of the imported commodities are sold at subsidized (sub-world-market) prices, so that the budget receives an amount of rubles less than the value of the commodity credits multiplied by the rouble exchange rate. We assume that 50 percent of the market value of commodities credits are raised as counterpart funds for the budget.

C.III Money and inflation

Inflation is determined in a standard monetary framework. The price level each period is equal to the supply of money multiplied by velocity, divided by real GDP. The velocity of money is assumed to be a rising function of the rate of inflation. The supply of M1 money is a fixed multiple of the monetary base. The Russian central bank estimates the money multiplier at 1.8. The change in the monetary base is equal to the change in domestic credits plus the change in net international reserves of the Russian Central Bank. Domestic credit is the sum of credits to enterprises, the budget, and to other CIS states.

In the S and A scenarios, the quarterly inflation targets for 1993 are: 33%, 20%, 10% and 8%. We calculate that these inflation targets are consistent with an increase of base money equal to approximately 7.5% of GDP in 1993. Allowing 5% of GNP of base money as new credits to enterprises and the CIS, the monetary financing of the fiscal deficit can be no more than 2.5% of GDP in 1993.

For the S scenario, we calculate the nominal exchange rate that yields an average dollar wage for 1993 equal to \$77 per month. This turns out to be a constant exchange rate of 380 rubles per dollar. Since the nominal exchange rate is constant, while the domestic prices continue to rise, we assume a path of real appreciation throughout the year (as occurred in the Polish stabilization program). For the A scenario, the stable exchange rate consistent with the lower amount of international financing is 500 rubles per dollar. For the high-inflation (I) scenario, we assume that the exchange rate depreciates at the rate of price inflation, keeping a constant real exchange rate throughout the year. This leads to an exchange rate of 445 rubles per dollar in the first quarter of 1993, depreciating to 2,530 rubles per dollar in the fourth quarter of 1993.

Table 1. Balance of Payments of Russia, 1990-1992

	1990	1991	1992 ¹
Exports	80.9	51.6	34.5
Oil	27.1	11.8	9.9
Natural gas	9.6	10.3	7.4
Imports	82.9	45.1	37.1
Trade balance	-2.9	6.5	-2.6

Source: IMF, 11/21/92

¹Projection for 1992

Table 2. Financial Assistance under Alternative Scenarios

<u>Level of Assistance</u> (\$ billions)	<u>Scenarios</u>		
	<u>S</u>	<u>A</u>	<u>I</u>
Social funds	8	0	0
Investment funds	8	4	4
Commodity credits	4	4	4
IMF standby	4	4	0
Small-business fund	1	0	0
Total financing	25	10	8

Table 3. Budget and Enterprise Financing
(as percent of GNP)

<u>Type of Assistance</u>	<u>Scenario</u>		
	<u>S</u>	<u>A</u>	<u>I</u>
Budget outlays	5.2	1.3	1.3
social funds	4.2	0.0	0.0
commodity credits	1.0	1.3	1.3
Enterprise credits	4.7	2.1	2.1
investment funds	4.2	2.1	2.1
small-business funds	0.5	0.0	0.0
Reserve accumulation	2.1	2.1	0.0

Note: Based on Table 1, assuming \$GNP of \$191 billion in the S scenario, and \$149 billion in the A and I scenarios.

Table 4. Permissible Credit Limits with Stabilization
(percent of GNP)

	<u>Scenario</u>	
	<u>S</u>	<u>A</u>
Budget deficit	7.3	3.0
Monetary financing	2.1	1.7
Foreign financing	5.2	1.3
Enterprise credits	10.3	7.7
Monetary financing	5.6	5.6
Foreign financing	4.7	2.1
Reserve accumulation	0.5	0.5

Table 5

Fiscal Deficit and Financing Sources under Alternative Scenarios
(in percent of GDP)

	<u>Scenario:</u>		
	<u>S</u>	<u>A</u>	<u>I</u>
Revenues	31.0	31.0	31.0
Expenditures	38.4	34.1	38.4
Deficit	7.4	3.1	7.4
Financing Sources:			
Monetary Financing	2.1	1.7	6.1
External Financing	5.2	1.3	1.3

table 6. Macroeconomic Variables under Alternative Scenarios

	<u>Scenario:</u>		
	<u>S</u>	<u>A</u>	<u>I</u>
Annual Inflation (%)	97	91	830
Monthly wage (\$US)	77	60	60
GDP per capita (\$US)	1,275	995	995
Imports (\$US billion)	55	42	42
Exchange rate (Rbls per \$)			
93:I	380	500	445
93:IV	380	500	2351

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Prospects for Russia's Economic Reforms

AT THE START of 1992, less than six months after the fall of communism and less than one month after the dissolution of the Soviet Union, Russia embarked with remarkable dispatch on a program of radical economic reforms.¹ The economic reforms themselves, under the direction of Acting Prime Minister Yegor Gaidar, combined with the collapse of the Soviet state, have created an enormous opening for decentralized, market-based economic activity. Within a short period of eight months, almost all centralized operations of the command economy ceased; meanwhile, new commercial structures are developing rapidly. Spontaneous market activity is evident not only in the "kiosk boom" of Moscow, but also in growing market-based trade within Russia and between Russia and the rest of the world.

The benefits of sustained economic reforms are likely to be very great—much greater than is commonly supposed. The old command system was so inefficient and destructive of the quality of economic life

The authors are economic advisors to the government of Russia. The views expressed in this paper are strictly our own and do not necessarily reflect the opinions of the government of Russia. Some of the information presented here is based on unpublished data obtained from the government of Russia. We would like to thank Anders Åslund, Marek Dabrowski, Stanley Fischer, and Charles Wyplosz for very helpful discussions of many of the topics covered in the paper. Our work has been supported by a project on economic reform at the World Institute for Development Economics Research and by the government of Sweden.

1. For an early discussion of Russia's economic reform program, see Fischer (1992).

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that enormous scope exists for increases in average living standards within a few years, particularly as resources are shifted out of the military-industrial complex into other sectors.

Nonetheless, Russia's financial conditions remain horrendous because of the profound disarray left behind by the communist regime. Hyperinflation is a real risk—indeed, the main risk now to democratization and successful transition to a market economy.

Although the tasks of stabilization and transformation are daunting, we believe that there is a way forward with a reasonable prospect of success, based on tight monetary and fiscal policies to prevent hyperinflation. (We caution, however, that this way is under heavy attack from industrialists seeking large credits to keep alive loss-making state enterprises.) The tight financial policies would be accompanied by rapid privatization of enterprises and swift opening of international trade to encourage domestic competition, spur exports, and end the shortages of key commodities on the home market. Similar prescriptions are demonstrating their efficacy in much of Eastern Europe. In Poland, for example, which also began its reforms with hyperinflationary conditions, the transition to a normal, market-based economy is on track. After two and one-half years of reform, inflation is under control, shortages have ended, exports are booming, output is rising, and the private sector now accounts for more than half of total employment.

In Russia, reforms are clouded in confusion. Data are incomplete and misleading, and easily misinterpreted to give an overly bleak account. Many criticisms within Russia, which are repeated at face value in the West, are politically motivated rather than analytically sound. The many adverse trends in the Russian economy are attributed to the reforms themselves, rather than to the legacy of the old regime. This mistaken attribution results in an overstatement of the "costs" of the reforms, and therefore an undue pessimism about the reform policies themselves. This has resulted in strong pressures to abandon the reforms, even before they have begun to take hold. The timetable for judging the reforms is also frequently out of kilter, sometimes wildly so. For instance, the speaker of the Russian parliament, Ruslan Khasbulatov, called for the demission of the government ten days after the start of reforms.² Former President Gorbachev demurred, saying that the govern-

ment deserved ten more days!³ While we believe that the government and the West have been far too slow to face up to certain urgent tasks, thereby adding to the risks of hyperinflation, we must also stress that the reform process is a mere eight months old.

The real question for Russia, in our opinion, is not primarily one of economic strategy, but rather one of political management of economic reform in the next few years. Will Russia's political and administrative institutions prove sufficient to head off damaging hyperinflation? Will rear-guard actions by old power structures in the military-industrial complex succeed in derailing key reforms? Will the nascent democratic institutions survive the challenge of social turmoil in the face of dramatic economic change? We believe that the answers to all of these questions can be favorable, but success will require intensive effort and skilled political management.

We discuss these issues as follows. First, we outline the basic economic situation inherited by the Yeltsin-Gaidar government and the strategy of economic reform that was chosen. We emphasize the twin nature of the task: urgent monetary stabilization and long-term creation of a market economy. The monetary task has been particularly complex, given the breakdown of the old Soviet monetary and financial system and the bizarre and destabilizing nature of the monetary arrangements that emerged at the start of 1992. Monetary policy has not been conducted with sound judgment or with vigor; financial disarray remains, and the flood of credits since July 1992 leaves Russia facing the risk of imminent hyperinflation.

Second, we discuss the social and political context of the reforms to try to judge whether they will be sustainable. Of course, the overall process is at a very early stage and the data are sketchy and inaccurate. Therefore, we draw on lessons not only from Russia itself, but from reforms in other countries, including recent experience in Eastern Eu-

the government, which is not only a failure but simply incompetent," *Interfax* quoted Khasbulatov as saying after receiving a delegation of Italian parliamentarians. "Such a situation is developing that we [parliament] can either support the President to remove the incapable government, or do it ourselves."

3. See Christopher Botan, "Gorbachev, Back in Public Arena, Says Further Economic Reforms Needed," *Agence France Presse*, January 14, 1992, dateline Moscow. "Gorbachev said the government should be given another 10 days before deciding whether to quit."

2. See "Russian Parliamentary Speaker Attacks Yeltsin Government," *Reuters Library Report*, January 13, 1992, dateline Moscow. "The president should distance himself from

rype. In our view, the social basis for the reforms exists. The real test will be in the area of political reform and in the extent of Western support.

The Economic Inheritance

The general outlines of the Stalinist economic legacy are now rather well known. We describe first the main structural dimensions, and then the macroeconomic inheritance. The key structural characteristics are: a concentration of resources in heavy industry, particularly in the military-industrial complex, to the neglect of consumer industry and services; state or collective ownership of almost all productive assets; bureaucratic control over prices, domestic resource flows, and international trade; and the absence of a legal framework to protect private property and to support market activity. Some data and a few comments are in order on the first two points.

The Structural Legacy

Table I shows the allocation of output and labor across major sectors of the economies of the former Soviet Union (FSU) and the United States. We see clearly the remarkable concentration of resources in industry, resources are heavily concentrated in machine building, which includes much of the armaments sector and other parts of the military-industrial complex (MIC). The MIC was built up by an extensive system of implicit and explicit subsidies, which pushed resources into the sector at the expense of other parts of the economy. In particular, the MIC was guaranteed cheap access to energy and other raw materials, access to rationed foreign exchange, and heavy budgetary resources for investment projects.

The exact size of the MIC under the old regime was not precisely known, although one recent estimate puts it at around 20 percent of industrial employment, 16 percent of industrial production, and 12 percent of industrial capital of the USSR. In all, MIC employment is estimated at 7.5 million personnel, or about 5 percent of the Soviet work force.⁴

4. See Cooper (1991, p. 12).

Table 1. The Structure of Output and Employment in the United States and the Soviet Union

Sector	Output ^a		Employment	
	United States	Soviet Union	United States	Soviet Union
Industry	23.5	48.9	17.6	28.9
Electricity	3.3	2.2	0.6	0.6
Fuel	2.3	5.0	0.7	1.2
Metallurgy	1.1	3.7	2.1	1.5
Chemical	2.2	3.1	1.7	1.4
Machine bldg. and metal working	8.7	15.1	6.3	13.0
Wood and paper	1.7	2.1	1.7	2.1
Construction materials	0.6	2.1	0.5	1.9
Light industry	1.0	6.1	1.8	3.7
Food	2.4	8.1	1.5	2.4
Other industry	0.3	1.4	0.3	1.3
Construction	6.1	10.7	4.6	11.5
Agriculture	1.9	9.3	2.7	19.3
Transportation and communication ^b	5.8	10.1	4.0	7.2
Trade and distribution	11.2	6.1	22.2	8.0
Other	1.3	0.8	1.4	0.6
Services	50.0	13.9	47.6	24.5

Source: Kwon (1972, p. 54). Data for the United States are for 1986. Data for the Soviet Union are for 1988.

a. Output is measured as value added in domestic currency.

b. Includes passenger services as well as goods services.

These estimates must be judged with care. They count the output and employment of enterprises under the direct control of the USSR Military-Industrial Commission, known by its Russian acronym as VPK. The VPK supervised the work of eight ministries.⁵ The enterprises under VPK supervision in fact produced for both military and civilian purposes.⁶ At the same time, enterprises outside of direct control of the

5. The ministries were: the Ministry of Atomic Power and Industry (responsible for the development and production of atomic weapons); the Ministry of General Machinebuilding (responsible for the development of space technology and ballistic missiles); the Ministry of Defense Industry (responsible for missile technology and conventional forces equipment); the Ministry of Aviation Industry; the Ministry of Shipbuilding; the Ministry of Radio Industry (responsible for mainframe computers and radar); the Ministry of Electronics Industry (responsible for electronic components); and the Ministry of Communications (responsible for communications equipment and telephone and postal services). For details, see Cooper (1991, pp. 6-11).

6. One estimate, mentioned by Cooper (1991, p. 14), holds that 20 percent of the enterprises under the VPK produce solely for civilian purposes.

Table 2. Indicators of Raw Materials Production and Energy Consumption, 1988

Commodity	Millions of metric tons, except energy ^a		
	Soviet Union	United States	West Germany
Crude steel	163.00	90.60	41.00
Refined copper	1.00	1.86	0.43
Primary aluminum	2.50	3.94	0.74
Synthetic rubber	2.34	2.34	0.49
Primary energy	27.28	38.93	5.53
	Thousands of metric tons per U.S. billion dollars of GDP, except energy ^b		
Crude steel	280.00	18.49	34.35
Refined copper	1.71	0.38	0.36
Primary aluminum	4.28	0.80	0.62
Synthetic rubber	4.18	0.48	0.41
Primary energy	46.78	7.94	4.63

Source: CIA (1990), International Financial Statistics (IMF, September 1992), and the Economist (1990).
 a. Commodities are measured in millions of metric tons of production. Primary energy is measured in millions of barrels per day, oil equivalent, of consumption.
 b. Commodities are measured in thousands of metric tons of production per U.S. billion dollars of GNP. Primary energy is measured in thousands of metric tons of oil equivalent, of consumption per U.S. billion dollars of GNP. GDP figures are in 1988 current dollars. U.S. billion dollars of GDP figures for the Soviet Union is from the Economist (1990).

MIC complex provide inputs into military production, but are not counted in the MIC.⁷ The estimate is also made somewhat arbitrary by the huge price distortions, secrecy, and the virtual lack of public information concerning the employment and production in the nuclear weapons sector.

Naturally, the MIC fares rather badly overall in the face of market reforms. As soon as the sector is opened to market pressures, it is squeezed between falling demand, resulting from sharp budgetary cutbacks on armaments spending, and a supply squeeze, resulting from a loss of privileged access to scarce resources. Of course, the reduction of military production in favor of civilian production is a key goal of the economic reform, but also the source of intense political attack on the government. As we shall recount later, the pressures from the MIC to slow or reverse the economic reforms have been a central feature of Soviet, and then Russian, political life since 1987.

An illustration of the structural maladjustment caused by the relentless pursuit of heavy industry is seen vividly in table 2, which compares industrial production in the Soviet Union and several industrial econo-

7. These include enterprises of the civilian machinebuilding complex (such as tractors and diesel engines) and enterprises of the Ministry of Metallurgy.

Table 3. Indicators of Retail Trade Services in Various Countries, 1985 Per 10,000 of population

Country	Stores	Employment in retail trade
Soviet Union	20	177
United States	61	491
United Kingdom	61	412
Germany	66	383
France	86	335
Japan	135	527
Italy	175	350

Source: John Study (1991), vol. 3, table V.7.7, p. 33.

mies in 1988. Despite the fact that the other countries each have an aggregate GNP much higher than that of the FSU, it was the largest steel producer in the world, with a steel output per dollar of GDP fifteen times higher than that of the United States in 1988: The flip side has been the squeeze of the service sector, which can be seen by the paucity of retail establishments in the FSU. Table 3 compares the retail trade sector in the Soviet Union and several major industrialized nations, as of 1985. The number of shops per 10,000 population in the Soviet Union was one-third of the level in the United States and less than one-sixth of the level in Japan.

The second main structural feature we want to emphasize is the overwhelming extent of state ownership. Until the mid-1960s, more than 95 percent of production was in state hands; this has since dropped to around 85 percent with the spread of other forms of ownership, notably private ownership, cooperatives, and joint ventures. Nonetheless, the Russian state remains the nominal owner of about 23,000 industrial enterprises, and perhaps as many as 221,000 enterprises in total.⁸ As we have described earlier for the case of Poland, the vast state holdings require a systemic conception of privatization that moves beyond the sale of enterprises on a one-by-one basis that constitutes the privatization process in most parts of the world.⁹ The government has wisely adopted a strategy for mass privatization that will cover around three-fourths of the industrial capital stock in 1993.¹⁰

8. Kwon (1992b), pp. 2, 131.

9. Lipian and Sachs (1990b).

10. For an overview of the Russian government's privatization program, see State Committee on the Management of State Property (1992), Djelic (1992), and Kwon (1992b).

Table 4. Russia's Macroeconomic Performance

Indicator and units	1990	1991	1992 ^a
<i>Percent per year</i>			
Real GDP	0.4	-9.0	...
Real industrial output	-0.1	-8.0	-13.5
Consumer price index (Within period)	6.8	96.3	...
Average real wage (Industrial real wage)	8.5	-9.5	-33.0 ^b
Ruble M2 (end of period)	6.9	-5.6	-28.0 ^c
Nominal Real	15.3	11.1	198.0 ^d
...	...	-19.0	-73.0 ^e
<i>Percent of GDP</i>			
Ruble M2 (end of period) ^f	67.7	59.8	14.8 ^g
Budget deficit	...	19.9	4.4
Portion financed domestically	...	19.9	2.0
<i>Billions of U.S. dollars</i>			
Trade balance	-2.0	6.5	-1.3
Exports	80.9	51.6	14.9
Oil	27.1	11.8	3.8
Natural gas	9.6	10.3	3.4
Other	44.2	29.5	7.8
Imports	82.9	45.1	16.2
Debt service due	14.0	10.4	9.2 ^h
Principal	11.1	7.8	5.6 ⁱ
Interest	2.9	2.6	3.6 ^j

Source: Government of Russia, and IMF (1992a, table 18, p. 70; and table 24, p. 77).

a. Based on first six months of 1992, except where noted.

b. Data for end of July 1992, in comparison with the average of 1991.

c. Percent of GDP based on annualized estimates of monthly GDP for the final month in each time period. Percent changes for 1992, in comparison with July 1992, in comparison with December 1991.

d. Proposed for all of 1992.

e. Proposed for all of 1992.

f. Proposed for all of 1992.

g. Proposed for all of 1992.

h. Proposed for all of 1992.

i. Proposed for all of 1992.

j. Proposed for all of 1992.

The Macroeconomic Legacy

The communist regime left behind financial chaos of a sort even more virulent than seen in Poland, Bulgaria, and Yugoslavia, where hyperinflation also erupted in the final stages of the communist collapse. The Russian government inherited a disastrous legacy, including: a 1991 budget deficit estimated to be 20 percent of GNP, financed almost exclusively by money issue;¹¹ a monetary overhang, in which M2 as a percent of GNP had risen to around 65 percent; more than \$65 billion in external debt, accumulated in a few years, and a complete depletion of foreign exchange reserves;¹² a labor force in which nominal wage payments had outstripped official price increases by a very wide margin in the preceding three years; and a currency shared among fifteen new states, each with a new (and inexperienced) central bank issuing the shared currency without coordination with any of the other states. Table 4 summarizes some basic macroeconomic indicators for Russia.

We turn first to wages. In the Soviet Union, just as in the case of Poland and its communist reformers, the Gorbachev-inspired enterprise reforms in 1987 gave increased autonomy to the state-owned enterprises. Understandably, using their new-found flexibility, managers and workers granted themselves large wage increases, at the expense of tax payments to the state budget. The wage pressures were aided and abetted by the "soft-budget constraint" correctly stressed by Janos Kornai.¹³ Even beyond cutting back on transfers to the budget, enterprises could depend on generous subsidies and cheap credits to cover higher wage costs.

The contrast in wage developments in Russia and Poland is highlighted in figure 1. Soviet average industrial real wages increased 79 percent between 1985 and December 1991; by contrast, Polish average real wages for six key sectors increased by 53 percent between 1985 and December 1989. Because the supply of consumer goods grew little, if at all, and certainly not commensurately with the increase in real wages, excess demand developed. In a market system, price increases would have

displaced the wage increases. In a system of generalized price controls, the result was intensifying shortages and lengthening queues in the official markets and inflation in the black markets. The statistical real wage was thereby disconnected from actual living standards. If anything, an inverse relationship occurred: higher real wages resulted in longer queues, and thereby a loss of work and leisure time.¹⁴

11. IMF (1992a, table 18, p. 70).

12. Government of Russia.

13. See Kornai (1992) and many of Kornai's earlier works.

14. In our 1990 paper (Lipton and Sachs, 1990a), we pointed out the theoretical possibility of such an inverse relationship. See also Roberts (1992).

Table 3. Russia's Balance of Payments, 1990-92.
Billions of U.S. dollars

	1990	1991	1992
Current account	-4.5	4.1	-7.7
Trade balance	-2.0	6.3	-2.7
Exports	80.5	31.6	34.4
Oil	27.1	11.8	9.9
Natural gas	9.6	10.3	7.4
Other	44.2	29.3	17.1
Imports	-82.9	-45.1	-37.1
Service account	-4.1	-4.6	-5.9
Interest due	-2.9	-2.7	-3.7
Gold sales	1.8	2.2	0.9
Capital account	1.4	2.7	3.3
Grants	0.0	1.6	2.7
Long-term capital (net)	2.0	3.8	3.5
Other	-0.6	-2.7	-3.0
Overall balance	-3.1	8.8	-4.4
Financing	3.1	-6.8	4.4
Net international reserves	9.2	0.6	-0.7
Gross reserves (- increase)	5.1	1.3	-1.4
IMF credits	0.0	0.0	1.0
Short-term liabilities	4.1	-0.9	-0.3
Arrears	2.7	-0.1	-2.9
Debt default	0.0	0.2	7.9
Other ^a	-8.8	-7.2	0.1

Sources: International Monetary Fund (1992a) for 1990 only, and government of Russia for 1991 and 1992.

a. Excludes re-exports.

b. Figures for 1992 are preliminary.

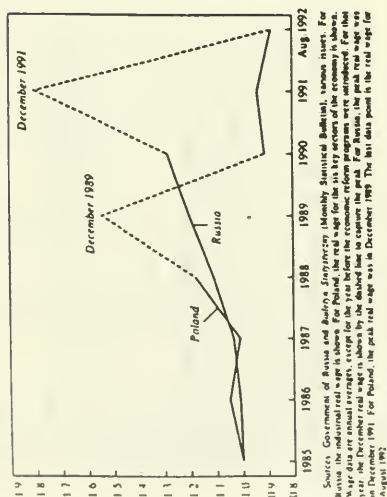
c. For 1990 and 1991, primarily reflects the financing of Russia's trade surpluses with other republics.

THE BALANCE OF PAYMENTS CRISIS. Another part of the macroeconomic legacy is the balance of payments crisis. Table 5 indicates the severity of this problem. This crisis has three roots. First, oil and gas exports, the largest foreign exchange earners, have been on a steep downward trend in recent years. Total oil production in Russia has de-

creased 25 percent between 1982 and 1990. No commentator would venture to say that real income has risen in the Soviet Union. Nor should they claim that real incomes would actually fall if the same real wage decrease were to be eliminated by a future liberalization of prices. If prices are liberalized in the Soviet Union, we would not be surprised to hear a chorus of voices bemoaning the sharp drop in real incomes, repeating the increase and incorrect assessment of price liberalization in Poland.¹⁵ (Jeffrey Sachs and David Lipson, "Shock Therapy" and Real Income: Eastern European Reforms," *The Financial Times*, January 29, 1991, p. 17.)

Figure 1. Real Wage Developments in Russia and Poland, 1985-92

wage index, 1985 = 1.0



Sources: Government of Russia and *Statisticheskoye Sposobnoye Statisticheskoye Biulleten'*, various issues. For Russia, the individual real wage is shown. For Poland, the real wage for the six key sectors of the economy is shown.

The peak real wage for Poland is the peak real wage for the six key sectors of the economy. For the Russian peak real wage, the peak real wage for the six key sectors of the economy is shown.

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The wage increases preceding radical economic reforms left the Polish and Russian reformers with the politically painful task of freeing prices to end the shortages and to return the real wage to historical levels justified by productivity. Needless to say, in each country, critics accused the reforms of causing a sharp decline in living standards. In Poland, it became an article of faith that the price liberalization had driven down "real living standards" by 30 percent at the start of 1990. In Russia, it is typically asserted that the fall has been around 50 percent. But as we can see from figure 1, and as we shall stress again later, the charge is misleading. Price liberalization basically restored wage-price relations that had prevailed before the 1987 communist-led changes in enterprise autonomy, without representing an actual fall in living standards.¹⁵

15. We expressed worries about the likely political fallout of Russian price liberalization in a January 1991 article in *The Financial Times*: "The Polish wage explosion during 1988-89 is being replayed in the Soviet Union. . . . The result is that as in Poland until 1989, the measured real wage has skyrocketed since perestroika began, in fact rising by no less

Just at the time of the appointment of the Yeltsin-Gaidar government in late October 1991, following the failed putsch, the Group of Seven industrialized democracies (the G-7) pressured Russia into signing a Memorandum of Understanding (MOU) regarding Soviet debt, in which Russia and the other signatories accepted "joint and several responsibility" for the debt and agreed to pay interest due. In fact, and totally predictably, Russia has not been able to fulfill the obligation: arrears to the official creditors (of the Paris Club) and to private creditors (the commercial banks and suppliers) have mounted rapidly in 1992. The MOU was a (typical) empty gesture of G-7 debt management that has muddied the waters, rather than resolving problems.

The third part of the balance of payments crisis has been the steep collapse of trade among the countries of the former Council for Mutual Economic Assistance (CMEA). In part, the collapse has resulted from a decline in Russian sales of oil and gas to Eastern Europe. In part, exports of military equipment to the region have declined. An estimate by Herbert Wulf suggests that USSR military exports in constant 1990 prices fell from about \$15 billion in 1989 to less than \$5 billion in 1991.²⁰ A third problem is the failure to establish a working payments mechanism for trade with Eastern Europe in 1991. Overall, Russia's exports to the CMEA countries declined steeply, from an estimated \$40.1 billion in 1990 to \$15.9 billion in 1991.²¹

The overall balance of payments crisis has produced a dramatic collapse of Russian imports, as seen in table 5. As the Soviet Union disintegrated, Russia's imports fell from \$82.9 billion in 1990 to only \$45.1 billion in 1991, an astounding drop of 46 percent.²² The collapse has not been arrested in 1992. Despite IMF projections in April that exports and imports would stabilize in 1992, the balance of payments crisis has intensified. Mainly because of difficulties in the production of energy, exports continue to decline, and as a result, imports in the first half of the year were \$36 billion at an annual rate (a further 20 percent decline from the low import level of 1991).²³

20. Wulf (1992, figure 4, p. 6). Wulf's estimate does not break down how much of this decline was caused by a drop of exports to Eastern Europe, versus the Middle East and other areas.

21. IMF (1992a, table 23, p. 76).

22. IMF (1992a, table 24, p. 77) and government of Russia.

23. Government of Russia.

clined from 560 million metric tons (mmt) in 1989 to 516 mmt in 1990, and from 461 mmt in 1991 to a projected 395 mmt in 1992.¹⁶ Dollar earnings on oil and gas exports from Russia to countries outside the Commonwealth of Independent States (CIS) will have declined from around \$37 billion in 1990 to a projected \$17 billion in 1992.¹⁷ The downward trend results from the depletion of Russian oil fields, inadequate techniques for secondary recovery from oil and gas fields, and large losses in pipeline transport, where leakages can result in losses of 10 percent of shipments. This downward trend is projected to continue unless it can be halted by several billion dollars of new capital investment.

Second, the Gorbachev regime exhausted Russia's international creditworthiness by the rapid accumulation of around \$65 billion of foreign indebtedness, mostly in a six-year period. The regime also virtually depleted Russia's foreign exchange reserves, including the stocks of monetary gold. Access to credits from commercial sources dried up in 1990 to 1991, when the Russian foreign exchange bank, Vnesheconombank, started to fall significantly into arrears on trade credits. Official credits also were effectively cut off by mid-1991. The result was a negative net resource transfer, leading to a collapse of foreign exchange reserves and a rise in arrears on debt repayments.¹⁸ During 1990-91, the Soviet Union spent \$9.7 billion of international reserves, including gold, in debt service. When the Gaidar government began its economic reform program, Russia's gold stock had fallen to about \$2.6 billion and the foreign exchange reserves of the Central Bank of Russia (CBR) were only a few hundred million dollars, or enough to cover only a few hours of imports.¹⁹

16. Government of Russia.

17. IMF (1992a, table 24, p. 77) and government of Russia.

18. Some analysts have argued against Western assistance to Russia, supporting their point with the observation that \$40 billion to \$50 billion in loans during 1991 was wasted. (See, for example, Henry Kissinger, "The Question of Aid," *Washington Post*, March 31, 1992, p. A17.) Data from the European Community show that Western loan commitments to the FSU may have totaled about \$57 billion in 1990 and 1991. Disbursements in the two-year period, however, were about \$26 billion. Moreover, there is little mystery about what became of the funds: Debt service payments were on the order of \$40 billion (including the repayment of short-term debts). The net flow of minus \$14 billion was paid for mainly by a run-down of reserves of \$9 billion, a small trade surplus, and an increase in arrears of roughly \$3.3 billion (Government of Russia).

19. Government of Russia.

cal legitimacy and control of resources. Therefore, republican central banks and parliaments bid for the loyalty of enterprises, particularly in the military-industrial complex, through the ready granting of credits at very low nominal interest rates and highly negative real interest rates. Second, during 1990 and 1991, banks established by state enterprises greatly proliferated and were licensed by republican authorities with no regard to capital adequacy, conflict of interest, or other prudential concerns. The republican central banks (particularly in Russia) fed these new banks by granting them refinance credits for on-lending, largely to the enterprises that owned them. The number of banks operating in Russia went from one monobank—Gosbank—in 1988, to more than 1,500 commercial banks with more than 2,000 branches by the end of 1991.²⁵

Third, there was little technical understanding and no tradition of an active monetary policy to limit credit growth. Throughout the period of central planning, credit flows were subordinated to physical commodity flows as assigned in the plan. In other words, enterprises were automatically given the monetary resources to pay for inputs assigned to them in the plan. The idea that bank credit should be limited to restrict the overall growth of the money supply simply did not exist until 1992.

The fiscal and monetary crisis, the wage explosion, and the collapse of the ruble all contributed to an enormous excess demand for goods during 1991. As shown in table 4, the money supply (M2) as a percent of GDP was in the range of 60 to 70 in 1991. This condition, together with the large budget deficit and the high wage levels, stoked total demand in the economy. This excess demand resulted in intensifying shortages, a collapse of the official trading system, black market prices many times official prices, and a descent into primitive barter relations in the economy.

The excess demand was temporarily reduced in early 1991 by administrative price increases (as opposed to price liberalization), and by a partial monetary confiscation, undertaken by the last Communist prime minister, Valentin Pavlov. The monetary confiscation removed R4 billion, representing about 3 percent of the ruble money supply;²⁶ then, as is typical of weak communist governments, Pavlov agreed to give back the money in various forms of compensation. After breaching one of the

25. IMF (1992b, p. 15).

26. IMF (1992b, p. 16).

The fall of exports and the withdrawal of financial credits has led to an intense scarcity of foreign exchange in Russia, now reflected in the collapse of the real purchasing power of the ruble vis-à-vis foreign exchange. Consider, for example, an average worker's ability to purchase dollars (or dollar-priced items) using ruble wage earnings. The average worker earned about 5,900 rubles per month in August 1992. Because dollars are so scarce and therefore so expensive, this wage translated into only about \$30 per month at the floating exchange rate of 205 rubles per dollar that prevailed at the end of August.

The cutback of imports is one important cause of the ongoing collapse of industrial production. (The other main cause is the necessary and desirable cutback in the output of the military-industrial complex.) In 1991, industries were subjected to sharp cutbacks in centralized allocations of imported inputs, including raw materials, intermediate goods, and spare parts; this contributed to the 9 percent fall in GDP, compared with 1990.²⁴ In 1992, the intense shortage of foreign exchange is hitting enterprises through market mechanisms, rather than through central allocations of foreign exchange. Specifically, enterprises cannot afford to purchase imported inputs at the free market exchange rate because they cannot pass the high costs of imported inputs on to their domestic consumers, in view of average wages of about \$30 per month. Similarly, enterprises cannot afford to purchase domestically produced tradable goods, such as metal ores, because the prices of such goods are now being drawn up toward world market prices in the same way as imported goods.

MONETARY DISARRAY. Another part of the macroeconomic legacy was a monetary system in disarray. Most importantly, during 1991, each republic in the former Soviet Union established its own central bank, which began issuing ruble credits alongside the credits of Gosbank, the central bank of the Soviet Union. Ruble credits issued by one central bank were accepted as a means of payment throughout the country. This distressing situation promoted extremely rapid money growth in which republican governments and enterprises could look to their new central banks as a fairly automatic source of credit.

The situation was exacerbated by three conditions. First, throughout 1991, republics struggled with the Soviet central government over polit-

24. IMF (1992a, table 4, p. 56).

most fundamental contracts with the public through the confiscation of currency, the Pavlov measure was largely ineffective. At nearly the same time, many consumer prices were raised by a factor of three. This succeeded briefly in restoring foodstuffs to the official retail outlets. The ongoing increase in credits and wages, however, quickly led to renewed shortages, which were exacerbated by hoarding in anticipation of further official prices increases. By the end of 1991, the official supply system had completely collapsed. The overall situation resembled that described by Keynes:

If a man is compelled to exchange the fruits of his labors for paper which, as experience soon teaches him, he cannot use to purchase what he requires at a price comparable to that which he has received for his own products, he will keep his produce for himself, dispose of it to his friends and neighbors as a favor, or relax his efforts in producing it. A system of compelling the exchange of commodities at what is not their real relative value not only relaxes production, but leads finally to waste and inefficiency of labor.²⁷

State and municipal grain reserves were rapidly depleted, as food-producing regions hoarded food or bartered it directly with enterprises producing consumer goods, rather than selling it to the official procurement agencies at unrealistic official prices. Some regions actually exported grain to neighboring countries (such as Iran) to earn the vastly higher black market prices, at the same time that emergency food shipments to the Soviet Union were starting. Fear of hunger in the winter of 1991-92 became widespread. Of course, the descent into barter was widely misinterpreted in Russia and the West as a production breakdown, rather than a monetary breakdown. Western aid agencies spoke of sending missions to help the Russians with improved distribution of food, better bakeries, and better storage facilities, rather than with price liberalization and monetary control.

The new Gaidar economic team directed its attention to the monetary character of the shortages by putting the emphasis on price liberalization and monetary restriction. Interestingly, key advisors harkened to the grain shortages that afflicted the provisional government of Alexander Kerensky between February 1917 and the October Revolution.²⁸ Then too, the combination of price controls and inflationary finance had resulted in a breakdown of the availability of bread in the official supply

networks and extensive hoarding in the countryside. Kerensky made the disastrous decision to address the problem by attempting, fruitlessly, to arrange barter deals between agricultural regions and urban enterprises. Labor unrest in the face of food shortages and agricultural discontent in the face of low fixed prices for grain contributed to the onset of the Bolshevik Revolution.

The Reforms in the Short Run

The economic reform program introduced in January 1992 has five main pillars. The first and most immediate aim is to end Russia's financial chaos and make the ruble a usable and well-functioning money for both commerce and finance. Gaidar reckoned correctly that without the rehabilitation of the ruble, Russia would not be able to stabilize the macroeconomy, proceed with the creation of a market economy, or begin the painstaking structural adjustments that would be required in the coming years.

The second task is market liberalization, including the sharp cutback of state orders, the opening of the economy to trade, and the construction of a legal system for private property and market-based activity. The third task is rapid privatization. The fourth task is the construction of a social safety net including, most urgently, a system of unemployment compensation. The fifth task is the design of an appropriate industrial policy to reduce the scale of the military-industrial complex and ease the transition to civilian uses of the vast resources in that sector.

The first two tasks, stabilization and liberalization, are the principal focus of the reforms to date and are the focus of our discussion as well. Dramatic progress is already underway, however, on the longer-term aspects of the reform, mainly privatization and social policy—areas that we stress are crucial to the success of the reforms, but that are beyond the scope of this paper, except for the following brief overview.

The Gaidar economic team has moved swiftly to prepare for privatization, recognizing how delays in privatization in Poland and elsewhere have undermined stabilization efforts and forestalled structural adjustment. Privatization of small-scale enterprises began at the start of the year, and privatization of most large-scale enterprises was slated to begin in late 1992. In preparation for mass privatization, industrial enter-

27. Keynes (1920, p. 240).

28. Masl (1992).

prices covering nearly three-quarters of state industrial capital (by book value) are to have corporatized—to have converted to joint stock company form—by October 1, 1992. Under mass privatization, the shares of these companies will be privatized in several blocks. Some shares will be distributed either for free or at deeply discounted prices to workers and managers; some shares will be auctioned to the public through vouchers; and some shares will be sold in cash auctions.

The share distribution techniques are intended to improve the system of corporate governance, as several groups of owners come to exercise influence over company management. Workers will acquire shares; however, it is unlikely that worker ownership will lead to excessive control by insiders because workers' shares will be held individually (rather than collectively) and will be freely transferable. The privatization vouchers, distributed to the public on October 1, 1992, can be exchanged directly for shares, but it is expected that many of the vouchers will be placed in newly formed investment funds. These funds should attract voucher-holders because they will offer a diversified portfolio; managers of the investment funds, in turn, should then be in a position to actively monitor the companies in their portfolios.

As for social policy, the key work of setting up an unemployment benefits system has been undertaken during the year, but unemployment itself remains well below 1 percent of the labor force.²⁹ As for industrial policy, as of September 1992, the government had only begun to outline its strategy for priority sectors (agriculture, energy, and military conversion), in a program of targeted assistance (linked to foreign financial assistance from the World Bank, the European Bank for Reconstruction and Development (EBRD), and other sources) that will begin in 1993.

The first step toward rehabilitating the ruble was to eliminate the huge monetary overhang. Gaidar decided to attack the problem through the liberalization of prices and economic activity, combined with restrictive monetary and fiscal policy. With this approach, market forces rather

²⁹ Brainerd (1992b). The Federal Employment Service (FES) of Russia is charged with developing an employment policy and managing the unemployment compensation system. As of July 1992, 250,000 workers, or 0.3 percent of the labor force, were registered as unemployed. Unemployment compensation is available for a registered unemployed person who has worked for at least twelve weeks before unemployment. Benefits may last up to one year. During the first three months, the benefit is 75 percent of the previous wage; during the next four months, the ratio is 60 percent of the previous wage; thereafter, the ratio is 45 percent of the previous wage. For further details, see Brainerd (1992a, 1992b).

than the government would determine the rise in prices needed to reduce real money balances to a level consistent with monetary equilibrium. At the beginning of 1992, most prices were freed from administrative control and allowed to rise freely. (The main exception to price liberalization is energy, which regrettably remains under administrative control.)³⁰ At the same time, a presidential decree on January 29, 1992, declared that all economic activity is permitted unless expressly forbidden, standing on its head the Stalinist dictum to the contrary.³¹ Consumer prices rose by 250 percent in January 1992, with the prices of many goods rising ten times or more.³² In the first three months of the year, the monetary overhang was eliminated, the ruble money supply dropped to the range of 10 to 15 percent of GDP, and commodities started to flow once again through formal supply networks (rather than through black markets).³³ Inflation has subsequently declined, but was still around 9 percent per month by August 1992. While the liberalization of prices certainly eliminated Russia's monetary overhang and restored the flow of commodities in the state retail outlets, stabilizing prices re-

³⁰ Energy prices were raised administratively at the outset of the reform, rather than liberalized; a second adjustment was made in May 1992, and a further liberalization was announced in mid-September. In the summer of 1992, the price of a ton of oil was about \$2,000, or about \$10 to \$20, or 10 to 20 percent of the world price. The failure to liberalize oil prices derived from the general reluctance to allow a more dramatic fall in production in heavy industry. Russia has suffered greatly for this decision. Energy that might have been exported to alleviate the balance of payments squeeze was squandered to produce goods that no one wanted or needed. In addition, the budget went without a major potential source of revenue in the midst of a stabilization crisis. The September liberalization is intended to allow producers to negotiate prices freely, and (given the export regime) is expected to lead to an increase in crude oil prices to about \$3,200.

³¹ As one Russian wit put it, "In the Soviet Union, almost everything was forbidden . . . and those few things that were permitted were compulsory."

³² IMF (1992b, p. 18). The large initial increase in prices came as a surprise to many observers, and, in particular, to the International Monetary Fund (IMF), which had repeatedly argued that the monetary overhang was modest in size and that the price increase would be smaller. In fact, the IMF consistently underestimated the monetary pressures throughout Eastern Europe, and did so again in Russia. The IMF and others calculated in early 1991 that a 45 percent price increase would eliminate the overhang (Joint Study, 1991, p. 392); later the Fund suggested that part of the overhang probably had been eliminated by inflation over the course of 1991.

³³ Needless to say, shortages intensified for the commodities that remained controlled. In particular, the queues for milk lengthened so drastically that much of the population at first did not experience a net reduction in queuing. In reaction, the government removed the remaining controls in the course of several months, leaving municipalities free to impose local controls if they could finance the requisite subsidies.

quires control over the subsequent creation of money. The main challenge facing the Russian authorities after the liberalization has been to slow dramatically the rate of growth of the ruble money supply and, in that way, bring down the rate of inflation and strengthen the external value of the ruble.

The record so far has been mixed. Monetary policy prevented the initial jump in prices from turning into a runaway inflation, and inflation fell gradually to about 10 percent per month by July. The extreme breakdown in the use of the ruble was reversed and monetary conditions made possible a return of goods to the shops. At the same time, price and exchange rate stabilization were not achieved. And as is explained below, credit policy has been relaxed to a dangerous degree in recent months, presenting a real risk of destabilization.

Price liberalization and macroeconomic measures were combined with other far-reaching, though partial, steps of market liberalization. Additional liberalization measures have begun to open up internal trade to individuals and enterprises, scaled back state orders (by which the government requires deliveries of goods at administratively set prices rather than contract prices), and set out the legal foundation for private sector economic activity. Where state orders remain, compliance is generally low, mainly because no effective form of compulsion exists, and because market opportunities now provide a strong diversion.

Market liberalization is still far from complete, and the steps that have been taken, albeit large, still fall short of the comparable actions taken in Eastern Europe.³⁴ Most trade in manufactured goods has been liberalized, but extensive restrictions remain on the export of most raw materials and some semifinished products (in a costly attempt to protect domestic industries that use raw materials). A significant proportion of enterprise distribution remains subject to central allocation, at least formally. State trading organizations are still restricted in their retail markups to 25 percent above costs, a practice that undoubtedly continues to restrict the flow of some goods in state retail outlets.³⁵ And even where the federal government has removed barriers, regional and local governments often intervene in trade and impose bureaucratic restrictions on entry, thereby encouraging corruption and kickbacks.

34. Ahlund (1992b) stresses this point forcefully.

35. IMF (1992a, p. 9).

One area where the state order system has continued to pose a serious obstacle is in trade among the newly independent states. Rather than creating mechanisms for market-based trade between states at the start of the year, trade protocols were negotiated with each state to govern nearly all interstate trade. These protocols were naively conceived, and predictably have not been fulfilled. More distressingly, market-based trade has not adequately substituted for the debacle of the trade protocols, largely because of the failure to develop satisfactory monetary relations among the new states (see below). While data on interstate trade are unreliable, a collapse of trade volumes appears to have occurred so far this year.

Stabilization Policy

We now examine the stabilization crisis more closely, looking first at fiscal policy and then at monetary policy. From the outset of the reform, the main goal of fiscal policy has been to reduce to a very low level the amount of money being issued to support the budget deficit. To achieve this goal, the Gaidar government faced enormous obstacles, including the heritage of the communist fiscal system, the complete financial collapse experienced last year, and the weakening of traditional revenue sources that is inherent in the shift to a market economy. With revenue sources dropping sharply, the key steps were sharp cuts in spending on subsidies, armaments, and budgetary expenses for enterprise investments and the introduction of a 28 percent value added tax (VAT).

Despite the obstacles to fiscal control, the government's strategic goal of reducing the inflationary finance of the budget was largely achieved in the first half of 1992. The domestic finance of the budget was reduced from about 20 percent of GDP in 1991 to about 2 percent of GDP in the first half of 1992.³⁶ Viewed another way, monetary finance of the budget deficit raised the beginning-of-the-year stock of high-powered money by only 17 percent. The reduction in inflationary finance was partly achieved by a buildup of domestic arrears, and much more importantly, of administrative limitations on spending that had been ap-

36. IMF (1992a, p. 70) and government of Russia. The government also provided unbudgeted subsidies on centralized imports by selling these imports at domestic prices that did not reflect the official exchange rate. These imports, and hence the subsidies, were financed by credits from Western governments and did not result in the creation of rubles.

proved by the parliament. These administrative measures were taken in view of tax revenues that came in much below target. In the third quarter, however, the government made extensive concessions to industry and certain regions, leading to much greater money financing of the budget. The final data are not yet in, but it appears that the money financing may have amounted to as much as one-third of quarterly GDP. If this new direction of monetary policy were to continue, the gains will be completely dissipated by hyperinflation.

Fiscal policy will remain a deep source of crisis for several years, until a new fiscal basis for the state can be consolidated. With the collapse of the Soviet state has come an abrupt collapse of revenues, from around 37 percent of Soviet GNP in 1990 to around 24 percent of Russian GNP in the first quarter of 1992.³⁷ This is largely a desirable trend as the state removes itself from deep intervention in the economy. However, as we have witnessed in Eastern Europe, the collapse of revenues can easily outpace the politically achievable cutback in expenditures, especially when the newly democratic state is facing strong demands for increased social spending.

To avoid a chronic fiscal crisis, progress is needed on two fronts. First, the VAT and new income taxes covering the private sector must be vigorously implemented to replace the disappearance of the old mainstay of the system, the turnover and profits taxes on state enterprises. Second, the government must move toward a new fiscal federalism in which a much greater share of governmental responsibilities are allocated to local governments, with local taxes providing the basis of financing. It is almost surely the case that local governments will increasingly resist the transfer of tax revenues to the center. (Already, key regions have had great success in obtaining tax exemptions.) Rather than fighting this inevitable trend, the federal government would be wise to devolve many of its responsibilities to the regions.

Monetary Policy

The monetary overhang that Gaidar faced at the end of 1991 was created not only by the monetization of the budget deficit, but also by the extension of a huge amount of cheap credit to state enterprises by the

Central Bank of Russia (CBR) in the course of 1991. As the Soviet Union disintegrated, Gosbank of the Soviet Union provided the government the credit it needed to cope with the collapsing state finances. The CBR, eager to find a role for itself, became the champion of the emerging commercial banking sector and its state enterprise clients. With wholesale price inflation at about 140 percent in 1991 (measured from the beginning to the end of the year)³⁸ and CBR rediscounts charging interest rates from 6 to 9 percent,³⁹ the CBR managed to extend R297 billion in credit (amounting to 58 percent of the beginning-of-year stock of ruble money) to the non-government sphere, which was willingly scooped up by the commercial banks.

With the demise of the Soviet Union, the closure of Gosbank, and the emergence of new central banks in each independent state, stabilizing the ruble requires converting the Central Bank of Russia into an effective monetary authority for the ruble area. This would entail several steps; some of these measures have been taken, while others have not.

The CBR began the year by ending its practice of extending unlimited credits to commercial banks. The central bank raised its finance rate from 6 percent to 20 percent in January 1992, and after a few months to 50 percent and eventually 80 percent, and phased in a 20 percent reserve requirement for short-term commercial bank deposits. These changes, although inadequate in the face of the stabilization problem confronting Russia, represented a revolutionary change in the management of the monetary system.

What was also needed, following the elimination of the monetary overhang, was a credit program, backed up by realistic interest rates, that would limit the creation of rubles, maintain monetary balance, and support the stabilization of prices and the exchange rate. With a tight credit program, state enterprises would be forced to finance themselves, rather than rely on an unending stream of credits. To acquire rubles, enterprises would be forced to liquidate inventories, to dip into bank balances, and (given the overly depreciated exchange rate for the ruble) to repatriate foreign currency holdings and boost exports. Given these considerations, a tight credit program was key to ending the shortage economy, getting goods back on the shelves, and ending the extreme weakness of the ruble.

38. IMF (1992a, p. 9).

39. IMF (1992a, p. 18).

37. See Akhshenko (1992, table 5, p. 56).

the states of the FSU. For monetary policy to be effective and for the stabilization effort to succeed, there must be a single monetary authority with control over the instruments of monetary policy. When the reforms began, each of the fifteen independent states had a central bank with the ability to exercise an important degree of control over monetary policy. Moscow maintained physical control over the printing presses for currency issue, but many states introduced coupons or other currency substitutes. Moreover, under the interstate payments system that prevailed in the first half of 1992, bank credits created outside of Russia could be spent in Russia, resulting in the monetization of Russia's trade surpluses and the importation of demand pressures from neighboring states.

In our view, there is *no realistic possibility* of controlling credit in a system in which several independent central banks each have the independent authority to issue credit. The reason is simple. Pressure is overwhelming in each of the states to "free ride" by issuing ruble credits at the expense of the rest of the system. It is a nearly self-evident proposition that a single currency area should have a single bank of issue. As Milton Friedman argues:

The key feature of a unified currency area is that it has at most one central bank with the power to create money—"at most" because no central bank is needed with a pure commodity currency. The U.S. Federal Reserve System has twelve regional banks, but there is only one central authority (the Open Market Investment Committee) that can create money. [Similarly,] Scotland and Wales do not have central banks.⁴⁰

In our view, each of the independent states should quickly introduce its own currency by substituting new banknotes (or coupons) for the rubles in circulation in the state, and by redenominating bank balances, contracts, wages, and prices in the new currency at a uniform exchange rate between the ruble and the new currency. Trade between the state and Russia could continue to be conducted in Russian rubles, but the state would have to earn the rubles by its own exports or by explicit credits from Russia, or get them by selling foreign exchange for rubles. If the state wanted to maintain close monetary harmonization with Russia, it could peg its currency to the ruble. Otherwise, the state could let its currency float against the ruble (and perhaps peg it to something else, such as a Western convertible currency).

40. Friedman (1992, p. 242).

The industrial sector, however, clamored for credits, arguing that the government's policies had unduly restricted liquidity. The industrialists pointed out that the real value of working capital and other credits outstanding had fallen sharply in the first few months of the year and argued that this jeopardized their ability to produce. They cited the rapid accumulation of interenterprise arrears as evidence that central bank credit policy was too tight—despite the fact that the arrears arose for many reasons, including a breakdown of the payments system and the simple fact that many enterprises in heavy industry, and particularly in the MIC, simply lacked customers.

The CBR attempted to chart an intermediate course, neither committing itself to establishing price stability nor adopting a policy of restoring enterprise liquidity. The failure to adopt a well-defined, disinflationary credit program—which might have served as a framework for the many individual credit decisions that arose—left the CBR vulnerable to the steady drumbeat of demands for credits to industry and other priority sectors coming from the parliament and the public. The result was the provision of R457 billion in finance credits from the CBR to commercial banks over the first half of the year, an amount approximately equivalent to the stock of high-powered money at the beginning of the year. These credits exceeded by far the monetization of the budget deficit and were mainly responsible for the slow progress in bringing down the rate of inflation, which has for the most part been in the range of 10 to 30 percent per month.

The credit creation has certainly accelerated in the third quarter. Starting in July, industrialists stepped up the pressure for credits to support their enterprises, many of which were proving unable to meet the test of the market. These industrialists found willing allies in the CBR, and, in the third quarter of the year, the credits extended exceeded the total amount of base money existing at the beginning of the quarter. The result, predictably, has been a rise in the rate of inflation and a collapse in the external value of the ruble, to a point where a U.S. dollar now costs nearly R400. Because of this credit policy, the earlier gains have been reversed and Russia now faces a real risk of hyperinflation.

MANAGING THE RUBLE AREA. While CBR credit expansion within Russia has been the main obstacle to stabilization, the job of the central bank is complicated by several other factors, the most important of which is the continuing issuance of ruble credits by the central banks of

When faced with the question of how the ruble area should be managed, the IMF has been extremely unhelpful. Convinced at first that the best way to preserve interstate trade was to retain as large a ruble area as possible, the IMF in early 1992 urged all the independent states to remain in the ruble area. Once the inadequacy of budget and credit policies in certain states became clear, the IMF worried that new currencies might be unstable and encouraged the states to delay the introduction of their new moneys, ignoring the inescapable implication that macroeconomic policy mismanagement outside of Russia would only serve to undermine the ruble stabilization effort! Finally in April 1992, the IMF proposed a system for managing the ruble area that would have permitted each central bank to issue rubles and relied upon multilateral negotiations to reach an acceptable credit plan. Russia rejected this proposal as inadequate. Nonetheless, the IMF continued to advise other states to delay introducing their own currencies, and has provided almost no technical assistance on this critical issue.

In the absence of helpful Western guidance, the ruble area issue came to a head in June as several independent states proceeded with plans to print local currencies (that would substitute for the ruble) and to extend ruble credits. The most troubling news was Ukraine's announcement in June of 1992 of its intention to proceed—unilaterally and without consultation—on an enormous credit expansion (between R300 billion and R600 billion of high-powered money), in order to settle interenterprise arrears. This massive amount of credit issue threatens to worsen greatly the inflation in Russia unless the moneys of Ukraine and Russia are quickly separated.

The Russian authorities have responded by beginning a process that will force a separation of the Russian ruble from the moneys of other independent states. A decree in July halted the automatic crediting of independent states running trade deficits with Russia and established that Russian goods could only be purchased with ruble deposits in Russian banks. Ukrainian importers could not buy Russian goods with Ukrainian bank deposits granted by the Ukrainian central bank. Instead they now have to acquire ruble deposits in Russian banks from Ukrainian exporters, who have been credited for their export shipments. Fully instituted, this system would create a truly Russian ruble and insulate Russia from the credit policies of other independent states.

Estonia demonstrated that this process can be planned and completed in a few weeks. (The IMF originally urged the Estonians to delay until 1993; now the IMF rightly heralds the steps taken by Estonia.) In early June, Estonia replaced rubles with a new banknote, the kroon, at a rate of 10 rubles per kroon. The kroon was pegged to the deutsche mark (DM) at a fixed rate of 8 kroon per DM (which was slightly more depreciated than the black market price of 75 rubles per DM).⁴¹ All other prices and accounts were converted at the same rate. Trade with Russia now continues in both hard currencies and rubles. A ruble market should develop in Estonia's capital of Tallinn, in which Estonian exporters to Russia sell their ruble earnings to would-be importers for kroons. The kroon-ruble rate floats freely, and the kroon has appreciated to 20 rubles per kroon as of September 1992.⁴²

RUSSIAN FINANCIAL SUPPORT TO THE OTHER REPUBLICS. One of the great burdens on the Russian economy has been the implicit or explicit subsidization of the other republics. The main form of subsidization has been the exchange of energy products from Russia for manufactured goods from the other republics at terms of trade that substantially underpriced the energy in comparison with world markets. A second form of subsidization has been the extension of credits to other republics through the banking system to finance chronic trade deficits of many of the republics vis-à-vis Russia. A third form of subsidization has been the provision of foreign exchange to other republics, at a price in terms of rubles far below the market price. Only the third form of subsidization has been substantially eliminated this year.

The Gaidar economic team announced its intentions to eliminate the heavy transfer burdens on Russia at the start of the reforms, but in fact, Russia has continued to bear an enormous cost vis-à-vis the other republics. Barter trade agreements between Russia and the other states were maintained in 1992, contrary to the overall thrust of the reforms. While this barter system has largely collapsed in practice (for want of enforcement and financial mechanisms), Russia has continued to oblige its energy producers to deliver oil and gas to the other states at energy prices far below world levels. In some cases, these oil shipments have in fact

41. Hansson and Sachs (1992).

42. Hansson and Sachs (1992).

which will force domestic energy prices to move up to world levels. Second, the ruble has been permitted to float in a twice-weekly interbank auction market, where enterprises may buy foreign exchange to obtain imports. For the first half of 1992, several exchange rates existed for current account transactions. On the export side, the CBR maintained a quasi-market rate somewhat more appreciated than the interbank auction rate and demanded that energy and raw materials exporters surrender foreign exchange at the punitive rate of 50 percent of the quasi-market rate.⁴⁴ On the import side, the central bank continued to supply foreign exchange for various crucial "centralized imports" at a price far below the market exchange rate (on the order of one-sixth of the market price).⁴⁵ In this way, imports of grains, other foodstuffs, and some other consumer goods were enormously subsidized.

On July 1, the CBR moved to unify the exchange rate system by beginning to set the official exchange rate at the level prevailing in the most recent auction and by eliminating all surrender by exporters at below-market rates. The government also committed to end the subsidization of centralized imports through below-market exchange rates, although it declared its intention to continue some subsidies through the budget. Foreign enterprises were also guaranteed the right to repatriate profits at the market exchange rate. With these moves, Russia established current account convertibility for the first time since 1917. Exporters are in principle required to repatriate foreign exchange earnings to Russia, although they may hold some of these earnings as foreign exchange accounts in Russian banks. In fact, there is evidence of considerable capital flight, with enterprises holding large deposits offshore.

While convertibility will boost exports and rationalize imports, the exchange rate remains deeply undervalued by any plausible measure of productivity or purchasing power; the dollar value of industrial wages was about \$30 per month at the end of August 1992. Moreover, the nominal value of the ruble has been unstable, and since August has depreciated from R130 per dollar to nearly R400 per dollar. The weakness in the ruble stems from two factors. First, the CBR continues to grant huge credits to support Russia's industrial sector, which both fuel inflation and encourage capital flight. The currency will not strengthen apprecia-

44. IMF (1992a, p. 22).

45. IMF (1992a, p. 22).

been reexported to world markets, allowing enterprises in the other states to capture an enormous rent.

Russia also continues to provide enormous credits to the other republics to purchase Russian output. The CBR has credited the accounts of the republican central banks, which in turn have credited the accounts of enterprises and banks in the independent states. These credits amount to more than one-third of the overall increase in Russian high-powered money during January-June 1992, almost half of which was extended to Ukraine alone.⁴³

RUBLE CONVERTIBILITY. As conceived by the reformers, the Russian monetary reforms also aimed to make the ruble a usable currency in international trade and financial transactions. Currency convertibility was seen as the necessary first step in a process that would end Russia's economic isolation and lead to integration with the world economy. By ending the chronic overvaluation of the ruble, exports would be stimulated and imports would be available on a market basis. Domestic prices of import-competing goods would be disciplined by world market prices. In the long run, convertibility would enhance the inflow of goods, capital, and technology, and thereby accelerate the process of economic transformation and development.

Under the communist economic system, the official exchange rate was consistently maintained at an overvalued level and foreign exchange was rationed. At the same time, the domestic economy was insulated from the influences of international markets through a system of adjustable trade equalization taxes and subsidies that removed the difference between fixed domestic and world prices for all enterprises engaging in international trade. As a result, domestic prices bore no particular relationship to world prices and no rationality existed in Russia's international trade pattern. The system imposed a heavy anti-export bias because of the currency overvaluation.

The reforms of 1992 have moved Russia toward convertibility. First, trade equalization taxes have been eliminated. However, energy and raw materials prices are still kept below world prices by export taxes and quotas. These taxes and quotas are to be eliminated in the coming year,

43. Government of Russia. One partial offset to these credits has been arrears in payments by Russian enterprises for purchases in other republics. If such arrears are factored in, Russia's net extension of credit is somewhat lower. The exact amount is unknown, but it is almost surely still very significant.

The fourth obstacle to monetary management has been the accumulation during the first half of 1992 of massive interenterprise arrears, reaching about R3 trillion (the equivalent of about 70 percent of nominal GDP in the six-month period). These arrears pose a great danger for the authorities because they have been widely and inaccurately interpreted as indicating the inadequacy of liquidity in the economy and have led to repeated calls for massive credits to allow arrears to be cleared.

It is now clear that many factors have combined to create the interenterprise arrears problem; we have mentioned several of these already. Final demand has fallen more than production, as heavy industry has continued to produce, even in the absence of customers. Additionally, the archaic settlements system for clearing transfers between banks led to long delays and prevented enterprises from paying their suppliers because of a lack of receipts from their own customers. The breakdown of settlements with the other independent states has been particularly severe—clearing between Russian and non-Russian enterprises can take up to two months—and may face political obstacles. Incentives to clear arrears have been nearly absent. Enterprises in arrears have been able to pay or even to raise wages, and interest charges on arrears have been negligible, creating an incentive to delay payments. Finally, from the side of suppliers, satisfactory sales-verification mechanisms have been lacking: a system of bills of exchange, letters of credit, bank checks, and so forth does not yet exist to allow shippers to guarantee that they will be paid by suppliers. And without bankruptcy mechanisms, very limited means exist to enforce debt contracts.

A strategy for solving the arrears problem should have three aims. First, it should prevent existing arrears from unduly depressing the future production of healthy enterprises. Second, it should introduce measures to stop the accumulation of new arrears. Third, it should provide a way to settle the existing arrears. The Russian government has proposed that the repayment of existing arrears be postponed for one year, with the goal of preventing these arrears from depressing future production.⁴⁴

44. The arrears would be converted into formal debts under the control of the State Property Committee (GKI). Debtors would owe money to the agency, while creditors would have a claim on the agency. Payments by the agency would be limited to the amount of collections from debtors. Enterprises unable to clear their debts would be subject to bankruptcy arrangements under the agency's instigation.

ily until rubles are scarce enough to encourage enterprises to supply foreign exchange in the marketplace in order to obtain money to pay wages and meet operating expenses. Second, Russia continues to face an extreme balance of payments crisis. It is the extreme shortage of foreign exchange resources that is reflected in the deeply depreciated floating exchange rate. The government's aim of pegging the exchange rate and providing a nominal anchor to the price stabilization effort will not be possible until these two factors leading to the weakness of the ruble are overcome.

FURTHER MONETARY REFORMS. Additional obstacles to the management of the banking system and the stabilization of the currency stem from the heritage of the old system.⁴⁵ The first obstacle to stabilization is the lack of central bank independence, an issue we take up later. A second obstacle that has hindered the operation of the monetary system is the centrally controlled settlements system for transfers between banks, which has led to long delays in settlements among enterprises.

The third important obstacle to the management of the monetary system is the payments mechanism, with its sharp division between cash money and noncash money (deposit rubles). This mechanism was phased out in Eastern Europe in the early 1980s, but remains in Russia. In fact, two interlocking circuits for payments exist. The population pays cash for retail purchases; this cash, in turn, is channeled to enterprises for the sole purpose of paying wages to employees. Meanwhile, private enterprises use noncash money for all transactions among themselves. (Retail enterprises surrender their cash and are credited with deposit rubles, which make their way up the production stream.) The consequence of these two payments circuits is that the banking system does not serve the most basic function taken for granted in a market economy: allowing the depositor to withdraw deposits in the form of cash.⁴⁷ Nor does cash serve its most basic function, as legal tender for all transactions in the economy. We have made recommendations elsewhere for ending this division and regard it as a matter of urgency.

46. The following section is based on our 1992 paper (Sachs and Lipton, 1992).

47. This convertibility of bank money into currency and vice versa is considered such a central role of a banking system that it is rarely even questioned. The primary function of deposit banks in operating the payments mechanism is to convert notes and coin into bank money and bank money into notes and coin.

Many firms lack the liquidity needed both to pay off their arrears and to buy inputs for future production. By postponing the repayment of arrears, firms are given the opportunity to continue current production. The central bank, on the other hand, has pushed for credit increases to clear the arrears, a move resisted by the government as highly inflationary. The struggle between these two approaches is as yet unresolved.⁴⁹

A Summing-up of the Macroeconomic Results

After inheriting a disastrous financial and monetary situation, the Russian government took several crucial and bold moves in an attempt to stabilize the economy and move to a market-based system. Price liberalization combined with fiscal restraint succeeded in bringing goods back to the shops and breaking the back of hyperinflation. While price stabilization was not achieved, inflation was reduced to 10 percent by July 1992, after a 245 percent monthly increase in January. The depreciation of the ruble exchange rate, which began in August 1992, resulted from the ill-advised relaxation of credit policy in the third quarter of the year, which now jeopardizes the survival of the economic team and the process of economic reform.

The government and the Central Bank of Russia faced intense political attacks from the start, with charges that the reforms had devastating effects on industrial production, living standards, and unemployment. The charges were off-base, but nonetheless they contributed to pushing the macroeconomic authorities into unsatisfactory compromises by midyear, resulting in a renewed rapid growth of the money supply, a steep fall of the exchange rate, and renewed risks of hyperinflation. Particularly inflationary policy moves were taken by the Central Bank of Russia in the third quarter of 1992. The CBR has also failed to make sufficient headway in resolving the ruble area crisis. The bank took important steps to separate the Russian ruble from bank credit issued in other states, but then undermined the effect of this action by continuing

⁴⁹ Steps are also being taken to stop the accumulation of new arrears through improvements in the settlements system for transfers between enterprises. Moreover, penalties are to be levied on enterprises accruing new arrears (including limits on wages and high interest rates on the arrears). Bankruptcy proceedings may be initiated and should be imposed on enterprises that cannot pay off the old arrears and that continue to generate new arrears.

Table 6. The Decline in Industrial Production in Economies in Transition, 1990-92
Percent per year, except where indicated

Country	1990	1991	1992 ^a	Cumulative change, 1989-92 ^b
Albania	-7.5	-43.0	...	-47.3
Bulgaria	-16.8	-11.2	-26.9	-66.0
Czechoslovakia	-3.5	-24.7	-10.0	-34.6
East Germany	-15.0	-20.0	-18.0	-44.2
Hungary	-8.4	-21.9	-12.5	-37.5
Poland	-24.1	-19.6	-3.8	-14.3
Romania	-14.3	-21.7	-18.3	-43.3
Russia	-2.6	-8.0	-20.9	-28.3

Sources: World Bank (1992); "International Economic Indicators: Central and Eastern Europe," *Financial Times*, September 2, 1992, p. 6; and *Monthly Employment (Monthly Statistical Bulletin)*, various issues. For Bulgaria, Hungary, Poland, and Romania, the 1992 figure is based on the percentage change from the second quarter of the year. Cumulative change is calculated from 1989 through the most recent period in 1992 for which the data are available.

a policy of easy credits to the other states, in amounts that have contributed importantly to the large money growth this year.

The attacks on the government and the central bank have missed the point. Industrial production declined not because of an excessive credit squeeze, as widely charged, but because much of the Russian MIC simply lacks customers at this time. Russia's decline has in fact been smaller than the comparable industrial declines in Eastern Europe from 1989 to 1992, despite the fact that Russia probably requires more adjustment than the other countries. Table 6 compares the decline in industrial production in Russia and Eastern Europe. As for the claim about real living standards, we have already suggested that the declines in real living standards have been greatly exaggerated and wrongly attributed to the reforms (more on this below). Finally, the attack on unemployment is both premature and off the mark. To date, there simply has been no unemployment to speak of, because it remains well below 1 percent of the labor force. Unemployment will rise in the future, particularly in the transition period. But as we discuss below, the service sector will ultimately expand to provide jobs for workers who, inevitably, will be released from the industrial sector.

In sum, the reasons for the easing up of monetary policy are unconvincing. Given the grave dangers of hyperinflation that remain, the gov-

ernment should spend less time worrying about artificially propping up the enterprises in heavy industry and the MIC. The overall social, political, and economic risks are simply too large.

The Social and Political Context of Reform

Many observers are deeply pessimistic about Russia's long-term economic prospects. They fear that the reforms initiated this year simply cannot be sustained. A number of reasons are offered. Some claim that the short-term dislocations of the economy are so great as to guarantee a political backlash or even social explosion. Others claim that Russia's distinctive history and the character of its people will prevent the efficient operation of a market system. Our own concerns lie elsewhere: with the risks for political instability as a result of the partial nature of Russia's political and institutional reforms.

Living Standards

We have already discussed the issue of the costs of the reforms in terms of lower living standards. In our view, these costs are exaggerated; for that reason, a generalized social explosion is unlikely to derail the reforms. Of course, particular groups (such as the MIC and hardliners in the parliament) might slow or reverse the reforms, but not because of economic upheaval.⁵⁰

This point is impossible to prove precisely. Nonetheless, as former advisors to the Polish government and current advisors to the Russian government, we are struck by the similarities of broad trends in the two countries, as well as the popular interpretations of these trends. A much-predicted social explosion never came to Poland, although the country has had many strikes and protests. The overwhelming fact is the steady, peaceful, and democratic progress of the Polish reforms—even through several national elections in which extremist parties and militant labor organizations failed to ignite popular discord.

50. One risk arises from ethnic conflicts, particularly in view of the 25 million ethnic Russians who now live in other republics. It is conceivable that nationalistic pressures to protect these ethnic Russians could boil over and help undermine the new democratic institutions.

Poland's living standards are low, as they have been for decades under communism. What we have stressed is that Poland's alleged drop of one-third in living conditions was based on a superficial interpretation of the change in the statistical real wage at the start of Poland's reform; this neglected the existence of shortages and the fact that the wage decline was reversing a previous wage explosion. Andrew Berg and Jeffrey Sachs have attempted to judge the change in living standards by looking directly at changes in consumer purchases from 1989 to 1990, based on household expenditure surveys, rather than misleading real-wage measures.⁵¹ Berg and Sachs found that the decline in real consumption was enormously overstated and was on the order of a 5 percent drop, as opposed to a 16 percent decline in the national income accounts and a 30 percent decline in the average real wage. Bryan Roberts has recently argued that if one also takes into account the end of queuing, together with the change in consumption, the overall effect of the price liberalization in Poland was a rise in Polish living standards in 1990, not a fall.⁵²

A survey conducted in November 1991 asked 986 Poles between the ages of 18 and 65 to assess their living conditions almost two years after the start of the reforms.⁵³ Their responses demonstrate acceptance of the economic changes. More than four-fifths of the respondents held that their family's economic situation was the same or better than five years before.⁵⁴ This was at a time when the popular press depicted the Poles as seething with unhappiness over the hardships of the reforms. Similarly, 43 percent of respondents preferred "an economy like we now have" to "a socialist economy like before the revolution," while 24 percent preferred the socialist economy, and 33 percent saw no difference.⁵⁵

We do not yet have the data for this kind of study for Russia. The basic patterns will likely be the same as in Poland. However, we should highlight two points. First, even if the reforms per se do not reduce living standards sharply, the backdrop is still one of a falling trend in such

51. Berg and Sachs (1992).

52. Roberts (1992).

53. Ammeter-Inquirer (1992).

54. Ammeter-Inquirer (1992, p. 18). Nineteen percent of respondents said "much better"; 38 percent said "a little better"; 25 percent said "much the same"; 15 percent said "a little worse"; and 3 percent said "a lot worse."

55. Ammeter-Inquirer (1992, p. 18).

key sectors as energy. An income squeeze resulting from trends that preceded the reforms might be widely blamed on the reforms themselves. Also, it is likely the case that income inequality has risen as a result of the reforms, with pensioners probably being squeezed relative to younger workers.

In addition to the concern over average real consumption levels, there is widespread fear that mass unemployment will lead to a explosion of labor unrest. Once again, these fears are exaggerated. In Poland, predictions of unemployment rates of 20 to 30 percent were widely predicted. In fact, unemployment in July 1992 was at 13.1 percent of the labor force, but it is widely accepted that around one-third of the registered unemployed workers actually have work in the private sector.⁵⁶ Poland has created about 2 million jobs in small enterprises (roughly 12 percent of the labor force), mostly in the service sector.⁵⁷ Simple calculations suggest that the expansion of the Russian service sector will also substantially compensate for the declines in Russian heavy industrial employment.

As a back-of-the-envelope calculation (using data for the entire former Soviet Union), note that total employment in the FSU was about 136 million workers in 1988, of which approximately 21.8 million were in heavy industry (fuels, power, metallurgy, and machine building), while about 10.7 million were in trade and distribution.⁵⁸ If the share of workers in trade and distribution were to rise from 8 percent of the labor force to just 15 percent of the labor force (which would still be far below the share in typical market economies), about 9.6 million new jobs would be created in trade and distribution. That would be enough to compensate for an employment decline of 44 percent in heavy industry, which itself is likely to be an overestimate of the actual decline. Even in the best case, transitional unemployment will be substantial as these shifts take place. But this, unfortunately, is inevitable.

The concern has been voiced that job losses and job needs will not match: in some cases, company towns will have to close or shrink considerably, without scope for significant increases in jobs in nonindustrial sectors. Concerns have particularly arisen about workers in MIC enter-

56. Radio Free Europe (1992, table 3, p. 52).

57. *Biliron Stryryczny*, July 1992.

58. Kwon (1992a, p. 57).

prises. Importantly, though, the biggest concentrations of the MIC enterprises are in the major urban areas, such as Moscow and St. Petersburg—exactly the places where new service enterprises and consumer industries are likely to develop.⁵⁹ According to Julian Cooper, St. Petersburg alone accounts for nearly one-tenth of the total MIC employment, about 700,000 workers (in shipbuilding, radio and ground-force industries, and missile and aviation industries).⁶⁰

Is Russia Different?

Another key claim is that Russia is different—that liberal reforms cannot take hold there. It is true that Russia's history poses a great challenge: can a country with 1,000 years of autocratic rule, which passed swiftly from feudal institutions to communism, now move swiftly to democratic capitalism, or will social mores and attitudes block the process? Peter Reddaway recently asserted, for example, that "shock therapy" cannot work because "Russia's deeply Sovietized political culture is—and even with sustained Western assistance, will be for a decade or two—highly unsuited to free markets, entrepreneurship, privatization, and rule of law."⁶¹ Of course, social science does not really equip us to give a definitive answer. We would rather stress how little evidence there is in favor of the pessimistic view.⁶²

First, many countries have embarked on radical market reforms from a social structure that looked a priori rather unpromising, only to overcome the "social" factors. As Henry Rosovsky noted in his scintillating study on "Japan's Transition to Modern Economic Growth, 1868–

59. Cooper (1991) reports that the top ten localities in terms of MIC employment are: Yekaterinburg; St. Petersburg (city); Moscow (city); Nizhni-Novgorod; Moscow (oblast); Perm; Samara; Novosibirsk; Tatarstan; and Udmurtiya.

60. Cooper (1991, p. 24).
61. Peter Reddaway, "Next From Russia: 'Shock Therapy' Collapses," *Washington Post*, July 12, 1992, p. C7.

62. Many currents of Russian intellectual thought have also stressed the "uniqueness" of the Russian character, often in justification of a revolutionary ideology. Historian Richard Pipes recalls how the "going to the people movement" of the late 19th century was predicated in part on the special, and presumably revolutionary, character of the Russian muzhik. As it turned out, as Pipes ironically notes, the failure of these intellectuals "went deeper: the 'rolling masses' gave unmistakable evidence of an acquisitive spirit of the worst bourgeois type . . ." (Pipes, 1974, p. 257). In our view, that highly desirable acquisitive spirit is on view again today in Russia.

30, 1992. The increase of 709,900 small business owners represents almost 5 percent of the working population. Total employment in these enterprises nearly doubled from 1,475,500 to 2,800,400, an increase of almost 9 percent of the total labor force. As for larger enterprises, the number of private commercial law partnerships (partnerships, limited liability companies, and joint-stock companies) more than quadrupled from 11,693 at the end of 1989 to 51,174 by mid-1992.⁶⁶

In Russia, as in Poland, important differences occur in the economic attitudes of different age groups: younger individuals are much more prone to support the ideas of radical economic change and to be more optimistic about the future. Consider table 7, which reports the results of a January 1992 survey on Russians' attitudes toward private ownership and privatization.⁶⁷ Young respondents are much more disposed to private ownership, the process of privatization, the role of foreign investors, and private land ownership than are the older respondents. Nonetheless, perhaps the striking point of the survey is the overwhelming support for the basic ideas of the privatization process. Of the total population, 65 percent prefer private to state ownership (31 percent disagree); 58 percent believe that their families will be better off if the state sells enterprises to private owners (23 percent disagree); 52 percent believe that their families will be better off if foreigners are allowed to buy shares in state enterprises (29 percent disagree); and fully 75 percent of the respondents believe that their situation will be improved by private land ownership (11 percent disagree). Ironically, it is on the question of private land ownership that the hardline Congress of People's Deputies has been most resistant to reform, despite the overwhelming public support.

Unfortunately, it is not yet possible to get an accurate description about the extent to which Russians are now entering private market activity for direct comparison with the Polish experience. According to the government of Russia, the share of the labor force engaged in state enterprises fell sharply between 1990 and 1991, from 82.4 percent to 77.2 percent, with employment in leased enterprises, joint stock companies, joint ventures, and private organizations rising from 5.8 percent of the labor force to 10.4 percent in one year.⁶⁸ We suppose that the trend is

66. *Biuletyn Statystyczny*, June 1991 (pp. 57-58) and September 1992 (pp. 89-90).

67. Boeva and Shiroinin (1992).

68. Government of Russia.

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Brookings Papers on Economic Activity, 2 (1992)
 1885," at the time of the Meiji Restoration "foreign observers . . . were extremely pessimistic" about the prospects for Japan:

With considerable complacency they wrote: "Wealth we do not think it will ever become the advantages conferred by Nature, with the exception of the climate and the love of indolence and pleasure of the people themselves forbid it." The national banking system of Japan is but another example of the failure of trying to transfer Western growth to the Oriental habitat. In this part of the world principles, established and recognized in the West, appear to lose whatever virtue and vitality they originally possessed and to tend fatally towards weakness and corruption.⁶³

These charges of indolence and corruption certainly are familiar in today's discussion. They also featured prominently in doubts raised about most of southeast Asia in the 1950s and 1960s, before that region's remarkable takeoff of economic growth. Similar charges and doubts were the staple of discussions vis-à-vis Latin America until the economic recovery of several Latin American countries in recent years.

Russia's supposed uniqueness with respect to social attitudes about the market economy is not borne out in recent survey data. Robert J. Shiller, Maxim Boycko, and Vladimir Korobov surveyed Russians and Americans to see if they could find significant differences in attitudes to economic risk, incentives, initiative, and so on. In their hunt for "homo sovieticus," the alleged Russian species that has been rendered unable to respond to economic opportunities because of 75 years of communism, the authors conclude that "the biggest obstacles to a successful transition do not seem to lie in the basic attitudes or psychological traits held by the people in the ex-communist countries."⁶⁴ Differences in economic choices between Russians and Americans seem to have much more to do with "situational differences" (incentives and institutions) than with "attitudinal differences."⁶⁵

Poland's recent experience casts further doubt on the concept of *homo sovieticus*, because it was also alleged that the communist period there had deadened the hand of entrepreneurship. This idea has lost currency in Poland because of the remarkable explosion of entrepreneurship since 1989. The number of registered individual proprietorships nearly doubled from 813,500 on December 31, 1989, to 1,523,400 on June

63. Roovsky (1966, p. 132).

64. Shiller and others (1992, p. 179).

65. Shiller and others (1992).

Question	Age group			Total population
	Under 30	30-59	Over 59	
1. State ownership is the best way to run a business.	16	32	32	31
An enterprise is best run by entrepreneurs producing goods people want.	82	64	43	65
Don't know.	2	4	4	4
2. What effect will the following have on your own family situation if/when the government:				
a. Sells state enterprises to private owners?				
Better off	75	57	37	58
Worse off	11	24	40	23
No difference	12	16	22	16
Don't know	2	2	2	2
b. Allows foreigners to buy shares in state enterprises?				
Better off	70	52	26	52
Worse off	15	28	50	29
No difference	13	14	20	15
Don't know	2	5	4	4
c. Most farming is done by private owners or on private land?				
Better off	86	75	61	75
Worse off	5	11	19	11
No difference	8	12	17	12
Don't know	1	2	2	2

Source: Boris and Shmelev (1992). Based on a survey of 2,108 urban Russians.

accelerating, although 1992 data are not yet available. Through January 1992, 8,900 small-scale privatizations had occurred.⁶⁹ Approximately 5,000 joint ventures are now operating. Six hundred commodities exchanges are also operating throughout the country as a major wholesale network. And it is anticipated that 50 percent to 70 percent of industrial

69. Kwon (1992b, p. 13).

capital will be converted into joint stock companies in the coming months.

The Political Context of Reform

Throughout Russian history, political liberalization has unleashed considerable initiative and economic development. This was true following the post-Crimean War reforms of Tsar Alexander II, which ended serfdom, fostered local representative institutions (the *zemstvo*, founded in 1864), and established an independent judiciary in the crucial legal reforms of 1864.⁷⁰

This was also true in the post-1905 reforms of Prime Minister Sergei Stolypin, which encouraged capitalistic enterprise, foreign investment, and private land ownership among the peasants.⁷¹ It was once again true in the New Economic Policies of the 1920s, following the Russian Revolution. In no case was the problem a lack of social or economic response to the new freedoms. Rather, in each case, the problem was a political reversal of the reforms. Alexander II was murdered by terrorists in 1881, ushering in a period of repression under Tsar Alexander III. Stolypin was progressively undercut by the conservative Third Duma and by Tsar Nicholas II, who feared a weakening of autocratic powers. Stolypin was assassinated, probably by state security forces, as his powers were ebbing in 1911. Even then, the progress of land reform continued until the outbreak of World War I. The New Economic Policies were killed by Stalin, who instituted the murderous collectivization policies in the first five-year plan in 1928.

Stolypin was no doubt correct in 1910 that Russia would be "unrecognizable" if it were given ten years of peace,⁷² and, by implication, contin-

70. Solzhenitsyn (1991) speaks sensitively about building local democratic institutions on the basis of the *zemstvo* tradition.

71. Schapiro (1986, p. 97) describes the success of the land reforms. "By 1916, the last years of the old regime, nearly two and a half million households, or around twenty-four per cent of the total number of households in forty provinces in European Russia, had obtained individual proprietorship, and there were nearly three quarters of a million applications pending. With the aid of the Land Bank, nearly ten million hectares were purchased by the peasants from the landed gentry between 1906 and 1915. Resettlement in Siberia, which was part of the Stolypin land reform, was also successful, and resulted to the extent in new areas of a prosperous and independent-minded peasantry."

72. Cited in Schapiro (1986, p. 97).

tingen. The Supreme Soviet voted in June, for example, to support the government's radical privatization measures, although state managers still hope to capture the process in the implementation phase. The Congress of People's Deputies is even more conservative than the Supreme Soviet. In its first session after the start of radical economic reforms, it refused to support the government's constitutional initiative in support of private land ownership.

While Stolypin's reforms depended heavily upon the support of Nicholas II, who was protective of his autocratic power, the Russian government reformers are backed by Russia's first freely elected leader, Boris Yeltsin, a genuinely popular politician attuned to Russia's needs for economic and democratic modernization. Yeltsin's support, of course, is of decisive importance at this stage, as the legitimate democratic force that can resist the paralysis inherent in the legislative stalemate. Like the U.S. president, the Russian president is a democratic lightning rod of the society. Yeltsin's continued support for radical reforms will likely depend on his judgment of their social sustainability. In the end, the point that we have stressed—that living standards do not fall sharply because of price liberalization—may well prove decisive. President Yeltsin must judge whether the reform path is socially tolerable and adequately supported.

The special position of the "industrial lobby" merits a further observation. During the final two years of the Gorbachev regime and the first year of the new government, the state enterprise managers from the MIC have been the most vocal and best organized political force on the scene. During 1988–90, this group lobbied for protection of its privileged access to resources and credits and fought successfully against the implementation of radical economic reforms.⁷⁵ It is widely believed that direct pressures from the group were successful in getting Gorbachev to back away from the Shatalin 500-Day Plan, which would have transformed the Soviet economy into a market economy within 500 days,

75. One of the most remarkable features of the Gorbachev reforms involved the goal of military conversion. Instead of assigning defense establishments to civilian ministers to manage the conversion, the Gorbachev strategy was exactly the reverse: to assign civilian enterprises to the military-industrial complex (under YPK control). In the quest of weakening the grip of the MIC on the economy, Gorbachev actually increased the scope of the MIC, with the result of further delaying the needed changes! See Cooper (1991, pp. 32–33) and Specter (1992).

ted reforms.⁷³ The process was stopped by internal conservative resistance, and perhaps more importantly by the external disaster of World War I. The question today is whether the reforms will similarly be stopped by internal political resistance or external shocks. In many respects, the social and cultural context for reform is better now than during these earlier episodes. Where Stolypin faced a largely illiterate population consisting overwhelmingly of peasants, today's reformers face an urbanized and highly literate population, with modern communications and media to give voice to their concerns.⁷⁴ Nonetheless, Stolypin's political demise serves to remind us of several of the most important political risks now facing the country.

First, Stolypin faced a conservative Duma (parliament), which was heavily weighted toward the land-owning gentry. Stolypin's reforms were not slowed by general social pressures—quite the contrary—but by narrow factional resistance given undue weight in the unreformed executive and legislative institutions. Today, Gaidar's government faces a similar brake in the legislative bodies of the new state. The supreme legislative body, the Congress of People's Deputies, which meets twice a year, and the smaller standing parliament, the Supreme Soviet, which draws its representatives from the Congress of People's Deputies, were elected in March 1990, for five-year terms. The elections were only partially democratic; the Communist Party still maintained its monopoly of power and organized opposition parties still were not tolerated. A significant proportion of candidates were directly nominated by Communist Party structures, with little effective noncommunist opposition. An independent Russian state did not yet exist.

As is well known, the parliament is now divided among former communist hardliners, representatives of state industry (particularly the MIC) and state agriculture, and radical reformers. The Gaidar government can count reliably upon roughly one-third of the votes, though it is often able to win a majority by capturing a proportion of the industrial lobby, together with the more moderate parts of the ex-communist con-

73. According to Action (1986, p. 138), "between 1909 and 1913, industrial growth averaged 6 per cent per annum and the rate was accelerating The banking structure became more sophisticated, and directed increasing sums of domestic capital into industry, while foreign capital continued to flow into Russia."

74. We are grateful to Professor Alfred Rieber of the University of Pennsylvania for stressing these important differences.

starting on October 1, 1990. Some MIC state managers were among the key backers of the August putsch that sought to overthrow Gorbachev. A less reactionary group of state managers (exemplified by Arkady Volynsky, who managed the industrial sector at the end of the Gorbachev regime) sided with Gorbachev and Yeltsin in August 1991, but have continued to lobby aggressively for a slowing down of reforms, and more recently for a change of government and abandonment of radical reform measures.

The political weight of the MIC seems to depend more on Russia's unrepresentative legislative institutions than on broad-based support in the country. The position of the managers is transparently one of special-interest lobbying (in favor of manager-led privatization, low tax rates on industry, and continued cheap credits), rather than a broad-based appeal to the population. Thus the group has found its key support among hardline deputies in the Congress of People's Deputies and the Supreme Soviet, rather than among the wider population.

Moreover, the state managers hardly speak with a uniform voice. Many managers have by this time already taken an ownership position in one or more private firms spun off from their enterprises, so they often have personal stakes in the continuation of market reforms. Many MIC enterprises played a key role in throwing their support behind Yeltsin during the failed putsch. Nonetheless, the anti-government rhetoric emanating from industrial groups is likely to be very strong in coming months because the managers know that the next few months will be decisive in determining their personal positions in the privatized economy. If they can gain control of the privatization process, they believe that they are likely to win a much bigger part of the pie.

One obvious way forward is through new elections, although here too the situation is confused. President Yeltsin has so far resisted calling for new parliamentary elections, partly because the power to call for new elections is unclear and rests in part or whole with the Supreme Soviet itself. Also, Yeltsin has argued that a new constitution should be adopted first (by referendum) and that the profound economic instability should be ameliorated. These are understandable, if debatable, propositions. They set up the very dangerous possibility, however, that the reforms can still be hijacked by conservatives given vastly greater influence through flawed legislative institutions.

Some Russians and foreign observers doubt the efficacy of free elections in the Russian context. But as with the evidence about Russia's alleged aversion to the market, the belief that Russians care little about democratic institutions and favor strong authoritarian governments is also very questionable. For example, a recent article by Siberian socialist Valentine Nemirovsky explained that Siberians overwhelmingly favor individual initiative, a market economy, and democratic institutions. Citing a 1990 opinion survey among 1,200 young Siberian respondents, he reports that 40 percent favored a "multi-party system of the Western type," 32 percent favored "a presidential democracy as in the U.S.A.," 10 percent favored a government "by a strong individual," and 18 percent favored "the existing system."⁷⁶

The Case for Further Political Reform

Even aside from new elections, the existing Russian political institutions continue to pose various kinds of risks to the success, or at least the degree of success, of the economic transformation. At risk of dangerous oversimplification, it may be worthwhile to enumerate the most serious problems.

POLITICAL DECENTRALIZATION. One of the reasons for the collapse of the Soviet Union was the inability to manage a vast centralized empire from Moscow. Problems in this regard still remain, on two levels. As we have pointed out, Russia still has not abandoned some of the main economic costs of the former Soviet empire. Russia can ill afford to continue this kind of subsidization policy. Second, Moscow cannot realistically hope to govern a highly centralized Russian state, even stripped of the burdens of the other republics. The tax base of the federal government is shrinking rapidly as increasingly powerful regions within the Russian federation demand further control over their resources. The Federation Treaty of April 1992 established the growing autonomy of the regions, but it has not yet resulted in a workable federal system. This will become increasingly urgent in the next couple of years as fiscal pressures intensify. In Eastern Europe, the first step toward decentralization

⁷⁶ Reported by Nemirovsky (1992, p. 4), concerning the results of a 1990 public opinion survey carried out by the Social Investigation Center of Krasnoyarsk University.

was elections at the municipal, regional, or provincial level. Such elections should be a high priority on the Russian political reform agenda.

CENTRAL BANK INDEPENDENCE The Central Bank of Russia currently reports to the Russian parliament. Specifically, the chairman of the CBR is appointed by parliament and CBR policies are subject to approval by the parliament. At the same time, in practice, the CBR is subject to strong pressures from the Russian government. Industry, agriculture, and the energy sectors have each managed to convince the government to pressure the CBR into granting credits.

What is clearly needed is a set of legal arrangements that will free the CBR from the parliament and the government, alike. History shows very clearly that the legal arrangements surrounding a central bank play a critical role in determining central bank policies. The independence of the German Bundesbank from direct political interference, for example, has been a central reason why the deutsche mark has consistently been a stable currency. CBR independence should provide for a CBR chairman and board of directors, appointed for several years and free from the threat of early dismissal; a CBR charter establishing the statutory requirement that the bank pursue the aims of price and exchange rate stability; no governmental or parliamentary approval of monetary policy; a prohibition on subsidized credits; and an end to automatic crediting of the state budget.

We would also support consideration of a further step—a strict currency board—as an institutional device to restrict the issue of domestic credit. With a currency board, the central bank would refrain from all domestic credit expansion; changes in high-powered money would result solely from purchases and sales of foreign exchange at a fixed exchange rate. Typically, the central bank sets the initial exchange rate and reserve level so as to guarantee 100 percent backing of the domestic base money. In Russia, full monetary backing should include all currency, bank reserves, and household deposits at the Russian national savings bank, the Sberagatallyn Bank (which, in effect, are claims on the central bank). According to the government of Russia, as of September 1992, this was about \$8 billion at the market exchange rate. (An even higher starting level of reserves would be advisable in order to support a post-stabilization buildup of money without Russia having to run large balance of payments surpluses.) The gross reserves of the central bank,

however, are at most \$1 billion to \$2 billion, with heavy short-term foreign liabilities that in fact leave Russia, in effect, with negative reserves. Thus the construction of a currency board would require large-scale financial assistance from the West.

PRESIDENTIAL-PARLIAMENTARY SYSTEM. Further progress in achieving political stability will require a new constitution, delimiting the powers of the executive and legislative branches and stating the provisions for future elections. We believe that Russia would be best served by a mixed presidential-parliamentary system in the French mold, also known as a semipresidential system.⁷¹ In such a system, the directly elected president nominates the prime minister, who must be confirmed by parliament. The president and the prime minister share powers, with the prime minister typically having responsibility for the day-to-day management of the government. The president provides an anchor of stability, as well as insurance against political paralysis, while the parliament and prime minister help to prevent the president from sliding into personalism or despotism.⁷² Russia already seems to be evolving into such a system, but it should now be enshrined in the new constitution.

RULE OF LAW. In addition to constitutional reform to define presidential and parliamentary powers, and new elections for parliament and local governments, Russia must make special efforts to establish an independent judiciary and an executive subject to the rule of law. The Russian autocratic tradition was the antithesis of the rule of law: Tsarist presi-

71. For essays on the comparative merits of the presidential, parliamentary, and mixed-presidential systems, see Lijphart (1992).

72. Jean Blondel's description seems particularly apt for Russia. Blondel (1992, p. 172) argues that "neither parliamentarism nor constitutional presidentialism can be expected to bring about a solution to the problems of a country in which efforts are made to set up a pluralist system, but where the party configuration is weak or insufficiently streamlined. A dual leadership system, on the other hand, may be able to provide a combination of authority and flexibility which can create the necessary conditions for a more stable liberal regime. In a parliamentary system, the president needs the support of the majority of the chamber to keep his government in office; this may be difficult to achieve if the party system is inchoate. But, as the president is elected for a substantial period by universal suffrage, he has authority and can be expected to rally at least some of the political waverers to himself and his government. The party system may then become better organized. The system is not foolproof, but it gives the executive a breathing-space as well as some means of exercising pressure on the chamber, for instance through dissolution and a share in the government."

rogatives were virtually without constraint. A telling example involves corporate economic activity: until the end of the Tsarist regime, there was no practice of automatically registering Russian corporations, in contrast to the liberal practice in Western Europe.⁷⁹ Later, of course, the Tsarist prerogatives were exercised by the Communist Party. Even today, the patrimonial tradition, in which the political leader assumes personal responsibility for the state, is partly carried over into the system of presidential decrees, although these decrees may now be overridden by the Supreme Soviet.

The Role of the West⁸⁰

Russian reforms will evolve in part in reaction to events in the West. Just as Stolypin's reforms were cheated out of the ten years of peace that their creator had called for, and just as Stalin's plan was spurred by the disarray of the West during the Great Depression (and by the rise of Hitler), so now the success of Russia's reforms will probably depend greatly on the political and economic stability of the leading Western nations. If the "Western model" of democratic capitalism continues to deliver the goods, it is hard to believe that Russians will turn back from their current path of reforms, even if they stumble along the road. On the other hand, if the West were to enter its own deep economic crisis, it is hard to imagine Russia's reforms succeeding at this juncture, even with the most talented domestic leadership.

On a more positive note, Western financial assistance can probably play an important role in raising the chances for successful transformation. This is now generally acknowledged, after a debate on this point

79. See the fascinating study by Owen (1991). In an overview of the Tsarist regime, Owen (p. xiii) states, "From its inception until its collapse in World War I, the Tsarist autocracy viewed itself as standing above society, subject to no restraints by countervailing social or political institutions. It claimed the right to implement major social and cultural transformations from above, even after it surrendered some of its prerogatives to elected and semi-elected representative bodies in 1906. Despite the economic irrationalities engendered by this attitude of autocratic intransigence, the regime refused to reform the law in response to changing economic conditions in the twelve decades from the accession of Paul I to the fall of Nicholas II."

80. This section draws upon Sachs (1992).

early in the year. On April 1, the G-7 countries unveiled a \$24 billion aid program for 1992. The G-7 governments put the IMF in the lead in coordinating the Western assistance. The IMF was given two main tasks in Russia: to provide technical assistance; and to help mobilize international financial assistance, conditional on the implementation of reform measures. Unfortunately, it has done poorly on each task, and has thereby contributed to the current parlous state of the reforms.

The Role of the IMF

Even aside from the political pressures for cheap credit, we have stressed that the monetary problems in Russia are perhaps the most complex in world history. The problems in moving from a single Soviet currency to several currencies for newly independent states are enormously challenging. The issues in improving the payments system, and in addressing the problem of interenterprise arrears, are urgent. These problems merit an extraordinary effort of international technical assistance, with teams of highly qualified monetary economists, commercial bankers, investment bankers, accountants, and lawyers. The IMF should have mobilized this effort, but so far has not. When it has intervened on the issue of the ruble area, it has weighed in against a rapid introduction of new currencies in the other republics, thereby condemning Russia to absorb unnecessary inflationary pressures from its neighbors.

Dozens of high-quality law firms, investment banks, and accounting firms have well-staffed permanent offices in Russia. By contrast, the IMF does not have a single monetary specialist permanently on the ground in Russia! Incredibly, the core IMF team consists of only seven people, based in Washington, who visit Russia periodically for a couple of weeks. This effort is augmented by other short, fly-in missions of technical assistance. Even though the personnel are often of high quality, the contacts are too superficial to produce the desired results.

The IMF has failed as well in mobilizing the \$24 billion aid package in a timely and effective form. For 1992, it appears that the IMF will provide only \$1 billion of its own funds. Moreover, Russia will not even draw upon that money in 1992 because the IMF has insisted that Russia hold the funds in reserves, rather than use them to finance imports. It

now seems that most of the financial package will not arrive this year, and what has come is overwhelmingly short-term trade credits (of maturities of one to two years, at market interest rates), rather than long-term balance of payments support, or budgetary support that could have obviated the need for inflationary finance.

A simple example will illustrate the problem with this approach. Suppose that Russia must purchase \$100 million of medicine on world markets and that the budget lacks the tax revenues to make the purchase. With an international loan, the transaction is straightforward: medicine is imported; the loan must be repaid in the future; and no monetary consequence ensues. Without a loan, however, the government must borrow rubles from the CBR and use the rubles to purchase dollars on the foreign exchange market. The money supply jumps, the ruble depreciates, and prices soar. The full \$24 billion package, used appropriately, would have eliminated the need for most or all the inflationary ruble credits this year and would also have prevented the inflationary depreciation of the exchange rate.

A constructive role for the IMF is still salvageable, especially because the government's reforms in the nonmonetary sphere, particularly in privatization, are going ahead with vigor and intelligence. But success in the monetary sphere will require urgent changes in the IMF approach. The IMF should remain firm in insisting on tight monetary conditions. The point is not to ease conditions, but to help prepare the framework in which the conditions can be met.

First, the IMF should commit to a speed-up of aid, conditional on a reversal of the recent rhetoric and substance of the central bank's monetary policy. Second, the IMF should immediately mobilize several hundred million dollars from the G-7 to support intensive technical assistance, first and foremost in the monetary and banking sectors. The vast majority of personnel will have to come from outside the IMF, but can work along with IMF staff. Third, the IMF should bring to Moscow its most experienced personnel, to remain there all year.

The Role of World Bank and the EBRD

The World Bank should help to mobilize funds for significant restructuring of key sectors of the economy, including military conversion, financial services, and communications and transport. These World

Bank sectoral loans should involve a mix of policy conditionality; infrastructure investment (needed to support private economic activity in the sector); and direct financing (equity and debt) for private-sector projects. The World Bank funds should be combined with cofinancing from the export credit agencies and private investors. To support privatization in these sectors, the World Bank should maintain a standard that loans to individual Russian enterprises should be conditional on those enterprises either being private or being corporatized and on the way being privatized.

At the same time, the EBRD should focus its energies on supporting the rapid development of the private sector. So far, the EBRD has spent excessive efforts on carrying out individual business deals that could just as well have been carried out by private investment banks. The EBRD should instead be working on support for systemic change. One promising model is the U.S. enterprise funds that have been established for Czechoslovakia, Hungary, and Poland. These funds, capitalized by a budgetary appropriation and managed by private U.S. firms, spur private-sector activity in the three Central European countries by making large numbers of small-scale loans and taking direct equity positions in local, private start-up firms. In addition, the enterprise funds work with relevant governmental structures to help develop an adequate legal environment for the growth of the private sector. The EBRD could establish similar operations in Russia and the other states of the former Soviet Union.

Financial Assistance in the Medium Term

The nature of the financial aid should evolve over time, as the reform program itself is evolving. In the first year of the reform, most attention is necessarily being devoted to macroeconomic stabilization and trade liberalization. In this phase, the aid should be directed mainly to general balance of payments support (financing of imports) and to currency convertibility, through a stabilization fund and a buildup of central bank reserves. In later years, as reform efforts shift to privatization and structural adjustment, the aid should be directed increasingly toward specific investment projects and support for the emerging private sector.

It should be well understood that the official assistance will be insufficient, by itself, to play a major role in "rebuilding" the Russian econ-

omy. The primary resources for rebuilding will be indigenous savings, over the course of decades. But even within the limited domain of foreign capital, it will be private inflows, rather than official assistance, that will have the greater role in the long term. Private capital, mainly in the form of foreign direct investment, will bring with it not only resources, but critically needed technology, management skills, links to Western markets, and so forth. Having noted this, however, we must be realistic about the timetable for significant foreign capital flows, which will only come about on a large scale after a few years of successful reform (with the exception of some projects in particular sectors, mainly oil and gas).

*An Institutional Framework for the Medium Term:
The Role of the G-7*

In the first year of reform, Russia's links with the IMF and the World Bank will provide the basic framework for conditional financial assistance. As the reform issues move beyond immediate stabilization and liberalization, however, those institutions alone will be unable to manage the range of issues that will arise between Russia and the West in the course of reforms. Almost every aspect of structural adjustment—whether in energy, military conversion, international trade, financial sector reform, or environmental policies—involves a complex linkage of private-sector initiatives, public policy changes, and infrastructure investment that will require the active involvement of Western governments, together with the Russian government. A broader framework of cooperation will be needed during the process of reintegrating Russia in the world system. The G-7 is the natural locus of that cooperation.

An analogy is helpful here. In the case of the Central European countries, the European Community is the natural counterpart in the medium term for problems of structural reform. The Central European countries want to join the EC, and so are designing their reform policies with the goal of eventual membership very much in mind. The Association Agreements reached between the EC and Czechoslovakia, Hungary, and Poland in 1991 provide the broad framework through which the process of harmonization and eventual EC membership will take place.

Russia, like Central Europe, aims to become a normal member of the world economic community. But in the case of Russia, its size and potential economic strength make it a natural candidate to become a lead-

ing member of the G-7 (thereby making it the G-8), rather than a member of the EC. Just as the Association Agreements with the EC will be crucial guideposts for Central Europe in the next few years, a structured relationship between Russia and the G-7 could provide an overall framework for cooperation, leading eventually to Russia's normal participation as a member of the eighth member of the group.

The G-7 should invite Russia to attend G-7 ministerial meetings on a fairly regular basis, in order to maintain a high-level political and economic dialogue on the progress of the Russian reforms and Western support for them. Moreover, it should become standard for the Russian president to attend part of each summit meeting. As the chairmanship of the G-7 rotates each year (to the country hosting that year's summit), the G-7 chairman for the year should be assigned the overall responsibility for coordinating the G-7's efforts vis-à-vis Russia, including oversight over the IMF, World Bank, and EBRD operations in Russia.

Let me mention an interesting and typical example of the public's political neutrality. In the first half of this year, I analyzed various political manifestations and demonstrations in Moscow, paying special attention to the social structure of the participants. It was identical, either at communist-oriented meetings or at democratic ones. Pensioners dominated both sides, making up about 40 percent of participants. White collar workers followed, at about 25 to 30 percent. Then came students. Less than 10 percent of the participants were workers. Yet in Russia, during this period of sharp tensions, workers are considered to be the decisive force.

I do not think that we should exaggerate this finding and portray it as representative of the bulk of the population. Various polls in Russia now display the typical contradictions in people's thinking about the rationale and purposes of market-oriented reform. For instance, according to a poll conducted in May-June, 1992 by the Institute of Sociology, about half the Russian population views the steps the government is taking toward a free market economy as correct. Seventy-one percent agree that the government should give people full economic freedom. Sixty-four percent believe that private property rights for land should be permitted. Nearly half—48 percent—agree that the growth of free entrepreneurship and the influx of foreign capital would be desirable. At the same time, 70 percent of the people support government price controls. An even higher percentage—88 percent—say that the government should at least fix retail price levels. Sixty-seven percent of respondents believe that the best way to privatize firms is to turn enterprises over to their workers and employees. Seventy-nine percent say that the government is obliged to maintain full employment.¹

Moreover, polls in both Moscow and the provinces reveal the public's growing agreement with the ideas of the leaders of the August 19, 1991 coup to overthrow Soviet President Mikhail Gorbachev. As many as 40 percent of those polled now support the slogans of the coup. Respondents do not sympathize with the plotters; they are not sorry that the coup failed. But a good portion of the population supports the slogans because they represent stability, definite prospects, and the probability of moderate change.

An important consequence follows from my observation about the

1. Institute of Sociology (1992, pp. 5, 7, 12-13).

Comments and Discussion

Vladimir Mau: The draft of this paper was entitled "The Struggle with Russian Economic Reform." I was told that this sophisticated title was a mistake. Nonetheless, it is a very characteristic mistake. It reminds me of an old joke told in Russia during the Cold War. Commentators on American Radio are asked whether World War III is possible. They answer, the war itself is impossible. But what really is possible is a terrible struggle for peace, which will destroy everything.

In these remarks, I would like to address the social and political context of the so-called struggle for economic reform. I want to concentrate on the last part of this report: the social and political context of Russia's transformation toward a market economy. Broadly speaking, I agree with most of the ideas included in this paper. However, I would like to add a few points.

A real shift is occurring in the mind-set of the common people in Russia. In the public mind, self-reliance is replacing paternalism and statism. At the same time, the public is increasingly disregarding events surrounding the political struggle—or any political events. This shift is evident in opinion polls conducted in 1991. Lack of confidence in all political parties and institutions has increased markedly since the beginning of this year. The issues of real concern, especially in the Russian provinces, are immediate issues of daily life, particularly how good this year's harvest of potatoes and other crops will be on private plots of land.

Our analysis and experience confirm this turning inward and David Lipton and Jeffrey Sachs acknowledge it in their paper. I agree with them that this shift in the public mood may play an important and positive role during the dramatic and painful changes that lie ahead.

almost all of Russia's producers, especially managers of the state enterprises.

The formation of the coalition government undermined the unity of that opposition, which nonetheless grew rapidly into a powerful political bloc. An attempt on August 13-14, 1992 by the rigid opposition in the parliament to organize anti-reform action and change the government failed; the majority of enterprises managers did not support that action. That was the coalition government's political success.

But the price of this success has been high. As I write in the fall of 1992, when the inflation rate has been increasing and ruble exchange rate has collapsed, that price seems to be extremely high. Coalitions and compromises are inseparable. The results of these compromises may be dangerous: inflation and unemployment.

Economists in the West usually consider inflation to be the worst turn of economic events, especially when compared to unemployment. Most foreign consultants in Russia have insisted that growing unemployment is less dangerous for political stability and the prospects for market reforms than growing inflation. But the situation in Russia is not so clear. By 1992, people and enterprises have already become accustomed to living with rising prices. This adjustment comes from long discussion in our society about the price system well before 1992, as well as personal experience since the reforms were launched on January 2, 1992. Certainly, inflation is a serious problem, but Russians now know how to live and to work with it. Polls reveal that the share of those who are dissatisfied has been declining, up to August 1992. The same is true about the share of people who are dissatisfied with price liberalization. (For instance, in Moscow that share fell from 36 percent in June to 30 percent in July.)

However, all strata of Russian society now view unemployment as the worst outcome. Yet the growth of unemployment is inevitable if market transformation is to continue. I think that the bulk of the population now realizes this. Moreover, the growth of unemployment would be a sign of real economic transformation—of the beginning of structural changes in Russia's national economy. (The employment statistics up to September demonstrate only nominal growth of unemployment, with no real shifts in the labor market: 202,900 workers were officially unemployed in July; 107,600 received unemployment compensation; about

2. Mienie Service (1992).

political neutrality of the people. The real prospects of economic and political transformation in Russia depend on the balance of forces in the top stratum of society. This elite includes the president and his administration, the executive branch, influential factions in the parliament, and leaders at the headquarters of the main pressure groups. The majority of the people will not participate in the political process actively and directly (except in Moscow and several huge industrial centers). Most people will not struggle for or against definite political forces. They will support the force that promises and convinces them that it will be able to ensure a modicum of order and stability.

What is happening in this top stratum of society? The real situation there, and especially in the executive branch, has changed since summer. The "government of the team" created in November has been replaced by the "coalition government." The former had no real social basis and could not obtain widespread support because the first steps of radical economic reforms (in the form of price liberalization in January 1992) adversely affected all strata in the society. In a democratic state, such a situation cannot be maintained for long. The team of reformers had to seek political allies in and out of parliament. They found allies among the "industrialists": managers of state enterprises. This new alliance helped to change the image of the government, which now has more leeway and clout to make economic policy.

The most important positive result of the formation of the coalition government is the split in the ranks of those opposed to radical economic transformation. It is natural that this phase of Russian reform should be accompanied by the growth of opposition and the polarization of social forces. But this is not the main threat. What is much more dangerous is the amalgamation of influential forces and pressure groups that have fundamentally different purposes and long-term interests—groups that would never support one another, except as an extreme and last resort. Thus prudent and delicate political actions to prevent total opposition to the reforms are exceptionally important.

An anti-government alliance emerged in the middle of the spring when many enterprises and firms were frightened by the government's intention to liberalize fuel prices. Private and state enterprises, industrialists and farmers, members of the military and industrial complex, and producers of consumer goods—all types of economic agents united in opposition. Moreover, the opposition appeared to be a united front of

800,000 asked for government help in finding a job; and enterprises' estimates of new job openings has stood at about 400,000 workers.³ The figure on job openings has been decreasing this year, but the decline has not been sharp. These figures are small in comparison with the Russia's population, but they are increasing, and their growth is expected to accelerate in November.)

On the one hand, unemployment poses a psychological problem. People need enough time to get accustomed to new realities (as is occurring with regard to price liberalization). Thus the speed of transformation is itself a problem. On the other hand, unemployment is a political problem because on this issue, the interests of different pressure groups are interconnected. Some industrial managers seek new prospects in their activities as entrepreneurs. Some understand that the growth of unemployment will be triggered by the bankruptcy of firms exposed to market forces. This will be an issue of dramatic tension in the near future. And on this point, reformers in the government had to concede to the industrialists. This is why since mid-summer, credit has expanded dangerously, pushing up inflation. We should not underestimate the social danger of this problem or be lulled by the formal analysis of statistical data. For instance, the Lipion-Sachs paper argues that "if the share of workers in distribution and finance were to rise from 8 percent of the labor force to just 15 percent of the labor force (which would still be far below the share in typical market economies), about 9.6 million new jobs would be created in trade and distribution. That would be enough to compensate for an employment decline of 44 percent in heavy industry, which itself is likely to be an overestimate of the actual decline."

I cannot agree with such calculations. The numerical assessment of employment prospects and unemployment is probably correct. But this is not simply a question of retraining and reeducating workers, which is complicated enough. A good part of the workers from heavy industry will never be involved in commerce or financial sector. The mentality of the people and their basic skills can not be changed by education. This is a generational problem.

So Russians now face slowly growing unemployment and increasing inflation. Moreover, the inflation rate is increasing in the fall of the year. This is extremely dangerous because it dampens farmers' intentions to

sell their crops, either to the public or to state procurer organizations. The later they sell their crops, the more revenue they will earn. This behavior will present specific difficulties to the government, which must ensure industrial centers that bread will be available and could provoke it to use so-called "extraordinary measures" or (to put it simply) to confiscate most of the crop.

Historical examples are popular now and they are used often in this paper. I would like to offer the reminder that the most dramatic shifts in Russian history in the twentieth century were brought about by a parallel situation in the villages.

Another issue of political struggle and compromise is privatization. This process is occurring with vouchers (or privatization coupons). This approach has its own benefits, but vouchers present some dangerous social consequences. Vouchers can help accelerate the process of privatization and concentrate assets rapidly in the hands of real entrepreneurs. Moreover, vouchers might have an important psychological result if they increasingly shift people's thinking to issues of their market behavior and to the problems of the enterprises where they work.

At the same time, vouchers can increase the discontent of people who do not fare well in the process. (Nobody can now recommend vouchers as the best way to invest because no real market criteria exist.) I am not sure that the state firms that have been transformed into joint stock companies will be glad to obtain vouchers. I think they would prefer real money.

Russia has no investment institutions, trust companies, or other organizations that could help people dispose of vouchers. Moreover, there is no effective system to insure the deposits of the common people—the potential small shareholders. In the end, the redistribution of vouchers will accelerate inflation by injecting more money into the market of consumer goods. (That is, the funds accumulated for investment by potential voucher-buyers will be transformed into earnings of the humble man who sells his vouchers.)

These problems can be solved and even turned into benefits. For example, if the excess of consumer demand is channeled to the market of durables—to the advanced branches of industry, which now suffer from a lack of demand for their products—this important sector of the Russian economy could be stimulated without accelerating inflation.⁴

4. This point was made by Irina Starobobrovskaya in an oral presentation in 1992 to the government of Russia's Working Center for Economic Resources entitled "Microeconomic Issues of the Stabilization Program."

3. State Committee of the Russian Federation on Statistics (July 1992) and "The Socio-economic Status of the Russian Federation in the First Half of 1992," *Ekonomicheskaya Gazeta*, No. 30, July 1992, p. 5.

The balance of forces in Russian society and the prospects of economic and political transformation can certainly be compared with the reforms underway in Eastern Europe. I agree that comparisons with Poland, for instance, are important for better understanding the economic processes in Russia. But to what extent do the features of various countries differ? The authors acknowledge the peculiarities of economies in transition. Nonetheless, they stress that the differences are not extremely meaningful in analyzing the current situation.

However, I must point out that political and social characteristics differ radically in the various countries. Russia has important features that lead to very specific social conditions surrounding the reforms. Notably, while the Eastern European states (including the Baltic states) are now moving out of a system that was imposed upon them by external force, Russia must overcome a regime that was created from within. That is why no consensus exists in Russian society about the key issues of further development of Russian society. This lack of consensus has led to dramatic and sharp social struggle, which is evident in the parliament and in the streets. To put it more correctly, this process of transformation should be considered a revolution: one characterized not only by the struggle of different political parties, but by the real struggle among social forces around issues of historical choice.

Finally, the Lipton-Sachs paper, and especially its section on politics, contains an interesting historical dimension. The authors stress that throughout Russian history, political liberalization has unleashed considerable initiative and economic development. They cite the examples of the reforms of Tsar Alexander II in the 1860s, the course of Prime Minister Stolypin from 1906 to 1911, and the New Economic Policy of Lenin in the 1920s. All these attempts to liberalize economic life in Russia resulted in periods of cruel reaction. This topic needs a separate analysis. I would like to emphasize only one point: the three attempts mentioned above were launched in a very contentions political environment.

All were characterized by a lack of political democracy—a factor that was one important reason for the depth of the reforms. Alexander II ended serfdom and created the *zemstvo*. However, these steps prompted extremely reactionary national policy, which destroyed key powers of the Russian empire, where political loyalty to the regime was much more important than nationality for one's civil status. I do not like to support the political position of the Russian Duma, but Stolypin was

not a prominent democrat. And the economic liberalization of the 1920s occurred under a deteriorating and increasingly repressive political climate in the Soviet Union.

Now the Russian government is trying to bring about radical changes in the political and economic system. The most important feature of this period is an attempt to combine political and economic liberalization. This combination presents complicated social conditions for the transformation, as well as new problems for the reforms. Nonetheless, from a strategic standpoint, this political climate may be more favorable to lasting success. At the same time, the processes of liberalization and democratization in the society will survive only if they are completed by a strong executive power that exerts control over the entire Russian Federation. I believe that this power is not only desirable, but inevitable. If democratic forces are unable to ensure this power based on the democratic procedure, it will be established by a Russian reaction, with all the tragic consequences for the social, political, economic, and cultural prospects for the state—and even for the rest of the world.

Edmund S. Phelps: I yield to no one when it comes to admiration for Jeffrey Sachs and his team in Russia. The talent and the range of competence are extraordinary in a profession suffering from long overuse of mathematics as a sort of steroid.

That said, I must add that there seems to be more cause for worry about the Russian reform plans than David Lipton's and Jeffrey Sachs's report reflects.

The worry is that the benefit of the reform program in its current state could fall far below what is possible—and what one hopes is politically feasible—because the insiders will have enough power to preserve some of their advantages.

Recall the story of the creature artificially constructed by Dr. Frankenstein. A brute of a man, he was strong in a number of resources and full of drive; yet he suffered from a flaw in design. His creator did not include an appropriate kind of brain, so he lacked the suitable control mechanisms.

The parallel danger in Russia is that the government, in its design of a market economy, is drawing up a defective system that lacks corporate governance mechanisms for enterprise control. (It also lacks mecha-

mechanisms, I would mention, in particular, the two governance mechanisms that receive good marks in a paper by Roman Frydman, Andrzej Rapaczynski, Andrei Shleifer, and myself, written for the European Bank for Reconstruction and Development.¹

The first is an old Frydman/Rapaczynski idea: a group of financial intermediaries set up to hold large blocks of shares in the large enterprises, as part of the process of mass privatization. These intermediaries would be induced to exercise active ownership functions, such as I mentioned before.

The second mechanism is the institution of large banks in the German or Japanese style. These would supply credit under the usual bankruptcy protections and be encouraged to take an active role when things go wrong.

These proposals seem straightforward. What is the difficulty? If corporate governance mechanisms are widely seen to be beneficial and, indeed, crucial, why should we not expect the government to institute some of these mechanisms in the course of the privatization program or soon thereafter?

I suspect that the difficulties lie with two vested interest groups of insiders in the not-yet-privatized socialist enterprises: the enterprise managers and the enterprise employees. Both groups have been trying to pressure the government to privatize through a sort of buyout of the insiders. The government would offer them a large chunk of the shares in their enterprises at favorable terms or give them the shares outright.

As far as I can see, the insiders have been succeeding to a considerable degree. Two variants of the privatization scheme are underway. Under Variant 1, shares are given away to insiders, but not in large enough amounts to control an enterprise. In Variant 2, which the managers can opt for, insiders at an enterprise can buy up to 51 percent of the shares at very favorable terms. In this scenario, any outside investor, contemplating an attempt to gain control, probably would view the task of unseating the manager as a pretty tall order.

The Russian plan does not, as I understand it, build into the privatization process mechanisms for outsider control. Provisions are not being made for financial intermediaries to hold large blocks of shares, expressly with the aim of exercising at least a measure of outsider control

1. Phelps and others (1992).

instruments for monetary and fiscal control. I will not be able to discuss those, but the report examines them at some length.)

The risk is that this mutant system will be unable to perform with the efficiency and the dynamism of a normal capitalist market system. The Lipton-Sachs report would have benefited from an evaluation of the extent to which the new Russian plans are a solution to this problem of enterprise control.

On this subject, Jeffrey Sachs, I think, has for some time given the impression that well-functioning markets plus competition of private firms together with an end to soft budgets through fiscal policy and hyperinflationary monetary policy—would be sufficient. A number of economists agree with that view.

But in the view of many of us, to achieve the potential of a capitalist market economy, instituting a price system (by decentralizing resource allocations and deregulating enterprises) and instituting private enterprise (by legalizing private ownership of shares and enacting mass privatization) are necessary, but far from sufficient, steps.

The step that is missing in the privatization plan at present—the very brain of the creature—is the creation of appropriate mechanisms of enterprise control by owners and creditors. Control here means that outsiders, the owners or, in some contingencies, the creditors, can set the direction of the manager, monitor the management, and change the manager: all to ensure that the enterprise is aimed and equipped to maximize expected profits.

Without mechanisms for owner control, each enterprise will tend to be misdirected by its manager. The allocation of investible funds across industries will be driven more by considerations of control than the technically possible rates of return. Moreover, the cost of equity finance will tend to be inflated, especially insofar as funds can go abroad.

Somewhat similar safeguards are also needed for potential creditors, giving them the right to intervene in the event of default. Otherwise, the cost of debt finance will be forced higher and the availability of credit will be curtailed. Where credit goes will be dictated by collateral rather than the worthiness of investments. Moreover, there will be no creditors in the driver's seat to overthrow the management in extreme cases, thus leaving it up to the shareholders, who may have failed to be effective before.

For concrete examples of such control mechanisms and governance

over the enterprise. Moreover, some hurdles have been put up to hinder outsider control.

As I understand it, the government is not caving in entirely. It is trying to saddle Variant 2 with onerous requirements to induce the managers, instead, to opt for Variant 1, in which shares are of smaller amounts and nonvoting. That seems to be a good deal better. How much better, it is hard to say.

So, a struggle seems to be occurring as to what kinds of enterprises are going to be created in Russia. This could be the real battleground where the success of the market economy now being created is finally determined.

Some of the possible positions on this question are already clear. It can be argued that the enterprise control mechanisms can always be created later when the government is stronger or has more time. Or it could be argued that suitable mechanisms can be left to evolve; with good luck, the right sort will evolve the first time around and be recognized as right.

Either case contains risks. A privatized system, left to operate before effective mechanisms of outsider control of the enterprises have been instituted and left to the piloting of self-interested managers (and employees, in some cases), will not be enterprising enough to undertake the desirable restructuring on a wide scale. Thus it will prove too weak to stand independently of the state. Soft budgets could result, and the whole process could come undone. What would happen next is unclear.

If control mechanisms do arrive, they may arrive too late to halt the downward spiral of real wages and capital that has been occurring since the insiders gained control of the enterprises toward the end of the 1980s.

This is not a council of perfection. Like Lipton and Sachs, I believe that it is better to privatize in advance of good governance mechanisms than to wait for everything to be in place. But in my view, it is terribly risky to fail to set up, early on, some control mechanisms to restrain and redirect the managers. If these mechanisms do not arise or they are not built in, I am afraid Frankenstein's monster may prove to be an applicable cautionary tale.

General Discussion

Responding to Edmund Phelps' comment, Jeffrey Sachs said that he was not only sympathetic to the idea that corporate governance issues are important, but that he and David Lipton had introduced the debate about corporate governance in the Eastern European context in 1990 with their proposal for investment funds. Their 1990 Brookings paper on privatization was all about the corporate governance issue (*BPEA*, 2:1990).

The depth and scope of the entrepreneurial spirit sweeping through Russia drew several comments. Richard Cooper questioned the assertion—based on recent polling data—that attitudes toward entrepreneurship are no different in Russia than anywhere else. Although Russia may face no shortage of potential entrepreneurs, Cooper cautioned that it is not yet clear how the Russian people will deal with the distributional consequences of economic changes. As the Russian proverb says, a Russian would rather die of hunger than of envy. Alan Blinder also wondered whether the social fabric of Russia could cope with the strain of rapid change. Julio Rotemberg added that, while the increased entrepreneurial activity in Russia may be welcome, studies of small-scale enterprises in lesser developed countries show how precarious and often marginal these types of businesses are.

Alan Blinder asked how relevant the Chinese example of incremental transformation would be to Russia. Jeffrey Sachs noted large differences between Russia and China. In China, three-fourths of the population lives in rural areas, so that rural reforms after 1978 liberalized a huge proportion of the economy. Rapid growth has taken place outside the planned sector of the economy; meanwhile, state-owned planned industries have continued to suffer enormous financial losses. By contrast, Russia is heavily industrialized and urbanized. Almost all economic activity in Soviet Russia was state-controlled. Hence, Sachs argued that the lessons of Chinese gradualism in industrial reform have little relevance for Russia.

Cooper wondered how well the Russian economy could be expected to manage the historic reallocation of resources that was envisioned by reformers. He reported that retraining in at least some sectors seems to be proceeding well; retired and cashiered army officers are being suc-

Hall also drew attention to the weakness of a financial system that issued currency to finance its generous granting of credit. He argued that it was more important to create intermediary institutions that extended credit by attracting domestic sources of funds, so as to avoid the current banking system's built-in inflationary bias.

Fischer proposed a two-part strategy for providing aid to Russia. First, the West should provide \$8 billion to \$10 billion a year in basic aid, independent of the progress of reforms. Second, additional assistance should be made conditional on Russia's reaching a standby agreement with the IMF, thereby increasing the Fund's role in the conduct of policy. Hall pointed out that the paper makes only a weak case for U.S. aid, portraying it mainly as a way to buy credibility for U.S. advice.

Olivier Blanchard asked how the position of Russia would be improved if subsidies to other republics were ended. Sachs replied that subsidies in the form of credits to business and artificially cheap oil appear to be between 5 and 10 percent of Russian GDP. As to why these high-cost subsidies are maintained in a time of austerity, he said that a strong lobby of Russian producers favors continuing to extend credits to other republics to finance purchases of Russian output.

The situation in the oil industry drew several further comments. William Nordhaus quoted oil industry sources who confirmed that a large decline in production has occurred and who attributed the decline to poor maintenance of equipment. He suggested that the main concern should be the loss of central government control over the oil industry. Previously, oil export taxes contributed \$30 billion to revenues, but oil tax receipts have now fallen to zero. Fischer questioned the data for the energy sector, which shows little decline in energy consumption, but an extreme drop in exports. He argued that oil exports were in fact high, but were unreported and constituted a form of capital flight.

Mancur Olson argued that the paper gave too much emphasis to privatization. In most formerly communist countries, private rights to property are ambiguous and insecure, so "privatization" does not have a clear meaning. He contended, moreover, that many if not most of the large state-owned enterprises do not appear to be viable in an open market economy. They are kept alive by the government because they are powerful insider lobbies. He conjectured that the fastest growth could be obtained by giving first priority to improving property and contract-

successfully retained as tax collectors! But he asked whether the surplus labor released from failed enterprises could be absorbed in the cities, and particularly wondered how employees in specialized one-company towns would find alternative employment. David Lipton reasoned that no alternative existed to scaling back some of the heavy industries and that the expanding service sector could absorb the labor released by their decline, as it has done in other economies.

Stanley Fischer questioned the paper's implication that whatever happens after markets are freed represents an improvement on the status quo ante. He asked what path of output decline the authors would consider a deterioration in economic conditions and called for a clearer distinction between the short-term costs and long-term benefits of the transition. Rotemberg also observed that price liberalization in itself is not necessarily a good idea; recent experience in Eastern Europe shows that it invariably results in higher prices, inducing a severe recession. Fischer added that the paper does not adequately address the question of the appropriate speed of reforms. David Lipton noted that rapid reforms in monetary policy were called for because of the risk that continuing high inflation could become hyperinflation, which would cripple real economic activity in a major way.

Fischer took issue with the idea that central bank independence to control the money supply was necessarily a good thing, pointing to the recent expansion in the Russian money supply, which occurred under a central bank that was independent of the government. Rather than trusting in independence per se, he suggested that the proper conduct of monetary policy should be framed as a broader and explicit policy issue. Lipton noted that the Russian central bank, under its acting president, is not independent, but rather acts under the control of Parliament. The recent extension of a large volume of industry credits was a parliamentary decision made on political grounds, not the action of an independent central bank. Greater independence would reduce such political influences over monetary policy.

Fischer also disagreed with the paper's recommendation to establish a currency board for Russia, reasoning that it would be too expensive for a country of Russia's size to hold the necessary quantity of hard currency. Robert Hall suggested encouraging the use of U.S. currency in Russia, with the seigniorage returned to Russia by the Federal Reserve.

enforcement rights rather than to privatization because this would greatly increase investment by new enterprises and by foreign firms. Sachs responded that the privatization issue was not as clearcut as Olson suggested: not all firms need to be liquidated after privatization, and some valuable opportunities have already been exploited by privatized firms.

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**U.S. POLICY TOWARD POST-COMMUNIST RUSSIA:
FALLACIES, FAILURES, POSSIBILITIES**

by

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Prepared Testimony to the Committee on Foreign Affairs
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House of Representative
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Unexpected events in recent years have brought us to a fateful moment in the history of American-Russian relations--one full of great hope but also many illusions and great peril. The hope comes from the rethinking and reform now under way in both countries, which holds out the possibility of a fundamentally new, demilitarized and truly cooperative relationship between these long-time superpower rivals. The danger lurks in a potential collision between post-Communist Russia's complex realities and post-cold war America's simplistic expectations about its former adversary--a collision that might lead if not to a new Cold War then to a very cold peace.

Whatever direction the relationship takes, Russia, and secondarily several other former Soviet republics, will be the United States' largest foreign policy concern for many years to come. The crux of the matter is clear. On the one hand, Russia's future development--because of the country's history, size, location, economic potential, weapons and unprecedented capacity for nuclear mishap--will profoundly affect prospects for peace, stability and prosperity in large parts of Europe and Asia, and for international security in general. On the other hand, Russia's ongoing collapse--its political, economic, social, and even psychological crisis--is far from over. No situation in the world today is potentially so perilous and ramifying.

And yet, the United States lacks well-conceived and workable policies toward Russia, and has had none since the breakup of the Soviet Union in 1991. Organizational energy and even financial commitment in Washington cannot themselves produce such policies. The underlying American problem is conceptual and ideological. Unless we change the mythical and missionary ways we think about post-Communist Russia, the problems and dangers we face will only grow worse.

I. U.S. POLICY SINCE 1991: FALLACIES AND FAILURES

The collapse of the Communist Party and breakup of the Soviet Union in 1991 generated both alarm and euphoria in U.S. policy circles--alarm over the disposition of Soviet "loose nukes," euphoria over the pro-American possibilities thought to be inherent in post-Communist Russia. The alarm was well founded, but the euphoria derived from several largely false assumptions.

False Assumptions

1. That the events of 1991 constituted a "new Russian Revolution" which had swept away the Soviet system and with it most of the obstacles to fundamental reform.
2. That fundamental reform in Russia now meant the creation of Western-style "democracy and free-market capitalism"--possibly even a replica of the American system.
3. That while problems persisted, Russia could quickly--as in the catchphrase, "get through the winter"--exit its Communist past onto a democratic-capitalist road if there was uncompromising political leadership (President Boris Yeltsin and his team headed by acting Prime Minister Yegor Gaidar), radical economic policies ("shock therapy") and sufficient Western support.
4. That America should therefore intervene energetically by undertaking a missionary crusade (a "new Marshall Plan of large-scale aid and advice") to shape and hasten this Russian transformation and to defend the Yeltsin-Gaidar leadership against its "reactionary, conservative, hardline Communist" opponents.
5. That such policies, in Washington and Moscow, would form the basis for a new U.S.-Russian relationship, turning post-Communist Russia into a likeminded "friend and partner" of the United States in international and security affairs, thereby also solving the problem of "loose nukes" in the former Soviet Union.
6. That large and stable constituencies for these policies existed both in Russia and the United States.

Failed Policies

Accordingly, the Bush Administration pursued a twofold policy toward Russia, which essentially remains U.S. policy today. The Administration negotiated, and offered to subsidize, a substantial abolition of Soviet-built strategic nuclear weapons, including those in Ukraine, Belarus and Kazakhstan. And it urged a fast Russian transition to democracy and capitalism, for which it promised to mobilize large financial support. U.S. poli-

cy did make some progress toward the "new era of friendship and partnership," as proclaimed by Presidents George Bush and Yeltsin at their summit meeting in June 1992, but most of it was, and remains, rhetorical and in the realm of professed intentions. The failures to date are more important.

1. The much ballyhooed START II agreements, signed by Presidents Bush and Yeltsin in January 1993, have not actually reduced the nuclear threat emanating from the former Soviet Union; indeed, that threat, fully understood, remains considerably greater than it was under the Soviet regime. For the large reduction of strategic weapons promised to be implemented over the ten-year period envisaged by START II, three very large conditions are still required: the increasingly recalcitrant Ukraine must ratify previous arms agreements and dismantle or transfer all of its 176 nuclear weapons and 1500 nuclear warheads to Russia; the rambunctious, largely anti-Yeltsin Russian Parliament must ratify the treaty; and political stability, including a pro-START government, must prevail in Russia (and possibly in Ukraine) for at least a decade. There is a very good chance that some or all of those conditions will not be met. In addition, no U.S.-Russian agreements yet cope with the other equally or more serious nuclear threats on former Soviet territory posed by tactical weapons, ill designed and badly maintained reactors, and proliferation of strategic technology.
2. As for Russia's "transition to democracy and capitalism," democratization has progressed very little, if at all, since 1991; many Russian democrats argue that there has even been some regression back toward authoritarianism, and in March 1993 President Yeltsin threatened to reintroduce a good deal more. In economic life, marketization has moved forward, fitfully and painfully, but hardly toward the "free-market capitalism" envisaged by U.S. policy-makers. The Russian state's role in the economy remains overwhelming, though more indirect and haphazard in some respects than it was before, and the leap-to-capitalism "shock therapy" inflicted on society by the Yeltsin-Gaidar leadership, at the urging of the U.S. government, American academic advisers, and the I.M.F., has done little other than greatly deepen the country's economic crisis, devastate the middle classes, and impoverish most Russian families by a rampant inflation caused as much by the

liberalization of consumer prices in a monopolistic setting as by anything else.

3. In foreign policy, meanwhile, the Yeltsin government has paid periodic lip service to its American "friend and partner," but naturally pursued Russia's own national interests in various "un-American" ways--in its dealings with China, Japan, India, Iran, Serbia and several of the former Soviet republics; and even in its strategic weapons policy. (Despite Yeltsin's promise more than a year ago, Russia's intercontinental missiles are still targeted at the United States, as revealed by Marshal Yevgeny Shaposhnikov in September 1992.)¹
4. Still worse, the missionary and intrusive nature of U.S. policy since 1991 has contributed significantly to a growing Russian political backlash against excessive American interference in the country's internal and foreign affairs. The problem is not primarily the congenital xenophobia of extreme nationalist movements that see the Yeltsin government as a U.S.-sponsored "occupation regime,"² but a more general backlash against "Yankee-ization" that has spread across the Russian political spectrum to many democrats as well. Thus, Russian economists admired in the West for their liberal and pro-market views, such as Nikolai Petrakov, have objected to U.S. economic advisers in Yeltsin's government because the radical monetarist, shock-therapy policies they insist on are "fundamentally unacceptable for Russia." And the Russian ambassador to Washington, Vladimir Lukin, a man well known for his pro-Western, democratic views, has protested an "infantile pro-Americanism" in his country's foreign policy.³

The backlash danger inherent in missionary American behavior toward Russia, which undermines our own goals and strengthens Russian opponents of a Western orientation, is one of the main lessons to be learned from U.S. policy since 1991. It is important to note a few examples of behavior that incites anti-American resentment. Not all of these examples directly involve U.S. officials, but some of them do, and the others are encouraged by U.S. policy and rhetoric.

- To begin with a common but corrosive sin, Russian officials frequently complain that U.S. representatives speak to them as though they were "prodigal

children on their knees"--triumphally, condescendingly, all-knowingly--while issuing dogmatic advice uninformed about actual Russian circumstances. America may believe it won the cold war, and Russia may now be governed by repentant ex-Communists, but those leaders are also the prideful inheritors of a great historical civilization and a twentieth-century great power. Neither they nor their successors can or will lead Russia as America's "prodigal children," and still less as its servitors or supplicants. We may reply that such U.S. representatives are exceptions, "ugly Americans," but their tone is set in Washington, where Administration officials speak of "building the new Russia," and a former national security adviser, Zbigniew Brzezinski, proclaims: "The economic and even the political destiny of what was not long ago a threatening superpower is now increasingly passing into de facto Western receivership."⁴ Basing policy on the preposterous conceit that Russia's destiny now is in America's hands, a notion widespread but not usually so candidly stated, is one sure way to bring about a new kind of threatening Russia.

- Another example of counterproductive U.S. policy has exacerbated the first one. Russian politicians and editorialists tolerated U.S. missionary rhetoric in the beginning because it included the Bush Administration's promises of very large American aid and private investment. Neither has arrived, and neither is clearly in sight, despite President Clinton's own promises.⁵ The result is another kind of political backlash: a growing conviction, even among pro-American Russians, that the United States will not put its money where its mouth has been ever since the Gorbachev years; and worse, that the United States is interested only in exploiting Russia's natural resources, not in helping to build its industrial and manufacturing capacity. In this respect, U.S. policy, or failure to live up to policy promises, has inflamed one of the worst fears across the Russian political spectrum--that post-Communist Russia will be viewed and treated by the West as a Third World country.
- Even more objectionable has been the myriad of unwise U.S. intrusions into the cauldron of Russian politics. At the highest level, the U.S. government has focused almost all of its policies, rela-

tions and good-will exclusively on President Yeltsin and his personal team, while virtually ostracizing other governmental institutions and leaders, particularly the Russian Parliament and its Speaker, Ruslan Khasbulatov. In March 1993, the Clinton Administration considerably escalated this kind of interventionism--by contriving the April Vancouver summit as an attempt to "help Yeltsin" in his ongoing conflict with the Parliament, by supporting the Russian President's threats to disband the legislature, by endorsing Yeltsin's failed effort to seize dictatorial or "special powers" from virtually all of Russia's other fragile democratic institutions, and even by suggesting that Clinton might go instead to Moscow for a solidarity summit with Yeltsin. The result was to put the U.S. government in bad institutional company. Opposed to Yeltsin's declaration of "special powers" was not only Russia's Parliament but also its Constitutional Court, Attorney General, Justice Minister and Vice President, most of its elected local legislatures and large segments of its democratic press. Supporting or leaning toward Yeltsin's declaration were the heads of the Russian military, the former KGB, and the militia--and the Clinton Administration.

Still worse, President Clinton, and President Yeltsin, were egged on in this direction by many U.S. Congressional leaders and a plethora of American editorial writers and influential columnists. Aware that they were endorsing anti-democratic measures by Yeltsin, they argued almost unanimously that his professed democratic goals justified the means. Surely twentieth-century history, and especially Russia's history, teaches the perilous folly of that premise. Even if such a gambit by Yeltsin were to succeed, it would risk destroying what little rule-of-law government Russia now has and putting the country's political fate in the hands of the military and other security forces. Arguments that those forces are too divided to act forcefully misses the point: a divided military cast into such a situation is a recipe for civil war. In short, what Russia needs is domestic consensus not more conflict, and thus U.S. policies that encourage the former rather than play a partisan role in the latter.

U.S. officials may share Yeltsin's opinion that the Russian Parliament's majority is insufficiently reformist, but they lack the right and wisdom to act on such judgments. Let us remember, for example, that this "reactionary" Russian Parliament, as it is dubbed in U.S. government and media accounts alike, was the same one that was so greatly admired not long ago for its brave resistance, in its tank-encircled Moscow "White House," to the August 1991 coup. Moreover, there can be no democracy in Russia, whose history is full of overweening executive power and abolished legislatures, without a parliament. (The last popularly elected Russian legislature was forcibly disbanded by the Bolsheviks in January 1918.) Nor can there be any ratified arms treaties without one. Indeed, perceived U.S. contempt for the Russian Parliament and its leadership has already bred there much more anti-American sentiment than would otherwise have been the case, and thus created greater obstacles to the ratification of START II. Nor has the United States shown much respect for Vice President Aleksandr Rutskoi, who, at 45, and with substantial popular standing and elite backing, is likely to play a major role in Russia's future.

- U.S. policy and behavior have been even more intrusive at lower political levels. American economists, backed by financial institutions, sit in the Kremlin and elsewhere as official advisers to the Russian government. Various American political organizations, some with federal funding, reward favored political movements and parliamentary factions in the name of "building democracy." The A.F.L.-C.I.O. is deeply involved in Russian trade union politics. Some Russian legislation and school curricula are being drafted by American hands. Proposals are even afloat to put a resident corps of U.S. and other Western "experts" in Russia's governing bureaucracies, to assign NATO advisers the job of reshaping Russia's armed forces, and to make U.S. dollars a second Russian currency.⁶ Segments of Russia's highly Westernized elite and foreign-currency community have invited and embraced this kind of American involvement, but that does not make it politically wise. Any Americans who cannot understand the resentment generated by such blatant intrusions into Russia's internal affairs need only imagine their own reaction if Russians were playing such roles in our government and politic life.

- Not surprisingly, the anti-American backlash is also gathering force below, in Russian society, despite the large reservoir of pro-American sentiment. How, under the circumstances since 1991, could it be otherwise? The Yeltsin-Gaidar "free-market shock therapy" has inflicted enormous social pain. Millions of Russian families, possibly the majority, have lost their life savings (part of the "ruble overhang" so detested by Western economic advisers), fallen near or below the poverty line and felt betrayed by the promises of democratic market reform. To many of those citizens--how many is unknown, but certainly too many--their growing misery, their inability to care properly for young and old family members, their helplessness in the face of rampant "corruptalism," seem to be "made in the U.S.A.," designed and even imposed by the United States. It is not true. But given U.S. rhetoric and effusive support for the Yeltsin-Gaidar measures, given the hordes of American "advisers" (political, economic, managerial, military, etc.) swarming over Russia, given the absence of effective U.S. relief but abundance of American trash movies dumped on the Russian market--why would they think otherwise? Or when another former White House official, Richard Pipes, insists that for the sake of "any genuine progress" Russia must "keep on disintegrating," and that the "collapse of the central economy is, therefore, to be welcomed..."?^{6a}
5. Finally, the Bush Administration's failure to find stable constituencies for its policies in Russia was accompanied by its failure to develop them at home. The issue of policy toward Russia was virtually absent during the last presidential campaign; none of the candidates seemed willing or able to explain to skeptical voters the importance of large-scale aid. President Clinton has begun to try, but an American-style backlash among media pundits, who do so much to shape policy, is also telling. As Russian realities begin to collide with American missionary expectations, some influential commentators, among them Evans and Novak, are already disillusioned by the U.S.'s new "friend and partner," warning of "a return to the Cold War, but without nuclear weapons." (Why "without nuclear weapons"?)

Clearly, the United States urgently needs a serious, clear-headed reexamination of its post-Cold War thinking and policies toward post-Communist Russia. Even that will not be easy amidst the impassioned polemics of America's new missionaries and cheerleaders for shock therapy, some of whom are already asking darkly, "Who lost Russia?"⁸ Russia is not ours to win or lose, but much is at stake. New thinking and new policies won't be possible without new leadership, in the fullest meaning of the word, at the highest levels--from the President and Congress.

II. NEW THINKING ABOUT POST-COMMUNIST RUSSIA

As was often the case with U.S. policy toward the Soviet Union over the years, policy toward post-Communist Russia has been based on serious misconceptions about that country. In order to change unwise policies, we must therefore first change those underlying assumptions. Here, briefly, are the most important ones.

1. Contrary to euphoria in Washington (and briefly in post-Communist Moscow), no real revolution or "total collapse" occurred in Russia in 1991. Despite the fall of the ruling Communist party and breakup of the Union, crucial aspects of the Soviet system, or sovietism, still exist in Russia today in the form of the state economy, characteristic bureaucratic institutions and procedures, political and managerial elites at the center and in the localities, and popular attitudes. Significant changes have taken place, but they remain at best an embryonic alternative system within the old Soviet system, which is still responsible for people's essential needs--housing, employment, food and other basic supplies, health care, welfare provisions, public order, and more. Until a new system develops more fully, any "leap" or "shock" dismantling of the old one is therefore certain to be both impractical and inhumane, if not catastrophic.
2. Nor is there any real evidence that popular anti-Communist activities in 1991, during or after the failed August coup, constituted a national referendum in favor of democratic capitalism as we understand it. Certainly, there are no large constituencies, in Russian elites or society, for "free-market

shock therapy." To pursue such policies means to impose them on society, which can only further undermine popular and insitutional support for democratization. Opinion polls already show, for example, a steady rise in public support for new authoritarian leadership, and considerably more popular esteem for the army and the Orthodox Church than for the new democratic institutions, the Presidency and the Parliament. Not surprisingly, Parliament responded by deposing the "shock-therapist" Gaidar, and Yeltsin's own popular rating fell from about 80 percent in autumn 1991 to about 35 percent a year later, roughly the same as that of Vice-President Rutskoi.⁹

3. At the same time, however, the collapse of the old Soviet system in Russia is still under way, and is likely to continue in crucial ways--further industrial decline, mass unemployment, a breakdown in agricultural deliveries, nutritional supply, and health care, rampant crime and official corruption, growing separatism and disintegration within the Russian Federation itself and spreading violence. That is why more and more Russian political figures across the political spectrum, from left to right, now believe that stabilization of the existing system, rather than a forced transition to a new system, must be the national priority. Here, too, there no longer is any euphoria--at least in Moscow.
4. In these traumatic circumstances, what are the main issues and conflicts that have dominated and shaped Russian politics since 1991? U.S. policy-makers have assumed that the struggles over democracy and markets are the primary ones. Certainly, those are important, but they have been secondary to four other towering conflicts. First, inflaming all the others, is an acrimonious dispute among conflicting ideas about the desired nature, or national identity, of post-Communist Russia. Should Russia be part of the West or apart from the West? Should Russia be rebuilt according to a foreign model, and if so, which (the American, Swedish, Chinese--all frequently mentioned candidates), or in accord with its own traditions, and if those, which? Should Russia be greater territorially ("imperial") or remain within its newly diminished borders? Should the nation's own vastness be governed chiefly by a dominant Moscow state or locally? No consensus, to say the least, exists on any of these fundamental questions.

Another zealous struggle is raging over all the far-flung property formerly monopolized by the Soviet state: natural resources, banks, factories, communication facilities, buildings, shops, transport, even military equipment. Though this struggle is often waged under the banner of reformist "privatization," much of it is corrupt even by Soviet standards. A third struggle pits central authorities in Moscow against local authorities in the vast provinces (where much real economic and political power has migrated in recent years), particularly in the Russian Federation's thirty one "autonomous" regions, many of which now claim "sovereignty" over their rich resources. This epic struggle is exacerbated by the presence of non-Russian majorities in several of those enormous autonomies, which account for about 53 percent of Russia's territory and 18 percent of its population. Finally, in Moscow, there is the angry battle for policy-making power, unconstrained by any clear constitutional provisions, between the Presidency and the Parliament, and various parties allied with them. All these conflicts have dwarfed and distorted the issues of democracy and markets, and none of them is likely to be settled any time soon--not even by the adoption of a new democratic constitution, which so many observers think is the solution.

5. For these reasons, it is exceedingly difficult to identify all the "good" and "bad" actors in Russian political life today, especially if the role of easily recognized extremists is discounted. Certainly, the Russian political spectrum is far more diverse and complicated today than is suggested by the popular Manichean prognosis, "Either the democrats or the red-brown reactionaries," a partisan Moscow slogan adopted by many U.S. analysts and government spokespeople. What are we to make of a political arena where, for example, leaders we call "democrats" advocate disbanding Parliament and imposing presidential rule throughout the country; those we call "conservatives and reactionaries" defend the idea and institution of parliament; and forces we disdain as "centrists" hold the balance of power and may well win any near-term elections? Where we see constant menace in "ex-Communists," but where almost all leaders on all sides, including President Yeltsin and his team, are former party members? And where "democrats" are themselves deeply divided over further political reform, economic policy, foreign

policy, and Moscow's relations both with the other former Soviet republics and Russia's own breakaway territories? If even well-informed, well-intentioned Russians cannot decide which leaders and policies to favor from month to month, how can we?

6. None of this means that Russia is incapable of democracy or market economies. It does mean that the country's transition to a stable system with those features will take many years, probably decades, and will include discouraging as well as encouraging episodes, perhaps even stages, along the way. (We may witness, for example, large political roles played by a renewed Communist party that already is the country's largest with some 500,000 members, traditional nationalism, pro-Union popular sentiment, regional power centers, and junior military officers garrisoned in the increasingly important provinces.) The usual analogies with those countries helped by the post-War Marshall Plan are of little if any instructive use. Unlike Russia, Germany, for example, had a tradition of capitalist economics and even some democratic experience, and was defeated and occupied militarily by its new patron. Nor are Russia's circumstances much like those in countries where Western "shock-therapists" previously experimented, including Mexico, Bolivia, and even Poland. In short, despite all the political certainties and social science theories being proffered today, here and in Moscow, no one can foresee Russia's future--except that it will be a great power--or how it will get there; too many unprecedented and turbulent factors are at work.

But some developments are more likely than others. Economic marketization and the growth of private enterprise will almost certainly continue, however fitfully, if only because most Russian political factions, again from left to right, now understand that the country cannot thrive without them. On the other hand, even that process is unlikely to conform to simplistic American expectations. Russia will probably "walk on two legs," moving toward, and on the basis of, what is being called a "mixed economic system," with a substantial state and private sector but with the state still dominant in large-scale industry, agriculture, transportation and finance, while private enterprise flourishes mainly in services, trade and small-scale production. (An adumbration of such a system, known as the New Eco-

conomic Policy, or NEP, existed in Soviet Russia in the 1920s.) In other words, the eventual direction is likely to be not toward abolishing the state economic sector but toward diminishing and reforming it.

Even so, many important economic questions will remain the subject of political dispute. What should be the relative proportions of state and private property? Which state-controlled industries and farms inherited from the Soviet past are essential and thus must be subsidized, and which can be abandoned to a market fate? Should private enterprise be actively encouraged or merely tolerated? And what should be the nature of the new market system--in the current Russian vernacular, "liberal and free" or "social and regulated"?¹⁰ None of these problems can be treated, of course, by shock therapy, only by gradual, incremental approaches. (In this connection, it should be understood that Russia's present need is not American-style economic abundance but an end to the scarcity of essential goods, which is a potential source of civil unrest and despotic political outcomes.)

The political nature of Russia's transition is less certain. Democratization has achieved a great deal since Mikhail Gorbachev began the process in the late 1980s, but despite many modernizing changes in Russian society in recent decades, centuries of authoritarianism cannot be overcome quickly, or in a leap, even in favorable conditions. And Russia's conditions today are not favorable; indeed, even many once fervent democratizers now advocate suspending the process until economic stabilization and more marketization can be achieved. Here, too, Russia's complex realities defy simplistic prognoses, be they euphoric or apocalyptic. There is little sense in basing U.S. policy on best-possible or worst-possible scenarios, though neither can be ruled out completely in life or in politics. Various kinds of government are always possible that are neither fully democratic nor fully dictatorial, and Russia is likely to experience several of them in the years ahead.

But whatever the full shape of Russia's political and economic future, it will not be a replica of America's present or the Soviet past. It will be, as is also said increasingly in Moscow, some "third

way." American cheerleaders for Yeltsin and shock therapy adamantly deny that there can be any kind of third way, and accuse its proponents of being "enemies of reform." But here is what the Russian President himself told the nation in October 1992: "We are not leading Russia to any kind of capitalism. Russia is simply not suited for this. Russia is a unique country. It will not be socialist or capitalist."¹¹ We may believe it or not, but most Russians evidently do.

III. NEW PRINCIPLES OF U.S. POLICY TOWARD RUSSIA

Most American politicians and opinion-makers say they favor "helping Russia," and, of course, we must help. The main reason is generally known, but worth restating. If Russia, with all its unprecedented potential for nuclear and ethnic holocaust, lurches into chaos or despotism, no international security or order of any kind will be possible. Allocating, for example, \$3 to \$6 billion annually for aid to Russia for several years, barely 1 to 2 percent of current U.S. defense spending, would thus be the cheapest investment in real national security American could make.

There is less understanding and consensus about what "helping Russia" actually means, or how to do it. U.S. myths and fallacies since 1991 have created more misunderstandings and disagreements. Wiser policies therefore require wiser U.S. principles and guidelines--do's and don'ts that are better informed and more thoughtful about the Russian realities and American possibilities discussed above. Here are the most important ones.

1. Any successful policies to help Russia and shape a good U.S.-Russian relationship that will endure need stable constituencies, which do not yet exist in either country. Formulating its policies, the U.S. government must therefore explain them to the American people realistically, not euphorically, emphasizing not only their importance for our national interests but also that Russia's journey to stable markets and democracy will be a long one and include developments that do not conform to prevailing expectations. Without such public understanding, even the wisest policies will quickly be undone by

American disillusionment, impatience and lingering cold war reflexes.

2. U.S. policies and specific programs to help Russia should never be missionary in words or deeds. We lack the right, wisdom and power to convert Russia to America's way of life. Our system cannot be transplanted in that very different, much older civilization. Russia will borrow from the West, but it can find a stable future only within its own historical experiences and existing circumstances. In particular, the United States should not try to design Russia's overall reform strategy, but instead support those aspects of it that move the country toward economic stability, markets and full democracy. Russia must itself decide how, and how fast, to move in those directions. Financial aid given on conditions that it be used only in specifically American ways will usually cause pain and resentment. Much advice given according to the prevailing axiom, "If it works in America, it must be applicable to Russia," will be ignored or fail. Too much is very different there, from popular attitudes toward social justice and land, a worker family's dependency on the factory, to the consequences of bankruptcy, especially in Russia's many company towns. In short, U.S. assistance must be informed by Russian realities and possibilities, not by American illusions and conceits. And in the end, Russia must be able to say, as those American musical icons, Frank Sinatra and Elvis Presley, boast, "I did it my way."
3. Nor should any U.S. policy or agency intervene excessively in Russia's internal affairs. Such practices will be counterproductive, inspiring more resentment against America, undermining domestic and foreign policies we favor, and further strengthening their enemies. Nothing can be done, perhaps, about private American groups already intruding so deeply into many areas of Russian life, some doing humanitarian work, but too many of them "building a new Russia" in alliance with one political faction against others. That must not be the spirit or practice of the U.S. government. Its funds should not be used in such ways, and its representatives should not be encamped in Russian governmental offices as planners, advisers or overseers. (Russia has plenty of able professionals to perform those functions.) At high levels, the U.S. government must, of course, focus on the Russian President, but it should also

develop normal relations with other official institutions, especially the Parliament, and be respectful toward a broad range of Russian political opinion and movements. Otherwise, the United States may have few Russian political friends, partners or even acquaintances under the post-Yeltsin leadership.

4. We also need realistic thinking, not illusions, about U.S.-Russian relations in the larger context of world affairs. Predicating the relationship on a fairy tale "friendship and partnership," as though post-Communist Russia's foreign policy will simply follow that of the United States, is certain to breed disillusionment and thus erode public support for aid to Russia. Russia's foreign (and defense) policies will be based on its own perceived national interests and on positions that can be sustained politically in Moscow, not Washington. We may reasonably hope those interests will coincide with our own more often than not, but they will not always do so. Having lost billions of dollars by repudiating former Soviet allies and respecting U.N. sanctions, for example, Russia will repair relations with some anti-American governments, as we have already seen in its sale of weapons and technology.¹² Having a very different geopolitical relationship with China, a close cultural one with Serbia and a divorced family's relations with other former Soviet republics, Russia is certain to adopt policies unlike the United States' toward most of those countries. Straddling Europe, unlike America, it will have its own perspectives and approaches there as well. None of this is reason for a new cold war or refusing to help Russia's reforms, only for more realistic and balanced expectations about U.S.-Russian relations that include respect for Russia's legitimate interests.
5. It does mean, however, that the United States must take care not to undermine aspects of Russian foreign policy that are pro-American, but highly vulnerable to Moscow politics, or groups that support them. Here, too, missionary rhetoric and behavior are counterproductive, as is the appearance of one-sided triumphalist policies and double standards on the part of the United States. Already being hotly debated in Moscow, for example, are charges that while compelling Russia to reduce its military forces maximally, the United States is cutting its own minimally; while protesting Russia's arms sales

abroad, the United States is increasing its sales; while demanding Russia no longer meddle in the Third World, the United States continues to do so; and while expecting Russian adherence to U.N. resolutions, the United States interprets them unilaterally.¹³ We may reply that Russia has lost its superpower entitlements. But if we want a truly new relationship, there is a grave risk in asking Russia to do so much more than we are prepared to do. Indeed, even America's "best hope," as the Clinton Administration characterizes President Yeltsin, has objected to "a U.S. tendency to dictate its terms," adding: "No other state can command such a great nation as Russia."¹⁴

6. Finally, one towering issue requires special attention because it affects Russia's domestic and foreign politics, and U.S.-Russian relations, in potentially explosive ways. Post-Communist Russia's relationship with many if not all of the other former Soviet republics is far from being resolved. The United States evidently assumes that all of them will remain fully independent states, and that Russia will treat them accordingly. But many powerful factors continue to generate urgent proposals in Russia and several other former republics for a new federal or confederal state (unlike the present Commonwealth), which would naturally revolve around Russia. Those factors include common economic and security problems; the fate of 75 million former Soviet citizens now living outside their ethnic homelands, including 25 million Russians; millions of ethnic intermarriages; a myriad of disputes over sovereignty, borders and property; and spreading civil violence.

U.S. policy-makers have given this fateful problem little serious thought, mainly wishful thinking, though even some Russian democrats have been calling for a Russian "sphere of influence," a "Monroe Doctrine," throughout the former Soviet Union, a demand echoed in President Yeltsin's own recent assertion that Russia should have "special powers as guarantor of peace and stability in regions of the former USSR."¹⁵ One school of U.S. policy thinking, represented by Henry Kissinger, insists that any political regrouping around Russia must be opposed as resurgent Russian "imperialism." But what if the decision is voluntary? A strong case can be made that a new federation or confederation of those former

republics wishing to join may be the only way to stave off the various catastrophes now threatening them. It might also satisfy pro-Soviet Union sentiment in Russia and elsewhere, which remains strong and is growing. Indeed, the proposal might even be taken up by President Yeltsin himself, who remains vulnerable to charges that against the wishes of 77 percent of Soviet citizens, as expressed in the March 1991 referendum, he helped abolish the Soviet Union nine months later.

No euphoric or simplistic answer is possible here either. But if nothing else, the United States, for the sake of recovery in the region, ought to favor the restoration of broken economic ties and do nothing to encourage political disintegration within the Russian Federation itself. It must also do everything possible to defuse the explosive issue of those 25 million Russians now stranded "abroad," which means, at a minimum, unequivocally advocating their human and civil rights in all the non-Russian former republics, particularly in Estonia, Latvia, and Ukraine, no matter the political temptation to do otherwise.

IV. NECESSARY WAYS TO HELP RUSSIA (AND OURSELVES)

Various approaches and programs are necessary to help Russia (and ourselves)--all of them consistent with the realities, possibilities, and principles set out above. Common sense and decency tell us what generally must be done. The United States cannot, of course, do everything, but if it really aspires to international leadership, it must provide it. And, not to be forgotten, promises made must be fulfilled. The approaches and programs that follow are the most important and urgent ones.

1. Real solutions to the several kinds of nuclear threats on former Soviet territory cannot wait. The Clinton Administration should immediately open discussions with all Russian executive and legislative parties involved in the ratification of START II, including its critics. Any glaring inequities in those hastily drafted agreements, or in the cost of carrying them out, should be rectified. No politically unpopular treaty will be reliable. Meanwhile, prior to ratification, the United States should

begin its own implementation of START II,¹⁶ redouble efforts to negotiate effective barriers to nuclear proliferation and accept the Russian offer of a permanent ban on nuclear testing--in effect, an end to the building of nuclear weapons. (If getting rid of these weapons is such a big problem, why create new ones?) The Administration will also have to redouble efforts to persuade Ukraine, now revelling in its new designation as "the world's third largest nuclear power," to give up its intercontinental ballistic missiles and warheads, a problem not likely to be resolved easily or soon. The temptation to use battlefield (tactical) nuclear weapons is even greater, especially in quasi-religious civil wars already under way in the former Soviet Union. The Clinton Administration should reconfirm the exact whereabouts and control of all ex-Soviet tactical nuclear weapons, and negotiate major reductions in those Russian and American arsenals.¹⁷ Furthermore, many of the 40 Soviet-built nuclear reactors in the former Soviet Union and Eastern Europe are as dangerous as the one that exploded at Chernobyl in 1986, and terrorist threats inside Russia have already been made against them. Programs to modernize and safeguard those reactors already established with Russian support but not yet of any consequence must be hastened, redoubled and amply funded.¹⁸

2. Russia's traumatic transition to a market economic system calls out for a great American humanitarian campaign, not for one winter but several. Massive relief, especially essential nutrients and medicines, has to be provided free to those Russians most imperiled by marketization and least able to cope with it--the very young, old, and sick. Much that is desperately needed is produced cheaply and abundantly by U.S. corporations--infant formula, other nutrients, aspirin, vaccines, disposable syringes, etc. Sporadic U.S. relief efforts have been undertaken, but none on an adequate scale or in a sustained way. A joint government-private sector campaign is needed to utilize all resources provided by existing legislation, mobilize individual contributions, but especially to encourage U.S. corporations to play the humanitarian role featured so prominently in their advertisements. A special national committee should be formed for that purpose, composed of knowledgeable people and co-chaired by a high Clinton appointee and two symboli-

cally bipartisan elder statesmen--for example, Richard Nixon and George McGovern. (Does no eminent American wish to be remembered as Herbert Hoover was in Russia after the famine relief he led in the early 1920s?)

3. Russia's crushing \$84 billion foreign debt must be restructured--quickly, fully, generously and on a long-term basis. Interest owed to Western governments and international banks, which Russia simply cannot pay, has become a towering obstacle to new state and foreign investment in the Russian economy, which is essential for stability and reform. Serious thought must be given to forgiving interest payments altogether, and perhaps even that large portion of the principle inherited from the Soviet Union.
4. Western specialists understand that Russia must have large new loans and credits for economic investment, imports, and to ease the social pain of reform. Less understood is the growing political backlash in Russia against taking on new debt. It stems from three objections, or perceptions: loans, short-term commercial credits, and the interest due annually put an ever tightening Western noose around Russia's neck, often come with unacceptable conditions about the nature of reform measures and cannot be counted on from year to year. It is time, therefore, to provide more altruistic and functional kinds of loans and credits to Russia--ones that are for a much longer period of time; are given at long-deferred and low rates of interest, or even interest free; come free (or freer) of the intrusive monetarist conditions imposed by the I.M.F.; and are guaranteed for several years. These are not customary or perfect approaches, but neither are the situation and our national interests in Russia. And the alternatives are not realistic, economically or politically. As for American worries that such generous and less conditional loans will disappear down some "black hole," they are considerably exaggerated and often really doubts that Russia can reform at all. We have sent much more aid to many other countries with bigger "black holes."
5. At the same time, at least three programs with earmarked Western funds are also essential for Russian reform: one to help convert excess military plants to civilian production; another to provide start-up loans to small private enterprises; and a third to

subsidize unemployment benefits for Russians left jobless as marketization proceeds and superfluous state firms are shut down. Military conversion is exceedingly complicated, and requires joint U.S.-Russian cooperation applicable to our own excess defense producers as well. The other two programs would be relatively cheap for the United States, given the great current value of the dollar against the ruble, but the U.S. role in such "grassroots" reforms must not be intrusive. Unemployment benefits should be administered by Russian agencies staffed by Russians and given in rubles, and loans (also in rubles) to small enterprises processed by new Russian banks, not U.S. agencies, an approach that will have the additional benefit of nurturing a system of Russian private banking, loans and credit. Both of these programs should be targeted primarily at the provinces, where unemployment benefits and start-up capital are considerably less available than they are in capital cities such as Moscow and St. Petersburg, which were the primary destinations of previous assistance. And new Russian firms that will actually produce something, unlike the overwhelming majority that now merely speculate in state goods, should be favored.

6. Specialists also agree that Russia greatly needs large private American investment, but very little has been invested. The main reason usually cited is the lack of Russian laws protecting private investment. But the U.S. government could do much more than it yet has to provide its own guarantees to American investors and to negotiate with the Russian government on their behalf. The Clinton Administration should begin immediately with already existing private proposals that are well-conceived and mutually beneficial. U.S. investment in Russia's lagging energy production, for example, could earn Russia much needed hard currency and reduce America's dependence on Persian Gulf oil.¹⁹ And a few such high-profile precedents might jump-start the flow of private capital to Russia.
7. "Technical aid" to Russia has become an enormously popular cliché, but what it means is not always clear. If it means political meddling, bad advice or teaching Russians what they already know, it's counterproductive, a waste of resources and an excuse for not giving more generous and functional help. A great many Russians are better educated, more -

skilled, more professional and more entrepreneurial than is generally assumed in the West. In that and other important respects, Russia is not a Third World country. If "technical aid" provides essential know-how and equipment that is actually lacking, it should be encouraged and expanded. But the U.S. government is itself a serious obstacle to technological assistance to Russia. Various Cocom restrictions still exist on so-called "high-tech" exports needed for modernization and investment in Russia, ranging from advanced desktop computers to high-capacity telephone lines.²⁰ If the United States is serious about helping its new "friend and partner," the Clinton Administration should quickly abolish these and other similar Cold War relics.

8. The same should be done with left-over U.S. trade restrictions that prevent all kinds of Russian exports from competing in the American market. Indeed, if the U.S. government is serious about helping post-Communist Russia create a prosperous market economy, surely that country should be granted Most Favored Nation status, which has long been held by countries we profess to worry about and admire considerably less.
9. Finally, something should be done to help Russia's professional and other middle classes, which were the original social basis for reform in the 1980s but are now being victimized by the shock therapy policies. The possibilities for American help in this area are limited, and even those probably are done best and most properly by private foundations eager to be active in Russia but uncertain how to do so. One valuable approach would be to give financial support to the universities, educational institutes and other intellectual centers that were the crucible of Soviet Russia's middle classes, and now are nearly destitute. Here, too, some degree of U.S. government-private sector planning would be needed. And here, too, priority should be given not to Russia's capital cities but to remote and disadvantaged provinces. It is there, after all, that the great majority of citizens live, and it is there that the new Russia will eventually emerge.

If this seems too much to ask of Americans worried about their own economic future, and thus of their new President, who will wish to be reelected, the full case for helping Russia reform must be clearly understood. Most immediately, of course, it involves the looming risk of chaos, civil war, or despotism in that turbulent, nuclear-laden land. But two other reasons are also important.

Having demanded for seventy years that Soviet Russia give up its bad ways, and having spent trillions of dollars over forty years trying to force it to do so, the U.S. government will be judged very harshly by future citizens and historians alike if it does not generously help Russia change now that the moment has finally come. Or perhaps it will be remembered for having supported measures that destroyed yet another nascent Russian experiment with parliamentary democracy and again plunged the country back into its despotic traditions.

Nor will Russia, when it reemerges in its predestined role as a very great power, as it certainly will, forget how other powers treated it during its present time of troubles. What we do now, or fail to do, will shape our children's and grandchildren's relationship with Russia as well. For all these reasons, we cannot indeed stop thinking about tomorrow.

FOOTNOTES

1. FBIS-SOV, Sept. 28, 1992, p.2.
2. See, for example, Den', January 17-30, 1993.
3. Nikolai Petrakov in Rabochaia tribuna, November 20, 1992; and Vladimir Lukin in Nezavisimaia gazeta, October 20, 1992. For other pro-market Russian economists who oppose the shock-therapy policies associated with the IMF and Professor Jeffrey Sachs, an American advisor to the Yeltsin government, see Gavriil Popov in Nezavisimaia gazeta, October 8, 1992, and January 26, 1993; Leonid Abalkin in Trud, December 19, 1992; and Grigory Yavlinsky in Literaturnaia gazeta, October 28, 1992. That is also the view of St. Petersburg's liberal democratic mayor, Anatoly Sobchak. See Pravda, November 12, 1992.
4. Zbigniew Brzezinski, "The Cold War and Its Aftermath," Foreign Affairs, Fall 1992, p. 33.
5. About this, if little else about Russia, Jeffrey Sachs is right. See his "Home Alone 2," The New Republic, December 21, 1992. Also, Fred Hiatt, "Western Effort to Aid Ailing Russia is Seen as Collapsing," The Washington Post, March 1, 1993.
6. For these latter three proposals, see respectively, for example, Open Society: Chronicle of the Soros Foundations, April 1992, p. 5, and Joseph Fitchett, "For Ex-Soviets, a Plan for Hands-On Aid," International Herald Tribune, June 22, 1992; John Edwin Mroz, "Russia and East Europe," Foreign Affairs, No. 1, 1993, p. 56; and George Soros' dollars plan reported in Izvestiia, February 20, 1993.
- 6a. Richard Pipes, "Russia's Chance," Commentary, March 1992, pp. 30-31.
7. Rowland Evans and Robert Novak, "Cold Wars Without Nukes," The Washington Post, December 11, 1992. Also, see their "Yeltsin's Poisoned Cup," ibid., November 27, 1992, which labelled virtually all of Yeltsin's establishment critics as "reactionary leaders" and "unreconstructed Communists," and warned that if he made concessions to them, "the West should brace for

upheaval"; and similarly, David S. Broder, "Chill Wind From Moscow," ibid., December 22, 1992.

8. The unfolding charges are cited in Hiatt, "Western Efforts to Aid Ailing Russians...."

9. Many Russian public opinion polls are highly politicized and unreliable. For a more reliable one, sponsored by RFE/RL, see Mark Rhodes, "Political Attitudes in Russia," RFE/RL Report, January 15, 1993, pp. 42-44. In some polls, Ruskoi's ratings are higher than Yeltsin's. See, for example, Nezavisimaia gazeta, July 29, 1992; and Amy Corning, "How Russians View Yeltsin and Ruskoi," RFE/RL Research Report, March 19, 1993, pp. 57-59.

10. These issues, little noted in U.S. press accounts, are already under serious discussion in Russia. See, for example, the interview with Leonid Abalkin in Trud, December 19, 1992.

11. Yeltsin interviewed in Argumenty i fakty, No. 42 (October), 1992.

12. Russian estimates of the country's losses as a result of UN sanctions against Iraq, Libya, and the former Yugoslavia, for example, range from \$7 billion to \$16 billion in 1992. See the calculations in Moskovskaia pravda, December 15, 1992; and figures quoted in Steven Erlanger, "Moscow Insists It Must Sell the Instruments of War to Pay the Costs of Peace," The New York Times, February 3, 1993.

13. Such objections appear regularly in anti-Yeltsin newspapers such as Pravda and Sovetskaia Rossiia, but they show up with increasing frequency also in pro-reform liberal papers, as well as in statements by parliamentary democrats and even Yeltsin's own advisors. See, for example, Aleksandr Vasil'ev in Komsomol'skaia pravda, March 19 and September 3, 1992; Vladimir Pechkurov in Nezavisimaia gazeta, July 14, 1992; and Vladimir Kiselev in Moskovskie novosti, October 25, 1992.

14. Quoted in Fred Hiatt, "Yeltsin: U.S. Likes to 'Dictate'," The Washington Post, January 26, 1993. Earlier, in October 1992, Yeltsin accused Western countries of "double standards" in its relations with

Russia, warning that Russia would no longer be merely a "state that says 'yes'." FBIS-SOV, October 28, 1992, pp. 15-16.

15. For calls for "a sphere of ... vital interests" based on an entitlement "like the U.S.'s Monroe Doctrine in Latin America," see Yevgeny Ambartsumov, head of the Parliament's Committee on International Affairs, quoted in The Current Digest of the Post-Soviet Press, September 9, 1992, p. 5. For Yeltsin, see FBIS-SOV, March 1, 1993, p. 21.

16. As proposed in Ivo H. Daalder, "Setting a START II Example," The Washington Post, January 27, 1993.

17. The Russian government has given the United States assurances about the location and control of all Soviet-built tactical nuclear weapons, but some uncertainty existed in late 1991 about whether or not such weapons had been withdrawn from areas threatened by civil war. See "Arbatov Views Disarmament, Nuclear Weapons," FBIS-SOV, December 3, 1991, p. 1. As civil wars spread in various parts of the former Soviet Union, more verification and assurances are needed.

18. A fund for that purpose exists under the auspices of the European Bank for Reconstruction and Development, but it seems inadequate, financially and politically, for the large, urgent, and perilous task. See Marlise Simons, The New York Times, January 29, 1993.

19. This approach is already on the Clinton Administration's agenda, but it needs to be undertaken quickly, resolutely, and on a substantial scale. See Keith Schneider, "Energy Nominee Plans Broad Agenda," The New York Times, January 19, 1993.

20. See Anthony Ramirez, "Business Is Losing Patience With the Cold War's Export Police," ibid., January 24, 1993.



UKRAINE 2000

THE WASHINGTON COMMITTEE IN SUPPORT OF UKRAINE

PREPARED STATEMENT OF ROBERT A. McCONNELL, CHAIRMAN OF THE GOVERNMENT RELATIONS COMMITTEE OF UKRAINE 2000: THE WASHINGTON COMMITTEE IN SUPPORT OF UKRAINE

Good morning Mr. Chairman. My name is Robert McConnell. I am chairman of the Government Relations Committee of Ukraine 2000: The Washington Committee In Support Of Ukraine. Ukraine 2000 is made up of area residents, mostly Americans with ethnic Ukrainian backgrounds, who have a deep interest in Ukraine and in United States interests in Eastern Europe. My statement is on behalf of Ukraine 2000.

We think it most appropriate for the Committee to consider U.S. policy toward the newly independent states of the former Soviet Union.

In the current issue of Foreign Affairs John Edwin Mroz argues that what is happening in eastern Europe will affect the United States and the world. "Playing to the grandstands by speaking about the triumph of democracy and American values means nothing in the transitional world of post-communist Europe." Among other things Mroz advocates that we concentrate on those countries, including Ukraine, that are at pivotal stages of transition. ("Russia And Eastern Europe: Will The West Let Them Fail?" Foreign Affairs, p. 44)

Mr. Chairman, we concur. We have very serious concerns about our nation's policy toward the former Soviet Union and specifically, the lack of understanding that seems to be involved in our policy toward Ukraine. We believe that the current course being followed by the United States is ill-advised and could have disastrous consequences for Ukraine and for United States interests in Europe.

It is our strong view that Ukraine must be given careful and separate consideration as a focus of United States foreign policy. Even with a very large non-Ukrainian population, Ukraine has been relatively free of inter-ethnic conflicts. In keeping with the formulation of the Popular Movement Of Ukraine (Rukh) a foundation of the reform movement in Ukraine has been democratic inclusion of all of the people of Ukraine. It is important to consider this in the context of the bloodshed now being spilled in the Caucasus region of the Russian Federation, and the growing tensions in Siberia and Tatarstan. There are major tensions in the Russian Federation that are clearly destabilizing. The hostilities combined with the flexing of imperialist muscles by Moscow's hard-liners should suggest to the West the potential of an independent Ukraine serving as a check against the reemergence of Russian-based turmoil and expansionism in the region.

To date Ukraine's independence and future as a sovereign European nation has not been accorded strong support by the United States. As a result, the United States may be jeopardizing the best opportunity for long-term stability in the region.

Currently the United States is pressing Ukraine to ratify START I and is urging our western allies to put pressure on Ukraine as well. Ukraine essentially is being told that the U.S. has decided that START is Ukraine's top priority and that there will be no significant U.S. aid or relationships until START I is ratified.

No matter what the motivation for this diplomatic pressure, it is based on a misreading of Ukraine's evolution over the last few years. It is terribly counterproductive to U.S.-Ukrainian relations and is against American national interest.

Government sources and many of our independent press publications have been expressing the view that Ukraine's parliament is delaying its consideration of START and backing away from Ukraine's intention to be non-nuclear. They also link Ukraine's desire for assistance in dismantling its strategic nuclear weapons and its requests for assurances against Russian aggression.

These are not easy issues and it is important to American self interest that we consider Ukraine's perspective and history on the nuclear issue.

The fact is Ukraine's nuclear position was born out of the 1986 Chornobyl disaster and became a fundamental element of the founding "Program" of Rukh. March, 1990, in still-Communist Ukraine, a third of the candidates for parliament were elected on

the Rukh program. By July 1990, these deputies won a near unanimous vote in parliament for the Declaration of State Sovereignty of Ukraine, calling for a democratic society and declaring Ukraine's "intention of becoming, in the future, a permanently neutral state that does not participate in military blocs and adheres to three nuclear-free principles: not to accept, not to produce and not to acquire nuclear weapons."

This legislation was adopted over a year before the coup, a year before Ukraine's Declaration of Independence, over a year before the break-up of the Soviet Union, and long before the United States was paying any real attention to Ukraine. Ukraine did not "agree" to become non-nuclear at the behest of Western governments. It made its choice and has reiterated its position consistently since. Ukraine is given little credit and no respect for having already turned over all of its tactical nuclear weapons to Russia.

As for the "delay" in the Ukrainian parliament's consideration of START, it might be helpful to understand that START ratification has never yet been scheduled for formal parliamentary consideration. The priority in Ukraine's parliament can be defined using the Clinton Campaign theme, "Its the economy stupid." The U.S. should accept this. Since before recognizing Ukraine at Christmas time, 1991, the U.S. has consistently urged Ukraine to reform its economy. In meeting after meeting Ukrainian concerns about myopic U.S. emphasis on Russia have been met uniformly with U.S. condemnation of Ukraine's lagging economic reforms.

Last Fall, having witnessed the collapse of its economy under the conservative Fokin government, the Ukrainian parliament voted no confidence in Fokin and replaced him with new Prime Minister Leonid Kuchma. Parliament vested Kuchma with significant but limited-term authority to reform the economy. He has responded with an aggressive program that has stimulated intense debate in parliament and across the country. Parliament's schedule has been dominated by the economy and, not surprisingly, the elected parliament recognizes that the standard of success for the people of Ukraine will be how the economic crisis is handled.

The fact is that the Ukrainian parliament has not "delayed" START, it has yet to address the treaty. The U.S. should honor Ukraine's elected legislators' commitment to face their nation's number one priority - the economy. In addition, we well should understand that the nuclear question is not academic in Ukraine, they live with the consequences of Chernobyl, of nuclear energy mismanaged. Condescending U.S. admonitions are inappropriate.

We have read criticisms that it has been eighteen months since President Bush signed START I. That has nothing to do with Ukraine. The U.S. Senate took 10 months to ratify START I after the treaty was negotiated by the United States. When Ukraine's parliament turns to this complex agreement it will be studying a document its government had no role in negotiating. They will be looking at an agreement that carries extraordinary budgetary and other responsibilities for its signatories. Parliament will have a duty to honor Ukraine's non-nuclear agenda and to do so in the context of Ukraine's national interests.

And, in regard to Ukraine's national interests, the U.S. should take the time to consider those interests. Russian instability is not only evidenced by the delicate and important maneuverings between President Boris Yeltsin and the Russian parliament in Moscow. There is the turmoil and bloodshed in the northern Caucasus region. There is the fact that the most recent session of the Russian Congress of People's Deputies ignored treaties and laid claim to Ukrainian territory; the Russian Vice President and the Russian Ambassador to the United States continue to argue for Russia's reoccupation of Ukrainian territory. Given this and a history of Russian occupation with an imposed famine and bloody purges as well as systematic efforts to eradicate Ukrainian culture and language, Ukraine has legitimate concern.

These realities are being assessed by Ukraine and they also are important to the United States. Russian expansionism is not in our interest.

Ukraine, now as always, stands as the biggest prize for Russian imperialism. As a result, the existence of a secure and independent Ukraine offers the greatest hope for a lasting check against Russian expansionism and the instability it would bring.

We should encourage Ukraine's growth, listen to its legitimate concerns, honor its parliament's schedule; give creditability to Ukraine's sovereignty. This would be proper international behavior. Realistic prospects for a peaceful future in Eastern Europe may depend on it.

PREPARED STATEMENTS--Europe

Full Committee Statement of
Congressman Benjamin A. Gilman on
U.S. Policy Toward Europe

Mr. Chairman:

I commend you for holding this hearing on an area of vital importance for U.S. foreign policy. As developments in the post-Cold War era unfold, it is clear that the principles and tenets which had guided our policy toward Europe for the nearly fifty years since the end of the Second World War now need to be re-examined. I look forward to hearing the views of our witnesses.

The American people have been steadfastly committed to the security and economic vitality of the democracies in Western Europe. We stood firmly with the people of that region through the darkest days of the Cold War. We sacrificed to ensure that deterrence of the Soviet threat worked. We provided generous aid to promote economic stability while democratic institutions were either restored or established for the first time. We opened our huge market to goods produced in Europe.

We can be justifiably proud of the victory that we obtained when the Berlin Wall fell, when freedom swept Eastern Europe, and when democrats in Moscow faced down the Communist masters and their tanks. But now new challenges to the trans-Atlantic alliance have emerged, and Americans must re-evaluate our relations with all of Europe. With European integration proceeding, and the economic strength of the European Community clearly visible throughout the world, we look to Europe to exert greater leadership, particularly in crises which are of paramount concern to Europe.

We understand the challenge posed by integration and union in Europe, and the economic issues of equity and fairness which Europeans must deal with on both a national and a European basis. But Americans expect fairness and equity in a united Europe's dealings with us as well.

Security still must remain a concern, as the situation in the former Yugoslavia makes painfully clear. Questions about NATO's role now that the Soviet threat has been removed need to be considered, but I believe it is unwise to talk about greatly reducing NATO's capabilities, or for the U.S. to withdraw its military forces in Europe completely. But before we can consider a role for NATO in the new Europe, we must work together to ensure that the multi-national cuts affecting NATO be coordinated so as not to weaken the great alliance that produced victory in Europe.

PREPARED STATEMENT OF RT. HON. SHIRLEY WILLIAMS

The memo below addresses the three questions raised by Chairman Lee Hamilton and Congressman Benjamin Gilman in their invitation to me to testify.

QUESTION 1. IMPORTANT DEVELOPMENTS IN THE EUROPEAN COMMUNITY, 1991-1993

A. The Community's twelve member countries moved confidently towards the goal of a single market by the end of 1992. But in December 1991, the Community's heads of government in signing the Treaty of Union, known as the Maastricht Treaty, over-reached themselves. The Treaty of Union spelled out a whole new stage of integration:

1. a single currency and a European central bank – known as E.M.U., European Monetary Union, to be achieved by 1999.
2. an integrated foreign policy, in which governments would decide unanimously which foreign policy issues should be dealt with by the Community as a whole, but details would be agreed by qualified majority vote.
3. much closer cooperation in dealing with threats to international security, such as terrorism, organised crime and the drug trade; but also moving towards a Community-wide immigration and political asylum policies.

The Treaty of Union proved to go far beyond what the European public, (which had been hardly informed or consulted at all), was prepared to stomach. In Denmark, the referendum calling for ratification of the Treaty was defeated. In France, a similar referendum was won by a whisker. In Germany the upper house insisted that it should be consulted whenever further moves towards integration were contemplated. In Britain, Parliament is still locked in dispute over the Treaty, and the ruling Conservatives are seriously split on the issue.

In short, the European leaders have been badly singed by public reaction.

B. The Next Developments: 1993 on

The next major issue facing the Community is enlargement. Negotiations are beginning this year with four candidates for full membership: Austria, Sweden, Finland and Norway. All are likely to join, and all, being relatively rich countries, are seen as assets to the Community. After them, the Eastern Europeans (Poland, Czech Republic, Slovakia, Hungary) are in the queue, as are Cyprus, Malta and Turkey. These latter countries pose much greater difficulties for the Community.

Enlargement, even from twelve to sixteen, let alone twelve to twenty or twenty three, will compel the European Community to review and alter its institutions. Some, like the European Commission, would be too big to be viable unless the basis or representation (two Commissioners for a big country, one for a small country) is changed. Enlargement is likely to bring radical overhaul of the Community's institutional structures, which will be discussed at an intergovernmental summit planned for 1996. This summit will also have to consider greater openness and greater involvement of member-state Parliaments and publics in the Community's policy-making. The fundamental question to be resolved is whether the European Community will move towards a federal union, or move towards a two or three speed Europe, known as "variable geometry" to the insiders.

Question II. U.S.-E.C. relations: how should U.S. (and E.C.) policy change?

1. There is a real danger that relations between the United States and the European Community will get bogged down in trade disputes. The United States regards the European Community's public procurement policy as protectionist. The European Community regards the cancellation of talks on these issues by the U.S. Trade Representative, Mr. Mickey Kantor, late last week, as unhelpful and provocative. The situation is made more difficult by politics: the Clinton Administration's desire to show that it is on the side of American business, the Community's fear that the current elections in France could produce a more protectionist government there.

2. Trade is important, but on all these issues a compromise can be reached. Trade issues are dwarfed by the enormous threats now posed to political stability in Europe. It would be tragedy if the absolute necessity for solidarity and common purpose among the Western allies were to be put at risk by trade disputes.

3. Russia is on the brink of chaos. It is not clear whether Yeltsin can hold on, on whether decrees he issues will be implemented. Local warlords and local political leaders are already staking out their claims. Some republics or autonomous regions like Georgia and Nagorno-Karabak are already in a state close to civil war. The implications of a breakdown of government authority in Russia are enormous: violence, disease and the uprooting of yet more hundreds of thousands of people, many of whom will become refugees.

4. Western European countries, especially Germany, Austria, and Hungary, are already awash in refugees. The refugee problem in turn feeds political extremist and national groups. In the recent Hesse (state) elections in Germany, the extreme neo-fascist Right got 8 1/2 percent of the votes, very high by previous standards. A new tide of Russia and C.I.S. refugees could destabilise even the prosperous countries of the European Community.

There is therefore a willingness among some powerful governments in Western Europe to entertain the idea of a joint US/Canadian/EC political initiative towards Russia and the other CIS republics.

5. President George Bush's Administration began an exciting new program for strengthening democracy in the CIS called "the rule of law" programs. The Clinton Administration has emphasized its own commitment to human rights and the strengthening of democratic institutions which this program addresses.

6(a) The European Community and its member states have, since 1990, contributed over 62% of all Western aid to the new democracies of Central and Eastern Europe, the U.S. 12.5%. While U.S. aid to regions is relatively small, a larger part of U.S. aid is in the form of grants rather than loans.

Any new initiative, to develop and strengthen civil society in the CIS, by providing training, sending experienced advisors in public administration to serve for several months or longer, (not three days experts who fly in and out), and to offer internships and scholarships in the West, could be mounted jointly with the European Community and be co-financed by it. At present, U.S. Government agencies like USAID and USIA, and European Community agencies like the Phare program, work separately. It is near to impossible to get funding for joint projects in which American and Europeans operate.

Central and Eastern Europe

b) U.S. policy towards the new democracies of Central and Eastern Europe is not coordinated with European Community policy. It should be. The democracies of Central and Eastern Europe regard the United States as their beacon and mentor, the great example of democracy, but they are disappointed by the scale and character of the U.S. response to their needs. Furthermore:

i) most of them are Parliamentary democracies whose political systems resemble those of Western Europe rather than the separation of powers systems that characterizes the United States.

ii) most of them, specifically Hungary, the Czechlands, Slovakia and Poland, are already associate members of the European Community and intend to join as full members by the end of the decade. The advice they get, on economic policy, public administration, law etc. therefore needs to be compatible with belonging to Community institutions. Otherwise they will find they need to adjust their legislation all over again by 1997 or 1998.

iii) the argument, therefore, for a multilateral approach is powerful. The countries of Central and Eastern Europe should make their own choices as free countries among the different models afforded them. They should hear from us what are the strengths and the weaknesses of our respective systems. No one should thrust a British, or French, or American model down their throats.

PROJECT LIBERTY

An Example: Project Liberty

Project Liberty, which I direct at the John F. Kennedy School of Government, Harvard University, has conducted three workshops in Central and Eastern Europe in conjunction with local schools of public administration, on reforming the civil service. We have taught public administration, public finance, the administration of justice, public accountability and client-related management to senior civil servants drawn from the whole of the region, and to Ministers, in Czechoslovakia (in June 1992, just before the break-up), in Poland (Jan. 1993) and in Ukraine (Jan. 1993). These workshops were so well received that we have already been asked by the Prime Minister of Estonia.

Mr. Mart Laar, and the director-general of the Hungarian National School of Public Administration, Dr. Andres Baka, are to conduct similar workshops in their countries too. One significant factor of all these workshops is that the faculty has been drawn mainly from the U.S., but has also included experts from France and Great Britain. This mixed Western faculty enables comparisons to be made and tailors the course much more closely to the needs of the Eastern European participants. But it is very tough indeed to get any public money for such collaborative programs, however successful they may be.

SHIRLEY WILLIAMS

Short Version

HARVARD UNIVERSITY

Shirley Williams is Public Service Professor of Electoral Politics and director of Project Liberty, a multinational project aimed at providing assistance to the emerged democracies of Eastern and Central Europe, at the Kennedy School of Government. Professor Williams teaches courses on the European Community, Electoral and Advocacy Politics, Women in Politics, and Science and Technology.

BRITISH PUBLIC SERVICE CAREER

The Right Honourable the Baroness Williams was elevated to the United Kingdom's House of Lords on January 1, 1993. Lady Williams served in the British Parliament as a member of the Labour Party from 1964-1979, and again as the first elected member of Parliament of the Social Democratic Party (SDP) from 1981-1983. She co-founded the SDP in 1981 and was elected to serve as President from 1982-88. She became a member of the British Government, serving from 1966-67 as Parliamentary Secretary, Ministry of Labour; 1967-1969 as Minister of State for Education and Science; and 1969-70, Minister of State, Home Office; and she again served in the Government from 1974-1979 as Secretary of State for Prices and Consumer Protection (1974-1976), Paymaster General (1976-1979), and as Secretary of State for Education and Science (1976-1979). In 1974 she was made a Privy Counsellor.

EDUCATION

- Oxford University, Open Scholar, 1948; BA, 1951; MA, 1954; Fulbright Scholar, Columbia University, New York, 1951-1952.

BOARD OF DIRECTORS:

IMI-Kiev, Ukraine, September 1989-present; Trustee, Twentieth Century Fund, New York, 1976-present; Education Development Corporation, Newton, Massachusetts, 1990-present; Strengthening Democratic Institutions, Harvard University, 1990-present; Project for Economic Reform in Ukraine (PERU), Harvard University, 1990-present; Council of (Foreign) Advisors to Presidium of Ukraine, 1991-present; Council of Advisors to the Presidium, Russian Republic, 1991-present.

RECENT PUBLICATIONS:

- Williams, Shirley and Edward Lascher, eds., Beyond Ambition: the Career Paths of American Politics (IGS, University of California, Berkeley: Berkeley, 1993).
 - Williams, Shirley, "Sovereignty and Accountability in the European Community," in R. O. Keohane and S. Hoffmann (eds.), The New European Community: Decision-making and Institutional Change (Westview Press: Oxford, 1991).
 - Williams, Shirley, "The Swing of the Pendulum: Financing of British Universities from the 1960s through the 1980s" in D. Zinberg's (ed.) The Changing University (NATO ASI Series, 1991)

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Distribution of Assistance Committed to the Central and Eastern European Countries (CEECs) from 1990 to end 2nd Quarter 1992 (Million of USD)

	ECONOMIC ASSISTANCE		MACRO FINANCIAL		ASSISTANCE		EMERGENCY		OFFICIAL EXPORT		OFFICIAL SUPPORT		TOTAL		OF WHICH GRANTS	
	Min USD	%	Min USD	%	Min USD	%	Min USD	%	Min USD	%	Min USD	%	Min USD	%	Min USD	%
BELGIUM	31.59	0.3	7.06	0.1			11.59	0.4	140.16	1.3	21.04	1.2	222.15	0.3	54.01	3
DENMARK	107.61	2.1	201.31	1.4	37.64	0.4	12.33	0.4	127.93	1.1	185.03	10.2	539.13	1.3	377.94	2.1
FRANCE	252.24	2.8	3177.12	22.0	2099.56	31.4	69.31	3.1	1628.82	14.5	201.99	11.1	2294.49	5.3	280.40	1.6
GERMANY	2312.92	25.6					28.51	1.2	2878.78	25.7	744.54	40.9	9904.81	22.1	3482.77	19.7
GREECE	18.76	0.2					1.77	0.1	24.65	0.2			65.29	0.2	40.84	0.2
IRELAND	1.04	0.0	0.02	0.0									2.83	0.0	1.16	0.0
ITALY	314.00	3.4	103.27	0.7			341.27	20.2	849.78	7.8			119.50	2.6	1787.79	4.7
LUXEMBOURG	0.55	0.0	0.09	0.0			1.13	0.1	24.09	0.2			2.16	0.0	610.37	3.5
NETHERLANDS	104.45	1.1	2.19	0.0			22.07	1.2	292.08	2.6			28.02	0.1	3.24	0.0
PORTUGAL			2.34	0.0			0.91	0.0	2.44	0.0			471.44	1.1	139.07	0.8
SPAIN	32.87	0.4	14.46	0.1			2.54	0.1	555.95	5.0	0.84	0.0	6.99	0.0	0.91	0.0
UNITED KINGDOM	123.13	1.4	799.53	5.5	799.22	8.7	6.00	0.2					608.85	1.4	7.44	0.0
TOTAL EC MEMBERS	3177.16	37.1	4389.19	29.0	3736.42	60.5	530.31	28.1	4540.44	54.6	1154.04	61.4	14655.80	38.2	5098.40	28.9
EC	2218.51	24.4	2805.90	18.1			709.87	37.4	102.71	0.9	31.70	1.7	5701.48	13.2	2971.94	16.8
EIB	1034.82	11.4											4273.43	9.9		
CECA	31.78	0.3							102.71	0.9			253.62	0.6		
COMMUNITY TOTAL	4463.39	73.2	6915.09	47.9	3736.42	60.5	1240.18	68.7	4443.15	59.3	1183.74	65.1	26604.33	62.0	8070.34	65.7
AUSTRIA	579.32	6.4	315.48	2.2	184.74	2.8	30.32	1.4	984.47	8.8	199.79	11.0	2133.98	4.9	809.02	4.4
BULGARIA	72.28	0.8	294.18	2.0	74.68	0.8	12.11	0.4	73.06	0.7	1.14	0.1	433.77	1.1	90.73	0.5
ICELAND							3.35	0.2					0.17	0.0		
NORWAY	39.49	0.4	42.57	0.4			18.54	0.4	5.83	0.1	18.39	1.0	6.28	0.0	4.01	0.0
FINLAND	327.20	3.6	747.69	5.2	436.58	6.9	20.68	1.0	43.11	0.4			163.00	0.4	79.21	0.4
SWITZERLAND	186.40	2.0	187.03	1.3			8.96	0.5	110.75	1.1	1.78	0.1	972.24	2.3	636.43	3.4
EFTA Secretariat	1.77	0.0											1.77	0.0	1.77	0.0
EFTA TOTAL	1005.18	11.0	1687.20	11.1	896.00	9.7	94.08	5.8	1228.00	11.0	221.10	12.1	4713.25	11.0	1844.02	10.4
AUSTRALIA	1.21	0.0	0.74	0.0			8.65	0.5	272.02	1.9			0.07	0.0	9.21	0.1
CANADA	30.69	0.3	1597.13	11.1	1693.11	16.2	15.85	0.8	591.75	5.3	1.37	0.1	2219.24	5.1	1539.97	8.7
JAPAN	997.36	11.0	1635.03	9.8	371.09	6.2	33.21	1.8	689.20	6.2	0.99	0.1	3135.81	7.3	695.39	3.9
NEW ZEALAND	1.07	0.0					63.70	0.4					64.77	0.2	1.07	0.0
TURKEY	1.32	0.0	2.54	0.0			65.89	3.5	310.84	3.0	65.19	3.6	476.00	1.1	19.90	0.1
UNITED STATES	403.78	4.4	2898.69	20.1	2537.97	27.5	431.51	22.8	1614.80	12.6	346.17	19.0	5513.37	12.6	3472.60	11.0
G-24	9107.12	100.0	14436.44	100.0	9234.59	100.0	1848.57	100.0	11283.48	100.0	1820.56	100.0	43054.44	100.0	17652.58	100.0

End May 25 18:53:17 GMT 1992

G-24 Scoreboard - Explanatory Notes

The G-24 Scoreboard consists of several separate, but related tables:

- Summary Table - Global Cumulative Commitments
- Distribution of Assistance
- Donors by Recipients
- Donor Reporting Table (Sector of Destination by Type of Assistance)
 - Donors by Sector of Destination
 - Donors by Type of Assistance
 - Recipients by Sector of Destination
 - Recipients by Type of Assistance
- G-24 Public Emergency Aid to Ex-Yugoslavia

The following points should be noted and taken into consideration when analysing the figures which are represented in the various Scoreboard tables:

A. The Summary Table - Global Cumulative Commitments

The Summary Table groups donor commitments into six categories: Economic Restructuring Assistance; Macro-Financial Assistance; Emergency Assistance; Official Export Credits; Official Support for Private Investment; and Non-Specified Assistance. The contributions of the IFI's are listed at the bottom of the page, and added to the G-24 total, to arrive at the Grand Total. Values are listed in ECU and US\$.

1. Economic Restructuring Assistance covers assistance programmes for the development of social and economic infrastructure (education health, government, energy, environment, transport, communications), productive sectors (agriculture, industry, trade), and multi-sector assistance.
2. Macro-Financial Assistance is a combination of commitments such as balance of payments assistance, structural adjustment assistance, and debt relief.
3. Emergency Assistance tallies food aid and other emergency actions.
4. Official Export Credits covers all officially supported credit and guarantee facilities. The amounts recorded represent the ceilings of the facilities, not the actual level of use. Values in this category which coincide with the previous three categories are only counted as Export credits, to avoid double counting.

**Statement of Robert D. Hormats
Vice Chairman, Goldman Sachs International**

**Before the Committee on Foreign Affairs
United States House of Representatives
March 18, 1993**

American Policy Toward Europe in the 1990s

I appreciate the opportunity to appear before this committee to discuss US-European relations.

A few years ago one could identify two clearly defined forces operating on the European continent: in Western Europe, centripetal forces of increasing integration and unity; in Eastern and Central Europe and the former Soviet Union, centrifugal forces of disintegration and disunity. Progress toward a single Market, monetary union, and enhanced political cooperation, plus the prosperity, moral authority and sense of self confidence in the European Community stood in stark contrast to the fragmentation, ethnic dissension, rising nationalist animosities, and economic decline in much of the eastern part of the continent.

Now we see a more mixed picture. In Western Europe the momentum toward unity has slowed. Although the Single Market was largely completed as planned by the end of 1992, monetary union now appears far less likely by the end of this decade and political union is less certain; the Maastricht Treaty enjoys only lukewarm public support. And virtually every nation of the region is suffering from recession or slow economic growth, conditions which also make groups of their citizens hostile to the large scale immigration that has occurred due to ethnic friction and nationalistic strife in Eastern Europe plus the desire of many easterners to obtain better jobs in the West.

In this environment it is all too easy to lose sight of the accomplishments of Western European nations in the last 50 years. During that period America's Western European allies have been staunch members of NATO; together with the US and Canada their military commitments and political resolve have contained communism and provided the moral authority and democratic models that helped bring about its collapse in the East. They have achieved dramatic increases in living standards, provided safe haven to many millions of political and economic refugees, and built a strong Economic Community that has led to dramatic intra-European increases in trade, labor mobility, capital movement and investment.

The weakening economic picture and the loss of momentum toward unification have been caused by and complicated Western Europe's capability to cope with four recent sea changes:

- The collapse of the Soviet Union and the dissolution of the Soviet Empire;
- The unification of Germany and the attendant financial costs;
- The imminent reduction of the American troop presence in Western Europe;
- The existence of a full scale war, coupled with starvation, concentration camps and ethnic genocide, in Eastern Europe -- within a one hour plane ride from most Western European capitals.

How should the US relate to the rapid changes taking place in Europe? In recent years the nature of America's European policy has been hard to discern. Much effort was devoted in the late 1980's to the future of the Soviet Union and then to the future of Russia. President Bush

appropriately sought to work with America's Western European allies in this effort through the Group of Twenty Four (the member nations of the OECD). In the area of trade, the primary disputes have related to ongoing tension over EC agricultural subsidies, an issue impeding progress in the Uruguay Round of multilateral trade negotiations. Currency issues have arisen with moderate frequency, largely reflecting a lack of consensus in the Group of Seven and the accordance of a lower priority to US-EC currency issues on both sides of the Atlantic as the Europeans have become more preoccupied with the instability of currencies within the EC's Exchange Rate Mechanism. On numerous occasions the US has pressed European nations, particularly Germany, to lower interest rates to help boost US exports and hence US economic recovery; the Bundesbank, fearing Germany's own large budget deficits and inflationary pressures, has largely resisted outside pressures in this regard.

POLICIES FOR THE DECADE AHEAD

US Goals

The preeminent American policy goal in Europe in the 1990s should be to ensure an orderly adjustment to post-Cold War era -- an adjustment that fosters sustained peace and stability on the continent, strengthens prospects for democracy, and bolsters prosperity and free markets.

At stake in the current turmoil in Moscow is not just who will rule Russia but what kind of country Russia will be: Will it cooperate with the West in regions such as the Middle East, and on arms control and nuclear proliferation? Will it embark on a nationalist course harmful to its Eastern and Western European neighbors and to global stability? Will it fragment into seething and fractious ethnic groups avenging themselves on one another? Will its economy collapse into hyperinflation, a late 20th century version of the Weimar Republic, with all the risks that entails? How fast and in what ways will economic reforms take place?

The outcome of the epic struggle now taking place in Russia will affect the future shape of the entire continent of Europe and of the Atlantic Alliance for decades, with profound implications for American defense spending and for this nation's domestic economic prospects.

Western policy should have four interrelated components that involve intensive cooperation between the US and its major European allies:

- An urgent, coordinated and comprehensive economic assistance strategy for Russia that focuses on high impact programs which support economic and political reform.
- A "nuclear strategy" aimed at reducing the nuclear arsenal of Russia and its CIS neighbors, preventing the proliferation of the nuclear weapons and shutting down, or dramatically improving the safety of, nuclear reactors in the Former Soviet Union and Eastern Europe.
- support for closer economic and trade cooperation between the European Community and the key reforming nations of Eastern Europe, particularly Poland, Hungary and the Czech Republic, including support for their ultimate membership in the EC.
- A trade and financial strategy that advances US economic interests in the area by promoting greater access to the EC market for American goods and diminished agricultural and industrial EC subsidies, while also encouraging EC policies that boost imports from, and enable the Community to remain a strong anchor of stability, for nations to the east.

RUSSIA

The West cannot wait for a full scale IMF stabilization program to provide more assistance to Russia. Given Russia's roughly 2000% rate of inflation last year, an IMF program in the near term is highly unlikely. The aim of US, and overall western, assistance should be to have an immediate and substantial economic and political impact, that bolsters prospects for Russia's reforms and its reformers:

- humanitarian assistance, including medicine, hospital equipment and food aid. This will demonstrate to Russians that western aid is not (as many Russians suspect much western aid has been) for self-serving purposes. Establishing an international fund to be administered by the World Bank to provide money to meet basic needs for displaced workers, particularly in defense industries, and pensioners would also be an important humanitarian gesture which could help head off social instability.

- creation of a Russian Enterprise Fund similar to those already demonstrably successful in investing in private enterprise in Hungary, Poland and the Czech and Slovak Republics.

- quick agreement on the rescheduling Russian and other CIS debts. This would be important in its own right and to allow the resumption of agricultural and other export credits. New agricultural export credits should be provided as soon as possible under GSM programs.

- target bilateral and multilateral assistance on the most promising agents and instruments of reform; private enterprises, cities, regions and organization that are at the forefront of the reform process but require new resources to move forward. This targeted or "grass roots" approach recognizes the hard reality that economic power is increasingly in the hands of regions and entities outside the control of Moscow and its Ministries. Those that are most reform-oriented should be supported enthusiastically. The progress made in privatizing Russian companies means that there are worthwhile private corporate candidates to support through market oriented loans or equity. At the same time, the West should make it clear that the goal of western assistance is not the dismemberment of Russia, but the enhancement of its economic prospects as a unified country.

- improve coordination of western assistance by appointing single western coordinator reporting to the Group of Seven; this person would work closely with officials of the IMF, World Bank and European Bank for Reconstruction and Development. Designating such a person would be in the tradition of Herbert Hoover coordinating aid for Europe after world War I and Herbert Lehman after World War II. Candidates would be individuals of the stature of Paul Volker, Gerald Corregan, Karl Otto Pohl or Raymond Barre. A coordinating structure of senior foreign, finance and trade ministry officials should be established by the Group of Seven. A similar group of senior embassy coordinating officials should be established in Moscow.

NUCLEAR COOPERATION

A major western objective must be to work with military and civilian authorities to decommission nuclear weapons, improve reactor safety and prevent proliferation. The economic aspects of this question involve improving Russian trade opportunities in the West to reduce Russia's incentives to allow export of weapons of mass destruction and to increase Russian vigilance with respect to violations. Closer ties to the military could be established by western nations by bolstering the program launched earlier by Germany to finance housing for troops returning to Russia from Eastern Europe and help them to return to the civilian sector through increased training in non-military production.

THE EC AND EASTERN EUROPE

The US should support as an ultimate goal for EC-Eastern European relations the membership in the EC of Poland, Hungary, the Czech Republic and Slovak Republic based on a timetable and set of realistic conditions. Membership will both improve the economic outlook for these countries and reduce prospects for extremist nationalism. The likelihood of future membership of these eastern European nations in the EC would be a force for stability in the region should conditions in Russia deteriorate. Membership would also solidify the network of institutional linkages that bind Germany to Western European and enable German policy to the east to be carried out in an EC context. Finally, it will harness the prospects of future growth in Eastern Europe to the overall benefits of the EC.

US-EC TRADE AND FINANCIAL RELATIONS

The US and the EC seem destined to be engaged in an ongoing set of disputes over trade in 1993; whether similar disputes will continue in future years will depend in part on whether the two can resolve differences blocking progress in the Uruguay Round of trade negotiations.

Following the upcoming French elections, the US and EC leaders should attempt to reconcile differences over agricultural subsidies and market access in farm products, thus unlocking the door to further progress in the Round. On both sides of the Atlantic rates of unemployment are high; this raises the danger of an intensification of protectionist pressures. The Clinton administration has indicated its intention to seek renewal of "fast track" negotiating authority; a one year extension should permit time for a thoughtful reevaluation of American negotiating strategy and sufficient time to implement it. During that period the economic outlook in Western Europe is likely to improve as interest rates on the continent come down. That will also be welcome to the US, which could use the boost of additional exports to the EC. Success in the Uruguay Round would also improve export prospects for Eastern Europe, which could take advantage of an expansion in global trade opportunities.

To improve the atmosphere for EC-US trade cooperation, the US should express a willingness to help France and Germany to maintain their currencies within the close band of the European Exchange Rate Mechanism should they again be forced by currency speculation to defend these rates. By adding American currency intervention to that of France and Germany the prospects for maintaining relative stability between these two currencies would be improved; such stability is necessary to ensure that these two currencies remain at the center of the European Monetary System, thereby proving the basis for reconstructing that system.



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