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TRADE AND AID FOR EASTERN EUROPE (SEED II)

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HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND TRADE

OF THE

COMMITTEE ON FOREIGN AFFAIRS HOUSE OF REPRESENTATIVES

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

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TRADE AND AID FOR EASTERN EUROPE (SEED II)

WEDNESDAY, MARCH 21, 1990

HOUSE OF REPRESENTATIVES, COMMITTEE ON FOREIGN AFFAIRS, SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND TRADE,

Washington, DC.

The subcommittee met, at 2:10 p.m., in room 2154, Rayburn House Office Building, Hon. Sam Gejdenson (chairman of the subcommittee) presiding.

Mr. GEJDENSON. The subcommittee will come to order. This year 1989 will go down in history as the year of the people's revolutions. Citizens around the world raised their voices and demanded freedom from repression and the right to determine their own destinies.

In Eastern Europe, the focus of today's hearing, those demands were met. One by one, the countries that were once collectively known as the Eastern Bloc, become a united front for democracy.

The events in Eastern Europe offer great hope, hope for freedom, hope for democracy, hope for free enterprise and hope for more open communication with the West.

The United States can play an important role in cementing the changes that have already taken place in Eastern Europe and promoting additional advances. Moreover, we can do this in a way which will accelerate the process of change and support U.S. industry and American working people. Those new governments will provide fresh opportunities for U.S. businesses, and create jobs for those Americans displaced by our shrinking defense manufacturing base.

By providing incentives for U.S. industry to establish itself in Eastern Europe, the United States Government can help our businesses compete in these countries. Make no mistake about it, when American business people arrive in Warsaw or Budapest or Prague, they will find the Japanese and the Germans already there with the financial support of their governments. If the U.S. chooses not to compete in these newly opened markets, it will cost us 25,000 jobs for every one billion dollars in lost exports.

The first companies to break into these markets will have a tremendous advantage. Once the first computer is purchased by Hungary, the software will follow, and it will most likely be purchased from the same supplier. The same can be said of the first telecommunications system in Poland and the first car manufacturer in Czechoslovakia.

Through the SEED legislation that Congress passed last year, we began a process of democratic institution building in Poland and Hungary and laid the groundwork for a better trading relationship with those two countries.

The House is about to consider SEED II, which will extend many of the privileges in SEED I to the newly democratized countries once certain eligibility requirements are met.

The Congress is also considering legislative language that will enable the United States to join the European Bank for Reconstruction and Development, the EBRD. This is an important feature of any comprehensive assistance program for Eastern Europe, and possibly the Soviet Union.

The Administration has indicated that we may not join the EBRD. It is inconceivable that the U.S. would pull out of this lending institution simply because the Soviet Union has the potential to become a borrower. We should not be playing cold war politics now that the Cold War has ended.

The Administration seems to be treating the Soviet Union under glasnost and perestroika as if it were the evil empire of 30 years ago. While we must maintain a healthy respect for the Soviet Union, we must also acknowledge the changes brought about by Mr. Gorbachev and his decision not to interfere with the Eastern Bloc's move toward democracy and freedom.

In the last several decades, the United States has extended hundreds of millions of dollars of assistance to the Soviet Union in subsidized grain sales and export credits. If the United States could provide such assistance to staunch communist regimes, can we seriously be objecting to the concept of the Soviet Union possibly becoming a borrower from the EBRD?

The inconsistencies in the Administration's view of Eastern Europe leaves one baffled. Secretary Cheney submits his defense budget to the Congress with a one and two percent decrease in spending. CIA Director William Webster then states that even if Mikhail Gorbachev were removed from power that the Soviet Union would not reemerge as a military threat to America. Now President Bush has decided that he really wants to cut military spending at the rate of three times his Administration's original budget proposal or $10 billion to $11 billion.

The President must recognize that the situation in Eastern Europe and the Soviet Union represents remarkable opportunities to firmly implant the roots of democracy and free enterprise in what was once Eastern Europe. I hope that history will not find that we were too cautious and too indecisive and that the moment was lost. We may not get a second change.

Gentlemen, I look forward to your testimony. We will call up the first witness and begin the dialogue. We will suspend when committee members return from voting on journal, part of the perpetual harassment that one faces here, and we will go back to their statements when they arrive.

Mr. Sachs, I understand that you do not have a written opening statement at this point, but you may make an oral statement and then we can go to questions.

STATEMENT OF DR. JEFFREY SACHS, PROFESSOR OF ECONOMICS, HARVARD UNIVERSITY

Mr. SACHS. I would like to, Mr. Chairman. Let me apologize for not having a written statement. I just returned 36 hours ago from Poland, and I hope that the freshness of the evidence can make up for the lack of more organized preparation of material.

I would like to speak generally about the question of U.S. assistance to the countries of Eastern Europe and also to make a few comments about the question of assistance for the Soviet Union, even though that is not the central focus of the legislation that you are considering right now.

I think that this country must, with great urgency, have a serious internal discussion about the appropriate conditions under which we would help the Soviet Union. Because it is my view that the time is approaching quickly when it may be propitious for us to provide substantial sums in support of fundamental economic reforms in that country.

Let me say generally that this is an urgent time in Eastern Europe, and it is particularly urgent that we provide financial assistance to support a transition to market economies that all of the countries of the region are intent on taking.

I think that there is one fundamental thing that the American people should understand. The countries that we are talking about are not long term basket cases. And the kind of support that they need is not continuing and long term financial support. These countries will not be wards of the West.

There is a well-defined period of transition in which they have an incredibly complex and urgent task for undertaking recovering financial stability and putting in place the legal, and administrative, and financial institutions to support a market economy.

And it is during that very well defined period of time that we ought to be acting quickly, and with generosity, and with vision in order to provide the resources that they need. It is easy to see ways that this reform effort, regardless of however much enthusiasm it is being started, can hit important political dead ends, political stalemate, and even social explosions in these countries.

And what is absolutely essential is that we provide financial support during a period of three or four years when this transition is taking place, so that social explosions do not occur, and so that these countries are able effectively to integrate with Western Europe and the West more generally.

The effort that we have undertaken so far, in my view, is minuscule and insufficient. Even with the package of aid for Hungary and Poland last year, the effect of the amounts of resources going abroad in this calendar year will be on the order of one fifth of one hundredth of one percent of U.S. GNP. That order of magnitude of assistance is simply insufficient to this incredibly important and momentous period.

Let me outline very briefly the kinds of aid that are most essential and stress that they should be tailored in an imaginative way to the circumstances of each of the countries.

I think that most fundamentally, but perhaps least well understood by the Administration and even with this legislation, is gen-

eral support of balance of payments and economic stabilization, including the creation of convertible currencies.

In my view, the key aid that we gave to Poland this year was the contribution of $200 million towards a $1 billion dollar multilateral stabilization fund. That $1 billion dollar stabilization fund was absolutely decisive in allowing the Poles to introduce a convertible currency at the beginning of this year. And convertibility of the currency is fundamental, from a reform point of view, to the introduction of a market economy.

I believe that in that aspect of our aid that we have done the most to effectively leverage the kind of financial support that we are giving to the region. We ought to be thinking more generally and more strategically about how to introduce convertible currencies in the rest of the region.

And in my view, the model of Poland of establishing an appropriate stabilization fund in conjunction with an IMF arrangement between the country and the International Monetary Fund is a good model. What is especially important about that stabilization fund is that the U.S. was one minority part of a multilateral effort, and that our $200 million got leveraged five times. That one billion dollars in turn got leveraged into an entire economic reform program that otherwise would not have been put in place.

And I think that while this is somewhat abstract and more abstract than giving money for particular kinds of technical assistance, that the use of financing in order to promote the establishment of convertibility in my view is the most important kind of financing that we can provide at this point.

And I want to hasten to add that the amounts that will come from the IMF and the World Bank cannot do that job alone. So a multilateral effort on top of the IMF money is vitally needed.

A more conventional kind of aid which is very much embedded in the SEED strategy is technical assistance. And here let me speak about the Polish case for a moment to give you a more concrete view of the kinds of technical assistance that are needed and why the U.S. strategy is not really properly targeted at this point.

The Poles introduced a momentous and indeed historical economic reform program on January 1st, the results of which have already provided quite stunning illustrations of the benefits of moving to a market economy. In a mere eight weeks, shortages have been eliminated from the system, stability of prices has been restored, and convertibility of the exchange rate has been accomplished.

But at the same time, the country is going into a deep recession as a result of the financial squeeze that was a central part of the economic program and a necessary part given the hyperinflation that that country faced. And what one is discovering is that perhaps the greatest difference of a country like Poland and a market economy is the way that it faces up to the financial squeeze, something that is going to be an inevitable part of the economic policies throughout the region as they fight to restabilize these economies and end high inflation.

Now what is being discovered is that these enterprises, even when they are completely let go from central planning, when they face market prices and supply and demand, no subsidies and an

end of cheap credits, do not know how to reorient themselves because they have not understood and played in market competition in 40 years.

And the real risk now is having an unnecessarily severe collapse of the productive structure during the point of transition when we are trying to create markets in this economy.

In the last few weeks, several management consultants have been making extensive tours of the Polish factories on behalf of the Ministry of Finance. And what they are finding is that there are enormous unexploited opportunities for increasing sales to Western Europe, for example, during this period of deeply depressed internal demand.

Small changes in design, new marketing strategies, and contacts with Western firms could be decisive in preventing the unemployment rate from hitting 20 percent rather than stabilizing at 10 percent of the labor force. And that difference could be absolutely decisive in maintaining political stability and social peace during this very arduous transition period.

The Minister of Finance in Poland has therefore asked the U.S. Government to provide emergency technical assistance in the form of management consulting to help these firms survive an extraordinarily difficult period of transition.

Now, this will inevitably come to tens of millions of dollars of necessary assistance, a scale of technical assistance that is beyond what is envisioned right now, but with potential returns, in my view, that are absolutely monumental and of historical importance.

Part of this assistance we are finding is blocked by what is a well-intentioned direction of U.S. policy to promote the private sector in these countries. There is no one more than myself that would like to see the rapid development of the private sector in a country like Poland. But this year, during this crucial transition period, the hard fact is that 90 percent of production and 90 percent of employment is in the state sector.

And it is going to be the survival of these enterprises and their proper preparation for privatization in the future that will determine the political success or failure of this approach and possibly the whole strategy of reform in creating Western style economies.

Therefore, while it is very well intentioned, the extreme focus of AID and its legislation to providing technical assistance for the private sector is unfortunately misguided at this moment in a country like Poland where the crucial goal is to get the enterprises, wherever they exist, to be able to survive a true and hard market environment, to reorient themselves, and, therefore, be ready for effective privatization.

This is an urgent need, and I think that it is even more urgent than waiting for appropriations for fiscal year 1991. And I know that in the visit of the Prime Minister today that the Polish Government is requesting that the United States, in an emergency way, provide them with technical assistance to make it possible for these enterprises to adjust to a very harsh market environment.

Another part of vital technical assistance that is not addressed in this legislation, but what I think is the sine qua non for the long term recovery of a country like Poland, assuming that it gets through this difficult transition, is a reduction of its debt burden.

Forty-five years of communist rule have left Poland and Hungary totally bankrupt with foreign debts that are unpayable. Of course, a portion can be paid. But in the case of Poland, all experts acknowledge that only a very tiny fraction of this $40 billion of external debt is serviceable.

What worries me is the strategy of pouring in more official long term lending without solving the overhang of old debt. And here we are in a Catch-22. If we only recognized the reality of the unpayable debt and reduce the debt, we would not have to rely on so much official financing in the future.

We might not need an EBRD doing as much as it is doing, because Poland cannot get private funds as long as private investors believe that the first lien on the country is the existing official creditors. So while we are all in favor of promoting private economic linkages between this country and the world, it is the overhang of an unpayable official debt which might be the greatest barrier to effectively hooking up this country with private international markets.

I would stress one point. Germany is Poland's largest creditor by far. Germany is the country in this world that is the best exemplar of the need for timely debt relief. We did not give Germany debt relief in the 1920s, and they slid into economic catastrophe, which was a catastrophe for the world.

But Germany should now remember that in 1953, the Western victors and allies of World War II fundamentally cut Germany's debt burden so that they could have a fresh start in the post-war era. Now it is time for the U.S. to remind Germany of its responsibilities; for the U.S. to make clear that we will join in an official debt reduction, a reduction of official debt burden for Poland. And Germany, as the largest creditor, must take the lead and exercise its historical responsibilities at this point.

Let me conclude with my brief time available in talking about the question of assistance to the Soviet Union. This of late has become a matter of some controversy in this town, and I think that it is a controversy that is none too timely. Because I believe that we do not face a more important foreign policy question in this country than how we are going to relate to the Soviet Union in their economic reform program, and in particular, whether we are going to provide financial assistance during an extremely difficult period.

I congratulate Congressman Gephardt on raising this issue as unpopular and risky as it is. Because it seems to me that under the appropriate circumstances that we should be leading a large scale effort of financial assistance for the Soviet Union if the conditions are appropriate. And by that I mean that the Soviet Union finally gets down to real reforms to create a privately oriented market economy. And that we are able to achieve fundamental reductions in arms control agreements, and that the path of democratization is intensified into a multi-party system.

Under those conditions, and I think that we are arriving at them very rapidly, it is appropriate and indeed necessary for us to lead an effort of the West to provide large scale financial assistance to help see the reform process through.

They cannot make it on their own. They are clearly ready to intensify the scope of reform. This week they talked about following in the path of Poland's jump to a market economy and indeed cited, for the first time, the Polish model explicitly as a path that they would like to follow.

But Poland is receiving external assistance on the order of $100 per person in order to see this through, and I think that that is barely enough. In Soviet terms, that would translate to annual aid of $30 billion a year with the U.S. share perhaps of $6 billion or $7 billion in a multilateral effort. I believe that even more will have to be done.

And we should be considering now—as unlikely and as strange as this may sound—that we should be thinking with all seriousness about whether it is possible to go down this route. Because it seems to me that we may be facing the most important opportunity in our lifetimes to create a stable democratic and worldwide market economy.

Thank you very much.

Mr. GEJDENSON. Thank you very much.

And before going to a round of questions for you, I will identify Mr. Roth, and then Mr. Bereuter for any opening statements that they wish to make.

Mr. ROTH. Thank you, Mr. Chairman. I look forward to today's discussion of the trade and aid initiatives for Eastern Europe contained in SEED II. Since the President signed the SEED I legislation on November 28th of last year, a lot has happened. Events in East Germany, Czechoslovakia, Bulgaria, Lithuania, and elsewhere in Eastern Europe have truly given us an entirely different world to understand.

Our trade and aid policies regarding these emerging democracies will play a pivotal role in efforts to consolidate those changes. The role that the U.S. can play in this world of change is an issue that we must examine. Our efforts to help establish a free market and democratic institutions in these emerging democracies, can help communism achieve its rightful place on the ash heap of history as Ronald Reagan so eloquently said in 1982 in the Great Hall in London.

Having said this, it is important to balance this desire to help those who seek freedom with a clear-headed look at how to achieve our policy goals. We need to understand that the usual Government response to every new situation: "how can we throw more money at it" may not be the full answer.

Vaclav Havel's recent remarks to Congress deserve everyone's attention. He said that he did not come here for money, but he told us that he came here with his hand extended in friendship and cooperation.

And I look forward to receiving the testimony of our witnesses and gaining the benefit of their views in these important discussions.

Thank you, Mr. Chairman.

Mr. GEJDENSON. Mr. Bereuter.

Mr. BEREUTER. Thank you, Mr. Chairman.

I have no opening statement, but I would simply say that I commend you for the quality of the panels that you have put before us

as witnesses today. I look forward to asking some questions as well as hearing their testimony.

Mr. GEJDENSON. Thank you.

Let me go to a couple of quick questions, and then yield to my colleagues. One, do we not have a fundamental problem if we proceed to write down Poland's debt, as noble a goal as it is?

What do we say to the Brazilians, and the Mexicans, and much of the rest of the world that says,"Wait a minute, these are the richest countries in the world, with the exception of the West, with incomes that are four, five and six times our per capita incomes, why do you do this for Poland and Hungary, and how do you let us stay buried in the debt that we have? I mean, are we at a point where we need a worldwide review of debt structure? Maybe the United States can apply for that as well with our trillion dollars of foreign debt."

Mr. SACHS. Well, let us first get the facts on the table. Actually Poland's GNP right now, translated at the market exchange rate, is about $1000 per capita, which actually puts it at less than many of the countries that you mentioned. Its debt burden is also extraordinarily large relative to its exports with a debt/export ratio on the order of about six to one, which makes it a higher debt burden than almost all of the world, including the heavily indebted Latin American countries.

The third problem for Poland is the structure of its debt. It is about three-fourths bilateral debt, that is, government to government debt, and only one-fourth commercial bank debt. Brazil and Argentina, if they ever get around to really comprehensive, and convincing, and prolonged reform, will benefit substantially from the Brady Plan, but, in this case, the profile of the debt is exactly the opposite.

The vast majority of the debt is commercial bank debt, and we have a program for those countries. And of the part that is not commercial bank debt, much of it is multilateral institutions where nobody thinks that it is a good idea to give debt relief.

What we do right now in the Paris Club is not collect anything. We keep the debt on the books and keep rolling it over every year, but we are not collecting revenues right now. That policy is actually quite disastrous. While it seems that you are not really imposing a heavy burden, you are also blocking any new investment, so you lead to a terrible financial stalemate by the failure to recognize, in a legal sense, what is already understood in a de facto sense.

I think that the whole debt strategy is properly viewed as a case by case one. We have a working model, and many of us think that there should be improvements and changes on it, but we have a working model for commercial bank debt relief which covers the vast majority of the middle income countries that we are involved with in Latin America. In the case of Poland, it is not going to solve much of the problem when only $9 billion of $40 billion is commercial bank debt.

Now I think that it should also be clearly put that our debt strategy has to reflect our national interests. And there may be cases where we will have profound and direct national benefit from exercising special prerogatives. And I think that stabilizing Eastern Europe is of enormous strategic importance to us. And there is no

better way and cheaper way in terms of actual cash flow to do it than to allow Poland to have a future by reducing the debt to a level that will be sustainable.

I also think that it is fundamentally a dead end to believe that you can have a very wrong strategy which gives a country like Poland no hope and tell them that we do that because of Argentina or because of some other illustration.

In fact, with Poland, the striking thing now is that when one talks to any high officials in the G7 countries, that it is universally acknowledged that the debt burden is too large and unpayable, and that something must be done.

And I find it ironic, therefore, that we would block an initiative of our fundamental strategic interest in stabilizing the region because of the kind of problems that you mentioned. I happen to think that they are distinguishable. Even if they were not, in terms of the real politics of the thing, this is an area where we have a profound and vital interest in doing something.

There is also the happy coincidence, I would stress, that we hold very, very little of this debt. The vast majority of the debt is held by the Europeans, and by the Germans in particular, who are the largest creditors, and we ought to make sure that they are doing the right thing, and even living up to historical responsibilities, because they too have been the recipients of significant debt reduction in the past.

Mr. GEJDENSON. What portion of the funds that we are presently providing to Poland would you estimate would end up going towards paying old debt if we do not change things?

Mr. SACHS. Well, if we do not change things, we have two choices. One, we can continue to accrue the debt at market interest rates and not actually collect, in which case the debt will double every few years, and they will be totally bankrupt.

But the money that we give would not literally go to pay the debt. The debt would, however, still block the future for the country. If they were actually to pay, if we started charging the interest right now that is owed, it would be a multiple, maybe roughly speaking ten to 20 times what we are putting in coming back out in interest servicing.

Roughly speaking, Congressman, the interest on the debt would be about $4 billion a year on a $40 billion debt. We put in $200 million into a stabilization fund and another couple hundred million in terms of financing. It would be ten times the outflow relative to the inflow that we are putting in.

Mr. GEJDENSON. What are the Germans going to have to pay to make the East German money convertible? What is that going to cost them, do we have an estimate yet?

Mr. SACHS. We do not have an estimate. It depends on how the conversion will actually be done, and there are a lot of details. The one-to-one conversion is not literally one-to-one. In the first instance, you just print the money to do this, but then you sterilize the monetary effects by turning these instruments into bonds.

So part of the transfer of deutschemarks is actually just money printing and free. The part that is not is the more generous part of the conversion above what would be the true equilibrium rate, and perhaps that would involve tens of billions of deutschemarks of

public debt. It is not a burden that is going to be borne on a flow basis.

Mr. GEJDENSON. So, that will not in any way reduce the ability of the Germans to provide assistance or debt restructuring for Poland?

Mr. SACHS. Oh, not at all. Germany is, by any measure, going to be so greatly enhanced in its manufacturing capability and its economic strength, and being by far the largest creditor country in Europe and the most powerful country, it could easily just release Poland from the debt burden.

Let me make clear something once again. This is a deep irony which often is not caught. The Germans are not collecting from the Poles right now. They have told the Poles at the highest levels that we know you cannot pay the debt. All the debt does is kill the future for Poland. It is not a cash flow burden at this moment. So, by reflecting the reality on the books finally, then you can get the private sector started again with new in-flows.

So nobody really believes, and my heavens I hope that no one could imagine that Poland is going to be transferring resources to West Germany in the years ahead. That would be an absolutely dreadful situation.

Mr. GEJDENSON. What if If the Americans simply told the Germans that this is your responsibility. Would it not take a lot more than simply telling the Germans that we think that it is their responsibility to now take the Polish debt?

Mr. SACHS. I happen to think that that would do a lot, and I think that we ought to do it in this year when Germany is looking for support in the unification process. They have major historical responsibilities in this region, I do not have to remind anybody here.

And I would remind the Germans first myself, and do so at every opportunity, is that they themselves should remember very well the fresh start that they were given in 1953 when half of their debt, that is, both official and private, was cancelled under the leadership of the United States of America for the explicit purpose of allowing them a future once again.

Mr. GEJDENSON. What are the Japanese doing in Poland, and are they selectively going into Eastern European countries?

Mr. SACHS. In terms of commercial involvement, it is extensive analysis right now. It is visits to factories. I have been told that the Japanese are on a first name basis with the managers of all of the leading enterprises, the top hundred enterprises of East Germany. They are not shying away from competition even in the core of the German economic sphere, and that is East Germany.

So they have an active diplomatic set of activities and very deep involvement on the level of factories right now in looking at how to be appropriately involved.

Mr. GEJDENSON. Mr. Roth.

Mr. ROTH. Thank you, Mr. Chairman.

Mr. Sachs, you mentioned that the Soviets could use as much as $30 billion a year, you said in your testimony?

Mr. SACHS. Under very carefully circumscribed conditions.

Mr. ROTH. And about $6 billion or $7 billion of that would be U.S. according to your formula, is that right?

Mr. SACHS. What I was trying to illustrate was the kind of amount that might be consistent with the fundamental conversion to a private market economy.

Mr. ROTH. It would be about $6 billion or $7 billion that you had mentioned?

Mr. SACHS. I happen to think that even more might be propitious for us. Let me say that under the circumstances, and I would not rush in right now by any means, I do not think that we are there by a long, long shot, I just think that we might get to the right place. If the conditions that I feel to be necessary were there, we would at the same time be saving tens of billions of dollars in military spending that would fully finance many times over the size of contributions that I would have in mind.

Mr. ROTH. Well, that of course is what a lot of the people here on the Hill have said. It is easy to say, but it seems that it is hard to do. I think that we could have some military defense spending cuts, but that is not to say that we are going to solve all of problems with cuts in defense spending. But anyhow I do not want to get off on that tangent.

How much should we put into Poland?

Mr. SACHS. Well, the more we put in, the safer it is. Poland, I believe, has a workable stabilization program now, but it is one that is precarious. They are going to be under intense political risk and economic risk.

Mr. ROTH. I am looking at how much money as a Congressman. I have got to take a look at the dollar here and see what we are talking about here as far as money. You just came back from Poland.

How much American dollars do we have to put into Poland per year?

Mr. SACHS. I think that we would do ourselves a great favor, Congressman, if we were putting in $500 million a year for the next three or four years in a multilateral effort. I believe that everything that the U.S. does should be multilaterally based, where about 20 percent of the total would come from the U.S. That is the kind of amount that I think would be appropriate.

Mr. ROTH. How about Hungary?

Mr. SACHS. Hungary would require a much smaller amount.

Mr. ROTH. What, $300 million a year?

Mr. SACHS. I am not prepared actually, since I am not advising the Hungarian Government and do not know the conditions as precisely, but it is a much smaller country and relatively better off and not in as deep a crisis. And what they really need is concessions on the debt rather than large and sustained in-flows. So it would be a smaller amount.

Mr. ROTH. Then we have Lithuania, and we have Czechoslovakia, Romania, and Bulgaria.

Mr. SACHS. That is right.

Mr. ROTH. I am assuming that we would not give anything to East Germans, because the West Germans are going to take care of the East Germans.

Mr. SACHS. Right.

Mr. ROTH. What is the total tab of this?

Mr. SACHS. Let us just say for purposes of a guess that if we were really doing what I think would be prudent, given the stakes in-

volved, say it was $5 billion a year, I think that it is well above anything that anybody is dreaming of, but that would amount to one-tenth of—well, let us get it right. It would be one-tenth of one percent of GNP.

Mr. ROTH. Well, right. And everybody who comes before us uses that example. Food stamps only you know one-tenth of whatever, or only one-hundredth of whatever.

Mr. SACHS. But Congressman, we do have real interests. We spend $100 billion a year defending Europe or more. We have spent that much for generations actually trying to promote freedom and democracy. And now we cannot seem to muster even a very tiny fraction of that during a well defined short period. That is what I think is not understood properly.

My specialty professionally is transition periods and crises. And when you are in an intense financial destabilization and trying to do fundamental structural changes, you need a cushion during a well-defined period of time. I am not looking to help finance Poland five years out. I hope that they will have done the transition by then. But it is the crucial period of gaining some stability.

Mr. ROTH. We all wish these countries the best. We want to help them, but I think that we have to ask ourselves, what is the best way of helping these countries. So you say about $5 billion for Eastern Europe. That does not of course include the $6 billion or $7 billion that we would be giving the Soviet Union if they made enough changes.

Mr. SACHS. That is right.

Mr. ROTH. And this money that we are going to be giving to these Eastern European countries and emerging democracies is going to come out of defense spending, right?

Mr. SACHS. It would come out of the budget I would say, Congressman, and defense spending should be at its appropriate levels.

Mr. ROTH. You know, we are hard pressed even to come to the $64 billion deficit this year. And I keep walking back. I know that this is very important. But the Chairman always asks me when I come back from voting if there is not any money growing on these trees over here on the lawn, and I have not seen any money growing on these trees.

I know what you are saying, and it is important. But I think that the liberal view has always been that if you see a problem throw money at it. What I am saying is, let us take a look at what these emerging democracies need and let us help them, but I think that in some areas that we can help them with trade and the like.

I think that the Japanese are over there and not just giving handouts. I am sure that everything that they are doing is in the area of trade.

Mr. SACHS. Let me reassure you that I am not here to throw money at problems. I believe that most of my work is directed towards trying to find out how to best leverage extremely scarce resources to make a reform successful. And let me just stress to you for example, Congressman, that the $200 million that we gave to Poland, which is not a lot of money, was of absolutely vital importance for them to be able to get this reform program under way.

That reform program is, in my view, of vital importance not only for Poland, but as an illustration to all of Eastern Europe and the

Soviet Union of what moving to a market economy means. And I was extremely gratified to hear just yesterday that the official Soviet information agency quoted the leading economic advisors to Gorbachev as now pointing to the Polish model as an appropriate strategy of radical reform to create a market economy.

The stakes here are very, very high for us. And we are talking about very small percentages of our income. And while, of course, you are enmeshed in very real and difficult budgetary considerations, I think that it is important for us to keep in mind the scale of money that we are really talking about.

The Marshall Plan was two percent of GNP per year. At most what I just suggested is a fifth of one percent of GNP. So we are talking about something which is such a tiny fraction of the effort that we now regard as the most successful foreign policy initiative of the twentieth century and perhaps in our history as a country.

And what I am trying to stress is that it is not throwing money at countries, and I would be the last to suggest that. I have seen a lot of countries misuse money in my own experience. This should be extremely well targeted, and this should be well defined. It should be part of an international multilateral effort. It should always be conditioned on the participation of the International Monetary Fund which for better or for worse is our best watch dog of the use of these funds.

So please do not misunderstand me, Congressman. I am not minimizing your budget problems. But I am trying to stress that at the margin we have some very important considerations as a country to decide. And it is my opinion, for whatever it is worth, that there are huge returns in this because of the very well-focused nature of this problem.

Mr. GEJDENSON. The gentleman's time has expired. I am sure that the gentleman recognizes that if we can achieve the democratization of Eastern Europe, that the billions of dollars that Mr. Sachs has indicated could be saved from the defense budget. If we save a couple of B-2s, it does a lot more for the security of Western Europe to have Poland as a free and prospering democracy than putting an MX rail garrison on line.

Mr. Bereuter.

Mr. BEREUTER. Thank you, Mr. Chairman.

It is a pleasure to hear this testimony on vital areas like South America and the dramatically positive events in which you have been involved in certain South American countries. I have two or three areas of questions that I would like to get to.

First, to help us with the facts on Polish debt, either as a percentage or in dollar terms, what is the amount of Polish debt to the U.S. Government approximately?

Mr. SACHS. It is approximately $2.2 billion.

Mr. BEREUTER. What would be the approximate figure to U.S. commercial banks?

Mr. SACHS. $300 million.

Mr. BEREUTER. And three-quarters is government to government debt I think you said?

Mr. SACHS. That is approximately $27 billion or $28 billion total, of which ours is about a little less than one-ninth.

Mr. BEREUTER. Of the debt to Germany, how much of that is to the German Government, the Federal Republic of Germany, and how much to commercial banks?

Mr. SACHS. Probably of the total debt—and here I am stretching, I do not have the numbers in front of me for the end of 1989—I would guess that of the total of $9 or $10 billion, that perhaps three-fourths is Government and one-fourth is commercial banks.

Mr. BEREUTER. Now, I understand that there is an issue being raised of war reparations for the Polish people. Has the Polish Government raised it with Germany, and is that an issue?

This would be a reasonable way for war reparations to be delivered in that this kind of help, sharp debt concessions or debt forgiveness, would be a significant benefit to not only the country but everybody in it, especially in light of the fact that so much of the employment, I think you said 90 percent is in parastatal organizations.

Mr. SACHS. That is right.

Mr. BEREUTER. Would that be a reasonable way of proceeding with reparations?

Mr. SACHS. Well, let me not insinuate myself too much into their diplomatic problems. But as an economist let me say that I think it would be a fantastic solution and of enormous benefit.

Mr. BEREUTER. I accept the economic point of view certainly. What kind of congressional leverage do you think we have to bring about this consideration, sharp debt concessions by German institutions and by the German Government on Polish debt, what can we do in this legislative forum in which we work?

Mr. SACHS. I think that what would be decisive is for the U.S. to be willing to participate in the effort. I think that, unfortunately for better or for worse, that it is not realistic to expect that we can press seven other countries to reduce the debt and not participate ourselves.

So, I think that what is really decisive from a congressional point of view, is the expression of the willingness to participate and the design of the way that has the minimal budgetary consequences. Now, what I mean by that is that we collect no money from Poland at all. We reschedule it every single year. Surely, then, it is already, as far as I know, not built into future revenue estimates, because the presumption is that there will not be future debt service collection.

So the question is how to signal to the Administration that Congress recognizes that this may be the single most effective way to help Poland; because I believe it is. From a macroeconomist's point of view, I would turn away all of the official new lending in return for this, because then I could rely on the private sector to bring in capital. And I would much rather do that than to have to rely on the World Bank and others, which are the only ones who will lend with this overhang of debt.

What the Administration's position is is that they say that it is very difficult because of the Congress. So the ball has been thrown in terms of their discussions with the Polish Government into Congress' court in a sense. And one has to ask if there is a wide enough recognition that this is a fundamentally effective way for us to proceed.

Mr. BEREUTER. Well, procedurally, I would say that it is much easier to address the problem of the Polish debt, the U.S. credits to Poland, than it is to deal with our Latin American debt. Because as you pointed out, most of it is government to government in the case of Poland, whereas it is just the opposite in the case of Latin American debt.

Mr. SACHS. That is right.

Mr. BEREUTER. By the way, Congressman Leach among others will give us this alternative to vote on, I think, in the next several days.

Secondly, you made the point about the need to assist with production and employment being so heavily in the hands of parastatals at the moment. Even though our current aid is addressed to the private sector, logically I suppose that makes sense.

But if, in fact, we come in and make that kind of change, why should we not be concerned about delaying privatization, the sale of those parastatals or conversion of them?

Mr. SACHS. For two reasons, Congressman. First, the Polish Government is absolutely firmly committed to the most rapid privatization possible. The last thing that they want is to keep these enterprises in public hands. I was with the vice minister in charge of privatization this weekend at a large international conference that he convened where the entire goal of the discussion and the entire day was how can we speed up this extraordinarily difficult process.

From a thousand points of view, they do not want these enterprises. But one of the greatest barriers to this process is that it is extremely difficult to privatize very sick enterprises to begin with. There is no effective way to value and sell them. That is one consideration. What consultants would do is to help spin off parts of operations to the private sector, and to help hook up with foreign firms.

They would be involved in the process of cleaning up the enterprises for privatization and also doing some of the privatization in the sense of saying that this foundry, this part of the factory, this could be sold to the following foreign partners who have a very close fit with you.

So, I do not regard it as a practical problem whatsoever, that this would slow things down. But it is a very serious and deep problem, and it is one that will come before fiscal 1991 arrives. And that is from my knowledge of what is happening at the plant level right now in Poland. There is a wave of unemployment that is already built in the coming months.

If that unemployment reaches catastrophic proportions, we are going to have a great crisis on our hands. One of the things that is happening is that these firms have many things which could be sold in Western Europe if the hookups can be made quickly. And that is the practical situation on the ground right now. That is the job of marketing, design specification, and financial analysis to understand that these vertically integrated combines can actually be broken up in effective ways.

And that is where market experience and market knowledge is most important. So we really have a vital interest which the Deputy Prime Minister Balterovich, who is the head of the econom-

ic strategy, has recognized and he has called upon the U.S. for help.

Mr. BEREUTER. Mr. Chairman, if I could just have thirty seconds additional for a one sentence answer.

You know of our concern about most of the money going to the private sector ultimately.

Now, if we were to take your advice here and try to provide for this direct assistance to these parastatals to move them along toward privatization and put them in shape for it, but we wanted to make sure that it comes back around to the private sector and we put a time limit for relenting on our current restriction, how long a time period to move these toward privatization do we need? What do you suggest? Eighteen months?

Mr. SACHS. I would like to say 18 months or perhaps two years. I think that the emergency really is now. So in the logic of what I am saying, it really should not be above a two year horizon.

Mr. GEJDENSON. Thank you.

Mr. Miller.

Mr. MILLER. Yes. Professor, my apologies for being over on the Floor when you gave your opening statement. And you may have covered this issue. But I got the impression from your answers to the Chairman's question that Poland has roughly a $40 billion debt, which comes to $4 billion a year interest.

Can one draw the conclusion from that that the loan programs to the earlier communist Government of Poland were a mistake, and that this shows that we should be very cautious about entering into a similar loan program at this point to the Soviet Union?

Mr. SACHS. Most assuredly. We do not want to lend into a communist system. They cannot handle the funds. The only conditions for lending to the Soviet Union would be in the context of a radical free market approach. Otherwise, from an economic point of view, the money cannot be used effectively.

There may be reasons of dire emergencies to break that rule. But we lent to Poland for investment, and so forth. A communist country cannot handle that kind of money. It was a huge mistake for them to borrow so much and a huge mistake for us to lend. And I would be the first to say that it is inopportune to give such funds to the Soviet Union based on the reforms that they have in place, and it may remain forever inopportune.

But all I wanted to do was raise the notion that given the very dramatic pace of change right now and recent statements by the key advisors to President Gorbachev that there may be a remarkable opportunity when it becomes effective to do something, and in fact an opportunity that I think could be of profound risk not to seize on if the moment comes. So I do not want to be misunderstood. I am not calling for an aid program for the Soviet Union right now.

Mr. MILLER. But basically your understanding, which I think most of us share, is that nations like Poland, and Hungary, and Czechoslovakia have moved out of that or have tried to move out of that communist economy.

Mr. SACHS. As fast as possible.

Mr. MILLER. And therefore should be eligible for the assistance that you say is not appropriate at this time to the Soviet Union.

If you were going to define for one of your classes in two or three sentences what is the distinguishing factor that makes a communist nation or a nation emerging from communism eligible for assistance, puts it in a position where it can profitably and productively use such assistance, what would the criteria be?

Mr. SACHS. I would say that the essence is what I would call creating real markets. The difference in perestroika in Poland is that perestroika is a process of decentralizing state enterprises but not creating real markets. By real markets I mean freedom of international trade, freedom of private property with strong protection and an ability to open firms to compete freely with the state sector, and in principle and as a practical lesson of history, a radical privatization of the existing state sector, because they cannot really function properly in a market environment.

When you are a manager using somebody else's money and not really representing any interest of a real owner, you do not really create a market environment. So I think that the reason for failed reforms in Poland, in Hungary, and in Yugoslavia in the last thirty years was that they thought that all you had to do was end central planning, and that you would create enough of a market environment to have a workable model.

But a market is not simply an end to central planning. That just leaves a bunch of firms out there as monopolists without competition and without knowing what to do, so they raise wages and they borrow for the benefit of the workers and the managers in the firm but not for any efficient resource allocation.

The decisive event is freedom of private ownership—complete and rigorous, opening to international trade and real competition, and a recognition that no economy can function even if a significant proportion of the major enterprises are in state hands.

Mr. MILLER. Thank you.

Mr. SACHS. But let me say also that the fact of life, however one likes it—and we hate it of course—is that these countries right now are stuck with an overwhelmingly large state sector. That is the legacy. We have to take that as a given and ask, how effectively do you make the transition as rapidly as possible to private ownership? And that is what Poland is trying to do.

Congressman, it would be another long seminar, but I can tell you that there are arduous intellectual, and practical, and political complications through this process of privatization which means that it will take time to create the private market economy that I know that they desperately want.

Mr. GEJDENSON. Would you do joint ventures in China aside from political considerations of Tiananmen Square and do what the Government has recently done, but from a purely economic view? If you were a private company, would you try a joint venture in China, and if you were the Government would you then give them an OPIC guarantee, our Government?

Mr. SACHS. I think that one could probably find niches in this economy, but I think that the same rule applies. China faced macroeconomic instability in part because the decentralization process did not really solve many of the fundamental problems.

What you found throughout Eastern Europe, and China, and the Soviet Union, is decentralization per se could help in agriculture,

and you can do a lot, but when you get to industry, what you end up with when you decentralize is a financial crisis and high inflation and instability. Because you are not really going the whole way to creating a market economy.

And China faced that level of financial instability also, and that makes it very dangerous to do business, and it makes it dangerous for us to make guarantees.

Mr. GEJDENSON. Would you provide tied aid for American manufacturers selling products into either China or the Soviet Union in competition with our other free and democratic governments? So, if we are looking for equipment that is being sold, whether they are state run institutions or new joint ventures in these countries, would you provide the tied aid, which is really a subsidy but does benefit American workers and American manufacturers? Would you be opposed to those kinds of programs?

Mr. SACHS. Well, I think that when you are dealing with scarce resources that you want to use them in the most effective places. So you would like to go to those economies that are most decisively undertaking the reforms. Giving aid and making cheap loans and so forth is dangerous. That is how you end up with a lot of bad debt. So we do not want to do that. We do not want to do that as we did earlier and as other countries have done. Just because other countries throw away their money is not an argument for us to do so also.

But, again, I think that you have to look carefully as well at the economic reform process and the nature of these reforms. It is a fact that none of these countries will become a market economy overnight. And so if one just too mechanically applies some considerations, that this has a 90 percent state sector, that would be wrong as well. One has to look at the reforms that are being undertaken, the scope of the reforms, and the direction of change, and the plans for creating a private economy.

Mr. GEJDENSON. How do we get these countries who have gone through tremendous economic upheaval to use some of the scarce resources for needed environmental changes? I mean, if I am a factory manager and you have just privatized my factory in Hungary, Poland, and Czechoslovakia, and I have a choice between a new digitally controlled machine to process my equipment or spend the same amount of money to take the acid out of the pollutant that is presently going into the river nearby. That is a very tough choice when our economy is sinking.

Mr. SACHS. Well, of course it is, and we face those problems ourselves all of the time in much more stable and happy circumstances. I think that the expenditures for environmental control, are infrastructure investments for governments. And that is where you come back to the debt problem. When a government is financially bankrupt, it cannot do that kind of investment. It can hardly do any investment.

One of the first steps of ending the hyperinflation in Poland was a very radical cutback in all investment spending. So if one is to finance this, you have to get the public budget in adequate shape. And, again, I turn back to debt relief. I would also think that that kind of spending is appropriate for regional financing and is an ap-

propriate role for the European Bank for Reconstruction and Development.

Mr. GEJDENSON. Let me yield to Mr. Bereuter.

Mr. BEREUTER. Thank you, Mr. Chairman.

This goes to the matter of moving toward a convertible currency and I understand that you discussed that to some extent. I think that is a very tricky issue. We provided pork bellies to Poland as part of our food assistance aid. It is my understanding that there was sufficient pork on the farm, but that there were problems in moving it to the market. The Polish farmers basically were holding it off the market because they had no confidence in the currency. And furthermore, there was nothing to buy that they need with the currency once they get it.

Is there something that the Polish Government can do, or can create, to take some asset to give the farm sector a share in it? What is needed is to somehow give some confidence to the Polish farm sector that when they sell things on the market that they are going to have something of value that they can eventually spend.

I raise this because it is particularly important in Poland, because uniquely most of their land is in private farming hands at this point. I think that it is over seventy percent, and some people even say 80 percent.

How can this be handled?

Mr. SACHS. I think that the Polish Government has done it. It created a convertible currency on January 1st.

Mr. BEREUTER. Is it working?

Mr. SACHS. It is working. I said at the beginning that the $200 million appropriated by Congress toward the stabilization fund I think is about the $200 million best spent in a long while. Because it was leveraged into a fund which in turn gave back into the currency enough confidence both for the authorities and for the public to go ahead with convertibility, and the money has not even been touched yet. That is the beauty of it. It is just like a reserve to provide for dollars, but in fact, what has happened is that the Polish public has converted their dollars back into local currency since the beginning of the year.

Mr. BEREUTER. Can you go back to the impact on the farmer, is it now moving the product to the marketplace?

Mr. SACHS. There are no food shortages anymore in Poland. There are many deep crises with the farm sector, because they face huge changes in relative prices. With the end of subsidies, tractor prices soared. The price of fertilizer and other inputs soared. So it is actually a very sore political point right now. And credit is very tight because of the financial squeeze. So it is not a happy situation on the farms.

But there is food in the stores, and the farmers are delivering the food. In fact, a private market in food has sprung up totally bypassing the monopolistic state sector. And the currency is as good as dollars right now in the sense that from January 1st until this date, the exchange rate has been absolutely constant, and you can buy and sell dollars freely with no questions asked at a single official convertible exchange rate.

Mr. BEREUTER. Thank you very much.

Mr. GEJDENSON. Thank you, Mr. Sachs. As always you were a great help to the committee in trying to figure out what is going on. We appreciate your time and efforts here and elsewhere, and we hope to see you again. Thank you very much.

Mr. SACHS. Thank you very much for the opportunity.

Mr. GEJDENSON. It is now a privilege for the subcommittee to have the Majority Leader of the House, the Honorable Richard Gephardt address the subcommittee. The Majority Leader has a tight schedule, and we will try to get you out of here by 3:30 or shortly thereafter.

STATEMENT OF HON. RICHARD A. GEPHARDT, A MEMBER IN CONGRESS FROM THE STATE OF MISSOURI, AND MAJORITY LEADER

Mr. GEPHARDT. Thank you, Mr. Chairman. I appreciate the opportunity to testify before this subcommittee on the opportunities for U.S. trade and investment in Eastern Europe. Under your leadership and under the leadership of the Members of this subcommittee, you have taken a lead role in interpreting events in Europe for the American people and adapting our laws to prepare us to compete in the global marketplace of the 1990s.

No task in my view could be more important. I think that is self-evident that the people of Eastern Europe have much to gain from freedom and democracy. I think that what is less obvious, but no less important, is the economic gains that Americans can achieve in terms of new markets for our exports, thousands of good jobs, and billions in defense savings.

A great competition for the free markets now emerging in Eastern Europe has begun. In that competition, American jobs and exports are already on the line. Consumers in Eastern Europe, 140 million strong with a trillion in domestic product, want to buy American cars, clothes and computers, but first they must be set firmly on the road to economic success.

If Americans are not with them on that journey, they will naturally look to the European Community and to Japan. And those nations and not ours will take the advantages home. I am deeply concerned that American is not taking full advantage of the opportunities that are emerging.

For example, in Czechoslovakia, it is reported that not a single U.S. investor is participating in the 40 new foreign investments put together since the communists' fall. Every day there are new reports of lost contracts for American high tech exporters due to outdated security restrictions, a conservative estimate of lost exports is $9 billion a year and 200,000 jobs.

And now the Administration is threatening to keep us out of the new European Bank for Reconstruction and Development, potentially locking us out of billions of dollars of new exports and technical aid financed by that body, because it does not want the Bank to support private sector projects in the Soviet Union. It is a brand new world. And unless we throw off old ways of thinking rooted in cold war mentality, we risk being left behind.

In a speech earlier this month, I tried to engage the Administration in a debate on U.S. foreign economic policy by outlining some

ideas for using our tools of trade and investment to advance American interests and values in Eastern Europe and the Soviet Union.

Today I would like to try again by elaborating on my proposals to assist the emerging democracies in Eastern Europe. To begin with, we must provide technical and financial aid for the new democracies in Eastern Europe, expanding on last year's landmark package for Poland and Hungary.

In these countries, we should encourage private sector development, agriculture, and environmental improvement. We should support the emergence of democratic institutions. We should extend most favored nation trade concessions to nations that meet our criteria on human rights, provide OPIC insurance guarantees for U.S. investors, and extend commercial credits under Eximbank, including perhaps tied aid to finance job creating exports. Working with other creditor nations, we should consider providing debt relief.

Mr. Chairman, I am pleased to note you, Chairman Fascell, and Chairman Hamilton are already preparing to bring forth legislation that adopts many of these measures.

I also propose two new programs. First, a Free Enterprise Corps, under which Americans with ancestors from Eastern Europe will return to those countries to invest their time, energy, and expertise to help a new generation of freedom. Second, a Freedom International Program to enrich both sides of the Atlantic through educational, cultural, and scientific exchanges on an unprecedented scale.

And then the question of, what of the Soviet Union? Here we have a market of 289 million consumers and a domestic product estimated at $2.5 trillion. For five decades we have been erecting barriers to normal economic relations between the U.S. and the USSR. We must act now to ensure that the door to that market swings open for our workers and businesses even as we work to open the door to political and social freedom there.

The Soviet Union does not want, nor does it merit, direct financial aid. But there is much of substance and symbolism that we can do to support positive change there. Waiver of Jackson-Vanik trade restrictions, conditioned strictly on continued progress on human rights and emigration, and approval of OPIC and Eximbank programs would help foster democracy and economic reform in the Soviet Union.

We should offer food aid from excess U.S. stocks under the Food for Progress provision of the 1985 Farm Act or other measures. The Food for Progress program allows the President to give food aid to any country reforming its farm policies towards private enterprise and free markets for distribution.

The program cannot and should not try to overcome all the Soviet food shortages, nor can it be allowed to supplant commercial food shipments in programs. Rather, it will show our support for forces in the Soviet Union moving towards market economies by relieving some of the short term dislocations resulting from that movement. It is a fitting and I think a proper gesture.

It is important to note that like all the incentives that I proposed that new food shipments to the Soviets would come with strings at-

tached, strings that will pull them toward freedom, democracy, and economic reform.

Mr. Chairman, a final area for reform is one where you have shown great leadership, relaxing trade restrictions on high tech exports to Eastern Europe and the Soviet Union. Without jeopardizing our national security, you are making great strides in releasing American exporters from the handcuffs made of our dated cold war vestiges. These shackles needlessly cost us billions of dollars worth of exports.

I strongly support your efforts to make our export policies consistent with those of your international competitors, to streamline and accelerate the approval process, and to account for moves toward democracy in Eastern Europe this past year. It is inconceivable to me for example that this Administration allows more high tech exports to the repressive communist regime in China than it does to the emerging democracies in Poland, Czechoslovakia, and Hungary combined.

Mr. Chairman, these measures that I propose for Eastern Europe and the Soviet Union cut across jurisdictional lines here in Congress and will require action by a number of committees. The bills through which these measures can be adopted are many and diverse, including the Support for Eastern European Democracy Act of 1990, the Export Administration Reauthorization Act, and others.

As we consider these bills, we cannot lose sight of our overall goals, peace, stability, and prosperity. Eastern Europe and the Soviet Union have a long way to go toward freedom, but their movement down that road is undeniable.

We must act now to advance democracy, pluralism, and free markets in these countries not just because it is good for them, but more importantly it is also good for us.

I appreciate the opportunity to be here.

[The prepared statement of Mr. Gephardt follows:]

Richard A. Gephardt
Testimony Before the House Foreign Affairs
Subcommittee on International Economic Policy and Trade
Chairman Sam Gejdenson
March 21, 1990

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I am deeply concerned that America is not be taking full advantage of the opportunities that are emerging. For example:

-- In Czechoslovakia, it is reported that not a single U.S. investor is participating in the 40 new foreign investments put together since the Communists' fall.

-- Every day, there are new reports of lost contracts for American high-tech exporters due to out-dated security restrictions -- a conservative estimate of lost exports is $9 billion a year and 200,000 jobs.

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It is a brand-new world, and unless we throw off old ways of thinking rooted in Cold War mentality, we risk being left behind.

In a speech earlier this month, I tried to engage the Administration in a debate on U.S. foreign economic policy by outlining some ideas for using our tools of trade and investment to advance American interests and values in Eastern Europe and the Soviet Union. Unfortunately, the Administration viewed this speech not as an invitation to a policy debate, but as a turf battle or a partisan affront. It responded not with policy ideas but with personal invectives.

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To begin with, we must provide technical and financial aid for the new democracies in Eastern Europe, expanding on last year's landmark package for Poland and Hungary.

In these countries, we should encourage private sector development, agriculture, and environmental improvement. We should support the emergence of democratic institutions. We should extend most-favored-nation trade concessions to nations that meet our criteria on human rights, provide OPIC insurance guarantees for U.S. investors, and extend commercial credits under Eximbank to finance job-creating exports. Working with other creditor nations, we should consider providing debt relief.

I am pleased to note that Chairman Fascell and Chairman Hamilton are already preparing to bring forth legislation to adopt many of these measures.

I also propose two new programs:

-- First, a Free Enterprise Corps under which Americans with ancestors from Eastern Europe will return to those countries to invest their time, energy and expertise to help a new generation to freedom.

-- Second, a Freedom International Program, to enrich both sides of the Atlantic through educational, cultural, and scientific exchanges on a unprecedented scale.

And what of the Soviet Union?

Here we have a market of 289 million consumers and a domestic product estimated at $2.5 trillion. For five decades we have been erecting barriers to normal economic relations between the United States and the Soviet Union. We must act now to ensure that the door to that market swings open for our workers and businesses, even as we work to open the door to political and social freedom there.

While I have never proposed direct financial aid to the Soviets, there is much of substance and symbolism that we can do to support positive change there. Waiver of Jackson-Vanik trade restrictions -- tied strictly to continued progress on human rights and emigration -- and approval of OPIC and Eximbank programs would help foster democracy and economic reform in the Soviet Union.

We should also offer food aid from excess U.S. stocks under the Food for Progress provision of the 1985 Farm Act or other measures. The Food for Progress program allows the President to give food aid to any country reforming its farm policies towards private enterprise and free markets for distribution.

The program cannot and should not try to overcome all the Soviet food shortages. Nor can it be allowed to supplant commercial food shipments. Rather, it will show our support for forces in the Soviet Union moving towards market economies by relieving some of the short-term dislocations resulting from that movement. It is a fitting and proper gesture.

It is important to note that, like all the incentives I have proposed, new food shipments to the Soviets would come with strings attached -- strings that will pull them toward freedom.

Mr. Chairman, a final area for reform is one where you have shown great leadership: relaxing trade restrictions on high-tech exports to Eastern Europe and the Soviet Union. Without jeopardizing our national security, you are making great strides in releasing American exporters from the hand-cuffs made of out-dated Cold War vestiges. These shackles needlessly cost American exporters billions of dollars worth of exports.

I strongly support your efforts to make our export policies consistent with those of our international competitors, to streamline and accelerate the approval process, and to account for moves toward democracy in Eastern Europe this past year.

It is inconceivable to me, for example, that this Administration allows more high-tech exports to the repressive Communist regime in China than it does to the emerging democracies in Poland, Czechoslovakia, and Hungary combined.

Mr. Chairman, the measures I propose for Eastern Europe and the Soviet Union cut across jurisdictional lines here in Congress and will require action by a number of Committees. The bills through which these measures can be adopted are many and diverse, including the "Support for East European Democracy Act of 1990", the Export Administration Re-Authorization Act, and others.

As we consider these bills, we cannot lose sight of our over-all goals -- peace, stability, and prosperity. Eastern Europe and the Soviet Union have a long way to go toward freedom, but their movement down that road is undeniable. We must act now to advance democracy, pluralism, and free markets in Eastern Europe and the Soviet Union. Not just because it is good for them. But also because it is good for us.

Mr. GEJDENSON. I thank the Majority Leader, especially for his kind words about the committee and the Chairman. I can tell you that this committee has the bipartisan support of Mr. Roth, Mr. Bereuter, and Mr. Miller as three of the leaders in helping us look at the changes needed, and particularly for the Export Administration Act. To see American companies spend as much as a year or a year and a half to get an export license while the very same product can get a license for export from one of our allies in West Germany in a handful of days puts America at a competitive disadvantage.

And I think that if there is unanimity in one area on this committee it is that we need to make sure that the process protects our national security, but also protects America's most competitive industries, so they are not hindered to the point where they cannot compete internationally.

And I would commend you for pressing these issues. And although you have apparently gotten a little heat along with the light that you have brought to the subject, it is an important subject for us to discuss. Because as a nation, unless we take advantage of these opportunities, we are going to miss the biggest and newest market available to us, and we will find a trade deficit that is not just a hundred billion plus, but many times that in the years to come, as a unified Western Europe takes advantage of the new opportunities in Eastern Europe. I thank you for coming.

Mr. GEPHARDT. Let me just say one thing in response. It is a cliche to say that these are the most important events of our lifetime, but I believe it to be the case. And I think that what we have got to have in this country now is a good discussion, debate, and dialogue on what it is important for us to do in your own self-interest, to try to shape and push these events in the right direction.

I think that everybody agrees that all that has happened is positive for us, for them, and for the world. There is less agreement on exactly how to do this. And there can be legitimate disagreement about how to do it, and I well understand and accept that.

But I think that we will really miss something if we do not really engage in a strong discussion of what to do. And when we can come to some agreement to galvanize our country to do it, because I think that we will never get these opportunities again.

Finally, if you just look at the trade deficient and where it has existed, three years ago we passed a trade bill and we devalued our currency by fifty percent in order to try to bring the trade deficit down. At the time we had a huge deficit with both Europe and Japan. Today we have a surplus with Europe, and we still have the same deficit with Japan. Which simply leads you to understand that there is great progress that we can make and quick progress in getting access for our products to the European market.

These changes in Eastern Europe and in the Soviet Union give us the potential of significant new markets in which we can further bring that trade deficit down. And I think that that is an essential reason to try to figure out how to get this done.

Mr. GEJDENSON. You are not giving up on Japan, are you?

Mr. GEPHARDT. No, I am not, but I think that it is clear that it is going to be a hard job.

Mr. GEJDENSON. Mr. Roth.

Mr. ROTH. Thank you, Mr. Chairman.

Mr. Gephardt, I was very much interested in your remarks here this afternoon. I think that you have given us something to think about. I like your proposals, there are some good initiatives there, especially when it comes to export of high tech and so on. I think that it is fair to interpret your comments to say that there are different ways to the same conclusions and the same goal.

Does that also lead me to be correct in my interpretation that you are now saying that the President does not lack vision, that the President has his path and that he may be right in his path too?

Mr. GEPHARDT. Toby, what I tried to say in the speech and what I believe is that the President has not done everything wrong with regard to Eastern Europe or what has happened on the Soviet Union. I have said in the speech and I have said many times since that many of his policies with regard to Eastern Europe and the Soviet Union have been positive and have been skillful in the way that he has brought them about.

What I see lacking in his vision or in his policies is adequate explanation to the American people and interpretation of what these events mean, what the consequences of these events are, and what we should be doing about them in order to help shape them in the right direction.

I suggested in the speech a number of areas where I think that we can be more ambitious and more far reaching in what we are trying to do. But in order to do that, only the President has the ability because he is the only person who is elected by all of the people has the national microphone in order get these ideas across to the American people.

I am not suggesting a Marshall Plan of 1990. The happy news is that these countries are not in the same shape that the Western European countries were in in 1947. But I think that Harry Truman, at the time, was able even in the face of deep opposition to this kind of a program to get the American people to understand why it was in our deep self-interest to do it.

I also said in my speech that if the President would do this that the Congress in a bipartisan fashion would reach out and would follow. And I gave the speech in the sense of constructive criticism, because I believe that we have got to do these things now. I do not believe that we can wait three years to do them.

Some of it he has done. I would like for him to be more ambitious and have more of a bold vision for the American people about what can be done. And I wish that he would do that, and if he would we would be there to support it.

Mr. ROTH. Because you speak for the opposition and so eloquently, I think that it is incumbent on me to ask you, could you cite two or three concrete examples where you think that the President should take initiative where he has not taken initiative?

Mr. GEPHARDT. Well, as I set out here, I think that, first of all, that we have got to deal with the problem of getting more of our people over there and more of their people here. I think that there ought to be a dramatic increase in the exchange programs between

our country and Eastern European countries and the Soviet Union. When I say dramatic, I mean dramatic.

From being there, and probably you have talked to people over there, or have talked to people here from there, the thing that they need most and want most from us is knowledge, information and expertise. We, as a nation, have more people who know more about democracy and more about private enterprise than any country in the world.

Here we are on the threshold of winning this argument with the Soviets and with the Eastern Europeans. We should not be shy. We ought to be bold in carrying that argument, in educating people, and in giving them the information that they need to be able to move to a private enterprise economy with all of the economic reforms that come with it.

So exchanges, a capitalist corps, and a private enterprise corps of a nation nature, getting teachers and business people over there for extended periods of time, many of them on their own time. We are not talking about huge Federal dollars here.

I think that there are thousands of Americans who have made oodles of money who are looking for a new challenge in their life, who, if organized properly and motivated properly would go there and be part of giving people necessary information to get them through this complicated long difficult transition that they are going to have to go through from an oppressive communist economy to a free market economy.

Mr. ROTH. Thank you very much. The Chairman informs me that my time is up. I appreciate your answers. Thank you.

Mr. GEJDENSON. Mr. Bereuter.

Mr. BEREUTER. Thank you, Mr. Chairman.

Mr. Majority Leader, we appreciate your testimony very much. I am interested in making this legislation that is before us work in a bipartisan fashion. I have three points to cover.

I am also in favor of extending Export-Import Bank commercial credits. In the legislation that is being crafted I am seeking to extend that opportunity to Czechoslovakia in addition to Poland and Hungary and other countries that the President chooses in the Eastern European area including Yugoslavia. Presently the draft legislation does not include Ex-Im.

I happen to serve on the Banking subcommittee that has authorization. I have asked Secretary Baker if he would welcome that addition to our legislation, and he said that, yes, he would welcome Ex-Im. There is a jurisdictional question that you mentioned a few minutes ago.

You are the perfect man for me to say that if you would pass the word to Chairman Gonzalez and Fauntroy that they could do this without the loss of jurisdiction, then my way is paved to add Ex-Im to OPIC, and to TD. Then we have the full package to work with our commercial business interests. So if you could do that, I would appreciate it very much.

Mr. GEPHARDT. I appreciate that suggestion.

Mr. BEREUTER. Thank you.

Second, the Free Enterprise Corps that you mentioned strikes me as a very good idea. I resurrected the farmer-to-farmer programs about four or five years ago, which had languished unimplemented

since 1954. That is strictly a volunteer effort. As you know, we are extending it to Poland today. I probably represent more Czech Americans than any members of Congress, and I am convinced that I have many constituents with a wide variety of vocational skills who would like to contribute. I am interested in helping you to pursue this.

I do hope that we could make it strictly a volunteer effort and we pay transportation. I think that volunteerism is alive and we should not understimate it. That was the approach that I insisted on with the farmer-to-farmer program.

Third, a question really. You made some reference to the European Bank for Reconstruction and Development which is just now being created, and there is controversy about whether or not it should extend credit to the Soviet Union. There is a compromise, apparently being discussed which would limit the Soviet Union's involvement to the percentage of their direct payment into the EBRD.

Does that strike you as a reasonable compromise, or do you have anything to say about where we might find a prudent level of Soviet involvement in the EBRD, if not now then eventually?

Mr. GEPHARDT. I would think that it would be useful to go beyond that, because I do not understand the Bank well enough. I do not know if holding at that amount is going to be particularly useful to the Soviets. Because unless I am missing something, they would be getting no more in loans than they would be putting in. Now maybe there is a leverage factor here that I am not seeing.

Mr. BEREUTER. It would be the leverage factor. If they put five or six percent in, five or six percent of the total loans going out, the leveraging of the commercial bank going with it just as we do with the World Bank or the Inter-American Development Bank.

Mr. GEPHARDT. If that is a reasonable approach, I have no objection to it. I do think that we should try as best as we can, and I know that it is more difficult than a bank where we have other participants and we are one vote, and as I get it our participation is not going to be so great so we are not going to be in the kind of position where we are usually in with these banks, but we should try to tie loans and capital contributions to reform in the Soviet Union.

In my own view, the price reform is the most important reform that they need to adopt. And I would hope that we could get them to do that. And I would hope that we could use loan vehicles to do that. And I would be in favor of going beyond the amount that they put in even given the leverage if I believed that we could get them to make these economic reforms.

I think that the longer that they do this incrementally and slowly that the tougher it is going to be, and the more complicated it is going to be, and the less successful that it is going to be.

Mr. BEREUTER. I share your interest and concern in having the conditionality as a part of the participation. I think that the IMF is in a good position to fit with the EBRD to accomplish that.

Mr. GEPHARDT. Yes.

Mr. BEREUTER. I thank you, and I thank you for your comments.

Mr. GEJDENSON. Thank you.

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I again thank the majority leader for taking this time to come down and speak out on this important issue.

Mr. GEPHARDT. Thank you very much.

Mr. GEJDENSON. Our next panel is Eugene Theroux, a partner at Baker & McKenzie; Kempton Jenkins, vice president of ARMCO, representing the National Association of Manufacturers; William T. Archey, vice president of International Division, U.S. Chamber of Commerce; and Frank Kittredge, president, National Foreign Trade Council.

Your statements will be placed in the record, and we would be happy if you gentlemen would proceed at your leisure. We will just go down the row and start with Mr. Theroux.

STATEMENT OF EUGENE THEROUX, PARTNER, BAKER & MCKENZIE

Mr. THEROUX. Thank you, Mr. Chairman, and good afternoon. My name is Eugene Theroux, and I am a lawyer and a partner in the law firm of Baker & McKenzie. And I also serve as co-chair of the Committee on Soviet and Eastern European Law of the American Bar Association. Today I am speaking solely in my individual capacity.

I appreciate the opportunity to appear before the committee today, and to take part in your consideration of amendments to the Support for Eastern European Democracy Act of 1989. And I am submitting a prepared statement for the record of these hearings, and I will only briefly summarize here the points contained in that statement. Since I am appearing on rather short notice, I hope that it might be possible for me to supplement my oral and written testimony with a later submission for the record.

Briefly by way of background, my law firm Baker & McKenzie is the largest law firm in the world. We have 1,500 lawyers in 49 cities throughout the world. And most of my 20 years of practice has been devoted to private international transactions and litigation. Most of that time has been concentrated on the People's Republic of China, where in the aggregate I have lived for five years.

In the last few years, roughly coincidentally with Mikhail Gorbachev's five years at the helm in Moscow, I have been involved in transactions involving the Soviet Union, and I have been involved with opening our firm's offices in Moscow, and before that in Beijing and Shanghai. Our firm has had a Budapest office for two years, and we opened an office in East Berlin last month.

The transformation of China over the nearly eighteen years since I have been going back and forth there since 1972 has been astonishing. And no one could have predicted in 1972 the extent to which China would open itself to foreign trade and investment, or to the high degree of American business which has become part of that process.

And I know, Mr. Chairman, that China is not our subject today and I mention it simply by way of contrasting the amazing transformation of China to the even more staggering and rapid change that we find today in Eastern Europe and the Soviet Union.

Unlike the Chinese, the Eastern Europeans and the Soviets in effect admit that there is no voodoo economics like Marxist eco-

nomics. They are all at various stages in Eastern Europe of rejecting completely the economic theories and policies that have led them down such blind alleys.

In 1990, titanic and peaceful change on the Eastern European continent presents American business with challenge and opportunity unknown in modern history. I agree with what Majority Leader Gephardt said a moment ago about that.

The once forbidding Soviet Bloc, the bastion of Marxism and Leninism, the enemy of transnational business, and foe of capitalism is crumbling and with revolutionary speed. The Soviet Union and each of its former satellites in its own way if confessing the failure of socialism. Each is becoming a distinct and compelling magnet for foreign trade and investment, and each is turned westward for inspiration and assistance.

The struggles for change in these transforming economies are modeled essentially on the American experiment of political pluralism, economic justice and free enterprise. There is no historical precedent or guide for the rapid restructuring of these command economies toward privatization. It will surely be an uncertain road for the countries concerned and also for the private businesses that venture to participate there. But each of these economies beckons American business and a great many American firms have already responded to that invitation.

All this is simply to say that from the standpoint of U.S. business as for U.S. foreign policy, the opportunities are real, they are unprecedented, and we can now only grope for ways in which to contribute to and participate in the process.

I support the amendments contained in the SEED II draft bill, and I have a couple of short specific points to address. First, not mentioned in my prepared statement, I think the committee should note and perhaps be interested in the phenomenon that I am discovering in my own law practice as it involves the Soviet Union, and which in some ways is directly related to the SEED Act legislation.

Some clients of ours which have been devoting themselves to pursuing projects in the USSR are putting the Soviet Union on hold as they discover for example that the nonconvertible currency problems that vex them in Moscow may be ameliorated in Warsaw, or in Budapest, or in Prague, or elsewhere that SEED II might lead them. To be sure this is not an intended effect of the SEED legislation, and of other international lending and credits programs, but it is a real effect. I see our businesses and our clients, in some instances, essentially putting the Soviet Union on hold.

Second, I agree completely with what has been said by other witnesses today that the programs of OPIC, the Exim Bank and TDP should be extended to all of the countries of Eastern Europe which meet the stated qualifications of the SEED II draft legislation.

Third, I personally believe that the Soviet Union should be included, although admittedly the Soviet Union is a special case. Most of the legislation which inhibits trade with the Soviet Union is far out of touch with today's realities, and in my view they should be for the most part repealed altogether. And I am speaking of Jackson-Vanik, the Stevenson Amendment to the Trade Act of

1974, and of the Byrd Amendment, all of which in one way or another limit Export-Import Bank activity.

Fourth, among the biggest problems confronting would-be American investors in the Soviet Union and East Europe is the nonconvertibility of local currencies. Now press reports tell us that the Soviet Union is about to follow Poland with a drastic devaluation and economic reform. But I personally cannot say that the zloty has become so effectively convertible that the monetary reforms have solved that particular problem.

Rather than take the committee's time now, I would simply say that I have addressed in my prepared testimony one small way the problem of non-convertible currencies might be solved.

Mr. GEJDENSON. If I could interrupt you just for one second.

Mr. THEROUX. Of course.

Mr. GEJDENSON. I think you heard Jeffrey Sachs before.

Is your difference with his opinion on the Polish zloty one of degree or are you totally rejecting his assessment that it is convertible at the moment?

Mr. THEROUX. I am not rejecting his assessment that it is convertible. It is only whether or not American companies for example are interested in taking Zlotys in payment for anything.

Fifth, on the subject of law, I think that it was probably inadvertently overlooked in the draft legislation where technical training and assistance programs are provided for. I would simply suggest that law be added to those programs to be administered by the Agency for International Development.

And finally in just one concluding note, I think that as critical as the need might be for us to react very quickly to the rushing of events in Eastern Europe that we should plan to address these problems in the long run also. These countries will be evolving in our direction for a long time to come, and other federal programs should be examined very carefully for ways of fostering language programs, area studies programs, exchange programs, and other programs to enable Americans to be more effectively engaged with Eastern Europe and the Soviet Union in the coming years.

And in that regard, I was particularly interested and would wholly and completely support for example the program for the Free Enterprise Corps that Majority Leader Gephardt proposed in his earlier testimony.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Theroux follows:]

PREPARED STATEMENT OF

Eugene Theroux
Partner
Baker & McKenzie
Washington, D.C.

before the

SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND TRADE
COMMITTEE ON FOREIGN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, D.C.

March 21, 1990

My name is Eugene Theroux. I am a partner in the law firm of Baker & McKenzie, and I serve as Co-Chair of the Committee on Soviet and East European Law of the American Bar Association's Section on International Law and Practice.

Today I am appearing solely in my individual capacity and not as a spokesman for my firm or for the American Bar Association. It is an honor and privilege for me to have the opportunity to appear here today and present views concerning amendments to the Support for East European Democracy Act of 1989, to be known as the SEED II legislation.

I am appearing here on rather short notice. Consequently, I would like the permission of the Committee to supplement these remarks with a later submission for the record of these hearings.

Background

Mr. Chairman, I would first like to share briefly with the Committee the perspective for the views expressed in this testimony.

I have been practicing law for more than 20 years, all of it with the firm of Baker & McKenzie. Baker & McKenzie is unique. With more than 1500 lawyers in 38 countries, we are the largest law firm in the world. We are an Illinois partnership, founded in Chicago, but fewer than half of our lawyers are Americans, and only 8 of our 49 offices are in the United States. I think it is fair to say that we have pioneered the practice of private international law.

Our practice includes offices in socialist - to the extent that term has meaning these days - countries. We have three offices in the People's Republic of China, in Beijing, Shanghai and Guangzhou. For more than a year we have had an office in Moscow. We opened an office in East Berlin only last month. For two years we have had an office in Budapest. We expect before too long to have an office in Warsaw. Even in those countries in which we do not have an office, we are actively serving our clients, and that is particularly true of the countries of Eastern Europe. I was not surprised to learn that at least one of our lawyers will have worked on client matters in every one of the countries of East Europe this week, a fairly typical week at that.

In my case, I opened our firm's offices in Beijing, in 1980, and in Shanghai 1985, in the course of work which began in 1972 and which has taken me to China more than 150 times. I have been closely involved in the establishment of our Moscow office, and I have been involved in client projects in East Europe.

I mention the nature of our firm, and my own experiences, as a backdrop for my strong support for the purposes of the SEED legislation. To be sure, U.S. business firms are concerned first and foremost with the reasonable expectation of profit from any prospective international business project. As legal counsel to these firms we share and work toward the goal of making every project financially profitable.

Having said that, I would like to add and to emphasize that there are dividends beyond monetary rewards that come to the countries, the communities, the businesses and the individuals involved in most international projects. In the course of my practice I can honestly say that I have come to appreciate even more than the financial "bottom line" the transcending intangibles deriving from business projects in which U.S. and foreign firms cooperate.

Whether or not a particular transnational business project succeeds from a profit and loss standpoint, the process involved contributes mightily toward the ability of people and countries to work together peacefully, to devote their mutual efforts toward shared and peaceful goals. In just about every case I can think of, international business transactions have as their purpose or effect an improvement in the quality of life. Usually the effects taken by themselves are small, but they are real and they are cumulative.

Peaceful cooperation of this kind is the antithesis of military and political confrontation. Diplomacy may be the conduct of war by other means, but most private transnational business (excepting the arms trade, which in any event is

government-regulated) has nothing whatever to do with conflict. It has mainly to do with activities which devotes human and capital resources toward improving the quality of life. Activities in which new agricultural techniques, improved consumer products, advanced technologies, better industrial methods, new markets and new sources for goods, services and raw materials all are developed for the enhancement of the material needs of humankind.

There is a rush on the part of the countries of East Europe, and the Soviet Union, too, to be rid of Marxist dogmatisms which have made a quagmire of their national economies. Even in the dankest corners of the formerly sealed off Soviet Bloc, the door has been opened, eagerly and expectantly, for an introduction to what we call democracy and free enterprise. The discovery on the part of these failed economies that the profit motive is the engine that drives in the direction of broad prosperity, and that politial pluralism is an essential partner, should renew our own appreciation of what our system, even with faults, has given us. And the peaceful revolution in Eastern Europe should give confidence to the Congress in developing a SEED program designed to encourage the introduction of our methods and our values.

I have noticed that where cooperative projects are undertaken by U.S. firms with enterprises of countries made backward from the political and economic nostrums associated with Marxism-Leninism that there are especially heartening effects. I am thinking for example, Mr. Chairman, of all that we have gained - in our companies, in our schools and colleges, in our communities -- from the thousands of Chinese nationals we have had in our midst in recent years. Students, technicians here on training programs, traders visiting with buyers or suppliers, officials of US-China joint ventures conducting board meetings or other activities in this country, and the corresponding influences occurring in China where contacts have occured between our citizens and those of the PRC, all have been rewarding beyond the four cornrs of any business contract. The trends toward political and economic reform in China we have witnessed in recent years, so crudely but I believe only temporarily smothered, are the kinds of trends we can expect from the chemistry that occurs from the interaction of our respective people. Such trends have self-started start in East Europe, and we are well advised to foster them any way we can think of.

SEED II

Support for the development of democratic institutions and pluralism and promotion of a free market system in Poland and Hungary were foremost among the purposes of the Support for East European Democracy (SEED) Act of 1989. These are the worthiest

of objectives. Insofar as these goals are achieved, they contribute importantly to the cause of economic justice, propserity and peace not only in the intended beneficiary countries, but throughout the European continent, and beyond. Our own national interest is well served, too, as progress is made toward these purposes. Broadly speaking, these are sound reasons for expansion of the program along the lines of the SEED II legislation under consideration by your Committee.

The terms of the SEED II legislation under consideration make clear that it is proposed mainly to extend SEED programs beyond Poland and Hungary alone. It would provide SEED programs to all qualifying East European countries. The proposed bill adds Czechoslovakia by name, and provides for inclusion of such other countries of East Europe as are taking steps toward political pluralism, economic reform, respect for human rights and a willingness to build a friendly relationship to the United States.

Among the benefits of the Act as passed in 1989 have been that U.S. investors in Poland and Hungary are provided important incentives to expand their activities, and other U.S. companies not yet involved are provided significant incentives to become engaged there. The prospect of these incentives and programs extended to the other countries of Eastern Europe are most welcome.

There are already some more than one hundred joint ventures in Hungary in which a U.S. company is a party. A front page article in The New York Times on Saturday, March 17, contained a quotation from a U.S. businessman in Budapest who compared the situation to the California Gold Rush of 1849. U.S. business contacts are expanding equally remarkably with Poland. Czechoslovakia, even after years of the debilitating influence of the Soviet Union, remains perhaps the leading industrial country in East Europe, strategically located, comparatively free of debt, with an educated population and a skilled work force, and thus it is another important prospective location for U.S. business. President Havel's recent appearance before the Congress was itself eloquent testimony to pace and scope of the progressive change underway in his country.

The causes of peace and progress are served as Soviet Bloc countries slip the constrictions of Kremlin domination, hence only good can come from expanding SEED benefits and incentives where the countries of East Europe are concerned. I note that the definition of "eligible East European country" in the draft legislation is drafted in such a way as to permit in due course the extension of SEED programs to countries in the region - Lithuania, comes to mind - which appear poised for political independence and, I trust, U.S. recognition.

To be specific in my views insofar as SEED II is concerned, I recommend that:

1. The programs of the Overseas Private Investment Corporation (OPIC), the Trade Development Program, and the Export-Import Bank, among the other SEED programs identified in the legislation, should indeed be available for all of the countries of East Europe, including Yugoslavia.

2. OPIC, TDP, Exim Bank and the other programs identified in the draft bill should also, in my view, be extended to the Soviet Union. It may be appropriate (though it may not be necessary) for separate legislation -- perhaps a "SEED III" - to deal with the Soviet Union, a separate statute perhaps being a more efficient way of addressing the special characteristics of our relationship with the USSR. Where the Soviet Union is concerned, a number of statutory restrictions which do not apply to the countries of East Europe would require amendment or repeal.

3. With respect to the more particular provisions of the draft legislation -- and this is, incidentally, the area in which I would like the opportunity to supplement my testimony -- let me say that:

1. Congress should look for ways to enhance to the greatest degree possible the interaction between the American people and American institutions, and the people and institutions of the countries of Eastern Europe. This by no means should be taken as a proposal for substantial appropriations, or direct financial aid to these countries. We have an awesome deficit, and great unmet needs at home;

2. One of the perennial problems for U.S. firms who wish to engage in business in the evolving socialist states is the nonconvertibility of the local currency. This problem in many, many instances prevents a U.S. firm from contemplating most kinds of business, whether a sale of goods, a transfer of technology or a joint venture, because profits may not be repatriated in foreign exchange. Correspondingly, the country involved is deprived of U.S. goods, technology, services and the many benefits offered by the joint venture mode of business to the extent that it cannot compensate a would-be U.S. business partner in hard currency.

This problem will be with us for a long time to come, and there are no magical cures. I do, though, have one suggestion in this regard, and I must leave it to the legislative draftsmen to deal with how it might be written into law. It is simply this: whenever any U.S. dollar funds are transferred to a

qualifying country under the SEED or other legislation, and where such funds are to be drawn down in that country to meet local expenditures in local currency, the country concerned should be required to keep an account of funds which are converted from U.S. Dollars to local currency for expenditure within that country. Those Dollars should be held available for purchase, at auction, exclusively by U.S. firms which have accumulated local funds in their business activities in that country.

Such a system would be no hardship on the recipient, which as outlined does not need hard currency, only the Dollar equivalent for local expenditures. The system would represent no added cost to the American taxpayer. And the system would provide, at least in the limited circumstances outlined, one method for fostering business projects which are now effectively prevented because the foreign party cannot pay the U.S. company in foreign exchange, and the U.S. party cannot obtain the right to convert payments it receives into foreign exchange.

3. In the new Section 202 proposed for the Act, the provision for a technical training and assistance program should, in my view, include (at section 3(a)(1)) training in law as well as in the other skills enumerated;

4. While I can see the wisdom of providing, as the proposed bill does, that some of the AID education programs include scholarships to students from East Europe at American institutions of higher education outside the United States, my own belief is that the goals of the project will be better served to the extent that qualifying foreign students are educated at institutions within the United States. When East European students participate in college programs in this country, our own students and communities derive important benefits.

5. Other federal programs should be carefully examined for ways of utilizing them, not necessarily with major new appropriations, to foster college-level language programs, exchange programs and area-studies programs which will better equip our younger men and women to come effectively into contact with their counterparts in the countries of East Europe.

Thank you.

Mr. GEJDENSON. Thank you.
Mr. Kittredge.

STATEMENT OF FRANK KITTREDGE, PRESIDENT, NATIONAL FOREIGN TRADE COUNCIL

Mr. KITTREDGE. My name is Frank Kittredge, and I am president of the National Foreign Trade Council. Before turning to specific policy recommendations, I would like to emphasize that the National Foreign Trade Council believes strongly that there is a significant long term market for U.S. business in Eastern Europe and the Soviet Union. And in these countries, so do our competitors. And we cannot afford to cavalierly give up these markets to the Western Europeans and the Japanese.

Further, these countries want the U.S. Any number of our company executives return to the U.S. with the same story, that they want American business in their countries. With economic security becoming every bit as important as military security, the question then is what needs to be done to ensure that U.S. business can compete on an equal footing with our Eastern Europe and Japanese competitors.

First, let us consider trade facilitation programs. The Exim Bank is perhaps more important in Eastern Europe and the Soviet Union than any other part of the world. In the USSR for example, of the $16 billion of official export credits to fifteen major Western governments outstanding as of last fall, a mere $300 million was from the United States. Of the $5.8 billion that the Soviets spent on capital equipment and machinery in 1987, the U.S. share was 2.3 percent.

This may not surprise many people, but the substantial level of our competitors' activities at $16 billion and $5.8 billion respectively undoubtedly will.

In Eastern Europe we find much the same picture. At the end of 1989, the U.S. accounted for only 2.2 percent of outstanding official commitments for exports to Eastern Europe and the USSR. This compares to 15 percent for Italy, 14 percent for Japan, and more than 13 percent for Germany. Without question, the Export-Import Bank is seriously underfunded. A number of our companies have recommended at least doubling its current $500 million direct credit program. It is not such a dramatic idea if you recall that it was $5.4 billion just nine years ago.

The trade and development program has also proven to be an effective way to establish U.S. exporters in foreign markets by supporting feasibility studies and training. The issue here is not whether these programs should operate, since they certainly should, but the concern is that last year the appropriation was $32 million. Yet, for this year the Administration is requesting only $30 million. How can the U.S. expect to make an impact on these new, much larger markets, with less funding?

All of these countries will need enormous amounts of capital to make a successful transition to market-based economies. Therefore, unrestricted access to the programs of the Overseas Private Investment Corporation are extremely important to potential U.S. investors. Since the per capita income limit which normally applies

would be exceeded by most of these countries, we believe that this limit should be relaxed.

Further, an important aspect of OPIC's program is the equity interest program not currently available in Eastern Europe. This program would help smaller businesses establish a foothold, and we would recommend that this feature be extended to cover these markets.

Recognizing these points, it goes without saying that the National Foreign Trade Council strongly supports SEED II legislation extending these programs to Eastern European countries.

Considering the proposed European Bank for Reconstruction and Development, we believe that the United States should be a full participant. And we believe that the U.S. should support an appropriate level of funding to the USSR. Such lending should however be clearly conditioned on Soviet movement towards a price based free market economy and progress on security issues. Further, although U.S. budgetary constraints are obviously serious, the reported U.S. stake in the bank of about $250 million seems surprisingly low.

On the broader trade issues, we commend the Administration for extending most favored nation status to Poland, and we urge that Czechoslovakia's MFN status be made permanent. We also urge that MFN status be extended immediately to Romania without waiting for their elections to take place.

We are encouraged that negotiations with the Soviet Union are proceeding, and that President Bush has made a commitment to sign a trade agreement with the Soviet Union at the June summit meeting. The completion of this trade agreement would clear the way for the President to waive the Jackson-Vanik Amendment permitting extension to the Soviet Union of most favored nation status.

However, the one year waiver provision of the 1974 Act is inadequate for companies making business decisions for the longer term. Since President Bush is reluctant to use a three year certification, which was done in the case of Hungary, we strongly urge the Congress to repeal the Jackson-Vanik provision following implementation of the U.S.-Soviet trade agreement.

Finally, the U.S. trading relationship with the countries of Eastern Europe with the Soviet Union will benefit greatly by their ultimate accession to the general agreement on tariffs and trade, especially if the current round of multilateral trade negotiation succeeds in strengthening and broadening the GATT. In the case of the Soviet Union, we strongly urge that they be given observer status in the GATT, following the completion of the Uruguay Round.

Access to and participation in the markets of Eastern Europe and the Soviet Union should be accompanied by a recognition that these commercial relationships should not be held hostage to political controversy. We have entered a period of history in which we cannot afford to treat our economic security that lightly.

Thank you very much.

[The prepared statement of Mr. Kittredge follows:]

REMARKS OF FRANK D. KITTREDGE, PRESIDENT
NATIONAL FOREIGN TRADE COUNCIL, INC.
BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND TRADE
COMMITTEE ON FOREIGN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, D.C.

March 21, 1990

Mr. Chairman, Members of the Committee:

My name is Frank D. Kittredge, President of the National Foreign Trade Council, an association of about 500 companies involved in international trade and investment. A significant number of our member companies maintain a business presence in the Soviet Union and a good many more envision becoming active there. The NFTC has taken special interest in the developing commercial relationship between the U.S. and the U.S.S.R., and I will, therefore, place special emphasis in my comments today on that relationship.

Before turning to specific policy recommendations, I would like to emphasize that the National Foreign Trade Council believes strongly that there is a significant long-term market for U.S. business in Eastern Europe and the Soviet Union, and that it is very important that the U.S. government and the private sector work closely together as we negotiate framework agreements and establish new policies for participating in these economies. These are markets in which there will be strong competition for access and market share and our policies need to reflect that reality. The more rapidly U.S. policy can shift from our traditional military-security frame of reference to a new set of economic security policies which support trade and investment by American companies, the less chance there will be that our competitors will dominate these markets to our detrinent in the long run. Our view of many of the subjects you have identified for these hearings grows out of this perspective.

Not only do we believe that there is a significant long term market in these countries, but so do our competitors, and we cannot afford to cavalierly give up these markets to the Western Europeans or the Japanese. Further, the Eastern Europeans and the Russians want the U.S. Any number of our companies' executives return to the U.S. with the same story "they want America in their country." Products such as telecommunications, computers, power generation and construction equipment, transportation equipment, and speciality materials are just a few that are needed and are competitive. Add to these the whole range of services -- banking, insurance, accounting, and legal services and you have a formidable array of U.S. expertise.

A. Trade Facilitation Programs

The U.S. trade programs which should be able to operate in these countries -- including the Overseas Private Investment Corporation, the Trade and Development Program, and the Export-Imp Bank -- will have importan benefits to American companies trading and investing in the region. Eximbank is perhaps more important in Eastern Europe and the Soviet Union than in any other part of the world. This is because the U.S. has so much catching up to do. Presently, the U.S. is the only major Western Government which does not provide financing for its exports into the USSR. The table below shows the level of official commitments of export support for trade with the Soviets and the disadvantage at which U.S. companies operate. These commitments totalled nearly $16 billion as of last fall, with the bulk of official credit support coming from our major overseas competitors. More than two thirds of officially supported exports which amounts to more than $10.7 billion, come from Japan, Germany, France, and Italy.

CUTSTANDING OFFICIAL COMMITMENTS FOR EXPORT SUPPORT TO USSR
BY MAJOR WESTERN GOVERNMENTS
(NOMINAL DOLLAR VALUE/MILLIONS)

COUNTRY	AMOUNT	% OF TOTAL
Austria	2090.4	13.2
Belgium	27.0	.2
Canada	78.3	.5
Denmark	233.7	1.5
Finland	718.9	4.6
France	2738.2	17.3
Germany	2941.0	18.6
Italy	1737.7	11.0
Japan	3309.4	21.0
Netherlands	257.8	1.6
Portugal	39.2	.2
Sweden	119.0	.8
Switzerland	293.0	1.9
U.K.	980.4	6.2
U.S.	47.4	.3
Other	168.8	1.1
TOTAL	15780.2	100.0

The U.S. businessman who needs financing for export sales into the USSR really has no place to go, since private export financing is generally unavailable. Most U.S. banks are not interested in doing business in the Soviet Union, as shown by the fact that the U.S. share of total commerical credits amounts to less that 3 percent of the $40 billion currently outstanding. Private lenders are not interested in financing U.S. exports without an Eximbank guarantee. Furthermore, the current trend within the Soviet Union for purchasing foreign products is toward official export credit support.

Countertrade and barter are not satisfactory substitutues for conventional forms of trade finance. They are not normally economic for either the U.S. seller or the Soviet buyer and they cannot match the competitive terms of official credits. In the context of disintegrating COMECOM arrangements, it is likely that the USSR will have increasingly less to contribute to countertrade transactions.

This lack of U.S. financing shows up in Soviet trade figures. In the structure of Soviet imports from OECD countries, technology-based capital intensive machinery is a dominant component. This group of products in fact involved $5.7 billion or 29 percent of total imports in 1987. U.S. capital equipment exports customarily require Export-Import Bank support. Without that support it is not hard to understand why our share of the Soviet capital goods market in 1987 was only 2.3 percent.

In Eastern Europe we find much the same picture. According to Berne Union at the end of 1989 the U.S. accounted for only 2.2% of outstanding official commitments for exports to Eastern Europe and the USSR from major Western countries. This compares to nearly 25% for Austria, 14% for Japan, and more than 15% for West Germany. There are no outstanding official commitments in Czechoslovakia, Hungary, East Germany or Bulgaria. (see attached table)

Unquestionably, trade restrictions have kept the U.S. out of these markets, and we are now the newcomers, on the outside looking in. Our European and Far Eastern competitors have had the market pretty much to themselves. Our U.S. exporters will need a great deal of support just to achieve some semblance of a level playing field. This is particulary important as these countries transition to market economies and must replace equipment, increase productivity, and modernize facilities to be able to compete in the world economy. At the same time, anxiety among private lenders, brought about by the transition, reduces their interest in these markets.

We are convinced, however, that the Export-Import Bank is under-funded as it is, and that its resources should increase as commerical considerations become more important relative to military defense in our relations with these countries.

Likewise, the Trade and Development Program has proven to be an effective way to establish U.S. exporters in foreign markets by reducing the cost of projects by supporting feasibility studies and training. As with the Export-Import Bank, the program should be better funded and should ultimately be extended to the Soviet Union. The issue here is not whether these programs should operate -- they should -- the concern is the level of funding! Specifically, last year (FY'90) $30 million was appropriated for TDP in total with an additional $2 million added for the nascent Eastern Europe opportunity. For this year (FY'91) the Administration has requested only $30 million total -- a net decrease from last year. How can the U.S. expect to make an impact in these new, much larger markets with less funding?

All of these countries will need enormous amounts of capital to make a successful transition to market-based economies. It stands to reason, therefore, that unrestricted access to the programs of the Overseas Private Investment Corporation (risk insurance, small short-term loans, loan guarantees, etc.) is extremely important to potential U.S. investors. Since the per capita income limit which normally applies would be exceeded by most of these countries, we believe this limit should be relaxed.

Further, an important aspect of OPIC's program is the Equity Interest Program, not currently available in Eastern Europe. This program would help smaller businesses establish a foothold in these markets, and we would recommend that this feature be extended to cover Eastern Europe.

As the U.S. negotiates bilateral investment protection agreements and changes are made in the law and requirements of host countries, investment will be able to move beyond the joint venture agreements which, as in the case of the Soviet Union, have provided a major vehicle for entry. Because direct investment facilitates trade in the long run, it is very important that U.S. policy support investment.

One point is very clear, even with the expected lifting of Jackson-Vanik and the Stevenson and Byrd amendments, the U.S. cannot hope to penetrate these markets against the combined capabilities of Western Europe, the Japanese and their respective governments without substantially greater resources than Exim, OPIC and TDP now enjoy.

For all of the reasons I have mentioned, the National Foreign Trade Council supports amendments to the Support for Eastern European Democracy Act of 1989 ("SEED II") which would extend these programs to East European countries which meet the criteria of political and economic reform which the legislation enumerates.

B. The Proposed European Bank for Reconstruction and Development

We believe that the United States should be a full participant in the European Bank for Reconstruction and Development, ad we believe the U.S. should support an appropriate level of lending by the Bank to the USSR. We also believe that such lending should be clearly conditioned on Soviet movement toward a price-based, free market economy and progress on security issues. Certainly the Bank's resources should be allocated fairly among the countries of the region so that lending to the Soviet Union would not prevent appropriate lending levels to the other countries of Eastern Europe.

U.S. budgetary constraints are obviously very serious, and indeed a reduction in the U.S. budget deficit along with a reduction in world-wide interest rates is a top priority for successfully integrating Eastern Europe and the Soviet Union into the international economy. Even so, the reported U.S. stake in the capitalization of the proposed Bank of about $250 million is surprisingly low, and we believe that the U.S. attitude toward Soviet participation seems misguided. Capital lending with appropriate conditionality will be critical to Soviet economic development, and to the extent that the Soviet Union remains a major trading partner of the Eastern European countries, they will benefit indirectly from investment in the Soviet Union.

C. Most-Favored Nation Status and Negotiated Agreements

We commend the Administration for extending most-favored-nation status to Poland, and we urge that Czechoslovakia's MFN status be made permanent. We also urge that MFN status be extended immediately to Romania without waiting for their elections to take place. This would signal U.S. support for Romania's costly revolution.

We are encouraged that negotiations with the Soviet Union are proceeding and that President Bush has made a commitment to sign a trade agreement with the Soviet Union at the June summit meeting. We have recommended that this agreement address a broad range of the practical problems encountered by American companies in doing business in the Soviet Union and that it be as extensive as possible. Issues which we have hoped it would address include intellectual property protection, hard currency availability, and other currency issues, such as the right of U.S. firms to acquire and hold rubles.

The completion of a trade agreement would clear the way for the President to waive the Jackson-Vanik amendment, permitting extension to the Soviet Union of most-favored-nation status. Although extension of MFN status will not by itself dramatically increase trade between our two countries, it is fundamental to the process of normalization and, obviously, requires no allocation of official resources. Furthermore, since the Soviet Union has liberalized its emigration practices and is moving to enact a new emigration law, the way would appear to be clear for the President to waive the Jackson-Vanik provision when codification of that law becomes a fact. However, the one-year waiver provision of the 1974 Act is inadequate for companies making business decisions for the longer term. Clearly, neither U.S. business nor the Soviets want a trade agreement with a de facto one-year term.

Since President Bush is reluctant to use a three-year certification, which was done in the case of Hungary, we strongly urge the Congress to repeal the Jackson-Vanik provision following implementation of a U.S.-Soviet trade agreement. It is time to acknowledge that the Soviets have addressed the problem which originally gave rise to this measure and that influence over future Soviet behavior can be exercised on a broader plane by facilitating their integration into the world economy.

We hope that the Administration will make a strenous effort to negotiate the broadest possible trade agreement. We do also attach great importance to an investment agreement which will gain Soviet commitment to recognized international norms for the treatment of foreign investment, including repatriation of profits and the right of establishment. In addition a new tax treaty should be negotiated with the Soviets so that American investors are not overtaxed and burdened with unnecessary uncertainty relative to investors from other Western countries.

Finally the U.S. trading relationship with the countries of Eastern Europe and with the Soviet Union will benefit greatly by their ultimate accession to the General Agreement on Tariffs and Trade, especially if the current round of multilateral trade negotiations succeeds in strengthening and broadening the GATT. In the case of the Soviet Union, we strongly urge that they be given observer status in the GATT following the completion of the Uruguay Round.

Conclusion

The actions we have recommended represent beginning steps in a U.S. policy which places a top priority on the competitiveness of the U.S. in the world economy and recognizes that trade is essential to our economic strength and is, therefore, linked to our national security. Access to and participation in the markets of Eastern Europe and the Soviet Union should be accompanied by a recognition that these commercial relationships should not be held hostage to political controversy. We have entered a period of history in which we cannot afford to treat our economic security lightly.

OUTSTANDING OFFICIAL COMMITMENTS
FOR EXPORTS TO SELECTED EASTERN BLOC
COUNTRIES BY MAJOR WESTERN GOVERNMENTS
(NOMINAL DOLLAR VALUE/MILLIONS)

Provider	USSR Amt	USSR %	Bulgaria Amt	Bulgaria %	Czech. Amt	Czech. %	Dem. Republic Amt	Dem. Republic %	Hungary Amt	Hungary %	Poland Amt	Poland %	Romania Amt	Romania %	Total $ Amount	Total %
Austria	2080.4	13.2	261.8	16.6	655.4	40.0	1260.4	34.5	762.0	51.0	2671.3	43.1	15.0	2.2	7716.3	24.7
Belgium	27.0	0.2	69.9	4.4	29.0	1.6	213.4	5.8	8.5	0.6	1.6	0.0	0.6	0.1	593.0	1.9
Canada	78.3	0.5	25.3	1.6	79.0	4.3	22.7	0.6	12.9	0.9	189.4	3.0	167.6	24.0	407.6	1.3
Denmark	230.7	1.5	10.0	0.6	15.5	0.9	59.6	1.6	6.5	0.5	1.9	0.0	–	–	327.2	1.0
Finland	718.9	4.6	23.7	15.0	49.6	2.7	6.8	0.2	7.6	0.5	21.5	0.3	–	–	838.1	2.7
France	2738.2	17.4	87.8	5.6	160.4	8.8	814.3	22.3	64.3	4.3	46.7	0.7	46.6	6.9	3958.3	12.7
Germany	2942.0	18.6	206.9	13.1	389.7	21.4	–	–	346.0	23.1	245.2	4.0	23.9	3.5	4152.7	13.3
Italy	1737.7	11.0	151.0	9.6	188.8	10.4	158.0	4.3	90.7	6.1	2309.3	37.3	138.1	20.4	4773.6	15.3
Japan	3309.4	21.0	406.4	25.8	52.0	2.9	492.3	13.5	75.0	5.0	13.0	0.2	3.2	0.5	4351.3	13.9
Netherlands	257.8	1.6	29.9	1.9	16.4	0.9	64.1	1.8	29.9	2.0	1.1	0.0	–	–	399.2	1.3
Portugal	39.2	0.2	–	–	–	–	–	–	–	–	–	–	–	–	39.2	0.1
Sweden	119.0	0.8	41.3	2.6	44.3	2.4	286.4	7.8	16.1	1.1	3.1	0.1	–	–	510.2	1.6
Switzerland	230.0	1.9	145.8	9.3	54.8	3.0	164.3	4.5	45.5	3.0	18.1	0.3	–	–	676.5	2.2
U.K.	980.4	6.2	51.2	3.2	23.0	1.3	7.2	0.2	27.6	1.8	55.6	0.9	199.0	29.4	1344.0	4.3
U.S.	47.4	0.3	–	–	–		–	–	3.1	0.2	564.1	9.1	77.7	11.5	692.3	2.2
Other	168.8	1.1	65.7	4.2	24.5	1.3	104.4	2.9	..	–	55.2	0.9	4.6	0.7	423.2	1.4
Total	15780.2		1575.7		1821.7		3653.9		1494.5		6197.1		676.3		31192.7	

Source: Berne Union

The U.S. offers maximum support for exports to Eastern Bloc countries. Official U.S. support for these countries is far less than the support provided by our major trade competitors — France, Germany, Italy and Japan.

CONTACT: NILL BERRY
887-0278

Mr. GEJDENSON. Thank you.
Mr. Archey.

STATEMENT OF WILLIAM T. ARCHEY, VICE PRESIDENT, INTERNATIONAL DIVISION, U.S. CHAMBER OF COMMERCE

Mr. ARCHEY. Thank you, Mr. Chairman. I am here, Mr. Chairman, in two capacities. One is as Vice President, International, U.S. Chamber of Commerce; and also as the executive director of the Center for International Private Enterprise, an affiliate of the U.S. Chamber, in business terms a wholly owned subsidiary of the U.S. Chamber and the business part of the National Endowment for Democracy.

And I would like to not just go over all of the same ground as the two previous speakers, but also talk a little bit about our involvement in Eastern Europe and where we see SEED II going as well, and to also talk a little bit about the larger context.

I would note that the Chamber has been involved in Eastern Europe for quite some time. We have been the sponsor of four bilateral business councils with Poland, Hungary, Czechoslovakia and Romania since 1972–1973. We established those councils long before it was fashionable, in order to try to seek some normalization of trade relations with Eastern Europe.

Those councils, needless to say these days, are thriving. Indeed the Polish Council along with the U.S. Chamber will be sponsoring a luncheon this coming Friday with Prime Minister Mazowiecki at the Chamber of Commerce.

I would also note that we have recently announced the establishment at the U.S. Chamber of a consolidation of all of our programs as well as activities of our councils in a group called EETTAC, the Eastern European Trade and Technical Assistance Center, which will have two major functions. To provide technical assistance on the economic programs themselves, and number two is provide first rate information and trade leads for U.S. companies so that they can benefit from the opening of those markets.

I would like to note, Mr. Chairman, one perhaps important thing that we tend to forget. Mr. Jenkins and I had the opportunity and privilege of testifying this morning before the Senate on a similar issue. One of the things I think that the SEED II Act does anticipate and is sensitive to is that we should not in business terms be talking about the Eastern European market because I do not think that that is correct.

There is a market of individual countries, but the overall market over in Eastern Europe is not a homogeneous market. You are dealing with quite different cultural aspects, sociological aspects, and in particular you are dealing with a set of countries that are in different places on a continuum of both political and economic reform. And where they are on that continuum will also be a major factor in determining what the business opportunities will be.

So I think that the SEED II legislation does anticipate that and does provide a great deal of flexibility for those who will be administering it, and I cannot encourage you strongly enough to keep that type of flexibility in the bill, because I think that it is a very, very important element of it.

But I think that with all of the good things that are in there, and there are a number of them, the Chamber reserves the right to perhaps quibble with a few, but in general it is a very strong supporter of SEED II.

But would also like to take a little bit of an exception with what Mr. Gephardt said today in complimenting the committee and its work on export control, because I sense that where we are going on export controls is not very far. And that indeed there is not going to be significant changes over the short term. If they are over the long term, they are going to be too late.

I testified before this committee probably thirty times over a four year period when for two and a half years of those four years I was the Acting Assistant Secretary for Trade Administration in administering export controls of the United States. And I must say to you that I do not sense that there is any great sense of urgency or crisis within the executive branch, and I do not sense a hell of a lot more than that in the legislative branch, and we are going to come to greatly regret that I think sometime in the next six to eight months.

I have retained a number of my contacts both internationally within the COCOM community because I used to do a great deal of negotiating and within the executive branch. And those who I think share, Mr. Chairman, your view about where we should go with export controls are not in what I would call a happy state these days and furthermore are not optimistic about what is going to happen.

I would just like to impart to this committee some greater sense of urgency, because this is one area where the United States cannot afford to blow it. And I would essentially just like to conclude my remarks by noting that.

We talked about it this morning with Senator Biden. We are already in an era in which America's foreign policy and security interests are going to be more and more defined in economic terms. We are at a point where 84 percent of the American population feels that a country's power, prestige and influence on the world stage is more of a function of its economic vitality and technological innovativeness than it is of its military might.

I would argue that in terms of the awareness of that within the executive branch and outside of some pockets within the legislative branch that we have not confronted that reality. We have not confronted the fact that the days when we could lightly dismiss $9 billion a year of sales of high tech products that do not get made because of inefficient, unwarranted, stupid laws and regulations, and that our ability to absorb $9 billion a year in lost sales, is no more.

The era of America's sole preeminence on the economic stage is no more. We are competing in an economically interdependent world, and issues like access to the Eastern European market are no longer minor factors in terms of legislation or public policy. And yet I still sense that no one, with this committee excepted, seems to want to really make that point and emphasize it.

I would submit to you, Mr. Chairman, that in the present but certainly in the future that as we see this economic interdependence be made more manifest that it would be nice if the American

public policy process could incorporate the notion that economic relationships are also strategic relationships.

It seems very difficult in this city to get that point across. Western Europeans seem to understand that, and Japan has understood it for thirty years. It is again with great emphasis that I say to this committee that the issue of Eastern Europe in terms of economic terms is an opportunity and it is one that we should take. But it is also one of trying to help Eastern Europe that we ought to take a look at the impediments, the obstructions, and the deterrence that we put before U.S. companies in their ability to take advantage of the very legislation that you are proposing today.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Archey follows:]

STATEMENT
on
U.S. TRADE AND ASSISTANCE TO
EASTERN EUROPE AND THE SOVIET UNION
before the
SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND TRADE
of the
HOUSE COMMITTEE ON FOREIGN AFFAIRS
for the
U.S. CHAMBER OF COMMERCE
by
William T. Archey
March 21, 1990

Mr. Chairman, I am William T. Archey, Vice President - International for the U.S. Chamber of Commerce as well as Vice President and Executive Director of the Center for International Private Enterprise (CIPE), a Chamber affiliate. It is in those capacities that I am testifying today on Eastern Europe.

The Chamber has a long history of involvement in the region dating back to the early seventies when we were one of the original co-sponsors of the U.S. - U.S.S.R. Trade and Economic Council. It has continued with our sponsorship and support for four other bilateral business councils with Poland, Hungary, Czechoslovakia and Romania dating back to 1972. In short, we have been involved in the region when relations with those countries were improving and later when they were strained.

As the pace of change in Eastern Europe accelerated last year, our efforts in those countries expanded as well. Our president, Dr. Richard Lesher, visited Czechoslovakia and Hungary last October, lecturing to enterprise managers and university students on the benefits of free enterprise, market economies and democracy.

At their request, our Chief Economist has journeyed to Hungary, Bulgaria and Estonia to advise them on monetary systems and moving to convertible currencies. We also are working with the Hungarian Chamber of Commerce to assist in establishing viable chambers at the provincial and municipal levels.

Just three weeks ago, I completed a business trip to Czechoslovakia and Hungary to assess the prospects for additional Chamber and CIPE activities. Members of my CIPE staff continued the trip to Poland and Romania. I should note that CIPE's involvement in Eastern Europe is relatively recent, beginning with projects in Poland and Hungary initiated in 1989. We intend to expand our CIPE efforts significantly this year.

We believe that there is a lot that the U.S. business sector can do to foster economic reform and movement toward pluralism and democracy while simultaneously establishing beachheads in these last untapped markets in the world. To assist American business in these efforts, the Chamber recently consolidated its existing program activities in an Eastern Europe Trade and Technical Assistance Center (EETTAC).

To inaugurate the new Center and to provide U.S. business executives with the most current and authoritative information available, the Chamber is holding a two day Symposium on Doing Business in Eastern Europe and the Soviet Union on April 11 and 12 in conjunction with the U.S. Department of Commerce. Senior officials, many at the ministerial level, from the governments of seven countries in Eastern Europe will discuss

the current and prospective economic, legal and regulatory frameworks for trade and investment. They will be joined by U.S. government officials who will describe our government's efforts to promote as well as regulate U.S. commercial activities relative to the region. Finally, representatives from international lending institutions and U.S. companies who are already engaged in the area will offer practical advice on the day-to-day nuances of trade and investment in each of the seven countries covered.

Based on our past experience in dealing with these countries, as well as the Chamber's more recent familiarity with the pace of political and economic reform in each of the countries in the region, we believe that there are a lot of opportunities for American business over the long run. To be sure, there are some significant shorter-term benefits for U.S. business that will accrue from the changes taking place. For example, the continuing need to harvest, preserve and distribute foodstuffs should present significant opportunities for agribusiness and agricultural processing equipment companies. There will also be expanded opportunities in tourism, environmental management and factory automation processing controls, to name some additional areas. However, I want to emphasize that, overall, we are talking about long-term, not immediate, results and that U.S. business must be patient. I should note at this point that smaller businesses are responsible for a significant percentage of the inquiries we receive about the evolving East European business climate. Moreover, small business' international interest is not limited to Eastern Europe; 70% of the orders we received for our publication EC-1992: A Practical Guide for American Business were from small businesses.

A serious consideration of potential business opportunities in Eastern Europe and the best means to encourage such opportunities must proceed from understanding the economic reform process itself in each of the countries and U.S. government obstructions to doing business in command or nonmarket economies.

Economic Reform

Without major changes in their laws and policies, you cannot conduct business in these countries in the same way or to the same extent that is possible in a free enterprise form of economy. Let's look at the history of economic reform in these countries.

First of all, Eastern Europe is not the market -- the individual countries, each at a different stage of reform, are the markets. There is little homogeneity to these markets. All countries are at different points in the continuum of both economic and political reform. Where they are on that continuum is often the determining factor in what the business opportunities will be. Some countries do not guarantee full rights of private property. They have different laws for joint ventures and other forms of foreign investment. Progress in achieving currency convertibility differs from country to country. The countries are at different levels relative to the privatization of state enterprises.

Beyond the policy issues themselves, there remains a need for institutions that will make the policy reforms take hold. There has been no such thing as a Chamber of Commerce or similar organizations, except as extensions of the old regimes. The newly

emerging business organizations in Eastern Europe have no tradition of advocacy as we recognize it in the United States.

In addition, there are chronic capital shortages, even in their own currencies. These shortages are exacerbated by the lack of sophisticated financial mechanisms -- credit unions, modern banking institutions, secondary markets -- which are indispensible to capital-raising in advanced industrial societies.

These are just some of the surface problems that a business executive must consider. Over the longer term, there are still questions about how the fledgling entrepreneurs in Eastern Europe will organize to further their interests and economic reform with the emerging political and social orders in Eastern Europe. For example, it is important to educate not only university economics instructors and factory managers in market economics but also the press. Our experience in CIPE has taught us that getting the press corps at least to understand the basics of market economics and free enterprise is crucial to shaping and marshalling political and public pressure in support of economic reform.

A precondition for U.S. private sector initiatives in Eastern Europe, as elsewhere in the world, is to create a climate in which free enterprise can flourish. In Eastern Europe, this will require overcoming some unique obstacles.

First, two generations of Eastern Europeans has been the target of disinformation about free market, free enterprise economics. They have been educated to believe that capitalism itself is unjust, arbitrary and outdated. The antidote is nothing less than reeducation -- which both the new generation of leaders and the majority of the people of Eastern Europe accept and welcome.

In this connection I might note that during a recent trip to four East European countries that I undertook with two CIPE staff members, representatives of every organization we met with -- without exception -- stressed this need and specifically asked for help in developing and disseminating information to further this long-range process of reeducation. Those requests focused on three levels: first, basic information programs destined for the general public; second, courses designed to train people in such basic functions as accounting, banking, marketing and stock market operations; third, help in organizing and supporting so-called advocacy groups -- effective lobbies for laws that promise to liberate the productive energies of the people as well as lobbies against laws and regulations that constitute barriers to private initiative and free market operations.

Incidentally, CIPE already supports an effective advocacy group in Poland, a group that prepares legal and economic analyses to inform both government officials and the general public about economic policy matters. In Hungary, CIPE helps an association of entrepreneurs to fund 15-second TV spots promoting the role of the private entrepreneur.

In short, the need for broad educational programs is widely acknowledged across Eastern Europe. CIPE has experience in helping to meet such needs, as it has been doing in Latin America, Asia and Africa. Strengthening of these programs is clearly an important component in any program to encourage U.S. private-sector initiatives in Eastern Europe.

Another key factor in shaping economic reform and subsequent business prospects in the region is the variability among the political regimes in how fast and aggressively those regimes wish to pursue reform. For example, in Czechoslovakia our entrepreneurial counterparts assert that, when the new government is fully in place, economic reform will be more gradual than in Hungary and Poland.

So what can the United States do to further economic reform throughout Eastern Europe and the Soviet Union? The Support for Eastern Europe Democracy (SEED) Act of 1989, which focused attention on Poland and Hungary, offers an ambitious and appropriate framework for further reforms in other countries in the region. The U.S. private sector also stands ready to assist reform in Eastern Europe either through programs such as those the Chamber and CIPE have under way or on an individual company basis. I should point out that the American business community's interest in encouraging economic reform is not solely commercially motivated but is in the best tradition in this country to further democratic development as well as free enterprise.

U.S. Government Obstructions

I would be remiss if I did not point out that, while our government has made great strides in changing policies to facilitate economic reform and expand commercial activity in the countries of Eastern Europe, there are other areas inhibiting these efforts that remain. Let me enumerate.

Most Favored Nation (MFN) Status: While Poland, Hungary and Yugoslavia enjoy MFN status, application of the Jackson-Vanik provisions in the 1974 Trade Act and the slow pace of concluding bilateral trade agreements with the countries in the region have inhibited extension of MFN to the remaining countries in the area. In contrast, the European Community concluded new bilateral trade agreements with all East European countries and the Soviet Union last year and has extended MFN and trade credits, as well as investment guarantees. As a result, U.S. companies now operate at a competitive disadvantage vis-a-vis their European counterparts.

2. Export Finance: At present, the U.S. Export-Import Bank (EXIM) is doing business in only Hungary, Poland, Yugoslavia and Czechoslovakia. We applaud EXIM's moving quickly into these countries. We endorse your bill that would allow EXIM to operate in other eligible countries in Eastern Europe. However, simply authorizing EXIM to do business in Eastern Europe begs the more fundamental question of adequate funding for EXIM. Compared with similar efforts by our European and Asian competitors, simply authorizing EXIM to

operate in Eastern Europe on a small budget may end up being too little too late.

3. Investment Finance: Similarly, at present, the U.S. Overseas Private Investment Corporation (OPIC) is authorized to provide investment guarantees and financing only to U.S. investments in Hungary and Poland. It is critical that OPIC programs be extended to other countries in the region if the United States is going to be viewed as a serious investment partner in these countries. We endorse those provisions in your bill that would accomplish this.

4. Investment and Export Policy: The U.S. government needs to develop a well-defined and public policy on U.S. investment in and the transfer of technology to Eastern Europe and the Soviet Union and to ensure that all government agencies act in good faith to implement this policy. At present, there are widely differing views and responses within the Administration ranging from strong support to not-so-subtle opposition to U.S. investment and transfers of technology. This is particularly true as it relates to investment in the Soviet Union and the technology transfers associated with such investment.

5 Immigration Policy: U.S. immigration policy for admitting Soviet managers and technicians for corporate orientation and training programs warrants change. For all intents and purposes, the B-1 visa, which is the normal business visa, is denied Soviet citizens. Therefore, many American companies wishing to bring Soviet

managers to the United States for training must go through the often lengthy process of obtaining an H-3 trainee visa. Another type of visa available for Soviet managers is the L-1 intercompany transfer visa. However, for reciprocity reasons there is a quota on the number of such visas granted at any one time to Soviet managers. The net result is that many U.S. companies have been unable to bring their Soviet managers to this country due to these quota limitations. With the conclusion of more joint ventures and the resulting intercompany transfer requirements, this situation will become even more exacerbated and must be dealt with by both the U.S. and Soviet governments.

6. Export Controls: Notwithstanding the considerable public promises to the contrary, today a U.S. exporter faces the same export licensing requirements, the same lengthy license application processing delays and the same uncertainty about what exports are controlled that he did a year ago. We are encouraged by the pronouncements and commitments emanating from our government and the Coordinating Committee on Multilateral Export Controls (COCOM) to rationalize and streamline the control lists; however, our concern is that nothing has happened yet, putting U.S. companies seeking to do business in Eastern Europe at a disadvantage to our non-COCOM Asian competitors. Further, U.S. footdragging within COCOM runs the real risk of encouraging unilateral actions by individual COCOM countries, undermining both U.S. security and commercial interests in the region.

7. Imports: We should examine anew U.S. import laws and how they will be applied to the countries of Eastern Europe. In the 1974 Trade Act, Congress included a special provision, Section 406, to deal with surges of nonmarket economy imports that might disrupt the U.S. market. Congress also mandated that safeguards against market disruption be included in trade agreements with these countries. However, in reality Section 406 has never functioned as an effective remedy for injurious nonmarket economy imports. Moreover, U.S. dumping laws relative to such imports have consistently proved to be cumbersome and unpredictable. As the countries of Eastern Europe move in the direction of market economies, the Chamber believes that the time is now ripe to review these import laws with the goal of normalizing this aspect of our changing trade relationship with these countries.

Conclusion

The Chamber believes that the political and economic changes of the past twelve months offer American business real opportunities in Eastern Europe while holding out for the citizens of those countries the first hope for economic and individual rebirth in forty years, but the outcome is by no means certain. Transcending the various difficulties facing business is the very basic problem that the people in the region do not know how to run a business for profit, let alone compete in the international marketplace. This is further compounded by the fact that there are egregious misunderstandings about what free enterprise is. There have been two generations that have been told that private enterprise was evil, uncaring and inequitable. Once the

current euphoria of political change dissipates, we must be prepared to demonstrate in those countries that their decision to move from a statist society operating at the expense of the individual to a new democratic order that prizes the individual will have economic as well as political benefits. Extending the SEED Act to include other countries in Eastern Europe is an important step in that direction.

Thank you Mr. Chairman. I would be pleased to answer any questions you and the Subcommittee may have.

Mr. GEJDENSON. Thank you. I would just add one brief note to what you said. Not only is it critical to our economic security from an economic point of view and that losing those sales leaves us by the wayside, but failing to help Eastern Europe to revitalize, their economies is going to lend more insecurity to us both militarily and economically.

A week or so ago a gentleman from the Defense Department who thought that he was being really forthcoming when he was ready to decontrol machine tools to ten microns. And I called up someone in the machine tool industry and asked him when the last time was that we made ten micron machines in this country, and he said twenty years ago. And they want to sell the Czechs an analog phone wire system or wire phone system that the Czechs obviously do not want.

It is a pretty sad state of affairs. I think you are absolutely right. We are about to lose a market access to a market that is critical to our economic survival.

Mr. Jenkins.

STATEMENT OF KEMPTON JENKINS, VICE PRESIDENT, ARMCO, REPRESENTING THE NATIONAL ASSOCIATION OF MANUFACTURERS

Mr. JENKINS. Mr. Chairman, thank you very much. Being a clean-up man behind Jeff Sachs, Congressman Gephardt, and my three good friends does not leave a lot to say. But for the record, let me say that the NAM fully supports the SEED II proposals. We are very interested in the EBRD. We are particularly urging maximum participation in the EBRD. We are concerned about the balance between privatized and public sector investments. I think that Jeff Sachs talked about that very intelligently.

This morning when we were talking with the Senate, I think that it was worthwhile that we pointed out that these divisions are arbitrary and they are not clean cut. You not only have private sector investment possibility and public sector, but you have utilities. And you are talking about a spread and we definitely want to see a priority go to privatized, but we would not want to see a rigid approach which would prohibit any participation in public sector type things which Jeff was talking about.

We are also supportive of the idea of having a built-in possibility for the Soviets to participate in the bank. We recognize that the Soviet Union needs are so massive that they could swamp the resources of the bank. That just has to be managed in a prudent way. Presumably there will be a board of governors of that bank which will in fact make sure that things like that do not happen.

On Exim, Bill and I have been testifying for many years on this subject. Congressman Bereuter has heard it before. I think that it is outrageous that in the 1980s at a time when our international economic commitments were going up that we reduced the Exim Bank authority by over eighty percent, a reflection of an ideological approach by the previous Administration which I think was practically treasonous. Certainly in terms of the U.S. business community, it was extremely expensive not to mention our national interests.

I am deeply concerned about COCOM and the Export Administration Act. Ten years ago, I used to testify with Congressman Bereuter on that subject, and I cannot believe that the problem is still with us. We have all recognized for so long that it has to be changed. Let me say simply that in my judgment that if we do not streamline COCOM to meet the overall philosophical position of our allies in dealing with the COCOM process that by the end of 1990 that there will be no COCOM.

Now the most important effect of the loss of COCOM is strategic. By playing hard ball and stone walling as the Defense Department has historically done on this subject, you are not enhancing our security, but you are weakening it, and I think that that has got to be recognized.

There is gridlock within the Administration today on that subject. Bill commented on that this morning. And frankly I would like to see you and this committee go after that gridlock. It is absolutely inexcusable.

Mr. GEJDENSON. Well, you have got about a week to get us your proposals. You can send them to the subcommittee staff. We have got some already, and we plan to move forward. Because of bipartisanship, I can say that there is not a debate on this committee. And we have a problem with trade at the moment.

28,500 of the licenses to COCOM last year were to sell things to France and England, and 38 percent of all licenses were to sell to our own Western allies. And of those 28,5000, ten were rejected or ten were adjusted at some point. It is just absolutely mind boggling.

Mr. JENKINS. The tragic thing is that we have been testifying to statistics like that for ten years. Now there has been some gradual progress, but it has still left us way, way behind in the international marketplace.

I want to add, Mr. Chairman, that I fully endorse Jeff Sachs' testimony. He is not here and I can say this, that I consider him a national treasure. He is the architect of the privatization of the communist economy of Poland, and he has done a fantastic job. I think that it is extremely difficult in historic terms to argue with any of the fundamental points that he makes about debt overhang.

There is no way in the world that the United States business community can solve that problem, but there is also no way in the world that the U.S. business community can effectively operate in Poland unless that problem is solved, and I hope that it will be addressed.

I agree with Jeff also that we are looking at some very fundamental changes in the Soviet Union probably within the next 48 hours or a week and maybe it is a reflection of the fact that Gorbachev in his new position as president now really has his hands on power levers that he did not have before, but we have to watch.

And I compliment Congressman Bereuter's questions on this in the privatization area when he questioned Jeff Sachs. We have to watch the bench marks of Soviet behavior. We still have not broken through on the conventional forces agreement which is extremely difficult for me to understand.

They still have not quite bitten the bullet on price reform and labor mobility. The trade agreement is still being negotiated, and

they are negotiating tough. And finally they are still pouring millions if not billions into places like Cuba. My prediction, and you heard it here first, is that Castro will be gone by 1 January.

Mr. GEJDENSON. Which year?

Mr. JENKINS. This year 1991. I do think that the comment that was made by Jeff or I guess that it was Congressman Gephardt there are 279 million consumers in the Soviet Union, and therefore that there is a big market out there reflects a mind set which is simplistic. There are not 279 million consumers in the Soviet Union. A consumer is a person with disposable income. There are closer to zero consumers in the Soviet Union than there are 289 million.

There are a number of very painful steps that have to be taken within the Soviet Union on a government to government relationship before you can look for dramatic increases in U.S. business activity in that part of the world. As corporations, we cannot, in good faith with our shareholders, make major investments in a situation like the Soviet Union today.

I think that I would like to stop there, Mr. Chairman. I appreciate the chance. We are all very pleased to have this chance to talk to you.

[The prepared statement of Mr. Jenkins follows:]

TESTIMONY

of

KEMPTON JENKINS
Corporate Vice President, ARMCO

On Behalf of the
NATIONAL ASSOCIATION OF MANUFACTURERS

on

LEGISLATION IN SUPPORT OF EASTERN EUROPEAN DEMOCRACY

Before the
SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND TRADE
COMMITTEE ON FOREIGN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

March 21, 1990

Mr. Chairman, Members of the Subcommittee, I am Kempton Jenkins. I am Corporate Vice President of ARMCO. Throughout my business and diplomatic careers, I have been concerned with political and economic developments in Eastern Europe and the Soviet Union. I have served both as President of the U.S.-USSR Trade Council and as a U.S. Foreign Service officer in the Soviet Union. I am the chairman of the Working Group on the Soviet Union and Eastern Europe of the National Association of Manufacturers, and I am here today on behalf of the NAM.

SUPPORT FOR THE GOALS OF SEED I AND II

The National Association of Manufacturers fully supports the objectives of SEED I, the original 1989 Support for East European Democracy Act. The peoples of Eastern Europe and the Western

Democracies have strived for almost 50 years for the historic developments now culminating. We in the American business community share in the world's rejoicing over these events, and we take some measure of pride in the post-World War II policies of the United States that helped bring them about. We understand the need for the amendments that are now under consideration in SEED II, and we are grateful for the opportunity to offer our views on them.

U.S. COMPETITIVENESS KEY

My comments focus on the question of American industrial competitiveness in the rapidly shrinking global marketplace. In one sense, the relationship between American industrial competitiveness and the liberation of Eastern Europe seems marginal. The short-term potential of Soviet and East European markets for American business can be easily overstated. In another sense, the connection is profound. From the Civil War to the Cold War, the triumph of American values has been based on U.S. industrial might.

I am not suggesting that we can turn around a $100 billion-plus annual U.S. trade deficit with language in SEED II. I am suggesting that one of the goals of this legislation should be to match Eastern European development needs with American business opportunities to the greatest extent possible. I want to emphasize as the Congress implicitly did in the Omnibus Trade and Competitiveness Act of 1988, that the United States must not overlook any opportunity to advance the competitive commercial interests of the United States.

Presumably that is the meaning behind Section 5421 of the 1988 Act, which requires the Administration to submit a competitiveness impact statement along with any recommendation for legislation that could effect our competitiveness. I have not yet seen the Administration's competitiveness impact statement on SEED II. I hope there is one. Certainly this is the kind of bill the Congress must have had in mind in mandating such a requirement.

ATTITUDE ABOUT EASTERN EUROPEAN MARKET

In your letter of invitation, Mr. Chairman, you asked if I thought there were significant markets for American products and services in Eastern Europe and the Soviet Union. Of course I do. It would be both foolish and a clear defiance of the daily headlines to say otherwise. Collectively, the countries of Eastern Europe will be one of the major development projects of the 1990s, and it is essential that American firms participate in that development as suppliers - of products from telephone switching gear and airplanes to soft drink processing machinery and household containers - as investors, and yes, as customers of the new factories and firms of Eastern Europe.

Prosperity, however, is not something one should take for granted, especially in countries that are attempting to alter radically and simultaneously, both their political and their economic systems. Certainly, the mere fact of Eastern Europe's relative poverty does not ensure growth. Still, growth prospects in Eastern Europe as a whole do look better to us than they do in

other parts of the world for several reasons. The strongest of these countries have cultural traditions, industrial infrastructures, including well-established work ethics and strong educational systems, which should provide a solid base for their development. Just as important, it is clear that the richest countries -- the European Community, the United States and Japan -- are willing to make major commitments to their development. And there already is evidence that some of the world's most important corporations will invest there.

But we need to be aware of the other side of the coin too. There are already very severe demands on the world's supply of capital. In this country, the budget deficit is a constant reminder of our financial limitations. Within the European Community itself, there are countries and regions with serious development needs, which suggests some of the limitations there. Japan too faces the constraints of competing demands for its capital including the first stages of a consumer demand explosion.

Moreover Japan's lesson for the world in the post-war era is that genuine development is built more on belt tightening than on borrowing. And it is measured, not in financial quarters, but in decades.

This is not to say that we do not expect to see expansion of the consumer goods sectors of these economies. I expect we will see many examples of Western products in Poland, Hungary, Czechoslovakia, and the USSR soon. In the aggregate, though, there will be a number of constraints on the ability of the Eastern European countries to expand their imports from the West, and the competition for those sales will be fierce.

Even so, we do believe that there are significant business opportunities in Eastern Europe and the Soviet Union. As the recent NAM letter to USTR on the proposed trade agreement with the Soviet Union explained, we believe that in the foreseeable future these opportunities may be greater in Eastern Europe than in the Soviet Union. The key point here, however, is that taking full advantage of these opportunities is going to require a higher level of American business-government cooperation than we have seen in a long time. It need not be in the form of managed trade, but it certainly must involve close coordination of U.S. national policy objectives and individual commercial consideration.

EXIM, OPIC AND TDP

This brings me, Mr. Chairman, to another question in your letter of invitation: Should the Export Import Bank of the United States, the Overseas Private Investment Corporation, and AID's Trade Development Program operate in Eastern Europe and the Soviet Union? Our answer is an unequivocal, yes. Let me discuss each of these programs separately.

EximBank. Consistently over the years, American capital goods and industrial supplies, from Boeing airplanes to John Deere tractors to the kitchens in McDonald's, have made strong showings in international markets. They are the kinds of products that Eastern Europe and the Soviet Union need. They are also the kinds of products that require export finance.

Unfortunately, we have starved the Export-Import Bank in recent years. The International Economic Affairs Function, Function 150, of the budget grew approximately 22 percent in the 1980s. EximBank funding under this function, however, declined nearly 90 percent in this same period. This was a product, in my judgment, of mistaken and myopic ideological policy decisions by the then-Administration. U.S. trade competitiveness paid a sharp price for this miscalculation.

We need to beef up Exim, but that, I realize, is another issue. The question here is the sphere in which the Bank operates. Exim financing is neither a gift to foreigners nor a subsidy to selected U.S. companies. It is an instrument of U.S. commercial policy. Accordingly, we should use it wherever it can advance U.S. commercial interests, keeping in mind that our trade adversaries are fully exploiting their own similar institutions.

The National Foreign Trade Council (NFTC) has provided an excellent chart that shows how far behind the United States is in the support of exports to Eastern Europe. In 1989, the Western countries highlighted in the NFTC chart were supporting more than $31 billion in exports to the USSR and Eastern Europe with official export credits. France, Germany, and Italy together accounted for 41.3 percent of that, or 13.7 percent each on average. Japan accounted for 13.9 percent. And where was the United States? We were supporting some $629 million in exports or 2.2 percent of the total.

One has to ask, Are these countries somehow natural markets for Japan while they are but marginal markets for us? Or is it

simply that Japan understands her national commercial interests better than we do and is, therefore, more willing support them?

The Overseas Private Investment Corporation and the Trade Development Program are two other important tools for the United States in Eastern Europe. OPIC has already played an important role, for example, in providing insurance for General Electric's $150 million investment in the Tungsram light bulb factory in Hungary. We have every expectation that this joint venture will prove beneficial, not only for the two companies, but for Hungary and the United States.

Similarly, NAM has long argued that the United States should strengthen current foreign aid programs that can bear commercial fruit. AID's Trade Development Program (TDP), which supports feasibility studies and training programs, is a good example of this type of assistance. Decision makers who follow through on feasibility studies carried out by Americans and engineers trained by Americans are more likely to use American products and services than those who have received that kind of assistance from other quarters. Habits of mind and engineering assumptions are important.

In most situations, the key issue for the United States should be whether EximBank, or OPIC or TDP can help advance U.S. commercial interests. Where they can, we should put them to use.

The question of whether we want a particular foreign country or firm to benefit from these programs is at best an anachronism. In almost every specific case, the commercial objectives of the foreign buyers will be achieved, but will ours? Will we be able

to supply the factories, capital goods and consumer products associated with the development of Eastern Europe or will all of that go elsewhere?

EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

Perhaps the most important thing the U.S. government can do at this juncture is to ensure American participation in the European Bank For Reconstruction and Development, the EBRD, on the most favorable terms possible. I said earlier that Eastern Europe will be one of the major development projects in the 1990s. The NAM strongly believes that U.S. companies should be able to participate in that development under conditions that are every bit as favorable as those faced by companies from Western Europe and Japan. Clearly, the EBRD, which is likely to receive contributions in excess of $10 billion, will be a major factor in the overall process. To think that U.S. firms will get a fair chance at EBRD-funded projects if the United States is not a major participant in the EBRD is a pipe dream.

We understand that the Administration's preference is to see most of the EBRD funds channeled into Eastern Europe rather than to the Soviet Union. This is an understandable position at this point in time. Our hope is that the EBRD will judge projects primarily on their merits -- the likelihood of success and the potential contribution to the development of the country in which they occur. And, we share the Administration's desire to ensure that Western assistance be conditioned on an irreversible commitment to a market economy, a commitment which Moscow has not yet been able to make.

We also very much agree with the Administration's determination to strengthen the private sector in Poland, Hungary, Czechoslovakia and the other countries of Eastern Europe. And indeed, we have ourselves made some efforts in this direction. Two years ago, the then-chairman of the National Association of Manufacturers, Don Davis of the Stanley Works in Connecticut, developed the idea of having experienced U.S. corporate executives go to Poland to help with specific management and technical problems in that country's industrial sector. He convinced public and private representatives from the United States and Poland to back his plans, and, in October of 1989, the American executives were on the ground in Poland to launch this private sector project.

We are less confident than the Administration, however, about the degree to which one can insist on EBRD funds being channeled exclusively to private sector entities in countries in which the private sector is still very weak. The fact that some projects are bound to be in areas that, even in many Western countries, are the responsibility of government only reinforces this view.

Even if we fully agreed with the Administration on this point, however, we would still rather see the U.S. make the case for this policy as a major participant in the new bank than to see the U.S. express its disapproval from outside.

EXPORT CONTROLS

In examining the obstacles U.S. companies face in trying to do business in Eastern Europe, I would be derelict if I did not point out the difficulties caused by the U.S. export control

system. I will not go into a detailed discussion on this subject today, however, since NAM testified a month ago before this same Subcommittee on the need to change our control policies regarding trade with Eastern Europe.

SECTION 707 OF THE SUBCOMMITTEE BILL

As you know, Mr. Chairman, Section 707 of the Subcommittee's bill requires the President to submit a report to Congress within 60 days of enactment on the need for agricultural assistance in Romania and certain other Eastern European countries.

Perhaps it would make sense for the Administration to make a general assessment or a series of assessments on the development needs of Hungary, Poland, and certain other Eastern European countries over the course of the next five years. It might be useful for the Congress to underscore their value as well. As I have said, we would like to see as many matches as possible made between Eastern European development needs and U.S. business capabilities. Reports of this type could help.

EXPORT PROMOTION

We have not had a chance to assess the needs of U.S. businesses for information in and about developments in Eastern Europe. Almost certainly, those needs are not being fully met. From the information in our files, it appears that, if one counts both U.S. personnel and locally engaged nationals, the official U.S. commercial presence in Yugoslavia, Poland, Hungary, and Romania is no larger than that in Central America. In both cases

the number of Foreign Commercial Service personnel is 16. There are only two U.S. Foreign Commercial Service Officers in all of the Soviet Union.

This is an area where a lot needs to be done. It is also an area where a lot is being done. The NAM is very much in support of the efforts that Commerce Secretary Mosbacher has made to respond to rapidly changing conditions. We applaud the creation of the Eastern European Business Information Center in the Department of Commerce and the addition of an added US/FCS officer in Poland. We note only that much more needs to be done. There is, within the Department of Commerce, a cadre of outstanding men and women who have decades of experience in that part of the world. I had the honor of leading their efforts in 1979 as Deputy Asstistant Secretary of East/West Trade. They should be, if I may use the term, unleashed! In fact, in my judgment, a separate bureau of East/West trade should be established in the Department at this time.

CONCLUSION

As I have said throughout Mr. Chairman, NAM's interest in the SEED II legislation relates to two goals. The first has to do with the economic and political development of the countries of Eastern Europe and the Soviet Union. The second, our special responsibility, is U.S. international competitiveness and the competitive opportunities open to American firms.

The SEED Act states that it is the policy of the United States to reintegrate the East European countries into the community of democratic nations. NAM strongly supports that

policy. We and our members wish to help in any way that we can. We are concerned not only with development per se but with the economic, political and cultural links that will be established between the Eastern European countries and the rest of the world. We do not accept the idea that those links should favor Western Europe to the exclusion of others. That is far too narrow a view in an age of instant communication world-wide and almost instant travel.

SEED I and II both recognize this, not only in their economic provisions, but in the provisions, for example, for sister city programs and for cultural and scientific exchanges.

The prospects for successful development in Eastern Europe will be that much greater if American business is a full partner and participant. So too will the prospects for an improvement in America's standing in the league tables of industrial countries. We are still on top in many areas, but we have slipped badly.

SEED II offers two opportunities: first, the opportunity to assist the countries of Eastern Europe, and second the opportunity to enhance American competitiveness. We need to make the most of both of them.

Thank you.

Attachment: NAM letter to USTR on Eastern Europe and the proposed U.S.-Soviet trade agreement.

National Association
of Manufacturers

HOWARD LEWIS, III
Vice President
International Economic Affairs

February 20, 1990

The Honorable Jules Katz
Deputy U.S. Trade Representative
Executive Office of the President
600 17th Street, N.W.
Washington, D.C. 20506

Dear Ambassador Katz:

U.S. TRADE WITH THE SOVIET UNION AND EASTERN EUROPE

1. On several occasions this past year, the National Association of Manufacturers has expressed the view of its members that the time has come to put America's trade and economic relationship with the Soviet Union on a normal footing. In the first instance, this means granting most-favored-nation trade status to the Soviet Union and its exports. NAM's president, Jerry Jasinowski, wrote to President Bush at the end of November with the recommendation that the then-upcoming Malta summit be used to move the policies of the two countries in this direction. The positive results of that meeting between President Bush and President Gorbachev exceeded our expectations, and we applaud the Administration for that success.

2. The problem now is to ensure that the processes that were set in motion at the Malta Summit are in fact brought to a successful conclusion. Chronologically, the first of these is the negotiation of a U.S.-U.S.S.R. trade agreement. USTR's Federal Register notice of January 29, 1990, confirmed that it is the Administration's desire to conclude a U.S.-Soviet trade agreement by this June and invited public comments on certain aspects of that agreement. This letter is in part a response to that notice. I say in part because it is important that NAM's comments on the prospective new agreement with the Soviet Union be understood in the larger context of developments across the face of Europe.

OVERVIEW

3. In general, the National Association of Manufacturers has opposed the use of trade and economic sanctions as political signals. That view has, if anything, grown more intense in recent years. One of the clearer messages of a decade of large trade deficits is that the United States needs to be able to export to the world as much as, if not more than, the world needs our exports. In such a setting, restrictions on American exporters are often more harmful to America than to any other country.

4. This general position notwithstanding, it is not NAM's wish to comment now on the value of the political signal that the United States sent to the Soviet Union and certain other countries in 1951 when it withdrew MFN privileges from those countries. We would

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observe, however, that if ever a political event warranted a positive signal from this country, it is the so-called "Gorbachev revolution". The reference here is to the host of recent developments that run from the dismantling of the Berlin Wall to the proposal now advancing within the Soviet Union to allow parties other than the Communist Party to compete for political power in that country, and, of course, to the dramatic increase in emigration from the Soviet Union.

5. Further, the National Association of Manufacturers recognizes that the principal goal of the agreement to be negotiated within the next few months is not preferential commercial treatment for either country in the markets of the other. Rather, it is to establish a framework for normal commercial relations between the United States and the Soviet Union. There are, therefore, serious limits to the kinds of concessions that the United States can reasonable request.

6. It is also the case, however, that the United States will grant MFN status to the Soviet Union only in the context of a bilateral trade agreement. We cannot and should not avoid the question: What does the United States need from the Soviet Union in the context of such an agreement? Indeed, trade is now so important to our own economy that we cannot afford an agreement that is not responsive to the needs of American industry. NAM's assessment of these needs is discussed below. It is of the utmost importance, however, that all concerned appreciate the commercial implications of the developments we are seeing throughout Europe and that U.S. policy be geared to advancing U.S. commercial interests in this larger sphere.

EASTERN EUROPE

7. As promising and as important as the changes in the Soviet Union may be, the NAM believes that, for the foreseeable future, commercial opportunities in Hungary, Poland, East German and other Eastern European countries will be even greater. Those countries are determined to modernize their infrastructures and to improve their standards of living. Moreover, they are going to have the help of the major democracies, from the European Community and its Member States to Japan. The United States will also contribute, though at this stage we do not know just how large the American contribution will be. What needs to be emphasized is that Eastern European countries will be buying billions of dollars worth of capital goods over the course of the next decade. Capital goods are the manufacturing strength of American. Yet this new business, which we need, will go to others if the United States does not act now:

a) to support its export industries with a strong Export Import Bank;

b) to modernize its export control system so that competitive products are not locked up in the United States and U.S. business is not locked out of major opportunities;

c) to make the kind of commitment to democracy and prosperity in Eastern Europe that we have made to peace in Western Europe and the world; and

d) to insist that the other donors, such as Japan and the European Community, provide assistance in the form of untied aid. American producers should have the same opportunities for the exports associated with that aid that European and Japanese producers have had for decades in countries that benefit from American aid.

American commercial interests will be affected to a far greater degree by the decisions the U.S. government makes on these issues than by the provisions of the proposed trade agreement with the Soviet Union.

U.S.-USSR TRADE AGREEMENT

8. U.S. trade with the Soviet Union is not large, two-way trade in 1989 was less than $5 billion, and that trade is dominated by American grain exports to the Soviet Union. We expect trade to grow, both ways. Realistically, however, we recognize that for the time being the more significant U.S. commercial activity in the Soviet Union will be in the form of new investments rather than simply increased exports. Thus, the promised investment agreement between the United States and the Soviet Union will be as important as the trade agreement.

9. NAM understands why the trade agreement is being negotiated first and accepts this procedure as appropriate under the circumstances. The experience of American manufacturers operating throughout the world, however, underscores for us the interrelationship between trade policies and investment policies. Thus, if it is possible to establish a link within the trade agreement to the expected investment agreement, this would make the former a stronger and more meaningful instrument.

10. As stated above, NAM's principal goal for the U.S.-Soviet trade agreement is that it begin to remove the existing barriers to a normal commercial relationship between the two countries. We believe that the agreement should contain or be characterized by the following elements:

a) The treatment accorded to U.S. commercial interests under the agreement should be no less favorable than those accorded to the commercial

interests of any other Western country or instrumentality, such as the EC, the Federal Republic of German, or Japan. Further its provisions should be flexible enough to ensure that this "most-favored-nation" status for the United States is preserved even if more liberal agreements between the Soviet Union and others are concluded in the future.

b) The agreement should provide for adequate and effective protection for U.S. intellectual property rights.

c) The agreement should include an effective mechanism for the resolution of disputes.

d) The agreement should also include a safeguard provision, one which allows producers in one country to obtain relief from an injurious increase of imports from the other. Briefly, the issue now addressed under Section 406 of the Trade Act of 1974 needs to be addressed in the new trade agreement with the Soviet Union.

e) In the areas of customs duties and practice, the announced intention of the Soviet Union to adopt the Harmonized System in 1991 is welcome. It is important, however, that the agreement contain understandings on other customs issues, e.g., the method of valuing imports. In this, and in other areas, the agreement should follow GATT norms to the maximum extent possible.

f) The argument should ensure that customs duties and other charges are payable in the currency of the importing country.

g) To the extent that the language in the agreement can encourage the Soviet Union to move toward convertibility, for the ruble, it should do so.

h) The agreement should provide for the repatriation of earnings in hard currencies.

i) In general, U.S. negotiators should strive to achieve an agreement that nourishes the movement within the Soviet Union towards a market-based economy.

The Hon. Jules Katz
February 20, 1990
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NAM is hopeful that these objectives can be achieved. Certainly, we are ready to help in any way that we can.

For the National Association of Manufacturers, I am,

Sincerely,

Howard Lewis III

Howard Lewis III
Vice President,
International Economic Affairs

cc: David A. Weiss
Chairman, Trade Policy
Staff Committee
Office of the U.S. Trade Representative

Carolyn Frank
Secretary, TPSC
Office of the U.S. Trade Representative

Mr. GEJDENSON. Thank you. I think that what Mr. Gephardt meant was that there are opportunities there just as there have been in China

Mr. Bereuter.

Mr. BEREUTER. Thank you, Mr. Chairman.

Gentlemen, thank you very much for your testimony. That is very supportive of the direction that the Chairman and I would like to go in almost every respect. I look forward to looking into the details of it.

Mr. Jenkins and I have a contest to see who can be more outspokenly in support of Ex-Im and I think that you passed me today, so I will wait until the next turn.

Thank you for the kind remarks. I look forward to supporting the Chairman's efforts.

I did see one thing that I thought that I should mention in your testimony, Mr. Archey. That is you say that you support the Ex-Im eligibility in the bill, the SEED 1990 bill. Unless there is a new draft, it is not in there I am sorry to tell you. That is the jurisdictional problem that I brought to the Majority Leader's attention. I see no prospect for early action in Banking Committee, where I also serve, on this legislation for a variety of political and personal situations and not an antipathy to extending Ex-Im. It is just that I would like to see it move here.

I am concerned that with the recent swing through Eastern Europe that Prime Minister Kaifu made. It seems to me that his was an almost purely mercantilistic visit. The Japanese will use tied aid I am sure very effectively in Eastern Europe. At the same time, I think that they are putting very little money into the EBRD.

Is there anything that you would like to say about that subject, about tied aid and the need to be competitive with the Japanese?

Mr. JENKINS. If I could go first. I am sure that everybody has a comment on that. My own experience in talking with the Japanese Government officials about this question is that there is a very uncertain element in their whole approach to this whole thing. I believe strongly that if the U.S. Administration would lean hard on the Japanese and stand up and take their hands and hold them up together and say we are partners in confronting this opportunity in Eastern Europe that the Japanese would move.

I agree absolutely with you that there is no way in the world that the United States which is now one of three major industrial centers in the world, and not the only one as we were in the days of the Marshal plan, should attempt to do this alone. But it is a level of high level diplomacy. I would like to see us spend equal or maybe even more time on leaning on the Japanese to step to their international economic responsibilities and a little less time in trying to make sure that we can sell baseball bats and Toys R Us which is important at the lower level, but it is really not ministerial level activity in my judgment.

Mr. BEREUTER. Thank you.

Would you like to make a comment, Mr. Archey, on that?

Mr. ARCHEY. I would just say several things about tied aid. One, the study of it by the Administration, the old regime and Exim, probably would not pass a research methods course in graduate

school. Number two, it underestimates by a minimum of fifty or probably a hundred percent the sales lost by companies by a failure to provide competitive financing.

Point number three is that it has become virtually ludicrous, the approach that two administrations in a row have taken. We are going to go back once again to OECD and we are going to negotiate upward the amount of the concessionary grants, so that tied aid financing will become more expensive.

Mr. BEREUTER. It just has not worked, has it?

Mr. ARCHEY. Well, we did that in 1987, and the numbers show that in 1988, or it might have been 1988-1989, but one year later that the Japanese had doubled their tied aid after we put it up to 35 percent, the concessionary grant portion of the foreign aid.

I mean it really is intellectually not terribly respectable, that approach. We are not terribly fond of the fact of pumping lots of money into tight aid financing. But at the same time, it is our judgment that the only way that it is going to be stopped or reduced substantially is by playing the game. Not by going back and negotiating what the percentage of the concessionary grant ought to be in OECD because our allies love to hear us talk in those terms, because then okay it is going to be 45 percent and that is going to hurt, and they go out and provide 45 percent concessionary financing and we lose another $4 billion.

So all I am saying is that something has got to give, and at least there ought to be something that is intellectually respectable and defensible in terms of the approach.

Mr. BEREUTER. One final point. I keep hearing from businessmen and from our agencies that it would be helpful to have a focal point and an expediter point in each country for American businessmen and exporters to concentrate upon and for that country's potential importers to go to. This would be more than an information function.

I understand that there are some potential business arrangements that might involve OPIC, Exim, and TDP, but yet you are dealing with three different entities. I was looking for a way to solve that problem or to try to reduce the problems.

Would it be helpful if there was a proposal to have the President designate some one person on site in each country responsible for being the contact point, would that help solve the problem, or how do we go about it?

Mr. JENKINS. It seems to me, and you know my inclinations because of my background in the Foreign Service, but it would be a great mistake to nominate a second ambassador de facto in Hungary for example. What we need rather is a designation of the existing ambassador as the many to carry this out giving him the support, and the authority, and the resources to make it work and begin to pay the kind of attention nationally in Washington for example in the inter-agency struggle so that the ambassador can be effective.

Mr. BEREUTER. So that an ambassador could be designated as the person responsible for commerce?

Mr. JENKINS. That is right. He is by definition now. What he lacks is the support in Washington where Commerce and Defense

cannot get together on the COCOM and on the Export Administration Act.

Mr. KITTREDGE. Well, he has a foreign commercial service officer in place who is supposed to do this kind of thing. And I know that Larry Eagleburger is doing the best he can to try to give those individuals good direction and more strength in what they are doing, and I think that is where it has to be—with the ambassador.

Mr. JENKINS. That is right.

Mr. BEREUTER. Why do our businessmen say that we have to deal with numerous people and we do not know how to proceed?

Mr. KITTREDGE. Because they need to develop respect in that service, and unfortunately in the past it has not been that good, and I think that our associates would say the same. And that is the place to put the emphasis.

Mr. JENKINS. The places where they have to go to many bases is in Washington. In Budapest, they go to the U.S. Embassy and that is a very small building, and everybody knows everybody else. Coordination is not the problem. Clout is the problem.

Mr. BEREUTER. Thank you, Mr. Chairman.

And thank you gentlemen. You have been very helpful.

Mr. GEJDENSON. Thank you.

I guess that what I would ask the four of you is between now and our markup that you rattle your constituencies back home. And as good a representatives, all of you are of your organizations, when the Administration comes down and says well, you are right, there may be some opportunity there, but if we free up West-West trade we could end up threatening national security, and there will be the national security advisor down here to tell members of Congress to do that.

And all of a sudden, people do not look at the specifics of what the legislation does or the massive protection that is built in through a number of powers that the President has, but they obviously want to give the President the benefit of a doubt. The only way that we can get them to read what this committee is about to do is if you, through all of the folks back home get their individual members of Congress to focus a little bit on these issues.

Because, I think, that we are going to try to reach as far as we think is possible, because clearly, I think, virtually every member of this committee agrees with the four of you. We need to do more on tied aid. I had forgotten how big Exim used to be until the 1980s. And we have had the hearings and I think that some of you have been at one of our hearings where we found out that the locomotive business moved out of the United States to Canada because they have a tied aid program.

We are basically in line with Liechtenstein when it comes to tied aid. Canada which is our neighbor to the north and a friendly country with a population less than the size of California, has a tied aid program four times the size of ours. The Japanese program is seventeen times the size of ours, but that is actually not telling the whole story, as it is actually 34 times the size of ours when you account for the fact that their economy is half our size. So they actually have a lot more to spread around in the export areas.

We are going to try to move aggressively on the Export Administration Act. We think that the present policy has hurt our national

security and it had hurt our economy. And we are going to need your help to make sure that we can succeed on this.

I thank all of you for coming today. And we are going to rely on you in the next couple of weeks to give us a hand. I thank the members of my panel for being here. We are going to leave the record open for about five days. The hearing is now adjourned.

[Whereupon, at 4:20 p.m., the subcommittee was adjourned.]

31-763 (96)