

APPENDIX

STATEMENT BY STENY H. HOYER
CHAIRMAN, HELSINKI COMMISSION

HEARING ON THE COMMONWEALTH OF INDEPENDENT STATES

JANUARY 9, 1992

LADIES AND GENTLEMEN,

EVER SINCE JOINING THE HELSINKI COMMISSION IN 1986, I HAVE BEEN CHAIRING AND CO-CHAIRING HEARINGS ON THE STATE AND FUTURE OF THE SOVIET UNION. BUT I NEVER ANTICIPATED TWO YEARS AGO THAT I WOULD ONE DAY BE PRESIDING OVER A HEARING ON THE DISSOLUTION OF THE USSR AND THE RISE OF A NEW STATE.

PEOPLE CAN ARGUE OVER HOW SURPRISING THIS DEVELOPMENT IS. SOME CLAIM THAT 1991 MERELY WITNESSED THE LOGICAL CULMINATION OF EVENTS LAUNCHED WHEN MIKHAIL GORBACHEV BEGAN TO LIBERATE THE FORMER SOVIET UNION FROM FEAR, AND ALLOWED SOVIET CITIZENS TO EXPRESS THEIR DESIRES FOR PERSONAL AND NATIONAL SELF-DETERMINATION. OTHERS WOULD CONTEND THAT POLITICAL MISTAKES BY THE SOVIET LEADERSHIP ARE LARGELY RESPONSIBLE FOR THE BREAKUP OF THE USSR, WHICH MIGHT HAVE SURVIVED IN A DIFFERENT AND LOOSER FORM.

A FASCINATING QUESTION, BUT A MATTER OF DEBATE FOR HISTORIANS, BOTH IN THE WEST AND THE FORMER SOVIET UNION. THE POLICYMAKING COMMUNITY MUST DEAL WITH THE CURRENT AND PROJECTED REALITIES. SO THE HELSINKI COMMISSION HAS CONVENED THIS HEARING ON THE COMMONWEALTH OF INDEPENDENT STATES, ITS PRESENT AND FUTURE, AND THE IMPLICATIONS OF THE RISE OF THIS NEW ENTITY FOR THE UNITED STATES, THE WEST, AND THE INTERNATIONAL COMMUNITY. THE WORLD ORDER THAT WE HAVE KNOWN FOR HALF A CENTURY HAS FUNDAMENTALLY CHANGED AND OUR MOST BASIC ASSUMPTIONS -- HELD SO FERVENTLY SO RECENTLY -- ABOUT OUR INTERESTS AND ANXIETIES, THREATS TO OUR SECURITY, THE NATURE OF SECURITY, AND POSSIBILITIES OF ALLIANCES UNDREAMED OF TWO YEARS AGO ARE NOW AT THE TOP OF THE AGENDA. AND ALL OF THESE MATTERS ARE MARKED "URGENT" IN BIG RED LETTERS.

IT IS NOT OFTEN, OF COURSE, THAT WE GATHER TO DISCUSS THE BREAKUP OF EMPIRES AND THE EMERGENCE OF NEW STATES AND THEIR RAMIFICATIONS. I AM VERY PLEASED, THEREFORE, TO INTRODUCE AN ESPECIALLY DISTINGUISHED PANEL OF EXPERT WITNESSES.

GENNADY UDOVENKO IS UKRAINE'S DEPUTY MINISTER FOR FOREIGN AFFAIRS AND PERMANENT REPRESENTATIVE OF UKRAINE TO THE UNITED NATIONS. GIVEN TODAY'S STRAINED RELATIONS BETWEEN RUSSIA AND UKRAINE AND THE CRITICAL ROLE OF UKRAINE IN THE COMMONWEALTH, WE ARE ESPECIALLY INTERESTED IN HEARING HIS VIEWS.

ROGER ROBINSON IS PRESIDENT OF RWR INC., A CONSULTING FIRM WHICH FOCUSES ON THE NATIONAL INTEREST ASPECTS OF INTERNATIONAL BUSINESS. HE WAS PREVIOUSLY SENIOR DIRECTOR FOR INTERNATIONAL ECONOMIC AFFAIRS AT THE NATIONAL SECURITY COUNCIL, WORKING AT THE WHITE HOUSE FROM 1982 TO 1985.

PAUL GOBLE IS A SENIOR ASSOCIATE AT THE CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE, WHERE HE WORKS ON PROBLEMS OF THE POST-SOVIET SUCCESSOR STATES. HE PREVIOUSLY WAS THE STATE DEPARTMENT'S BALTIC DESK OFFICER AND SPECIAL ADVISOR ON SOVIET NATIONALITY PROBLEMS, ABOUT WHICH HE HAS PUBLISHED OVER 50 ARTICLES.

MARTH BRILL OLCOTT IS A PROFESSOR OF POLITICAL SCIENCE AT COLGATE UNIVERSITY. SHE HAS SPENT NEARLY THREE YEARS LIVING IN THE FORMER SOVIET UNION. SHE IS THE AUTHOR OF THE KAZAKHS AND IS CURRENTLY FINISHING SOVIET CENTRAL ASIA IN MODERN TIMES.

STATEMENT
SENATOR DENNIS DeCONCINI
CO-CHAIRMAN, HELSINKI COMMISSION
THE COMMONWEALTH OF INDEPENDENT STATES
JANUARY 9, 1992

THIS PAST YEAR HAS BEEN TRULY EVENTFUL, AND NOWHERE MORE THAN IN THE FORMER SOVIET UNION. I NOTE THAT ACCORDING TO FREEDOM HOUSE'S MOST RECENTLY PUBLISHED "MAP OF FREEDOM", THE MAJORITY OF THE WORLD'S NATIONS ARE NOW DEMOCRACIES FOR THE FIRST TIME SINCE FREEDOM HOUSE BEGAN TO KEEP SCORE IN 1955.

MUCH OF THAT IMPROVEMENT CAN BE ASCRIBED TO THE COLLAPSE OF COMMUNISM IN THE FORMER SOVIET UNION, ALSO KNOWN AS THE *COMMONWEALTH OF INDEPENDENT STATES*.

THE QUESTION IS: WILL THIS FREEDOM LAST AND WHAT CAN THE WEST DO TO REINFORCE THE PROGRESS THAT HAS BEEN MADE TOWARD A DEMOCRATICALLY BASED STABILITY IN THE REGION?

THE DAILY PAPERS ARE FULL OF DISCONCERTING REPORTS ON DISAGREEMENTS OVER CONTROL OF NUCLEAR WEAPONS, ETHNIC CLASHES, AND ECONOMIC MISERY IN THE NEW COMMONWEALTH. BUT WE SHOULD ALSO FOCUS ON THE THREADS OF POSITIVE CHANGES THAT ARE OCCURRING. DEMOCRACY, FOR EXAMPLE, HAS A REAL CHANCE OF TAKING HOLD IN MANY OF THE CIS STATES. THE HELSINKI PROCESS PROVIDES A TESTED FRAMEWORK TO HELP GUIDE THESE NEW GOVERNMENTS.

ALREADY, SEVERAL NEW COUNTRIES HAVE APPLIED FOR MEMBERSHIP IN THE CSCE. IN THIS CONNECTION, THE COMMISSION WILL FOLLOW CLOSELY THE EVENTS TAKING PLACE IN THE COMMONWEALTH AND THE PROGRESS THAT

THE VARIOUS COUNTRIES MAKE IN LIVING UP TO HELSINKI COMMITMENTS AND OTHER INTERNATIONAL AGREEMENTS.

THE CSCE FOLLOW-UP MEETING OPENING IN HELSINKI ON MARCH 24 PROVIDES AN EXCELLENT OPPORTUNITY FOR MEMBER STATES TO EXAMINE PROGRESS MADE BY THE NEW NATIONS THAT HAVE APPLIED FOR MEMBERSHIP OR HAVE EXPRESSED AN INTEREST IN DOING SO.

DURING THE COURSE OF OUR HEARING, I HOPE THAT OUR WITNESSES WILL BE ABLE TO ASSIST US IN EXAMINING THE FOLLOWING ISSUES:

- THE OVERALL FUTURE OF THE COMMONWEALTH, AND
- HOW THE CSCE PROCESS CAN INFLUENCE THE DEVELOPMENT OF DEMOCRACY IN THE CIS STATES

I LOOK FORWARD TO HEARING FROM OUR WITNESSES.

PRESS RELEASE

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NOTES

of the statement by H.E. Ambassador Guennadi I. OUDOVENKO, Permanent Representative of Ukraine to the United Nations before the U.S. Congress Commission on Security and Cooperation in Europe on January 9, 1992.

On December 1, the people of Ukraine peacefully achieved the independence their forefathers had spent years fighting for. The extent of the support for independence expressed through a referendum went beyond all expectations - an astounding 90.3 per cent of the participants voted to endorse the declaration of Ukraine's independence that had been adopted by the Verkhovna Rada (Parliament) on August 24 last year.

Unlike the well known revolution of this century this transition, which also can be called a revolution, was carried out in Ukraine through the ballot box on December 1, 1991. The democratic nature of the referendum was confirmed by parliamentary observers and representatives of intergovernmental and non-governmental organizations as well as distinguished members of this Commission. Taking this opportunity I would like to express on behalf of my Government and Ukrainian people sincere gratitude to the members of the headquarter of this Commission distinguished Michael OCHS, Orest DEYCHAKIWSKY and Heather HURLBURT for their unbiased attitude to this great event in the history of the Ukrainian people. I also would like to thank the Chairman and Co-Chairman of this Commission Honorable Senators Steny H. HOYER and Dennis DeCONCINI for the initiation of this endeavor.

Democratic way of achieving the independence is also confirmed by the fact that the first President of Ukraine was elected by general election.

The vote in the referendum was not however simply for independence, but was also for democracy and, with it, a new understanding of Ukrainian statehood.

The primary pillars of democratic future of a newlyborn state were proclaimed by the Declaration on the state sovereignty of Ukraine on July 16, 1990.

Today Ukraine is creating a democratic state, based on the rule of law, the paramount aim of which is to ensure human rights and freedoms. To this end, Ukraine, as we repeatedly confirmed, shall strictly adhere to the norms of international law and shall be guided by the Universal Declaration of Human Rights, International

Covenants on Human Rights ratified by Ukraine, as well as by other relevant international instruments. Ukraine is ready to join European institutions in the field of human rights, and, in particular, to accede to the European Convention on Human Rights.

Striving to affirm the high principles of freedom, democracy, humanism, social justice and equality of all nationalities constituting the people of Ukraine the Verkhovna Rada adopted the Declaration of Rights of the Nationalities. According to it the Ukrainian State guarantees equal political, civil, economic, social and cultural rights, and freedom of religious belief to all peoples, national groups, and citizens living on her territory.

The activity of Ukraine on the international level, in particular in the United Nations, is indicative of our adherence to the human rights principles. On the initiative of the Ukrainian delegation at 46 session of the UN General Assembly the Resolution on 'Nondiscrimination and protection of minorities' was adopted. I'd like to note with the satisfaction that the United States were among the first cosponsors of this resolution on such a sensitive issue for the United Nations. The sensitivity of this program is proven by the fact that since 1948 the UN General Assembly has not been able to adopt any resolution on this issue.

I am pleased to inform this respected audience that Ukraine supported initiative of the United States and has become cosponsor of the UN resolution which revoked the bitterly contested statement the General Assembly approved in 1975 the said: 'Zionism is a form of racism and racial discrimination'. Moreover, Leonid M. KRAVCHUK, President of Ukraine, addressing the 46-th UN General Assembly session strongly condemned anti-semitism.

Taking care of the rights of national minorities as well as of the rights of individuals the Parliament of Ukraine adopted 'The Law on Citizenship'.

Striving to ensure prosperity and to provide opportunities to its people to work unfettered in a free country, independent Ukraine is implementing a transition to a market economy and recognizes the parity of all forms of ownership and the importance of private property. It is well known that on September 10, 1991 a law on protection of foreign investment and guaranties for foreign investors was adopted. Last month Ukraine applied for membership in the International Monetary Fund and the World Bank. As we understand, acceptance of Ukraine by the IMF and the World Bank will promote economic, industrial and trade rise of my country. A radical reform in the Ukrainian economy does not only call for considerable domestic efforts. It also requires promotion of foreign investment, increased cooperation and assistance, as well as experience that the international community has to offer.

In accordance with the statement by the Parliament of Ukraine of October 13, 1991, Ukraine is ready on her own or through international mechanism to be formed, to repay her share of the foreign debt and to receive her due part of assets of the former USSR, based on the principle of severed responsibility.

In conformity with the Declaration on State Sovereignty of Ukraine and ensuing statements Ukraine will not be a nuclear power. Ukraine will adhere to provisions of the 1991 Treaty between the United States and the former USSR on the reduction and limitation of strategic and offensive weapons in respect to nuclear armaments deployed on her territory. Ukraine intends to join the 1968 Treaty on the Non-Proliferation of Nuclear Weapons as a non-nuclear state and to conclude with the International Atomic Energy Agency an appropriate agreement to guaranty its fulfillment. Ukraine neither possesses nor produces chemical weapons and calls for their total elimination and prohibition. Ukraine is a party to the Convention on Prohibition of Development, Manufacture and Accumulation of Stocks of Bacteriological (Biological) and Toxic Weapons and on their Elimination.

In accordance with the statement by the Presidium of the Verkhovna Rada of Ukraine of November 22, 1991, on the 1990 Treaty on Conventional Armed Forces in Europe, Ukraine considers it imperative to implement the provisions of this Treaty with respect to all the conventional armed forces deployed on her territory. The Armed Forces of Ukraine are subject to this Treaty. They are being formed exclusively for the defense of the independence, sovereignty, territorial integrity and inviolability of the borders of Ukraine, and on the minimum scale, required solely for defence.

Taking this opportunity I'd like to touch upon the future of Black Sea Fleet. According to our approach until the part of this fleet which comprises strategic forces should be under joint control. At the same time, in accordance with the Ukraine's military doctrine all strategic weapons should be removed from her territory by July, 1992. That applies fully to the strategic weapons of the Black Sea Fleet. After this the Black Sea Fleet will be under jurisdiction of Ukraine. In addition I'd like to emphasize that according to Ukrainian Legislation, the property and funds formerly under control of the USSR are located on the territory of Ukraine (the Black Sea Fleet is principally located in Ukraine) are the national property of Ukraine. Without exclusion, all members of the community legally recognized that Ukraine is fulfilling this law unconditionally, starting from January 3, 1992. All of this is guaranteed in Article 2 of the Agreement of the Council of Heads of States of the Participants of the community of independent states on armed forces and border guards, as of December 30, 1991.

Ukraine is carrying out a program of defence industry conversion and a restructuring of a considerable part of the military and technical potential of the former USSR located on her territory for the needs of her social and economic development.

In accordance with the Agreement establishing the community of independent states and with the Agreement on joint measures with respect to nuclear weapons the States members will maintain, and retain joint control over strategic weapons.

On December 10, 1991, the Parliament of Ukraine ratified the agreement on the community of independent states with several reservations to it. Due to the fact that there has been an ambiguous interpretation of the specific articles of the agreement and its general direction by the official circles of the Parties Signatories, on December 20, 1991, the Parliament made the Statement which provides the official interpretation of the agreement.

In conclusion, Mr. Chairman, I would like to state very firmly that Leonid M. KRAVCHUK, President of Ukraine, and Parliament are strongly committed to the program of deep democratic changes and adhere to international commitments arising from all treaties the Party to which is Ukraine.

**PREPARED REMARKS BY
ROGER W. ROBINSON, JR.**

President, RWR, Inc. and
former Senior Director for International Economic Affairs
at the National Security Council (1982-1985)

before

**The Commission on Security
and Cooperation in Europe**
January 9, 1992

**THE NEW COMMONWEALTH:
PROBLEMS, PROSPECTS AND POLICY IMPLICATIONS**

Mr. Chairman, it is a privilege to be asked to appear before the Committee to provide testimony on the economic problems and opportunities facing the new Commonwealth of Independent States (CIS) and on appropriate U.S. and Western policy responses.

My views on this subject are informed by eighteen years of involvement with East-West financial and economic matters. As you know, I served as Senior Director for International Economic Affairs at the National Security Council from 1982-1985. Prior to my government service, I was a Vice President in the International Department of the Chase Manhattan Bank, where I had responsibilities for Chase's loan portfolio in the USSR, Eastern Europe and Yugoslavia for a five-year period. In that capacity, I was the principal negotiator for Chase Manhattan during the Polish debt rescheduling in 1981. I am currently the President of RWR, Inc., a Washington-based consulting firm.

I propose to review briefly the debilitating legacy of the Gorbachev period and some of the key economic and financial developments which contributed to the historic birth of several sovereign, democratic states currently in a commonwealth configuration. I then would like to discuss briefly conditions which should be attached to new Western assistance flows to the Commonwealth states and the role that debt relief can play in the revitalization of their economies. Finally, I will offer some concluding remarks on how the United States can best help consolidate the dramatic gains of the past several weeks.

The Real Gorbachev Legacy

In sharp contrast to the West's effusive praise offered Mr. Gorbachev upon his forced resignation, the wreckage wrought on the former Soviet Union (FSU) under his stewardship is of epic proportions. Among Gorbachev's most dramatic failures was his unwillingness to undertake a systemic economic reform program in 1985-1986. At that time, it should be remembered, the Soviet Union had a relatively modest debt burden; it was viewed as highly creditworthy in Western markets; and the prospects for large-scale Western investment were reasonably promising. Instead, Mr. Gorbachev single-mindedly pursued the continued modernization and expansion of the already bloated Soviet military-industrial complex; remained determined to maintain an outmoded global empire of costly client-states; and

committed only to unworkable economic half-measures designed to preserve the essence of the existing centrally-controlled economic system.

The economic consequences of those six lost Gorbachev years are on display virtually everywhere in the FSU: a sharp decline in GNP; collapsing industrial production; runaway budget deficits; hyper-inflation; growing unemployment; obsolete infrastructure; default on hard currency indebtedness; and dried up private Western credit and trade flows -- just to name a few. One measure of the gravity of the situation is the fact that many Western analysts are skeptical of the ability of Boris Yeltsin and other Commonwealth leaders to extricate the region from this advanced degree of decay.

Without fundamental, structural economic reforms in place -- of the type now being aggressively pursued by Boris Yeltsin -- it was inevitable that the Western assistance that *did* flow to the FSU would be largely squandered. Western aid was not just lost on the docks, the black market or as a consequence of a dilapidated distribution system. According to Russia's Justice Minister Nikolai Fedorov, some Western assistance was diverted to the funding of CPSU activities around the world. Similarly, billions of dollars annually in Western loan proceeds were channeled to bankrupt client states from Havana to Hanoi, an aggressive program of technology theft, espionage activities and disinformation campaigns -- not to mention the voracious military-industrial complex.

So when we hear the familiar refrain from our European allies -- likely to feature prominently during the upcoming Aid Conference in Washington -- that there is little remaining in the way of assistance resources for the Commonwealth states, the primary explanation should not escape public attention: Most of these European governments now maintain they are tapped out because of the billions they squandered in earlier, seriously misguided efforts to prop up a Soviet leader who perpetuated a failed, command economy. In short, unconditioned aid -- the billions of dollars that were poured into the USSR -- was an utter failure, a failure, however, that has since been

A. Substantially Frustrated by the USSR

Before embarking on a discussion of the appropriate Commonwealth aid program and appropriate conditionality for providing it, it is essential first to understand the basic reasons why the Commonwealth states are so dependent on aid from the West. Such a review not only helps to identify the center's economic and financial relations with Western

Perhaps more importantly, this review highlights the aspirations for *still greater access* to the West's resources (for a number of reasons). As a result, the United States and its allies can now contemplate the benefits and assistance previously withheld from the Soviet Union to the Commonwealth states under proper conditions.

The following are examples of Moscow center's frustrated endeavors, some of which the newly independent states of the region are likely to pursue:

Money

- o **Penetration of Western Securities Markets.** The Kremlin attached substantial priority to expanding its sources of borrowing in the West beyond commercial banks and governments. Indeed, between 1988 and 1990, the USSR engaged in some *eight* bond offerings in Europe that raised approximately \$1.6 billion. More significant than the amount of money involved was the fact that for the first time, the Kremlin was positioned to recruit Western securities firms, pension funds, insurance companies, corporations and even individuals as new lenders of un-earmarked cash.

Moscow's gameplan -- ultimately derailed by plummeting creditworthiness and U.S. legislative hurdles -- was to create a diversified borrowing base and foster powerful new constituencies in the West with a financial vested interest in continuing to underwrite Kremlin spending.

- o **Untied loans.** Between 1984 and 1987, about 80 percent of all Western lending to the Soviet Union took the form of untied, general-purpose credits -- loans made with no effort to identify where the money was going or how it would be used. Moscow's initial success in attracting undisciplined financial flows maximized the flexibility of Soviet leaders to divert borrowed hard currency to finance a range of activities, some inimical to Western security interests.

Particularly noteworthy in this regard was that a quiet Kremlin strategy to overturn U.S. law -- i.e., the Johnson Debt Default Act of 1934 which prohibits American banking institutions from extending untied loans to a sovereign borrower in default to the United States -- failed. The sharp decline in Soviet creditworthiness eventually finished off the untied loan gambit.

- o **Membership in the Multilateral Banks.** The Soviets understood the multi-billion dollar multiplier effect of gaining membership in the International Monetary Fund, the World Bank, the Asian Development Bank and the new European Bank for Reconstruction and Development (EBRD). For years, the Kremlin aggressively sought membership in these institutions without the requisite data disclosure or implemented economic reforms.

Fortunately, the transitional measures devised by Western governments in an effort to accommodate Moscow center -- notably, through such devices as "associate membership status" -- had the effect of sufficiently delaying Soviet penetration of these institutions to prevent them from being *completely* compromised. Even in the case of the EBRD, where the Soviets *did* obtain full membership status over the half-hearted objections of the United States, American-sponsored borrowing restrictions for the Soviet Union (initially imposed for a three-year period) were not waived by the G-7 in time for Mr. Gorbachev's government to benefit.

- o **Eximbank and Commodity Credit Corporation Loans and Guarantees.** The unsung hero in terms of sparing the American taxpayer excessive exposure to massive U.S. Eximbank losses in an unreformed, militarized Soviet economy was former Senator Adlai Stevenson, author of an amendment which capped total Eximbank loans to the Soviet Union at \$300 million. This borrowing restriction, which accompanied the Jackson-Vanik amendment of 1974, remained in place -- despite concerted efforts by the Bush Administration to have it repealed.

U.S. taxpayers were less fortunate, however, when it came to the billions in CCC loan guarantees made available to Moscow center for agricultural purchases under scandalously advantageous terms. Even where statutory protections *were* in place -- for example, those embodied in the Farm Act of 1990, which required that a sovereign borrower like the USSR be deemed creditworthy prior to the receipt of CCC loan guarantees -- the Bush Administration simply chose to ignore them. Consequently, some \$3.8 billion in taxpayer loan guarantees pledged by the Administration over the past 12 months will likely have to be substantially, if not totally, written off as uncollectible.

- o **Soviet-Owned Subsidiary Banks in the West.** The Kremlin's network of Soviet-owned banking institutions in Western financial capitals represented an important source of hard currency. Western banks routinely kept amounts totaling billions of dollars on deposit in these institutions which the Kremlin was able to tap virtually at will. (Happily, the Kremlin's effort to transform a Vnesheconombank representative office in New York into a branch bank or agency -- which would have facilitated a similar arrangement in U.S. banking circles -- was unsuccessful.)

A particularly ill-conceived plan emerged at the October 1991 IMF/World Bank meetings in Bangkok whereby G-7 nations initially offered to construct a taxpayer safety net administered by the Bank for International Settlements (BIS) for some of these faltering institutions such as Moscow Narodny Bank in London. In the wake of extremely negative publicity concerning a no more respectable banking institution -- BCCI -- however, G-7 agreement on the question of a BIS bail-out of Soviet-owned banks withered, thereby reducing the likelihood of such a safety net.

- o **Western Stabilization Fund to Backstop Ruble Convertibility.** Despite strenuous efforts by Moscow center and Bonn to obtain commitments from the G-7 to create an estimated \$10 billion stabilization fund -- ostensibly to facilitate limited ruble convertibility -- this initiative was luckily sidelined due to the recognition by Japan and the United States that the economic preconditions for successful convertibility, even on a limited scale, were absent.

Energy

- o **Cornering of Western European Gas Markets.** In the early 1980s, the planned emergence of Soviet natural gas exports as the centerpiece of the USSR's future hard currency earnings structure necessitated the domination of West European gas markets. This was largely to be accomplished through predatory pricing practices.

For example, the successful construction of a two-strand Siberian gas pipeline project in the early 1980s would have probably given the USSR an estimated 60 percent (or larger) share of total West European gas supplies by the year 2000. The positive epilogue of the Poland-related Soviet gas pipeline dispute in 1982-1983 was an alliance agreement in the International Energy Agency in May 1983 which placed a ceiling of 30 percent European dependence on Soviet supplies, thereby thwarting construction of the second strand of the Siberian gas pipeline project. The agreement also called for the accelerated development of the Troll gas field in Norway as a more secure gas supply alternative for the 1990s and 21st century.

- o **Crash Western Assistance Program for Soviet Oil Sector.** Efforts by Western oil companies, in tandem with their governments, to reverse the decline in Soviet oil production -- and attendant hard currency earnings -- fortunately proved to be too little, too late. Given that oil and gas exports provided the bulk of the Kremlin's annual hard currency income, this premature Western energy initiative would have filled the coffers of the August coup-plotters and prolonged the life of a discredited Moscow center.

In this connection the U.S. flagship project, undertaken by Chevron, was not only to have been the "cash cow" for the much heralded American Trade Consortium (which collapsed this fall), but was also to have been the recipient of large-scale taxpayer-underwritten loan guarantees through the U.S. Eximbank. The alliance-wide initiative now moving forward under the auspices of the so-called *European Energy Charter* fortuitously was not launched in time to sustain Moscow center which had demonstrated -- most recently in the Baltic states -- its readiness to use energy supplies as an instrument of coercion and/or repression, .

- o **Completion of the Cienfuegos Nuclear Reactors in Cuba.** The Kremlin was well-advanced in supplying an inherently unsafe nuclear reactor program in Cuba, one which has the potential to threaten the population of the lower third of the United States in the event of a predictable nuclear accident. The attention brought to this issue by the media and outside policy groups has resulted in a commitment by Boris Yeltsin to discontinue critical supplies to this fatally-flawed project.

Trade/Technology Decontrol

- o **Repeal of Jackson-Vanik Amendment and the Granting of MFN.** The Kremlin repeatedly urged the Reagan and Bush Administrations to repeal legislative restrictions on the entry of Soviet goods into the United States. Although the Bush Administration did provide a temporary waiver of the Jackson-Vanik amendment -- despite the absence of an implemented Soviet emigration law -- actual tariff relief did not go into effect until recently.
- o **COCOM Decontrol on High Technology.** Gorbachev's campaign to obtain Western high-technology for the military-industrial complex by fundamentally weakening COCOM was partially successful, but failed in key technological sectors. Today's Core List of militarily-relevant technologies denied the Kremlin is approximately one-third the size it was when Gorbachev took office. Nonetheless, such key dual-use technologies as fiber optic cable -- which would have largely prevented Western intelligence from monitoring crucial Soviet military communications -- were not decontrolled.
- o **U.S.-Soviet Trade Agreement.** Despite the fanfare surrounding the Bush-Gorbachev Summit in Washington in June 1990 -- which featured the initialing of a U.S.-Soviet Trade Agreement -- implementation of this accord was bogged down until the Congress ratified it this fall. By the time ratification was completed, the agreement was essentially overtaken by events. The Kremlin's failure to conclude bilateral investment and tax treaties with the United States until very recently also prevented the Overseas Private Investment Corporation from extending taxpayer investment guarantees to the USSR.

Beyond providing examples of areas in which the West might now, or eventually, offer assistance to reforming successors to the Soviet Union, there are several lessons to be learned from Moscow center's inability to secure key economic and financial objectives listed above. When one considers the seemingly endless pleas for accelerated, large-scale Western assistance flows for the central authorities in Moscow in the pre-August coup period by certain businessmen, bankers, outside experts (notably the Grand Bargainers), members of congress, media commentators and most of our allies, it is no wonder that the Bush and true democratic reformers in the Commonwealth are skeptical of the same assistance today. Indeed, Yeltsin understands that additional aid to the Commonwealth toward the West been successfully accomplished by the Gorbachev team, we would not be making reference to a former Soviet Union here today.

Commonwealth Aid Conference

Within the next two weeks, the United States will be hosting about 50 Commonwealth states in Washington to grapple with the complicated issues of how to help consolidate and support free-market reform in the Commonwealth states. Although the Bush Administration has gone to great lengths to discourage prospective participants from viewing this event as a

session," that is precisely what it is likely to be -- albeit with most of the arm-twisting confined to the corridors.

Assessing Contributions

It is reasonably certain that the EC and individual European countries such as Germany, Italy and France will quickly remind those nations assembled that they have shouldered, by far, most of the burden of past assistance efforts with respect to the Soviet Union. Such states will, no doubt, have documentation to prove it.

Germany, for example, will probably highlight their inordinate share of the total Soviet debt -- which may total as much as \$30 billion or more. The EC representative will point to the Community's \$11 billion contribution to the FSU (only a fraction of which has been delivered). Participants and observers will be led to believe that these generous credit flows helped preserve "stability" in the FSU and played an important role in catalyzing the promising CIS transformation process. In fact, Germany (and, for that matter, most of our other allies) had specific political and economic objectives which they were intent on "buying" from Moscow. These included German reunification and Kremlin promises to clean up the arrearages to German companies on a preferential basis.

The representatives of the CIS gathering in Washington would be wise to give such arguments short shrift. They should bear in mind that past Western assistance, by and large, was a product not of any commitment to sweeping structural changes now being pursued (to varying degrees) by republican and local leaders in the former USSR. Rather, it was the result of the West's collective over-investment in Mikhail Gorbachev and its attachment to the convenience of "one-stop shopping" offered by Soviet central control. Regrettably, the Western embrace of Moscow center -- which served to perpetuate Kremlin authority and to retard systemic change -- was generally mirrored by the Bush Administration. Japan was virtually alone among the G-7 in holding back undue financial support so essential to the preservation of the Gorbachev regime and, hence, in positively contributing to the birth of the Commonwealth of Independent States.

It is, therefore, appropriate at the outset of the conference that the more prudent participants -- like the Japanese -- not be penalized for their good judgment. This would inevitably be the effect of counting aid to the old regime on the same par with contributions to the Commonwealth states. Instead, the Western allies and other capable donors should begin the conference with essentially a clean sheet of paper, particularly as there is little or nothing positive to show from past assistance flows.

Conditionality

Probably the single most important outcome of the upcoming aid conference -- and the multi-year initiative which will likely flow from it -- would be an alliance agreement on the key issue of conditionality. In the past, as evidenced by the 1990 Houston and 1991 London economic summits, the allies were content to follow exactly the opposite approach -- namely, a "go-your-own-way" strategy concerning aid to Moscow. The tragic results of

what was dubbed at the time "the Sinatra Doctrine" were that the discipline and strict conditionality of one alliance partner (e.g., Japan) was substantially undercut, if not nullified, by the sweetheart deals and indifference of another allied capital (e.g., Germany).

It should come as no surprise that as Western analysts finally get a closer look at the *true* economic picture and data of the FSU, it will be grimly reminiscent of the shocking level of decay left in the wake of massive West German subsidies to the former GDR. Put differently, both we and the people most immediately affected will be bearing a substantial price for years to come for the past decisions of many G-7 members to pursue short-term, tactical political "victories" with the help of Mr. Gorbachev and his associates while ignoring the fundamentals of responsible Western aid programs -- discipline, strict conditionality, transparency, integrity and consistency.

Politically, it should be evident that the American people -- and probably other Western taxpayers -- are in no mood to lavish multi-billion dollar loan guarantees, insurance coverage, and grants on the former Soviet Union, despite the democratic revolution underway there. It is going to require a highly credible, well-communicated U.S. strategy which underscores what the average American is getting for the precious dollars diverted away from urgent domestic programs. The abbreviated answer to this inevitable question must be a radical phase-out of the robust military threat still posed by the new Commonwealth to Western interests and a structural transformation of CIS states into friendly markets for American products and jobs.

How can this be accomplished? With large-scale Western assistance absolutely vital to the near-term fortunes of Commonwealth states, we must constructively use our economic and financial leverage to achieve these overarching goals. It means clearly enunciated -- and where possible -- quantified objectives, along with specific milestones and a timetable for achieving them.

More visionary Members of Congress, including the co-chairmen of the Helsinki Commission, Senator Bill Bradley, Representatives Jon Kyl, Charles Schumer and others have long urged such a disciplined, coordinated alliance strategy toward the former Soviet Union. Regrettably, they did not prevail in the face of steadfast resistance from the Bush Administration. Now, we have a new opportunity that simply cannot be missed if we are to forge a sustainable assistance strategy for those qualifying independent states longing to join the community of nations. By "qualifying," I mean those CIS states genuinely committed to free market reform and democratic institution-building.

Accordingly, based on the principles of government by the people, respect for human rights and free market economic opportunity, assistance provided by the United States and other Western nations to the members of the Commonwealth of Independent States should move forward only in tandem with the following near-term developments:

Human Rights:

(1) That the CIS member state has taken meaningful steps toward observing human rights for all citizens, including the following:

(A) The people have been empowered to elect the government that rules them in genuinely free, fair and open elections.

(B) The state has not only codified, but *honors in practice* the right of its citizens to emigrate, consistent with international standards.

(C) The state advocates the return of all buildings and other property which were seized by the former Soviet government within the Baltic states to the freely-elected governments of those states and other lawful owners of such buildings and other property.

(D) The state advocates an immediate and sustained withdrawal of former Soviet troops on the territory of the Baltic states.

Military

(2) That the threat to the United States from the armed forces of the former Soviet Union has been radically reduced, including --

(A) That the state advocates --

(i) a substantially reduced defense budget which will draw down the percentage of its gross national product that is allocated for military purposes to levels approximating those of the United States;

(ii) the immediate implementation of this defense budget;

(iii) that all available data regarding defense spending, past and present be supplied to the West; and

(B) That the state advocates the termination of the modernization of the former Soviet Union's strategic forces.

(C) That the state has halted the bulk of its military production.

(D) That the state is genuinely engaged in privatization of remaining elements of the old Soviet military-industrial complex with a view to its substantial dismantling and, where possible, conversion to civilian activities.

(E) That the state has undertaken to implement a comprehensive export control program to prevent the proliferation of technologies associated with the development, manufacture or use of weapons of mass destruction.

(F) That the state is actively engaged in the dismantling of its nuclear weapons and facilities.

Economic

(3) That the state has ceased financial support for international terrorism, previously supplied by the former Soviet Union.

(4) That the state no longer provides assistance in the form of arms sales, military assistance, or any kind of grant, credit, commodity or technology transfer to other countries that are engaged in activities inimical to the national interests of the United States such as Cuba, North Korea, Vietnam, Afghanistan, Iran and Iraq.

(5) That full transparency exists with respect to data necessary for the United States to determine the creditworthiness of the state and its ability to repay debt -- including data disclosure similar to that provided by other sovereign borrowers, (i.e., disclosure of the sources and uses of hard currency, the value of strategic gold reserves of the state and other key economic and financial data.)

(6) That, in order to demonstrate its creditworthiness and commitment to economic reform, the state has adopted specific provisions with a short timetable for deregulating most prices, selling to privately owned entities most government assets, the institutionalization of private property, the convertibility of the ruble, reform of the monetary and banking systems, the introduction of genuine competition into the economy, the liberalization of foreign trade, and the codification of accepted Western business practices.

(7) That the state is committed to environmental restoration and rehabilitation of unsafe nuclear facilities that it continues to operate.

(8) That the state will not transfer to any country equipment, technology or services to build any VVERS nuclear reactors. In particular, that the state will not provide support in the form of funds, equipment, technology or services for the Cienfuegos project in Cuba which could threaten the United States.

U.S. Share of Assistance Efforts

By far the most desirable way for the United States to aid the member states of the new Commonwealth is through humanitarian aid and a comprehensive, multi-pronged technical assistance program -- *not* multi-billion taxpayer credit guarantees for grain shipments and similar expenditures. The combined price-tag over time required *even partially* to revitalize the economies of the CIS nations is probably in the area of \$500 billion over the next seven to ten years.

Clearly, such a huge capital requirement cannot possibly be supported by U.S. and Western taxpayers -- especially during a period of domestic austerity and recession. Private Western investment and credit flows -- which are almost entirely absent from the former Soviet scene now -- will be essential to facilitate the massive capital transfers required, for example, to modernize the region's infrastructure and to clean-up environmental hazards.

Within the next year or two, some of the resource-rich states --like Russia and Ukraine -- will likely reenter private Western credit markets. The willingness of these states to collateralize borrowings with gold, diamonds, oil or other hard currency equivalents should facilitate such accelerated market reentry. There may even be sufficient support in the West, assuming that systemic reform remains on track, for new bond offerings (e.g., Russian Reconstruction Bonds and other such instruments). The raising of Western capital in private markets is far preferable and more sustainable than relying on Western government largesse which will, for the foreseeable future, be in relatively short supply.

That said, it appears likely that new, multi-billion dollar U.S. taxpayer exposure to CIS states will be in the cards. The Bush Administration probably will try to take a largely disaggregated approach to such taxpayer-underwritten assistance, in part to blur the total amount of this liability during an election year. For example, we are likely to see substantial use made of the loan windows of multilateral institutions such as the IMF, World Bank and EBRD. Defense conversion efforts, energy-related assistance, ruble stabilization and privatization funds, agricultural credit guarantees and the catch-all category of "humanitarian assistance," will tend to be treated as separate pools of funds, possibly requiring outside experts to piece together total taxpayer exposure.

The main point here is that it will be fundamental, structural changes in these economies -- which the U.S. can help catalyze through the transfer of know-how and institution-building -- that will have the most productive impact. Those on Capitol Hill and elsewhere who will inevitably seek to transfer billions of dollars out of the U.S. defense budget into the Commonwealth states, should be reminded that *it is the Russian and other CIS defense budgets which are the more logical sources of civilian development funds.*

The Role of Debt Relief

There are basically three major ways for the West to provide the CIS member states with hard currency liquidity to help meet their needs for critical imports and the maintenance of external financial obligations. One is for the West to pump money into the system -- almost certainly a recipe for unproductive taxpayer losses for the reasons I have described above.

A second would be for Western nations to assist actively in the development or revitalization of export-oriented and import substituting enterprises in CIS member states, such as the Russian oil industry. However, such assistance to, again for example, the Russian energy sector is of *strategic* significance and should await an established track record of structural change and radical military-related reductions.

The third way would be to postpone substantially (read, reschedule) the large debt repayment obligations of qualifying Commonwealth member states thereby providing them with desperately needed financial "breathing space." It is this third option that potentially offers the most immediate benefits for selected CIS states, and the one, Mr. Chairman, that I discussed in my testimony before the Senate Finance Subcommittee on International Debt on October 21, 1991.

Official Western creditors have already finalized an accord to delay until the end of this year repayment of principal on the FSU's government debt. This measure would permit the rescheduling of some \$3.6 billion in principal payments over the next 12 months. This positive step coincided with a G-7 initiative to accelerate full membership of six Commonwealth states in the IMF and World Bank.

The commercial banks have been, for the most part, *compelled* to fall in-line with official creditors in rescheduling principal payments -- at least through the first quarter of 1992 -- by the unilateral moratorium on such payments by Vnesheconombank on December 4, 1991. In all likelihood, such a commercial bank rescheduling will soon be extended through the end of 1992, raising the total deferred amount of principal to roughly \$8 billion. Western suppliers who have also gone unpaid to the tune of roughly \$6 billion over the past year or more will probably be waiting a good deal longer to receive even *partial* repayments.

Although the creditworthiness of the former USSR had all but evaporated by December 1990, it is important to remember that the individual Soviet republics had little, if any, opportunity to approve of Moscow's reckless accumulation of roughly \$80 billion in hard currency indebtedness. As much as \$50 billion of this amount was taken on during the Gorbachev period, alone. It is likewise noteworthy that the former Soviet republics had only limited (if any) say over use of the proceeds of the Kremlin's borrowing activities in the West. For example, most of the *external* commitments of the FSU requiring hard currency had to be funded through Western borrowing as the result of a poor hard currency cash flow.

Accordingly, the newly independent states of the Commonwealth should insist on generous, long-term rescheduling of principal -- and in extreme cases, some interest payments -- as an important component of their economic revitalization plans. Such an orderly debt rescheduling would hopefully permit the new states to establish "stand alone" creditworthiness at relatively early dates. A multi-year grace period, whereby CIS states would be responsible for only interest payments, would substantially lighten the tremendous pressure now placed on the hard currency cash flows of these individual states. Finally, there should be relatively little sympathy shown those Western governments and banks who literally bet their taxpayers, depositors, and shareholders money on the wrong horse and the wrong system -- Gorbachev and communism.

Conclusion

The emergence of independent states bent on freeing themselves from the vestiges of communist totalitarianism and command economics can be partly attributed to Mr. Gorbachev's failures. These, in turn, can in part be explained by the inability of his legion of powerful adherents in the West to achieve political "critical mass" behind a financial life-support program for Moscow center. In the latter connection, it was arguably Russia's assumption of the internal and external financial obligations of Moscow center in the days preceding the creation in Minsk of the Commonwealth of Independent States that proved the decisive moment in the contest for power between the republics and the Kremlin.

Fortunately, Boris Yeltsin appears to have the capability and political will to lead his own nation and the Commonwealth into a sufficiently transformed and sturdy condition to permit real economic viability and political autonomy. That said, the CIS may well prove to be merely a transitional arrangement.

Nevertheless, the legitimate enthusiasm of many in the West -- and Mr. Chairman, I count myself among them -- for stepping forward boldly and assisting the genuine reformers and democrats in the Commonwealth member states must be somewhat tempered by the need for these states to establish a track record of performance in key categories of Western concern. For example, Mr. Gorbachev's desperate, eleventh-hour bid for military support in his effort to preserve the "Union" threatened to jeopardize the prospects for successful regional transformation administered by the Commonwealth. Despite Gorbachev's passing from the scene, if Mr. Yeltsin is obliged to continue to participate in the bidding war for the hearts and minds of the military-industrial complex started by the former Soviet president, Russia and other Commonwealth states might feel compelled, all other things being equal, to continue to siphon funds away from productive civilian activities to retain the military's support.

While it is to be hoped that Boris Yeltsin recognized at the time the debilitating and extortionary nature of such an understanding with the armed forces and intelligence services and refused to sign on to any such arrangement, the jury is still out in important respects. After all, Yeltsin has disturbed some of his most ardent supporters, both domestically and in the West, by his December 19 decree to consolidate the Interior Ministry and remnants of the former KGB into an ominous new Russian Ministry of Security and Interior Affairs. Nearly as troubling was his recent appointment of Yevgeny Primakov, former head of Soviet overseas intelligence, to lead the foreign espionage division of the new Russian Ministry. Primakov was the Gorbachev compatriot and party thug who, among other things, aggressively sought to salvage the fortunes of Saddam Hussein during the Gulf War.

Certain external events also warrant careful monitoring for their impact on the future direction of the new independent states and their Commonwealth. Specifically, the "hands-off" policy being pursued by the United States and most European allies toward Serbian military aggression against the freedom-bound state of Croatia sets a damaging precedent for the FSU by giving a "green light" to power grabs by estranged communists or other authoritarian forces. In addition, Germany assuming the chairmanship of the G-7 for 1992 may prove counterproductive to U.S. interests and those of CIS member states as Bonn seeks to protect its equities in the former Soviet Union. Unfortunately, the history of East-West financial and trade relations is replete with examples of German-led policy initiatives which resulted in the undermining of those who aspired to freedom from communist tyranny and important U.S. national interests.

Making reference to some of these downside risks is not to suggest that we decline to proceed in a prudent and disciplined manner to help shape reform efforts in "qualifying" CIS member states. **It does mean, however, that solid conditionality and a coordinated alliance strategy are required for Western aid efforts to be effective and mutually reinforcing.** In this connection, the U.S. emphasis should be on genuine humanitarian aid,

the dismantling of nuclear weapons and comprehensive technical assistance -- including training, education and greatly expanded exchange programs in appropriate fields.

Other areas where Western assistance should concentrate include help in tracking down the billions of dollars that the CPSU reportedly secreted to the West and encouraging three-way trade transactions involving Western financing for East European exports to the Commonwealth states. Regrettably, there are billions fewer American taxpayer dollars available for these and other aid purposes in the wake of the Bush Administration's misbegotten efforts over the past year to prop up Mr. Gorbachev and to "promote *Soviet* stability." Substantial official and commercial bank debt relief, however, should be pursued immediately as a major, concrete contribution to the transformation of CIS member states.

Finally, Mr. Chairman, when Mikhail Gorbachev begins, as he inevitably will, offering up a steady drumbeat of public criticism of the policies of the leaders of the Commonwealth -- possibly from a new perch at a Moscow think tank -- citizens of the Commonwealth and their friends in the West should take heart. Such criticism from so thoroughly discredited a source will be one of the surest signs that something must be going right in the former Soviet Union.

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IT'S TIME TO FORGET THE SOVIET UNION

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Our sometimes comic, sometimes pathetic efforts to come up with a new name for what used to be the Soviet Union conceal a far deeper problem: an unwillingness to acknowledge that the USSR no longer exists, that it has been replaced by 15 independent states, and this change profoundly affects our standing in the world as well. Given our personal and national investments in the old status quo, this reluctance is entirely understandable, but it is extremely damaging to our own interests. Unless we make this intellectual shift, we will not be in a good position to promote our values, encourage stability on one-seventh of the earth's land surface, and participate in what is surely the largest new market and source of raw materials to enter the international environment in this generation.

In order to help make this intellectual leap and to begin to examine its consequences, I want to focus on three key issues: the real meaning of the Commonwealth of Independent States which many people continue to view as the only true successor state to the Soviet Union, the nature of the problems of the 15 new states both collectively and individually, and the role of the United States in dealing with this new reality.

The World's Largest Fig Leaf

The Commonwealth of Independent States announced in December 1991 is the world's largest fig leaf, but like all fig leaves, its role is not unimportant both for what it conceals and what it does not. As its founders made clear, it is not a state and it does not confer citizenship on individual residents of its constituent states, but the Commonwealth is explicitly intended to deal with critical issues such as maintenance and control of strategic weapons, the provision of a common currency, the provision of common border guards, and division of the Soviet debt. All of these are important functions, but as the events of the last sixty days have shown, none of these is likely to be permanent precisely

because the Commonwealth is not a state. Indeed, there is good reason to think that virtually all of these functions will cease in the coming year.

But the really significant functions of the Commonwealth are likely to continue even as its most explicit tasks are either accomplished or overtaken by events as each of the republics moves to become a truly independent state. These continuing functions are three:

-- The Commonwealth reassures the West that the pre-existing balance of power has not been simply repealed and that agreements signed between the Soviet Union and Western countries will be respected at least in the short and medium term.

-- The Commonwealth protects Russian President Boris Yeltsin from charges by the Russian rightwing that he "lost" Ukraine and other key republics. Yeltsin has been the most pro-non-Russian Russian leader in history, and as economic and other problems deepen, charges of this kind are likely to be raised by a variety of political factions. To the extent that the Commonwealth provides a cover for Yeltsin and his reforms, it is especially valuable.

-- And the Commonwealth provides consultative mechanisms--a council of presidents and a council of prime ministers at the top and a variety of less august bodies below--in which the difficult questions of dividing up the inheritance of the Soviet Union can at least sometimes be approached without sovereignty questions immediately being invoked by all sides. As experience has shown, this role is likely to decline over time and in any case does not touch all issues between and among all republics.

Curiously, many Western governments and even more Western opinion leaders have invested great hopes in the Commonwealth but to date no one has suggested extending diplomatic recognition to it as we have at the European Communities and at other multilateral fora. It is not clear whether Yeltsin would be willing to allow such representation--my guess is that he would not--but failure to think about it combined with continued use of the Russian government in Moscow as the West's interlocutor on most questions virtually guarantees that the other republics will move away from Russia even faster than would otherwise be the case. And that in turn means that we need to focus very immediately on the precise nature of the problems of the 15 successor states because those are the issues we will have to address or ignore in the future.

The Successor States' Three Kinds of Problems

In addition to our continuing fixation on some kind of single state, we also find ourselves constrained in this new world by our

failure so far to distinguish carefully among the very different kinds of problems these new states face. Analytically and practically, we can divide the problems into three large categories: those problems faced by all successor states by virtue of their common experience within the former Soviet system, regional problems among the new states, and the specific problems of specific countries. To date, most Western attention has focused on the first and second of these categories; the third has been largely ignored. But all deserve more intensive examination and analysis.

The problems the new states face by virtue of their past participation in the Soviet system are the most obvious if not the easiest to deal with. All 15 countries must confront the very difficult tasks of democratization and a shift to a market economy. To a large extent, all 15 will have to follow along a similar path; and consequently, Western participation in this process can rightly be based on a common model. But even here, we need to remember important differences. For example, the ability of particular governments to shift from a command to a market economy varies, depending both on the nature of the local economy and on the structure of the population. In primarily agricultural republics, privatization may be easier than in those with giant industrial enterprises; and in republics with a relatively young population, a shift to the market will be less frightening than in those--such as Estonia--which have a far older age structure and which thus are more dependent on state-provided social services.

More complicated are the emerging interstate regional problems. These, too, can be subdivided into three groups: those typical of any set of regional actors on the international scene, those specific to post-Soviet reality and the dismemberment of the empire, and those likely to emerge between certain states within what used to be the Soviet Union and neighboring countries. Let us consider each of these in turn.

The 15 new countries are learning to interact with each other as countries, with separate tax, currency, military, economic, political and other concerns. These interactions are still hesitant in most cases as the governments involved seek to find their own way. Many Soviet-style forms are still preserved because that is what these leaders know, but the forms are increasingly being given new content. For example, many republics had de facto embassies in Moscow for many years in the form of permanent representations. These institutions are becoming embassies, but they have not given up all their ombudsman functions. And equally instructive, the republics are discovering that the actions of one country will profoundly affect others--as was the case with Russian price reform. That understanding is pushing the new states in two complementary directions. On the one hand, they are seeking means to negotiate with one another; on the other, they are coming to realize that the Commonwealth provides little protection for them

by itself and that they must increasingly act as states with their own border and customs procedures.

Three problems which derive even more specifically from the Soviet part of these new states are the issues of migration, border changes, and the potential for violence. There has been a great deal of public attention to all three, but much of it has been sensationalist rather than realistic. It is often said that all of the nearly 70 million Soviet citizens who live outside their home ethnic territories will return. Were that to happen, it would be the largest mass migration in the history of the world and certainly the most destabilizing. In fact, only about 20 million former Soviet citizens live outside their own cultural community--that is, Slavs living in Central Asia or Central Asians living in Slavic countries--and only perhaps a third of those are likely to move anytime soon. That is a serious problem, but it is far less dramatic than many media accounts have suggested.

The issue of borders is also been raised as one that is potentially destabilizing. Mikhail Gorbachev repeatedly said that republic borders could not be changed lest there be violence. In fact, the often artificial republic borders have been changed frequently, more than 200 times between 1921 and 1981 alone. These changes were usually imposed by Moscow but also took place as the result of negotiations between and among the then-Soviet republics. There is no reason to think that the current borders will remain completely unchanged, but virtually all participants in the process accept CSCE principles that mandate such changes only as the result of peaceful negotiations. Such talks are likely in the coming years, and some changes will flow from them both in European republics and in more particularly in Central Asia and the Caucasus.

The third issue of this kind that has attracted attention concerns violence. Given economic difficulties and the intermixing of peoples, the potential for violence would seem to be great. The remarkable fact is that there has been very little violence so far and that it has been concentrated in only two small regions of the former Soviet Union, regions where violence also occurred far more regularly in the past as well. Since 1985, there have been fewer than 3200 deaths from interethnic conflicts, and more than 90 percent of these have been in fighting between Armenia and Azerbaijan in the Caucasus and among Muslim nationalities in the Fergana valley of Central Asia. This is not to say that more violence is impossible: it is in fact likely in these regions. But it is to suggest that the amount of violence people have predicted in many cases far exceeds the probabilities.

Even more intriguing are the emerging contacts between particular republics and their non-Soviet neighbors. These regional groupings--with Central Asian republics looking toward

various countries in the Middle East, Ukraine and Belarus looking toward the old Eastern Europe, the Baltic countries toward Scandinavia, and some regional Russian leaders in Siberia toward Japan and China--should come as no surprise. This is an entirely natural development and should be welcomed. Instead, it is passing largely unnoticed in the West when it concerns most of the regions and is becoming an excuse for doing little or nothing in the case of others. In time, these new relationships will mean that the most appropriate regional divisions of the world will cut across the territory of the former Soviet Union rather than follow its borders as most Western governments continue to do.

Most of the problems are at the individual republic level, and hence most of our attention should be there as well. Unfortunately, we have very little expertise on the republics and hence tend to extrapolate from the areas we do know to those we do not. In this, we increasingly resemble the blind men and the elephant. People who focus on Georgia, for example, are likely to conclude the apocalypse. Those who focus on Ukraine, on the other hand, are likely to conclude just the reverse. We need to understand this lest our policies adopted on the basis of misplaced assumptions lead to disaster.

Obviously many of the problems of the individual republics will and perhaps even should remain below our radar scope, but I would like to consider by way of example several problems of three of the new states that not only will affect us but that we can ignore only at our peril.

First, Ukraine. Ukraine is after Russia the largest country in Europe and very much hopes to play a major role in the ever expanding Eastern Europe. A major immediate issue is whether it will try to become a nuclear power. Right now it has no such intentions. Thanks to Chernobyl, Ukraine is one of the most anti-nuclear places on earth. But that view on nuclear weapons is likely to change if Ukraine believes that it is insufficiently protected by European institutions against Russian power, that the West wants Ukraine to simply hand over weapons on its territory to its most likely foreign threat, and that the West will pay attention to it only because it has nuclear weapons. Should Ukraine draw those conclusions--and some in Kiev already have--then the Ukrainian government will undoubtedly seek to get control over nuclear weapons on its territory. (It does not now have such control and is thus a nuclear "power" in much the same sense West Germany was during the Cold War.) And should Ukraine succeed in doing so, that could prompt a reexamination by Germany of its non-nuclear status. Many might be discomfited by that.

Second, the Baltic countries. The three Baltic states received a disproportionate amount of Western attention in the past, but they are receiving ever less attention in the United States. That is unfortunate. As a glance at any map of Europe will show,

there are only six major deepwater, icefree ports on the European edge of what used to be the Soviet Union. Four of them are either in the Baltic countries themselves or controlled by the Balts because of their control of transport between Kaliningrad and the Russian Federation proper. The Germans and the Japanese are already exploiting this: there is now a Japanese school in Riga and a major contingent of Germany government and economic officials in all three Baltic capitals. In the short term, they may achieve little, but these two governments have positioned themselves to exploit the largest new market to come on line this decade and the largest new source of raw materials to appear on the world stage in the post-war period.

And third, Russia. By virtue of its size and likely control of all nuclear weapons, Russia will remain the West's leading interlocutor even if it must not become the only one. But there are three major Russian problems that we need to be attentive to because they are likely to affect our ability to do business as usual with Moscow. First, Russia faces a major challenge by the Kazan Tatars who want independence and sit across the major east-west transportation arteries between European Russia and Siberia and who control much of the West Siberian oil field. While that field is declining in productivity, its importance is likely to increase dramatically in the short term, as Azerbaijan shifts the sale of its production to abroad for hard currency rather than north for increasingly worthless rubles or barter. Yeltsin is likely to face a crisis in Kazan this spring, and he will have to move carefully lest it undercut his democratic reforms and alienate the Muslim republics to the south. Second, Russia faces a threat to its own integrity, not based so much on ethnic challenges as on a regional one. Many in Siberia and the Far East would like at least autonomy, and a growing number want independence so that they rather than the European Russians would become the major beneficiaries of economic development. These Siberian regionalists look to Japan to develop the area, and if Japan does move in to exploit these resources, that will affect not only Russia but us as well. A Japan with direct access to oil, gas and other natural resources will necessarily be less attentive to the desires of a country whose navy will be less important to it. And third, Russia more than any other republic must deal with the ethnic Russians living in other republics. These people will be a constant temptation as a lever against the other republics but also a serious potential danger because they are the repository of many of the most virulent forms of Russian nationalism.

What's a Foreign Country to Do?

Given these and other complexities, it should come as no surprise that there is a kind of nostalgia for the older and simpler days and a tendency to want to continue doing business in the old way. Unfortunately, both of these things can contribute to serious problems, the first by diminishing our appreciation for the

achievements of Yeltsin and others and the second by creating some unintended consequences that we will certainly regret in the future. To date, the U.S. approach to the republics has been grudging and slow: the Baltic countries will not soon forget that Washington recognized them only after Mongolia did, thus coming in 36th over all. More seriously, our failure to recognize all the republics at the same time sent three dangerous and unintended messages. First, while we have been quite explicit that we want only one nuclear successor state, we showed by the pattern of our recognition that having nuclear weapons on your territory is something that can get Western attention, a lesson not entirely lost in Kiev, Minsk or Alma-Ata, not to speak of other capitals. Second, by recognizing Armenia but not yet sending diplomats to Azerbaijan, we have further alienated Baku from the West and increased the likelihood of violence in the Caucasus in the short term. And third, both in Azerbaijan and in Central Asia, where we have not yet extended diplomatic relations to Uzbekistan and two other historically Islamic states, we gave aid and comfort not to the more secular elites now in power but to Islamic radicals who have one more argument that the West is no friend to the Muslims.

Fortunately, none of these problems are beyond correction, but they highlight an important need that has not yet been widely recognized. In the past, Soviet specialists with Russian could keep up with events in the republics; that day is past. Now, to understand what is going on in Kiev or Alma-Ata, an analyst must know the local language and the local history. For most of the new countries, there is no one in the US Government who knows this, and there are often no students of these languages in US universities. That will have to change if we are going to avoid making ever more mistakes.

Only a few years ago, interest in the Soviet nationalities was viewed as a kind of exoticism, an image that I am afraid some of us in the field did too little to counter. Now, it is far more serious because it concerns economic growth, access to markets and raw materials, and political power. And that leads me to my most important point: the demise of the USSR means not only that that region has been transformed but that our role in the world has been transformed as well. The comfortable bipolar world is gone; and while we remain a superpower, we must now compete with others on bases and in places not nearly so advantageous to us. In that new world, there will be far less order; and there will be far more difficult tasks for those of us who want to see the extension of our values to more of the globe.

Testimony

Commission on Security and Cooperation in Europe

January 9, 1992

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The presidents of Central Asia's republics have unexpectedly become the heads of independent countries. The speed with which the Soviet government and communist party collapsed came as an unpleasant surprise to the leaders of this region, who had been hoping for a continuation of subsidies from Moscow and had been counting on being supplied with energy and foodstuffs at below-world market prices for a minimum of the next few years.

However, Central Asia's leaders now face the unenviable task of keeping their nations afloat economically, with little assurance of predictable long-term outside assistance, be it from Russia, other former Soviet republics, or interested foreign states.

The severity of the economic crisis and the balance between the problems varies from region to region. But each of the republics has a food problem, an acute health-care crisis, a water shortage and general despoiled environment, just as each has an indigenous population which is deficient in technical skills.

Though all but one of Central Asia's republic presidents is a former Communist Party boss, these men are generally held in high regard by their populations, and two at least are well-regarded by their intelligentsia as well. However, without exception, those who now run Central Asia lack the depth and diversity of administrative experiences which are necessary to run an independent state.

Central Asia's leaders and their principal political confidants all rose to prominence in a political system which rewarded obedience, and not initiative. These men, and their advisers, have very limited direct experience with international relations. But they must now devise foreign policies for their republics.

More importantly, until this fall, none of them, not even those who worked in the ministerial side of their republic's government, has ever had responsibility for managing the key industries or natural resources of his republic. This was done by Moscow-based officials or their delegated representatives.

Now Central Asia's leaders are fully responsible for planning and executing complex economic reforms. If they fail to discharge these responsibilities to the satisfaction of their populations, inter-ethnic conflicts are sure to increase and the current regimes could fall.

The defeat of Central Asia's current leaders might just bring another, and possibly rival, group of former party functionaries to power. Such successors might even look more democratic, but would have roughly analogous credentials and would still be governed by the same type of constraints which bind the current leadership.

Should the "partocrats" fall entirely, brought down by a coalition of anti-party democrats or Islamic activists, as almost happened on the streets of Dushanbe in September-October 1991, the situation becomes even less predictable. The communist party dominated public life in Central Asia. As a result those active in Central Asia's opposition groups are almost entirely lacking in political and administrative experience.

Central Asia's history suggests that these opposition groups are likely to find it difficult to wrest power abruptly from the region's current leaders in the next weeks or months, and maybe even for the next few years. Western press and scholarly accounts have painted pictures of approaching political cataclysm in Central Asia for nearly fifteen years.

Yet this region has shown itself to be the most stable politically and socially of any in the former USSR. The ethnic clashes in Fergana in 1989 and in Osh in 1990 were disturbing but isolated instances. Moreover, it is possible these were not wholly spontaneous outbursts. Regardless, peace in Central Asia has held, even at a time when ethnic conflicts in other parts of the country have turned violent.

Through all their modern history Central Asian societies have demonstrated a greater capacity to withstand economic shock than have most of the other regions of the USSR. To me, the mindset of most Central Asians is personified by the elderly woman who upon hearing of my engagement to be married in 1974, advised me to "have four children, for two are certain to die."

Central Asians expect life to bring them hardships, and hardships are sure to be their lot in the next few years. Moreover, unlike Russians, they readily admit that they have little understanding of democracy, and are not embarrassed by their preference for strong leaders. Thus they have been reluctant to vote out the party leaders who run their republics, particularly men who are held in respect by Central Asia's traditional elders.

This does not mean that US leaders should abandon our commitment to see human rights violations eliminated in this region. But we should be realistic about how lengthy and complex the process of building democracies is likely to be in these five republics, taking as our guidelines the experiences of Middle Eastern and South Asian states and not those of Western or Eastern Europe.

These are emerging new nations, and now face the task of creating stable national identities out of a complex mixture of ethnic, religious and ideological loyalties. Moreover, each republic includes hundreds of thousands, and sometimes even millions, of "hostages of fortune", people who came to live in Central Asia as part of the USSR, but now find themselves living in non-European nation-states. Many of these people have no respect for the local culture or religion, are unwilling to learn the local language, and view the nationality whose homeland they now inhabit as lesser and even backwards people.

All of Central Asia's citizens, regardless of their nationality, are entitled to basic protection of their human rights. But the Russians will not get and should not expect further deference as elder brothers. All of these regimes will need to monitor a potential for anti-Russian backlash, but the biggest attitude change will have to come from the Russians themselves.

Central Asia's leaders are compelled to endorse a nationalist agenda, including public demonstrations of respect for Islam, in order to make the shift from party functionaries to popularly supported leaders. Moreover, they must do this under extremely adverse economic conditions. The first move of Central Asia's rulers is to insure stability in their region. Each republic leader has developed his attitude toward the introduction to the market and economic privatization in response to this goal.

Nursultan Nazarbaev of Kazakhstan has been a vociferous advocate of privatization. However, his republic is almost evenly split between Kazakhs and Russians. The government is dominated by Kazakhs. Most of the republic's industrial potential is located in Russian-dominated areas, oil deposits and phosphorous excepted. Russians are expected to benefit most from the privatization of the service sector. Agricultural land is not going to be privatized.

Nazarbaev hopes that his program will give Russians an economic stake in the survival of Kazakhstan. Many of Kazakhstan's economic programs though are ill-thought out and contradictory in their goals. Kazakhstan hopes to use its vast Tengiz oil field to fund basic social services and the development of technically-competent Kazakh cadre. But plans to develop this field have yet to be formalized, and the difficulties surrounding the Tengiz project point-up the political and economic inexperience of the Kazakhs.

For now at least, Nazarbaev is a genuinely popular politician. But he is no democrat. He ran unopposed in recent elections, having made it all but impossible for the head of the December party to get on the ballot.

Nazarbaev has publicly stated on numerous occasions that Kazakhstan needs to be ruled with a strong hand, and is not ready for a multi-party system. The communist party has been dissolved. Its formal successor, the Socialist Party, is largely Russian-dominated and is not expected to play a large role. Similarly the new Kazakh-dominated party, the Congress for National Consolidation, also seems slated to play a symbolic role. Both are loyal to Nazarbaev. Nazarbaev has refused to register the republic's small Islamic party. This decision is supported Kazakhstan's head mufti, a Nazarbaev appointment.

Kazakhstan's media has been freed from censorship but is under defacto government control. There is no opposition press of any import. There is a harsh law against public slander of the President. It has on occasion been enforced.

Kyrgyzstan's President Askar Akaev is more deserving of his reputation as a democrat. He too though ran for the presidency without opposition, banning the Communist Party from running a candidate against him. He was sharply criticized by Kyrgyzstan's independent democratic movement. What is most remarkable is that this criticism appeared in the republic's main newspaper.

Kyrgyzstan's decisions to privatize is governed by many of the same concerns that affected Nazarbaev's decision. Kirghiz

are a bare majority in their republic, and nearly a third of the population are Europeans. They accept that the republic's political life should be dominated by Kirghiz--but are certainly eager to enjoy the economic benefits that privatization will bring them.

Here too, agricultural land will be transferred to private usage on inheritable long-term leases, but it cannot be privately owned. Kyrgyzstan's privatization plan is designed to encourage foreign investment in mineral extraction and the development of light industry. Without this investment the republic's economy will not be revived.

Uzbekistan's government was the first to legislate land reforms in agriculture, turning over land to private management in 1990. Currently there is a lively debate over whether full private ownership should be supported. However, many democratic critics of Islam Karimov oppose full privatization because they maintain it would legalize the "mafia's" control of the cotton economy.

Uzbekistan's service sector has always been partly privatized; there has been a second-pricing system in existence for nearly twenty years. Now stores and restaurants will be sold, to enable de jure rather than de facto ownership of property. However, Uzbekistan's government has been slow to produce a plan to fully privatize the economy.

They claim, not unreasonably, that the complexity of the republic's problems---massive unemployment especially in rural areas, the cotton monoculture, the acute water shortage---merit careful consideration before the government decides on a strategy for dispersing its property. Moreover, there appears to be little dissension on this issue. The challenge of economic development in Uzbekistan is so complex that Karimov's critics, and they are many, have not wanted to risk their own political futures by advocating ill-thought out schemes of their own.

Karimov is less popular among intellectuals in his republic than Nazarbaev is, and has been even less tolerant of permitting public displays against his authority. Karimov's control over media is much tighter than Nazarbaev's in Kazakhstan, for he knows that in his republic, unlike in Kazakhstan, anti-government critics would not be shy about making effective use of the press.

Karimov has been slow to legalize opposition parties. Erk is legal, but small. Birlik is larger, and has only recently been permitted to register as a "movement", not a party. Karimov was opposed by a candidate from Erk, and Birlik's candidate did not manage to get on the ballot.

The Islamic Renaissance Party remains banned, but Karimov has not succeeded in curbing its influence. As Uzbekistan's Islamic organizations and institutions increase in membership and influence, they are also becoming increasingly independent. Though Karimov's opponents claim that vote fraud contributed to his recent victory, it is hard to believe that a poet could beat a politician in Uzbekistan even under the most closely supervised conditions.

Tajikistan's Rahmon Nabiev, the former party boss, also received a majority of votes in his contest against the Democratic bloc's candidate, film-maker Davlat Khudonazarov. Here too the charge of fraud was made. Here too it would be a mistake to overestimate the strength of the "democrats". Khudonazarov did well at the polls, 31 percent by official tallies, because he had the support of Tajikistan's Islamic oppositionary groups.

But these groups chose not to oppose Nabiev directly, and the current calm in the republic suggests that the old party bosses and religious leaders may have found a way to work together, at least for the moment. Both draw their strength from a largely impoverished rural population. Tajikistan has all of Uzbekistan's economic problems without its economic advantages. The Tajiks' one advantage may be that they are Persians, and Iran feels a moral obligation to involve itself in the republic.

Turkmenistan is also of particular interest to Iran. It is a border region and has unexploited oil and gas reserves, large enough to enable the republic to buy technical and humanitarian assistance. Thus, foreign development of the republic's mineral wealth is the primary concern of Turkmenistan's President Sapurmurad Niazov. To this end, he seems willing to offer generous terms to potential foreign partners.

Turkmenistan is under Niazov's tight personal control. He was the USSR's first popularly-elected President, running unopposed in late 1990. Secular opposition groups are small and urban-based. The influence of Islamic revivalists is increasing in Turkmenistan, but Niazov is astutely anticipating many of their demands and substituting Islam for communism as the basis of official morality wherever this can be done unobtrusively. The least democratic of all the states, Turkmenistan is probably the most stable politically, and a predictable partner for Western investors.

Current U. S. policy in the region, the decision to favor "democratic" and "free market" Kazakhstan and Kyrgyzstan with full diplomatic relations, may well be against U.S. long-term security interests. It may also work against the development of democratic, and more importantly, secular states in the region.

U.S. policy in the region should be shaped by an informed judgement of current conditions, as well as with a realistic assessment of how much we can affect developments in this region. However, we know very little about the real state of political and economic affairs in these regions. We should not rely on our new Russian friends to guide us in our assessments, any more than we would have relied on French sources for impartial accounts of political developments in Algeria in the 1950s or 1960s.

But as we take time out to better inform ourselves, we must bear in mind that other states interested in influencing developments in this part of the world will not delay seeking to advance their own economic or strategic interests in deference to our need to make a thorough analysis. Moreover, Central Asia's leaders will not have the luxury to choose among potential

benefactors based on ideological affinity. Their disparate economic circumstances dictate that they take help from anyone who offers it.

Turkey and Iran are the two foreign states most interested in the region, and both have defined influencing events in their favor there as a direct extension of their national interests. Turkey defines this in traditional geo-political terms. Iran sees advancing their interests and the interests of an Islamic revival as synonymous.

By predilection, Central Asia's rulers are more drawn to Turkey, because each of the area's presidents is an advocate of a secular model of development. Central Asia and Azerbaijan are also critical outlets for Turkey, allowing Turkey's industries to compensate for their continued exclusion from the European community.

However, without outside support, Turkey is likely to find itself at a competitive disadvantage vis-a-vis Iran. Iran has more money to dump into infrastructural improvements in Central Asia, and has been more aggressively seeking opportunities to develop the region's banking system as well. In the short run taking aid from Iran will not tip the balance toward Central Asia's Islamic opposition. But if the partocrats fall, then Iran will also try to play a more explicitly political role in the region. The same is true for Saudi Arabia's influence, which is still minimal but which is likely to increase apace with Iran's.

Central Asia's leaders would prefer not to have to depend upon Muslim aid. America and Western Europe are seen as the potentially most attractive trading partners, because of the technological sophistication of the type of projects that we are attracted toward. For similar reasons South Korea and Japan are both seen as desirable partners. Moreover there is a strong likelihood of Korean capital investment in the region. However, for the next few years at least, the biggest trade partner in the region, as measured by volume, is likely to be the PRC; however, China is not a potential source of technology-intensive investment.

Events in Central Asia do not directly threaten US security interests. But in the long-run a shift in the geopolitical balance in this area will have consequences for the strategic balance in South Asia and the Middle East. The process of political and economic transformation will be a slow one throughout the region.

None of these republics, save perhaps Kyrgyzstan, are on the verge of becoming Western-style democracies. Pluralistic societies will come to the region only in another generation, if they come at all. But the best way we have sponsor their development is to involve ourselves in technological assistance and training programs in all five republics, and work towards opening these societies up to broader popular participation. Moreover, in doing so we must accept that the balance between secular and Islamic forces is likely to remain a constantly shifting one.