

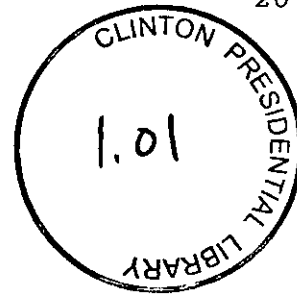
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THE WHITE HOUSE

WASHINGTON
July 5, 1993



PRESIDENTIAL REVIEW DIRECTIVE/NSC-36

MEMORANDUM FOR THE VICE PRESIDENT
 THE SECRETARY OF STATE
 THE SECRETARY OF THE TREASURY
 THE SECRETARY OF DEFENSE
 THE SECRETARY OF AGRICULTURE
 THE SECRETARY OF COMMERCE
 DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET
 UNITED STATES TRADE REPRESENTATIVE
 DIRECTOR OF CENTRAL INTELLIGENCE
 CHAIR, COUNCIL OF ECONOMIC ADVISERS
 THE CHAIRMAN, JOINT CHIEFS OF STAFF
 ADMINISTRATOR, AGENCY FOR INTERNATIONAL
 DEVELOPMENT
 ASSISTANT TO THE PRESIDENT FOR ECONOMIC POLICY
 PRESIDENT, EXPORT-IMPORT BANK

SUBJECT: U.S. Policy Toward Central and Eastern Europe (C)

OBJECTIVE

The objective of this review is to develop agreed goals and strategies to guide our policies toward Central and Eastern Europe (CEE). The SEED program continues to provide economic and technical assistance to the region, and the NACC, CSCE and bilateral military contacts have led to increasing cooperation on security issues. But the Balkan war and our increased efforts to provide large-scale assistance to Russia have distracted attention from CEE. Accordingly, our main policy initiatives and the assumptions on which they are based need to be reevaluated. These initiatives and assumptions may still be relevant. But it is time to take stock of our assistance program, trade policies, and our security relationships with the countries of CEE to determine whether this administration is doing all it can to promote and solidify the region's political and economic transformation. (C)

BACKGROUND

The U.S. has a major stake in the success of reform in CEE. The consolidation of a market-oriented, democratic zone in the center of Europe and the extension of Western values and institutions eastward are essential to building a post-Cold War Europe characterized by stability and prosperity. Western Europe's economic future and its efforts to move toward increased political integration grow increasingly tied to developments in CEE. So too does the success of reform efforts in the region, by serving as an example and by creating opportunities for increasing economic and security links between CEE and the NIS,

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promote political reform and economic recovery in the former Soviet Union. (C)

Nationalism and ethnic tensions in CEE also have important implications for U.S. objectives in Europe. As the ongoing conflict in the Balkans has shown, ethnic conflict, even if it does not directly engage the vital strategic interests of the U.S. or its European allies, poses a significant threat to European stability. Events in the Balkans also have an impact on our policies toward and interests in the Eastern Mediterranean and Middle East. Such conflicts need to be prevented or, if they erupt, contained because of the potential for large refugee flows or even a spill-over of fighting, because they challenge the efficacy and cohesion of Western security institutions, and because they hold the potential to ignite ethnic tensions in other areas of CEE and the NIS. Although not a direct product of political instability or economic duress, many of the aggressive strains of nationalism and intolerant attitudes that trigger ethnic violence propagate under conditions of social dislocation -- conditions now prevalent in much of CEE. We need to draw lessons from the Balkan conflict to help ensure that similar problems do not emerge elsewhere. (C)

The end of the Cold War and the revolutions that accompanied it have created a political vacuum in CEE. American leadership is needed to ensure that this vacuum is filled by values, economic practices and systems of governance compatible with, not hostile to, fundamental Western interests. The eastward spread of market economy and democratic government would further movement toward a united and peaceful Europe and lead to transatlantic economic relations reinvigorated by the markets of CEE and the NIS. In contrast, instability and backsliding toward authoritarian government could bring the return of a divided Europe, dash hopes of tapping new economic opportunities and undermine confidence among our West European allies and economic partners. (C)

ASSESSMENT AND POLICY OPTIONS

The transition to market-oriented democracy in much of CEE has gone remarkably well. The Czech Republic, Poland, Hungary and Estonia have made the most progress. Although political and economic hurdles remain, significant backsliding appears unlikely in these four countries. Bulgaria, Slovenia, Lithuania and Latvia have also made significant progress, but they continue to face difficulties. Slovakia and Romania have taken a more incremental approach to economic reform and political liberalization. Albania, although it has enjoyed notable success in building democratic institutions, must work with a primitive economy that lacks even basic infrastructure. In most areas of the former Yugoslavia, political and economic reform has been put on hold by the on-going fighting and UN sanctions. (C)

How is the reform process likely to evolve in the next 2-3 years? Are electorates growing weary and impatient because of the sacrifices entailed in adjustment efforts? Has reform begun to stall -- even in countries such as Poland and the Czech Republic?

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What are the macroeconomic situation and economic outlook for the region? For each country, what is the status of private sector development, financial sector restructuring and trade and capital flows? (C)

I. American Engagement in Central and Eastern Europe

Concerned that the U.S. is preoccupied with its domestic agenda and with its relationships with Western Europe and Russia, the countries of CEE seek assurance that the Clinton Administration will remain fully engaged in the region. Strong ties to the U.S. provide not only the prospect of tangible cooperation on economic and security issues, but they are also of considerable political importance. As CEE states seek new identities and bases of legitimacy, a visible U.S. presence carries great symbolic weight. (C)

How can the U.S., especially when the resources available for direct assistance are constrained, make better use of its goodwill and moral authority in the region? Should more high-level contacts be established to make clear the U.S. commitment and give states in the region a greater sense of belonging in the West? What vestiges of obsolete Cold War legislation, regulation, and administrative policy need to be removed? What other activities and contacts can we initiate in order to deepen the region's integration into and identity with the West? (C)

II. U.S. Assistance Programs

Spending Levels: Because of resource constraints, funding for SEED programs is likely to remain at an annual level of \$400 million. Unless any agency can make a compelling case for substantial increases in overall assistance levels, we must focus instead on whether we can make better use of currently available resources. (C)

Geographic Priorities: The vast majority of our assistance funding has been directed toward the Visegrad countries. Through FY '92, Poland, Hungary and the Czech and Slovak Republics received over \$5 billion in aid (including debt reduction). In contrast, Bulgaria, Romania, Albania and Yugoslavia received roughly \$430 million and the Baltics \$144 million. Does the Northern Tier, either for geopolitical reasons or because of the prospects for successful reform, deserve this priority? Should we continue to concentrate our resources in the Visegrad countries? Or should we speed up the process -- already underway -- of diverting resources to southeastern Europe, where the challenge of economic and political reform has been complicated by events in the Balkans? How can we prevent the emergence of geographic pockets of political and economic instability? Should we establish enterprise funds for the Baltics and Romania? More generally, can we devise abstract standards to determine when a country's transition to market democracy has been successful enough to warrant a diversion of assistance to more needy recipients? (C)

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Aid Strategy: The U.S. assistance program has had three main objectives: restructuring national economies, building democratic institutions and improving the quality of life. Predicated on the assumption that a healthy market economy provides a foundation for stable democracy and civil society, the largest share of our resources has been devoted to economic restructuring and private-sector development through the establishment of enterprise funds. In all countries in which enterprise funds have been created, these funds represent the largest activity in the U.S. assistance portfolio. (C)

Should economic restructuring and privatization continue to serve as the top priority of our programs or should we begin to shift resources toward other objectives? In countries such as the Czech Republic and Poland where the private sector has begun to flourish, does it make sense to think about second-generation programs that might direct more resources toward building a democratic society -- such as reforming the public sector, strengthening local government and developing social welfare initiatives? In light of the relatively low cost of initiatives aimed at strengthening democratic institutions and values, might it be possible to achieve a significant increase in our activities aimed at promoting civil society at only a marginal cost to our activities aimed at economic reform? Would such a trade-off, even if small, be justifiable? (C)

If we decide to devote more resources and energy to building democracy and civil society, what instruments would be most effective? How can we effect constitutional and parliamentary reforms needed to improve the functioning of democratic institutions? What steps can be taken to strengthen an independent media and enrich public debate? In what form and on what scale should surrogate broadcasting be continued? Can educational initiatives be used to spread participatory values and encourage civic as opposed to ethnic national identities? Should we increase educational exchanges and establish other institutions similar to the American University in Bulgaria? Should we help cultivate a legal community capable of challenging government action, defending minority populations and prosecuting violations of human rights? Especially during periods of economic duress, what can be done to dampen aggressive strains of nationalism? Should our assistance programs be more conditional -- that is, more dependent on demonstrated progress on media reform, political liberalization, and human rights? (C)

Environmental Programs: The U.S. continues to fund environmental programs as part of the CEE assistance package. These programs focus on reforming the relevant legal and regulatory codes, improving the effectiveness of public sector initiatives and helping the private sector play a larger role in environmental management. What bilateral and multilateral mechanisms have been most effective in addressing global, regional and local problems? What can be done to enhance nuclear safety? How can U.S. environmental programs be improved upon? Because of the expense of environmental cleanup, can we encourage international

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financial institutions and multilateral organizations to play a bigger role? (C)

Public/Private and U.S.-EC Coordination: A wide array of public and private actors is involved in assisting reform in CEE. A public/private partnership is a critical element of our assistance program, both because of the constraints on public funds available for foreign assistance and because private firms help nurture a new class of skilled entrepreneurs. Can this partnership be improved upon? What steps -- such as tax credits and investment guarantees in this country or legal reform and bureaucratic streamlining in the target country -- will increase private U.S. investment in and assistance to CEE? Can we do more to combine federal funds with the resources of universities, think tanks, NGO's, American ethnic groups and state and local governments? How can we promote grass-roots programs (PVO assistance, religious missions, sister cities, etc.) to complement and follow on governmental programs? (C)

International assistance to CEE is coordinated through the G-24. Is the coordination process working adequately? Can this process be improved upon without creating another unwieldy bureaucracy? How can national programs be better coordinated with the efforts of the IMF, World Bank and EBRD? Is there unnecessary overlap among national programs, the initiatives of international institutions and the efforts of the private sector? Would it make sense for the U.S. and the EC to support trans-national capital projects in the region? (C)

III. Trade

Enhancing Trade: "Trade not aid" continues to be a guiding principle for many CEE countries. The collapse of the Soviet bloc trading system and the inadequate opening of Western markets have exacerbated the economic burden associated with privatization and restructuring. The natural market for CEE lies in Western Europe, but the EC has placed restrictions on agricultural imports and on other import sectors in which CEE countries enjoy a comparative advantage. (C)

What can be done to speed the integration of CEE into the Western trading system? What steps can the U.S. take to encourage the EC to provide greater access to CEE goods? How can we balance our interests in closer EC-CEE ties with our interests in ensuring U.S. access to CEE markets? What steps can be taken to increase access to our own markets and to enhance U.S. investment in and exports to the region? What type of trade-expanding arrangements should we pursue with Central Europe? Should we devote serious attention to the notion of triangular trade -- that CEE goods and services be used in assistance programs in the former Soviet Union? How can we encourage greater economic integration within CEE? (C)

Trade Disputes: Association agreements between CEE countries and the EC have the potential to disadvantage U.S. firms -- and have already done so in Poland. Discussions with the Poles have thus

far produced few results. We also need to address outstanding disputes over intellectual property rights and to consider how U.S. trade actions under the anti-dumping and countervailing duty laws affect our overall trade relationship. What sources of pressure should be brought to bear to resolve these issues? Should we put more pressure on the EC to avoid discriminatory trade agreements with CEE and the NIS? If so, to what extent should these concerns be allowed to affect bilateral U.S.-EC trade issues? (C)

IV. Security Arrangements and Ties to the West

In the near term, the chief threat to security and stability in CEE stems from the economic and political challenges associated with domestic reform, not from the potential for inter-state aggression. Nevertheless, countries in the region share a pervasive sense of living in a "security vacuum." Such perceived vulnerability can undermine democrats and reformers while strengthening the position of demagogues and conservative nationalists. (C)

Most governments and political elites in the region want a clear security guarantee from the West, ideally through NATO membership. Our policy thus far has been to assert that NATO enlargement is a question for tomorrow, not today. In the meantime, we are seeking to broaden and deepen our security relations with the region -- bilaterally through military contacts and exchanges and multilaterally through the NACC and CSCE. (C)

In light of the potentially difficult and dangerous challenges that still lie before many CEE states, should we begin to plan now for eventual incorporation into NATO of some or all of them? Should we explicitly hold out the prospect of eventual membership? If so, should we develop criteria and timetables? What effects would such steps toward expansion have on NATO's credibility and unity, on the security environment in CEE and on Russia? (C)

How would we like to see the NACC, CSCE, other regional organizations such as Visegrad or the WEU's Forum for Cooperation and our own bilateral security relations with CEE states evolve? What concrete steps can we take to move the NACC beyond conferences and seminars to practical cooperation, especially in peacekeeping? Should we encourage the Central Europeans to strengthen the Visegrad process? What, if any, position do we want to take about CEE relations with the WEU? Should anything be done now about eventual CEE membership in the WEU? What might be the relationship between NATO and one or more regional security groupings in CEE? Can or should we enter into commitments to consult on security issues (something akin to Article IV of the NATO Charter) and, if so, with whom and in what forum and context? (C)

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Is there a trade-off between expanding bilateral military relations and giving the NACC or other multilateral fora more meaningful roles? What other cooperative initiatives will increase contact between military personnel in CEE and their Western counterparts -- and help build a shared sense of purpose and mission? What is the scope for expanding intelligence exchanges? (C)

V. Conflict Prevention/Crisis Management

The volatile mix of political, economic and demographic conditions that sparked ethnic conflict in the former Yugoslavia fortunately is not precisely replicated elsewhere in CEE. Nevertheless, dealing with ethnic tensions within existing states and coping with rising nationalist sentiments will be key challenges for U.S. policy. Perhaps, the most difficult and important set of policy issues toward the region relates to what outside governments, including the U.S., can legitimately and usefully do to ease tensions within states and keep them from turning violent. (C)

Initiatives that contribute to democracy-building and economic growth can help, including bilateral as well as multilateral economic, political and military-to-military programs. CEE governments, at least in theory, have also given regional organizations exceptional authority over how states treat their own citizens and rights of engagement in settling domestic disputes. We should address how to enhance the authority and strengthen the rights of these regional organizations. (C)

What can be done to enhance multilateral surveillance of and member-state adherence to CSCE human rights commitments? How can we develop the conflict prevention/crisis management potential of CSCE's mission of long duration? Do we want to make a regular part of Europe's political landscape third party involvement in disputes between or within states and, if so, how should we proceed? Can or should the U.S. contribute to the Council of Europe's work in democratic standard-setting and education? What measures should we develop to counter nationalist propaganda and prevent the intensification of ethnic tensions? Should the U.S. be willing to participate in preventive military deployments (e.g., during a dispute settlement procedure) as well as in peacekeeping in CEE and, if so, how should we organize and otherwise prepare for these tasks? If the U.S. does not want to participate in such operations, can or should we encourage European states to do so on their own? What would be the consequences for NATO? Should there be multilaterally-agreed standards for addressing claims of statehood? (C)

TASKING

The Assistant Secretary of State for European and Canadian Affairs will convene an Interagency Working Group, task specific drafting responsibilities and set deadlines for drafts. Differences of opinion should be clearly stated rather than compromised for the sake of an agreed product. (C)

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A final decision paper is due to the NSC Executive Secretary not later than August 13, 1993. (C)

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