

CHANGE

IN EASTERN/CENTRAL EUROPE

SOME IMPLICATIONS FOR
SOUTHERN AFRICA



SPECIAL STUDY SERIES

Edited by

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AND

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**CHANGE IN EASTERN/CENTRAL EUROPE:
SOME IMPLICATIONS FOR SOUTHERN AFRICA**

A series of papers presented by the principal speakers at the Conference organised by the South African Institute of International Affairs in association with the Centre for Southern African Studies on 15th and 16th October 1990

Edited by

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PREFACE

In its 57-year history the South African Institute of International Affairs can seldom have organised a conference of more relevance and importance than this one, held at Jan Smuts House in Johannesburg on 15 and 16 October 1990. The Conference Chairman, Gibson Thula (Deputy National Chairman of the Institute), stated in his opening remarks:

"The countries of Central and Eastern Europe and also of Southern Africa are in a period of dramatic change. In both regions we are going through a process of transformation. The circumstances in our various countries are very different, but I believe we do have common goals. We want to achieve firmly based democratic societies, with productive and equitable economic systems. We also want to find lasting ways of living in peace and co-operation with our neighbours in an increasingly interdependent world. We can all identify with these goals; the means of achieving them, however, creates the problems. In frankly facing the problems at this conference, we shall attempt to share experiences and to learn from each other."

While the Institute hosted the conference, it was planned in association with the Centre for Southern African Studies, established in 1990 at the University of the Western Cape. The Institute was very grateful for the contribution to the Conference's success of that Centre and its Co-Directors, Professors Peter Vale and Robert Davies.

The Institute was greatly indebted to the United States Information Agency for its generous assistance, both in the planning stages and in bringing to South Africa two of the main speakers. Valuable assistance in helping to identify and to bring to South Africa the best speakers available was also received from the Friedrich Ebert Stiftung of Germany and the British Council, as well as the Anglo American and De Beers Chairman's Fund.

The main speakers were all from abroad – from the UK, Germany, Hungary, Czechoslovakia and the United States. Edited versions of their papers appear in the first seven chapters of this volume. The final two chapters contain, respectively, the text of the closing address by a prominent South African, Dr. F. van Zyl Slabbert, Director of Policy and Planning of the Institute for a Democratic Alternative for South Africa (IDASA) and a resumé of the invaluable contributions of the respondents to the conference discussions.

The respondents were all drawn from countries of Southern Africa and, in commenting on the main papers, they attempted to apply the authors' findings to the circumstances of Southern Africa. They represented a wide range of political and other interests, and their role was essential for a meaningful debate on the conference theme. Although not reproduced in this volume, the lively discussion which followed from the floor at each conference session was a reflection of the great interest currently in this question in South Africa across the political spectrum, and it was in the final analysis proof of the success of this conference.

To all those who played a part in making the conference possible and successful, including the staff of Jan Smuts House, and in promoting this important debate, the Institute is most grateful. It is hoped that this volume will further help to inform the debate.

John Barratt
Director General: SAILA

CONTENTS

PAGE

(i)	PREFACE (John Barratt)	
1.	INTRODUCTORY ADDRESS: THE EAST EUROPEAN EXPERIENCE (Christopher Cviic)	1
2.	BEYOND MILITARY ALLIANCES: EUROPEAN SECURITY IN THE POST-YALTA ERA (Peter W. Schulze)	7
3.	TRANSFORMING ECONOMIC LIFE: DEVELOPMENTS IN CENTRAL AND EASTERN EUROPE (Doris Cornelson)	29
4.	THE PLAGUE OF ECONOMIC TRANSITION IN EASTERN EUROPE (Laszlo Lang)	36
5.	EAST EUROPE, THE USSR AND SOUTH AFRICA: THE HOPE OF DEMOCRACY (Carl Linden)	50
6.	SOVIET FOREIGN POLICY 1990: REDIRECTING EXTERNAL RELATIONS (Seth Singleton)	61
7.	THE FUTURE OF REGIONAL STRUCTURES (Ivan Angelis)	86
8.	CONCLUDING ADDRESS (F. Van Zyl Slabbert)	93
9.	RESUMÉ ESSENTIAL ELEMENTS FROM RESPONDENTS (André du Pisani)	98
	ANNEXURE	
	LIST OF CONTRIBUTORS AND RESPONDENTS	102

THE EAST EUROPEAN EXPERIENCE

by

Christopher Cviic

When buildings crash, usually those are very exciting moments. The great ball swings into a house or a factory chimney. Very exciting: the whole thing is coming down amid a lot of smoke, with the masonry falling about all over the place. You think of what may be coming up in the future on the ground that has just been cleared. But you also watch out for that falling masonry because you know that things can go wrong and that if they do, you can find yourself under all that rubble. A perfect mixture of exhilaration and a sense of peril.

What applies to buildings, applies just as much to empires. I have one in mind – the Soviet Union – which is disintegrating in front of our very own eyes. Good, but the falling masonry there includes a lot of nuclear weapons that could hit bystanders. A thought to make one's flesh creep. But, first, something about how the Soviet Empire came to include Eastern Europe.

The Soviet Empire, built by Joseph Stalin, the Iron Tsar, was extended to Eastern Europe after the allied victory over Nazi Germany in 1945. Soviet imperial rule over Europe east of the Elbe was imposed by the Red Army which had occupied the areas from which the German Army had been chased out. Communism had no solid political basis in Eastern Europe before the Second World War – except in Czechoslovakia which had a strong working class and a large Communist Party. Elsewhere, Communist influence was negligible. What mattered in Eastern Europe, however, was nationalism. It was nation (rather than class or race, as in some other societies) that dominated East European politics before the Communists took power under the protection of the Red Army after 1945.

The imposition of Soviet rule, provoked widespread rejection. This was not surprising in an area of great national sensitivity whose inhabitants had for centuries lived under foreign empires and had come to attach particular value to their separate identities. Until practically our own day repeated attempts had been by foreign rulers – whether they be Germans, Italians, Russians or Turks – to "de-nationalise" some of those people in the name of "progress" and assimilation into a "superior" society or culture. Hence the extra sensitivity in matters of language – an indication and symbol of identity – in a variety of countries. Hence also the importance attached to history, the basis for a nation's claim to its right to exist as a political entity today.

This is how issues that in other, more settled parts of the world occupy small groups of historians, archeologists and linguists come to be in the very centre of public attention in Eastern Europe, a region where – as in Africa – political borders only very imperfectly coincide with the ethnic and linguistic ones. Unlike the older empires, the Soviet model did not, in Eastern Europe, make any attempt to "de-nationalise" any of the local peoples – except where, as in Bessarabia, eastern Poland and the Baltic area they had actually been annexed to the Soviet Union. But there was determined and systematic Sovietisation, a denial of political independence which the local Communist regimes accepted, but their populations never did. Indeed, the Polish, Czechoslovak, Hungarian and other East European Communist regimes' willingness to rule their countries on

behalf of the Soviet Empire also made it impossible for those regimes ever to be accepted as legitimate even in the most limited sense.

For more than 40 years the peoples of Eastern Europe continued to demonstrate their rejection both of Communism and of Soviet dominance: in 1953 in East Germany, in Hungary in 1956, in Czechoslovakia in 1968 and in Poland in 1980–81. But to no avail: each one of these attempts at overturning Communism and Soviet overlordship was crushed, either directly by the Soviet Army or, as in Poland, by the local rulers acting with full Soviet backing. It was clear that the East Europeans would not succeed as long as the Soviet imperial will remained firm. That Soviet imperial will was not that of the rulers alone: the people of the Soviet Union shared in it, too. They also regarded Eastern Europe as "theirs", a region liberated by Soviet soldiers, many of them buried in numerous cemeteries from the military campaigns of 1944–45. And when the locals whined and whinged about foreign domination, this was rejected in the Soviet Union as base ingratitude.

To the East Europeans, their lot appeared all the more intolerable and humiliating because the Soviet Empire inspired no respect whatsoever. Their feelings about the empire that Stalin had placed them under were close to those they had previously entertained – and still do – about the Ottoman Empire, whose rule lasted from the fourteenth century to the first decade of our own century and at one time took in the whole of South–Eastern Europe and much of Central Europe too. To this day, Ottoman rule provides a ready alibi for everything that goes wrong in Romania, Bulgaria, Serbia and other countries that had lived under Ottoman rule. If the drains smell in Bucharest, Sofia or Belgrade, the locals will tell you: "We lived under the Turks, you know. It is all their fault." Now no doubt East Europeans will have, if they so choose, a gigantic alibi for whatever goes wrong in their countries for another 1 000 years. Stalin will be to blame. Of course, Soviet rule did leave behind a terrible legacy in Eastern Europe which will take years to overcome, but more about that below.

Soviet imperial will did snap in the end and the chain binding Eastern Europe to Moscow, the imperial capital, did break. The major credit for that is attributed in the West to Mikhail Gorbachev. It is certainly true that, without him, none of this would have happened when it did happen. But it is worth remembering that the man hailed in the West today as Mikhail the Liberator had started off in 1985, when he took power in the Soviet Union, as Mikhail the Disciplinarian, the man who was going to consolidate the Soviet Empire by making it more orderly and efficient. It was no accident that it was the KGB, the Soviet secret police, that backed Mr. Gorbachev. His mentor, Mr. Yuri Andropov, was its boss for many years. No question here of deception or wickedness, as is sometimes alleged in the West. It was simply that the KGB knew better than anybody else in the Soviet Union just what the problems were and that it needed a man of exceptional ability to tackle them.

Mikhail Gorbachev did not start off with the idea of presiding over the end of the Soviet Empire, to paraphrase the words of the late Sir Winston Churchill. His early speeches and deeds are proof of that. In the Soviet Union he wanted more discipline, efficiency, organisation – more output per rouble. In Eastern Europe, too, he wanted more coherence and co-operation – in the interests of a stronger Soviet Empire. Then he changed his view. The crucial factor here was the example of Western Europe and the United States, prosperous and orderly but also able to sustain a huge defence effort.

In the 1980s, less than a decade after its humiliating defeat in Vietnam, the United States was

apparently able to pull off the impossible: to embark on the largest and most prolonged rearmament effort since the Second World War and still continue to grow. The fact that this was done with the aid of huge borrowing from the whole of the OECD area did not diminish the demonstration effect of Western power on the Soviet leadership. It was the lost contest with the West that finally pushed the Soviet Union under Gorbachev towards reform and detente.

In Eastern Europe this meant the abandonment in 1987–88 of the old so-called Brezhnev doctrine of limited sovereignty for socialist countries, regularly invoked to justify the enforcement of external and internal discipline throughout the Soviet Empire, and its replacement by what Mr. Gorbachev's press spokesman, Mr. Gennadi Gerasimov, wittily called the "Sinatra doctrine of doing it my way." So the need for *peredyshka* (breathing space) led to *glasnost* and *demokratizatsya* at home in the Soviet Union and a more relaxed attitude towards reform and experimentation in Eastern Europe. It soon started getting out of hand in the Soviet Union: the "chattering classes" (the writers, the journalists, the academics) were pleased and supportive. But the wider public's reaction was one of disillusionment and growing anger coupled with a demand for the rapid removal and punishment of those responsible for the crimes of the past and the ills of today.

In Eastern Europe, the orderly *perestroika* from above suffered its first setback within the regimes themselves when the old guard refused either to change its ways or to go. In East Germany, Czechoslovakia, Romania and Bulgaria, the old Brezhnevites' resistance to the new Gorbachevites was so successful that for a while, Mr. Gorbachev could do nothing unless he wished to repudiate the new Sinatra doctrine of each country going its own way. But the people, too, did not react as Mr. Gorbachev has hoped. Realising that their rulers – both those in Moscow and those at home – were on the defensive, even in a panic, they began to push for a more decisive change. This in turn led to an even more frantic search for new regime faces that could prove acceptable to an ever more impatient public.

The detonator that set off the first of a series of powerful explosions that shook and eventually brought down the entire edifice of Soviet imperial rule in Eastern Europe, was the decision of the Hungarian Government in the summer of 1989 to let East German tourists on holiday in Hungary leave for West Germany via Austria, in the face of angry demands from East Berlin for those would-be defectors to be returned home. The mass exodus of East Germans provoked a crisis in East Germany amidst celebrations of the fortieth anniversary of the setting up of the East German state. When Mr. Gorbachev refused to help the embattled East German leadership under Erich Honecker and instead pressed (behind the scenes) the claim of a more moderate figure, Mr. Hans Modrow, the Party secretary from Dresden, the idea clearly was that here the process of political change could be arrested. But the politically aroused masses rejected not only the first offer, Mr. Egon Krenz, who had in any case been Honecker's chosen successor for many years, but Mr. Modrow as well. On the day the Berlin Wall fell, there was a coup in Sofia that deposed – with Soviet connivance – the veteran leader, Todor Zhivkov. There followed a peaceful revolution in Czechoslovakia and eventually in Romania, a bloody one – like the others quietly supported from Moscow. But none of them was allowed to stop where Moscow had wanted it to: with safe Gorbachevites. Having started off with the idea of a less direct control over Eastern Europe, Mr. Gorbachev was obliged to give up even East Germany and allow it to unite with West Germany a year later, with the Soviet garrison still there.

The collapse has not stopped at the Soviet border. France, forced to give up Algeria, its last

major overseas territory, was then able to put the post-imperial trauma behind it, helped by the existence of the Mediterranean separating it from Algeria. The Soviet Union could not carry out its de-colonisation in safe isolation from the metropolitan area for they are all contiguous. The old imperial Russia acquired its possessions by military conquest in three directions: the east, the south and the west over a period of more than three hundred years. The heartland and the non-Russian acquisitions are all part of one single package. As could have been – and was – predicted, the unravelling of the Soviet Empire has not stopped at the country's East European borders. The Soviet Union's leaders, however, hoped that their system, in existence for two and a half decades longer than the one they imposed on Eastern Europe would be able to stand firm. It has not done so. The chief reason was the failure of the Soviet economy, which not only undermined the Soviet Union's attempts to maintain parity with the United States but also forced the individual republics to seek economic salvation independently of Moscow.

Unfortunately for the Soviet leaders, the demands for fast economic development in the age of the computer ran against everything they had ever stood for. Quick spontaneous response to market demands is a *conditio sine qua non* in successful market economies. Yet spontaneity has been the arch-enemy of the Bolsheviks ever since Lenin. To them, spontaneity meant the awful, anarchic, drunken Russian muzhik, incapable of being organised and led, hostile to socialism. Later as terror and force became the chief instruments of their power in the absence of any legitimizing devices such as free elections or a traditional monarch, totalitarian control continued to be vitally necessary. That was control from above, with spontaneity (*stihynost*) of any kind the chief enemy. It is easy to see here the total incompatibility between tradition, deeply ingrained Communist attitudes and the totally decentralized functioning of a myriad of spontaneous market operations. The problem for any market reform in the Soviet is made even more difficult by the deep hostility in Russian culture itself towards individualism, capitalism and other essentially western activities. There is much stress on collectivity in Russian culture, even in the theological thought of the Russian Orthodox church whose basic concept is that of *sobornost*, a kind of spiritual solidarity. Not surprisingly, all this helps to hinder the development of entrepreneurial spirit on any larger scale in the Soviet Union.

By contrast, the problem is less critical in Eastern Europe. Under communist rule for a shorter period than the Soviet Union, countries like Poland, Hungary, Czechoslovakia and even those further south in the Balkans, like Romania and Bulgaria, have in any case, a tradition of individualism, the rule of law and capitalism, which provides a more supportive framework for economic reform than that in the Soviet Union. Nevertheless there is no reason for excessive optimism. Nationalism, an important element in the struggle against Soviet dominance and also against Communism itself, can become a destructive force and end up by being abused and manipulated by demagogues. On the other hand, it is important and helpful for people being asked to suffer hardship as part of the economic rehabilitation process to be aware of a wider common good served by the process of change – as part of a nation, for example, Poland's leaders have been able, at least during the first 18 months of non-communist rule to call upon their fellow-countrymen's patriotic sense of self-restraint. During that period, there have been remarkably few strikes at a time of considerable and widespread hardship – at least as compared with constant strikes accompanying the non-elected, "not ours" Communist government before 1989. This patriotic restraint may not last – the social consensus in Poland looks like breaking down – but what has happened so far illustrates the value of economic reform in alliance with nationalism, where that is possible.

Conversely, should the whole process of economic change go sour then nationalism could come to be manipulated in order to divert people's attention away from economic problems into conflicts with internal and external "enemies". This may not prove too difficult because Communism has left behind in Eastern Europe a terrifying legacy of moral and intellectual devastation. There has also been much heroism, particularly in the religious field, but unfortunately, hatred is easier to mobilise among people who have suffered much and have so far seen little in the way of retribution visited on their former oppressors. Leniency and tolerance shown so far have been remarkable. Shutting both eyes to all but the worst communist crimes has also been a wise policy at a time of danger of sabotage and, generally, a lack of co-operation from the old ruling group (nomenklatura). But when one remembers the number of secret agents and informers that used to spy on the ordinary citizenry and denounce it to the police and the courts, it is easy to understand the resentment and anger that many victims still feel.

There is also the loss suffered by those ex-communist societies from the communist policy of discrimination against members of the old "bourgeois" class. (President Vaclav Havel of Czechoslovakia is one of those denied the right to go to university because of his class origins – his father had been a rich hotelier in Prague). Even within the ruling party itself, however, there was a negative selection under which promotion was available only to the obedient, unimaginative people ready to toe the line. Not ability but a certificate of "moral-political soundness" was the passport to success on the principle (an old Leninist one) of "better Red than expert". With this dreadful negative selection in mind, it is a marvel how many talented and able people are nevertheless around making their contribution in various areas of public life. But the effects of those various kinds of devastation will be felt for a long time. Perhaps most important of all, the totally negative spirit of egalitarianism which prefers communality of misery to any sort of differentiation in wealth in society is acting as a real brake on economic rehabilitation.

If all goes moderately well, Eastern Europe will be able to lift itself from its present depressed state and begin to catch up with, first Southern and then also Western Europe. Germany will play a crucial role once it can raise its sights beyond its eastern sibling, the former East Germany. East European states look to Germany both for aid and investment. German business is interested but also cautious – less so in countries such as Hungary and Poland which have been serious reformers for some time even under Communism. But things could go badly. There has been the impact of the higher oil prices charged by the Soviet Union, the loss of trade caused by the Gulf crisis, the economic chaos in the Soviet Union and last but not least, German unification which has removed an important almost captive, trading partner, East Germany. Meanwhile the East European expectations remain high – not least because of what they have seen in East Germany, the recipient of ample aid from Germany's western half. If those hopes are disappointed, this could be the opening of populist demagogues preaching state intervention, punitive measures against the better-off under the guise of a struggle against corruption, the reduction of pay differentials and similar anti-market measures. But there is unlikely to be any return to old-style Stalinism.

Much will depend on policies towards Eastern Europe by the European Community and the United States and other large free-market countries. What Eastern Europe wants above all is a chance to sell more of its goods to Western Europe – not least its agricultural products. This will not be easy to achieve in view of the Community's Common Agricultural Policy (CAP). It will be even more difficult, electorally, to achieve higher immigration quotas into the Community from Eastern Europe for at least some of its surplus labour laid off as a result of economic

reforms. Yet without at least some significant gestures from the West, a mood of hopelessness could set in in the East, with serious political and economic consequences. But the outlook, while not bright, is not hopeless. It is bleak in the Soviet Union, threatened with chaos, disintegration and indeed political and economic collapse. The possibility of the introduction of authoritarian government in the Soviet Union, with the army's help, remains a strong possibility.

As far as the lessons from Eastern Europe's decades of Communism are concerned, the main one is the danger, indeed the futility, of pursuing social and political utopias. Eastern Europe's experience since 1945 has demonstrated that those cannot be achieved. The attempt to put them into practice, however, has resulted in and will continue to demand, enormous and, sadly, unnecessary sacrifices – not just of resources but also of human lives. Spectacular, all-embracing collectivity schemes seeking to circumvent human spontaneity are, for the moment at least discredited, but bad ideas can always be recycled and come back to haunt us. That is why vigilance is in order – not to say imperative.

BEYOND MILITARY ALLIANCES: EUROPEAN SECURITY IN THE POST-YALTA ERA

by

Peter W. Schulze

1. A NEW BEGINNING OF EUROPEAN HISTORY: THE REVOLUTIONARY MOVEMENTS OF 1989 AND THE CENTRALITY OF THE GERMAN QUESTION

"Europe on the march" would be an adequate label to describe the chain of events which created a new "relief map" (Willy Brandt) of the Old Continent in 1989. Willy Brandt's portrait of the new Europe gives rise to hopes that the era of division and military alliances which flattened the cultural diversity of the continent is over. The incredible speed by which revolutionary events progressed in the Eastern half of the continent indicated how anachronistic and removed from real life their systems of rule had been.

The case of Germany exemplifies both the enormous speed and the fundamental change in direction of European history since November 1989.

The division of Germany, or the German Question in a wider sense, was the result of 1945. The question was neither confined to a simple national problem nor separable from the division of Europe in the broader context.

Hidden underneath were the fundamental issues of European security. These issues contained two interrelated but not identical sets of problems:

- a. The division of Germany was deliberately intended and decided in the Yalta doctrine in order to eliminate once and forever the resurgence of aggressive German nationalism which on two occasions had threatened and nearly destroyed Europe. Throughout and despite the bipolar East-West antagonism and the ideological struggles in the Cold War era, this fundamental principle was never tempered with by either side.

On the contrary, with the integration of the two halves of Germany in their respective political, economic and security orbits the German Question seemed to be solved in a double way. While Yalta and Potsdam created the normative international consensus, there was always a "dual containment" element, an additional safety line, inherent in both military alliances, NATO and the Warsaw Treaty Organisation, to exert control over Germany.

Regardless of the dynamism introduced in 1989 by the November revolution in East Germany, which on the 3rd of October 1990 finally culminated in the unification of Germany, this central principle of the Yalta Post-war European Order will not be changed.

In a way the initial reluctance on the side of West Germany's alliance partners in NATO and the EC, to go along with unification suggests an international consensus beyond ideological and policy bounds guaranteeing the territorial status quo in Europe.

This principle was present in the "two plus Four" negotiations and remains a fundamental tenet of the CSCE process.

- b. With the advent of superpower rivalry and the Cold War the question of European security and control over Germany became synonymous with wider ideological issues of a systemic nature. Germany became the focus of the contradictions in the international system. It became the borderline between two antagonistic economic systems, between parliamentary democracy and Stalinist deformations of socialist democracy. The two halves of the country were the economic and military pillars for two hostile military security alliances and its "central front" was where the ideological battles and the arms races of the Cold War were to be fought for forty-five years.

Let me recall some data:

The importance of the two Germanies in the security equation of the Cold War is instantly evident, if we look at sheer numbers. In the 1980s, of the 600 000 Soviet troops permanently stationed in Eastern Europe 420 000 were based in the GDR. The GDR was one of the few countries in the world where foreign troops outnumbered their own forces (180 000). The bulk of NATO forces, including some 330 000 US troops were stationed in West Germany. Although the Bundeswehr was 450 000 strong, it was fully integrated into the NATO command line. In addition there were troops of other NATO member states based in the FRG.

Both sides had amassed the most destructive military potential ever seen in the history of Central Europe, nuclear, chemical and biological in scope.

Although many features of the German November Revolution 1989 resembled events in other revolutionary transformations in neighbouring countries, the specific role and relevance of both Germanies in the Cold War power equation suggests a qualitative difference.

In any case, the emancipation of countries like Hungary and Poland from Soviet dominance and oppressive domestic rule weakened the Soviet Union's grip on Eastern Europe. But compared with the economic and strategic position Germany occupied in Soviet military doctrine they were of no strategic relevance. Nevertheless, gradually slipping away from Soviet dominance, and opening the border for refugees from East Germany as the Hungarians did in summer 1989, they triggered the fall of the Berlin Wall.

The stages in the process to German unification are well known:

The first free elections were held in March 1990, followed by free elections for local government in May and October.

On December 2nd, 1990 for the first time since 1933 free and democratic pan-German elections took place.

In theory it was internationally agreed to link and synchronise the domestic aspects of German unification with the external, the European security dimension. But under the pressure of the street, of mass demonstrations in East German cities, the domestic debate first slipped out of political control in Bonn. Its reverberations forced Bonn to alter political timetables and

implicitly build up enough momentum to influence the international debate.

In essence, the former War Allies signatures underneath the final document of the "Two plus Four" negotiations in September 1990, followed by the revocation of the Four Powers Status on the 2nd of October, on the eve of German unification, offered the new Germany full sovereignty and a second chance to play an important and responsible role in the concert of the European Community.

1989 was the year of "deconstruction". A truly revolutionary situation developed within most of the Eastern European countries. Dissidents and small opposition groups, whose links and roots go back to environmental and peace movements of the early Eighties coalesced with a broader opposition of citizens. The resulting social synthesis produced politically directed, but non-organized, spontaneous new social mass movements. They were neither led by political parties nor created revolutionary leadership and organisations of their own. All over Eastern Europe their attack on authoritarian political systems was non-violent, not directed at taking revenge, but full of innovative political fantasy and released pressure. Their slogans were not confined to narrow party politics but addressed human, social and ecological issues, transmitting a somewhat existentialist message (V.Havel).

Demands for basic human, constitutional and civil rights, for ending the inhuman system of bureaucratic petty tutelage and controls, dominated the agenda.

Nowhere in the "real socialist world" of Eastern Europe were the bureaucratic ruling elites able to repress the new social movements. Even in the case of Romania where for a moment the struggle arrived at the crossroads, where the grim question of "barbarism or liberation" came up, when the hated Securitate plunged the country into a bloody counter-revolution, the autocratic ruling bureaucracies were swept away in the end.

1990 was for most of the former member states of COMECON and the Warsaw Treaty Organisation the first post-revolutionary year. Seen in the light of earlier revolutionary movements elsewhere, their post-revolutionary tasks: to introduce a market economy and to build democratic institutions, in order to reconcile their societies socially, may amount to a cataclysmic experience. On top of all these problems they have to overcome the legacy of the ancient regimes: social immobility, a culture of dependency and the lack of professional groups with sufficient knowledge and international experience to direct and guide through the stages of transformation. Although to master these tasks seems to be well beyond the capacities of their feeble political and dilapidated economic bases the new democratic societies in Eastern Europe are under pressure to succeed.

Politically-speaking we have just entered the post-Yalta, post-Cold War era. By doing so, we have begun to close the gap with the existing post-Yalta world economic order which developed during the mid-Seventies. This interdependent and internationalised world economic system contrasted sharply with the realm of politics and its archaic security structures, where political, ideological and security issues were still dominated by national actors.

Applying Marxist terms, the contradiction between a backward political super-structure and an advanced economic and technological basis finally led to the destruction of anachronistic, immobile and oppressive relationships of power.

Interesting enough, the catalyst in this equation, or the subjective factor, was the social upheaval in Eastern Europe. This broke the system of superpower relations at its weakest link, Eastern Europe and the USSR. They, in turn, came into existence by setting free social forces of change when Gorbachev ascended to power in 1985 and soon afterwards introduced the project of systemic change, Glasnost and Perestroika.

As he hoped for success of those projects dimmed with every day, the immediate objective of restoring the "primacy of domestic policies" over foreign and security objectives in Soviet politics, altered the shape of European policies fundamentally. Both projects implied a redefinition of Soviet security of political and economic interests in Eastern Europe and radically deviated from previously cherished notions. Paradoxically as it may sound, while facing failure at home, Gorbachev delivered the keys to the closed door of Europe's division and paved the way for political and economic change in Eastern Europe.

2. SHIFTS IN THE INTERNATIONAL ENVIRONMENT: THE CRUCIAL WATERSHED OF THE SEVENTIES

The rapid political transformation of Eastern Europe and Germany's unification have raised fundamental questions about the future peace and security mechanisms of Europe as a whole.

By now the whole of Europe is engaged for the first time since 1945 in a truly European debate over its own future. The former superpowers are invited to participate, but are in no capacity to act as hegemonic bloc leaders or to direct the outcome of the inter- or pan- European dialogue.

In our view, among the many reasons for the decline of superpower influence, the failure to solve the emerging and accumulating asymmetry between their domestic and international economic needs and their global security policies, is eminent. This is more evident for the USA. For the USSR, starting from a much weaker economic basis, the contradiction between global political interests and national security needs on the one side and the drain on economic strength on the other was a constant concomitant of Soviet life. But only during the later part of the Brezhnev era the problem developed to acute dimensions.

To put it in simple terms: obsessed with security issues and engaged in a global arms race for competitive advantages in strategic weapons, both superpowers allowed their allies which were incidentally the former European and Asian middle powers, to occupy and hold economic ground. In the case of the USA her European/Asian allies pledged the required political and security allegiance and accepted her protecting bloc leadership. Grateful the US turned a blind eye to their growing relevance in international economic affairs. The fact of the matter is that the economies of the former middle powers flourished best under conditions of "limited sovereignty" in security terms.

Although the case of Eastern Europe and the USSR is quite different, there is enough evidence to assume that the USSR lost basically economic control over some COMECON countries after the mid-Seventies. While keeping Eastern Europe as a security asset, the region became an economic burden for the USSR, aggravating its enormous domestic problems.

Since the 1980s it became obvious that both bloc leaders suffered from similar syndromes: global political designs and military over-commitment had siphoned off economic wealth and led to the social and political decline of the USA and the USSR. Both countries were forced by brute economic necessities to cut global commitments or at least to opt for some sort of "selective globalism". In the case of the US the present Gulf crisis demonstrates the continuation of these trends when the US-administration was forced to ask for European financial contributions to foot the deployment of US troops in the area.

The reason for such dramatic deterioration of the US economic position versus other industrialised Western societies must be seen and explained in the light of emerging trends in the international economy during the 1970s.

2.1. THE AMERICAN DILEMMA: THE ASYMMETRY BETWEEN GLOBAL SECURITY COMMITMENTS AND ECONOMIC OBJECTIVES

Let me recapitulate some of those trends which in my view affected and changed the position of the US in relation to her main allies and competitors.

- The dominant pattern of West-West trade between relatively few and homogeneous trading partners – the USA and Europe – came to an end with the emergence of new economic growth centres in the Pacific.
- The long post-war growth period of the 50s and 60s resulted almost everywhere in sectoral overcapacities except in the emerging high tech industries; such tendencies permitted and initiated shifts in the world economy in favour of new or revitalised centres of economic activity (the Pacific Basin, the EC). In turn such trends led to intensified and fierce competition in price and product quality, initiating a mad race for sectoral industrial modernisation and the rapid deployment of high investments in labour saving production technologies.
- The integration of the new actors in the world economy speeded up the pace for the internationalisation of production, R&D and ownership. Internationalised inter-firm agreements became a global phenomenon, indicating new forms of cooperation (strategic alliances), and introducing common norms and standards for the utilisation and diffusion of high technologies. A tendency towards synchronization of international business cycles resulted from such trends.
- Access or availability and rapid diffusion of modern process and production technologies across all aspects of traditional industry proved to be a crucial asset in the new competitive global race.

As the race for sectoral modernisation intensified, a striking feature appeared in national or private industrial restructuring strategies: the export of the social costs of modernisation.

- The race for sectoral modernisation proved most successful in countries which embraced models of decentralized public assistance geared to the creation of some degree of societal

consensus. Such strategies were either based on (neo)-corporatist or participatory schemes in industrial relations. They tended to reduce industrial conflicts and to increase workers motivation for high quality production and process innovation.

Societal structures and political-administrative frameworks were crucial for responding to challenges emanating from the impact of new technologies on existing economic growth models. The way societies adopted or produced new strategies to interlink, or even better, to arrive at integrated concepts of research and education, industrial application of R & D, retraining and further education, flexibility of labour markets and/or selective support for strategic sectors, decided their competitive position in the international economy.

Partly because of socio-political shortcomings, partly because of the delusion that it was possible to mix technological superiority with global security objectives, the US love affair with the "white heat of technology"(H.Wilson) proved to be quite a short and disappointing one. By the mid-1980s it became obvious that the USA had successfully managed to gamble away her earlier comparative advantages.

Unwilling to redefine her position in a changed international system, and to base global and military projects on sound economic grounds, the country plunged into a severe crisis which has continued unabated, despite the jingoistic fuss and belated imperial hick-ups of the patriotic Reagan era. The loss of international competitiveness, the penetration of its domestic markets by foreign competitors, huge trade deficits and the accumulated effects of public debt were indicative of a weakened economy which proved incapable of supporting global foreign and security commitments. But at no time during the Reagan era was the administration willing to harmonize the two apparent contradictory objectives of US policy. Consequently the asymmetry between foreign policy goals and US economic interests was increasingly accentuated. This inherent contradiction in US politics helped foreign competitors, especially Japan and the EC to advance their economic position in the world economy.

While there was hope initially that the Bush-administration would address the issue firmly, its present policy orientation and the military build up in the Gulf crisis seems to resemble a lurking death wish to share the fate of the other superpower.

2.2. SOCIAL IMMOBILITY AND ECONOMIC DECLINE IN THE USSR AND EASTERN EUROPE

A grim economic and social crisis developed towards the end of the Brezhnev era. After almost two decades, Soviet society showed severe signs of political stagnation, economic decline and social decay. The symptoms of demise were clearly visible: corruption, crime, drug abuse and alcoholism, the spread of trivial mass cultures and the moral, ideological and ethical pauperization of the ruling elites. Social decay and immobility were accompanied by economic inefficiency, affecting all aspects of production. Although the Soviet Union is only marginally integrated into the world economy, the shifts in the international economy and the advent of the information revolution affected the Soviet economy as well. While nations like South Korea or Singapore joined the club of developed capitalist countries and the information technology revolution has given capitalism a new lease of life, the USSR proved totally incapable of utilising the developments to advantage.

Despite numerous attempts at piecemeal economic reform under Gorbachev's predecessors, there was the growing realisation in Soviet economic and political intelligentsia circles that the Stalinist mode of societal organisation and economic accumulation no longer provided answers or remedies for the Soviet condition.

The Stalinist "Revolution from Above"- principle required the maximized utilization and mobilization of human and material resources over a limited period of time for very special purposes. In this respect, the Soviet economy, unlike most Western economies, never managed to even enter the period of industrial economics exemplified by Fordism/advanced Taylorism, but bobbed up and down in the shallow waters of a low quality mass production.

As an economic system it produced too little in volume and quality to feed the people and too much not to stimulate hopes for future improvements. Planning amounted to little more than administering the chronic lack of commodity goods. Centrally directed mass campaigns were a substitute for societal planning and reflected the apathy and indifference of all social strata to active participation in society and work life.

In fact, the economic administration became an obstacle to the upgrading and conversion of industrial production by means of science and technology. The correlation between political immobility and economic stagnation was most detrimental to social relationships.

At the end of the 1970s signs of economic stagnation and decline became manifest. Capital, material and human resources were either exhausted or resource allocations and ever more costly capital investments did not yield the desired returns. Rates of economic growth declined, labour and industrial productivity flattened and stagnated. The same story could be told throughout COMECON, with some variation.

In short, the Soviet societal model of stimulating economic growth by the extensive use of physical and human capital, and applying repressive and patronising means for social integration, proved to be incapable of enhancing the social and material well-being of Soviet citizens.

3. THE END OF SUPERPOWER HEGEMONY AND MILITARY CONFRONTATION: EUROPE'S RE-EMERGENCE AS AN ACTOR IN THE INTERNATIONAL SYSTEM

We already suggested that the Seventies were the economic watershed in which the Cold War Order ceased to dominate the structure and development of international economic relations. The US lost its capability to dominate international regimes of trade and capital flows. In this light the Reaganism of the Eighties was an anachronistic and futile effort of the New Right and populist Republicans to stem the tide of change. In retrospect, efforts to fortify an isolationist "fortress America" on purely political and security grounds seemed tantamount to someone running in the opposite direction inside a moving train, hoping to catch a station the train had already passed earlier on.

But the implications of systemic changes in the global economy did not affect the political, ideological and security institutions of the Cold War system until the middle of the 1980s.

Only under the impact of political reforms in Eastern Europe and the dynamics of West European integration did the core institutions and doctrines of the predominantly militarily designed Cold War security order began to crumble.

There is ample evidence that the resurgence of Western Europe as an important economic and political actor, capable of altering the bipolar structure of the international system, was sourced in the processes of West European integration. After nearly twenty-five years of a petty and dependent existence in the shadow of superpower policies, the signing of the Single European Act in 1985 projected the European Community into a new stage of ambitious and visionary policies.

The vision of completing an integrated Single Market by 1992 stimulated a debate touching upon issues which reached well beyond questions of capital flows and market integration. Issues like the harmonization of industrial relations, the raising of ecological and social standards to prevent inter-states dumping, to achieve a more balanced regional development throughout Europe, to enhance participatory rights of workers thereby strengthening industrial democracy on the shop floor, unifying policies on mergers, acquisitions and on regulations for transnational European companies, indicate the wide scope and qualitative change in European policies.

Such trends, even the controversy over European Monetary Union and a single European currency as a corner piece for a future European central bank add to the gradual shift of policy making authority from the national state to Community institutions.

Furthermore, national and Community-inspired technology and industrial restructuring 'programmes' have filled gaps in high technology, maintaining a competitive edge. At least they have halted the decline of Europe's position in such strategic sectors.

Despite the stiff internal resistance of one member state, the next logical steps in the integration process will put the question of how to integrate the Community politically, and which foreign and security policies the Community should adopt well before 1992 on the political agenda. Beyond any doubt, the unification of Germany has accelerated the process towards European political union.

The intra-EC debate was further enhanced by the democratic transformation of Eastern Europe, the complex and murky outlook for the Soviet Union and the Gulf crisis.

Taken together, since Autumn 1990 the debate over a common foreign and security position for the Community has focused on merging the West European Union with the EC. This would provide the EC with a genuine policy institution, independent of NATO, and the USA.

There is ample evidence to the fact that the EC has increased its relevance in the global economy. After nearly two decades of stagnation the European social and economic integration process has now achieved such a high degree of density and attained such momentum that any further move will influence Europe as a whole. Two years before the completion of the Single Market the slip-stream appears noticeable in requests from EFTA and former COMECON countries for some form of association. Austria's application for membership is pending and in November 1990 the CSFR (Czechoslovakia) has become the first former COMECON

country to apply for membership. It is expected that applications from Hungary and Poland will follow. Sweden and other Scandinavian countries are reconsidering their relationship with the EC. By the end of the 1990s the EC membership could contain close to twenty European countries.

The very success of the EC seems likely to encourage an upsurge of demands from the outside [for some form of association or relationship]. As a consequence a major row on future strategy – whether the Community should first widen or deepen – has developed among member states.

While there are convincing arguments on both sides, the debate itself seems to be strangely detached from the fast moving reality in Europe. As in the case of German unification a situation may arise that the West, i.e. Brussels, may find itself in no position to steer and control the pace of requests for social and economic assistance and/or membership of East European countries. In some cases they will derive from the sheer need to assist the economic survival and maintenance of political order in those countries.

Of course, there is a very strong tendency, motivated by the particular economic and social interest of some member states to pursue a closed shop policy vis-à-vis new applications. Such policies may work in the case of the Scandinavian countries. But even here it is more than doubtful that southern states could prevent their applications for long. In the case of East European countries the question is not of a fast entry, but rather what kind of transitional phases and stages could be designed to cushion the social and material costs of transforming and modernizing those societies. In these instances the European Community is obliged to assist. Otherwise Eastern Europe, overburdened with social, economic and political challenges would simply mobilize its work force, as seems to be already the case between Poland and Germany, to come knocking at the West's door.

There is no limit to worst case scenarios. It seems quite clear that in the event that the new East European democracies cannot deliver the prosperity premised by change to democracy and a market economy, the danger of them giving way to populist authoritarian governments is real. Again, the people of the East would know where to go: West.

After the decline of the USSR and the break up of its security orbits, the EC has become the only coherent economic, social and political structure which can initiate and deliver a new perspective and future for European countries. This is probably at the moment better realized in Eastern Europe than in the EC itself.

The truth of the matter is, that when the Iron Curtain was dismantled, a new divide in Europe became visible, but further east. In fact, the Eastern border of the EC is already now a new divide between a prosperous, wealthy EC and an impoverished East, resembling the border between the USA and Mexico.

To prevent the Oder–Neisse border from becoming the European Rio Grande – a European poverty border from the Baltic Sea to the Mediterranean – the European Community must address the problem of economic and political security in the whole of Europe. In this sense a European security policy will receive a new meaning, defined in social, economic and political terms.

4. GLASNOST AND PERESTROIKA: THE DE-CONSTRUCTION OF THE EMPIRE; SOCIALIST RESURRECTION TERMINATED.

It was not until 1985 that the Soviet leadership fully accepted the bleak economic and social prospect before it and tried to develop programmes for reducing military expenditures and to revitalise the economy. Gorbachev's "new thinking" in security matters, the negotiated withdrawal from Afghanistan and the cleansing from the international climate of irrational distortions with the USA prepared a platform from which he could address domestic and global issues. Both projects, Glasnost and Perestroika, propelled the USSR into a "de-constructionist" overhaul of its societal, political and economic system, in order to eliminate the bureaucratic, oppressive and immobilising forces of the Stalinist past.

To prevent the systemic crisis of the Soviet Union from deepening, Gorbachev acknowledged that to modernise the Soviet society, methods of political control and social guidance had to change radically. In order to breathe life into the archaic bureaucratic system the "primacy of the political" and the "primacy of domestic policies" had to be restored.

Restoring the "primacy of domestic policies" amounted to a radical review of the country's foreign and security policy since the beginning of the Cold War. In the wake of such assessment the militarisation of security and foreign policy concepts were criticized on fundamental grounds. In addition and for the first time in post-war history, the Soviet leadership accepted, in supporting a "Europe our Common Home" concept, the new diversity in economic and political power relations between Western Europe, the USA and Japan.

The assessment concentrated on the role of Eastern Europe in Soviet defence strategy and the German Question.

While respecting the underlying rationale and focus on containing Germany as set down in the Yalta agreement, the Warsaw Treaty Organisation had a more limited function. By lining up Eastern Europe's countries into a tighter version of a "cordon sanitaire", fully dependent on the Soviet military structure, it saw its main objective in exclusively servicing Soviet security needs in the Cold War era, and provided the base for expansionist dreams during the Brezhnev-era. Economic decline and international isolation, however, in the wake of the Afghan invasion derailed Brezhnev's project of a "dual socialist world economy".

The questions Soviet policy makers were confronted with at the end of the 1970s were:

- what would be the policy implications if the overall security equation between both superpowers became obsolete or stabilized?
- what would be the benefit in keeping the East European security glacis, despite mounting economic costs and decreasing security benefits, if the international climate between both superpowers improved?
- what would be the impact of the changes in the international system on both superpower positions and their intra-alliance relations?

These questions reflected a growing awareness among the Soviet elite over the contradictory and strained relationship between foreign policy objectives and economic performance. The Soviet Union faced the dilemma that while achieving parity with the US in the field of strategic ballistic deterrence, the economy was on the decline. In order to achieve strategic parity with the US and to keep the Warsaw Pact intact, the Soviet Union squandered, as Gorbachev put it, nearly a quarter of its GNP. Gorbachev's confession that military expenditures ruined the country came as a late victory for Pentagon Cold Warriors. Finally, the brutal rationale of arms-racing the USSR into the ground had proved successful.

Achieving parity in strategic weapons reduced the validity of military doctrines based on conventional warfare. As a consequence, Eastern Europe lost its important function as a buffer against an attack from NATO.

Calculating the implications of both interrelated factors, the Soviet leadership seemed to have come to the conclusion that any form of war in a nuclear age was "senseless...irrational" (Gorbachev) and that it would inevitably destroy mankind. If the arms race was allowed to continue it would force upon the USSR a form of Hobson's choice: to resort to such suicidal policy or to perish economically.

Elements of Gorbachev's "new thinking", a Soviet Realpolitik in security and foreign policy, were a "no use of force" declaration¹, a non-aggression pact between NATO and the Warsaw Pact, the politicization of the defence debate, the revitalization of international organizations for conflict resolution, and deep, though asymmetrical cuts in armaments.

While many of these ideas were met with drawn-out resistance by NATO and some Western leaders, the reduced security relevance of the East European region and the increase in costs for pacifying socially and politically destabilised countries like Poland paved the way for Soviet unilateralist movements in arms reductions. By the beginning of 1989 the West took the Soviet initiatives more seriously.

Finally, in July 1989 when Gorbachev repudiated the Brezhnev doctrine of "the limited sovereignty" of COMECON countries, it became clear for opposition groups in Eastern Europe that a second Prague 1968 would not happen if they decided to emulate "new thinking" and put systemic reforms on to the political agenda in their respective societies. The Soviet military would no longer interfere in domestic political struggles waged by the opposition against autocratic rulers of Eastern Europe. The litmus test was passed when the Hungarians opened the border for East German refugees, allowing them to pass through the Iron Curtain, *to Austria and further on to West Germany.*

As John Lloyd², in a recent article in the Financial Times argued, perestroika had originally two aims:

1. To ensure that the USSR reached the third millenium as a superpower, and
2. To ensure the survival and renaissance of socialism in the USSR and within its orbit of economic, political and security interests.

Today, beyond any doubt, it is relatively safe to state that the USSR will not reach the end

of this decade as a superpower. It is even doubtful if the Soviet Union in its present state will survive at all. The present leadership is waging an unwinnable struggle against time: while in the longer run the reform programmes may deliver material and social improvements, the Soviet Union's political and administrative structure is likely to undergo fundamental change. Present indicators predict a changed relationship between Moscow and its Republics. Even if some of those Republics remain socialist and linked with Moscow, which remains a very open question, the USSR must give up any hope that it can even retain the trappings of a great power in the short term.

Similarly bleak is the outlook on economic grounds. Certainly, Gorbachev never intended the restoration of capitalism, but by the beginning of the Nineties, some years into the era of perestroika and glasnost, we are entitled to predict that the second project is also in serious trouble. Perestroika as it seems has failed to deliver an advanced economic and technological basis for a socialist renewal.

The collapse of the Soviet efforts to find a "third way" between state socialism and capitalism with the intention of reviving socialism, is mirrored all over Eastern Europe. For the time being there seems to be no "viable systemic alternative to Western liberalism", writes Francis Fukuyama³. While we can accept such findings in the context of total exhaustion and failure of the Stalinist mode of accumulation and its societal synthesis, Fukuyama's further conviction that Western societies may embody the "end point of mankind's evolution" seems to be as ideological and monolithic a canon as the now defunct tenets of socialism.

In any case a radical move towards a market economy would bring to an end the era which started with 1917. Gorbachev's project was the last chance to rescue socialist practice; hence socialist arguments will be fatally weakened by a riposte which points out the failure of the real thing, both in its origins and de/reformed models.

At the beginning of the new decade we stand at the end of the first chapter of the Soviet reform programme: its title: "Resurrection ended". This leaves ample room to discuss scenarios for the future. We are the contemporary eyewitnesses of the end of the Soviet empire. The speedy rate of disintegration will lead to new messy complexities, possibly an implosion of the USSR. To be sure, the break up will not lead to a pacified region. Of course, separation on constitutional grounds in the case of the Baltic Republics will be less difficult than accepting national liberation of ethnic suppressed groups in the South. It would not come as a surprise if the future of the present USSR will rest upon a core area, like the intertwined republics of the Ukraine and the RFSR.

The very economic transformation of the USSR and her respective Republics to market economies may contain an element for solving the complex problem of how to achieve economic and political transformations with reduced dangers of a potentially explosive a spill over. The solution may be to introduce a federal model. Introducing varying degrees of political, foreign, security and economic interlinkages between the separate Republics and between the Soviet Union and the Republics may eventually prove to be one means of preventing the dissolution and dismemberment of the USSR. Instead of enforced and illegitimate political bonds, secured by military power, the federal structure would rest upon interdependent economic structures and upon some voluntary transfer of political authority to a "regionalized trans-Soviet institution", or whatever transnational body, similar to the

European Community.

Embarking on such a development path which would strengthen the decentralization of political and economic power and enable the regrouping and redefinition of the political domain the Soviet republics would find themselves in good company with general trends towards regionalization in Europe and elsewhere on other continents.

From available data we can predict that the project of the economic "socialist resurrection" is over as well. But what are the chances to transform and open the Soviet economy to market rules and conditions?

As painful as the process may be, there is no other alternative but to introduce market mechanisms. But of course, the proposals of Stanislav Shatalin to radically overhaul the Soviet economy and to introduce a market economy within 500 days were rejected and watered down.

The proposal would amount to a radical "big Bang" strategy and end every economic relationship since the last 70 years. But even if the concept proves to be the only way to go, the problem the USSR and other East European countries face, that there is no real knowledge base or widespread practical experience with market economies, cannot be dealt with on a short term basis.

To sum up:

Although signalling the green light, the Soviet leadership was at no time in any position to reverse the course of events in Eastern Europe. They were left with the only alternative to roll up the unwinding process by brutal military intervention. This would have run counter to Soviet modernization concepts.

With the Warsaw Pact de facto gone and without an ideological or military role to play in Eastern Europe the USSR was torn apart between two evils, to block German unity or to endorse it.

The Soviet leadership's final willingness not to block German unification cannot be traced to one single reason. According to Prof. Daschitschev⁴, the head of the former Institute for Socialist World Economy, now renamed Institute for International Economic and Political Studies, there were always two conflicting lines in Soviet thinking on Germany and Europe. The one hostile to unification considered Europe's and Germany's division as a cornerstone for Soviet security policies after 1945. This position was predominant in the Politburo, and probably still is. The second one accepted that the status quo in Europe was responsible for *the arms race, which in turn depleted the Soviet economy of resources and human capital.*

Confronted with the dire economic and socio-political situation the anti- status quo- school provided in the end the better arguments.

The remaining question whether Germany should stay inside or outside of NATO seemed to have had only limited value for political infighting among political elites in the USSR. Under the "primacy of domestic politics" the former predominance or obsession with external

security gave ground to social and economic concerns.

In retrospect, West Germany seemed to have passed the litmus test of credibility in security terms when in 1982 the new conservative-liberal German government continued the detente policy, despite the intensification of Cold War activities during the Reagan era. Such continuity prepared the ground for a re-assessment of Soviet-German relations.

In the light of 20 years of détente one could well argue that both the present Bonn coalition government and the USSR leadership cashed in on a peace and détente dividend which was put in operation at the beginning of the 1970s. Beyond the security aspects economic and political circles close to the Soviet leadership started to accept that a united Germany, deprived of offensive weapon systems and anchored/controlled by NATO could well function as a bridge for the USSR. This would amount to Gorbachev's last trump in making the necessary economic changes towards a market economy with the help of the powerful German economic engine.

In reflecting on the central position of Germany in Europe, Gorbachev's shift towards accepting German unification, and tying both countries together in a mutual economic and non-aggression treaty, interlinked Germany and Soviet interests to create a new collective European peace and security order. In this sense German unification served as a double insurance policy for Soviet reform and security needs.

5. PERSPECTIVES ON EUROPEAN SECURITY

The collapse of the GDR stripped the inner-German border of its systemic and international character as a the divide between two antagonistic social systems. The sudden downfall of the GDR shifted the border east and exposed the grotesque situation of two gigantic military machines, NATO and the Warsaw Pact, suspended in mid-air, both deprived of their respective rationale: to counter external threats. The age of deterrence, of mutual assured destruction (MAD) had come to an crushing end.

In the light of the economic limitations of both superpowers, the European political elite suddenly started to realize that the vacuum created by the absence of hegemonic bloc powers could not be allowed to be filled from the outside again. Hence the continent's engagement in an pan-European dialogue, searching for an adequate framework and an institutional setting for future European security.

Still the necessity for European states remains to organise their security needs. But the present challenges and dangers ahead differ immensely from those that once emanated from the antagonisms of the Cold War.

Potential threat scenarios in the post-Cold War European security debate focus on social and economic imbalances, on the implications of the demise and break-up of former empires and multi-ethnic states as in the case of Yugoslavia and the USSR. The search for the building blocks of the new security order involves more than the redesign or enlargement of old institutions. While those of the East are practically gone, those of the West such as NATO, the European Community and even the CSCE, do not offer in their present form an adequate

institutional basis for dealing effectively with the expected perils. Nevertheless, with COMECON and the WPTO practically gone, these institutions will play an influential role in the debate.

1. Presently we are confronted with an uneven dissolution of both military Alliances. On the surface NATO appears relatively unaffected by repercussions which swept the Eastern part of the continent and rendered the Warsaw Pact Treaty Organisation defunct. In the wake of the political transformations in Eastern Europe the Red Army has lost its *raison d'être* in Eastern Europe. It cannot function any more as a guarantor for the political stability and ideological survivability of client regimes, because these regimes are gone. Given the shifts in Soviet military doctrine the region has lost its relevance for safeguarding Soviet security interests.

As agreed in the German-Soviet and in other bilateral treaties between the USSR and member states of the Warsaw Treaty Organisation, the Red Army will leave Eastern Europe by 1994.

But the loss of the security glacis carries the danger that the USSR may become isolated and marginalized in the emerging pan-European security debate. Apart from the CSCE process and the negotiations on CFE, the USSR has no direct input into the institutionalized defence debate in Western Europe.

The former member states of the Warsaw Pact Treaty Organisation are either exploring initiatives of their own like the CSFR, airing a plan for a Central European Peace and Security Order, or contemplating the idea of joining NATO, like Hungary.

Given also the uncertainties of Soviet domestic developments, the danger of social implosions and the breaking up of the empire, the situation remains quite precarious. There is the real danger, if public order breaks down and ethnic separatist movements become politically uncontrollable that the political leadership would come under enormous pressure from the still relatively intact Red Army apparatus. This could happen, if the military's fears were to be confirmed that the country's special security needs were ignored by narrow-minded Western politicians. It can only be hoped that the German-Soviet Treaty of non-aggression and mutual economic and technological cooperation will deliver the assumed bridging function, to block such potentially dangerous developments from occurring. In this sense the former German Chancellor Helmut Schmidt is right when he argues that the special relationship between the USSR and a unified Germany will increase those countries' responsibilities and difficulties in achieving their economic, foreign policy and political objectives in the integration process of Europe⁵.

In any case, by now we have to get accustomed to the fact that we live already with the results of the collapse of the USSR as a superpower. It implies that probably for the first time in post-war history the US is without any serious international check, as far as its military means and short term national interests are concerned.

But this does not imply that the US can define acceptable international activities without hindrance. This may be the case for its own "backyard" as earlier military interventions in Panama and Grenada suggest. But already in the case of Nicaragua, the international

Community, the Contadora and the Contadora support group as well as the EC acted as restraining forces for US military and interventionist schemes. Of course, as the present Gulf crisis indicates, there is no final assurance against a military solution. The US could use its massive military build up without the consent or even against the objections of their major Western allies.

But even the Gulf crisis points to built-in, systemic restraints exerted through international and regional political institutions, the United Nations and the European Community. Taken together, the relative economic and political decline of superpower influence in the international system was somewhat compensated for by the concurrent emergence of economic superpotency on the side of Japan and the European Community. This will implicitly bring into being a new system of international relations, strongly influenced by regional components and a more even distribution of political power. Given the lack of divisive ideological antagonisms, such a system may exert a higher degree of restraint on superpower behaviour through binding norms and codes of conduct than the former arms race and system of mutual assured destruction were ever capable of delivering.

While the implications of break-up of the Soviet empire would be felt almost immediately in the West and would create faults in the international system, one could predict similarly bleak scenarios if the new democracies of Eastern Europe were to disintegrate.

2. The real and future challenges for Europe, as it seems, stem from the dynamics of the East European revolution itself. After decades of political repression and denial of cultural and ethnic identities there is the danger that the newly emancipated nations could embrace over-enthusiastically the false but alluring temptations of nationalism, the nation state, and national sovereignty. To open the Pandora's box of fundamentalist nationalism which was kept shut since 1945 could ignite latent ethnic, social and religious conflicts, and destroy the fruits of the revolution of 1989. If nationalism develops into a fundamentalist mass movement, destabilisation and Balkanisation of the region would follow. Bloody ethnic and zealously fought religious conflicts, massacres and constant territorial struggles eventually would spill over, and drag Western Europe into the maelstrom. Dreadful enough as such developments would be, there is the imminent danger that the break up of the Soviet empire, could allow terrorists and separatists to gain possession of special weaponry like chemical, biological and even nuclear weapons.

If the new democracies fail to deliver the promised social and material improvements the people fought for in the first place, and East European societies plunge even deeper into economic and social misery as the cost of restructuring their economies rises and living conditions worsen without hope of a brighter future, despair would mobilise hundreds of thousands refugees to move to Western Europe. A foretaste of such disaster was revealed to the people of West Berlin when hundreds of thousand of Poles crossed the new border every week during the summer of 1990, in search of consumer goods⁶.

Again, the possible collapse of the new democracies under the pressure of social and economic demands would only accelerate processes of further political radicalization and polarization. As a result a potentially explosive situation could arise and push Eastern Europe again into the embrace of populist and authoritarian dictatorships⁷.

5.1 AN INTERIM ROLE FOR NATO: SAFEGUARDING THE TRANSITION

It seems plausible to state that the West's remaining but predominately military alliance, NATO, would be in no position to deal with such potential developments. Even if they were to grow into interstate conflicts, NATO would not be the instrument to deal with such eventualities.

NATO so far does not command policies and instruments for regulating and solving conflicts of a regional nature or within states.

That does not imply the end of NATO in the search for a security architecture in the new Europe. It is our view that NATO will continue to play an important interim role. First, in insuring the transformation of the USSR by providing a military counterweight to prepare for all eventualities⁸. In an era of mutual force reductions and conventional disarmament a Europeanized NATO could even fulfil this function without relying on the presence of US troops in Europe. The shrinking of the USSR's military might will make it easier for some European member states either to trust in independent nuclear forces or to give up the illusion of being covered by the nuclear umbrella of the US. The later has always been a myth.

Secondly, NATO will function as a building block for the European security structure in a dual way. It remains the only powerful military alliance which could implement the objectives of Yalta, namely the containment of Germany⁹. Acting in this capacity, it will survive as long as another security order is not in operation. In this sense NATO functions to satisfy the need for constant reassurance of Germany's neighbours, including the USSR. In implementing this task it may inject enough stability and provide time for the foundations of a European security order outside of NATO and pan-European in scope, to be prepared.

Apart from such limited contributions to the European security structure NATO's role and objectives contain quite traditional functions, like maintaining the European-American link to discourage external threats and to coordinate security and defence policies between the US and Western Europe.

In the course of implementing these functions NATO will transform itself and may become the "Atlantic bulwark" of the European peace and security order.

5.2 CSCE :THE SOFTWARE FOR INTERLINKING THE EUROPEAN AND SECURITY AND PEACE ORDER

From the scope of the debate, involving countries from both the old Warsaw Treaty Organisation and NATO, as well as neutral states themselves on the verge of joining the EC, it seems by now inconceivable that future European security will be limited to regional or subregional groupings. Nor will it develop in the mould of traditional military alliances.

Europe has been offered the opportunity to create a new security structure not dependent on the individual nation state. Instead, a variety of security structures linked to transnational political institutions should replace the nation states.

With the break-up of the old military bloc system, awareness grew that European security is indivisible, requiring a new definition. Recognizing the inherent dangers created a need to redefine European security. While elements of military security play a role, this aspect at the present is more directed towards monitoring, guiding and verifying the steps of disarmament. The core body of the new security equation will be predominantly defined in economic, social and political terms. But there is still widespread uncertainty what that means in practice. The picture becomes even more complicated, when simultaneously the "domestic" debate on European security is overshadowed by external demands for a more active role to assist the UN or the USA in "out of the area" conflicts, demands echoed by prominent NATO officials.

For better or worse, as the Gulf conflict and the re-emergence of the UN as a respected body of the international Community indicates, Europe plays an active role in formulating international policies; its economic and political muscle suggests that this role may increase in importance.

Using the building blocks of the CSCE mechanisms for resolving conflict and establishing general principles for human rights in Europe, the CSCE's step-by-step approach envisages a non-military European peace order by involving, with the exception of Albania, all European countries plus the USA and Canada. Its common principles seem to have influenced the present security debate considerably, bearing in mind CSCE's two main objectives: to establish security with decreasing levels of offensive weapon systems and linking such efforts with multilateral regimes of verification. These appear for the time being to provide the only adequate answer to conflict resolution in Europe.

The CSCE principles can be summarized as collective, non-offensive military structures, institutions to verify and monitor military operations and the process of disarmament and arms conversion, and centres specifically designed for the prevention of conflicts. The danger of catastrophic political developments in Eastern Europe could well serve as a powerful catalyst for accelerating the creation of integrated force structures which in some distant future would eventually embrace the whole continent.

The other aspect of CSCE focuses on regulating social, ecological, cultural, economic and human rights matters. In both capacities CSCE would be best equipped to deal with matters such as the socio-economic problems of Eastern Europe and its future relations with Western Europe.

The crucial question, however remains, how to bring about such a collective security system? The answer lies in the willingness of the actors to transfer authority – or surrender sovereignty in effect – from national states and sub-regional alliances to an institutionalised CSCE structure.

With the removal of the Eastern and Soviet threat CSCE has to broaden its horizons in competition with other structures performing similar functions.

This does not deny a role for CSCE in reconciling the two halves of Europe. But it remains to be seen if CSCE alone can provide the basis for collective, pan-European security. It seems plausible only over the long haul – if the existing Western institutions also undergo transformation themselves – and if the transfer of authority would not result in a watering

down of already established legal, economic, social, ecological and political standards.

The question remains, how are these objectives to be achieved?

The CSCE process will undoubtedly continue distinct from, but partly overlapping with change in NATO and the EC for some time, while it creates the necessary software of confidence building, acquires competence and authority in conflict prevention and eventually presents us with a design for an integrated European peace-keeping force.

5.3 THE EC, A NUCLEUS FOR THE POLITICAL AND SECURITY FRAMEWORK OF THE EUROPEAN PEACE ORDER?

In my opinion the forces unleashed by West European economic, social and monetary integration have already developed such a critical mass that the next logical step – to engage in more active political and security cooperation – is imminent.

Again, the present Gulf crisis may act as a catalyst to bring about political and security integration. While the impact of the crisis on the "revitalisation" of international institutions such as the UN is accepted, this trend towards some sort of consensus-based international conflict resolution is accompanied by a second trend pointing to the increased relevance of political regional cooperation.

In short, the emergence of the EC as a very specific form of economic, social and political regional cooperation with common security and foreign policy interests is related to the demise of superpowers and structural shifts in the international economy.

Two factors indicate that the future security of Europe will be either decided within the EC framework or at least strongly influenced by Community initiatives, possibly due to the structural changes in the international system.

First, German unification will accelerate the process of European political unity. At the present stage neither the eroding NATO functions nor the powerless CSCE can deliver the task of anchoring Germany, as unnecessary as it may seem, in the Western orbit. Only the EC can fulfil such a task. Secondly, the disintegration of the USSR as a superpower and the breaking up of the COMECON and Warsaw Pact has left the EC structures as the only remaining coherent and strong transnational organisation in Europe. It has everything the CSCE seeks: a strong organisation, political cohesion and a strong economic base with political and social vision. Its economic strength attracts Europe's northern and eastern states. The Community brings together, represents and acts on behalf of the interests of member states in international organisations. As the only remaining European institution which can speak with some legitimacy it has been propelled automatically into a position to initiate and guide the further steps towards European political unity.

The present debate, sterile as it may sound about "deepening or widening" of the Community points towards a new system of regional and international balances in international terms, which will meet the US on a basis of parity.

If successful and sustainable, such a development would sound the deathknell for the last remaining superpower and by doing so finally end the post-Yalta era.

Regional collective security structures could then replace unilateral and sub-regional alliances and interlink those with an international dimension, organised by the United Nations – and with more emphasis on policies fostering and strengthening economic and social cohesion in *regional conflicts*.

Already before German unification there were signs that a new strategic relationship between Washington, Moscow and Bonn was on the horizon, a tendency which bore fruits in the successful and relatively smooth proceedings of the "Two plus Four" negotiations. It is to be expected that this will deliver the basis for fusing together the former member states of Warsaw Pact and NATO into a pan-European security structure. Here we may see one of the most lasting effects of the revolutionary changes of 1989/90, and the final test and challenge that the new Germany could acquire a European mandate to co-ordinate international and regional aspects of foreign and security policy.

Resolution of the security dimension would facilitate the concentration of resources on efforts to achieve a more balanced economic and social development among Europe's regions.

FOOTNOTES

- 1 see: Peter W. Schulze, *The Soviet Union in Transition – A Democratic Revolution from Above*, in: *Perestroika in der sowjetischen.Aussenpolitik, vierteljahresberichte*, Nr.115, March 1989, p.21 ff
- 2 John Lloyd, in *Financial Times*, 17.9.1990.
- 3 Francis Fukuyama, *The End of History*, in: *The National Interest*, Summer 1989, p.3, 4.
- 4 Interview in: *Die Tageszeitung*, 5.11.1990: According to Daschtschev there seems to be a growing acceptance among Soviet Leaders to let the Republics which want to break away, go, and build new relationship on economic grounds similar to the West European Community.
- 5 Helmut Schmidt, *Deutschlands grosse Chance*, in: *Die Zeit*, 5.10.1990.
- 6 We should not forget that the signal for the revolution in the GDR was given by East German refugees in autumn 1989 implicitly forcing the Hungarians to open the border. Western TV was instrumental in further mobilising an endless exodus from the GDR. Politicians in the West must recognise and accept that fleeing to the FRG was more than symbolic, or only motivated by economic desires. For the East Germans the FRG was, as Western Europe will be and already is for the people of the East, the yardstick and point of reference during all the years of communist mismanagement and oppressive rule. The aspirations of people in the East are focused on Western standards, regardless the nature of their political systems.
- 7 One year into the transformation process, available data are too scattered to allow a final assessment of the combined economic and political reform programmes. But evidence based on recent developments in Poland, Hungary, the CSFR and East Germany suggests, that their societies are plagued with similar and enormous social faults. Un-competitive and run-down industries, gigantic costs for cleaning up the environment, loss of markets and a lacking infrastructure would lead to a hopeless exposure of these countries if released into free market conditions. High unemployment, short-time work, halving of incomes, reduction of GNP and high inflation rates were the consequence. In this sense the problem of political stability and of European security has to be addressed in economic and social terms.
- 8 see: Eckhard Luebke, *Security and Peace in Post-Cold War Europe*, forthcoming in: A.Clesse, ed., *The Future of Europe: Searching for Consistency and Balance*, Baden Baden, 1990.
- 9 Edward Mortimer, *Solution in search of a problem*, in : *Financial Times*, 9.10.1990

TRANSFORMING ECONOMIC LIFE DEVELOPMENTS IN CENTRAL AND EASTERN EUROPE

by

Doris Cornelson

1. INTRODUCTION

The startling and quite unexpected developments in Eastern Europe and the Soviet Union during 1989 constitute a major turning point in European post-war history. The peoples of Eastern Europe have been unambiguous in expressing their wish for a radical change in their political and economic systems and most of their countries are now moving along the road to political pluralism and economic decentralisation.

The breakdown of the old structures had been caused by many factors, the most important being the new ideas of Gorbachev in the Soviet Union: Glasnost and perestroika and the end of the Brezhnev-doctrine. But certainly the economic difficulties in the East had provided considerable impetus.

2. THE ECONOMIC PERFORMANCE

Eastern Europe comprises a group of nations with very different histories, cultures and economic traditions. East Germany and Czechoslovakia are old industrialised countries, Bulgaria and Roumania are mainly agricultural; the Soviet Union is a huge country with many different peoples, but there are nonetheless some common features.

All the Eastern European countries find themselves at present confronting vast economic problems. A number of them are labouring under the burden of high debts to Western banks which severely hinder their economic growth. This mountain of debt is particularly high in Poland, Hungary and Bulgaria. Competitiveness has fallen in all of them in recent decades. The dynamic growth in world trade experienced throughout the 1980s simply passed these countries by. Internal imbalances have increased everywhere. Inflationary developments, primarily created through depressed inflation, but more recently also through open inflation, have escalated. Imbalances are also reflected in high state budget deficits. All countries have chronic structural weaknesses. production is still concentrated in areas which are old, inefficient and environmentally unsound. Open unemployment is something which was unknown for a long time in the economics of eastern Europe. Full employment was only maintained, however, through the inefficient use of labour. And now unemployment has appeared in these countries, and is rising very fast.

3. THE LONG-TERM DETERIORATION

The deterioration in economic performance had already begun many years before. All East European economies had enjoyed very high rates of growth in the 1950s and 1960s and a successful recovery from the destruction of the Second World war. This growth had been based

on a simultaneous expansion of labour and capital and had diminished as the available reserves of labour became fully employed.

From the mid-1960s rates of fixed capital formation did accelerate. As a ratio to net material gross, fixed investment averaged about one third in the 1970s. Despite the considerable expansion of investment there was a slow – down in rates of output growth. The growth of both labour and capital productivity have fallen persistently. There are many reasons for the inefficiency of investment: the high proportion of basic and heavy industry, the long time lag between the initiation and completion of investments (sometimes equipment had become out of date by the time it was actually installed and operating) and wide-spread coordination failures. Import of Western technology did not have any significant impact on efficiency.

The difficulties in the East European countries became even greater in the 1970s. After the first oil shock in 1973 they were unable to change their economic policy. All of them had trade deficits in every single year – which had been financed by loans from the West. However, after the second oil-shock in 1979 the situation changed dramatically. The interest rates rose to very high levels, lending from the West virtually ceased, the world economy moved into severe recession so that the possibilities for exports became very limited. East European countries had no alternative but to impose a massive squeeze on domestic demand, especially on investment, depressing economic growth even further.

4. LOW LEVEL OF PRODUCTIVITY

The economic slump in eastern Europe has meant that the productivity gap between Western and Eastern Europe has not diminished. Precise calculations are difficult in this field. Even comparisons between market economies are far from easy. Comparisons between East and West are further aggravated by the problem of different price structures and non-existent exchange rates. The results of the international comparisons conducted by the UNO (ICP) indicate a gap in the productivity per worker between the Federal republic of Germany and Hungary of around 60%. The figure for Poland is as high as 70%. Other calculations reveal even greater differences. In each case, the picture over the last 10 to 20 years has shown no improvement.

SYSTEMATIC INEFFICIENCIES OF THE EASTERN ECONOMIES, EXAMPLE: THE GDR (FORMER GERMAN DEMOCRATIC REPUBLIC).

5. THE BASIC FEATURES

The GDR constitution predicted a socialist planned economy of which the main features were:

- socialist ownership of the means of production
- central planning of economic processes
- central regulation of foreign trade

Its philosophy was to avoid reliance on the blind forces of the market, and to develop rational

plans and programmes on the basis of science and research. Thus all problems would be solved, i.e. steady growth, balanced proportioning of the economy, full employment and equitable income distribution.

Obviously all these goals could not be realised. Perhaps the simplest reason for their failure is, that all these ideas are based on an idealised picture of humanity. Lenin had expected the development of new patterns of human behaviour if the exploitation and private ownership of the means of production were abolished: that people would work together to improve their common welfare. Unfortunately people do not act this way.

In the GDR a huge bureaucracy was built up to manage the plan. All decisions were concentrated on the top level. The economy was based on orders from above, with no room for any spontaneity. As the political system was based on effectively one leading party, even in the political field there was no discussion. The enterprises and their employees could do nothing else but attempt to implement the decisions of party leaders. Motivation and responsibility broke down. It is not yet clear to what extent the minds of the people have been damaged by these 40 years of a command economy.

6. LACKING COMPETITION

In implementing nationalisation, the private sector had of course been correspondingly reduced. Private means of production could be found finally only in the crafts and trade, with only 2% of the labour force self-employed. All other parts of the economy had been the preserve of the state.

To facilitate planning, production had been concentrated in big units. In industry there were finally only about 130 big companies, each with an average of 25 000 employees. In most cases there was only one enterprise for each branch of industry. Thus there was in the internal market no competition at all. This created a problem even for the planners, because there was no means of assessing comparative performance.

Besides this the monopolistic structure was even more extended. The big company units were formed into autonomous divisions, which had to produce their necessary intermediate products themselves, which resulted in many cases in very inefficient forms of vertical integration.

7. DISTORTED PRICE STRUCTURE

Price fluctuations are anathema to a planned economy.

The whole sector of price formation therefore was controlled by the state. Prices were fixed in line with economic policy: for instance, high prices for agricultural products, to ensure adequate incomes in this sector; low prices for the basic goods to ensure everywhere a suitable standard of living; low prices for export goods to increase the amounts of exports.

This resulted therefore in an inextricable confusion of State and Economy. On the one side subsidies were paid, on the other side profits were skimmed off. No company was allowed to fix

its prices autonomously. Everything was regulated by the administration. Mountains of price regulations filled the files of the enterprises.

In this growing bureaucracy, prices lost their function as an economic signal. Distortions made it impossible to find out the efficiency of production. Profits or losses did not indicate efficient or non-efficient management, but only the price conception of the administration.

These problems illustrate the difficulties state enterprises face at present. Earlier calculations and statistics have become worthless, costs and revenues different. Therefore the necessary 'incoming' balance sheets to bring on the economic union of Germany, are in most cases not yet worked out.

8. LACK OF TECHNICAL PROGRESS

Under central planning, enterprises were given specific economic goals, as well as the necessary quota of raw materials, intermediate products and investments. The enterprises had to fulfil the plans, otherwise they lost their standing in the eyes of authority and were consequently not able to pay premiums to their employees. So a special attitude developed: the easiest way to fulfil a plan was to concentrate on the well known products and procedures. New developments could cause problems and could endanger plan fulfilment. Thus the central planning became an obstacle to technical progress.

Certainly the economic planners realised this problem. Research and development (R and D) had been a field of experiment in planning and direction. But despite these new instruments from R and D, they could not overcome this innovative inertia. In all areas of production the GDR lagged far behind the advanced world standard. This has been true even in the microelectronics sector, which had been fostered with lots of money, labour and investment.

9. OBSOLETE ECONOMIC STRUCTURE

One of the goals in the GDR has been the development of an autarkic, or self-sufficient economy. All goods should be produced domestically. This had its origins in problems of foreign trade: in the CMEA (Council for Mutual Assistance) region, the partners were sometimes unreliable, and in the west the GDR did not have enough convertible currency to pay for the imports. But the policy of autarky is no real model for small countries. To do everything for oneself results in doing most things on a mediocre level.

In 1989 in the GDR more than one-third of the labour force worked in industry. This proportion is much higher than in western industrialised countries, where there had been a shift from the *manufacturing or production sector of the economy to the service sector*. Within industry, too, structural changes in the GDR had not taken place. So old, inefficient production methods still prevailed. Modernising techniques were not widely developed. The state of many plants had also deteriorated. Most of them were easily overworked.

A similar picture is to be found in the infrastructure. The traffic system lags far behind needs. This is true with respect to railroads, streets and especially the telephone. The cities are in bad shape, the housing had not been repaired and modernised for many years. In the number of

housing units, however, the GDR had reached a remarkable level. But with the low rents not even the minimum of repair could be financed.

10. HIGH PROBLEMS IN THE ENVIRONMENT

Environmental protection had been neglected in the GDR. The legal framework, however, had already been laid in the year 1972. But the implementation did not take place. Priority was always given to economic growth. Today the problems of environment in the GDR are severe, for instance in the field of air and water pollution. The air pollution is connected with the intensive use of brown coal, which is the most important energy resource in the GDR. Almost all power stations are operating without precipitators and similar equipment to clean the air. The GDR has the highest burden of sulphur dioxide in Europe. Water supplies are polluted by the chemical industry and in the production of cellulose and paper, which use old and dangerous methods without any purification. Coal mining and agriculture, too, worsen the water situation.

11. LACK OF MOTIVATION

Since the 8th party congress in 1971, one of the main goals in the GDR has been the improvement of the material and cultural standard of life. This included a housing programme, an incomes policy and family policy measures, the expansion of the consumer goods industry and also high subsidies for basic goods. The economic problems at the beginning of the 1980s, however, reduced the potential for increasing living standards. In fact, living conditions had been crucial.

The first problem arose from discontent with the wages policy. In the GDR, the wages were fixed by the administration and in theory, income distribution applied the principles of payment by results. In reality, there had been very little wage differentiation, and differentiation between the lowest and highest incomes was very small. Employees with higher qualifications and higher responsibility did not earn more, sometimes they even earned less than other people. Higher engagement or responsibility did not pay, with all its negative consequences for motivation.

The second crucial factor lay in the availability of goods. In the basic goods sector, supply had been adequate, but with respect to quality, variety and new technology there had been almost no advance. The GDR had spent much money in the field of basic goods. The subsidies had reached almost 20% of the public households in the last years. But this concentration on the basic needs did not satisfy the population. Dissatisfaction and a lack of motivation had been one of the striking features in the GDR in recent years.

12. THE UNIFICATION OF GERMANY

With so much dissatisfaction prevailing, the political and economic system of the GDR could be maintained only by suppression. But suppression cannot be enforced for ever. With the change of the political conditions in eastern Europe, the end of the government of the SED was coming. Thousands of people left the country. On the 9th November 1989 the wall fell down.

In the following year, many proposals were made to renew socialism in a new GDR. But these proposals were soon rejected. In fact, after the experience of 40 years of "real existing socialism" the East German people as well as the peoples of eastern Europe generally, do not want socialism any more, at least in the present generation.

In December 1989 many East Germans were already convinced that only a market economy would bring about efficiency and a high standard of living, to be followed closely by the idea of the reunification with West Germany. The first State Treaty of May 1990 became the basis of monetary, economic and social union. Monetary union took effect on the 1st of July. It was also laid down, that the GDR would assume the legal framework of the Federal Republic. While this had been outlined in the first State Treaty, it was given forward sanction in the Second State Treaty: the Treaty on Unification (August 1990). On the 3rd of October, the five new states (Länder) of the former GDR became states of the Federal Republic of Germany.

With the decision for unity and acceptance of the legal framework was set the course towards a market economy in East Germany. All the elements of the social market economy in West Germany have been introduced at once: free price formation, private ownership of the means of production, free markets, independent decisions, competition, autonomous wage policy, the West German tax system and the social security system. There has been some criticism already, because there are some old fashioned features in the West German legal framework, which could have been modernised in this context. But in the special situation it was more important to move quickly than to be perfect.

However, the very speed of the change brings its own problems, and more quickly too. East Germany is now, without any cushioning period of transition, a part of the Western market. Privatisation, the abolition of the monopolistic structure, elimination of old and inefficient production structures, and the establishment of a new economy – all this cannot be accomplished in a short time.

After the monetary union many problems have become obvious. The former state enterprises have lost many internal and foreign customers, while western companies and their products have already achieved a remarkable market share in East Germany. On the other hand, western firms did not invest in East Germany as much as had been expected. Especially in the production sector there is very little foreign investment. Unemployment in East Germany has increased phenomenally since July. At the end of September, there were 444 000 unemployed and 1 770 000 short time workers. This amounts to more than 20% of the labour force.

The assistance of West Germany up to now had been concentrated on filling the deficits in public accounting and in the system of social security. In addition there are programmes to promote investment (credits, guarantees, tax incentives) as well as regional and structural programmes. There is already great concern about the costs of unification.

The future prospects of East Germany are not easy to assess. Current industrial and agricultural operations will certainly shrink, but on the other hand there is much scope for growth in the small and medium-sized enterprises and in the services sector. In general, observers agree that there are good reasons for optimism in the long run. Unfortunately, nobody knows the extent of the structural crises and the time period until consolidation is finished.

THE TRANSFORMATION IN EASTERN EUROPE

13. THE PROBLEMS

In the countries of eastern Europe uncertainty is even greater. The authority of the old political systems has been broken, while that of the new ones has not yet been put to the test. Much of the political change has occurred at breathtaking speed. Economic change, on the other hand, has been arduous and laboured. The security offered by the central planning system has vaporised at a faster rate than market mechanisms have had a chance to develop. The growing uncertainty is reflected not only in functional weaknesses of the economy, but also in social unrest. There is often a lack of political consensus on the avenues which should be pursued to change the existing system. Uncertainty over the duration and possible social costs of the reconstruction period are having a serious impact on the psychological state of the various populations.

At present, Eastern European countries are looking for ways to restore economic stability and, at the same time, to implement wide-reaching, market-oriented reforms. The economic models employed and the circumstances prevailing in the different countries differ greatly. Poland and Hungary are pursuing a strict stabilisation policy along neo-classic lines. Czechoslovakia is attempting to implement a similar, though very cautious model. Bulgaria, Roumania and the Soviet Union currently find themselves in such a state of crisis that any reforms can only be envisaged over the long term.

14. CONCLUSIONS

The East European countries have decided to change their political and economic system. The one-party system has proved to be inhuman, the economic system has proved to be inefficient. But still there are no examples at this stage for the successful transformation from a planned to a market economy. It is debatable whether the models pursued in Poland and Hungary provide a solution which will be acceptable both politically and socially. The first results are a rapid fall in production and an increase in unemployment levels. In my view, successful transformation is possible not simply by introducing pure market mechanisms, but rather with a balanced mixture of market elements and state influence. I admit, that this model has not been worked through. In any case, there is only a very narrow line between the breakdown of economic activity on one side and hyperinflation on the other – with concomitant implications for social unrest if the issues raised are not addressed with speed and determination in either event.

THE PLAGUE OF ECONOMIC TRANSITION IN EASTERN EUROPE

by

Laszlo Lang

INTRODUCTION

THE FOUR PREREQUISITES OF ECONOMIC TRANSITION IN EASTERN EUROPE

The only world-famous Hungarian economist Janos Kornai noted recently that the success of the ex-communist countries' transition to a market economy relies on four critical prerequisites.

These are:

- (1) a strong government which means a "normal" government with a strong nation-wide support;
- (2) a comprehensive and uncompromising economic reform;
- (3) the creation of a new entrepreneurial class, and
- (4) the ability to manage more efficiently an inevitably failing but overarching state sector.

These crucial conditions are difficult to meet, to put it mildly.

(1) Nation-wide support to anti-communist or revolutionary leaderships fades quickly. Governments can point to the evil legacy of the past for a few months. After that, the new people at the helm are called to account for the inevitable lack of improvement in living standards. As a result, the political elites, sensing and reacting to the people's mood in their own different ways, will also be divided; competition will be replaced by antagonism, creating an atmosphere conducive to populism and demagoguery.

Poland has been an encouraging exception to the rule until most recently. Its government headed by Prime Minister Mazowiecki has not only enjoyed an unparalleled popularity but succeeded in starting on the economic policy course that proved to be the only reasonable choice under the pressures of soaring budget deficits and three-digit inflation. Divisiveness unfortunately has come sooner than expected. Lech Walesa is running for the Presidency under the combined pressure of his trade unionist past (with which one clearly cannot agree, given unemployment rising in 8 months from 50 000 to nearly 1 million) and his own populist supporters who complain of the "slow pace" of change. Mazowiecki has also entered the ring: he stands to lose, but worse news is that his governance, in the course of a heated and desperate election campaign, is unlikely to preserve the unique virtues it has displayed thus far.

In Hungary divisions pre-date even the coming to power of the anti-communist opposition. Its ruling Christian, right of centre coalition is fragile, its liberal opposition desperate, with both engaged in waging futile ideological- philosophical struggles against one another.

President Havel's charisma has tamed, thus far, the centrifugal tendencies fuelled by regional and ethnic separatisms in Czechoslovakia. Yet, even his charisma will prove insufficient to prevent his ruling Civic Forum, a major depository of groups and individuals of sharply different world outlooks and ideological profiles, from falling apart.

The unpopular measures which must therefore be taken by these various governments provide a fertile ground for fiery demagogy, (governmental or oppositional), obstructionism and thus, to more division and less of the inevitably painful measures.

(2) Advocates of "Big Bang"-type reforms and those of reformist gradualism are fighting their fights, for some time now, in each post-communist country. The pros and cons of either approach are instructively highlighted by knowledgeable economists. The answers to their implied questions appear to boil down to the simplistic notion that if you have hyperinflation you go for the Big Bang or shock therapy. If you have not - or not yet - you can afford more incrementalism. After all, it is not economic rationality but politics that will pass the final verdict. Political decision - making, more often than not, and particularly when decision - makers feel unsafe, will follow the line of least resistance.

The 20 years of Hungary's half-hearted reformism has clearly demonstrated that gradual liberalisation and decentralisation does more harm than good. And yet, despite these lessons, it is gradualism which appears likely .. for political reasons to take over in post-communist eastern Europe. It is not domestic political reckoning but external pressures and adverse developments emanating from outside which may enforce the change. And external developments seem to work into that direction.

It is an open question whether and in what form eastern European economies will survive the combined effect of

- increased energy prices;
- Soviet unwillingness, if not inability in effect, to continue oil supplies to eastern Europe at somewhere close to earlier levels;
- the transition to hard-currencies in intra-Comecon trade as of January 1,1991 and
- the looming recession in the Western economies.

Hungary, for instance, stands to suffer a 4-5% GDP loss on New Years' Day 1991, just because of the adverse effects of the shift to US Dollar trade with the Soviets. If redirection of (some of) the then unwanted Hungarian exports to Soviet markets to other outlets is hindered by slackening world-wide demand, the implications will indeed be dramatic. If so, the natural (gradualist) course of political decision-making can be obliterated by the pressure of events.

(3) The emergence of a new entrepreneurial class is indeed the sine qua non of the east European transitions. As Janos Kornai put it: "You cannot successfully privatise without stabilisation, you cannot stabilise the economy without a certain minimum privatisation... There is a critical mass (of measures): do less and you go back to gradualism."

It is still true as it has been for several years that in many of these countries their only functioning sphere lies in the small private sector. In Poland, the 40% fall in real incomes on last year is mitigated only by the spread of private entrepreneurship, whether by peddling, retail trade, or artisanship. In Hungary, there is a semi-legal economy under the surface which is apparently booming in the midst of a rapidly declining public economy. However, these activities need massive support so that they can deliver the "critical mass" needed for a meaningful change. In Hungary a sensible programme was launched recently which opens a substantial, preferential credit line to private citizens if they are buying state property.

Clearly, to build up an entrepreneurial class which functions in normal circumstances as a harbinger of pluralist political stability, took centuries in the more fortunate parts of the world. Eastern Europe has not even decades, let alone centuries to accomplish the task. Consequently, foreign direct and portfolio investment should be given an access that might be unparalleled in world economic history, even if only temporarily and to accelerate dismantling the state sector which imposes enormous burdens on both the economic and political performance in these countries. Yet, the political approaches to foreign investment do not, so far, appear to appreciate this. In Hungary, hidden yet perceptible ideological hostility against foreign investment displayed by many leading representatives of the ruling coalition make even the boldest entrepreneurial foreigners to think twice. In Czechoslovakia, there is an open resistance to the outright sale of state assets to foreigners, reflected by blatantly restrictive legislation. There is little doubt, too, that Wales's Poland would in due course reconsider how much and what parts of Poland's then "invaluable" national assets could be set free for greedy foreigners.

(4) State sectors, no doubt, must be privatised, because they are, by nature inefficient. Denationalisation, however, will not happen overnight. All the less so as the necessary "know-how" of the process has not yet been learned.

Of all east European countries (except for the one-time east German territories) it was apparently Hungary which went furthest in devising the methodology. But the actual result is thus far only a central organisation with overarching authority, plus 30 employees and a list of 20 state companies which are to undergo privatisation within half a year. In Poland, out of 8 700 state companies, only 12 have been marked out for being privatised this year. Czechoslovakia, in turn, is still flirting with a quasi-socialist idea of giving out state property to the population at large via a combination of investment vouchers to all citizens and employee ownership programmes.

Clearly, large scale denationalisation will take many years, if not decades, in eastern Europe preserving, in consequence, low-efficiency state sectors indefinitely. During this time an uncompromising fiscal rigour against state sectors must be maintained so that their inherent greed for public resources in terms of subsidies and budgetary allocations is held on a short leash.

In what follows, some text-book examples from most recent Hungarian and Polish economic and policy practice are offered, to give support to these observations. The country updates presented

are excerpts from the latest Centresearch Report of the Central European Research Centre Inc., Budapest, the first private political economic research unit in eastern Europe.

COUNTRY UPDATES

September 1990: Hungary

September in Hungary has been defined by two major political events. One was the outburst of media criticism at the end of the 100-day grace period Jozsef Antall's right-centre government asked for and was granted when it came to power last May. The other was the local and municipal elections held and which failed on September 30 owing to the apathy reflected in the low turn-out rates in all major cities of the country.

In between, most of the month was taken up by tedious parliamentary skirmishes over, inter-alia, the so-called pre-privatisation law (meaning, quite deceptively, the privatisation of retail outlets), the ideological stance of the conservative government on liberals, liberalism and the potential role of foreign capital on the economy. The month has also witnessed that the release by the State Property Agency (SPA) - the government's powerful arm on privatisations - finally of the official list of the first 20 state enterprises which lead an allegedly long list of others for privatisation. On September 26, the government has, after some unexplained delays, come out with its long-promised 3-year economic programme of "national renewal". The first reaction of the liberal opposition to the programme contended that "our problem with it is not that it points to another direction than the one we would prefer to go but that it points to no direction."

...the economy still works...

In the meantime, the economy, quite unforgivably, took its own course. And it fared, due to the governmental inertia as some obstinate liberals would put it, surprisingly well.

By August, hard currency trade registered a \$628m surplus, a \$500m increase on last year. Hard currency exports were 15.5% up in the first 8 months on last year, yet, imports by only 0.2%. Income from tourism was about 80% higher (\$400-500m) than in 1989, giving Hungary an additional \$200m boost to the current account in the first half of 1990. The successful delinking from eastern markets, so far, demonstrated an unexpected flexibility on the part of state companies who redirected deliveries from the collapsing Comecon markets to the West. It was in May, for the first time in Hungarian history, that imports from the EC outran those from the Comecon, and in July, that exports followed suit.

Domestic (private) hard currency deposits doubled to \$650m over the last 3 months reflecting not only a liberalisation of, or rather, a beneficial non-intervention in the nation-wide black/grey foreign exchange markets but also an increased confidence in the predictability of the government's actions. The Forint even seemed to be appreciating over the last two months: black market rates to the Deutsch - mark decreased from Ft55-58 (a 45-50% margin over the official rate) in June to Ft 44-45 (12%) in September.

"Appreciation" was, however, illusory; it reflected tourist season supply/demand balances at the black market rather than a strengthening of the local currency: in west Europe money centres the exchange rates for Hungarian Forints, devalued as they are, have not changed. All this plus some new western credits helped to contain the country's gross foreign debt of \$20bn – the highest per capita in the region. The government continues to insist on what all its (communist) predecessors did since 1956, namely, that refinancing rather than rescheduling is the course to – be followed.

One might find solace even in the 10% fall of the industrial output by suggesting that it reflects only the delinking from traditional exports markets, and thus, positive structural adjustments, let alone the fact that the real growth is concentrated in the statistically unobserved smaller firms and the grey economy. Indeed, retail sales in the first half of the year fell only by 1.1% on last year.

AS CHANGE EVOLVES

Hungary's foreign trade by groups of foreign exchange and groups of countries (current prices)

Imports (Ft billions)

Period	Rouble trade	Non-Rouble trade	Total	Of Total (in %)		EFTA
				Comecon	EC	
1987	207.8	236.2	444.0	48.6	25.1	11.1
1988	199.7	261.2	460.9	44.5	25.8	12.4
1989	200.8	32.7	523.5	39.6	29.0	13.8

1990

Jan – Mar	33.0	67.6	100.6	34.5	30.1	14.1
April	12.9	28.0	40.9	36.9	30.6	16.1
May	13.2	32.4	45.6	31.5	34.4	16.2
June	14.5	28.0	42.5	36.7	31.8	16.2
July	13.3	26.5	39.9	33.4	33.3	14.8

J–Jl 1989=100

J–Jl	77.6	110.8	97.4	82.1	112.4	119.8
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Exports (Ft billions)

1987	211.5	221.1	432.6	52.7	20.1	8.4
1988	204.9	287.4	492.3	46.2	22.6	9.9
1989	215.9	355.4	571.3	41.8	24.8	10.6

1990

Jan - Mar	27.6	81.2	108.7	32.9	32.1	12.8
April	9.8	32.4	42.2	33.4	32.9	10.9
May	13.8	36.3	50.1	34.7	31.1	11.8
Ju	20.6	41.9	62.6	36.4	28.8	10.2
Jl	10.4	29.5	39.6	30.6	36.1	11.8
<i>J-Jl 1989=100</i>						
J-Jl	67.0	128.7	103.0	77.3	140.0	118.4

(source: national statistics)

Nor did the inflow of foreign direct investment seem to slacken. foreign equity investments totalled \$250m between 1972-88, \$600m at the end of 1989 and are expected to reach between \$1.2 and 1.3bn by year-end. In the first quarter, 249 new corporations have been registered, with two thirds having a foreign equity stake. In the second quarter 885 new corporations have been registered, of which 95% have had a foreign participant. Yet according to 1989 year-end figures, two-thirds of the joint ventures kept paid-in capital at the mandatory required minimum of Ft1m (\$15,700). More than half of them targeted the services sector, domestic retail trade in particular. Clearly, minimum capital outlays combined with quick returns and tax reliefs have been the principal driving forces. At the MIGA's Budapest conference in mid-September, the Prime Minister pointed to several priority areas where foreign direct (unlike portfolio) investment, is most welcome. These are telecommunications (particularly, the manufacturing of electronic parts and components), pharmaceuticals, the upper ranges of petrochemical industries, engineering (with special regard to agricultural machinery assembly or manufacturing), car-assembly and the related upstream industries, environmental technologies and equipments, infrastructural development (mostly roads and railways), computer and information hardware, aluminium industries and hotels and tourism-related services. In these sectors, firms with a strong export drive, or smaller ones with a motivated, dynamic management, or foreign ventures with strong local and foreign backing as well as service firms in the undersupplied subsectors might present, in principle, excellent targets for foreign private placements.

...despite a gloomy outlook...

However, at this point even the optimist's optimism comes to an end.

- Agriculture, the major net export earner is suffering its worst year for decades. An unprecedented drought resulted in an output loss of Ft30-35bn (\$480-550m), equalling a 25% decline in agricultural production which amounts to a major natural catastrophe. Fodder imports will have to be increased by an unanticipated 600,000 tonnes. The ongoing political controversies, triggered by a junior partner in the ruling coalition, the Smallholder's Party, about the reprivatisation of agricultural land, aggravate the situation. Its notion, contending that the good farmer is one whose father has been a good farmer back in 1947, seems to be for many as dangerous as was the communist principle of good comrades making good managers. Industry's order books for the rest of the year carry bad news. Apparently, the collapse of eastern markets (a 32% fall in Hungarian exports) continues to affect industrial

exports, whereas the easy part of redirecting to western buyers, "distress exporting" as called by many, is running out. "The easier part of the redeployment is behind us" - Bela Kadar, minister for International Economic Cooperation said to Financial Times recently.

- The transition to hard-currency trade with the Comecon, and the Soviets in particular, from January 1991 further darkens the picture. According to most recent in-house government estimates, the trade deficit on Soviet trade may amount to \$1.3-1.5bn next year even if one sees international oil markets getting back, in a couple of months from now, to business-as-usual. The prospective relief on the balance of payments might then be provided by one of the last actions of the outgoing communist government, who agreed with the Soviets about converting the accumulated Hungarian trade surplus (Rb1800m in May and close to Rb11bn now), with a reasonable exchange rate of 92 dollarcents to a rouble. Consequently, some \$900m can be expected to ease the transition from January when exports are expected to fall by 20-40% on this year. Imports - of energy for the most part - will be tardier, and no doubt expensive. (See our special feature). If the commodities and manufactures no longer accepted by the USSR for hard and scarce currency, cannot be redirected to other outlets (and realistically only a mere one-third stands a reasonable chance of that), then industrial output may contract by 10-15% next year, adding another 150-200 000 to the pool of unemployed (close to 90 000 as of end-September).
- To make things worse, trade with the five new (ex-East German) "Bundesländer", the third largest trading partner of Hungary, will soon fall back to one fifth or one sixth of the earlier volumes.

CORPORATE ORDER BOOKS AS OF JULY 2, 1990
(on previous year, in percentage)

	1989			1990		
	3rd quarters	4th	2nd half	3rd quarters	4th	2nd half
	VOLUMES					
Metallurgy	97	62	89	69	118	77
Engineering	97	84	91	79	80	79
Building Materials	100	105	102	78	62	73
Chemicals	92	95	93	92	98	94
Light industries	90	93	92	82	70	78
Totals	94	88	92	81	86	83
<i>Out of totals</i>						
Domestic Sales	92	84	89	78	90	82
Foreign Sales	100	94	97	89	80	85
rouble sales	100	79	90	72	63	68
non-rouble sales	98	110	103	98	91	95

(source: national statistics)

TEXTBOOK STAGFLATION IN THE MAKING – HUNGARY
(annual rates of increase/decrease in percentages)

	<i>NMP</i>	<i>Industrial output</i>	<i>Consumer prices</i>
1971 / 75	6.2	6.4	2.7
1976 / 80	2.9	3.4	6.3
1981 / 85	1.3	2.0	6.8
1986	0.9	1.9	5.3
1987	4.1	3.5	8.6
1988	0.3	- 0.7	15.5
1989	0.0	- 1.0	18.1
1990	-2.0	-10.0	30.0

(source: national statistics and Centrosearch estimates)

...little sense of urgency...

Thus the stagflation which has been plaguing the Hungarian economy from the late 1970s is likely to gather a strong momentum now. Yet, the government does not appear to be caught by a sense of urgency. It is clearly not (yet) a time for a Polish-type shock- stabilisation, but nor is it one for a " selective" anti- cyclical stimulation. In this stalemate, institutional changes as such are accelerated and wide-scale denationalisations, revival of the shattered confidence of foreign investors, as well as the resolute stimulation of private entrepreneurship are crucial, so that the structural flexibility and supply-side adjustment of the economy increases sufficiently to survive the big bang of subsidy cuts and price liberalisations.

However, privatisations proceed sluggishly and so does the liquidation of the major state-owned industrial loss- makers. The government's tight monetary policy is undermined by the intractable problem of queuing-up: cascading non-payment of bills by insolvent companies. In May the Prime Minister still referred to the immediate liquidation of 30-40 major state enterprises. He reconfirmed this brave resoluteness in June during a visit to West Germany. In July, information was leaked that there was a hard core of 12 major state companies which were coming up to their inevitable fate, though four of them, in the field of telecommunication, might escape. Early in August, the government made public a list of a mere 7 companies that were supposed to be liquidated, all minor ones, since their winding up was being regarded as a "test- case". In September, the government finally released its thesis on privatisation:

1. Except for agricultural land, there will be no reprivatisation (i.e. giving back to ex-owners) of state property.
2. Exceptionally, ex-owners can be compensated through securities that allow only for the purchasing of state-property.
3. State property is to offset the national debt: i.e. it cannot be given away "free". Revenues incurring from selling state property must be used to reduce government debt.

4. Domestic debt-equity swaps will be encouraged so as to increase the domestic purchasing power for state property.
5. There are, basically, three ways of privatisation:

The one initiated by the SPA, another triggered by the respective corporation itself ("spontaneous privatisation"), and finally, the most intriguing one, when domestic or foreign buyers approach the SPA with a bid for part or all of its target.

Clearly, a basic precondition would be that the full range of companies to be privatised on the SPA's initiative would be identified at the earliest opportunity. The SPA's overarching authority presents another questionmark. Can a 30-employee organisation organise effectively the privatisation of a retail network of 20-40 000 units plus 20 semi-large state enterprises for a start, plus several dozen corporate-initiated sell-outs? (See Section 5 of this Report for some answers). The process will eventually be so complicated (see our box on the issue), and restrictive in fact, that both foreign and domestic private involvement might be discouraged.

The confidence of foreign investors has by now been shattered. The dynamism provided by "spontaneous privatisations" (management buy-outs, private placements, etc.) has broken down recently. With the inclusion of the now compulsory price auditing, the minimum time frame for a successful foreign placement has increased to 4-5 months. The fact that a foreign investor who has triggered the buy-out of a corporate stake will now have to stand up to the competitive tender: that is, he invests in inviting his own competition, which might indeed be embarrassing. Government intervention such as the retroactive cancellation of investments as in HungarHotels, or the scotched deal of Hungaroton with EMI, amongst others, do not help to build confidence.

The only promising element within the generally gloomy picture is the government approved credit line of September 29 to encourage the sale of state property to domestic private investors. This revolving fund which in fact institutionalises domestic debt-equity swaps, provides loans at preferential terms to private citizens with limited savings, to buy out parts of state property.

POLAND

The headline news from Poland in September is largely political. Firstly, Poland has finally calmed down: the Moscow treaty on German reunification reaffirmed Poland's post-WW2 borders. Secondly, the Nobel-prized Solidarity leader, Lech Walesa might become President by Christmas, news that makes Polish intellectuals - as well as concerned foreigners - shudder. The split within Solidarity, welded shut by the martial law and again, at the June elections last year, is now an open wound. Cardinal Glemp's national "tea-party" on September 18 did not help to reconcile the warring factions of the now ruling Solidarity.

Clearly, Solidarity has been in a clumsy position for the last 14 months. Since coming to power, the first swings of the axe of economic transition had to be directed against the chronically loss-making heavy industries, steel, mining, and shipyards, ironically enough the cradle of Solidarity. Clearly, no trade unionist movement can afford to be pro-government when real incomes fall by 40% and unemployment rises 15-fold as has happened in Poland since January.

...the split in Solidarity opens wide...

Although Walesa was under the pressure of his own labour union (the membership of which has dwindled from 10 million in 1981 to 2 million now), he first tried to play a conciliatory role as a national leader. Yet, after the railway workers' strikes, the wide-scale unrest in the countryside and the Solidarity congress in July, he began to criticise, with strong populist overtones, the Solidarity government of Tadeusz Mazowiecki: for its slow pace of political reform, the alleged protection extended to the former communist 'nomenklatura' and the insufficient (sic!) economic reforms. He began flirting with the idea of his own presidency, as a means of delivering the strong man, a tradition deeply rooted in Poland's inter-war history, who might be indispensable at such a critical stage. Walesa's themes were immediately picked up by Jaroslaw Kaczynski's Centrum Conciliation group, a "Christian-national", right-centre faction of Solidarity which has, since May, attacked Mazowiecki for his "collusive" policies towards the ancien regime, as well as for his reluctance to accelerate privatisation and reforms.

Walesa's failed attempt to cajole the liberal Civic Committees led to the dismissal of several prominent leaders, such as Bujak, Frasyński, Michnik and Turowich, and thus, to an open split with the government and much of the parliament. In response, the so-called Citizen Movement for Democratic Action (ROAD) was formed, attracting the one-time Solidarity elite: intellectuals, MPs and prominent Solidarity activists. Observers tend to reduce the controversy between the Centrum and ROAD to one of "Gdansk versus Warsaw", or "workers versus intellectuals", or "trade unions versus government", or even more crudely, to one of those in power versus all the rest. Be it as it may, it is not only Walesa's presidency but two fundamentally different philosophies in terms of Poland's political and economic futures, which are underlying the split that now divides both Solidarity and Polish society.

...with or without the strong man, a new era is coming...

Walesa's Centrum group is right in its assessment that the Mazowiecki-Balgerowicz stabilisation programme has delayed elimination of state monopolies as well as the implementation of the large-scale privatisation schemes it initially promoted. Yet, the economic slogans of the Centrum's "raiders" calling for uncontrolled wages, crash privatisation, and full-scale liberalisation does not seem to add up to an alternative economic programme.

ROAD's intellectuals cannot deny that there were unjustified delays in privatisation and the reform of tax systems, for example, yet they resist what they legitimately regard as a quasi-Peronist populist drive on the part of Walesa's supporters. Thus, all in all, the controversy boils down to who becomes the next president of Poland: Walesa or Prime Minister Mazowiecki, who tends to do better in popularity polls than the Solidarity leader, although he has failed thus far to disclose his intentions. The heart of the matter is not, as many hopeful Polish intellectuals used to put it, namely whether Mazowiecki would decide to run, is confirmed by a recent poll finding that only 35% of the Poles declare themselves "reform-advocates", a percentage which is up from 26% in July, yet still low enough to justify seeking the safe, cautious outcome.

Be it as it may, the stalemate caused by the round-table accord struck with the communists last year will be, by Christmas, over in Poland. This may pave the way to an open, truly pluralistic political system, or to a populist authoritarian regime. In the first case, foreign investors will have

an unconstrained, competitive access; in the latter, exceptionalism rather than xenophobia will prevail. Make your choice...

... shock therapy does work ...

In economic terms, Poland has succeeded in sustaining the dynamics of her now historic "shock therapy", launched last January through to September. The programme which was triggered by the three-digit inflation Poland went through in 1989 and the I-don't-care-how-but-fight-it attitude it produced has essentially succeeded.

One of the few success stories in central Europe Poland: monthly inflation rates (per cent), official exchange rates of zloty to US\$ and black market exchange rate multipliers

The worst inflation that ever plagued Poland has been halted through a combination of

- 1) - dramatically cutting the budget deficit (running at 8% of the GDP in 1989), by reducing subsidies and investment;
- 2) - restricting monetary growth;
- 3) - a one-time devaluation of the national currency and the introduction of its convertibility;
- 4) - a stringent tax policy that prevents rises in nominal incomes;
- 5) - a wide-scale price liberalisation and a one-time corrective price increase for public utilities.

As a result, not only was inflation halted, and a gradual appreciation of the zloty achieved, but also the fiscal deficit was turned into a fiscal surplus, currently at 3% of the GDP. On the hard-currency current account, a \$427m surplus was registered in August alone (despite the terms of trade losses), compared to \$400m in July and \$439m in the whole first quarter of this year. And the export boom appears set to continue: hard currency exports that amounted to \$956m in August will have exceeded the \$1bn threshold by September. As if only to add to the good fortunes of the Balcerowicz-team, fine weather helped over the summer and in September to substantially increase agricultural outputs, grain, potatoes, sugar beets, and hay in particular, permitting considerable exports to the Soviet Union among others.

Despite a 10-15% decline in the GDP by year-end and the adverse developments in the energy sector revolving around Soviet and Gulf oil supplies and prices, the current account is to produce surplus of 1% of the GDP by December. This, together with the rescheduling of all interest and amortisation due up to March 1991 on Poland's \$27.7bn debt to foreign creditors and the non-payment to the country's commercial creditors, will help to raise Poland's international reserves to \$4bn.

	<i>Inflation rate</i>	<i>Exchange rate</i>	<i>Black market exchange multiplier</i>
<i>1989</i>			
<i>January</i>	11.0	508	6.7
<i>February</i>	7.9	560	5.8
<i>March</i>	8.1	573	5.3
<i>April</i>	9.8	680	5.1
<i>May</i>	7.2	850	4.6
<i>June</i>	6.1	845	5.4
<i>July</i>	9.5	836	6.8
<i>August</i>	39.5	988	6.9
<i>September</i>	34.3	1339	7.1
<i>October</i>	54.8	1970	4.1
<i>November</i>	22.4	3077	2.2
<i>December</i>	17.2	5235	1.7
<i>1990</i>			
<i>January</i>	78.0	9500 (a)	1.0 (a)
<i>February</i>	24.0	9500	1.0
<i>March</i>	4.3	9500	1.0
<i>April</i>	7.5	9500	1.0
<i>May</i>	4.5	9500	1.0
<i>June</i>	3.4	9500	1.0
<i>July</i>	3.6	9500	1.0
<i>August</i>	1.8	9500	1.0

(a) Up to August this year, both official and black market rates were oscillating within a less than 10% range.

(source: national statistics)

... the bad news could be worse ...

The price to be paid for this success was a dramatic fall in state-industry output, 30% on the last year by now, a contraction of real incomes by about 40% and an upsurge in unemployment climbing from 0 - 5% of the labour force in 9 months. Yet, even the bad news may not be as bad as it seems to be.

Firstly, the 30% fall in state-industry output does not reveal the pains and rewards of the enforced structural change and adjustment that is definitely going on in that sector. Due to the tough budgetary constraints and high interest rates, corporate managements sink or swim: they monitor technological processes for savings, and to avoid overstocking, they are out for new markets, at home and abroad. Indeed, industrial production increased, for the first time this year, by 5% in August. There were clear signs of improvement in food, electro-engineering and precision industries, and the textile industry, that has been the most hard hit by demand constraints, shows tendencies for stabilisation.

Secondly, the fall in real incomes is partly compensated for by the elimination of consumer shortages. Bread-lines disappeared, consumer durables which used to be available only through month- or even year-long waiting lists, are now freely available nation-wide. Until last July, many Poles went over to East Germany and West Berlin for shopping and peddling. Since July, Polish border towns have been flooded by East Germans for whom the strong DMark makes Polish foodstuffs and consumer goods a bargain. Expanded consumer supplies have been attracting not only Germans, but crowds of Russians, Rumanians and Bulgarians to Poland recently, to such an extent that official export figures should in fact be upgraded.

Thirdly, though in August alone the number of unemployed increased by 121 000, so did that of the new job offerings, reaching 58 000 on the whole. Furthermore, there are approximately 200 000 people who had never had permanent employment before but now register as unemployed to obtain social benefits. Finally, hundreds of thousands of registered unemployed are being engaged in the massive boom of unlicensed "street trade". Peddling not only provides livelihood for a large number of the unemployed but also creates additional employment in workshop industries and retail services.

... yet, don't speed up ...

Faced with all this good and not-so-bad news, Walesa's "raiders" argue that it is time "to start the engines" and relax the monetary and fiscal rigours. In response, the Balcerowicz team points to the disruptive effects of increased oil prices, the direct losses caused by the Gulf war totalling some \$2.5bn, the tumbling energy supplies from the Soviet Union and the looming transition to hard-currency trade within the Comecon which has accelerated inflation to 4.5% in September. In 1991, Poland will have to face a minimum of \$1.5bn loss on the transition to Dollar-based trading with the Soviets. The Soviets have recently announced that they will be reducing their purchases from Poland next year due to domestic difficulties as well as to the land transition. Purchases of the major Polish export commodity, coal, will be reduced from 9.5mt to 4mt, and the imports of Polish steel and other metallurgical products may simply be discontinued.

... but privatise, for God's sake ...

Balcerowicz's September Memorandum to the IMF and the World Bank categorically rejects relaxing austerity prior to the envisaged structural reforms, including privatisation and demonopolisation, in case they fail to yield fruit. Indeed, this is the heart of the matter. The preponderant state sector of Poland, or that of the other ex-communist countries for that matter, will fail to operate at a reasonable level of efficiency unless it is literally coerced to do so via an economic state of emergency such as the one in Poland recently. If "Martial Law" against the state sector is eased, overspending will inevitably set in again. The solution is clearly privatisation. yet, one cannot privatise 8700 state companies overnight.

Consequently, an incrementally shrinking, low-efficiency state sector, kept under tight fiscal and monetary rigour, should for some time co-exist with an expanding private sector which, in turn, would be entitled to an anti-cyclical relaxation in stringency. To preempt policy schizophrenia, stop and go phases are likely to alternate with one another. The timing of the "go" phases will be the real litmus test of policy making skills.

Polish privatisation, not unlike the Hungarian one, has also moved in the line of least resistance, for a start. A retail privatisation is under way, having returned more than 10 000 state-owned retail outlets to private hands by late August. During the rest of this year, a further 45 000 units are to go private, thus making some 70% of the country's overall retail network private by year-end. Foreigners are said to be welcome in the process, though the attitude of municipal authorities may differ from one place to another.

There are in addition a mere 12 large state enterprises which are earmarked for privatisation later this year. However, the ways and means are as yet unclear, and authorities say that the process could gather momentum only next year. A general reluctance with regard to the envisaged "structural reforms" is signalled also by the one year postponement of the personal income tax system planned for January 1991, and a six-month postponement of VAT to July 1991.

EASTERN EUROPE, THE USSR AND SOUTH AFRICA: THE HOPE OF DEMOCRACY

by

Carl Linden

I speak as a newcomer to South Africa and I came to learn something new. Indeed, I was prompted to come for that very reason: to learn. I had heard much about South Africa over the years, both good and bad and I had to come to see for myself. Though the visit is brief I am already struck by the diversity and contrasts of this expansive country and the myriad of difficulties it is now going through in its time of transition. Despite its looming problems I sense there are great human energies and talents to be tapped here and that this is obviously a time of danger and opportunity. Much of the hope rests on the possibility of a non-racial democracy emerging out of the current political transition and the presence of good political sense on all sides to find a way out of mutually destructive strife to peaceful democratic contest.

When I learned that the topic of this session of our conference was "Building Democracy" and that my task was to relate the transformations in Eastern Europe (now Central Europe) and the Soviet Union to the issue of democracy in South Africa, I first thought there was a great and perhaps unbridgeable distance between the two situations. In Eastern Europe a great democratic and national revolution has taken place and is currently underway in the Soviet Union. The leading forces of that revolution strive to break free of the legacy of communist autocracy and one-party dictatorship and find new orders of rule based on civil democracy and national freedom. In South Africa, in turn, F.W. de Klerk is leading an attempt to move the country from a racially-based and narrow republic to a non-racial democratic republic of one or another form. There is then a commonality then in the attempt to move from repressive to freer forms of political life.

Whether the contrast between the transformations taking place in the East European-Soviet and South African cases defies comparison or whether lessons can be learned from the comparison can be debated. I am aware that there are differences of view here on this question. However, I am disposed to think something can be learned. We are after all not talking about life on different planets but of human predicaments here on earth.

Moreover, let us not abandon hope but see in a time of change not only danger but great opportunity. The myth tells us that Prometheus gave man fire and hope together. Fire is the promise of the power and artfulness that lies within man but hope must be kindled in him if he is to use his fire to answer the challenges and difficulties of the human condition and make that condition livable and even enjoyable.

With the aid of hope we also can learn from our human failures and be able to return to the task. In Eastern Europe and the Soviet Union on the one hand and South Africa on the other we witness regions where there have been grand failures of human foresight and justice. In the one we see the collapse of the utopian project for a universal communist transformation of society and in the other, the breakdown of a utopian racial exclusivity aptly characterized in the title of

Marq de Villiers' book, "White Tribe Dreaming". The spectacle of the collapse of these misdirected human aspirations is sobering. How can there not be lessons for us in this? It is said that history repeats itself because men are deaf to its lessons. Hope and aspiration thus must be tempered by these painful revelations of historical experience and reality. It seems that the great modern revolutions are less than leaps forward in human progress than revelations to humankind of how badly things can go wrong in the human adventure. History better tells us not what to do but what not to do.

Nowhere is this now more painfully evident than in the revolution of 1989 in Eastern Europe and the upheaval now taking place in the Soviet Union. A perspective on the changes there perhaps then can be of use in looking at the change in South Africa.

When I opened *The Citizen*, here this morning, I learned that Mikhail Gorbachev had just won the Nobel Peace Prize. According to the paper at least, he won the prize "for shattering the former communist order in Eastern Europe and putting an end to the Cold War". On the first count Gorbachev hardly deserves praise for what he did not intend. He did not set out to shatter but to save the communist order in Eastern Europe through its radical reformation.

Gorbachev does, however, merit recognition for his major role in bringing the Cold War to an end. In any case, *The Citizen* did not miss the glaring paradox of the Gorbachev phenomenon. While his popularity soars in the West, it falls to its nadir in the Soviet Union. The Soviet command economy is in utter collapse and perestroika has failed to put anything in its place. The peoples in the territories of the Soviet Union find themselves between a rock and a hard place. They are having an increasingly hard time finding bread and milk, salt and soap, and basic staples in an economy in ruins. They are not at all happy about it.

In contemplating the Soviet breakdown an ungenerous thought came to mind. Awarding Gorbachev the Nobel Prize is a bit like giving a prize to the Sorcerer's Apprentice! You remember that the apprentice was given the task of cleaning up his Master's house. He decided to save trouble and use a little of his Master's magic. He commanded the pail and the mop to do the clean up on their own. Presto! They did so with a vengeance. Alas, the apprentice did not know the magic for stopping the pail from dousing the house with endless pailfuls of water. Instead of getting a clean house he found himself with an uncontrollable flood on his hands. Something like this has happened to Gorbachev in waving his magic wand of perestroika.

In any case, the great change Gorbachev set going in 1989, like those of 1789 and 1776 as well, was one of those revelatory moments in history and a truly major event of modern politics. Let us take a very broad look to see where the year 1989 fits into history. Nineteen Eighty Nine indeed reaches back to 1789 and is the completion of a modern cycle of politics. As in the French Revolution, absolute rule, though in modern guise, was brought down in Europe. Communist power itself traced its antecedents to the French Revolution and ironically saw itself as fulfilling that unfinished revolution through dictatorial means. In this it failed and brought upon itself a new democratic revolution whose roots reach back to both 1776 and 1789 as well.

Here in the search for perspective I look back over the great thinkers of Western thought and I fasten upon the first line of Machiavelli's famed or notorious book, *The Prince*. "All states, all powers, that have held and hold rule over men have been and are either republics or principalities." Though Machiavelli was oft maligned as an unscrupulous advocate of one-man

tyranny, anyone who reads his Discourses knows that he is an ardent adherent of the democratic republic. However, he is a very practical-minded democratic republican.

Machiavelli was after all, the national security advisor, so to speak, to the President of the Republic of Florence. He infinitely preferred the deliverance from oppression and liberty under law that a republic can provide to the stifling embrace of despotic power. Now clearly anyone who reads Machiavelli knows that he is not just talking about that little 'boot-shaped' country called Italy of his time, with its many small and quarrelling principalities and republics. When he used the term principality he meant the genus of one-man rule, good and bad, and on all scales of magnitude, from tiny to grand, and similarly for the term republic, the genus of a regime of the rule of public law.

Machiavelli's mind ranged over all human history. He thought that human nature everywhere and at all times known to us remains basically the same and, though circumstances change, certain things recur. Men will live either under the rule of a prince in some form or another, some of them good but more often bad, and sometimes very wicked, or they will have a republic, in some form or another, not so good if it has a weak constitution, but good if it has a sturdy one. For example, today the Iraqis find themselves under a Saddam Hussein and the Swiss still have their centuries-old republic.

What therefore is the revelation of 1989 that I mentioned earlier? I suggested that 1989 completed a great turn in a modern political cycle begun in 1789. What Gorbachev has been presiding over is neither less nor more than the twilight of the dictatorship of the Marxian Prince which is and at once also the twilight of the great modern Marxian Project.

The modern regime of the Marxian prince draws its inspiration and political speech from Marx and his theory of a communist society founded on class struggle and dictatorship. Marx's theory was conceived in disenchantment with radical democratic republicanism issuing from the French Revolution. He saw Europe's republicans as betrayers of the revolution in their compromises with traditional political forces. Marx conceived of the proletarian dictatorship as the agency that was to complete the unfinished revolution begun in France in 1789.

However, it was Lenin who gave the Marxian regime a defined form at the outset of our century and put it into operation through his revolutionary coup d'état in the 1917 Russian Revolution. His successor, Stalin, perfected the new principality as a system of total power over society. After World War II the new regime spread to a third of the world's lands. It ranged in size from great to small, from the Soviet Union and China, to Albania and North Korea. The claim to rule of the new prince rested not in tradition or personal prowess but in ideology and his dominion was enforced by a system of command radiating from the hierarchic apparatus of the communist party invented by Lenin.

It is no accident that this new princely regime, while at odds with all regimes unlike itself, reserved its deepest antipathy for democratic republics of the world and entered into a titanic struggle with them. After World War II the main contest was between the Soviet Union, the imperial heartland of the new principality, and the United States, a great continental federal republic. Both were modern states par excellence basing their claim to rule on ideas, the first on the idea of communism of Marx and the second on ideas of republican democracy arising out of Western political thought and experience. One proclaimed itself a dictatorship to end

dictatorship, the other saw itself as an exemplar of popular self-government. Both had their intellectual origins in the milieu of the Enlightenment (The Age of Reason) in which the American and French Revolutions were born.

Now to be fair to Marx, he evidently did not intend to create a new principality. His ideology as designed, ultimately, to find a way to communism where all forms of principality and despotic rule would disappear. However, he thought the only way to this utopia was dictatorship which would be a kind of tyranny of the proletarian majority over the capitalist minority. The trouble with Marx's view is that it neglected certain aspects of human nature. He was the great class theorist and he only saw two classes as important – the capitalist few and the proletarian many. He envisioned a time after the revolution when only the many would be left living in freedom, abundance and equality.

Marx's theory suffered from a glaring oversight. He took into account only the few and the many and discounted that perennial class of human politics – the class of the Number One. Machiavelli would say it is of the essence of practical politics to keep this class foremost in mind, especially if you want to form a republic. He used the word "prince" meaning literally the first and thus an apt term for that class of human individuals who by aspiration and personal prowess strives to be first in power, often at any cost; they will be found wherever you go. In fact, the One as well as the Few, and the Many has always been a fundamental and unalterable class in human politics – this is a fundamental proposition in the mainstream of Western political thought.

Democratic republics of various kinds indeed seek to create a system of law that transcends personality, a "rule of law, not of men." The Res Publica (literally the "thing" of the public) is a creation of the people, almost the property of the people in the sense of being proper to themselves and thus their own thing. The republic, however, does not seek to eliminate the princely but to tame them by making presidents or prime ministers of them and hedging in their powers through constitutional limitations. Abraham Lincoln, however, warned his fellow citizens that not all individuals of princely genius will be satisfied with a presidential or senatorial chair. These, he said, belong to the "family of the Lion and the tribe of the Eagle".

Marx, in any case, seems to have thought you could have a mass dictatorship without a dictator-prince. When Lenin founded – or should we say invented, the Bolshevik Party in 1903 – the prototype of all communist parties of our day, it was to serve as the communist directorate of the proletarian revolution. Trotsky, you may recall, warned at the time that its hierarchic structure of command meant only one thing – the coming of a dictator. He saw that over time the rank and file members would be substituted for by the Central Committee, the Central Committee by the Executive Committee and then the Executive Committee by the Dictator.

Lenin's party was then but a ready-made instrumentality for the dictator-prince. Lenin, in some sense, saw himself as first among equals of a tightly knit Politburo group of revolutionaries and was perhaps inattentive to his own princely nature. However, true to that nature, he knew when to strike for power when no one else in the Bolshevik party realized that the time was right. Like a great prince his timing was impeccable. Also, like a prince, he did not loosen his reins on power but tightened them in the name of the revolution until a stroke brought him down. His decision as soon as he was in power to dissolve by force the popularly elected Constituent Assembly that was to institute a democratic republic in Russia was the act of a prince brooking no limits on his power.

Although Lenin believed himself to be supremely conscious of the true nature of man in history, there is yet some room for doubt that he was fully aware of what he was producing in fact, if not in theory. This was evident in his Testament when he saw too late Stalin's gathering of power into his own hands. Stalin was not at all unconscious of what he was about – he was extremely conscious. He fixed the office of the Marxian Prince in the office of the General Secretary. The holder of that office originally was to have been the servant and not master of the Politburo. Stalin reversed the relationship.

Now when you think of the history of Leninist communism, it is individual personalities that first come to mind. You think of the names, Stalin and Mao, Kim Il-sung and Ceaucescu, Tito and Castro, or, the unmentionable and seemingly unquenchable, Pol Pot. Why is this? How strange when the doctrine which they propounded, Marxism-Leninism, denies the importance of the hero-leader in history. Can anyone think of our 20th century politics and not think of the consequences of the rule of a Stalin or a Mao? Can we forget the name of Stalin's successor, Nikita Khrushchev. He was certainly an irruption of personality into communist politics. He shattered the once monolithic facade communist power turned to the world. He excoriated his mentor, Stalin, for his unheard of repressions and demolished the mythos of an uninterrupted succession of true defenders of the ideological faith from Lenin. He thereby began the unravelling of the rule of the Marxian prince that Gorbachev now is bringing to term.

Today when people look at what has happened in Eastern Europe and the USSR, they ask the questions: Why did the East European revolution of 1989 come with such suddenness and sweep? Why has weakening of the communist party rule proceeded with such rapidity in the Soviet Union?

Most observers in the West were caught by surprise and baffled by the abrupt advent of the revolution. Again, why? Something consequential, some precipitating factor in the calculus of events, was missed. What was it? One reason was that many of our social scientists and experts overlooked the nature of the regime they were looking at. They were inclined to see the rule of the communist party and the communist "system" as a formidable pyramid standing on its own legs. But, this was a false perception. They forgot what used to be elemental in political analysis. They did not take note that the communist regime is a principality and did not deeply consider how fundamental change begins in such a regime. Change in a principality almost always starts at the top not from below unless an outside force strikes it. They failed to consider that if the prince abandons his instrumentality of rule for another, that instrumentality, in this case the communist party, cannot stand, but will fall, wither away with remarkable dispatch.

Now, the sequence of events that culminated in the great change of 1989 began at the apex in the Soviet Union in the office of the chief of the ruling party. This was the locus of the initiating or precipitating cause of the change.

That cause had its beginning in the thinking and action of but one man. He was the Number One in Moscow, the General Secretary of the Communist Party, Mikhail Gorbachev. The regime he headed, the parent of all communist party-states the world over, had fallen into decay and corruption in the 70s and 80s. Indeed, under Brezhnev the underlying conditions for change were present for years but no change took place. Brezhnev and his gerontocracy simply sat tight.

Gorbachev saw the regime was headed for trouble and was in danger of losing in time its

eminent place in the world. He decided to act. He aimed at the regime's reformation, but he got a real revolution going instead. However, as prince of the party the initiative was his and only his.

Gorbachev did two things that were extraordinary in the man exercising the prerogatives of an office of unlimited and undefined powers.

First, he, for all practical purposes, abandoned the party as the locus of ruling power and transferred it to newly founded institutions in the shape of a parliamentary government. He changed roles from chief of the party to president of the new government.

The new regime was flawed in its democratic character to the extent that Gorbachev had himself installed "from above" rather than by election "from below". Andrei Sakharov warned him that this flaw, namely, a failure to put democratic "principles" ahead of "personality", would return to haunt him. (Indeed, Gorbachev now in competition with Yeltsin, the new president of Russia, suffers from the disadvantage of not enjoying a popular mandate through election as his rival does. It is as if Gorbachev was unable to escape his origins and at the critical moment could not decide whether to be prince or president.)

Second, Gorbachev went on the attack against the old guard of the party, the Nomenklatura, which was outraged and up in arms over his desertion of the party. In late 1988 he had already drawn all levers of power in the Central committee directly into his own hands and dispersed the party's command centre, the Secretariat. He, thereby, pushed aside its head and his potential challenger, Yegor Ligachev.

Gorbachev in the summer of 1989 went yet further. He rejected the demands of the Nomenklatura for a return to the old method of "tightening the screws" to suppress the rising democratic and national ferment inside the USSR. He adopted the same policy toward Eastern Europe, refusing to come to the aid of the old-line party chiefs in power there and who had stood as stumbling blocks to his plan of perestroika. As a result, their attempts to put down the rising popular protest against their rule proved futile. The consequence was the unleashing of the democratic and national revolutions that swept the communist chiefs from power. The Berlin Wall was tumbled by the popular flood, an event that will long be remembered as a victory of democracy and nation over totalitarian dictatorship.

Gorbachev's world-shaking action of 1989 was nothing less than his grand attempt to resolve what can be called the Machiavellian dilemma. A prince who attempts to reform and restore a decaying and corrupted state must first ruthlessly gather to himself the dominating power necessary to clear the path of obstacles to change. Second, he must do something out of character. He must do the contrary of his first step. He must next let power go into society in order to form new institutions of rule. The last is a necessary step in Machiavelli's view if there is to be a chance for the formation of public institutions and a government of law that goes beyond a regime of arbitrary power.

Seldom is the ability to take the two opposing steps found in one man. The lover of personal power is seldom ready to let it go even if a vision of the common good demands it. Gorbachev did find the courage to attempt this rare act of statesmanship. It is especially notable in an

ideologue prince coming from a tradition of ideologue princes. Gorbachev in a key speech in July 1989 disclosed that the problem of the regime began in the very ground of its claim to legitimacy. He explained that perestroika began not as an attempt to cope with economic troubles as such but to overcome the "crisis of ideology". It was evident that he saw the economic crisis as but a reflection of the deeper crisis of regime.

In the same speech he took note of the dread of the party's old guard that the formation of the new parliamentary government meant "the end of the world". In defence of his change in the order of power, Gorbachev said, if this were so, it was but the end of a "deformed universe".

It is hard not to observe here a rough parallel between Gorbachev in the USSR and de Klerk in South Africa. The latter also is attempting to resolve the Machiavellian dilemma. Both are engaged in an attempt to find a way from a no longer tenable political order to a new one. Both pulled the reins of power into their hands in order to engage in a risky release of power into society at large with the hope and aim of forming new and viable political institutions.

It needs to be noted, however, that de Klerk is not a prince with unlimited dictatorial powers but the leader of a heretofore racially based and exclusivist republic. He is attempting to universalize it into a democratic and inclusive republic. Though a great leap, hopefully it may prove less arduous and perilous than Gorbachev's attempt to jump the abyss between the Marxian principality to a civil and law-regulated republic.

The plunge of the Soviet economy and the rapid devolution of power from the Soviet centre to the republics may only show that Gorbachev's attempt is a "Mission Impossible".

The rapid flow of power out of the centre was incidentally reflected in the sharp change in view over the past year of one prominent Soviet political scientist by the name of Migranyan. Only a year ago he had argued on the Soviet TV programme *Vzglad* (Viewpoint) that the only way that the USSR could reach a market economy, i.e., capitalism, was through transitional dictatorship – a curious reversal of the old doctrine of getting to communism through dictatorship. He presumably had Gorbachev in mind as the dictator acting by means of the emergency powers of Presidential decree he acquired in March this year. Recently, he reappeared on the same show. When queried about his view of a year ago, he said it was already too late for such a solution since power had shifted from the centre into the republics. He said that the same means will have to be used down in the republics in an effort to save something of the argument. It would have seemed that the proposition that freedom, in this case a free market, can be achieved by dictatorship which had been discredited in the USSR, but it also seems that old doctrines die hard and surface in new guise.

Indeed, with Gorbachev's release of power into Soviet society through the removal of communist party control from the top down, everything from the bottom has been coming up. Not only is popular discontent over conditions of life close to boiling over but the reassertion of national consciousness in all the nations of the Soviet Union is becoming an irresistible force. While Gorbachev's formal control of governing power remains, the gathering loss of authority of the Soviet centre means his real power is losing ground as well.

Having dispatched his orthodox rival inside the party, Yegor Ligachev, he now faces his new

rival, Boris Yeltsin, who has risen as a citizen-prince of the new popular electoral politics that Gorbachev himself brought into being. While Gorbachev did his best to head off Yeltsin's rise, the development had a positive side. It marked a break with the legacy of but one dominating personality holding sway in Soviet politics to the exclusion of all others.

Yeltsin has so far shown the greater mastery of the new world of Soviet politics. He rides the wave of the new democratic and national forces rising from below with skill. Gorbachev has been attempting to catch up. In contending with Yeltsin he has had to join him in order to fight him. Above all, Yeltsin champions the popular demand for restoration of the Russian Federation's "sovereignty" and the primacy of its laws over Soviet laws. The demand for "sovereignty" is simply the common cause of all the reviving nations within the USSR whether it be Lithuania and the Baltic republics and the Ukraine in the West, the Caucasian republics in the South, the Central Asian republics to the East, or, now the heartland of Russia itself.

Yeltsin simultaneously advances the cause of democracy on the ground that democracy and nation have to be joined together. He sees no democracy in the abstract and disengages the idea of democracy from the idea of socialism. Thus Yeltsin argues that the only way that the Soviet Union can be salvaged at all is through its devolution into a very loose and decentralised confederation of nations. By a stretch of analogy it would be similar to a call for dumping the constitution in the United States and returning to the Articles of Confederation. Of course, the analogy is faulty since the Soviet Union has not had a real constitution: its challenge now is to find one. The absence of a constitutional structure is one of the reasons that the Soviet centre is not holding.

Gorbachev thus has reason to worry that his new institutions are not taking hold. While striving to steer the transformation, he yet strives to keep one foot in the Soviet centre. Though seeming to join it, he recently has resisted full implementation of the Yeltsin or Shatalin "500" day plan for introducing a full market economy. In his eyes, it amounts in essence to a call for "All Power to the Republics" and the continuing emasculation of the new Soviet governing structure over which he presides. But the forces now moving in this direction are massive and it may be that Gorbachev cannot now stop or divert the flood of change.

Looming over the upheaval in the Soviet Union is the larger dilemma of Russian history – the twin menaces of either anarchy or tyranny. Whether a mean between the two extremes will be found remains at this juncture much in doubt.

How does all this bear on South Africa and its future? South Africa and all its inhabitants also stand at a crossroads not wholly unlike that in Eastern Europe and Soviet Union with their diverse nations. Here tribal rather than national diversity subtly affects the political equation. The tribes, of course, include the Afrikaners, if Marq De Villiers is right in his analysis. The pressure of change is obviously great here and constantly forces the political players to focus on urgent problems of the moment. The urgent, however, ought not to outweigh the really important.

What is truly important now is that all South African parties and leaders find time to think about the future constitution of things in South Africa. In this connection, as an American, I can not help but recall the question "Publius", the pseudonym of the authors of *The Federalist*, asked at the time the proposed federal constitution was to be voted up or down: "...whether societies of men are really capable or not of establishing good government from reflection and choice, or

whether they are forever destined to depend for their political constitution on accident and force?"

My one central suggestion in these remarks is that it pays at critical junctures of political time not to overlook the three great and perennial classes of all politics when you engage in reflection and deliberation regarding political order. I am speaking out of the political tradition of one strain of democratic republicanism – the American. The founders of that tradition looked far into political thought and experience from the times of Greece and Rome. Without worshipping the past they showed it due respect in the shaping of the American constitution.

Clearly these founders were of the view that since you cannot remove the One, the Few and the Many from politics, you then must in some way incorporate them into your constitutional structure. From their perspective, then, you need to guard against the threat of three kinds of tyranny – the tyranny of the one, the tyranny of the minority and the tyranny of the majority. You need to provide checks and balances to fend off these possibilities. Above all you need to create an arena for democratic contest and prevent the inevitable contests of politics breaking down into violent conflict. You need to provide channels so the contest ends peacefully in bargaining and compromise. You need to make it difficult for true "factions" ready to trample citizen rights and ignore the common interest to win the day. You do this not by suppressing them but by making it necessary for citizens to form broad coalitions in order to achieve their political ends. Critically important, you need to provide for the orderly and democratic succession of leaders or the citizen-prince.

From this standpoint then, you need to make way for the One, the Few and the Many because all three are part of the human and social Whole. The Majority is inclined to forget this and confuse itself, the major part, with the whole. Through the process of constitutional amendment you give the last say to the ultimately Sovereign People – but by a majority closer to the whole. You give executive power not to a committee or Politburo but to a President, an office for a Number One who stands accountable before the governed. You want to reflect the existence of local or regional representation of States in the federation. The Senate also is a body of the Few and should contain the more senior and experienced politicians of the republic. They are given authority in treaty-making but cannot initiate money bills (an anti-oligarchic provision). For the Many you have the House of Representatives, chosen directly from the electorate on the basis of population. This more democratic body keeps to itself the power of initiating money appropriations – the peoples' direct representatives need to control the purse strings to defend the democratic base of the republican constitutional. You need finally a place for the reflective Few in the Supreme Court, who hopefully will be found among men of law in the republic. Those who staff each great constitutional department ought to have a personal as well as a public interest in protecting its prerogatives.

For the American founders, the term "democratic" is not congruent with the term "republic". The term republic, especially a representative republic, recognizes certain necessities of politics. Democracy, strictly, direct democracy is only possible on the small scale. Further, any time you elect people to assemblies you are introducing an aristocratic principle, i.e., choosing a Few from the Many by the choice of the electors. The only strictly democratic mode of election is by lot. When people are given a choice between candidates, they have to exercise judgements of who is the better and who is not – this is an aristocratic principle. However, the base of the republic remains and is repeated again in local self-government and the freedom of association enjoyed by the citizenry.

I have given you only the mere gist of some of the basic and original American thinking about a democratic republic and on what principles it can be put together. The specific form that was chosen in 1787 was peculiarly American and not directly translatable to other situations, but the underlying questions and considerations that moved the deliberations of the American founders do, I believe, have something universal in them that can be of use elsewhere and in diverse circumstances.

Many critics of democracy think, however, that it is too anarchic and the constitutional republic a jerry-built contraption; there is no clear guiding principle in either and so neither is very good. What after all is "the pursuit of happiness" in the Declaration of Independence?

It might be noted in reply that the ruling "Purpose" of a regime can be very clear and appear good, but the ruler who rules in its name very bad, for example, in the case of Stalin. The point is perhaps to find ways of striking a balance between personalities and principles in political rule.

As you know Russian history is a history of autocratic rule untempered by principles of constitutional order. Communist autocracy succeeded the tsarist autocracy but the arbitrary power of traditional autocracy was compounded many times over. This amplification can only be traced to elements drawn from the Marxian ideology that come from Western Europe.

Establishing dictatorship were accomplished on a grand scale, but the third, the communist society never came. Considering human nature as it is and not as it ought to be, the outcome was not so difficult to grasp. Perhaps Machiavelli's favourite motto, Look to the Result! (Si Guarda al Fine), is apt here.

It is also appropriate here to note again that Marx's teaching arose out of his criticism and conscious rejection of democracy. Marx and Engels began as radical democrats, but became profoundly disillusioned with 19th century democratic republicanism and the compromise it struck. His theory of communism – ultimately utopian in aspiration – was conceived in reaction to what he saw as the failure of the democratic idea.

Now Gorbachev grapples with the collapse of the Marxian project and turns once more back to the ideas of the representative civil state and the democratic republic. Instead of the vision of the perfect society, he turns to the examples of the imperfect but dynamic and successfully functioning democracies in the West and elsewhere in today's world. If one made a wrong turn at some point, Gorbachev appears to have reasoned, it makes sense to try to go back to the point where that wrong turn was made and try to choose the right path.

Again what does all I have said have to do with our conference today? I once again think that study of human experience everywhere, especially in moments of great change, can be revealing and informative. However, it takes a bit of our own brainpower to make the applications to our own case at hand.

I hope perspective offered here on the East European and Soviet experience will be of some help in advancing the ultimate focus of this conference, which is to look closely at and address the issues facing South Africa at its turning point. Further, there seems to be, as far as I can gather, some consensus here that the best hope and arrangement for South Africa's future is a non-racial or perhaps multi-racial democratic republic in some form or other.

Now is the moment of opportunity and hope, and a moment for really worrying about where you are going. I am reminded of James Madison who sent for some old books in the months before the constitutional convention – some of the classics, old and new, of political thought. He thought they would be of some help in thinking over the question of constitutions before going into the thick of the attempt to make one. I doubt if it would do any harm if South Africans in their own ways spent time going back over things. Maybe something can come of that.

I brought Machiavelli into play here precisely because he contemplated the questions of a political constitution in a supremely realistic, if perhaps at times almost a too realistic, manner. He was a man of affairs as well. He also was a friend of liberty, the rule of law and the standards of excellence in human culture. He believed it possible that human talents employed well with a view to the common good can cope with fortune and reach the highest in political achievement. If he were alive today he would perhaps look South Africa over and muse: will the country become like that sorry spectacle of the Italy of my time enveloped as it was in petty wars and squabbles, and forever divided and subjected to outside intervention? Or, can it find its way through diversity to unity in an open and expansive democratic republic. Publius might add: Can these South Africans build a sturdy self-governing federation resting on a firm foundation of local and regional self-government? These questions only you, the South Africans of whatever party, can and will answer for good or ill. Talent, energy and dynamism are everywhere evident in this land. Only the will to use these powers well and a broad common purpose is needed. My hopes go with you.

SOVIET FOREIGN POLICY 1990: REDIRECTING EXTERNAL RELATIONS

by

Seth Singleton

Consider three events which occurred in Portland, Oregon, USA, in the last week of September 1990. On Monday, a delegation led by Chairman Fyodorov of Sakhalin Island, in the Soviet Far East, arrived to make business deals, affirming that Sakhalin had full authority to become a special economic zone guided by free-market principles. On Thursday, I received a sad mimeographed letter from Mr Omar Latif, Manager, Progress Books, Toronto, Canada, saying that the World Marxist Review, a venerable journal descended from the Communist International of the 1920s and published in Prague since the second world war, had ceased publication "absolutely unexpectedly". On Friday's national television news, anchorman Garrick Uttley of NBC spoke of "the Soviet - American alliance" as if it were an established and understood fact. Times change.

I. GORBACHEV AND HIS FRIENDS DECIDE TO END THE COLD WAR

In 1986, Soviet spokesmen began to talk about the need to restructure foreign policy along with the Soviet political system and the economy. Four years later, the world is an entirely different place. Revolutionary changes now threaten to overwhelm Gorbachev's attempt to stabilise a reformed communism, as the revolution of 1917 overwhelmed the reformist efforts of that year's Provisional Government.

Gorbachev began in 1985 by substituting "humanism" for "class struggle" as the proclaimed basis of Soviet foreign policy. Although few realised the implications, this meant nothing less than rejection of the worldview which had guided Soviet policy since the revolution. Leninism had one basic premise: "socialism" led by the Soviet Union must confront and defeat "imperialism" by whatever means necessary. The premise had several corollaries: the "class struggle" was worldwide, and might be particularly acute in the "colonies and semi-colonies" of Western imperialist exploitation. All those who opposed "imperialism" were Soviet allies, all those who favoured it were Soviet enemies: "he who is not with us is against us". National cultures, and the particular interests of countries and peoples, must become part of the world struggle, on one side or the other. "National liberation" meant, by definition, opposition to imperialist countries. Any other analysis or policy was softheaded nonsense.

For sixty-five years the Soviet Union followed this policy. Its variant, under Brezhnev, combined Soviet military buildup and nuclear parity, stabilisation of European politics ("detente"), and purports to add new Third World allies to "the socialist community" through military aid and aid in techniques of organisation-building.¹

This was summarised as "the changing correlation of forces" and defence of the gains of socialism". Its high point was the period 1975–79. In 1975 the Vietnamese communists united Vietnam under their rule. The Helsinki agreements were signed, to establish finally and permanently the divisions of Germany and of Europe resulting from the second world war. Cuba, a model country which defended itself against United States imperialism, formed an alliance with the Soviet Union, and went on to build communism, held its first formal communist party congress in 1975. And in Angola determined Cuban intervention, followed by Soviet support, demonstrated the political and military power of the "socialist community" against a weakened United States. Soon, in rapid succession, came the Ethiopian revolution (actually begun in 1974), the Frelimo government in Mozambique, the "April (1978) revolution" in Afghanistan, the Vietnamese invasion of Cambodia, the liberation of Zimbabwe, the Iranian revolution, and the Sandinista victory in Nicaragua.

These foreign policy successes were seen with alarm in Washington and Beijing, which apparently also believed in "the changing correlation of forces". The Chinese invaded Vietnam in January 1979, and almost brought war between China and the Soviet Union. The United States rearmed and began to send money and arms to forces opposing the governments in Afghanistan, Angola, Cambodia, Nicaragua and Eritrea.²

Some argued that fears of Soviet expansion were exaggerated; that the causes of difficulty (for example in southern Africa) were injustice and local tensions, not Soviet policy; and that the Soviet Union was a poor country with overextended commitments. The invasion of Afghanistan, far from a Soviet success, was a sign of failure, because the whole point of Soviet policy was to help "socialist oriented" governments to control and develop their own countries with popular support. Rebellion forcing Soviet intervention was the opposite of what was supposed to happen.

Almost everyone (including the Soviet leadership) underestimated the difficulties growing within the Soviet Union itself. Non-military economic growth stopped or even reversed around 1975, and this was evident to Soviet citizens by the early 1980s. Construction projects suffered longer and longer delays: "na remont" – under repair – became a national joke. Health standards declined. Communist rhetoric combined with official laxity and privilege and corruption undermined national morale.³ The invasion of Afghanistan reinforced cynicism and anger. The war was conducted in secret, with returning soldiers enjoined to say nothing of their often terrible experiences, and the heavy emphasis on military patriotism which pervaded the later Brezhnev years began to crack. Suppression of dissent was a KGB "success", but the Soviet intelligentsia lost the last vestiges of their respect for communism. Finally, everyone, including the leaders of the CPSU, missed the persistence and strength of national feelings among the Soviet peoples, which burst to the surface as soon as glasnost' allowed them expression.

Foreign policy wasn't working either. In the 1980s the Soviet Union, with a declining economy, supported extensive commitments and faced a stiffening encirclement by the United States, Europe, China, and Japan. The war dragged on in Afghanistan. Overblown Soviet hopes for rapid transformation of "socialist oriented" countries in Africa proved groundless.⁴ In Poland, military dictatorship was necessary to thwart Solidarity and save communism. (Solidarity was a mass democratic workers movement seeking to transform an oppressive police state and its ruling elite, just as Marx predicted – except the state called itself communist!). America was spending hundreds of billions on armaments; China was implacable; the Europeans were accepting more American missiles and NATO looked stronger than ever.⁵

Apart from these specific difficulties, Mikhail Gorbachev, and many others, wanted to modernise their country and make it proud and healthy again. Gorbachev represents the Soviet generation of 1956, who came of age with Khrushchev's reforms and with high hopes for a liberalised and technologically capable Soviet Union, and who were disappointed through the long "era of stagnation". The impulse to join Europe and the West, now seen as both wealthy and progressive, overcame the traditions and practices of sixty-five years of Leninism.

A decision for change was therefore almost inevitable by 1985. What rational argument existed for continued military confrontation? Strategic arms control with the U.S. would provide security at lower cost. Third world adventurism, and support of five or six counterinsurgency wars (Afghanistan, Cambodia, Nicaragua, Angola, Ethiopia) had produced few useful results. Access to European technology and prosperity was essential. Gorbachev anticipated managed-changes in foreign policy, as he anticipated gradual economic reform and gradual development of political pluralism and freedom of opinion.

The underlying reason for all the reforms was the socialist economy, which had failed. In contrast to Soviet economic misfortunes, Europe, Japan, and the East Asian "little dragons" all prospered as part of the capitalist world market. (If any single statistic summarises the history of the period 1960-1990, it is the comparative economic growth of the Soviet Union and Japan). Credits and outside help to reconstruction were needed. Gorbachev's first economic policy was "acceleration" (uskorenii) of production and emphasis on machine-tool building; he expected to revitalise the economy by greater efficiency and honesty within traditional Soviet practice. This has since proved impossible.

II THE NEW POLITICAL THINKING

The Gorbachev government soon promoted its new ideas, which are widely shared:

- 1) world information technology and global communication make it impossible for any country, including the USSR, to isolate itself from open information;
- 2) regional and world economic integration means all must join the international market or fall behind in wealth and technology;
- 3) all must confront emerging global issues of rich and poor countries, food supply, and environment, which traditional Leninism did not foresee;
- 4) the new era requires a democratic political structure:

"Changes in the material base of contemporary society, including supermodern technologies, are hastening changes in the political sphere. The ideas of freedom and democracy, the supremacy of law and order, and freedom of choice are increasingly taking hold of people's thinking".⁶

Countries which do not adapt to this world environment "will find themselves on the margin of world civilisation".

Previous emphasis on military power needs revision: "A change is taking place in the very concept of national security. No nation can consider itself secure unless it commands a powerful, dynamic economy".⁷

Previous Soviet policy, from 1917 to 1985, allowed compromise on accommodation and retreat.⁸ Soviet policies always put the national security of the Soviet state ("the motherland of socialism") first. But these were strategies in the conflict with "imperialism". The new policies are different: the world has changed and the struggle is over.

Soviet diplomacy now will promote "de-ideologising of state-to-state relations", demilitarisation, and comprehensive participatory international security. Self-determination of peoples will become official policy: "no one can decide the destiny of peoples behind their desks". The emphasis on law, collective security, national self-determination, and open diplomacy reminds us of 1917 – except it is the rhetoric of President Woodrow Wilson, not the rhetoric of Wilson's rival for world leadership, V I Lenin.

It would be easy to dismiss this rhetoric but for the fact that official Soviet policy bears it out. The wall came down and the countries of east and central Europe work out their own destiny without Soviet pressure. Soviet troops will withdraw within their own borders with the possible exception of Poland. The pull-out from Afghanistan, the Nicaraguan elections and their result, the Angola negotiations, Namibian liberation by negotiation, the Cambodian compromise, and now the Soviet response to the Iraq and Gulf crisis confirm that rhetoric matches reality.

Soviet policies of the past five years can be summed up as efforts to be, and be seen as a responsible European country ("the common European home"), ending confrontation with the United States; arms agreements; disengagement from eastern Europe and acquiescence in German unity; disengagement from regional conflicts and cooperation with the United States; detente with China; and efforts to become a player in the Asia – Pacific zone of rapid economic development.

In rejecting Leninism, Gorbachev and his colleagues Eduard Shevardnadze and Aleksandr Yakovlev did not repudiate common sense. Their policy was based on rational calculation of national interest, given world economic and political realities. They are also Westernizers who believe that their country's future must be tied to Europe.⁹

The new thinking does not mean that the Soviet Union will not pursue its own particular interests – of course it will. A future Soviet (or Russian) regime may even revive militarism, or imperialism, but not under the banner of world "class struggle". Communist militancy lost its popular attraction decades ago. The Brezhnev era effort to extol Soviet "might" and "the changing correlation of forces" produced mostly cynicism: the perception of "Upper Volta with rockets", to which we will refer later. When the leadership says that "universal interests" and "humanity as a whole" now supersede "class struggle", they hope to rebuild Soviet pride in their country's policy.

III. REFORMS COME UNSTUCK

Gorbachev pursued four main reforms: perestroika in the economy, glasnost' meaning freedom of information and communication, legitimacy for the political system by transferring power to

freely-elected Soviets, and a new foreign policy. All have been overtaken by the flood of unanticipated change. Gorbachev and his advisors did not anticipate collapse of reformed communism in eastern Europe, or German unity. They did not foresee public isolationist rejection of Third World involvement, or anti-militarism. They did not anticipate the downward spiral of the economy, now projected by some Soviet economists to decline by 5% in 1990 and 20% by 1993. Above all, they did not anticipate the breakdown of the multinational Soviet Union, and its drastic effects. These matters leave little time for the exercise of power far away.

Thus Soviet international policy has been reduced to skilful diplomacy, helped by a new image. Its main activities now are getting economic aid and relief,¹⁰ and liquidating international political commitments in an orderly way.

Reduction of Soviet aid to Third World allies is popular among leaders and citizens.¹¹ The Shatalin Plan for the "500 days" transformation of the Soviet economy proposes to cut the military, the KGB by 20% – and "foreign aid" 75%. Aid for Cuba was never popular.¹² A recent Moscow News interview with Cuban First deputy Foreign Minister Jose Raul Viera pointedly contrasts Soviet largesse to Cuba, and the reported 15.5 billion rouble Cuban debt to the USSR, with the fact that the Soviet government cannot find money to increase subsidies to its poorest, destitute pensioners.¹³ Fidel Castro has announced that Soviet aid will be cut, and Cuba will continue to struggle alone. Sergei I. Shatalov writes:

The opinion is gaining strength that military assistance has been inefficient even in geographical terms. It aggravated regional conflicts and dragged the Soviet Union into the dangerous spiral of superpower competition in Africa. For years, political options for resolving conflicts were not even explored.¹⁴

The Soviet Union and the United States now have a common interest in saving money and trouble and pursuing their own economic interests. Regional competition of the ex-superpowers, particularly military aid to local wars, serves the interest of neither. Take, for example, Afghanistan. Soviet aid to the Najibullah government still runs about \$5 billion a year, and 500 Soviet advisors remain in Afghanistan.¹⁵ Continued subsidies to the warring Afghan factions drain both the Soviet Union and the United States. A rebel victory could create an Islamic government in Kabul, allied with a similar government in Pakistan, aiding rebellion in Kashmir and the Punjab and possibly Central Asia. This serves no American interest. With Japan financing the budget deficits of the United States, and Germany now providing loans to the Soviet Union, the idea that Cold War expenditures and efforts served mostly to enrich the losers of World War II has emerged both in Moscow and Washington.

AFRICAN DEBT TO THE USSR AS OF NOVEMBER 1989*
(millions of roubles)

Country	Debt	Written off	Rescheduled	% of total debt
Ethiopia	2.860.5	51.7	854.9	21.2
Algeria	2.519.3	0.0	560.0	18.7
Angola	2.028.9	0.0	768.0	15.0
Egypt	1.711.3	0.0	8.2	12.7
Libya	1.707.3	0.0	360.1	12.7
Mozambique	808.6	0.0	363.0	
Tanzania	310.3	0.0	88.6	
Mali	285.0	1.2	88.4	
Somalia	260.8	3.5	0.0	
Guinea	258.3	0.0	0.0	
Zambia	206.0	0.0	23.3	
Congo	199.5	0.0	83.7	
Madagascar	100.66	0.0	36.0	
Other	232.2	3.0	27.7	
Total	13.488.6	59.4	3.261.9	

* Source: official data reported in *Izvestiia*, March 1990

If Soviet loans are denominated in hard currency at the official rate of .6 roubles to the dollar, the debt is \$22.5 billion.

FROM ONE VOICE TO CONFUSION

Outsiders spent forty (or seventy) years interpreting Soviet policy as a single machine, with its coordinated operations (diplomatic, military, intelligence, propaganda, allied governments, associated groups) controlled from a single centre.¹⁶ Public statements and written articles followed consistent themes and interpretations. Analysts and policy makers argued over how to infer goals and strategies from Soviet actions and words, but the fact of a unified foreign policy was never in question.¹⁷

Now Soviet public expression has gone to the other extreme.

Glasnost, freedom of expression, was Gorbachev's first (and easiest) reform. It unleashed a crowd of uncontrolled critical voices and raucous public disagreements. With the elections of 1988-89, the criticisms and disagreements moved from the press to the speeches of the Supreme Soviet. Even uniformed military officers, elected as Deputies, argued opposing views on Soviet national television.¹⁸

Russian ideological and political movements repressed for seventy years have re-emerged. Slavophiles, Westerners, Russian imperial nationalists, constitutional liberals, populists,

democratic socialists and religious believers all have their spokesmen. Intellectuals are rereading Nikolai Berdyaev's *The Origin of Russian Communism*.¹⁹ Andrei Sakharov, the perfect Westerner, has been canonised (an irony, perhaps) by progressive opinion. Solzhenitsyn continues to publish Slavophile manifestos. The uglier form of Russian nationalism emerges in the semi-fascist *Pamyat'* society. Urban intelligentsia leaders like Anatoly Sobchak (Leningrad, a law professor) and Gavriil Popov (Moscow, an economist) are contemporary liberals. Kadets²⁰ are now calling themselves Russian Democrats. Out in the grimy industrial cities and smaller towns populism flourishes. "Moscow" is distrusted, almost a code word for exploitation. The United Workers Front was promoted by Party men seeking to mobilise workers against perestroika; now it is being replaced by a new Confederation of Labour. Kolkhozniks show little mass inclination to desert their collectives for the risks of independent farming. Military officers are divided, confused and worried, as they were in the last months of the Tsar and the first year of the revolution.

Ideological and policy divisions also exist in the non-Russian republics. All may unite around a declaration of "sovereignty" for, say, the Ukraine or Armenia, but this soon gives way to differences.²¹ The Soviet Union now has no shared political culture, and little sense of common interest among classes and territories.

Even the form of government is uncertain. Gorbachev's Presidential Council is an advisory group, not a cabinet. Half the members of the Presidential Council also serve on the Party Politburo, but the Communist Party decision-making apparatus is no longer able to issue orders which will be obeyed. The Supreme Soviet does not have defined powers or defined procedures; the same is true in the republics. Gorbachev has received executive power over the economy from the Supreme Soviet, but may not be able to exercise it without agreement of the Republics, particularly if he tries to continue central planning.

In these confused conditions democracy may bring frequent and drastic policy shifts, or paralysis. Outsiders used to centrally directed consistent Soviet policy are not prepared for this.

ONE NATION OR MANY?

President Gorbachev and Ministers Shevardnadze and Yazov still have authority in diplomatic and national security matters. Yet the Republics, and even regions within Russia, are beginning to conduct their own economic foreign policies geared to their development needs. Republic and regional delegations are all over the world seeking business deals, and claiming that they have the authority to make them. As Soviet attention shifts from political-military issues to economic development, the Republic and regional voices become louder. Even political and diplomatic initiatives are beginning to come from the Republics. The European diplomacy of Lithuanian Prime Minister Kazimiera Prunskiene [since resigned] is measured and decorous; the tearing down of border fences between Azerbaijan and Turkey is violent and dramatic; both violate central authority over foreign affairs.

The most basic issue – real independence for the Republics, versus a Soviet federation or confederation with central responsibility for foreign affairs, currency, and defence – has not been resolved. Terms are misleading. "Sovereignty" for the Republics means primacy of republic laws and veto over central policies. Russia and the Ukraine and several other republics have declared this sort of "sovereignty". The result would be a Soviet confederation. The Baltic states and

Armenia have gone further: they have declared an intention to secede from any Union and become fully independent countries. Georgia will have its elections in October, and independence will probably be declared by the new government.

As the power of the Communist Party of the Soviet Union recedes, first in its Third World connections, then in eastern Europe, now within the multinational borders of the USSR, "inter-national" politics now occur among Soviet nations. Republics and regions are making deals with each other, for example Leningrad's deal with the Baltic states to trade industrial products for food. Aleksandr Solzhenitsyn calls for a Slavic state stripped of the "accursed conquests" of Alexander II in Central Asia. Leaders among the Russian Democrats, liberal Westerners, are also willing to write off Central Asia and Islam as too much confusion and trouble. Independence for the Baltics "is already decided" – only the details remain.

Solzhenitsyn says the other Slavs – Byelorussia and the Ukraine – should stick with Russia, but that may be unpopular in Kiev, and certainly in Lvov. Within Russia the Karelians, Komis, Tuvans, Bashkirs, Volga Tatars and some Far Easterners want "sovereignty" and local control of resources for their regions. Karelia, which has declared "sovereignty," now refuses to ship badly needed paper products unless needed food is received in return.

It is no accident that Russian, and Russians, are the most aggressive advocates of Republic control of resources. Over time, Russia and Russians came to deliver greater and greater subsidies to other Republics (and to Eastern Europe and Cuba) in the form of cheap raw materials, particularly oil. A study by PlanEcon, a U.S. Consulting firm, shows that in 1987 Russia subsidized the rest of the USSR by \$65.4 billion. Individual Russians subsidized the others by \$444 per person -- a very high tax given a per capita income of \$3700. Particularly Russians in the provinces, in places like the Kuzbas where half a million miners were on strike in summer 1989, or in the Soviet Far East, or in the Urals, see the effects in empty food stores, abysmal environmental conditions, substandard housing. The demand is 'to keep what belongs to us', not give it up to "Moscow".²²

Consider the dispute over the sale of diamonds. On August 14, the Russian Republic declared invalid the Soviet government agreement announced July 25 to market diamonds via the DeBeers Company. Since the diamonds come from Russia, the Russian Republic Presidium declared them Russian property: "there is no property of the Soviet Union."²³ Yakutia, the remote Siberian region which produces the diamonds come and an Autonomous Republic within Russia, itself wants ownership of its diamonds, gold, coal, timber, and other minerals. Who has the right to make the contract and receive the money?

Gorbachev and others trying to preserve Soviet central government need recognition and money: the Europeans and Americans now hold significant power over whether the Soviet Union survives or fragments. So far, Western governments prefer an effective Soviet central government to a weak and divided confederation: this was clear in March 1990 when the Western Powers did not force the issue of Lithuanian independence.

If a viable central government continues, what are its foreign policies likely to be? If it does not, and the Soviet Union becomes a weak confederation, what policies are likely to be followed by Russia, the Ukraine, the Central Asian Republics, and other?

THE MILITARY

At the 25th Party Congress of 1976, Leonid Brezhnev praised Soviet military "might", and urged all society to celebrate and value Soviet military achievements. Then came Afghanistan, economic depression caused in part by overinvestment in the military, and glasnost'.

At the first elected Congress of Peoples Deputies, in May 1989, Gorbachev and Prime Minister Nikolai Ryzhkov announced that defence spending would be cut 14% in 1990 and "by one-third to one-half the relative share of defence expenditures in the national income by 1995."²⁴ By most measures (including many Soviet ones) military spending had grown to over 15% of the national economy by the mid-1980s, and perhaps over 20%.²⁵

The Soviet Navy has shelved its plans for blue-water naval power projection.²⁶ In 1985 the Gorbachev replaced Admiral Gorshkov, who had led the naval buildup since 1955, the Admiral V.N. Chernavin. Chernavin's view of the naval role, as reported in Soviet media, is very different from Gorshkov's.²⁷ Chernavin rejects the former emphasis on the navy for "political-psychological action in world affairs." He attributes the construction of the fleet built in the 1950s and 1960s to budget largesse: "the navy command could not avoid the temptation to start construction of expensive big ships". This led to a dangerous illusion of military supremacy, which in turn led to the U.S. naval buildup of the 1980s. In the future, a surface fleet will be useless in a general nuclear war or European theatre war which would escalate. Most ships built in the 1950s and 1960s under Admiral Gorshkov are aging, and many are being scrapped. The Soviet navy now has 157 large surface ships and 260 submarines, of which 113 are nuclear. As for power projection, the new Soviet foreign policy which seeks to settle local wars and which allows free choice by allies "also changes the concept of the Navy as an instrument of foreign policy." The primary need is technological reliability: the nuclear submarine *Komsomolets* sank in April 1988; another missile submarine was lost, with its weapons, in 1986. Advanced electronic gear often does not work. Chernavin argues that capability, not numbers, matters most.

The Soviet military faces a serious crisis of morale. The horrors of Afghanistan are now exposed in the semi-official media.²⁸ Reports of cruel treatment of recruits during military training appear in the glasnost' press. According to some reports 15 000 soldiers have died in peacetime in the last five years, from accidents, inadequate health care, and brutality against new conscripts.²⁹ An All-Union Committee of Soldiers' Fathers and Mothers has been formed to advocate welfare for conscripts. Responding to popular feeling, a Presidential Decree in early September ordered better protection and better conditions for soldiers: it may have little effect. Soldiers returning from Czechoslovakia and Hungary have no housing, and there is talk of sending soldiers and their families to live for the winter in tents in the Transcaucasus. Soviet forces in Germany are now paid in D-marks. The German government will pay 7,8 billion D-marks to build housing in Russia so they can return home by 1994.

The Soviet officer corps are military professionals. Faced with the disorder and economic collapse of Soviet society, they regard internal policing as a job for the Internal Affairs Ministry (MVD) and the KGB. Yet the Army was called out to restore control in Baku;³⁰ to garrison Yerevan and disarm Armenian nationalists;³¹ to garrison Tbilisi against the population. It may be called upon to put down nationalism or strikes in other places.³²

The Army may no longer be able to take conscripts out of their home Republics. Lithuania sheltered Lithuanians who deserted the Soviet Army and returned home; Armenia and other Republics have declared that all those called will serve within Armenia's borders. Families of all nationalities, including Russians, resist having their sons taken to suppress violence in other Republics. A poll found that 48% agreed that draftees should serve only within their own Republic. 20% more agreed with qualification. 12% had no opinion, and only 20% were against.³³ Yet the Soviet military command has always insisted on an all-union army, and has opposed military units formed by nationality. An integrated army is one key test of whether the Soviet Union will be one country or many.³⁴

The military has lost prestige. The same poll found 79% dissatisfied with the situation in the armed forces. 56% support cuts in the military budget; only a 6% would increase it. The Soviet joke used to be that the Soviet economy was "Upper Volta with rockets." Now the rockets, too, are in trouble -- the military lacks money for its own salaries and privileges and equipment needs.

Major Vladimir Lopatin, a Supreme Soviet Deputy, and other reformers organized in the Shchit (shield) society have proposed a depoliticized, volunteer, professional army. The military leadership wants to keep conscription, in the Russian and Soviet tradition.³⁵ A volunteer army requires prestige, and pay and good conditions, to recruit effectively. The United States military took several years and much effort to recover after conscription was abolished in 1973, at the end of the Vietnam war, and the United States has had a volunteer army in peacetime for its entire history excepting the 1945-73 cold war ear.

Pessimists fear that possible turmoil within the military may lead to a "restoration of order" by a Party-military coup against the elected Soviets. The High Command and 75% of all officers are Party members. Control within the military is still exercised by the Main Political Administration, supported by the High Command. The MPA reports to both the defence ministry and the Party secretariat. Gorbachev's decree on the military orders the MPA to become a nonpolitical organization for cultural and patriotic education within the military, but it may be ignored by the highly trained political-military apparatus.

Rumours of a coup circulate in Moscow. Shchit' claims a plan exists for military takeover, which would begin in the Soviet Far East at 6.00 a.m. and spread westward one time zone after another reaching Moscow by midnight.³⁶ Such a takeover may be legally ordered by President Gorbachev under a decree of state emergency. The last time the Russian Army tried to seize power on its own was during the turmoil of 1917 (the August coup attempts of General Kornilov), and it failed. The Soviet period has seen no attempts at military takeover.³⁷

The most pessimistic view sees the present time as a Soviet version of the collapse of the Weimar Republic. Fascism may come later, and probably with demagogic civilians, not soldiers, in the lead.

President Gorbachev has outlined the areas in which he wants military reform to be considered: threat assessment; structure of the armed services and possible reduction from five services to three; military spending reductions; recruitment; and "extra-territoriality".³⁸ Two commissions, one from within the Defence Ministry and the other from the Defence and State Security Committee of the Supreme Soviet, are drawing up proposals on these issues.

Thus the mission, budget, size, organisation and composition of the armed forces are under discussion. The country is wrapped up in its own multiple crisis, and anything outside the USSR (even Mongolia has had its quiet revolution, with 50 000 Soviet Army troops withdrawn) is not worth much attention or any sacrifice. These are not conditions which allow an assertive foreign policy for a country which has traditionally relied on effective use of military power.

INTERNATIONAL EFFECTS OF THE DECLINE OF THE PARTY

The Communist Party of the Soviet Union did more than hold the Soviet Union together. Through its Central Committee Secretariat, particularly the International Department, the CPSU coordinated communists with ruling communist parties and with "vanguard parties" in Asia and Africa. Party-to-Party agreements provided for training of Party officials. The Main Political Administration of the Armed Forces, a party institution, was involved in building effective military organisations in allied countries. Publications such as the *World Marxist Review* were connected to the Party. The Party-managed network, not the formal institutions of government, was most involved with communist nation-building and aid to liberation movements.

The transformation of Soviet foreign policy has therefore been more than just the shrinking of the Soviet domain of influence, from ruling world regions to eastern Europe into the Soviet Union itself. Within the Soviet Union, the Party no longer rules, and a revival of Party monopoly power is unlikely. Beyond Soviet borders, it appears that the Party-managed foreign policy network is disintegrating. Soviet foreign policy now will probably be conducted through ministries of government, like the foreign policy of any other country. The shift of authority to Government may mean the end of those political instruments and funding which aided revolution and opposed "imperialism" throughout the Soviet era. This is the symbolic significance of the demise of *The World Marxist Review*.⁵⁹ The change in how Soviet policy is conducted, more than any territorial change or military agreement, marks the end of the Cold War.

PROSPECTS FOR SOVIET FOREIGN POLICY

Europe

Befriending Europe is Mr Gorbachev's goal. Europe, particularly Germany, is expected to be the main source of capital for Soviet economic recovery, and obtaining investment will be a most important purpose of Soviet foreign policy for at least several years. However, "the common European home" will take many years to achieve. In the meantime, the multiple tangled nationalisms of east and central Europe threaten to move history backward to dissension rather than forward to economic integration and peace.

The present situation in east and central Europe seems a race between the destructive potential of nationalism fed by envy and poverty, and the positive potential of democratic politics and investment and trade and prosperity across Europe. The danger is that those central and east European nations which can do so, will try to join the Western economy, leaving the others, including the Soviet Union, behind in economic isolation and political difficulty. The Baltic States, for example, hope to become small, prosperous European counties on the model of Finland or Austria once they are free of Russia.

EAST-CENTRAL EUROPEAN TENSIONS

Poland:

Silesia; Oder-Neisse boundary with Germany (*apparently resolved*)

Federated Republic of Czechs and Slovaks (Czechoslovakia):

Czechs and Slovaks

Yugoslavia:

Serbia-Croatia/Slovenia

Serbia-Kosovo; Serbia-Albania

Romania:

Hungarian minority in Transylvania; German minority established for eight centuries is now leaving Romania for Germany

Soviet Moldavia, in relation to Romania

Bulgaria:

tension with Turkey over Turkish-speaking Bulgarians

Western Soviet Union and Transcaucasus:

Estonian, Latvian, Lithuanian independence

Karelian autonomous republic; relation to Finland?

Byelorussia-Lithuania border

Western Ukraine; Ukrainian declaration of sovereignty

Armenia-Azerbaijan conflict over Nagorno Karabagh and other issues

Armenian, Azerbaijani, and Georgian sovereignty

Security issues, when they re-emerge, will not be East versus West, but conflicts arising from nationalist politics. The zone of uncertainty and confusion now extends into the Soviet Union itself and across its borders. Moldavia could try to rejoin Romania; Karelia was part of Finland until the winter war of 1939-40; the western Ukraine, scene of the Bandera guerilla movement against imposition of Soviet rule after World War II, was transferred from Austria-Hungary to Poland, then to the USSR. Along with nationalist tensions, the possibility of insurrection or civil war exists, particularly in Romania. National conflicts in Yugoslavia are once again at explosion point. Most of these problems were created by the Hitler-Stalin secret treaties of 1939-40, so it appears that the consequences of the second world war are only now being faced.

The Warsaw pact is dying, CMEA is dead, and no organised coordination exists across

east-central Europe. Yet the Soviet Union (Russia) will remain the strongest military power in eastern Europe, and will, inevitably, be involved in these disputes. Germany will also be involved. What is the alternative, then, to renewing the politics of 1914? The preferred Soviet arrangement would be conflict regulation by some sort of all-European organisation (CSCE?) including the USSR. Failing that, the logical alternative is Soviet - German agreement to coordinate policies.⁴⁰

As the east European economies suffer from transition to a market economy tensions may increase. German capital is absorbed by what are now Germany's eastern provinces. The biggest direct conflict is caused by the Soviet Union itself: the Soviet decision to charge world market prices, in hard currency, for oil shipped to Eastern Europe starting in January 1991. With oil now at \$30 or more a barrel, the economic strain on Czechoslovakia and Hungary will be great. The price of energy pits the interests of east-central European oil consuming countries directly against those of the Soviet Union, and this will become a structural feature of politics in Europe.

Germany has promised DM18 billion to the Soviet Union in relation to at least DM100 billion towards the needs of eastern Germany. The Soviet Union will get DM15 billion toward the costs of withdrawing and resettling its troops from Germany. The other DM3 billion (or more) will pay for goods which the Soviets normally received from east Germany.⁴¹

Arms control treaties with the United States are a sideshow. With the Soviet withdrawal from Hungary and Czechoslovakia, the Geran agreement to limit military manpower to 375 000, and the NATO agreement not to station forces in the former DDR, the central European military confrontation is finished. As it pulls back and disperses its central European tank armies, the Soviet Army abandons the offensive strategy which was the military centre of the Cold War. The U.S.-Soviet agreement on conventional force reductions, to be adopted by CSCE in November 1990, will ratify the changes. In nuclear strategic arms control, even without completion of the START treaty, the new agenda is proliferation and international control of world-wide nuclear capabilities. Proliferation of nuclear weapons to danger zones beyond Europe (to Pakistan or North Korea, for example) is an urgent issue. In Europe, preventing growth of British and French nuclear forces may be more important to the Soviet Union than regulating a Soviet-American confrontation which no longer exists.

THE ISLAMIC LANDS

The second critical area is the southern, Islamic, borderland. Here too, recession of Soviet power exacerbates turmoil. Armenia and Azerbaijan have been restrained from open war only by the Soviet Army. In Soviet Central Asia, Islamic groups are now pitted against each other: Uzbeks start pogroms against Meskhetian Turks; Uzbeks and Tadzhiks fight over land in the Ferghana valley. Civil war continues in Afghanistan, with a receding level of both Soviet and U.S. support. Islamic guerrillas fight in Kashmir.

In the gulf crisis, Gorbachev chose to join the West in policy toward Islamic countries.

The association with European, not American, policy matters most. Gorbachev would like a leading role for the Soviet Union within European initiatives, hence the effort to mediate in the Gulf in concert with France. Oil policy is also important: the Soviet Union, as the world's largest

producer and a major exporter, sides with the Saudis and with Europe against those who would more aggressively use an "oil weapon" against rich western consumers, and incidentally against poor third world consumers also. It may also matter that the Soviet Union is on the side of both Egypt and Syria.

The Soviet role as military supplier to Iraq (with France), and the opportunity to take the side of Arab "have-nots" against the oil sheikhs of Kuwait and the Gulf, allowed a very different policy. But the revolutionary anti-Western tradition no longer matters. The Gulf crisis, as an opportunity rejected, marks an end to Soviet policy as it existed since 1917. The first foreign policy act of the Russian Revolution toward "the colonies and semi-colonies" (which we now call "the Third World") was to organise, under the Comintern, "the Congress of the Toilers of the East" at Baku in September 1920. Comintern head Grigori Zinoviev and others exhorted the mostly Islamic delegates to begin a war of liberation against the British and colonialism.⁴² No longer.

Conflicts of Islamic countries and movements against the West, and against each other, may be the *centre of world turbulence in the coming years*. Islamic issues, like east-central European ones, spill into the USSR. The Armenian-Azerbaijan conflict is but the latest instalment of the thousand-year struggle between Armenians (or Byzantine Christians) and Turkic peoples. In Soviet Georgia, Georgian nationalists deny self-determination to the Moslem Abkhazians within the Georgian Republic. Russians and Ukrainians are leaving Central Asia, with its hostilities among local peoples (and toward Russians) and its economic and environmental devastation.

It is likely that the choice to act with Europe is popular. Much as they differ on other issues, slavophiles like Solzhenitsyn and westernisers like Gorbachev or Anatoli Sobchak agree that the old Russian imperial tradition of policing Central Asia, and of intrigue among various Islamic countries and movements, is a waste of time and resources and potentially dangerous. Sophisticated Russians want to be "civilized" in relation to terrorism or to violence such as the pogroms which have occurred recently in Baku (against Armenians) and in Central Asia (against other Moslems). The experience of the Afghan war is a powerful motivator against further political-military involvements in Islamic quarrels. Re-established ties with Israel—the Soviet Union was the first nation to recognise Israel, in 1948 – and general even-handedness toward a Middle East peace fit this policy.

THE ASIA-PACIFIC ZONE

The third zone of Soviet policy is the Asia-Pacific region, specifically northeast Asia. Soviet interests are to decrease confrontation with and to increase investment from Japan, South Korea, and the United States. Gorbachev proposes reduction of naval forces and a "security zone" in collaboration with the United States and others. The Soviets want to be included in the Asia-Pacific economic club (the Asia-Pacific Economic Conference).

Although far from Moscow, the Far East is also a Soviet borderland where external security relations and economic development are linked.⁴³ The Soviet Far East receives less than 3% of Soviet investment, but produces a wealth of raw materials including diamonds, coal and timber. Soviet Far Easterners (Russians, mostly) seek control over their own resources and development policies. Anger at exploitation by "Moscow" is widespread.⁴⁴ Military control over much of the

area prevented local initiatives and foreign investment until recently. Sakhalin, for example, has now been declared a free economic zone and has a government (led by Valentin Fyodorov, a Moscow economist) which wants to make it a model of Soviet market economy. Cold War politics long prevented South Korean investment and business relations: South Korea and the USSR have now established diplomatic relations and business is thriving, with joint ventures established since 1988. The political – security dispute with Japan has prevented investment in the Soviet Far East from its logical source.

One precondition for effective Soviet policy in the Asia – Pacific region was detente with China. In the late 1970s and 1980s China could, and did, mobilise Japan and the United States to take its side against the USSR.⁴⁵ Soviet–Chinese detente took several years to achieve. As in Europe, the Soviets made the concessions: withdrawal from Afghanistan, reduction of troops on the Chinese border,⁴⁶ a Cambodian settlement with Vietnamese withdrawal. The recent Soviet military withdrawal from Mongolia and Mongolian internal reform also is significant. Now border trade is expanding and old projects for development of the Amur waterway and air and rail links are revived. The Chinese were greatly embarrassed that Gorbachev's visit to Beijing (note, the foreigners come to China, in the old pattern of tribute) was marred by the democracy demonstrations at Tiananmen square: this humiliation may have impelled the suppression. Soviet reaction to the Tiananmen incident was correct: it was a Chinese internal matter. In Moscow, anti–Chinese demonstrations occurred. Gorbachev sent word to the Soviet students that he deplored the Chinese crackdown and that nothing similar would happen in Moscow.

Northeast Asia now increasingly resembles an unstable zone, with four great powers: Japan, China, the USSR, and the United States all have particular and different interests, and each has both cooperative and conflicting interests with each of the others. Division of Korea is still an acute issue. Korean unification, like German unification, may at some point be decided by Koreans themselves with little outside control. This would create another strong nationalist power. The Soviets are withdrawing from the U.S.–built naval base at Cam Ranh Bay, and from aid to Vietnam, and are promoting a Cambodian settlement: southeast Asia is not going to be a zone of much interest except for commercial possibilities, which are assiduously explored by Soviet trade missions.

Japanese–Soviet relations continue to be cold, in spite of Soviet efforts to thaw them. In fact, the Japanese–Soviet conflict is now the most acute hostility between any two great powers. The issues are deeper than Soviet possession of the four southernmost Kurile Islands (or Japanese "northern territories"). Russian–Japanese hostility is more than a century old, and public opinion in each country distrusts the other.⁴⁷ Japanese investments in the USSR have been stagnant since the 1970s, and Japanese business concentration in China continues.⁴⁸ Soviet leaders and the local leaders in the Soviet Far East do not wish to lose economic autonomy to Japanese investment, and prefer cooperation with the United States, Europe, China, and South Korea.

Gorbachev is scheduled to visit Japan in 1991. He may offer to return two of the four northern islands, or in return for Japanese money, all four. It is not at all certain that Japan will invest in the USSR even with return of the islands. Military concessions – reduction of Soviet nuclear weapons in the Sea of Okhotsk, for example – may also be necessary. Most Japanese businesses seem to believe that investments in the USSR are not profitable, except for simple extraction of raw materials. Soviet raw materials are not essential to Japan, and Japan may prefer to wait until other countries develop Soviet infrastructure and distribution before capturing Soviet markets. The

Soviet side fears that the Soviet Far East may become a raw materials colony for Japanese industry, and wants investment in manufacturing and processing. Japan has grown so rich under its present policies of export and financial accumulation, and under the umbrella of U.S. military power, that any substantial change in the world environment is unwelcome.

THE ECONOMIC IMPERATIVE

In each region, and in general, Soviet policy must seek economic advantage more than any specific political or strategic outcome. The overriding purpose of Soviet foreign policy is trade and investment on favourable terms. In Europe, it is investment from the European Community, primarily from Germany, and eventual inclusion in a European economic arrangement. The Soviet Union now competes with central and east European countries for German and other Western capital. Another conflicting interest is the terms of trade for raw materials, primarily oil. The Soviet Union will now charge world prices, payable in hard currency, which hurts central and east European importing countries. High oil prices increase the pressure on the Soviet Union to produce more oil more efficiently, and to conserve energy.

Soviet economic fortunes are also tied to the Islamic world, through the top two Soviet exports, oil and military equipment. High oil prices increase foreign exchange. They also help arms exports because the buyers are Arab countries which pay in petrodollars: Libya, Iraq, and Syria (with Saudi money).⁴⁹ Yet the future of the arms business is uncertain. In the current crisis, the Soviet Union did not try to gain a position as Iraq's only military supplier, which it certainly would have done in earlier times. Cooperation with the West is more important.

The Soviets want access to Japanese and Korean capital for economic development, and they want to share in Asia-Pacific trade and investment. Trade with China is increasing rapidly. Economic missions crisscross the Pacific states of the U.S. Relations and trade links have been opened with South Korea. Japanese investment holds back (while it accelerates in China), pending the return of the Northern Territories. Whether Japanese investment would be directed to the USSR under any political circumstances is unclear, as previously discussed.

At present, relations with Africa, Latin America, and southeast Asia matter rather little to the Soviet Union. In these areas Soviet policy will seek to reduce costs, to promote any opportunities for trade and economic advantage, to avoid situations which might endanger its European relationship (e.g. support of Iraq), and to be a good world citizen supporting UN mediation and political compromises in almost all situations. There is at present no Soviet interest which is served by any other policy.

The change has been gradual, but accelerating. Soviet Third World activities and subsidies were winding down even before 1985. Soviet commitments established in the 1970s are being phased out in ways which preserve Soviet credibility: in Nicaragua, for example, the Soviets almost certainly pushed the Sandinistas to agree to an election and refused to promise to keep them in power otherwise. In Cambodia, the Soviets withdrew financial support to Vietnam which forced the Vietnamese to change policy. The U.S. has cooperated with the Soviet Union in these changes, generally waiting until the Soviets were ready for a settlement, then making the settlement a joint U.S.-Soviet enterprise, often under the United Nations umbrella. The latest example of this pattern is President Bush's statement that the Soviet Union should now be

included in Middle East conflict resolution.

The United States and the Soviet Union now have a curious relationship. The U.S. is not essential to Soviet economic development, because it is no longer a large capital exporter. Germany, the European Community, and Japan are the sources of money. Nor is bilateral trade important. U.S. grain will continue to be one Soviet import, but other suppliers are available. U.S. investment and joint ventures will be encouraged, partly due to the sentiment that Russians have about the U.S. as a successful big country, former ally, and former rival, a sentiment reciprocated by many Americans.⁵⁰ U.S. technology and expertise are eagerly sought. Once ideological hostility and the automatic tendency to support whomever the other side opposes have disappeared, the U.S. and the Soviet Union have almost nothing to fight about. (The Soviet border with the U.S. in Alaska and the Aleutians has not been disputed since the Tsar sold Russian America to President Grant in 1867). Long term Soviet and American interests, including a stable Middle East, reduction of military spending, prevention of proliferation, and a world economy not entirely monopolised by the European Community and Japan are largely parallel. Times change.

APPENDIX

SOME RECENT COMMENTS ON POLICY TOWARD SOUTH AFRICA

Soviet policy concerning South Africa has been a subject of commentary recently. Vladimir Lukin, newly chosen chairman of the Committee for International Affairs and Foreign Economic Relations of the Supreme Soviet of Russia, and a pragmatist, notes that it is easy to talk about changing ideological policies but difficult to get rid of them in practice. He urges:

"Let us take a look at the development of relations with several countries which only a few years ago were completely beyond the horizons of our foreign policy, such as the rapidly developing East Asian "little dragons", Israel, and South Africa... The contrast between our 'moral perfection' and their 'absolute fall' has lessened considerably, whereas the Soviet Union's political and especially economic requirements made it increasingly more imperative for us too establish contact."⁵¹

Lukin suggests that the Russian federation might open consulates in countries such as South Africa where the USSR has no relations.

Boris Pilyatskin makes a frontal attack on Soviet policy toward South Africa, taking as his cue the Soviet cancellation of a South African tour by the Moscow Circus, and also the denial of Soviet visas to a South African descendant of Tchaikovsky and a South African director who wished to stage Boris Godunov in Russian.⁵² Pilyatskin notes that African countries do not observe sanctions, and that the United States and others observe milder ones. He notes that the U.S. Congress debated and passed the policy, whereas Soviet policy was decided by officials without debate. He is sarcastic about Soviet hypocrisy:

The USSR, the country of propiska apartheid and the internal passport system, whose citizen's nationality is still defined less by their language or culture than by their 'blood count', never missed a chance to condemn the racist oppression of Africans and nonwhites.⁵³

Pilyatskin goes on to call for compromise between the government and the ANC, and hints that Soviet influence should push the ANC in that direction. He echoes Lukin's ideas of a Russian Federation connection to South Africa:

"There are vast opportunities for cooperation between our two countries. Just by coordinating our gold-mining policies the world's two greatest gold producers could create a fundamentally new situation on the world gold market. To a great extent, the same is true of the diamond market.

There is every reason to believe that as an increasing number of Soviet enterprises enter the foreign market and as the Union republics become increasingly dependent economically, the process of establishing ties of mutually beneficial cooperation with South Africa will gain momentum despite opposition from the conservative forces reluctant "to forgo their principles".

Note that South Africa policy inherited from the Cold War is called "conservative"; those urging more contact would be considered Russian "leftists".

These comments are actually not particularly radical. A series of measures already demonstrated a change of policy: consultations with South Africans in Moscow; the ongoing talks with South

African officials concerning Angola; the move of The African Communist from East Berlin to London and discontinuation of the subsidy to that journal;⁵⁴ the De Beers diamond arrangement publicly announced in July 1990; the Moscow Circus trip whose cancellation provided the reason for Pilyatskin's article.⁵⁵ In fact, the policy change appeared in very official print:

*Soviet diplomacy, for its part, uses contacts with the official authorities of Pretoria within the framework of a Namibian settlement as a means of contributing to a political settlement of the conflict in southern Africa within all its complex aspects.*⁵⁶

A few years ago, U.S. conservatives claimed that Soviet support for political change in South Africa was a strategy for world domination. An ANC government would create a Soviet-South African gold, diamond and strategic minerals cartel⁵⁷ which, along with the Soviet Navy astride the Cape, would bring the West to its knees. This was the presumed strategic purpose of Soviet support for the ANC.⁵⁸ Ironically, such a cartel may eventually form in collaboration with a white-led reformist South African government.

FOOTNOTES:

1. Efforts to transplant Leninist political organisation to "socialist oriented" countries under Soviet and allied guidance included establishment of vanguard parties", the political administration of the armed forces, internal security police, media control, and state economic planning.
2. *Some of these movements were far more legitimate than others. The Afghan resistance was a national response to foreign control and invasion; the Nicaraguan contras were a U.S. creation.*
3. Readers sceptical of an American writing this should read through the last several years of *Moscow News*, in English, or *Ogonek*, or *Argumenti i Fakti*, in Russian.
4. See, for example, the article of Eduardo dos Santos in the CPSU journal *Kommunist*. "Avangerdnaia rol' partii na nyneshnem etape Angol'skoi revoliutsii", (The vanguard role of the party at today's stage of the Angolan revolution), No.5, March 1986. Dos Santos affirms that the MPLA had put down few roots outside the military and government bureaucracy, and that efforts to win over peasants and develop agriculture had not worked. Soviet experts were sceptical even in the heyday of "socialist orientation" promoted by the International Department of the Central Committee under Rostislav Ivanovsky and Boris Ponomarev. In early 1980s, researchers at the Institute for the Economy of the World Socialist System (IEMSS) warned of the cost of Soviet involvement in the Third World, and stressed the need for reform and investment to keep up with Western Europe. Africanists argued that Africa was not prepared for socialism, whatever the professed ideology of African leaders.
5. Along with Soviet hopes for German neutralism, hopes for a Gaullist France disrupting trans Atlantic solidarity were undermined by President Mitterand.
6. Report of the USSR Foreign Ministry to the Supreme Soviet, "The Foreign Policy and Diplomatic Activity of the USSR (April 1985–October 1989), in *International Affairs*, January 1990. Summary of new thinking on pp.8–11, quote p.8–9, italics in the original.
7. *ibid.*, p.9
8. For example, the March 1918 Treaty of Brest Litovsk; the settlement with Finland of 1920; the Rapallo Treaties of 1922; the accommodation of the Japanese conquest of Manchuria and the sale to Japan of the Chinese Eastern Railway; the Soviet–German treaty of August 1939; the Soviet–Japanese non-aggression Treaty of April 1941; the retreat from Sinkiang in 1943; the lifting of the Berlin Blockade in 1949; the withdrawal of missiles from Cuba in 1962.
9. While almost all of Gorbachev's colleagues have been Russian, Shevardnadze is Georgian. He gained prominence after 1972 as Georgian Party secretary cleaning up corruption which flourished under his predecessor Mzhvanadze.
10. Soviet international debt was about \$10 billion in 1983, and reached \$47 billion at the end of 1989. The trade deficit with the West was \$5 billion in 1989, caused largely by huge grain imports worth \$6 billion. In summer 1990 the Soviet Union was \$3 billion in arrears in its international payments, mostly for grain imports. See Anders Aslund in *The New York Times*, 3 June 1990, p.E4, and Marshall Goldman in *The Wall Street Journal*, 27 July 1990.
11. Leningrad leader Anatoly Sobchak identified "foreign aid" as his top priority for saving money to reduce the Soviet budget deficit.
12. In 1978 Moscow was full of rumours that Soviet longshoremen at Black Sea ports had downed tools, refusing to load scarce Soviet grain on ships bound for Cuba.

13. "The Twilight of Ideology: Soviet-Cuban relations", *Moscow News* #36, September 6-23, 1990, p.12. Yelena Gorovaya writes: "Certainly, the billions going to Cuba and other Third World countries aren't the USSR's only or its most worthless 'investments'. There have been greater losses. But why justify lesser losses with greater ones." The article says that the reasons for Soviet aid were "ideological" and that Cuba acted independently, notably in sending troops to Angola in 1975: "the USSR reportedly heard about Cuba's decision to send troops when the Cuban Navy was half-way across the Atlantic."
14. Sergei I. Shatalov, "Soviet Assistance to Africa", *CSIS Africa Notes* #112, May 1990.
15. *New York Times*, 30 September 1990, p.7
16. Obviously Soviet policy was not entirely a monolith, nor was coordination always effective. One method of analysing internal differences was Kremlinology—study of how individual leaders, in control of which policy instruments, conducted their differences over power and policy. Another was the theory of institutional pluralism: Soviet agencies had institutionally based goals such as larger military budgets (the Ministry of Defence) or support for foreign communist and national liberation movements (the International Department of the Central Committee secretariat). If disagreement existed in internal debates, it was not often allowed to emerge in the actual conduct of policy. This is now a debate for historians.
17. In the Brezhnev period, the Leninist emphasis on "proletarian internationalism" was revived, and the International Department set about more effective coordination of policy, particularly in Third World areas. Instruments included Communist Party aid to "vanguard parties", military cooperation through several channels, propaganda collaboration, student and cultural exchanges, and economic agreements. Soviet and Cuban and East German efforts were coordinated, sometimes imperfectly.
18. In the United States, anyone serving in the armed forces cannot participate in politics or hold elective office. Officers who publicly oppose policies of the government are fired.
19. Berdyaev, a religious philosopher, argued that Leninism, far from being a revolutionary break with the past, was an extension of Russian traditions of messianism, dictatorship, and submergence of the individual, rooted in Orthodoxy. The Origin of Russian Communism was first published in 1937.
20. The Constitutional Democratic Party of 1905-17, led by historian Pavel Miliukov. Kadets dominated the 1917 Provisional Government.
21. As in Russia, various viewpoints are jumbled together and uncertain. For example, Armenians have had divisions for the past century between moderates and more militant nationalists; the Armenian communists were a third tendency. In neighbouring Georgia, the nationalists led by Zviad Gamsakhurdia seem to have the stronger position among several factions. Estonians insist that Russia immigrants of the past forty years shall not have Estonian citizenship or language equality.
22. PlanEcon calculations reported in *The New York Times*, Sunday, 7 October, p.E3:

Subsidies by Republic:Subsidies per person
(\$ billions)

Russia	+\$65.4	+\$444
Armenia	- 0.9	- 274
Azerbaijan	- 0.1	- 14
Byelorussia	- 4.0	- 392
Estonia	- 2.1	- 1335
Georgia	- 2.8	- 514
Kazakhstan	- 12.1	- 732
Khrgyzia	- 2.2	- 513

Latvia	- 2.7	- 1.007
Lithuania	- 5.6	- 1.518
Moldavia	- 3.0	- 691
Tadzhikistan	- 2.1	- 411
Turkmenia	- 0.2	- 57
Ukraine	- 8.6	- 166
Uzbekistan	- 6.9	- 347

23. Stephan Shakray, member of the Russian republic Council of Ministers, noted in *The New York Times*, 15 August 1990, p.A3
24. *Soviet Military Power 1989: Prospects for Change*, U.S. Department of Defence, p.32.
25. Fact is, no one, including no one in the Soviet Union, can accurately calculate the cost of the Soviet military or defence effort, be it in dollars, current roubles, or constant roubles. Data on the proportion of military spending in GDP is even more chancy, because no one knows how to calculate the size of the Soviet economy either. Soviet economists visiting the United States in spring 1990 argued that total production is considerably less than Western statistics indicate. So military spending may be a higher proportion of a smaller economy. Military costs may be cut, but as the entire economy shrinks, defence may maintain a high proportion.
26. Even the U.S. Defence Department acknowledges that "The Soviet Navy ... has reduced distant operations, and is acceleraing the scrapping of obsolescent submarines and surface ships ... Today Soviet naval forces are deployed around the globe but at reduced levels compared to the early 1980s ... The most significant trend in Soviet naval operating patterns over the past four years has been the reduction in naval activity beyond Soviet home waters." *Soviet Military Power 1989*, pp.32, 75, 78.
27. G. Sturua, "A view of the Navy through the prism of military perestroika", *Mirovaia Ekonomii i Muzhdunarodnaia Otnosheniia* #5, 1990, pp.21-32 (in Russian). Sturua says his article is based on an interview with Chernavin.
28. For example, see Svetlana Aleksievich, "Don't Say You Have Not Been In That War", *International Affairs*, January 1990, pp.132-140.
29. *Moscow News* #30, August 5-12 1990, p.11. See also RFE/RL Soviet East European Report, Vol.VII, No.37, September 20 1990.
30. The events of January 13-21 1990 in Baku are still murky. It is clear that Azerbaijani mobs including refugees from disputed Nagorno-Karabagh were incited to beat and kill Armenians in Baku on January 13-15. This had occurred earlier at Sumgait, a Baku suburb, in April 1988. Who incited the mobs is not clear: the Azerbaijani Popular Front, the KGB, and Azerbaijan Communist leaders seeking perhaps to discredit the Front are variously blamed. What is clear is that the Army was ordered in several days after the pogroms occurred, at midnight on January 20. According to the report of a military investigating commission, some 121 citizens were killed and 700 wounded, along with 21 soldiers killed and 90 wounded. the commission called it "a preplanned massacre of innocent people". Abridged report printed in *Moscow News*, #33, August 26-September 2 1990, p.15.
31. Armenia is now ruled by the Armenian National movement, the successor to the Karabagh Committee which organised the Armenian mass demonstrations of spring 1988. Karabagh Committee leader Levon Ter-Petrosian was jailed for six months in 1988-89; he is now the Chairman of Armenia's Supreme Soviet. After Armenia was occupied by the Soviet army in May 1988, an armed movement called the Armenian National Army grew and spread. These guerillas, called fidains, fought on the border with Azerbaijan and stole heavy weapons from Soviet Army stores. On July 25 Gorbachev issued a decree banning illegal armies and requiring surrender of weapons; the deadline was extended. A skirmish with the Soviet Army took place on the border with Azerbaijan. On August 4, the nationalist Armenian government took office, and on August 28 reached agreement to disarm the "vigilantes". Armenian sovereignty has been declared, following the Baltic States,

Russia, the Ukraine and Georgia.

32. A telling Soviet statistic concerns strikes: in the first half of 1989, 15 000 workers were on strike every day; in the second half of 1989, 50 000; in the first half of 1990, 130 000. The army was not called out against the coal miners of the Kuzbas and the Donbas in August 1989: that strike marked the loss of control over society and events by Gorbachev's government.
33. *Moscow News*, #36, September 16–23 1990, p.8. The survey includes other interesting questions on attitudes toward the military.
34. The Swiss federation has a single, united Swiss Army. So does Canada, in spite of its tensions. So does India. At the outset, the United States deliberately balanced the militias of the states against the national (federal) army. The balance was to prevent both a national military coup (to be defeated by the state militias) and also any secession of states (to be defeated by the national army and other states, as indeed happened in the U.S. Civil War). See *The Federalist Papers*, Nos.26–28, written by Alexander Hamilton.
35. Major Lopatin claims "that 37% of all conscripts have only a poor knowledge of Russian, 45% of them suffer from some sort of mental disorders, and many are ex-convicts". Quoted in *Moscow News*, #32, August 19–26 1990, p.10.
36. "Military Coup in the USSR?", *Moscow News* #37, September 23–30, 1990, ip.8
37. After Stalin's death, when MVD head Lavrenti Beria attempted to gain power, it was alleged that Soviet Army forces blocked MVD troops ordered to the Kremlin, protecting the established Party authority. During the military purges of 1937–38, commanders and the officer corps submitted to arrest by the NKVD without attempt at resistance.
38. Radio Free Europe/Radio Liberty, Soviet/East European Report, Vol.VII, No.44, 10 September 1990
39. Also, The African Communist announced in its latest issue, third quarter 1990, that it is now published in London, not Berlin, and is short of funds.
40. The Soviet Union signed bilateral security treaties after World War II with Czechoslovakia, Hungary, Bulgaria, Romania, and Poland. These remain in force, as does the Friendship Treaty with Finland signed in 1940. So even without the Warsaw Pact, the Soviet Union has defence commitments which extend to the German border.
41. The Economist (London), 22–28 September 1990, p.56.
42. "We are waging a battle to the death against those persons who forget, even for a moment, their duty to the oppressed nations, to the toiling masses of those countries which are plundered and exploited by capital ... The European proletariat cannot help seeing now that the course of historical development has bound the Toilers of the East to the Workers of the West. We must conquer or perish together. The theses of the Congress then affirmed that "the soviet organization ... are the only suitable type of organization for the toiling masses in general." Zinoviev quoted in X.J. Eudin and Robert C. North, *Soviet Russia and the East, 1920–27; A documentary Survey*, Stanford, California, 1957, p.80–81.
43. East Asia has always been a critical Soviet zone, although Westerners focus on Europe. In the 1960s and 1970s, the Chinese–Soviet conflict brought huge armies to both sides of the border, and in 1969 and 1979 almost led to a big war. In the early 1930s Stalin feared war with Japan more than any other possibility, and developed strategies to contain Japan from Sinkiang through Mongolia to Manchuria which included military buildup and economic and political concessions. The Red Army victory over the Japanese in the Mongolian border war of August 1939, and the Hitler–Stalin treaty of that same month, finally reduced the danger of Japanese attack and led to the April 1941 Soviet–Japanese nonaggression treaty. By agreement with the U.S., the Soviets violated that treaty and attacked Japan in August 1945, taking (by prearrangement) southern Sakhalin and the southern Kuriles (the "northern territories"). Sakhalin, which was originally Russian, is not now in dispute.

44. Supreme Soviet and Russian Supreme Soviet Deputies from the Far East were elected on a platform of regionalism and control of resources; some talk is heard of re-establishment of a Far Eastern Republic, as existed in 1918–20, within a Soviet confederation. Most investment in the Far East has gone into large projects with little benefit to local populations: the best example is the extremely costly Baikal–Amur Railway, announced as completed in 1986 but not yet in full operation.
45. The formal recognition of China by the U.S., occurred in 1978. The Japan–China Friendship Treaty was signed also in 1978. Both the U.S. and Japan became major investors in China. U.S. electronic equipment to monitor Soviet communications was moved into Sinkiang.
46. 44 Soviet divisions were stationed along that border in the early 1980s; Mongolia had another 50 000 Soviet soldiers; Backfire bombers were based at Irkutsk; SS-20 missiles were introduced.
47. For the Japanese side, see Tsuyoshi Hasegawa, "Japanese perceptions of the Soviet Union, 1960–1985," in the *The Soviet Union Faces Asia: Perceptions and Policies. Slavic Research Centre, Hokkaido University, Sapporo*, 1987.
48. On Japanese investment in Siberia and the Soviet Far East, see Shinichiro Tabata. Slavic Research Centre, Hokkaido University, "The Japanese–Soviet Economic Future," and L.N. Karpov, Institute of USA and Canada Studies, Moscow. "The Soviet Far East in the Economic Development of the Asia–Pacific Region," both unpublished, May 1990.
49. The U.S. Government estimated the value of Soviet arms exports from 1983 through 1987 at some \$96 billion, of which \$83 billion went to developing Countries. Largest customers, in order, were Iraq, Syria, Vietnam, India, Cuba, Angola, Ethiopia, Afghanistan, Libya, and Algeria. See U.S. Arms Control and Disarmament Agency, *World Military Expenditures and Arms Transfers 1983–87*, 111–114.
50. The perception of cultural similarity and mutual interest is widespread and growing in both the USSR and the USA, as Soviets visit the United States in increasing numbers for many purposes.
51. Vladimir Lukin in *Moscow News* #30, August 5–12, 1990, p.3. Dr Lukin is an expert on Asia–Pacific affairs at the Institute of USA and Canada Studies, and recently served as a USSR Deputy Foreign Minister.
52. "Why Victimize Boris Godunov"? Moscow–Pretoria: Aspects of Relationship" in *Moscow News* #35, September 9–16, 1990, p.12.
53. A *propiska* is an internal passbook listing nationality, residence, and employment, which every Soviet citizen must carry. Nationality is defined by parentage, not residence or culture: for example a person of Jewish religion or of Volga Tatar descent who was born and raised in Moscow and is Russian by language and culture is "Jewish" or "Tatar", not "Russian", in the *propiska*.
54. Mentioned in *The African Communist*, Third Quarter 1990.
55. Popular cultural tours are a classic Soviet way of opening relations. For example, to underscore Khrushchev's detente policy in 1957–59 the Red Army Chorus toured Western Europe and the Moiseyev dancers came to the U.S.
56. USSR Foreign Ministry, "The Foreign Policy and Diplomatic Activity of the USSR: 1985–89", *International Affairs*, January 1990, p.27.
57. Times may change less than they seem. As Kurt Campbell well documents in his *Soviet Policy Toward South Africa* (1987), Soviet–South African co-operation in diamond marketing has existed since the 1920s, without interruption for any political reason.

58. The conservative drumbeat about strategic minerals and naval bases was probably partly an attempt to enlist U.S. general support for pre-reform South Africa. Brezhnev-era policy toward southern Africa and support for the ANC was more political (creation of a southern African group of "socialist oriented" countries as part of worldwide Soviet expansion, and attempts to weaken and discredit the U.S. by scaring it into alliance with South Africa) than military – strategic (naval bases and control of minerals). See my "The Natural Ally: Soviet Policy in Southern Africa" in Michael Clough, ed. *Changing Realities in Southern Africa*, (1982); and "From Intervention to Consolidation: The Soviet Union and Southern Africa" in Mark Kauppi and Craig Nation, *The Soviet Impact in Africa*, Lexington, Massachusetts and Toronto, 1984.

THE FUTURE OF REGIONAL STRUCTURES

by

Ivan Angelis

We are entering a period of profound changes in social, political and economic structures in East and Central Europe. The decay of post-1945 imposed systems, lasting for more than forty years, is evident. The vacuum left by the retreat of the old guard Marxist bureaucracy has taken on a transitional form with many divergent and contradictory elements which will only gradually be replaced by a new and generally acceptable system. This process may extend to a decade or more. A parallel with the end of the 18th century – the decade of the French Revolution – comes to one's mind. As academics we have to face the uncomfortable fact that discontinuity, rather than continuity, will be the hallmark of the coming years.

I shall concentrate on developments – partly underway and partly still below the horizon – in the economic sphere. Change will affect all aspects of the socio-economic structure: the macroeconomic sphere of regional and national arrangement as well as the microeconomic (company) level, their regime (institutional, organisational) as well as substantial (material) features.

Retreat of the CMEA (Council for Mutual Economic Assistance – the successor to COMECON) as an entity from the world economic scene, the evidence of which has been visible for some time now, will become more apparent in the next year. Of course reasons – both internal and external – for some form of economic integration or linkage between the countries of Central and Eastern Europe do not lose their justification. However, for some period of time we should rather expect tendencies of disintegration and some sort of economic individualism or even chauvinism among the CMEA countries. An expectation of a comeback to the concept of economic integration after some interlude of economic separatism has certain valid reasons, such as: differences in material and regime situation in European member countries of the CMEA, particularly differences in the depth of economic malaise (or crisis) in these countries with one distinctly outstanding discriminating factor of external indebtedness. A future grouping is likely to have another geographic shape and also smaller economic size, compared to the present one. The Soviet Union – irrespective of the final outcome of its internal political and economic convulsions – is likely to abdicate from its former role of hegemonial power in the regional economy. It will rather seek an independent role in the global economy. However, the decline of its ties to the East and Central European countries in the immediate future could conceivably be followed by restoration of the Soviet Union's economic involvement with its smaller neighbours at a later date.

Envisaged and future economic integration of East and Central European countries is likely to be moulded on Western European lines. The objective would rather be to create a modest economic space needed from the point of view of economy of scale and highly desirable in promoting a better prospect of successful incorporation into the EIC in the future. Considerations of possible regional grouping resulted in several variants – none of them being more than a mere

idea: "A Triangle": Czechoslovakia-Hungary-Poland, which in economic size would be equal approximately to the Benelux; "The Pentagone" including Czechoslovakia-Hungary-Yugoslavia-Austria-Italy; "A Balt-Adria" grouping - a 20th Century concept of the Grand Duchy of Lithuania of the Middle Ages. Hardly any of these considerations could be realized even in the form of a free trade zone now.

International economic flows - particularly foreign trade - of the Eastern and Central European countries will face a profound restructuring, too. An assimilation of the pricing and payment regime of the CMEA to the global system and a separation of the former GDR (East Germany) from the CMEA grouping and her absorption into the FRG (West Germany) will generate a distinct contraction in the CMEA share in world trade. The relative share of the CMEA intratrade as a proportion of total trade is likely to decrease by about one half in the next five years: from about 4.7% (1988) to roughly 2.3% in 1995 - which corresponds to a decline in value from US\$280 billion to US\$180-200 billion.

Aside from the change in territorial dimensions with the loss of the GDR, the main reason for this contraction of CMEA intratrade is the introduction of a new pricing and payment system starting 1991, which will eliminate transferable roubles from mutual transactions and regulate dollar values of mutual trade at more realistic levels. A minor decline in that volume of mutual trade will also influence the final outcome.

The impact of changed pricing mechanisms on existing trade flows will be more detrimental. The current position of surpluses or at least balanced trade between Soviet Union and most smaller CMEA countries will move into deep substantial deficit. This will be caused by the differing impact of new pricing and payment terms on the mutual commodity trade. Soviet exports will retain or even increase their dollar value while the dollar value of other European CMEA exports (consisting mostly of capital intensive goods) will considerably decrease.

Distinct changes will also emerge in geographic pattern of trade. Previous policies of economic autarchy of the CMEA grouping as a whole and - to a certain degree - of member countries individually, created a high proportion of the CMEA intratrade as a component of the total trade of member countries. The earlier high proportion of intratrade (which varied between 60% to 62%) is likely to decrease to some 45% or less during the next five years - to the benefit of trade with (mostly developed) market economies. A tendency to geographic diversification of trade flows among the CMEA member countries is also likely - though a "fan shape" of trade flows towards smaller CMEA countries standing on the outer perimeter with the Soviet Union at the centre would not change easily - if we consider the strong inertial element of "manufactures against raw materials and energy" prevailing in CMEA trade.

To give momentum to the process of trade diversification - without which a revitalization of trade between countries of Eastern and Central Europe and the developed West would hardly be sustainable - an encouraging attitude by Western economies appears extremely important. The sphere of market access seems crucial here.

The most visible manifestations of the developments outlined above are likely to be:

- * a rapid escalation of disequilibria of trade balances in smaller CMEA countries and strengthening effort to compensate this by an inflow of direct investment;

* further pressure on indebtedness – which will spread also to countries with a relatively low external debt currently (like Czechoslovakia);

* problems with liquidity emerging not only from trade deficits, but also from the additional complication caused by an introduction of payment terms usual to world trade: i.e. medium- and long-term credit for machinery exports and immediate payment for energy and raw materials; the impact on individual CMEA countries will vary to some extent but generally the more negative factors will affect Hungary, Czechoslovakia and Bulgaria, while on the Soviet economy they will be positive;

* the question of market access – primarily related to developed market economy countries – will be much more immediate for the smaller Central and East European countries than it was in the past.

Let me mention only one important point: the position of individual enterprises from the viewpoint of efficient, export performance and profitability will change profoundly. Changing price structures, resulting generally in a considerable increase in energy and material costs and weakening of price levels of manufactures will produce an essentially new pattern of industrial and business activity. Besides there will also be the negative but powerful influence of distortions produced by the state budget. While any generalisation can be misleading, the most affected industries may be listed as follows:

- * the chemical and tyre industries
- * metallurgy – non-ferrous metals;
- * leather-working industries;
- * textile industries;
- * some branches of heavy machinery.

STATISTICAL APPENDIX I

WEIGHTS OF SELECTED ENTITIES (GROUPINGS, COUNTRIES)
IN THE WORLD ECONOMY

(Approximate Figures for the end of the 1980s, billion US\$)

GROSS DOMESTIC PRODUCT

FORMER GEOGRAPHICAL PATTERN		EMERGING GEOGRAPHIC PATTERN	
WORLD	17716	WORLD	17716
USA	4191	USA	4191
JAPAN	1069	JAPAN	1969
USSR	1351	USSR	1351
FRG	889	GERMANY	1015
		(Germany	1015)
		(France	727)
		(Italy	605)
		(UK	552)
(EEC	3470)	(EEC	3596)
(EFTA	504)	(EEC	504)
(EUROPEAN PART		(EUROPEAN PART	
OF THE CMEA		OF THE CMEA	
INCL. USSR 1938)		WITHOUT USSR	
		AND GDR	461)

INTERNATIONAL TRADE

	EXPORTS	IMPORTS	EXPORTS	IMPORTS
WORLD	2880	2990		
FRG	323	251	GERMANY	351
USA	322	460		276
JAPAN	265	187		
FRANCE	168	179		
UK	145	189		
USSR	111	107		
GDR	31	30		
CZECHOSLO				
-VAKLA	25	24		

STATISTICAL APPENDIX II

ESSENTIAL ECONOMIC PARAMETERS OF SELECTED COUNTRIES
AND GROUPINGS

(Approx. figures for the end of the 1980s, billion US\$)

GROSS DOMESTIC PRODUCT		POPULATION		GDP US\$ PER CAPITA
		MILL.		
WORLD	17716			
EEC	3470	CZECHOSLOVAKIA	15,6	6538
EFTA	504	POLAND	37,6	4213
CMEA EUROPE		HUNGARY	10,7	5420
INCL. USSR 1938	YUGOSLAVIA	23,3	2648	
(USSR	1351)	AUSTRIA	7,5	12423
		ITALY	57,4	10552
(CZECHO		FINLAND	4,9	14487
SLOVAKIA	102)	SWEDEN	8,3	15680
(POLAND	158)	NORWAY	4,1	16771
(HUNGARY	58)	DENMARK	5,1	16099
(CSFR+PR+HR	318)			
("PENTAGONALE"				
= CSFR+HR+				
YUGOSLAVIA+				
AUSTRIA+				
ITALY	920)			

FOREIGN TRADE

	EXPORTS	IMPORTS
WORLD	2880,0	2990,0
(CSFR+PR+HR	51,9	50,4)
("PENTAGONALE"	206,9	221,6)

FOB-FOB BASIS		ACTUAL VALUE BILLION US\$	SHARE %	TENTATIVE VALUE BILLION US\$	SHARE %	ESTIMATED VALUE BILLION US\$	SHARE %
world exports ^w	merchandise	2880,0	100,0	2844,0	100,0	/4000,0/	100,0
	service	560,0	/100,0/	*	*	*	*
CMEA Eur.export to the world	merchandise	237,7	8,3	201,9	7,1	211,0	5,3
	service	18,8	/ 3,4/	*	*	25,0	*
CMEA Eur.exports to CMEA Eur.	merchandise	142,1	4,9	106,3	3,7	90,0	2,3
CMEA Eur.exports to other socialist countries ^w	merchandise	19,7	0,7	19,7	0,7		
CMEA Eur.exports to developing countries	merchandise	22,5	0,8	22,5	0,8	56,0	1,4
CMEA Eur.exports to developed market economies	merchandise	53,4	1,9	53,4	1,9	65,0	1,6
world imports ^w	merchandise	2990,0	100,0	2955,0	100,0	/4160,0/	100,0
	services	*	*	*	*	*	*
CMEA Eur.import from the world	merchandise	233,0 ^w	7,5	188,4	6,4	206,0	5,0
	services	22,5	*	*	*	*	*
CMEA Eur imports from CMEA Eur.	merchandise	137,3	4,6	102,7	3,5	90,0	2,2
CMEA Eur.imports from other socialist countries ^w	merchandise	17,4	0,6	17,4	0,6		
CMEA Eur.imports from developing countries	merchandise	13,6	0,5	13,6	0,5	50,0	1,2
CMEA Eur.imports from developed market economies	merchandise	54,7	1,8	54,7	1,8	66,0	1,6

- a/ *GATT International Trade 1988-1989*
- b/ *calculation of the Research Institute for Foreign Relations (RIFER) on basis of actual US\$ values of exports to/imports from market economies/developed and developing; exports/imports in CMEA/Europe/intrade transferred into US\$ from XTR/convertible rouble/ values by official exchange rate of CMEA banks/1 US\$ - 0,6076 XTR/; exports to/imports from other socialist countries in actual clg. US% value or transferred into clg. US\$; GDR-FRG trade transferred into US\$ from actual DEM/West German Mark/values/1 US\$ - 1,8 DEM/Services; RIFER estimate.*
- c/ *Non-European CMEA countries, China, Yugoslavia, North Korea.*
- d/ *RIFER tentative figures: impact of transfer to current world market prices and accounting in convertible currencies in CMEA Eur. intrade calculated by RIFER on the basis of 1988 trade volumes.*
- e/ *First iterative step to world and CMEA trade estimate, calculated by RIFER:*
- *world trade estimate based on simple assumption of 5% growth rate p.a.*
 - *CMEA trade figures exclude GDR from CMEA grouping and are based on different estimates of trade growth rates for three inner groups of CMEA countries: SSSR/Czechoslovakia, Hungary, Poland/Bulgaria, Romania.*
 - *impact of pricing and payment reshuffle in the CMEA trade included according to "lowscenario".*

CONCLUDING ADDRESS

by

Frederick Van Zyl Slabbert

Thank you Mr. Chairman, Ladies and Gentlemen. I regret very much that I haven't had the benefit of listening to all the speakers who spoke at this Conference since yesterday. In looking at the programme I recognize names of people that I have never met but always have looked forward to meeting and hearing their views. So from that point of view, I am afraid that you have been misled in being told that I would make concluding remarks in the sense of giving a summary of the discussions.

Also, I have not had the full benefit of reading the papers that have been delivered, so that I could not really prepare myself, but I warned John of all these things long before when I agreed to speak, so I ask for your indulgence in listening to my concluding remarks.

The first thing that I asked a person this morning is "What is your assessment of the situation?" and he said that there is a trilemma here, not a dilemma. The trilemma is that there are those that say Eastern Europe is relevant for South Africa, there are those that say we should actually follow what has happened there and others who say that it is totally irrelevant to what is going on in South Africa.

I argue the case that Eastern Europe is absolutely relevant, if for no other reason than de Klerk in his speech on the 2nd of February 1990 mentioned specifically the developments in Eastern Europe as the reason for making his speech. So from that point of view, whether we personally agree that it is relevant or not, from a real political point of view it is important to understand why de Klerk thinks it is relevant for him introducing the changes that he has introduced so far.

Why did he see it, as he said in his speech, as a strategic opportunity? Was it because of the perceived ideological collapse of Marxist-Leninism in its politically organised and institutionalised form? Was it because it introduced a certain strategic confusion among his own perceived opponents? Or did it present him with a good opportunity to introduce shifts and changes when there was a due political shift of interest away from South Africa to that part of the world?

One would have to explore these different possibilities seriously and no doubt you have done so over the past few days. I don't want to go into any great detail on some of the topics that you have touched upon. Perhaps, it would be fitting for me, in this brief concluding session to dwell more on the realm of the history of ideas or the sociology of knowledge in looking at some of the implications of Eastern/Central Europe for South Africa.

There are specifically four levels on which one can consider these implications: the first is ideological, the second - political, the third - organisational and the fourth on the transition itself.

Let me start on the ideological level and make the point which for me is the important one: that

the collapse of one politically organised ideology is no automatic vindication for a competing one. There is a tendency to argue when going in for East European bashing that this somehow justifies some aspects of our own situation, particularly if competing ideologies have a tendency towards intellectual arrogance and hegemony. In this respect there are clear similarities between apartheid/separate development and East European Communism.

In the first place both pretended to be 'the grand idea' for planning society. In the words of philosopher Alfred North Whitehead, "They both committed the fallacy of misplaced completeness – they fashioned society into the image of their own ideas and started treating their ideas as a substitute for the facts of society." Now this does have a distorting impact. One of my own experiences of this was when I was still in Parliament and I opposed the first piece of legislation: the 'Prevention of Illegal Squatting Amendment Act' – and this was a Bill that had the purpose of legitimising, at least for those in power at the moment, their right to demolish squatter communities. This was further legitimised in terms of two policy provisions that flowed from separate development and apartheid – the first was 'The Coloured Preference Labour Policy', based on the assumption that somehow, economically, the Coloured had a greater right to jobs in the Western Cape than Blacks and the second was of the course the Policy of Influx Control – and in opposing the Bill, I tried to point out that it was inevitable, given the socio-economic forces, that the people were going to come to the Western Cape and people from the Government side simply got up and said 'But they are not supposed to be here' and once having said that they were not supposed to be there, proceeded to argue as if they were not there. That was the kind of mind-set which informed the whole bureaucracy.

I said that both pretended to be 'the grand idea' for planning society, in other words, the legitimisation for massive social engineering in the name of an idea. Both excommunicated opponents *intellectually and ideologically*. There was a tendency to treat those who did not believe in 'the grand idea' somewhat as Luther's fanatics treated infidels or non-believers. In a sense it became your right, your duty – to guarantee your own salvation – to lie, to manipulate, to abuse non-believers. We have had that in South Africa. Still, today, there are those who (if one does not believe in a particular ideology) are seen as useful idiots or willing accomplices for political strategies which they hold dear.

Both had what I call a tedialogical interpretation of history – not theological, but tedialogical – in the sense that they use the future to explain the present. By defining certain dynamic forces in society they could predict, with absolute certainty, what the future was going to look like – therefore because that was the way the future was going to look, they could therefore act in the way which *enabled them to ignore current developments*. They had (if you want to use theological language) a secular eschatology – a view that somehow history would unlock their salvation.

I believe that the damage done by ideologues who paraded as academics and as so-called activists – both on the communist and the apartheid side – to the young people of their respective societies, has still got to be calculated. I speak specifically from my own experience at Stellenbosch where a theology professor wrote a paper that was regarded as quite seminal in the mid-60s, entitled "Apartheid – the Will of God".

First, both saw the current dynamics of society as competing conspiracies of irreconcilable interests. *Everything became a conspiracy. Because everything was conspiratorial you had to fit*

into the blessed conspiracy. You had to begin to speak in code – code language was used to identify you either as a believer or a non-believer. Those are the ideological similarities on the history of ideas.

Secondly, politically, let me go back to the point that the collapse of one kind of political system is also no vindication for a competing political system, particularly if both of them are undemocratic. In other words undemocratic in the uncountable, non-pluralist sense of the word.

Apartheid and Eastern Europe have also obvious political similarities in this respect. Both unilaterally defined the nature of political participation. You could only qualify for active political participation if you had certain credentials. I know that the current State President will forgive me if I mention this example, because he (certainly from his public announcements), no longer agrees with this position – but a couple of years ago I had to give evidence to a Cabinet Committee on the future of the Urban Blacks (which is another code word: Urban Blacks as if they had a special quality distinct from Rural Blacks). The argument there was centred around the principal of voluntary association, which at that stage was regarded as anathema by those in power – you could not allow voluntary association because somehow it would lead to all kinds of collapses. Eventually, one of the Cabinet Ministers, who is currently very senior, said "Are you saying that if we struck the Population Registration Act that there are actually Zulus who would still want to be Zulus" and I said "Yes, I think that is one of the ways of finding out", where upon immediately the current State President said to me "Yes, but that is all very well, but what do we do with those Zulus who don't want to be Zulus". My answer was that if the majority of Zulus don't want to be Zulus then that is part of the political reality that you have to live with and deal with.

In any case, as I say, those were the ways of looking at your ability to participate politically. Both repressed basic civil liberty. Both increasingly dependent on Intelligence and Security agents to marginalise opponents. The organisational similarities were there: both developed vast bureaucracies in pursuit of the idea; both became victims of bureaucratic inflexibility and both squandered resources and human talents on a massive scale.

The fourth area of comparison is where we are now: the area of transition. Both societies, in a sense I suppose, are going through a process of transformation rather than revolutionary collapse or revolutionary shift, although you could argue that this is yet another milestone on the road to the inevitable revolution. You just lift it out of history and you wait for the future to happen. I think that for the present you could say that both societies are going through a transformation. This is a fascinating thing for South Africa – the fact that there is no revolutionary collapse and that there is no successful partition means that we sit with a state that has been wished away for decades by both sides who believed in partition or revolution. In other words those that believed in partition thought that the current South African state would disappear – and through partition each would go into their own pre-ordained constitutional orbits and become fully-fledged nations, which might or might not enter into some kind of commonwealth of nations in southern Africa; but as those who argued for revolutionary collapse and transition said, the state would be irrelevant in any case and those who are manning it are simply stooges of the intentions of those that are in power. Now that we are going through transformation we have to deal with the reality of a state that has been created and that itself has to be transformed.

Let me look at one area that is critical at the moment and that is the area of stability. Presumably

de Klerk started the process of negotiating transition – because, as he himself said, he recognizes the constitutional illegitimacy of the current state and, of course, the current regime. We have an illegitimate state – how do we get a legitimate one? We can't get it through partition, we can't get it through democratic reform, we can't get it through revolution – we are going to have to negotiate one. But if we are going to negotiate a new state, then we need a fairly stable atmosphere in which to conduct negotiations.

Who is going to be responsible for stability – the very agents who were responsible for the stability of the previous illegitimate state. They themselves are contaminated by the illegitimacy of the current situation and you can't lift them up, you can't suddenly bless them with a new-found legitimacy, so that they become the non-partisan agents of maintaining stability so that we can all negotiate a new legitimate state. Why? Because they are part of the current state that has to be transformed. So how do we bless ourselves? – We haven't got an UNTAG to come and keep us from snarling at each other and killing each other – we have to somehow deal with the reality of this problem.

This is the interesting difference, I maintain, between us and Eastern Europe. At critical moments, I think particularly in this case now of Romania – at a critical moment just before Christmas, just shortly after Ceausescu had programmed 76 standing ovations for himself, and he was killed. Just before that there was an attempt on the part of the East German Stasi to prevent transition – and the army defected, of course, to the majority. Here in the South African case, it is unlikely that the Army is going to defect to the majority. In fact they find themselves in a highly unresolved situation as we move through this transition – so you have to bargain them too, into a state of some kind of legitimacy for the purposes of transition. There isn't suddenly going to be a new Army or a new security system. One can't switch suddenly from SADF to MK. It is not going to happen – they have to actually sit down and thrash out their role in this process of negotiating transition.

A final point about transformation. Both societies are in a quest – in that part of the world and South Africa – precisely for this new legitimacy for all its people.

Let me conclude by making just one or two remarks. The fact that I said that both laboured under the tyranny of the 'grand idea', doesn't mean that if one gives up the 'grand idea', that you have to give up thinking as well. In fact one would have to start thinking afresh about how the ideas that we have politically can inspire us to take the process of transition and transformation seriously. Also giving up the 'grand plan' does not mean that there should be no planning at all. There is a tendency on the part of some of my friends of the ideological Free Market Zone – to use the words 'Free Enterprise' like some kind of religious incantation that will somehow just ooze the benefits of growth right throughout society in the absence of planning and discussion. It is equally important, once we have shown that the East European Communism doesn't work that this doesn't become an easy way out: to just keep saying 'free market, free market' and pray for a miracle.

Fourthly – the next point – transition does not mean that we are able to start from scratch. The word 'negotiation' has an attractive quality about it – it creates the illusion that we are now all becoming rational and let's start from scratch; let's forget what happened. It would be nice if we could forget, but it is not going to be possible. As we move through this transition, our past is going to live with us in the present and perhaps bedevil a lot of our attempts at reconstruction

in the future. I was very touched by a point made earlier this morning, when somebody said that we have already forgotten destabilisation – some of us may have, but those who suffered it have not forgotten – and equally inside South Africa, the fact that we have said that apartheid has gone and is no longer there and should be removed, does not take away the experience and how it affects our ability to negotiate. In fact if you think about it, there are still different, important pockets of interests in South Africa, who have totally opposed paradigms of change to the transition that we are undergoing. There are still those who believe in revolutionary transition – they are still there. There are still those who believe in partition – you just have to listen to Koos van der Merwe and Andries Treurnicht and you know they are still there. If you think that because the regime says 'lets negotiate' and Nelson Mandela says 'I am with you', that they are not going to be part of the present, is of course illusion.

What struck me in the last session was the way in which the word 'we' was used. The gentlemen from Foreign Affairs used the word 'we'; Peter Vale used the word 'we' – it struck me that they had different 'we's' in mind. Peter would say 'well we can renegotiate the whole thing; we can go and do things' and so on and the other person was saying 'well we are already doing that; we are already there'. That absence of an acceptable 'we' in politics, highlights the crisis of legitimacy in South Africa. I think that Sara Pienaar referred to it this morning. If your foreign policies are a consequence of an illegitimate regime then the person who talks on behalf of the 'we' has a different approach to problems in the region compared to someone who actually argues that we have to resolve the dilemma of who 'we' are before we can actually discuss foreign policy issues again.

I would say in conclusion, Mr. Chairman, that I hope if we look at the lessons from Eastern Europe and from apartheid in redirecting our public policy and planning, we will recognise our own limitations and that we will give up sloganising each other out of the contest. Perhaps and most important, we will be able to recognise mistakes more quickly. There are still some who say the reason why apartheid failed is because it wasn't pursued enthusiastically enough. In questioning Treurnicht's stance, don't forget that there are also those who say that the reason Eastern European Communism failed is because of pilot error. Both parties claim that there is nothing wrong with the idea: it is just that the wrong characters got hold of the machinery of state and messed it up. I think that in time we must become a little more humble in the face of the dynamics and problems of the present: let us develop some political tolerance, let us share our insights. We can't end up all loving each other but let us at least be tolerant of our differences and see how we can pool our resources. Let me then say then, Mr. Chairman, that the mistakes of Eastern Europe are in many respects the mistakes of South Africa. I suppose the real challenge is – have we the capacity to both learn from them and to avoid them in the future?

Thank you very much.

RESUMÉ – ESSENTIAL ELEMENTS FROM RESPONDENTS

by

André du Pisani

In exploring the implications of transformation in East/Central Europe for South and southern Africa, a panel of respondents – often admirably assisted by an engaging audience – highlighted some of the following salient points:

- a) There was near universal acceptance of the primacy of a vibrant and pluralist civil society for the resurgence and maintenance of democratic life.
- b) 'TRANSFORMING ECONOMIC LIFE' The discussion of this topic brought divergence and disagreement into sharp focus. TITO MBOWENI of the ANC's Economic Department, for example, while warning of the dangers associated with an all-powerful, pervasive state, as was the case in the command economies of East/Central Europe, nonetheless argued that in the case of South Africa, it would be undesirable and impracticable to roll back all frontiers of the state. He posed the question: 'Is a completely unregulated market possible?' In his concluding remarks, Mboweni drew attention to differences between East/Central Europe and South Africa, especially as these relate to economic transformation. He emphasized:

Levels of economic development; a less pervasive role for the State; a more vibrant democratic culture and a preference for a mixed [as opposed to a command] economy.

JOE FOROMA of the Confederation of Zimbabwe Industries, drew on the experience of his country's accession to independence and nationhood. He underlined the primacy of the land issue, reflected on the central role of the state in the politics of redistribution, but warned that redistribution could take place at the expense of growth. Administrative mechanisms such as pricing and labour relations were important in the struggle for economic justice and empowerment.

ROBERT DAVIES of the Southern African Studies Centre in the University of the Western Cape, catalogued the failures of centralised planning, notably a subordination of civil society to state objectives. Unlike Fukuyama, he saw no 'end of history'. In East/Central Europe and Africa, he saw a vibrant debate on a number of issues, such as: democratic planning; the empowerment of workers; sex discrimination questions and environmental concerns.

Critical of South Africa's policy of import-substitution, Davies argued the case for determining 'appropriate forms' of state intervention in transforming economic life. He concluded with a crisp assessment of global factors relevant to post-apartheid South Africa. These included: the primacy of South-South (as distinct from North-South) relations; a global reassessment of aid policy and the formation of competitive trading blocs.

- c) 'BUILDING DEMOCRACY'. On this subject, a number of insights and possible scenarios emerged from Professor Carl Linden's admirable paper.

JONATHAN MOYO of the Department of Administrative and Political Studies in the University of Zimbabwe, Harare, explored the legitimate and philosophical bases for 'discussing democracy'. He argued that 'founding' democracy was different from 'maintaining' it. Economic and political justice were posited as vital for maintaining democratic life. Therefore, there was a case for 'distributive justice', especially in South and Southern Africa.

DENIS WORRALL of the Democratic Party, displayed a philosophical bent in his response. Worrall emphasized the universal character of governance and the need to heed to human nature. Drawing on the Burckian distinction between 'innovation' and 'change', he located South Africa under F.W. de Klerk in the latter category. South Africa's central challenge was how to 'universalise' democracy. In this respect, the country's legal tradition, as well as its relatively free press, augured well. But, there were potential hurdles: the strong authoritarian impulse in political life; a 'shallow' democratic culture (true in the case of the ANC and the ruling National Party); the resurgence of minority Afrikaner nationalism as well as of divisive ethnicity.

DOUGLAS IRVINE of the Department of Political Studies in the University of Natal, Pietermaritzburg, raised the spectre of the Prince. Approaching the topic from a philosophical and utilitarian perspective, he argued the case for political and economic accountability. Emphasizing that there were contending models and conceptions of democracy in South Africa, and that these had important implications for the role of the state and for its relationship to society, he made a passionate plea for a 'culture of tolerance', as well as for a proper understanding of the issue of freedom. Quoting Rosa Luxembourg, he approved of her dictum – "Freedom is for those who think differently."

Lamenting that South Africa has virtually no tradition of political thinking, he argued a case for the localisation and decentralisation of political and economic power. There was indeed a primary need to 'deliver at the local level', for it was there that political and economic justice can be most intimately experienced.

In a wide-ranging – and at times passionate discussion from the floor – the democratic virtues of the 'people' (as distinct from the elites) were sung. Evocative phrases such as: "The people will decide", and "Democracy is in the hands of the oppressed", captured the intensity of debate.

In a moment of perhaps acute perception, historically speaking, both De Klerk and Gorbachev, were characterised as 'neo-Bonapartist' rulers. Both were trying to balance competing class forces, and in both cases the social formation was being underpinned by an almost inexorable tendency to centralise power.

- d) 'REDIRECTING EXTERNAL RELATIONS'. In response to this topic various interesting and valuable comments were offered by the panel of respondents.

LOHMEIER ANGULA of the Department of Political Studies, University of Namibia, spoke on the nascent foreign policy and relations of Africa's newest state. He emphasized the colonial legacies inherited by Namibia and highlighted the historic and fraternal ties between SWAPO and East/Central Europe. Angula showed to what degree the Namibian government took cognizance of global changes and argued that his country's domestic and foreign policy reflected some of these. He made much of the profoundly democratic constitution of the new state.

SARA PIENAAR of the Department of History, University of South Africa, gave a largely historical response. She drew attention to the implications of a mechanistic and highly bureaucratic foreign policy and noted that it was often an 'elitist affair'. In both cases – East/Central Europe and South Africa – ideological considerations shaped misguided foreign policies. Invoking Smuts, she said that no country could 'sit on its ant-heap'. Global transformations signalled the end of isolation even for South Africa. South Africa 'would be coming into Africa, where it belongs'.

ANDRÉ DU PISANI of the South African Institute of International Affairs, explored the largely uncharted waters of South Africa's future pattern of foreign relations against the background of global transformation. du Pisani argued that the way in which domestic transformation is affected and conceived, would have profound implications for this country's foreign relations. In the world of the 1990s, non-alignment offered no viable foreign policy posture. Regional impulses were getting stronger. So were South/South relations and Trans-national organizations.

Following the end of the Cold War, global security was becoming more problematic. There was also a growing realization of the socio-economic import of security, especially in the Third World.

- e) 'THE FUTURE OF REGIONAL STRUCTURES'. This final topic delivered its share of insights.

ROBERT DAVIES noted the danger that Africa may become marginalised in the global political economy. The end of Apartheid in South Africa, would have profound implications for the ten-member Southern Africa Development Co-ordination Conference [SADCC]. Davies continued to explore future models of regional interdependence. Such alternative models, he argued, had to be informed by four guiding principles. These were:

- [1] Greater regional integration had to benefit all the countries of southern Africa.
- [2] Closer regional integration had to enhance the global bargaining power of the region as a whole.
- [3] South Africa had to renounce its hegemonic role in favour of co-operative regional reconstruction,
- [4] The 'New South Africa' had to compensate the region for its previous mischief and destabilisation.

CHRIS KAMPE of the Department of Foreign Affairs, noted the rise of new regional groupings in the world and "a slight tactical shift" in the attitude of the Soviet Union towards South Africa. South Africa's constructive role in the Namibian independence process, opened strategic avenues for South African diplomacy, especially in Africa. He drew attention to the growing role of the IMF and the World Bank – also in Southern Africa – and argued that this might further enhance South Africa's importance to the region.

PETER VALE of the Centre for Southern African Studies, University of the Western Cape, started with the observation that a changing world meant changing forms of association. Regional association had become more important. But for regions to be viable and enduring, two conditions were vital: extensive and meaningful links with the global economy, and legitimate and workable arrangements on the vexed question of sovereignty.

He then went on to examine competing images and projections of the regional future. Two such images and projects were outlined. First, that of the Department of Foreign Affairs and of a 'coalition of business interests': a revived Constellation of Southern African States (CONSAS); and secondly, a Southern Africa that would begin to resemble Europe under the CSCE process. Vale posited the second as his 'favourite option' for the future.

In criticising the first option, Vale proposed instead that a policy of dialogue be started with our neighbours on a number of cardinal issues. These should include:

- * Appropriate economic futures of the region.
- * Technology and technology transfers.
- * Regional security
- * Human rights.
- * Refugees and migration.

Vale emphasized that such a dialogue should accompany discussions on South Africa's own future.

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