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AMERICAN AID TO THE PRIVATE SECTOR
IN CENTRAL EUROPE (1989-1993)

by

Vanessa Cook, B.A.

A thesis submitted to
the Faculty of Graduate Studies and Research
in partial fulfilment of
the requirements for the degree of

Master of Arts

Department of Political Science

Carleton University
Ottawa, Ontario

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AMERICAN AID TO THE PRIVATE SECTOR IN CENTRAL EUROPE (1989-1993)

submitted by

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in partial fulfilment of the requirements

for the degree of Master of Arts

Chair, Department of Political Science

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May 1, 1995

ABSTRACT

This paper advances the theoretical assumption that the international system, as an interrelated community of actors, forms the framework within which rules of behaviour are established. States, through the collective influences of the international community and its structures, tend to act and/or react to events and conditions occurring in the international system.

Using the example of US bilateral economic aid to the small and medium-sized (SME) enterprise sector in Central Europe (1989-1993), the influence of international system pressures over state behaviour is illustrated. Case studies include the Central European Enterprise Funds, the Polish and Hungarian Small Business Advisory Centres, as well as the Executive Volunteer Exchange Programs of the International Executive Service Corps. (IESC), and the Citizens Democracy Corps (CDC).

Conclusions over the implications of current system transformations for American aid policy in the future, particularly the influence of economic-liberalist pressures within the system over the focus of aid projects on the private sector are presented.

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GLOSSARY OF ACRONYMS

ASEAN	Association of South East Asian Nations
CDC	Citizens Democracy Corps
CSAEF	Czechoslovak/American Enterprise Fund
EBRD	European Bank for Reconstruction and Development
EU	European Union
GATT	General Agreement on Tariffs and Trade
HAEF	Hungarian/American Enterprise Fund
HFEP	Hungarian Foundation for Enterprise Promotion (funded through the EU's PHARE program)
IESC	International Executive Service Corps
IMF	International Monetary Fund
LEA	Local Enterprise Agency (part of the HFEP network)
NAFTA	North American Free Trade Agreement
PAEF	Polish/American Enterprise Fund
PHARE	Poland/Hungary Assistance for Restructuring the Economy
SBAC	Small Business Advisory Center
SEED Act	Support for East European Democracy Act
SME sector	Small and Medium-sized Enterprise sector
SOE	State Owned Enterprise
SPA	Hungarian State Privatization Agency
USAID	United States Agency for International Development

CHAPTER I

INTRODUCTION

AMERICAN AID TO CENTRAL EUROPE

I.1. American Aid to Central Europe.

In November 1989, the United States initiated an assistance program to Central Europe under the Support for East European Democracy (SEED) Act. The Act provided for the initial release of almost US\$ 1 billion in aid appropriations for the countries of Poland and Hungary, over a period of two years (1990-1992). Since then, another US\$ 511 million has been authorized through an extension of the original Act, dubbed SEED II. The number of countries eligible for support under the program has now extended beyond Central Europe to all other non-Russian, former Warsaw Pact countries.¹

Funding for the American aid effort to the countries of the former Warsaw Pact forms a significant portion of the entire U.S. foreign policy budget. In the 1993 International Affairs Budget request, for example, aid to these countries made up 9 percent of the entire Fiscal Year (FY) 1993 Economic, Development, and Humanitarian Assistance program. Within that same budgetary proposal, Central America received 5 percent, the Andean Countries 4 percent, and the Africa States

¹ Francis T. Miko. "U.S. Assistance to Eastern Europe", *CRS Review*. (May-June 1990): 28-30.

received 9 percent.² For that reason alone, a study of American involvement in this part of the world is valuable.

The importance of examining the character of non-military, bilateral American aid to Central Europe, however, is not only based upon the relative size of the assistance effort, but also by the fact that it provides a model for future American assistance efforts. As well, it may help to provide an indication of overall trends in American foreign policy priorities and objectives during the post-Cold War period.

1.2. The Research Topic: Justifications

The premise that foreign assistance is a tool of foreign policy is well supported. In the U.S., as with most countries, foreign aid is included within the confines of the overall foreign affairs budget.³ Within the foreign policy of the United States, foreign assistance has served as an important component since the end of the Second World War.⁴ As such, it can be argued that American assistance is one of the best indicators

² US Department of State, Bureau of Public Affairs. "FY 1993 International Affairs Budget", *US Department of State Dispatch Supplement*, (February 1992).

³ See, for example: Secretary Baker, "US Foreign Policy Priorities and FY 1991 Budget Request", *Current Policy*, No. 1245, (February 1990): 1-10; Deputy Secretary Lawrence S. Eagleburger, "Charting the Course: US Foreign Policy in a Time of Transition", *US Department of State Dispatch* 4, no. 2 (11 January 1993): 16-19; Bureau of Public Affairs, "FY 1994 International Affairs Budget Request", *US Department of State Dispatch Supplement* 4, supplement no. 1 (April 1993); and, Secretary Warren Christopher, "Foreign Assistance Priorities After the Cold War", *US Department of State Dispatch* 4, no. 22 (31 May 1993): 393-395.

⁴ See George M. Guess. *The Politics of United States Foreign Aid*. (London, UK: Croom Helm Ltd, 1987), and, David A. Baldwin. *Foreign Aid and American Policy, A Documentary Analysis*. (New York: Frederick A. Praeger Publishers, 1966)

of US objectives in the international system.⁵ This is particularly the case in bilateral aid, with the relative transparency of bilateral over multilateral aid in determining specific American foreign policy concerns. As opposed to U.S. participation in multilateral assistance to Central Europe through such international bodies as the European Bank for Reconstruction and Development (EBRD), the International Monetary Fund (IMF) and the World Bank, US bilateral assistance activities are both ongoing and quantifiable in terms of the amount of money concentrated on specific countries and the types of programs directed to various sectors.

Moreover, unlike multilateral assistance where the donor country has less influence over decision-making, bilateral aid allows the United States to more directly influence the actions and behaviour of recipient countries. The use of bilateral assistance allows specific goals or interests and objectives to be more easily addressed. With direct assistance, the interaction between the U.S. government and the countries of Central Europe is not subject to the competing concerns of other donors as they would be under a multilateral effort and therefore clearly reflects the intent of U.S. foreign policy in Central Europe. The study of American bilateral, rather than multilateral, assistance therefore provides a stronger example of specifically American objectives within Central Europe without the intervening variable of negotiated consensus inherent in multilateral efforts.

⁵ For the purposes of this paper, the term "international system" refers to the community of actors. States, in this context, share their membership in the international community with other players, such as multinational corporations, as well as international economic, social and political institutions and organizations. While states remain important, therefore, they are members of only one of several categories of actors within the international system.

In addition, approximately three quarters of western aid commitments to Central Europe have come from bilateral or regional sources rather than multilateral organizations.⁶ This concentration of bilateral assistance initiatives over multilateral efforts in OECD country aid to Central Europe is significant since it illustrates the important divergence of western interests in the post-Cold War international system. The study of bilateral assistance in Central Europe is therefore most representative of western foreign aid objectives, particularly those of the United States. As well, it is most indicative of the transformations underway in international aid which have resulted from the move away from traditional Cold War international structures and regimes. In light of these current transformations and existing trends within the international system itself⁷, and for the purposes of this paper, the study will be restricted to economic, non-military aid.

As will be explained in Chapter Two, the international system is increasingly becoming a community of interdependent nations, particularly in the economic sphere. Existing trends, including the move toward the globalization of production⁸ and the growth of linkages within the international financial and monetary sector have led to increasing levels of economic interdependence between both small and large states.

⁶ Stephan Haggard and Andrew Moravcsik, "The Political Economy of Financial Assistance to Eastern Europe, 1989-1991", in *After the Cold War: International Institutions and State Strategies in Europe* ed. Robert O. Keohane, Joseph S. Nye, Stanley Hoffman. (Cambridge Mass.: Harvard University Press, 1994): 253.

⁷ As will be discussed in Chapter Two.

⁸ See Robert W. Cox, "Production and Security", in *Building a New Global Order Emerging Trends in International Security*, ed. David Dewitt, David Haglund, and John Kirton. (Oxford University Press, Toronto. 1993):141-158.

Within the international community, the growing hegemony of economic liberalist ideology has served to highlight the importance of economic actors as well as the ability of states to compete within the global market economy.

In the current changing global economic system, linkages among security, environmental and economic factors have increased in importance. Concepts of security, for example, have moved beyond territorial borders towards international environmental issues and the overall stability of the international economic system. State power, once viewed as the ability of a state to translate economic and technological assets to military might, and thereby coerce others into adopting a specific behaviour⁹ has expanded beyond these simple parameters into the creation of international economic agendas and the hegemony of economic ideology.¹⁰

The importance of examining American bilateral assistance within Central Europe, therefore, extends to other areas of foreign policy interests. The current transformation in the international system has rendered non-military economic assistance important to the entire foreign policy of the United States.¹¹ Security interests such as political stability, population movements and environmental degradation, for example, have become more important in the post-Cold War era and play a strong role in the use and direction of assistance programs to this region in

⁹ See for example, Paul Kennedy, *The Rise and Fall of the Great Powers: Economic change and military conflict from 1500 to 2000*. (Fontana Press; London, UK. 1988).

¹⁰ See Stephen Gill, "Hegemony, Consensus and Trilateralism" *Review of International Studies* 12, (1986): 205-222; and, Robert W. Cox, "Social Forces, States and World Orders: Beyond International Relations Theory" *Neorealism and its Critics*, ed. Robert O. Keohane (New York: Columbia University Press, 1986): 204-254.

¹¹ See Chapter Two for a more complete explanation of this phenomenon.

particular.

The use of economic instruments such as aid serve to inject donor ideology into recipient societies, to promote the competitiveness of the donor country's private sector in the global economic system, and to protect the wider interests of international economic stability as well as the individual interests of the United States and other donor nations. The removal of the Cold War strictures has served to increase the importance of the linkage of economic factors to security, power and other state interests. The use of economic aid, therefore, has become increasingly useful to achieving American interests in the post-Cold War era.

I.2.i. Why Look at the Private Sector?

One of the qualities unique to American aid efforts in Central Europe is the fact that bilateral aid to the region is being conducted in cooperation with the private sector on a far larger scale than ever before.¹² This is true in terms of the focus of these programs on the private sectors of the recipient countries, and of the major role of the American private sector in administering and implementing assistance programs in the Central European countries of Hungary, Poland, the Czech Republic, and Slovakia.

Within Central Europe, over 84 percent of American bilateral assistance to the region is directed towards economic restructuring, with the private sector receiving the

¹² Brian Wickland, Hungary Desk, Bureau for Europe (EUR/RME/ECA), interview by the author, 18 January 1994, tape recording, U.S. Agency for International Development, Department of State, Washington D.C.

bulk of that aid.¹³ In the area of donor activity, U.S. government agencies, including USAID, are increasingly taking on passive rather than active roles in assistance projects. American consulting firms and private sector individuals are in fact the primary actors in US aid programs within Central Europe.

1.2.ii Case Studies: The Focus on the Small and Medium-sized Enterprise (SME) Sector.

Along with the fact that the private sector has taken on great significance within the assistance programs of the United States, the small and medium-sized enterprise (SME) sector has attracted increasing support as one of the most effective instruments for promoting economic growth in the economies of the transitional states.¹⁴ The case study focus in Chapter Five on American assistance to the SME sector, therefore, becomes important. There are several reasons for this. Firstly, it is hoped that the SME sector will help to alleviate the stress of high unemployment due to the massive failure of state owned enterprises (SOEs) throughout the region.¹⁵ A second factor behind the support for SME directed assistance is the conviction that the development of smaller enterprises is necessary for the countries of Central Europe to

¹³ U.S. Agency for International Development. *SEED Act Implementation Report, Fiscal Year 1992* (Washington D.C.: GPO, January 1993).

¹⁴ See Dr. Peter C.M.S. von Braun, Statement before the Subcommittee on Small Business, United States Senate. *To Examine Small Business Opportunities with the Soviet Union and Eastern Europe* (23 March 1990): 112-114; The Scientex Corporation, "The Polish Small Business Advisory Centre: Project Proposal" (September 1990); and, A.A. Gibb, "Key Factors in the Design of Policy Support for the Small and Medium Enterprise (SME) Development Process: an Overview". *Entrepreneurship and Regional Development* 5 no. 1 (January-March 1993): 2.

¹⁵ William H. Binney, Director, Business Entrepreneur Program, Citizens Democracy Corps, interview by author, 9 February 1993, tape recording, Budapest, Hungary.

increase their competitiveness in the world economy.

It can be argued that unless many of these large businesses [State Owned Enterprises] are restructured into smaller independent units with much greater market and process logic than has been evident hitherto they will not survive in a market economy.¹⁶

Another reason behind the support for SME assistance deals with the widely accepted premise that the creation and encouragement of a domestic private sector forms the basis for the successful adoption of a free market culture within the former communist societies.¹⁷

In addition to the acceptance by the international community of targeting the SME sector within the economies of Central Europe, small and medium-sized enterprises are also important in that they are considered to be a sector of the economy in which there is greater possibility for the participation of Central Europeans themselves. Greater Central European participation and ownership within this sector allows for the creation of an economic power base which can better compete with other established groups within Central European society. The argument that the development of this sector will help to strengthen democracy as well as the belief in a market culture is one which has been used by the U.S. government as a justification for their inordinate concentration of effort in the SME sector. American self-interest

¹⁶ A.A. Gibb, "Key Factors in the Design of Policy Support for the Small and Medium Enterprise (SME) Development Process: An Overview". *Entrepreneurship and Regional Development* 3 no. 1 (January-March 1993): 7.

¹⁷ See Dr. Peter C.M.S. von Braun. Statement before the Committee on Small Business, United States Senate. *To Examine Small Business Trade Opportunities with the Soviet Union and Eastern Europe* (23 March 1990): 112-114; see also, Jon Burns, (former) Program Manager, CEC-PHARE SME Programme, Hungarian Foundation for Enterprise Promotion, interview by author, 2 February 1993, tape recording, Budapest, Hungary

in this sector of the Central European economy, however becomes evident when we consider that U.S. interests are well served ideologically since they help to justify those tenets which define the American national identity. As well, American economic interests are forwarded through U.S. assistance programs when American firms are able to act more effectively through the improvement of the necessary infrastructure and the creation of business contacts.

I.2.iii. Conclusion

American bilateral assistance to the SME sector in Central Europe is therefore an important area of study. This is true not only because of the sector's international acceptance as a viable target area, but also because American activity within the SME sector serves to illustrate the evolution of US foreign policy within the new circumstances of the post-Cold War international system. Through aid to the Central European private sector and the SME sector in particular, the U.S. is moving towards creating influence at the same time as it promotes the interests of its national firms in an increasingly competitive international system.

To what extent American aid has reacted to ongoing transformations within the international system; what role the international system has in influencing the actions of one of its members; and what national interests are involved within United States assistance in the post Cold War era are all important questions which must be posed. This paper will deal with these questions by discussing some of the factors within the international system which determine the parameters of action for the United States;

the influence of the international system on the formation of American interests; and more specifically, the link between these factors and American bilateral assistance in Central Europe.

1.3. The Hypothesis

The main hypothesis of this paper proposes that American behaviour regarding bilateral economic aid to Central Europe is influenced by constraints and pressures within the international system. As such, American bilateral economic aid reflects the transformation and the evolution of US interests and objectives within the changing international environment. American aid to Central Europe, therefore, presents a model for further post-Cold War US assistance initiatives in the rest of the world as well as the rest of the former Warsaw Pact countries. The study of the American assistance effort in Central Europe, therefore may allow us to understand the overall rationale and aim of US foreign policy actions in the post-Cold War era.¹⁸

A secondary hypothesis within the body of this paper deals with the self-interested nature of aid. That aid is extended primarily on the basis of what is termed the "national interests" of the United States is evident in the focus of American assistance to specific areas within Central Europe and the means by which assistance has been distributed to the countries of this region.

As was discussed previously, American aid to Central Europe is now being extended primarily through the private sector. Much of this increase in private sector

¹⁸ For the purposes of this paper I have chosen to treat the United States as a unitary actor, focusing on the outcome of policy decisions, rather than the power relationships within the state.

involvement in aid is attributable either directly or indirectly to the influence of current trends within the international system. In a world where economic competition amongst the developed nations is increasing while international trade agreements are eliminating other forms of government support to national firms, it is in the U.S. interest to promote and employ its national private sector by increasing the use of that sector in foreign aid efforts to Central Europe. Moreover, the focus of assistance on the private sector in Central Europe helps to create a distinctly American influence over the emerging markets within the region. The growing importance of the market in the foreign policies of the United States indicates the expanding role of the private sector within the power/influence equation of the international system as a whole.

The overall framework in which the thesis is placed follows many of the assumptions within what Ole R. Holsti has described as a system level Global-society/Complex Interdependence argument.¹⁹ In this perspective, states share their membership in the international community with other players such as multinational corporations, as well as international economic, political and social institutions and organizations. Therefore, while states remain important, they are members of only one of several categories of actors within the international system.²⁰

¹⁹ Ole R. Holsti, "Models of International Relations and Foreign Policy" *Diplomatic History* 13 (1989): 15-43.

²⁰ For a discussion of this, see Robert Keohane and Joseph S. Nye Jr., *Power and Interdependence: World Politics in Transition* (Boston, 1977); Robert W. Cox, "Global Restructuring: Making Sense of the Changing International Political Economy" in *Political Economy and the Changing Global Order*, ed. Richard Stubbs and Geoffrey R.D. Underhill (Toronto: McClelland & Stewart, 1994); Joseph S. Nye Jr., *Bound to Lead: The Changing Nature of American Power* (New York: Basic Books, 1990); and, Susan Strange, *States and Markets* (New York: Basil Blackwell, 1988).

In this context, international actors are seen as interacting closely and are subject to economic, political and cultural influences produced as a result of their interaction. Joseph S. Nye Jr. - a theorist belonging to the Complex Interdependence school - argues that, because of the existence of this interdependent interaction there is a growing diffusion of power among international actors. As a result, states are becoming increasingly unable to dictate the course of international events through direct means. States must therefore rely on soft, or cooptive power to garner some degree of influence over events within the international system.²¹

Complimentary to this theory, Robert W. Cox develops the thesis of the existence of reciprocal relationships between international actors within the international system, ascribing stronger importance to power relationships and discussing the influence of ideas, institutions and material capabilities to changes in social forces, forms of state and world orders. In Cox's historical materialist view, the relationship between various actors within the current world order, and with the system itself is one of interrelatedness.²²

With these ideas in mind, this paper advances the theoretical assumption that the international system, as an interrelated community of actors, forms the framework

²¹ The concept of soft, cooptive, and other forms of power will be discussed more extensively in Chapter Two. See also, Joseph S. Nye Jr. *Bound to Lead* (New York: Basic Books, 1990), 188; John Gaventa's discussion of a third dimension of power in: *Power and Powerlessness Quiescence and Rebellion in an Appalachian Valley*. (Oxford: Clarendon Press, 1980); and, Susan Strange's references to structural power in *States and Markets* (New York: Basil Blackwell, 1988) and in "The Future of the American Empire" *Journal of International Affairs* 42, n.1 (1988).

²² Robert W. Cox, "Social Forces, States and World Orders", in *Neorealism and Its Critics*. ed. Robert O. Keohane (New York: Columbia University Press, 1986): 204-254.

within which behavioral norms, or parameters, are established. States, through the collective influence of the "international community" and its structures, tend to act and/or react to events and conditions occurring within the international system.

The ways in which states act within the parameters set by the international system differ to some degree as a result of their ideological perspective of the world, and of their perceived place within that community. This perspective is a product of both history and political structures and acts as a filter through which each state views the world. The ideological filter provides a state with the basis upon which to form an understanding of the international system. Working with the conditions of the international system, the ideological filter helps to determine the means by which a state will establish a set of interests. In the American case, the influence of balance of power perspectives and the superpower role of the United States during the Cold War period, while diminishing, continue to play a role in the way in which the United States defines its own self-interests in the current international system.²³

Motives behind a state's drive for influence within the international system are determined by national interests. When we speak of "national interests", we are referring to the particular set of factors which are prioritized by a state to ensure the welfare, and/or success, and/or power of that state within the international system. The perception of state interests provides motivation for the creation of policy goals and mandates as well as the method by which they are pursued. The resulting goals

²³ See Chapter Two for a more extensive review of this, as well as: John Lewis Gaddis *The United States and the End of the Cold War: Implications, Reconsiderations, Provocations*. (London: Oxford University Press, 1992): 194-195.

and mandates determine the final formation and implementation of a state's foreign policy. Definitions of national interest rely on the existing and emerging conditions within the international system. National interests are, therefore, subject to changes within that system and are not static.

Traditionally, the welfare of the United States and its subsequent objectives regarding national security were determined primarily by definitions of such issues as balance of power, and territorial integrity. The increasing complexity of the international system, however, has necessarily expanded the basis upon which American national interests are determined. "[M]odern technology and growth have added new elements of economic and ecological interdependence to the age-old dilemma [of national interest determination]."²⁴

As a result of this, objectives behind American aid to Central Europe are increasingly based on the need to incorporate the complex set of linkages between economics, the environment with more traditional security issues. Moreover, due to the nature of globalization of production and other international interdependencies, American security concerns must also incorporate the welfare and stability of the international system itself. Threats to the stability of the world economy, or the emergence of a powerful economic international competitor, for example, present a threat to American national economic security, and therefore are considered within the definition of US national interest. Where national interests must now extend beyond the territorial sphere of the United States, the influence of the international system over

²⁴ Joseph S. Nye Jr. *Bound to Lead* (New York: Basic Books, 1990): 178

American behaviour becomes apparent.

1.4. Chapter Summary

Since international change is linked to the interests and objectives within American aid to Central Europe, it is important to establish the conditions, or factors which have been created as a result of ongoing transformations in the international system. The second chapter, therefore, sets out to establish the major international economic and political factors which are influencing American foreign aid decisions. This will provide the necessary context to understand the nature of external circumstances dictating the formation and character of American interests within its assistance effort to Central Europe.

Most importantly, the interrelated nature of the global economic and political community is discussed in Chapter Two, with emphasis on the role which this international globalization plays in constructing the aforementioned factors which serve to influence the overall behaviour of states within the system. Also in Chapter Two, the nature of power will be discussed regarding the various levels, or dimensions of power which are in play in the international system. The implications of these various dimensions of power over American, and international system roles in influencing the structure of the world order will be discussed. Linked to this, is a discussion on the changing nature of security, its links to all aspects of the international system, and the important role given to economic tools by states in addressing many of the current instabilities within that system.

Chapter Three proceeds from the previous chapter by examining the American position within the international system. Particular emphasis is placed on the American ideological filter in order to establish the influence of this perspective on the formation of American interests in Central Europe in the post-Cold War era. With this American world system perspective in mind, the chapter proceeds with a discussion of American objectives behind the aid effort in the Central European region. American national interests in extending bilateral aid to Central Europe are divided into three categories: those which deal with ideological objectives, those which seek to serve economic interests and those which deal with American national security.

Chapter Four, entitled "The Structure of American Assistance in Central Europe", deals specifically with the framework which has been constructed by the US government to deliver SEED funding to the region. The priorities expressed by the United States government within this initiative, particularly that of economic restructuring, are examined in order to establish the level of importance regarding American interests and objectives in providing aid to Central Europe. In addition, various factors which have influenced the character of the American model for aid to Central Europe are outlined and discussed.

Chapter Five presents the empirical evidence necessary in understanding the hypotheses of the thesis. Three case studies within the largest category of aid disbursement, that of economic restructuring, are presented. These include: the Enterprise Fund programs, the Small Business Advisory Center initiatives in Poland and Hungary, and the Executive Volunteer programs. Within each of these case

studies, linkages to American interests and objectives under the post-Cold War system are made. Finally, Chapter Six attempts to provide some conclusions on the overall importance of this research in determining the future of American assistance in the current world order.

Throughout Chapters Four and Five, a discussion of the major criticisms regarding both the overall American aid effort in Central Europe and the specific programs presented will be included. By presenting these criticisms, the author hopes to illustrate both the inherent self-interest of American aid as well as the impact of this motivation on the programs underway within the recipient countries.

The existence of self-interest within the American assistance effort to Central Europe is, in fact, referred to throughout the paper. Chapter Two helps to explain the overall framework of the international system which encourages the growth of competition within the global community. Chapters Three, Four, and Five deal specifically with American assistance to Central Europe and, as such, serve to illustrate the existence of American national self-interest in assistance to Central Europe.

CHAPTER II

THE INTERNATIONAL SYSTEM OF TODAY: TRENDS AND PARAMETERS

Transformations within the current international system are inherently influencing the behaviour of the United States as well as the way in which the U.S. defines its national self-interests. An understanding of the current environment within which the U.S. is functioning is therefore essential in order to comprehend the constraints and objectives behind American assistance behaviour in Central Europe. The following chapter sets out to provide a brief description of international system trends, and the subsequent formation of pressures and restrictions on state behaviour in the international arena.

II.1. The Changing Global Environment

Of the three interrelated factors within foreign policy (economic, diplomatic and military), the economic realm is becoming the most decisive in determining the influence of a state within the current international system.²⁵ Moreover, economic actions, including the provision of aid, are increasingly considered by both the

²⁵ For examples of discussions relating to this, refer to: Seyom Brown, "World Interests and the Changing Dimensions of Security", in *World Security: Challenges for a New Century*, 2nd edition, ed. Michael T. Klare and Daniel C. Thomas. (New York: St. Martin's Press, 1994): 10-26; Barry Buzan, "The Interdependence of Security and Economic Issues in the 'New World Order'", in *Political Economy and the Changing Global Order*, ed. Richard Stubbs and Geoffrey R.D. Underhill. (Toronto: McClelland & Stewart Inc, 1994): 89-102; and, Joan Edelmann Spero, *The Politics of International Economic Relations*. Fourth Edition. (New York: St. Martin's Press, 1990).

domestic and the international community as the most appropriate means by which to garner not only economic, but political support and influence within the global system.²⁶ This has come about largely due to: 1) the growing interdependence, or interrelatedness of actors within the international system, 2) the so-called "defeat of communism" with the subsequent "victory" of liberalist modes of economic organization throughout the world; and 3) a retreat from Cold War justification for overt military and political action.

II.2. Transformations After the Cold War

The end of the Cold War and the removal of what C. Fred Bergsten has dubbed the "Cold War blanket" has served a significant purpose in international relations.²⁷ As Bergsten explains, under the old international regime there was a need to maintain a certain level of cooperation and consensus among the western nations for reasons of international security.²⁸ Until the fall of the Berlin Wall in 1989, this need to maintain such a consensus within the western alliance tended to overshadow the importance of transformations underway within the international system. The elimination of the post-War bipolar security constraint has served to expose these changes and to highlight the emerging diversity of interests, particularly in the

²⁶ Stephan Haggard and Andrew Moravcsik, "The Political Economy of Financial Assistance to Eastern Europe, 1989-1991", in *After the Cold War: International Institutions and State Strategies in Europe* ed. Robert O. Keohane, Joseph S. Nye, Stanley Hoffman. (Cambridge Mass.: Harvard University Press, 1994): 248.

²⁷ C. Fred Bergsten. "The World Economy After the Cold War". *Foreign Affairs*. (Summer 1990): 96-112.

²⁸ Ibid.

economic sphere, among the countries of the West.²⁹

Along with the growth of competition within the global economic system, other factors such as the globalisation of production, the changing nature of security and power, and the increase of environmental threats to the welfare of states have also become more important factors in determining national interest.³⁰ Not only have many of these factors been exposed more fully in the post Cold War era, but they themselves have undergone accelerated evolution because of the absence of Cold War restraints. American national interests and foreign policy, formerly defined and constructed mainly on the basis of East/West security during the Cold War, must now deal more directly with the underlying complexities of each of these interrelated issues. That these issues have become interrelated is primarily due to the growth of interdependence and globalization within the international system.

Perhaps the most important trend within the international system, interdependence³¹ - or the growth of linkages and dependencies between all actors within the international system, particularly in the economic sphere - has taken on a significant role in determining the parameters of behaviour among international system

²⁹ Robert W. Tucker, "1989 And All That" *Foreign Affairs*, (Fall 1990): 97; and, C. Fred Bergsten, "The World Economy After the Cold War". *Foreign Affairs*. (Summer 1990): 110.

³⁰ Joseph S. Nye Jr. *Bound to Lead: The Changing Nature of American Power* (New York: Basic Books, 1990): 179; Seyom Brown, "World Interests and the Changing Dimensions of Security", in *World Security Challenges for a New Century*, 2nd edition, ed. Michael T. Klare and Daniel C. Thomas (New York: St. Martin's Press, 1994): 11; and, Robert W. Cox, "Production and Security", *Building a New Global Order. Emerging Trends in International Security*, ed. David Dewitt, David Haglund, and John Kirton (Toronto: Oxford University Press, 1993): 141-158.

³¹ Interdependence builds on, but is not exclusive to, Nye's understanding of Complex Interdependence. Therefore, the terms "interdependence" and "globalisation" are used somewhat interchangeably throughout the paper.

players. While such factors as the spread of popular culture and that of technology play a part, the reasons for this are primarily economic.

II.3. Economic Interdependence

Since the end of the Second World War, economic interaction between developed states has increased significantly. Due to the common international use of the American dollar (aided initially by the Marshall Plan and assistance programs to Asia immediately following the War), reductions in barriers to financial flows, and the internationalization of markets, interaction within the financial and monetary fields has increased.³²

Economic growth throughout the developed world and reductions in transportation costs have led to the move toward freer trade.³³ Freer trade has in turn become institutionalized through negotiations within the GATT framework (General Agreement on Tariffs and Trade), and the formation of regional economic initiatives such as the European Union's Common Market, the North American Free Trade Agreement (NAFTA) and the Association of Southeast Asian Nations (ASEAN) Pact. Each of these initiatives has acted to reduce existing barriers to trade and fostered greater cooperation between member states, thereby bringing the economies of these

³² Stephen Gill and David Law. *The Global Political Economy: Perspectives, Problems and Policies*. (Baltimore: Johns Hopkins University Press, 1989): 147; and, Joan Edelman Spero. *The Politics of International Economic Relations*. Fourth Edition. (New York: St. Martin's Press, 1990): 11.

³³ Joan Edelman Spero. *The Politics of International Economic Relations*. Fourth Edition. (New York: St. Martin's Press, 1990): 12. See also Robert Gilpin's fifth chapter in: *The Political Economy of International Relations*. (New Jersey: Princeton University Press, 1987): 171-230.

member states closer together.

State, social and business relations have also undergone change, extending into the global political economy with the introduction of new modes of production. As Robert W. Cox outlines, the movement away from "state-centered" production, or Fordist organisation, and towards a Post-Fordist model encourages the globalisation of all aspects of the production process.³⁴

While the globalization of production and economic interdependence among international actors has helped to create economic growth and prosperity, it has also increased the vulnerability of national and regional economies to external shocks. Globalization and interdependence now tend to interfere with a nation's ability to manage its own economy. As Spero explains:

Greater interaction increases the number of disturbances with which national decision-makers must cope; for now disturbances arise not only from within the economy but also from without.³⁵

Since the collapse of the Bretton Woods system of fixed exchange rates and the adoption of a floating exchange rate regime in 1973, this economic vulnerability is even more pronounced.

II.4. Competition and the Private Sector

Within the conditions of a more interdependent international system, economic

³⁴ Robert W. Cox, "Production and Security" *Building a New Global Order. Emerging Trends in International Security*, ed. David Dewitt, David Haglund, and John Kirton. (Toronto: Oxford University Press, 1993): 141-158.

³⁵ Joan Edelman Spero, *The Politics of International Economic Relations*. Fourth Edition. (New York: St. Martin's Press, 1990): 12.

and business trends have become important to American foreign policy. Strong economic growth within the nations of the West and the internationalization of business in itself has created increasing competition between nations. Moreover, the shock of world-wide recession and the crisis of national debt throughout the world community over the past decade has served only to augment this growing competition for markets. In the words of Susan Strange:

The nature of the competitive game between states is not what it was. ... Instead of competing for territory..., states are now engaged increasingly in a different competitive game: they are competing for world market shares.³⁶

In an environment of increased global competition, the interests of American businesses, both large and small, have become paramount to their governments.³⁷ Moreover, direct state intervention in an effort to address the problems of unemployment and balance of trade inequalities has become more difficult under the constraints imposed by international and regional trade agreements such as the GATT, the Common Market of the European Union and the NAFTA. "Misbehaviour" of states in the international system is discouraged through the interdependence of financial, monetary and trade systems. Countries such as the U.S., therefore, are finding it increasingly necessary to rely on their national business to aid them in alleviating the stresses of domestic economic and social problems. As the business sector has become more important to national interests in the eyes of the American

³⁶ Susan Strange, "The Persistent Myth of Lost Hegemony", *International Organization* 41, no.4 (Autumn 1987): 564.

³⁷ This concern, however, is not reciprocal and given the transnational nature of international capital, American government control of the larger US firms, namely MNCs, is becoming increasingly difficult.

government, therefore, so have business trends.

Along with the fact that global business trends have become more important and have greater influence over government decision-making, the need to cut spending within government bureaucracies themselves has led to a universal belief in the developed world for stronger private sector involvement in state activity. Within aid to Central Europe, the use of the private sector in delivering aid to the recipient countries, and the focus on private sector development has become increasingly popular, particularly with the United States.³⁸

Internationally, the consensus on the significance of the private sector in Eastern Europe has been evident in the creation of the European Bank for Reconstruction and Development (EBRD). Within the lending and investment principles of the EBRD, at least 60 percent of the Bank's total loan and equity investments must go to private-sector projects or to sectors being privatized.³⁹

While during the postwar period, multinational corporations (MNCs) helped to define the interests of the US government and continue to do so, the influence of smaller business has increased. There are two primary reasons for this widening of perspective. Firstly, as was indicated previously, small and medium-sized businesses

³⁸ US Agency for International Development *SEED ACT Implementation Report, Fiscal Year 1992*. (Washington D.C.: GPO, January 1993); and, Brian Wickland, Hungary Desk, Bureau for Europe (EUR/RME/ECA), interview by author, 18 January 1994, tape recording, U.S. Agency for International Development, Department of State, Washington D.C.

³⁹ European Bank for Reconstruction and Development, *Profile*. (Winter 1990); European Bank for Reconstruction and Development, *Financial Sector Operations Policy* (April 1992); see also, Stephan Haggard and Andrew Moravcsik, "The Political Economy of Financial Assistance to Eastern Europe, 1989-1991" *After the Cold War: International Institutions and State Strategies in Europe* ed. Robert O. Keohane, Joseph S. Nye, Stanley Hoffman. (Cambridge Mass.: Harvard University Press, 1994): 268.

have gained recognition as an important sector for growth within the economies of the West.⁴⁰

Secondly, the SME sector itself is growing. Following the success of Japan's "just-in-time" production model, where much of the manufacturing is done outside the parent company through the use of sourcing, the business world is moving towards the creation of smaller, more specialized firms.⁴¹

II.5. Political Ideology

Another aspect of the international system which helps to determine the way in which a state behaves within this system deals with the growing international consensus over the tenets of economic liberalism. This consensus, or hegemonic international ideology, can be attributed to several factors, including the American influence over the construction of post-War institutions, the growing role of non-state economic actors such as MNCs, and the failure of communism in the former Soviet Bloc countries. The existence of economic-liberalism as the hegemonic ideology within the current world order has led to pressures for conformity and uniformity in

⁴⁰ See, for example: A.A. Gibb, "Key Factors in the Design and Policy Support for the Small and Medium Enterprise (SME) Development Process: An Overview" *Entrepreneurship and Regional Development* 5 n.1 (January-March 1993): 6; Peter Danton De Rouffignac, *Beyond the Single Market: Strategies for Change in the 1990s*. (London: Pitman Publishing, 1991): 197-198; and, Industry Canada, *Growing Small Businesses*. Message from the Honourable Paul Martin, Canadian Minister of Finance and the Honourable John Manley, Canadian Minister of Industry. (February 1994): 3.

⁴¹ Michael J. Piore and Charles F. Sabel. *The Second Industrial Divide: Possibilities for Prosperity*. (New York: Basic Books, 1984): 201.

the political sphere.⁴²

Political ideology throughout the world is shifting towards economic liberalism. State intervention and Keynesian economics have gradually lost support in the period from the late 1970s to the present. Political parties advocating more liberal-economic policies have gained popularity throughout Europe and North American, as well as the developing world, leading to electoral victory in countries such as the U.S., Canada, Britain, and Sweden. Even among centrist and socialist governments, traditionally right-wing economic policies are taking hold.⁴³

Among the core states within the international community, adherence to a liberal-economic ideology is now considered the most "rational" way in which to govern a country. Western states are increasingly promoting greater private sector involvement within those sectors of the economy which have traditionally been dominated by publicly-owned corporations in the past. Telecommunications, energy and transportation, for example, have all been subject to privatization in the Western democracies.

The notion that the private sector and economic competition are inherently more effective than the state apparatus in ensuring the economic welfare of a country

⁴² On the idea of hegemonic ideology within the international system, see: Robert W. Cox, "Social Forces, States and World Orders", in *Neorealism and its Critics*, ed. Robert O. Keohane (New York: Columbia University Press, 1986): 204-254; and, Stephen Gill, "Hegemony, Consensus, and Trilateralism", *Review of International Studies*, 12 (1986): 205-221.

⁴³ See: Robert W. Cox, "Global Restructuring: Making Sense of the Changing International Political Economy", in *Political Economy and the Changing Global Order*, ed. Richard Stubbs and Geoffrey R.D. Underhill. (Toronto: McClelland & Stewart Inc, 1994): 49; and, Stephen Gill, "Knowledge, Politics and Neo-Liberal Political Economy", in *Political Economy and the Changing Global Order* ed. Richard Stubbs and Geoffrey R.D. Underhill. (Toronto: McClelland & Stewart Inc., 1994): 82.

has become increasingly accepted. Within state governments themselves, the practice of down-sizing as well as wage and hiring freezes are becoming commonplace. In the American government, for example, aid programs, along with many other areas of state responsibility, are increasingly given over to the private sector through "contracting out".⁴⁴

Not only are conservative economic policies encouraged in this new international system, but they now dictate the degree to which states may continue to use Keynesian economic policies or adopt new social welfare reform. These new restrictions became apparent in the early 1980s when French President François Mitterrand attempted to oppose such conservative trends in Europe by engaging his country in a program of deficit spending. Due to the high level of economic interdependence with the rest of Europe, the resultant havoc incurred on exchange rates and the French financial sector as a whole, quickly convinced Mitterrand to adopt a more conservative set of economic policies.⁴⁵ More recently, the move away from the traditional leftist ideological tenets of the New Democratic Party (NDP), elected in the province of Ontario in 1990, towards the support of big business reflects the pressure for homogeneous economic policy with the rest of Canada and the international community. At that time, one of the first moves taken by NDP leader Bob Rae was to reassure the international bond market that Ontario was willing to

⁴⁴ Brian Wickland, Hungary Desk, Bureau for Europe (EUR/RME/ECA), interview by author, 18 January 1994, tape recording. U.S. Agency for International Development, Department of State, Washington, D.C.

⁴⁵ Eric Helleiner, "From Bretton Woods to Global Finance: A World Turned Upside Down", in *Political Economy and the Changing Global Order*. ed. Richard Stubbs and Geoffrey R.D. Underhill. (Toronto: McClelland & Stewart Inc. 1993): 168.

cooperate with international investment interests.⁴⁶ Soon after, the NDP, contrary to some of its own ideological precepts, brought in tough economic measures in order to cut government spending within the province under the euphemistic title of a new "social contract".

These same restrictions on state policy-making have become institutionalized through various international agencies such as the International Monetary Fund (IMF), the World Bank and most recently, the European Bank for Reconstruction and Development (EBRD). In the IMF and the World Bank, conditionality on loan guarantees and Structural Adjustment Programs now carry a strong message to national governments to cut social programs and deal with both the micro- and macro-economic problems of debt and balance of trade. That same type of conditionality exists within the structure of the EBRD, where the development of the private sector, rather than the state, is the major focus of the EBRD. Any state which relies on these and other international institutions to garner loans from the international community or to gain access to assistance funding must accept the restrictions imposed on them by these institutions in the management of their national economies.

In Central Europe, the IMF and the World Bank have not only played the part of donor, but have also acted as "gatekeepers" to all other bilateral and multilateral assistance initiatives. As Stephan Haggard and Andrew Moravcsik explain, both of these international institutions were charged by the donor community with overseeing

⁴⁶ Robert W. Cox, "Global Restructuring: Making Sense of the Changing International Political Economy", in *Political Economy and the Changing Global Order*, ed. Richard Stubbs and Geoffrey R.D. Underhill. (Toronto: McClelland & Stewart Inc, 1994). 47.

the overall assistance effort in regard to the recipient countries' commitment to market reform.⁴⁷ These institutions, therefore, served to uphold the international economic liberalist consensus.

American aid activity in Central Europe itself carries this type of conditionality. When Poland began lagging on its commitment to privatization in 1991, for example, the United States redirected its aid funding to other Central European states such as the Czech Republic, whose commitment to privatization was deemed more sincere.⁴⁸

More recently, the overall influence of international system pressures for tighter fiscal responsibility became evident when the Hungarian Socialist Party came to power in April of 1994. Despite its socialist title, the Party's Manifesto included proposals for the privatization of some aspects of the Hungarian health care system, decreased taxes on foreign and domestic investment, and down-sizing of the government bureaucracy. The proposals made within this document serve to demonstrate the awareness of all actors in Central Europe to the existence of international restrictions on economic policy-making.⁴⁹

The collapse of the Soviet Bloc has only served to further legitimate economic liberalism. Communism, which was once considered a viable alternative to the

⁴⁷ See: Stephan Haggard, and Andrew Moravcsik. "The Political Economy of Financial Assistance to Eastern Europe, 1989-1991", in *After the Cold War: International Institutions and State Strategies in Europe* ed. Robert O. Keohane, Joseph S. Nye, Stanley Hoffman. (Cambridge Mass.: Harvard University Press, 1994): 262-264.

⁴⁸ Brian Wickland, Hungary Desk, Bureau for Europe (EUR/RME/ECA), interview by author, 18 January 1994, tape recording. U.S. Agency for International Development, Department of State. Washington, D.C.

⁴⁹ Hungarian Socialist Party, "The Hungarian Socialist Party, For a Modern Democratic Hungary: Manifesto of the Hungarian Socialist Party." (April 1994).

capitalist mode of organization, has taken what some might describe as a fatal blow.⁵⁰ Nor is the idea of a "third way", or a compromise between the two, any longer considered acceptable. The choice now for states seeking to participate in the global system (the countries of the Former Soviet Bloc for instance), is one of "how fast", rather than "how far".

The political consensus within the international system has acted as a restraint on the choice of foreign policy actions for all states. In Central Europe, the influence of this hegemonic ideology has rendered the countries of this region, for the most part, powerless to change the structure within which they must operate.⁵¹ For the United States, the rules of the game have largely been created by its own hand, but must be played out according to changing national interests. In order to do so, the United States must first define these interests. When determining what factors to address regarding the welfare of the state however, the fact that the phenomena of interdependence and more broadly, globalization, have transformed the very definition of what constitutes a threat to the American interests, must be taken into account.

II.6. The Changing Nature of Security

National security has become more complicated as threats have shifted from military ones (that is, threats against territorial integrity) to

⁵⁰ See for example: Francis Fukuyama, "The End of History?". *The National Interest*, n.16 (Summer 1989): 3-18.

⁵¹ A brief discussion of this type of powerlessness can be found in section II.7 of the paper. See also John Gaventa, *Power and Powerlessness: Quiescence and Rebellion in an Appalachian Valley*. (Oxford: Clarendon Press, 1980)

economic and ecological ones.⁵²

In the past, a country's welfare was defined primarily on a territorial basis. Now, states have become more vulnerable in many other areas. Economic and political problems throughout the globe have had an impact on the domestic affairs of all nations. National security interests therefore, must be understood on a more holistic level than simply in the diplomatic and military spheres. As Barry Buzan argues:

... security and economic issues are interlinked at so many important junctures that combined consideration of them is essential to sound analysis of either.⁵³

Immigration into Western Europe, for example, from the countries of the former Soviet Bloc, is creating tremendous pressures on the economic security of the region. Due to the interdependent nature of the international system, the influx of both economic and political refugees into these countries has the potential to affect the entire international community. The rise of nationalist, fascist, xenophobic and/or racist sentiments, for example, in countries such as Germany and France have been linked to the pressures created by the influx of a relatively small number of refugees from Central Europe into Western Europe since the end of 1989.⁵⁴ If these rightist sentiments are legitimated under the banner of opposition to increased migration, they

⁵² Joseph S. Nye Jr. *Bound to Lead: The Changing Nature of American Power*, (New York: Basic Books, Inc., 1990): 179.

⁵³ Barry Buzan, "The Interdependence of Security and Economic Issues in the "New World Order", in *Political Economy and the Changing Global Order*, ed. Richard Stubbs and Geoffrey R.D. Underhill. (Toronto: McClelland & Stewart Inc, 1994): 89.

⁵⁴ *The Economist*. "Huddled Masses on the Move" (13 October 1990): 51.

will increase the potential for political destabilization in the whole of Europe. Such a crisis to stability would play havoc with international financial and investment flows.

The interdependent nature of global environmental issues has also become important in redefining international security. For example, deforestation, contamination of ground water, ozone depletion, and global warming are becoming significant global environmental concerns. More importantly, nuclear accidents such as the Chernobyl incident in 1988, illustrate the potential worldwide impact of environmental mismanagement and the need for both monetary and technical support to countries whose own resources are too limited to implement the type of measures which would help to prevent similar disasters in the future. Environmental security, therefore, becomes an economic issue and must be considered within the boundaries of the American national interest.

With the very definition of security to the state under transformation, the traditional means of dealing with threats to the state are under siege. Direct action, such as military or economic intervention, has the potential to bring about unwanted and often unanticipated results within a situation of international interdependence. American actions are therefore restricted by the very interdependent nature of the system in which it has played a major role in creating. Other more subtle and less direct means of influence over security issues have, as a result, become very important to foreign policy action in the modern era.⁵⁵

⁵⁵ Seyom Brown, "World Interests and the Changing Dimensions of Security", in *World Security Challenges for a New Century*. 2nd edition. ed. Michael T. Klare and Daniel C. Thomas. (New York: St. Martin's Press, 1994): 11.

The United States, as with all countries in the international system, has been forced to adapt its approach to security and national welfare to include the more complex precepts of interdependence and globalisation. Both of these precepts are linked to economic factors, making bilateral aid one of the most important elements in United States foreign policy strategy for Central Europe.⁵⁶ Bilateral aid is, in fact, one of the most effective means of influencing the behaviour of other states in the New World Order. This is due to the effectiveness of bilateral aid in creating intangible forms of influence within the recipient countries.

II.7. The Nature of Power

Over the past several years, tremendous upheaval in the geopolitical pattern of power among states has served to highlight the issue of the emerging and changing nature of power within the world system. Much of this can be attributed to the phenomenon of interdependence which cuts across the entire spectrum of elements included within the definition of a state's national interest. As discussed previously, economic, security and political factors within the international community are closely linked. Moreover, the means by which they can be addressed is limited by the established constraints of the international system. According to Joseph Nye Jr., the increased complexity of international interdependence has "reduced the potential for

⁵⁶ See, for example: Stephan Haggard and Andrew Moravcsik. "The Political Economy of Financial Assistance to Eastern Europe, 1989-1991", in *After the Cold War: International Institutions and State Strategies in Europe* ed. Robert O. Keohane, Joseph S. Nye, Stanley Hoffman, (Cambridge Mass.: Harvard University Press, 1994): 246-285; and, George M. Guess. *The Politics of United States Foreign Aid*. (London: Croom Helm, 1987).

any country to exercise decisive influence over the whole system."⁵⁷

With the loss of power to the state, or, as Nye would describe it, a diffusion of power to an increasing number of international actors, the parameters within which states may react are now defined by the international system as a whole.⁵⁸ On a slightly different tack, Robert W. Cox argues for the existence of a more complex set of power structures and relationships "involved in structural changes in both state and world order".⁵⁹ Within these parameters lies the issue of the changing nature of power.

The need to redefine power according to the new conditions of the international system has become increasingly apparent. Authors such as Susan Strange, John Gaventa, and Joseph S. Nye Jr. are challenging the traditional conceptions of power and are pointing to new definitions of its very nature.

While at one point it was assumed that the nature of power remained relatively static, theorists such as Strange and Nye have illustrated the possibility of major change in power construction occurring in the modern day.⁶⁰ As both Strange and Nye indicate, where once military power was considered the ultimate measure of a

⁵⁷ Joseph S. Nye Jr. "The New Dimensions of Power" *Dialogue* n.86 (1989): 45.

⁵⁸ Joseph S. Nye Jr. *Bound to Lead: The Changing Nature of American Power*, (New York: Basic Books, Inc., 1990): 175; and, "Soft Power", *Foreign Policy*, no.80 (Fall 1990): 160.

⁵⁹ Robert W. Cox, "Social Forces, States and World Orders: Beyond International Relations Theory" *Neorealism and its Critics*. ed. Robert O. Keohane, (New York: Columbia University Press, 1986): 252.

⁶⁰ Joseph S. Nye Jr. *Bound to Lead: The Changing Nature of American Power*, (New York: Basic Books, Inc., 1990): 175; and, Susan Strange, "The Persistent Myth of Lost Hegemony", *International Organization* 41, no.4 (Autumn 1987): 553.

state's influence within the international system, the complexities involved in an increasingly economic interdependent international system mean that new areas of potential influence in the economic, institutional and cultural spheres are becoming increasingly important.⁶¹

The measurement of power in the current world system requires the placement of greater emphasis on low politics areas which include not only economic relations, but social and cultural interaction as well. The increasing importance of these areas within the international system has led to a growing acknowledgement of the existence of both the traditional concept of power, or that which deals with more tangible concepts of state influence such as military might and territoriality, and to a less tangible source of influence including Strange's concept of structural power, Gaventa's view of dimensions of power, and Nye's discussion of soft, or cooptive power.⁶²

More comprehensive definitions of power now include both hard, tangible factors of influence such as demographics, military strength and economic prowess as well as more intangible elements such as the strength of ideology, the accumulation of knowledge and experience, the attractiveness of a culture, and the capacity for collective action within that society. Elements of power such as these are extremely difficult to quantify, yet can be very important to achieving a state's self-interests in

⁶¹ See, for example, Susan Strange. "The Future of the American Empire", *Journal of International Affairs* 42, no.1 (1988); and, Joseph S. Nye Jr. "Soft Power", *Foreign Policy*, no.80 (Fall 1990).

⁶² See: Susan Strange. "The Future of the American Empire", *Journal of International Affairs* 42, no.1 (1988): 1-17; John Gaventa, *Power and Powerlessness: Quiescence and Rebellion in an Appalachian Valley*. (Oxford: Clarendon Press, 1980); and, Joseph S. Nye Jr. "Soft Power", *Foreign Policy*, no.80 (Fall 1990): 153-71.

the current international system. Power is necessarily measured, therefore, according to military, economic, social, educational, institutional and ideological elements.

Joseph Nye Jr.'s discussion of "soft" power reiterates the importance of a more comprehensive understanding of power, emphasizing the particular role of ideology, culture and institutions in a country's ability to influence international events. Basing his analysis on the importance of interdependence within the world system, Nye extends the definition of power from one of coercing a country to do what another wants, to a more co-optive form of power where a country **wants** to do what the other wants.⁶³ According to Nye, soft power "is the ability of a country to structure a situation so that other countries develop preferences or define their interests in ways consistent with its own."⁶⁴

In a similar context, John Gaventa proposes the existence of a third dimension of power which allows the dominant actor, or group of actors to "pre-empt manifest conflict at all, through the shaping of patterns or conceptions of non-conflict."⁶⁵ This conception of power, in fact, compliments Robert W. Cox and Stephen Gill's advancement of Gramscian hegemony into the study of international relations.⁶⁶ The

⁶³ Joseph S. Nye Jr. "Soft Power", *Foreign Policy*, no.80 (Fall 1990): 166.

⁶⁴ Ibid., 168.

⁶⁵ John Gaventa, *Power and Powerlessness. Quiescence and Rebellion in and Appalachian Valley*. (Oxford: Clarendon Press, 1980): 12.

⁶⁶ For discussions on Gramsci, the idea of the hegemony of ideology and its pertinence to the study of international relations, see Robert W. Cox's articles, "Gramsci, Hegemony and International Relations: An Essay in Method", *Millennium: Journal of International Studies* 12, n.2 (1982): 162-176; "Social Forces, States and World Orders: Beyond International Relations Theory" *Neorealism and its Critics*, ed. Robert O. Keohane, (New York: Columbia University Press, 1993); and Stephen Gill's discussion in: "Hegemony, Consensus and Trilateralism", *Review of International Studies*, 12 (1986): 205-222.

significance of this type of intangible⁶⁷ power is apparent within the Central European case, with the move to adopt economic-liberalist ideologies. The use of intangible power resources is not new: in the early stages of the Cold War, communist propaganda helped to garner support for the Soviet activities within the international system. Intangible power has, however, become more important in the post Cold War system due to the fact that it is far less costly in both political and economic terms. As Nye explains, interdependence has created a condition of economic and political vulnerability, whereby the coercive actions of one state over another can create negative repercussions across the entire international community.⁶⁸ Intangible power, on the other hand, thrives on the element of global interdependence.

The changing basis of the nature of power illustrates the growing need for more flexible and multidimensional models of analysis of the international system. Moreover, it emphasises the importance of a realization of the existence and use of various levels and elements of power within the world system. Both tangible and intangible sources of power must be considered in a comprehensive examination of the dynamics of an increasingly global world.

In the American case, popular culture, media and information resources, ideological ideals and its historical role in the creation of such international institutions

⁶⁷ For the purposes of this paper, all forms of power which do not involve the use of tangible elements in order to influence the behaviour of other countries will be referred to as "intangible power". The concept of intangible power, therefore, includes Nye's concept of soft, or coercive power, Strange's concept of structural power, and Gaventa's use of the term "third dimensional" power. Gramscian ideological hegemony is also included in the idea of intangible power, but refers specifically to the dominant and regulatory ideology of the international community.

⁶⁸ Ibid., 168.

as the IMF and the World Bank, help to ensure that the U.S. maintains the ability to tacitly, (or perhaps not so tacitly) mould the attitudes of other international actors.

Building upon these existing structures of non-tangible power resources remains important, however, due to the growing disharmony between the changing international system and American interests.

In the international system of today, intangible power and other non-military means of influence have become more significant within US foreign policy decision-making. With the end of the Cold War justification for more coercive action, less overt means of influence are now becoming increasingly important in the international system. The United States' position within the global system has now become increasingly determinant on its ability to use all levels of power resources, both tangible and intangible, in order to achieve its objectives.

Determining what these American objectives are, however, not only requires an understanding of the international system and the impact of interdependence on national security interests, but it also requires the inclusion of another, more nebulous concept of the American international perspective filter of the world system. While the United States is faced with external pressures and restrictions on its behaviour in the international system, the way in which it interprets these factors remains characteristically American.

CHAPTER III

THE UNITED STATES WITHIN THE NEW WORLD ORDER; AMERICAN INTERESTS AND OBJECTIVES IN CENTRAL EUROPE

III.1. Introduction

The fact is that the United States while economically strong, is no longer the single dominant world economic power it used to be.⁶⁹

As outlined in the previous chapter, the international parameters within which states may act have changed. Despite cyclical lessening of tensions between the Superpowers during the Cold War, the bipolar nature of the international system encouraged a level of cooperation among the Western allies. This inherent need for consensus within the international has been replaced by one where market concerns are most important.

The American state must expand its understanding of the ways in which it maintains its influence on world events, and look increasingly towards non-military means to do so. Within this new world structure, international assistance presents an ideal means by which to achieve American self-interests without exiting the established parameters of the global system.

International aid has long been considered a part of the apparatus for advancing

⁶⁹ Deputy Secretary of State Lawrence S. Eagleburger. "International Business: Foundation of National Strength". Address before the American Foreign Service Association Bicentennial Conference on American Business and Government in a Turbulent World. US Department of State, Washington, D.C. (30 November 1989). *Current Policy*, no. 1230.

US world power objectives abroad.⁷⁰ The growing level of interlinkage between political, economic and security issues, however, is making economic aid rather than military aid increasingly more effective as a means to address a greater number of American objectives in the post Cold War era. Assistance directed through and toward the private sector in particular, allows the United States to create programs which directly enhance its own economic welfare and, to some extent, that of the recipient. At the same time, as will be discussed more fully in the proceeding chapters, assistance to the private sector helps to strengthen America's intangible power resources. This factor is important to American aid in Central Europe due to the absence of close American-Central European geographic ties and historic trading relationships, such as those which exist between Central European and certain countries of the European Union, including Germany, Austria and Italy.

The US assistance efforts in Central Europe reflect a movement towards the use of intangible power in garnering its foreign policy objectives. These objectives, however, must be determined. The following chapter forms a discussion of the impact of international system trends on American definitions of ideological, security and economic national interests. The subsequent influence these definitions are having on assistance methods in Central Europe is also discussed. In addition, the chapter addresses the emergence of new priorities among American interests in Central Europe. In the initial stages of transformation, for example, American motives for

⁷⁰ George M. Guess. *The Politics of United States Foreign Aid*. (London: Croom Helm, 1987): 8; see also: Malcolm J. Grieve, "International Assistance and Democracy: Assessing Efforts to Assist Post-Communist Development", *Studies in Comparative International Development* 27, no.4 (Winter 1992-93): 98.

extending aid to the region were primarily Cold War security and ideologically based. As the United States moves away from its former position regarding the international system, however, economic interests are taking on a greater role in aid to Central Europe and farther East.

Before moving into a discussion of these factors, however, one must first address the phenomenon of an American international system paradigm, or perspective "filter", and its impact on the formation of national interests as a whole. In order to understand the motives behind the formation of ideologically-based, security and economic national interest, one must first understand the specific character of this American international system paradigm. The way in which the United States views itself and the international system, according to its national values and historical role within the global community, inherently influences the formation of its perception of American national interest. Moreover, this paradigm, or international system "filter", plays a role in determining the specific objectives behind aid to Central Europe as well as the focus on particular areas within American assistance initiatives in Central Europe.

III.2. The American World System Perspective

On a world system perspective level, the American "national identity" is an inherent part of the overarching paradigm in which US policy makers interpret world events. American foreign policy behaviour, therefore, is influenced by this paradigm because it acts as a filter through which reactions to the international system are

generated.

Assistance initiatives to Central and Eastern Europe are influenced by the United States' perception of itself and its role within the international system. This American international system paradigm has both historical and ideological elements which determine the direction and character of American aid to Central Europe. Both of these elements are interlinked through political culture. The following is a brief discussion of these factors.

As discussed by John Lewis Gaddis, the roots of American political culture stem from those of eighteenth century British politics and diplomacy. At that time, balance of power theories played a strong role in state decision-making.⁷¹ As Gaddis points out, since its inception the United States has addressed itself toward international politics in terms of the balance of power paradigm.⁷²

Domestically, the historical influence of this paradigm can be seen in the great pains which were taken by the Founding Fathers to create a system of "checks and balances" within the structures of American society. More importantly, however, according to Gaddis, the U.S. has consistently addressed the international sphere using this perspective. Throughout the 1700s, the Americans shifted their allegiance between the British and French according to events in Europe. Later, as Gaddis contends,

⁷¹ John Lewis Gaddis. *The United States and the End of the Cold War: Implications, reconsiderations, provocations*. (London: Oxford University Press, 1992): 194.

⁷² Some discussion of this also exists in Samuel Huntington's paper: *The Dilemma of American Ideals and Institutions in Foreign Policy*. (Washington: American Enterprise Institute for Public Policy Research, 1981); in relation to "America's style", see also, Stanley Hoffman, *Gulliver's Troubles, Or the Setting of American Foreign Policy*. (New York: McGraw-Hill Book Company), particularly pages: 87-213.

America remained isolated during the "long peace" that followed the Congress of Vienna after 1817 in light of the balanced power distribution among the major European actors. When challenges to the balance did occur in 1917, 1940-41 and 1945-47, "the United States took decisive action to resist them, twice by military intervention and the third time through economic and military assistance as instruments of containment."⁷³

As the postwar power structures began to take shape, this view of the world - particularly as it pertains to ideology - was further moulded by the international system itself. It was during the Cold War era that the U.S. entered into the international system in earnest and came to identify itself as a leader within the global community. It was at this time also that American values regarding economic and political freedoms were cemented within its overall national identity. Moreover, in order to deal with the Cold War international structure, American political ideology came to be predominated by the realist school of thought.⁷⁴

An ideology which deals with the language of power and interest, American political realism came of age during a period of conflict which was defined in terms of good and bad, or more precisely, capitalism versus communism. Significantly, the first American economic assistance effort in the postwar year, the Marshall Plan, was conceived within the balance of power framework and was initiated as a means by

⁷³ John Lewis Gaddis. *The United States and the End of the Cold War: Implications, reconsiderations, provocations*. (London: Oxford University Press, 1992): 194.

⁷⁴ Robert Keohane, "Realism, Neorealism and the Study of World Politics", in *Neorealism and its Critics*, ed. Robert O. Keohane. (New York: Columbia University Press, 1986): 9.

which to shore up the Western European economies against the spread of communist power. US aid since that time has been primarily based on this same concept.⁷⁵

In its initial response to the collapse of the Soviet Bloc system, the United States viewed the events in the region based on the precepts developed during the Cold War. In late 1989 and early 1990, American assistance to the countries of Poland and Hungary through the Support for East European Development (SEED) Act was viewed as a way to encourage and support these countries' move away from the Soviet sphere of influence. Initial support for Central Europe, therefore, was seen as a "window of opportunity" and was based on Cold War objectives.⁷⁶

The Cold War influence over the initial perspective on aid to Central Europe has had an impact on the way in which assistance has been delivered. As will be discussed in Chapter Four, the structure of US assistance programming for the region differs from all other former American aid efforts. This can be partially attributed to the U.S.' perception of the political importance of the area.⁷⁷

The focus of aid to the economic sector of the recipient countries in Central

⁷⁵ For a more complete discussion of American Cold War objectives behind the Marshall Plan program, and the nature of American aid during the Cold War refer to: Keith Griffin, "Foreign Aid After the Cold War". *Development and Change* 22, (1991): 645-685; Nicholas Eberstadt. *Foreign Aid and American Purpose*. (Washington D.C.: American Enterprise Institute for Public Policy Research, 1988); David A. Baldwin. *Foreign Aid and American Policy: A Documentary Analysis*. (New York: Frederick A. Praeger Publishers, 1966); and, Stephen Browne. *Foreign Aid in Practice*. (New York: New York University Press, 1990).

⁷⁶ For examples of this viewpoint, see: U.S. President George Bush. "Encouraging Political and Economic Reform in Poland". Address before the citizens of Hamtramck, Hamtramck, Michigan. (17 April 1989) *Current Policy*, no. 1166: 1-3; and, Under Secretary of State for Economic Affairs, Richard T. McCormack. "Challenges to the International Economy in the 1990s", remarks before the Conference on U.S. Perspectives, Washington, D.C. (30 October 1989) *Current Policy*, no. 1223: 1-4.

⁷⁷ These points will be addressed further in chapter four regarding the structure of American assistance to Central Europe.

Europe has also been influenced by the initial Cold War framework of the American perspective. Unlike most American assistance projects in the past, government-to-government projects have been discouraged.⁷⁸ As well, the disbursement of as much as 84 percent of US aid funds toward economic restructuring - the bulk of which has been directed towards the private sector - to encourage the development of a non-governmental power group, reflects the US commitment to creating strong opposition to central market ideologies.⁷⁹

While the greatest influence of the Cold War on the American international system perspective can be seen in the initial creation of an aid framework for Central Europe, some ideological factors within that framework which evolved during the Cold War still remain. As alluded to previously, an inherent aspect of the American national philosophy is its highly moral and idealistic character. Where the Cold War enhanced the American view of the international system as based on the dichotomy of good and evil, the filter has created a level of dogmatism to the one American ideal. By encouraging the belief in one ideal and thereby promoting the idea that all other models must therefore be imperfect, acknowledging the legitimacy of other philosophies becomes difficult.

⁷⁸ See for example: the statement of David N. Merrill, Deputy Assistant Administrator for the Bureau for Europe, U.S. Agency for International Development before the Subcommittee on Europe and the Middle East, *US Assistance to Central and Eastern Europe*, (102nd Cong., 2nd sess., 3 June 1992, 20-35); and, Deputy Secretary Eagleburger's statement before the Foreign Operations Subcommittee of the House Appropriations Committee, Washington, D.C., 11 March 1992, *US Department of State Dispatch* (16 March 1992): 205.

⁷⁹ Sources for this figure included the USAID's *SEED Act Implementation Report, Fiscal Year 1992* (January 1993) and the interview held by the author with Brian Wickland, Hungary Desk, Bureau for Europe (EUR/RME/ECA), U.S. Agency for International Development, Department of State (18 January 1994).

The need to ensure the adoption of an American model of organization in Central Europe over a Western European one, for example, is seen by the Americans as imperative to the success of economic and democratic transformation in the region. This sentiment is reflected in the words of Dr. Peter C.M.S. von Braun during his testimony before the Committee on Small Business of the United States Senate:

We must help Eastern Europe understand how to deregulate their economies. If these countries fall into the hands of the "reglomaniacs" of the EEC, small business will never have a chance of flourishing.⁸⁰

While competition rather than cooperation among donors in Central Europe is quite prevalent for various other reasons, the tendency towards such dogmatic thinking within the United States international system filter has helped to accentuate the problem. This characteristic within the American filter is also evident in the overlapping of American assistance projects in Central Europe with those of the rest of the Western donors. Again, while the need to put an American label on projects funded by the U.S. largely stems from economic and political reasons brought on by trends within the international system, this lack of coordination with other donor institutions can also be attributed to the American belief in their own model as closer to the ideal than any other country's within the international system.

Ideology not only plays a role in the American perspective of the international system, but also influences United States foreign policy more directly. Just as the filter through which the United States views the world is influenced by the American

⁸⁰ Dr. Peter C.M.S. von Braun, Statement before the Committee on Small Business, United States Senate, *To Examine Small Business Trade Opportunities with the Soviet Union and Eastern Europe*, 101st Cong., 2nd sess., (23 March 1990).

national ideology, so does that national ideology play a role in the definition of certain national interests. These ideologically-based interests have in turn influenced the direction of aid initiatives, as well as the resulting formation of its Central European assistance programs, particularly in the early stages of the post Cold War transition.

III.3. Ideological Factors in the Definition of American National Interests

Ideology has not only helped to mould the American world system perspective, it has also helped to determine foreign policy objectives in Central Europe. In a direct sense, the linkage between the American national identity and the current transformations underway in the region creates a need for the US to use the collapse of communism in order to: 1) legitimise its own capitalist and democratic model; 2) promote the American model within the international system; and, 3) create political and economic linkages through the promotion of common philosophical ideas.

III.4. Direct Ideological Interests in Central Europe

In the area of interests which have arisen directly as a result of ideology, one of the most important is the need to continue to justify the legitimacy of the American capitalist organization and civil democratic model. United States foreign policy during the postwar era revolved around the rhetoric of capitalism and democratic freedom. Throughout the Cold War, this rhetoric placed the United States in the role of moral leader, a role which has been adopted into the American national identity as a whole.

As the leader of the "free world" during the Cold War, the United States promoted itself as a "beacon of hope" to other, "less enlightened" nations.⁸¹

Assistance to what was once the domain of the former Soviet Union, therefore, has been viewed - particularly in the immediate aftermath of the fall of the Berlin Wall - as the final victorious chapter in an ideological crusade.⁸² In light of this, ensuring the continued success of the economic transformations in Central Europe is perceived as important to justifying the continued validity of American values and traditions in the post Cold War era.

Linked to the issue of American ideological justification, the increased worldwide acceptability of the American model in turn lends greater credibility to the United States' past and present foreign policy actions. Throughout the Cold War, the U.S. government relied heavily on its own rhetoric of good and bad in order to justify its actions within the international system to both domestic and international audiences.

Domestically, this rhetoric has been used as a means to perpetuate the belief in those tenets which make up the American national identity and to legitimize its external actions. Internationally, the U.S. has used the Cold War conflict to justify its

⁸¹ These words were used by Colin Powell, the Assistant to the President for National Security Affairs in his address before the National Press Club in Washington, D.C. (27 October 1988, in: *Current Policy*, no. 1127: 2-4).

⁸² See for example, the Assistant to the President for National Security Affairs, Colin Powell's address before the National Press Club, Washington, D.C. (27 October 1988) in: *Current Policy*, no. 1127: 2-4; U.S. President Bush's address at the Coast Guard Academy graduation ceremony, New London, Connecticut. (24 May 1989) in *Current Policy*, no. 1178: 1-3; and, Secretary Baker's statement before the Senate Appropriations Subcommittee on Commerce, Justice, State and Related Agencies, Washington, D.C. (25 April 1990) in *Current Policy*, no. 1275: 1-7.

foreign policy, in the interest of its own version of economic and political freedom.⁸³

The collapse of the Soviet Union and the delegitimization of Marxist/Leninist/Stalinist theory has placed the United States in a position where both its past foreign policy discourse, and its ideological beliefs, can be vindicated not only to the international community, but to its own citizens as well. This ideological victory serves to reassure the American state - and the international community - of US moral and influential superiority within the world system. A strong motivation for ensuring the success of the transformation in the former Soviet Bloc, particularly in light of the failures of Vietnam, and the current debate regarding American hegemonic decline.⁸⁴

Despite the continuing existence of American moral and idealistic ideology within aid to Central Europe, many of the basic tenets of American political culture which were created during the post War years are becoming increasingly tenuous. On the one hand, the widespread rejection of Soviet ideology in late 1989 and early 1990 served to increase the perceived legitimacy of the tenets upon which the American

⁸³ See for example: Deputy Secretary Lawrence Eagleburger's address before the American Chamber of Commerce's International Forum, Washington, D.C., 16 February 1990. (*Current Policy*, no. 1254: 1-3). At this time, he referred to the democratic transformation of Eastern Europe as a "vindication of U.S. policy during the Cold War"; see also, Assistant Secretary for European and Canadian Affairs, statement for the Subcommittee on Europe and the Middle East of the House Foreign Affairs Committee, Washington, D.C., 3 October 1989 (*Current Policy*, no. 1220: 1-3).

⁸⁴ For a discussion of the declinist debate, see for example: Paul Kennedy, *The Rise and Fall of the Great Powers: Economic change and military conflict from 1500 to 2000*. (Fontana Press: London, UK. 1988); W.W. Rostow "Beware of Historians Bearing False Analogies." *Foreign Affairs*. 66 (Spring 1988): 863-868; Joseph S. Nye Jr. "America's Decline: A Myth." *The New York Times*. (10 April 1988): 31; Robert Heilbroner, "Is America Falling Behind? An interview with Paul Kennedy." *Dialogue*. n.8 (1989): 32-37; and, Samuel P. Huntington, "Decline or Renewal? A Rebuttal to Paul Kennedy." *Dialogue*. n.86 (1989): 38-44.

identity is based. On the other hand, however, the collapse of communism in the former Soviet Bloc presents new problems in defining the American national identity.

During the Cold War, the United States was faced with the existence of a seemingly successful alternative political and economic model which was diametrically opposed to the American ideal. Since the American national identity is intrinsically linked to ideas concerning the free market and civil democracy, the Soviet Union's ideological challenge served to threaten America's very *raison d'être*.

Ironically, this challenge also helped to define the nation by what it was not - a concept which is quite familiar to Canadians as we, as a country, attempt to differentiate ourselves from our neighbours to the South. If this is taken further, there would seem to be a danger that without the existence of an "evil" enemy such as the Soviet superpower, American ideological cohesion will become more and more difficult to establish and maintain in the long term.

Interestingly, with the end of the Cold War conflict and the rejection of Soviet political and economic ideology, America's task of defining itself has become more difficult. During the Cold War, justification for international actions by the Americans to their own citizens and to the international community required less clarity of purpose. As long as foreign policy mandates could be linked to the broad blanket of Cold War security interest, directives and objectives were not required to be defined any more clearly. Since the end of the Cold War, the American government has been

caught in a state of unpreparedness.⁸⁵ As a result, foreign policy in the years following the collapse of the Soviet system has had to depend on the basic overarching American principles of freedom, democracy, and economic liberalism.⁸⁶

With the loss of the Cold War "excuse", mandates based on ideology have had to be redefined into more precise terms in order to justify foreign policy expenditures. Within the US aid agency (USAID), for example, much effort has been exerted in simplifying the role of American assistance from as many as thirty-three different official statutory goals and objectives to as few as five. These are: 1) building democracy, 2) promoting and maintaining peace, 3) promoting economic growth and sustainable development, 4) addressing global problems, and 4) providing humanitarian assistance.⁸⁷

US assistance objectives, as with other elements of American foreign policy, have required a realignment to cope with the realities of the international system. With this in mind, there has been increasing effort to couch American aid in terms of economic self-interest. Although aid has always been self-interested, the growing

⁸⁵ For references to this see: Secretary Eagleburger's address before the Council on Foreign Relations, (7 January 1993), Washington, D.C.; James Schlesinger, "Quest for a Post-Cold War Foreign Policy". *Foreign Affairs* 72, no.1 (1992/93): 17-28; Stanley Hoffman, "A New World and Its Troubles", in *Sea Changes: American Foreign Policy in a World Transformed*, ed. Nicholas X. Rizopoulos. (New York: Council on Foreign Relations Press, 1990): 274-292; Linda B. Miller, "The Clinton Years: Reinventing US foreign policy?" *International Affairs* 70, no. 4 (1994): 621-622; and, John Lewis Gaddis, "Coping With Victory" *The Atlantic Monthly* (May 1990): 49-60.

⁸⁶ Secretary Baker, "A Sound Investment in Freedom's Future". Statement before the Senate Appropriations Subcommittee on Commerce, Justice, State, and Related Agencies, Washington, D.C. 25 April 1990 (*Current Policy* no. 1275: 1-7).

⁸⁷ US Department of State, Bureau of Public Affairs. "FY 1994 International Affairs Budget", *US Department of State Dispatch Supplement* supplement no. 1 (April 1993)

acknowledgement of the economic benefit of rendering assistance has become far more acceptable and widespread than at any other time in post-War history.⁸⁸ American aid, through the influence of the realities of the post Cold War international system, is moving away from a foreign policy based on ideological factors to a more economic and business-oriented approach.

Within this less idealistic approach, the rejection of Soviet-style economic and political organization and the adoption of the American model does, however, still serve as an effective way to exert influence through the use of intangible power.⁸⁹ Ideological intangible power, as a means of influencing other states, comes into play as the Americans seek to instill their own market philosophy and model of civil rights and freedoms through the use of economic assistance to Central Europe.

Assistance to the private sector, for example, while helping in the establishment of a competing power group within Central European society, also serves to purchase influence within that power group. That the development of the private sector will help to strengthen democracy and the belief in a market culture has been used by the Americans as a justification for their inordinate concentration of effort in this

⁸⁸ Brian Wickland, Hungary Desk, Bureau for Europe (EUR/RME/ECA), interview by author, 18 January 1994, tape recording, U.S. Agency for International Development, Department of State, Washington, D.C. See also: Deputy Secretary Eagleburger's statement before the Foreign Operations Subcommittee of the House Appropriations Committee, Washington, D.C., 11 March 1992, *US Department of State Dispatch*, (16 March 1992); and, U.S. Department of State, Bureau of Public Affairs, "FY 1994 International Affairs Budget Request", *US Department of State Dispatch Supplement 4*, supplement no. 1 (April 1993): 6;

⁸⁹ Yehudah Mirsky, "Democratic Politics, Democratic Culture", in *Orbis* (Fall 1993): 575-576.

sector.⁹⁰

On a more self-interested basis, however, it can be argued that involvement in the Central European private sector may also help to: 1) justify those ideological tenets which help to define the American national identity; 2) instill a more pro-American market model in Central Europe; 3) ensure a competitive position against other donors in the supply of a market and government organizational model; and, 4) create linkages through the promotion of common philosophical ideas between donor and recipient nations.

By encouraging the adoption of American philosophies and ideals into Central European markets as well as the overall society of the region, a sharing of ideological tenets ultimately encourages and facilitates interaction between American and Central European business.⁹¹ In this way, economic aid to the private sector becomes an effective method of furthering American ideological objectives, while addressing other areas of US self-interest.

III.5. Security Interests

Indirectly, ideological factors also play a part in the conception of American

⁹⁰ See, for example: Secretary Baker, "U.S. Foreign Policy Priorities and FY 1991 Budget Request". Statement before the Senate Foreign Relations Committee, Washington, D.C., 1 February 1990. *US Department of State Dispatch* (3 September 1990): 1-10; and, President George Bush, "Citizens Democracy Corps Proposed for Eastern Europe". Commencement address at the University of South Carolina, Columbia, 12 May 1990. *US Department of State Dispatch* (3 September 1990): 34-36.

⁹¹ The goal of creating leverage is, in fact, stated as an American objective with aid to Central Europe in the U.S. Agency for International Development, *SEED ACT Implementation Report, Fiscal Year 1992*. (Washington D.C. GPO, January 1993).

security concerns. The formulation of specific foreign policy objectives regarding the protection of U.S. economic, environmental and political welfare is influenced by the American international system filter and is backed by American values and ideals. As with direct ideologically-based interests, the overall priority placed on security issues in the post Cold War has decreased. The reasons behind this are complex since they are not only linked to the end of the Cold War, but also to the increasingly amorphous quality of the definition of state security in the interdependent international system of today. As discussed in Chapter Two, the concept of security has moved away from purely balance of power and territorial issues. Interdependence in the international system has expanded the concept of security into the environmental and economic sectors.⁹² What is considered to be a threat to the welfare of an individual state actor has moved beyond the traditional definition to encompass economic welfare and competition, as well as environmental pollution. The means of dealing with both traditional and non-traditional security issues has become regulated by the implications of action within the interdependent international system as well as pressures from the international community to conduct affairs according to certain behavioral norms.⁹³

⁹² See comments relating to this see: Deputy Secretary of State Lawrence S. Eagleburger's address before the American Foreign Service Association Bicentennial Conference on American Business and Government in a Turbulent World, US Department of State, Washington, D.C., entitled: "International Business: Foundation of National Strength". 30 November 1989. *Current Policy*, no. 1230: 1-3; and, President Clinton's Inaugural Address, 20 January 1993, quoted in the US Department of State Bureau of Public Affairs "FY 1994 International Affairs Budget Request", *US Department of State Dispatch Supplement 4*, supplement no. 1 (April 1993): 2.

⁹³ As was discussed in chapter two.

American security objectives in Central Europe, as a result, rely increasingly on the use of economic factors and the influence of intangible power.

One of the security issues faced by the U.S. is linked to the potential impact on the international system of a failure to achieve a credible economic transformation in Central Europe. Such a failure would affect the ability of these countries to integrate into and function within the global economy. Moreover, as argued in USAID's *SEED Act Implementation Report, Fiscal Year 1992*, without economic growth, or the promise of such to the region, political instability within Central Europe may lead to increased ethnic tensions, and the growth of extremism.⁹⁴

In line with American ideological values, the U.S. has often presented the idea that democratic governments are least likely of all forms of governments to go to war.⁹⁵ For the United States to encourage the strengthening of civil democracy in Central Europe, the most effective means at their disposal are, in fact, economic. Economic aid promotes growth and development, thereby creating the "social space that makes democracy possible, while it also affords a newly democratic government the breathing room to deliver on its promises".⁹⁶ In the American view, therefore,

⁹⁴ USAID, *SEED Act Implementation Report, Fiscal Year 1992*, (January 1993): 3.

⁹⁵ See former Governor Bill Clinton's remarks given at Pabst Theatre, Milwaukee, Wisconsin, 1 October 1992. in *Orbis*, (Fall 1993): 653; President George Bush, "Remarks and a Question-and-Answer Session at a Meeting of the Economic Club in New York, New York", 6 February 1991. *Weekly Compilation of Presidential Documents: Administration of George Bush, 1991* Washington, D.C. GPO.; with regard to the criticism of this belief, see for example: Malcolm J. Grieve, "International Assistance and Democracy: Assessing Efforts to Assist Post-Communist Development", *Studies in Comparative International Development* 27, no.4 (Winter 1992-93): 80-101; Patrick Clawson, "Introduction, Promoting Democracy Abroad", *Orbis*, (Fall 1993): 505; and, Yehudah Mirsky, "Democratic Politics, Democratic Culture", *Orbis* (Fall 1993): 575-76.

⁹⁶ Yehudah Mirsky, "Democratic Politics, Democratic Culture", *Orbis* (Fall 1993): 572.

the encouragement of the adoption of democracy and a market economy in Central Europe and the rest of the former Soviet Bloc promotes international prosperity and political stability in the long run. Encouraging and facilitating political transformation in the region thus becomes a security objective.

In addition, the concentration on the private sector in the American assistance focus also helps to encourage the creation of a separate set of power groups from those of the state. The creation of such a civil society allows for the type of social infrastructure necessary for a civil democratic model like the American one.⁹⁷ Moreover, the promotion of linkages between American and Central European business helps to ensure a commonality of interests regarding Central European policy. An economic or political action by the governments of Central Europe which may threaten American/Central European relations, for example, is guarded against when Central European business interests are closely linked to those of the United States.

It is not so much the Central European region itself, however, with which American assistance objectives are most concerned. Rather, it is the influence which a successful economic and political transformation in Central Europe will have on the rest of the former Soviet Bloc, particularly in Russia and Ukraine. Assistance in Central Europe is perhaps most important to the U.S. in that it provides a model for successful transformation from communism to capitalism and democracy for the rest of Eastern Europe and the former Soviet Union (FSU).

...the fate of Central and Eastern Europe has in a sense become more

⁹⁷ Ibid., 571, 574.

critical to the United States, as the successful transformation of these countries will provide the best model to reformers further east that democracy and economic prosperity can be built on the ashes of failed communist systems.⁹⁸

The creation of democratic market societies in Central Europe itself also contributes to a further buffering of the West against any destabilization which might occur in the East. Assistance to the economies of Central Europe which encourages market and political transformation can therefore be seen as part of the US plan to "stabilize and contain" all of the former Soviet Bloc.

The focus of US assistance projects themselves illustrates the movement of security away from purely militaristic factors over to the economic sector. Where economic prosperity will help to deter emigration from the region and provide hope for a better standard of living in the countries of Central Europe and beyond, American national security now depends more strongly on economic successes in these countries.

Despite this, however, the ideological and security precepts -largely formulated under the United States' Cold War perspective - behind American justification for aid to Central Europe in the years following the transformations of 1989 are becoming less convincing. Significantly, the overall American commitment to assistance to the countries of the former Warsaw Pact has also begun to decline.⁹⁹ The need to justify

⁹⁸ US Agency for International Development (USAID), *SEED ACT Implementation Report, Fiscal Year 1992*. (Washington D.C. GPO, January 1993): 3.

⁹⁹ See, for example: Stephan Haggard and Andrew Moravcsik. "The Political Economy of Financial Assistance to Eastern Europe, 1989-1991", in *After the Cold War: International Institutions and State Strategies in Europe* ed. Robert O. Keohane, Joseph S. Nye, Stanley Hoffman. (Cambridge Mass.: Harvard University Press, 1994): 246-285.

continuing commitment to the area outside of the Cold War structure has led to a reassessment of American national interest priorities in the international system. While these ideological and security interests are to some extent still oriented towards maintaining regional stability, the priority of interest has shifted towards the economic arena in response to the interdependent nature of the global environment.

III.6. Economic Interests

American assistance to Central Europe reflects the growing emphasis on the national economic interests of the donor. Where previously the state used Cold War security in order to justify much of its aid spending, economic interests are now often highlighted as a means to sell aid budgets to Congress and the rest of the nation. In the request for funding for fiscal year 1993, for example, "promoting market economies and strengthening U.S. competitiveness" was strongly emphasised as one of the five challenges for U.S. foreign policy.¹⁰⁰ The major overriding economic objectives of US foreign aid in Central Europe are: 1) to provide "leverage to bring in U.S. private-sector capital, goods, services and expertise"¹⁰¹; 2) to create new opportunities for American investment; 3) to create new points of entry into the European Union market, and in the longer term, into Eastern Europe and the former Soviet Union (FSU); and 4) to create economic gains for American contractors within

¹⁰⁰ US Department of State, Bureau of Public Affairs. "FY 1993 International Affairs Budget", *U.S. Department of State Dispatch Supplement* supplement no. 1 (February 1992): 1.

¹⁰¹ US Agency for International Development (USAID), *SEED ACT Implementation Report, Fiscal Year 1992*. (Washington D.C. GPO, January 1993): 5.

the framework of international agreements such as the GATT and NAFTA.

Central Europe, as a region of emerging economies, represents tremendous potential growth and new markets for American business. Markets for consumer goods, for example, after an enforced suppression of demand under the old Communist system, are expanding rapidly. The potential for US economic gain through the promotion of the export of American goods and services to Central Europe is strong. One of the primary economic objectives of the United States government's aid program in Central Europe is, therefore, to provide opportunities for export markets and employment for American services in the region. This has been approached in several different ways.

Firstly, contracts for American aid projects are primarily awarded to American companies. As will be discussed in Chapters Four and Five, contracts for assistance projects in Central Europe have been tendered almost exclusively in Washington, thereby ensuring employment to US consultancy companies and other American-based organizations. Secondly, loans and investments through such programs as the Enterprise Funds have tended to favour American joint venture involvement. Finally, technical assistance programs have been structured in such a way as to encourage the American model of market regulation and organization, thereby facilitating American business activity in Central Europe.¹⁰²

By influencing the structure of the Central European market and favouring American joint venture activity in the region, another US economic interest is

¹⁰² This will be discussed as well in Chapters Four and Five.

addressed. In the competitive environment of the international system, the necessity to get in on the "ground floor" for western businesses vying for market shares in the newly accessible economies of the former Warsaw Pact countries is strong.¹⁰³ Due to the link between American international business success and the welfare of the US economy as a whole, promoting and facilitating American investment in Central Europe has become an important objective behind US foreign aid to the area.

By promoting American business investment in Central Europe, the American government is also helping its private sector to gain access to other, more important markets. As the European Union becomes increasingly integrated, business interests see the Central European countries as a "back door" into Western Europe.¹⁰⁴ By establishing themselves in Central Europe, American firms are able to take advantage of existing association agreements between Central Europe and the EU. Moreover, the move toward eventual membership in the EU will ensure that American business will be established within that market in the future.¹⁰⁵

To a lesser extent, investment in Central Europe also provides American business with access to markets in the rest of the former Warsaw Pact countries. As the front-runners to economic transformation, investments in the countries of Central Europe provide "a platform for expansion into the other former socialist states and a

¹⁰³ See: Carolyn Conner, "Foreign Direct Investment & Privatization in Hungary; The Strategies of Multinational Enterprises in the Early Years of Transition (1989-1992)" (Masters of Arts thesis, Carleton University, 1993).

¹⁰⁴ Ibid., 122.

¹⁰⁵ Ibid., 123.

place to gain initial experience in a less risky environment."¹⁰⁶ Ensuring the global competitiveness of the American private sector throughout Europe furthers US interests within the international system as a whole.

Within the behavioral confines of the international system, economic aid to Central Europe serves yet another purpose. The growing use of American private sector contracting for assistance projects in Central Europe serves as a form of subsidizing national firms without overstepping the parameters constructed by the international system. As a result of international negotiations under the GATT framework, many other means of subsidizing and promoting national business have been blocked. The contracting of American firms with aid funds circumvents these restrictions and allows the United States government to use these monies for the benefit of the US private sector in the international system.

US government participation in the transformation of the Central European economies through aid programs directed to the private sector serves to create linkages, helps to build infrastructure which is complimentary to American investor interest, and expands the market for American goods and services. Overall, the resulting growth in demand for American goods and services helps to alleviate the pressures of a rising domestic unemployment rate and increases the competitive advantage of American business internationally.

¹⁰⁶ Ibid., 149.

III.7. Conclusion

Within the framework of the current international system, the United States has determined specific objectives in extending assistance to Central Europe.

Ideologically, promoting the economic and political transformations underway within the former Warsaw Pact countries is believed to help to justify and support American values and ideals. Moreover, in the view of the United States government, by instilling American-style philosophies and popular culture into the Central European private sector as well as the rest of these societies, the United States is able to purchase intangible power influence in the region.

In the area of security, the use of economic aid is perceived as providing a bulwark against economic and political instability in the whole of Europe. In addition, it is hoped that the promotion of American-Central European business linkages will create common concerns over potentially anti-American action by Central European governments.

Economically, assistance to the Central European private sector via the American one is viewed as helping to increase the demand for US goods and services, and to promote American investment. This in turn is seen as serving to foster US competitiveness throughout Western Europe, Central Europe and the rest of the former Warsaw Pact countries.

The overall priority of American objectives is changing. With changing definitions of power and the growing importance of economic factors to state welfare, the need to gain economic advantage within the competitive global market has steadily

increased. With this in mind, economic aid to promote private sector development in Central Europe has, in the perception of American decision-makers, become one of the most effective methods of addressing all three areas of American foreign policy interest.

CHAPTER IV

THE STRUCTURE OF AMERICAN ASSISTANCE IN CENTRAL EUROPE

Within the structure of American assistance to Central Europe, the impact of initial US objectives towards the region is evident. As the first set of countries to undertake economic and political transformation, the actions of Hungary, Poland, and soon after, (former) Czechoslovakia, were viewed according to the American Cold War system perspective. In the initial stages of the assistance effort, therefore, this world system perspective, along with an American ideology born of the Cold War, had a significant impact on the structure and focus of aid to the region.

IV.1. The SEED Act of 1989 and the Initial Framework for Aid The SEED (Support of Eastern European Democracy) Act of 1989 which allows for the funding of all American aid projects in Central and Eastern Europe, reflects this influence. Since aid to Hungary, Poland and the former Czechoslovakia was seen as a means to draw these countries away from the influence of the Soviet Union, assistance to the three became inherently linked to political objectives.¹⁰⁷ Consequently, the responsibilities of SEED disbursement to Central, and later Eastern Europe, through

¹⁰⁷ See, for example: U.S. President George Bush. "Encouraging Political and Economic Reform in Poland". Address before the citizens of Hamtramck, Hamtramck, Michigan. (17 April 1989) *Current Policy*, no. 1166: 1-3; and, Under Secretary of State for Economic Affairs, Richard T. McCormack. "Challenges to the International Economy in the 1990s", remarks before the Conference on U.S. Perspectives, Washington, D.C. (30 October 1989) *Current Policy*, no. 1223: 1-4.

USAID was structured so as to be shared closely with the State Department.¹⁰⁸

The sharing of responsibilities between the State Department and USAID in American aid funding to the former Warsaw Pact nations is a unique phenomenon in American assistance programming. Through this measure, American aid to Central Europe reflects the political and ideological importance of the region, particularly in the early stages of the American assistance effort.

In the first stage of US assistance activity, the United States government set up a mechanism known as the Coordinator for SEED Assistance within the State Department. This mechanism, called for within the SEED Act itself, exists in order to oversee all aid activity in the region.¹⁰⁹ Initially under the strong direction of U.S. Deputy Secretary of State Lawrence L. Eagleburger, AID officials and other agencies involved in the disbursement of SEED funds were required to seek authorization for all project proposals from this coordinating body.¹¹⁰ This situation of shared responsibilities with the State Department is something USAID workers were not accustomed to. As one USAID official complained: "...it was Mr. Eagleburger who

¹⁰⁸ This viewpoint regarding the political importance of aid to Central Europe is not specifically restricted to the U.S. The British, for example, have kept much of their Know-How-Fund disbursement decisions with the diplomatic section of their government. The Canadians as well, are only now moving their assistance structure out of the Foreign Affairs department and into the Canadian International Development Agency (CIDA). See: Charles Lonsdale, Second Secretary (Know-How-Fund), interview by author, 22 March 1993. British Embassy, Budapest, Hungary; and, Káti Csába, Hungary Desk, Bureau for Central and Eastern Europe, interview by author, 9 March 1995, telephone interview. Department of Foreign Affairs, Ottawa.

¹⁰⁹ Brian Wickland, Hungary Desk, Bureau for Europe (EUR/RME/ECA), interview by author, 18 January 1994, tape recording, U.S. Agency for International Development, Department of State, Washington D.C.

¹¹⁰ While the structure of the American "Aid Triangle" continues to follow these lines, since the retirement of Mr. Eagleburger from the State Department Coordinating unit, there has tended to be a relaxing of authority within the government hierarchy. As Brian Wickland of the USAID Hungary Desk put it: "...there's much of a, almost dialogue process."

very much cracked the whip over AID and said we're not going to do this, this and that..."¹¹¹

Under this cooperative structure, the State Department has not only dictated the targeting of funds, but during the first years of assistance programming, has changed the customary structure of disbursement from the individual country programming model to that of a regional model. Programs directed towards Central Europe have been designed to address the entire region, rather than the special problems of each recipient country.¹¹²

IV.2. The Regional Model for Aid to Central Europe

The regional model differs from that of the traditional USAID country programming model in several important ways. Firstly, it allocates funds on the basis of projects and policy priorities rather than on a country basis. This creates a situation where recipient countries are asked to "buy into" any specific project, thus allowing the United States to exercise a strong element of political and economic conditionality within its aid funding.

By buying into a project, the recipient country has fewer choices in the design

¹¹¹ Brian Wickland, Hungary Desk, Bureau for Europe (EUR/RME/ECA), interview by author, 18 January 1994, tape recording, U.S. Agency for International Development, Department of State, Washington D.C.

¹¹² This method, however, is currently under revision within the USAID. With the potential for the countries of Central Europe to revert back to former economic and political models dwindling rapidly, American government priorities are moving away from Cold War security and ideological objectives. The country-by-country model has reemerged in discussions over the aid to Central and Eastern European framework. See, for example, Secretary Warren Christopher, "Foreign Assistance Priorities After the Cold War" Statement before the House Foreign Affairs Committee, Washington, D.C. 18 May 1993, *US Department of State Dispatch* 4, no. 22 (31 May 1993): 393-395.

of any one project and is faced with accepting the existing structures of each program. As a result, much of the recipient country's ability to negotiate the terms of agreements with American donors is restricted. As Brian Wickland, the Project Officer for USAID in Hungary clearly states: "Sure you can buy into [the project], but then if you say no, what assurances do you have that somebody else is going to knock at your door next week...?"¹¹³ By using an "opt-in" method of aid programming, the United States is able to increase its influence over the character of economic and political transformations taking place in Central Europe.

In addition to the loss of Central European government input into aid programs in the region, many of the American projects bypass recipient government structures. By directing a large portion of assistance towards the private sector, government-to-government agreements are avoided. This particular approach not only discourages Central European government input into the assistance efforts but helps to encourage the creation of civil society and weakens the recipient government's traditional channels of control. In the words of David N. Merrill, the Deputy Assistant Administrator for the Bureau for Europe in USAID, "We wanted to avoid strengthening the dead hand of the past -- central government planning."¹¹⁴ Or, more precisely, as Ambassador Robert Barry, Special Advisor for East European Assistance to the Deputy Secretary of State put it: "We do not have government-to-

¹¹³ Brian Wickland, Hungary Desk, Bureau for Europe (EUR/RME/ECA), interview by author, 18 January 1994, tape recording, U.S. Agency for International Development, Department of State, Washington D.C.

¹¹⁴ Statement before the Subcommittee on Europe and the Middle East, *U.S. Assistance to Central and Eastern Europe*, 102nd Cong., 2nd sess., 3 June 1992, 20-35.

government agreements. Our task is to promote growth of the private sector rather than to encourage the growth of new bureaucracies."¹¹⁵ This approach is in keeping with American ideology, its model of the market and civil democracy, as well as the growing international adoption of liberal economic ideas.

Secondly, as a result of the lack of individual monetary entitlement specifications for each of the countries within the regional assistance structure, project allocation is based on the recipient countries' willingness to move towards reform. The "flexible" nature of SEED Act funds allows the US government to reward countries of Central and Eastern Europe quickly and without the need to set up new structures in order to do so.¹¹⁶

This approach allowed the U.S. to shift resources to the Czech Republic to support its privatization program, for example, once that program was launched. With the sudden spread of reform in 1991, it also enabled the U.S. to reward reformers in Bulgaria, the Baltics and Albania, without having to wait until the following year's appropriations.¹¹⁷

The program's "flexible" method of allocation enables the United States government not only to reward reforming initiatives in the countries of the region, but also to reallocate resources away from a country which "back-pedals or stalls on reform".¹¹⁸

¹¹⁵ As quoted by Janine R. Wadel, Statement before the Subcommittee on Europe and the Middle East, *United States Assistance to Central and Eastern Europe*, 102nd Cong., 2nd sess., 7 April 1992, 20-34.

¹¹⁶ Brian Wickland, Hungary Desk, Bureau for Europe (EUR/RME/ECA), interview by author, 18 January 1994, tape recording, U.S. Agency for International Development, Department of State, Washington D.C.; and, *SEED ACT Implementation Report, Fiscal Year 1992*. (Washington D.C. GPO, January 1993).

¹¹⁷ US Agency for International Development, *SEED ACT Implementation Report, Fiscal Year 1992*. Washington D.C. GPO, January 1993: 6-7

¹¹⁸ *Ibid.*, 6.

When the pace of Polish privatization slowed in the early 1990s and accelerated in Czechoslovakia, for example, American resources were redirected accordingly.¹¹⁹

Through mechanisms within the SEED Act and the regional framework, the American government therefore incorporates a strong degree of political conditionality into its initiatives in Central Europe. American aid acts to encourage the acceptance of the American free market ideal by the recipient countries. Moreover, the regional model itself encourages competition between recipient countries for assistance funding. The ability of each of these countries to influence the nature of US aid projects as a result of this competition for funding is thus further eroded.¹²⁰

Thirdly, unlike the country programming model, the regional model ensures that decisions involving the initiation, design and contracting of programs largely occur in Washington rather than in the field. According to American officials, the strong emphasis on activity at Washington headquarters was introduced with the rationale that the countries of Central and Eastern Europe faced similar problems regarding the economic and political transition away from communism. By centring the administration of projects in Washington, it was reasoned, the amount of paperwork in the field, and in general would be reduced. The implementation of these projects would therefore be made simpler and more cost effective.¹²¹ This new means of

¹¹⁹ Robert L. Barry. Statement before the Subcommittee on Europe and the Middle East. *U.S. Assistance to Central and Eastern Europe*, 102nd Cong., 2nd sess., 3 June 1992, 1-19.

¹²⁰ Janine R. Wedel Statement before the Subcommittee on Europe and the Middle East, *United States Assistance to Central and Eastern Europe*, 102nd Cong., 2nd sess., 7 April 1992, 20-34.

¹²¹ US Agency for International Development, *SEED ACT Implementation Report, Fiscal Year 1992*. Washington D.C. GPO, January 1993: 6.

organizing aid is, in fact, in keeping with pressures from the international system to decrease government spending by decreasing the size of the American aid bureaucracy within the government. Moreover, it allows the Americans to maintain tight control of projects underway in Central Europe.

In line with this, in-house technical officers are now seldom used throughout the USAID structure. Some technical officials who remain within the American aid agency, former engineers for example, have taken on administrative and management positions. Technical assistance within US-funded aid projects is now implemented almost exclusively through contracting out.¹²²

IV.3. The Private Sector Role

With the rationale that projects initiated in Washington are brought "on line" faster than the average aid project elsewhere in the world, the American private sector has also been more easily accessed in the assistance effort. Contracts and grants for assistance projects to the Central European region have been more easily awarded to American firms, NGOs and universities than they would have been had the country-by-country model been implemented. The majority of firms and independent technical contractors benefiting directly through American assistance funds have been citizens of the donor country, rather than those of Central Europe.

Significantly, many of the American firms, NGOs and universities which have

¹²² Brian Wickland, Hungary Desk, Bureau for Europe (EUR/RME/ECA), interview by author, 18 January 1994, tape recording. U.S. Agency for International Development, Department of State, Washington, D.C.

won these contracts are primarily English-speaking. As a result, most have been required to employ interpreters for the projects in Central Europe, bringing into question ability of project decision-makers to grasp the various cultural and linguistic factors within each of these very different countries. As well, the ability to communicate information through these translators is marred. "The translator frequently is not someone who is in the field, so you get an increasing haemorrhage of information which flows away."¹²³

The impact which the regional structure of American aid has had on both USAID field workers and the Central Europeans in terms of their ability to influence decisions is significant. While most American government aid projects in other areas of the world suffer from a certain level of top-down decision-making, the structure of assistance to Central Europe remains highly hierarchical, thereby severely restricting the level of communication from AID officers working outside of Washington and from members of the recipient countries.¹²⁴

IV.4. Problems of Communication

On the donor side of the equation, USAID field officials have been faced with several problems regarding communication within their own camp. Firstly, because of the fact that USAID officials did not move into the region until several months after

¹²³ Jack Wilson, President, The Scientex Corporation, Scientex International, interview by author, 14 January 1994, tape recording. Washington, D.C.

¹²⁴ Brian Wickland, Hungary Desk, Bureau for Europe (EUR/RME/ECA), interview by author, 18 January 1994, tape recording. U.S. Agency for International Development, Department of State. Washington, D.C.

the SEED program was initiated, embassy officials, such as the Science Attachés, and the Economics offices had already taken on responsibility for projects regarding such areas as the environment and the treasury. AID officials were not welcomed when they arrived and, while an agreement between American embassy officials in Central Europe and USAID to share responsibilities was reached, there remains a problem of reporting the details of Embassy-led projects to AID in Washington.¹²⁵ While bureaucratic infighting such as this is common, the propensity for internal difficulties have increased as a result of the inherent level of politicization which has existed within American assistance to Central Europe and which is, in itself, a result of the initial Cold War ideology in place during the construction of an aid framework for Central Europe.

Regarding AID field offices in Central Europe to Washington communication, other problems have arisen as well. Over the first four years of American assistance activity in Central Europe, there have been several cases where American field officials have been unaware of the existence of projects funded with SEED moneys for the countries under their responsibility. This is particularly so with contracts for programs like the Small Business Advisory Centres because of the fact that these projects were initiated and controlled outside of USAID jurisdiction.¹²⁶

In many cases, aid workers and Embassy officials have been informed of existing projects by the contractors only when the consultants have arrived at the field

¹²⁵ Ibid.

¹²⁶ This will be discussed in the proceeding chapter under the case study dealing with Scientex International and Public Access Inc. activity in setting up small business advisory centres in Poland and Hungary respectively

office and introduced themselves.¹²⁷ Although USAID has been given the responsibility of overseeing SEED funds, projects have been given over to other federal agencies. These agencies have in turn hired private sector firms and individuals to complete the assistance projects. The problem of communication inherent within the Washington-based model in use in Central Europe has therefore been exacerbated by the increased use of private sector firms and American NGOs who report to bodies outside traditional AID channels. The result has been a lack of a clear management responsibility and cohesion among the various contractors.

To their credit, American Ambassadors in the region have attempted to bring together the various individuals involved in the US aid effort. In Hungary, for example, the American Ambassador chairs a monthly meeting of contractors, grantees and all other individuals involved in aid to the country. These meetings are, however, non-compulsory, "very short in duration, [and] nobody really gets a chance to say very much".¹²⁸

Having said this, coordination within AID has also suffered, to some extent, due to the inherent problem of accelerating the design and delivery of projects in Central Europe. The regional model was originally initiated in order to deal with the necessity for speed in extending aid to Central Europe. The departure from the customary communication structure of the AID bureaucracy, initiated due to the

¹²⁷ David Finch, business journalist, *Budapest Week*, author of the *Business Handbook to Hungary*, interview by author, 14 May 1993, Budapest, Hungary; and, Janine R. Wedel, Statement before the Subcommittee on Europe and the Middle East, *United States Assistance to Central and Eastern Europe*, 102nd Cong., 2nd sess., 7 April 1992, 20-34.

¹²⁸ *Ib*

particular circumstances of Central European transition, has hampered communication and coordination efforts within the American aid structure.

IV.5. Level of Recipient Country Input

On the recipient side, the Washington-based regional model, where projects are conceived and designed within the donor country, lends very little opportunity for input from the host countries. While US officials do hold meetings with the governments of the recipient countries regarding their assistance efforts and the priorities set out by these Central European governments, the recipient nations remain unable to seriously affect the content, scope and direction of aid funds. As one Hungarian official explained, the American government informs the recipients of aid projects in their country after these projects have been initiated.¹²⁹ Polish officials have expressed the same problem, likening their inability to participate in the aid projects to one of "a surgeon who comes [in] and doesn't talk to the patient, and goes away without asking or checking the patient to see if the operation was successful."¹³⁰

The flexible nature of the regional program has also created difficulties for Central European officials who complain that American priorities are constantly shifting. Planning and monitoring of American assistance by these recipient country

¹²⁹ Gábor Iván, Deputy Director General, Head of the Assistance Coordination Secretariat, interview by author, 20 October 1993. Ottawa.

¹³⁰ Marek Krawczuk, Polish Ministry of Industry, as quoted by Janine R. Wedel, Statement before the Subcommittee on Europe and the Middle East, *United States Assistance to Central and Eastern Europe*, 102nd Cong., 2nd sess., 7 April 1992. 20-34.

officials has been difficult. This is particularly so since recipient countries have not been granted reliable information on USAID spending for particular projects.¹³¹

IV.6. The Hungarian SEED Foundation

An early example of the problem of a lack of communication between donor and recipient governments occurred with the creation of the Hungarian SEED Foundation (Foundation for Small Enterprise Economic Development) in early 1990. Set up with funding from several Hungarian government ministries including the Ministry of Finance and the Ministry of Industry and Trade, some Hungarian banks as well as the Budapest University of Economics, the Foundation was initially created in order to distribute and administer SEED Act funds directed to the SME sector.¹³² Despite its original intent, the SEED Foundation never received the expected American funding. SEED Act monies were allocated instead to American-led organizations. The Foundation must now justify its existence through small-scale contracting with American-run organizations such as the Hungarian-American Enterprise Fund (HAEF) and the Centre for Private Enterprise Development (CPED).¹³³

¹³¹ Janine R. Wedel, statement before the Subcommittee on Europe and the Middle East, *United States Assistance to Central and Eastern Europe*, 102nd Cong., 2nd sess., 7 April 1992, 20-34.

¹³² Dr. Zsuzsa Lacko, Foundation for Small Enterprise Economic Development, interview by author, 5 May 1993, telephone interview. Budapest, Hungary.

¹³³ Ibid.

IV.7. American Approaches to Aid in Central Europe

When this program started in 1989, there was a different administration, it was an administration with a very, very strong ideology. The ideology very much saw private enterprise and the restructuring of the entire communist demand-driven economy into a private enterprise system... This very much influenced the main thrusts of our aid program.¹³⁴

The American approach to aid in Central Europe is one which strongly supports the use of economic methods to achieve foreign policy objectives. As was outlined in the previous chapters, the interdependent nature between security and economic issues makes this approach a realistic and practical one within today's international system. With the rationale that economic development and stability is imperative to ensuring both American security and ideological interests, the United States has focused much of its assistance effort on private sector development and the strengthening of Central European economies as a whole.

Within the activities of the American government in Central Europe, projects are categorized according to three broad areas: Economic Restructuring, Quality of Life, and Democratic Initiatives. All three of these categories encompass the general belief that a stable democratic nation is created through economic prosperity, strong civil democratic principles and a certain minimal standard of living.

IV.8. Categories of American Aid Initiatives

Within the category of Quality of Life, projects dealing with issues of health,

¹³⁴ Brian Wickland, Hungary Desk, Bureau for Europe (EUR/RME/ECA), interview by the author, 18 January 1994, tape recording. U.S. Agency for International Development, Department of State, Washington D.C.

the environment and housing in each of the Central European countries have been initiated. In total, approximately US\$ 92 million, or 12.1 percent of SEED funds, had been committed to these initiatives by 1992. In the area of Democratic Initiatives, approximately US\$ 25 million, or 3.3 percent of SEED funds, had been committed by 1992 to such projects dealing with the promotion of independent media, and support for local government and public administration.¹³⁵

With only 3.3 percent and 12.1 percent of American aid going to Democratic Initiatives and Quality of Life enhancement respectively by the end of 1992, the bulk of American aid to Central Europe has, in fact, been aimed directly at the economy. By 1992, as much as US\$ 645 million, or 84.4 percent of all American funds committed to Poland, Hungary and the former Czechoslovakia had gone towards economic restructuring.¹³⁶

To some extent, due to the interdependent nature of the international system, the importance of the economic sector to achieving American foreign policy objectives overall, be they security, ideologically or economically oriented, is evident. The American approach to economic restructuring, however, indicates the growing importance of achieving specifically economic interests in the international system and more specifically, in Central Europe.

¹³⁵ US Agency for International Development, *SEED Act Implementation Report, Fiscal Year 1992*. (Washington, D.C.: GPO, January 1993). See also: Appendices 1,2,3 and 4.

¹³⁶ *Ibid.*

IV.9. Economic Restructuring

Within the category of economic restructuring, the American government has included 1) investment and trade, comprising US\$ 238 million, or 36.8 percent of total obligations for economic restructuring; 2) macro-economic support (US\$ 224 million, or 34.7 percent), particularly to Poland (US\$ 199 million); and, 3) privatization and assistance to enterprises (US\$ 47 million).¹³⁷ In the area of investment and trade, the United States has concentrated its efforts on promoting American interests through the use of the Enterprise Funds. As will be discussed in the proceeding chapter, Funds have been established in each of the four countries of Central Europe with the objective of supporting the private sector of both the recipient and the donor. Under the category of macro-economic support, as with the allocation to Enterprise Fund support, Poland has received the largest level of funding. The Polish Stabilization Fund received almost 89 percent of all assistance under this category.¹³⁸

The reasons behind the favouring of Poland over that of the other Central European nations is easily understood when one considers the fact that, of all Central European ethnic communities living in the United States, the Polish community is the largest. Combined with Poland's early move toward reform in 1988 and 1989, the domestic political and general economic interests of the United States in directing its funding towards Poland are evident. Polish-Americans form a strong voting group,

¹³⁷ See Appendices 1,2,3 and 4.

¹³⁸ By 1992, Poland was obligated a total of US\$ 525.7 million in overall assistance funding, receiving 68.8% of all American aid to Central Europe. In the area of economic restructuring, Poland received 72% of all US aid to this sector in Eastern Europe, being obligated US\$ 466 million. See Appendix 2; and, the US Agency for International Development, *SEED Act Implementation Report, Fiscal Year 1992*, January 1993

and, perhaps more importantly, are most able to take advantage of American aid initiatives in Poland.¹³⁹ Significantly, the Polish-American Enterprise Fund received 71.8 percent of the total allocated amount to the three Central European Enterprise Funds, thereby allowing the largest group of potential Central European expatriate business people to exploit the advantages given them by these funds.¹⁴⁰

With the notable exception of macro-economic support, the main target of disbursements within the category of economic restructuring has been the private sector, particularly what has been categorized as the small and medium-sized enterprise (SME) sector. USAID programs in Central Europe are carried out, with few exceptions, by private sector Americans and are based on the American tenets discussed earlier regarding the free market, minimal government agency intervention and the superior efficiency of the private sector. On more specific projects, technical transfers of managerial and organizational know-how to recipient governments in the form of advisors to such agencies as the Hungarian State Privatization Agency (SPA), for example, have been done through American private sector contracting. In the Hungarian SPA case, a triumvirate of three of America's largest consulting firms, Deloitte & Touche, Coopers & Lybrand and KPMG-Peat Marwick, all employing American advisors, have been contracted by the United States government to provide expert advice to the recipient country institute.

¹³⁹ Brian Wickland, Hungary Desk, Bureau for Europe (EUR/RME/ECA), interview by author, 18 January 1994, tape recording, U.S. Agency for International Development, Department of State, Washington D.C.

¹⁴⁰ As will be discussed in Chapter Five under the case study examining the significance of the Enterprise Funds to American interests and priorities.

With contracting for American assistance initiatives directed toward US firms, both in the area of programming and providing technical advice, the United States is helping to promote its own companies in an increasingly competitive international market, to offset American unemployment either directly or indirectly through increasing demand of American goods and services, and to help create linkages between American and Central European businesses. All of these factors contribute directly to economic interests and the creation of intangible power, as well as indirectly to the security of the United States in the international system.

The following chapter outlines several initiatives under the context of economic restructuring undertaken through SEED funding in Central Europe. Each has been directed, to a greater or lesser extent, by American private sector individuals or firms, and each has served to contribute to American interests regarding the international system as a whole and more specifically, Central Europe.

CHAPTER V

AMERICAN INITIATIVES WITHIN THE CATEGORY OF ECONOMIC RESTRUCTURING: CASE STUDIES

V.1. Introduction

American aid to Central Europe began with the idea that these countries were in need of assistance in order to help transform their economies and to integrate them into the global economic system. The countries of Central Europe, and of the rest of the former Warsaw Pact, were moving from a situation of economic misdevelopment rather than one of underdevelopment, as is the case in the Third World. The necessary approach to assistance to these countries in the eyes of the United States government, therefore, was one which would help to: 1) transform the existing economies away from the central planning model towards a market-based structure; 2) increase the Central European countries' ability to attract international investment; and 3) improve their overall economic health in the process. At the same time, international system pressures have made it imperative that the United States seek to maximize its efforts on behalf of its own interests.

The American approach to aid in Central Europe in the area of economic restructuring reflects these factors. The following three case studies provide a sample of the ways in which the United States has approached assistance to Central Europe with each of the objectives listed above in mind.

V.2. The Enterprise Funds.

One of the most significant aspects of the SEED Act initiative which illustrates the move toward the use of the private sector in American assistance in Central Europe, is that of the Enterprise Funds. This is so both in the use of private sector donor expertise, and in the focus of assistance within the recipient countries.

The Enterprise Funds were established as private Delaware corporations which receive government funds through USAID but hold no accountability to that agency. Essentially acting as endowment funds, each Enterprise Fund is a non-profit organization which distributes aid directly to the recipient countries' economies. The official objectives of the Funds are: "to promote development and policies and practices conducive to the development of the private sectors, including small and medium-sized business and joint ventures with U.S. and host country participants."¹⁴¹

The main portion of Enterprise Fund activity centres on the investment of its funds in medium-sized and large firms. In the Hungarian/American Enterprise Fund (HAEF), for example, investments range from US\$ 500 000 to US\$ 3 000 000 with an average investment of US\$ 1 960 000. Anything under US\$ 500 000 is considered not cost-effective, while anything over US\$ 3 000 000 does not allow for a large enough spread of risk within the Fund's portfolio. While the Funds are expected to acquire some level of return on their investments, profits are meant to be reinvested into the

¹⁴¹ Internal memo, U.S. State Department, "Request for Proposals to Manage the Operation and Investments of the Polish American Enterprise Fund and/or the Hungarian American Enterprise Fund", December 1989.

organization, thereby ensuring a level of sustainability.¹⁴²

In late 1989, on his trip to Central Europe prior to the G-7 Summit in Paris, President George Bush announced the establishment of Enterprise Funds in Poland and Hungary.¹⁴³ Set up to facilitate investment in the countries of Central Europe, the Enterprise Funds have received the largest amount of SEED Funds and are the first such set of programs in American assistance history. By 1990, US\$ 240 million in American government funds were allocated to the Polish-American Enterprise Fund and US\$ 60 million to the Hungarian-American Enterprise Fund. By the end of September 1992, Enterprise Funds had been established in all of the countries of Central Europe and a total of US\$ 360 million had been allocated to these projects. The Funds, in fact made up 34.3 percent of all aid obligations to Central Europe as of the end of September 1992.¹⁴⁴

Originally, the Enterprise Funds were created for Poland and Hungary with the intention that other countries which chose to pull away from the Soviet Bloc would become eligible for similar funding.¹⁴⁵ Thus illustrating the influence of the Cold War and the American balance of power world perspective on the intent and design of

¹⁴² Andrew Kosztyó, Senior Associate, Hungarian-American Enterprise Fund, interview by author, 1 March 1993, tape recording, Budapest, Hungary.

¹⁴³ See *The Weekly Compilation of Presidential Documents. Administration of George Bush, 1989*. "White House Fact Sheet on Proposed United States Assistance for Hungary and Poland", 12 July 1989. (Washington, D.C., GPO): 943-946.

¹⁴⁴ US Agency for International Development, *SEED ACT Implementation Report, Fiscal Year 1992*, (Washington D.C. GPO, January 1993).

¹⁴⁵ Internal memo, US State Department, "The Enterprise Funds", 19 December 1989.

America's largest single set of assistance efforts to the region.

V.2.i. Structure of the Enterprise Funds

Although the monies were, and continue to be, transferred to the Funds through the US Agency for International Development, the Agency has been given no authority over the disbursement of these funds. Essentially, USAID has no responsibility to oversee any of the Enterprise Funds. Decisions are made by individuals within each of the Funds who have been hired directly from the American private sector. As a result, inconsistencies in the way in which each of the Funds is managed have occurred.

In the Hungarian example, several problems have resulted from the lack of accountability of the Hungarian/American Enterprise Fund to agents of the United States government. In one case, the HAEF set up an investment bank with US\$ 4 million of the Fund's money. The EurAmerica Capital Corporation, as it was named, was run by employees of the HAEF who subsidized their income through the operation of the bank. Investments were made as far away as Tatarstan, despite the fact that the money used to set up EurAmerican was meant to be directed exclusively towards Hungarian ventures.¹⁴⁶

In another instance involving the HAEF, the head of the Hungarian State Holding Company, Mr. Pál Teleki, was paid most of his salary through the Fund.

¹⁴⁶ For a more complete discussion of the HAEF/EurAmerican scandal, see Henry Copeland's articles: "Uncle Sam's Helping Hand Pockets the Change". *Budapest Week* (17 April 1993): 14-15.; and "Mr. Greed". *The New Republic*. (12 April 1993): 14-16.

Calls of poor political judgement on the part of the Fund, as well as the questionable legality of funding an individual in charge of managing key Hungarian industries led to the resignation of Mr. Teleki in June of 1993.¹⁴⁷ In addition, a strongly-worded Congressional committee report criticizing the judgement of HAEF board members and their actions regarding both the EurAmerican and the Teleki affairs was released, saying that the "...committee has lost confidence in the leadership of the Hungarian/American Fund."¹⁴⁸ Congress suspended payments to the HAEF in the summer of 1993, and did not reinstate payment until the end of that year.¹⁴⁹

In the case of the Polish/American Enterprise Fund, the PAEF has also avoided the Congressional constraint on salaries by the invention of a for-profit companion fund to the PAEF. The Polish Private Equity Fund, a US\$ 150 million venture underwritten equally by the PAEF, the European Bank for Reconstruction and Development and a group of private investors, allows PAEF staff to supplement their income by "moonlighting" for the PPEF.¹⁵⁰ Despite these activities, however, the PAEF has been relatively successful in avoiding the level of scandal seemingly rife within the HAEF.

¹⁴⁷ For a more complete discussion of the Teleki scandal, see the article by David Fink and Jim Michaels, "Teleki Takes Fall for Political Deal Gone Sour". *The Budapest Sun* (24-30 June 1993): 1,2; see also, Jim Michaels' article: "State Holding Chief in Pay of U.S. Government; Critics Cite Foreign Influence". *The Budapest Sun* 1, issue 11. (20-26 May 1993): 6.

¹⁴⁸ As quoted in David Fink and Jim Michaels' article: "Teleki Takes Fall for Political Deal Gone Sour". *The Budapest Sun* (24-30 June 1993): 1.

¹⁴⁹ Brian Wickland, Hungary Desk, Bureau for Europe (EUR/RME/ECA), interview by author, 18 January 1994, tape recording, U.S. Agency for International Development, Department of State, Washington D.C.

¹⁵⁰ Henry Copeland, "Uncle Sam's Helping Hand Pockets the Change", *Budapest Week* (1-7 April 1993): 15.

The idea of giving government funds to a committee of individuals from the private sector, while placing minimal supervisory restraints on that committee, has become the American model for aid to Central Europe and the rest of the former Soviet Bloc. At no other time in the history of American aid efforts has the government granted such a large amount of money to the private sector, and remained so detached from the actual program as it has with the Enterprise Funds.¹⁵¹

This approach can be explained partially due to the special circumstances of Central Europe. Rather than dealing with the problems of Third World underdevelopment or post-War Western European redevelopment, the task at hand in the former Soviet Bloc is one of transforming a system which has been considered directly counter to that of the free market and Western civil democracy. The solution, therefore, is to address the area which is considered weakest, that of private ownership.

The means by which America has chosen to implement this solution, however, is significant. While some technical expertise has been extended to the governments of Central Europe, for example, in the US effort to assist in the privatization of SOEs within the region, the largest single allocation of American assistance funds has gone directly to the private sector, and primarily through the use of the Enterprise Funds.

Rather than placing the onus on recipient government cooperation to bring about institutional and infrastructural change, the American effort has focused

¹⁵¹ Brian Wickland, Hungary Desk, Bureau for Europe (EUR/RME/ECA), interview by author, 18 January 1994, tape recording. U.S. Agency for International Development, Department of State, Washington D.C.

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primarily on the role of business and private individuals as instruments of change. This phenomenon is consistent with the current international liberal-economic ideology that the private sector and the free market are the most efficient means by which to govern the economy. Moreover, it follows the international move away from government intervention and the political-economic pressures on individual states to shift the responsibility of aid away from government control.

In the American case, this type of transfer of responsibilities to the private sector is also consistent with the ideological tenets of individual economic freedom by which the United States identifies itself. The organization and structure of the Enterprise Funds reflect these American beliefs, and help to present its ideological model to both the international community and the domestic electorate and to justify its foreign policy actions on the basis of international political-economic factors, rather than on those which are strictly political and/or military.

V.2.ii. American Interests in the Creation of the Enterprise Funds

The focus of the Enterprise Funds on the private sector is believed to serve several American interests in the region. On an overall basis, the objective for the creation of the Enterprise Funds relates to the need to strengthen the economies of Central Europe. By using the Funds to facilitate investment in what might otherwise be conceived as a high-risk environment, the American government seeks to provide a more stable economic climate for Western, particularly American, investors. With economic stability, it is argued, will emerge economic growth. As discussed earlier,

the United States benefits from stability and growth in the economies of Central Europe in various ways. Ideologically, success in economic transformation supports the premise that the tenets of American free market ideology are legitimate; economically, stability and growth in one region of the world promotes stability and growth throughout the international economic community; and in the area of security, stability deters emigration and civil unrest while the means by which that stability was achieved serves as a message of hope for countries beginning the transformation to a market economy. Most importantly, by participating in the Central European transformations, the United States government is able to encourage its business sector to "get in on the ground floor". The U.S. government thereby ensures its firms a competitive position within Central Europe and beyond into Eastern Europe and the former Soviet Union as well as Western Europe.¹⁵²

With regard to intangible power influence, the Funds provide a direct link to the business sector élite of Central Europe. On an ideological and American economic security basis, the interaction between private sector individuals from the United States and the recipient countries not only creates linkages between these two groups but helps to promote the American market perspective over that of other Western donors.

The current transformation of civil society in Central Europe has increased the importance of both the private sector and of individual business people, as evidenced by the political prominence in Hungary of such individuals as Mr. János Palotás of the

¹⁵² See comments made to this effect by Mr. Leach and Mr. Niles at the Hearing Before the Subcommittee on Europe and the Middle East of the Committee on Foreign Affairs, *Developments in Europe*, 102nd Cong., 2nd sess., 29 September 1992.

Hungarian National Association of Entrepreneurs, and Mr. Peter Zwack of Zwack Unicum Distillery. The creation of strong ideological and personal ties between American business and that of Central Europe therefore serves as a means by which to exert some level of intangible power influence in the interest of American economic security. Common ideological perspectives and the existence of interdependence between business communities help to deter economic and political actions which might prove harmful to Central European business relationships with the United States.

The size of the majority of indigenous firms which are targeted illustrates the importance of accessing the more powerful business élites in Central Europe. Because of the parameters established as to cost effectiveness regarding the administration of the portfolio, as discussed earlier in this chapter, access to much of the money remains within the hands of larger firms. While the Enterprise Funds have attempted to address this discrepancy by creating micro-loan programs disbursed by recipient country banks, the lack of information on these programs, particularly outside of the major urban areas has meant that few outside of the existing business "élite" are aware of the availability of these loans.¹⁵³ In addition to this, as a result of the inability of many Central European loan officers to assess small business risk, loans tend to be restricted to a small group of business "insiders".¹⁵⁴

Moreover, despite the US government mandate to act as a catalyst to investments which would otherwise not receive funding, often the businesses which are

¹⁵³ David Finch, business journalist, *Budapest Week*, author of the *Business Handbook to Hungary*, interview by author, 14 May 1993. Budapest, Hungary.

¹⁵⁴ Ibid.

helped have been very successful on their own. Many of the firms within the HAEF portfolio, for example, Pick Szeged Rt., and the Central European Franchise Group Rt., have been very successfully listed on the Budapest Stock Exchange and would very likely have found private Western investors without HAEF endorsement quite easily.¹⁵⁵ This brings into question the sincerity of assisting the overall population of these countries as opposed to the small indigenous group of major economic actors.

Tied to the factor of creating ideological and personal relationships is the basic premise that encouraging interaction between economic actors of the United States and these countries is good business. By accessing the business communities of each of the countries of Central Europe through investing in indigenous firms and more importantly, joint venture deals with American companies, the Enterprise Funds ensure market access for American firms, the involvement of American business within the economies of the region, and the demand for American goods and services.

The number of joint venture deals in the Enterprise Fund portfolio, in fact, is a significant illustration of the self-interested objectives of American assistance efforts in Central Europe. Despite the fact that the Funds were ostensibly created to help to develop the economies of the region and are mandated to invest in firms which are primarily Central European-owned, there are a large number of American joint venture partners within the Fund portfolio. In the 1992 HAEF portfolio, for example, eleven of the twenty-eight firms approved for investment, or over 36 percent of total funds invested as of December 1992, were affiliated to American business either on a joint

¹⁵⁵ Ibid.

venture basis, or a franchising agreement.¹⁵⁶

V.2.iii. Technical Assistance Grants Awarded through the Enterprise Funds

While the Enterprise Funds have been set up to act primarily as a catalyst to encourage the involvement of domestic and foreign investors within the economies of Central Europe through investments in private Central European companies, other activities include awarding grants and technical assistance to the private sector. Projects funded through the HAEF technical assistance fund in 1991/92, for example, included the development of the Budapest Stock Exchange Visitors Centre, the provision of a grant to a firm which computerizes land title registry systems, and contributions to the MBA Enterprise Corps which places recent American MBA graduates into Hungarian companies for advisory assignments of up to two years.¹⁵⁷ Projects funded by the Polish/American Enterprise Fund through its Enterprise Assistance Corporation include grants to support the Polish/American Enterprise Clubs, and the Polish Business Roundtable.

All of these measures help to serve American interests in some way. In the instance of providing funds to the Hungarian land title registry system, American business benefits directly through the development of essential infrastructural improvements. Both Hungarian and foreign firms are now able to access information

¹⁵⁶ Hungarian-American Enterprise Fund, *Third Annual Report*. (30 September 1992)

¹⁵⁷ Hungarian-American Enterprise Fund. *Second Annual Report*. (30 September 1991); and, Andrew Kosztyo, Senior Associate, Hungarian-American Enterprise Fund, interview by author, 1 Mar. 1993, tape recording. Budapest, Hungary.

regarding underground cables and subway routes, mineral rights, bank claims on the property, taxes, and other important information which would otherwise be very expensive to research through the myriad of municipal offices in charge of this type of data.

With the assistance for a project such as this and often the necessary expertise coming from an American source, the project tends to be structured more closely to the US way of organizing this type of information. A more familiar form of organizing data facilitates the investments of American companies in the area.

In helping to fund the MBA Enterprise Corps, the HAEF has not only provided employment for recent American MBA graduates which might otherwise not be available in the economically depressed American market, but has enabled these individuals to gain valuable experience in their field. As well, HAEF support for this program has also helped to ensure the transfer of American market ideology to future business leaders in the recipient countries.

Technical programs funded by the Polish-American Enterprise Fund also reflect American interests. Funding to the Polish/American Enterprise Clubs, and the Polish Business Roundtable both ensure the creation of close linkages between Polish and American business. Enterprise Clubs have been established in ten major urban areas, thereby extending the reach of American investor influence outside of the capital city. Involvement in the Business Roundtable garners support for American investors among the more prominent individuals within the Polish business community.

V.2.iv. Conclusions

While the Enterprise Funds were created in order to address the need to encourage the development of a market economy in each of the Central European countries, they serve as well to illustrate the basic character of American perceptions and interests in the region. Consistent with the trend towards the down-sizing of the American government structure, the design of these Funds places strong emphasis on the private sector, both as the most effective means of delivering aid and as the most deserving recipient group. This design approach illustrates the increasing importance of the economic sector in world politics, and the expanding role of American business in post-Cold War US government aid projects.

In the area of foreign policy, despite the fact that the Funds remain outside of the government structure, their value as a means of forwarding American national interests remains important, particularly in light of the restrictions on state actions within the global community. The focus on both the donor nation's private sector and that of the recipient, allows the US government an indirect means of accessing power groups; creating economic stability to ensure American national security; and influencing the evolution of ideas and attitudes within Central European countries without overstepping the boundaries imposed by the interdependent nature of today's international system. All of these areas can be accessed most effectively through the economic sector. Many of these same observations can be made on the set of projects to be presented in the second case study, that of the Small Business Advisory Centres (SBACs).

V.3. The Small Business Advisory Centres (SBACs)

In November 1990, Congress established the Central European Small Business Enterprise Development Commission, and, in March 1991, authorised the initiation of projects funded through SEED monies which would lead to the establishment of individual networks of Small Business Advisory Centres (SBACs) in Poland, Hungary and the former Czechoslovakia. Each network was tendered for contract to non-governmental bodies. In Poland and Hungary, the contracts were awarded to private sector consultancy firms, while the University of North Carolina won the bid for the project in the Czech Republic. By the end of the first year, however, the University of North Carolina had been let go and the project in the Czech Republic has remained stalled since that time.¹⁵⁸ As a result, the following discussion will deal with the activities of Scientex which has established SBACs in Gdansk, Lodz and Warsaw and those of Public Access Inc. whose centres are located in Debrecen and Pécs.

V.3.i. Structure of the SBACs

The basic idea behind the creation of SBACs derives from several existing models of small business development centres throughout the United States. In the United States, SBACs are designed to help potential entrepreneurs and existing small business owners deal with the problems which arise at each level of enterprise

¹⁵⁸ The specific reasons underlying the dismissal of the University of Carolina group are unknown to the author. The information, however, regarding the failure of the Czech project was gained through an interview with the president of Scientex Corporation (14 January 1994) Jack Wilson when attempting to illustrate the greater efficiency of private sector actors in the area of assistance to that economic sector in East/Central Europe. Significantly, however, the training program for Polish and Hungarian employees of each of the SBACs was conducted by the University of Carolina and given strong praise by the Scientex President.

development. For the start-up entrepreneur, SBACs offer help with the creation of business plans as well as a wide range of information on such topics as basic marketing and market assessment, availability of small business financing, as well as government taxation, rules and regulations as they apply to the small business owner. For the more established entrepreneur, SBACs in the United States offer various seminars on such topics as exporting and business sourcing, as well as creating an opportunity for networking among their clients. While relying on various levels of government for assistance, these centres often achieve a level of self-sustainability by charging fees at a lower-than-market rate for their services.

The SBAC models for both Poland and Hungary mirror this general description. In addition, they offer information and seminars on topics which have been identified by the consultants as particularly relevant to small business in these two countries. These additional subjects include: How to privatize a small, formerly State-Owned-Enterprise (SOE); Supervised Control: Motivating Employees, and; Entrepreneurship: How to Start a Business.¹⁵⁹

Much of the justification for these projects has centred around the fact that the market culture within the United States fosters the entrepreneurial spirit, making the US the "world leader in small business".¹⁶⁰ As such, the Americans view themselves

¹⁵⁹ Scientex Corporation, *The Polish Small Business Advisory Centers: A Successful Model*. (January 1994). 11.

¹⁶⁰ Dr. Peter C.M.S. von Braun, statement before the Senate Committee on Small Business, United States Senate, *To Examine Small Business Trade Opportunities with the Soviet Union and Eastern Europe*, 101st Cong., 2nd sess., 23 March 1990, 112-114; see also: Secretary Baker, 1 February 1990, "US Foreign Policy Priorities and FY 1991 Budget Request", *US Department of State Dispatch*, (3 September 1990): 1-9, and, Scientex Corporation, Feasibility Study, September 1991: 7.

as the most appropriate country to take on the responsibility of teaching Poles and Hungarians how to replicate the American success.¹⁶¹

Funding for these projects is relatively small, particularly when compared to the level of assistance allocated to the Enterprise Funds. In its initial bid, Congress authorized US\$ 16 million for the entire three-year project, allocating US\$ 3 million for the 1992 fiscal year, US\$ 5 million for 1993, and US\$ 8 million for 1994. Due to a declining Congressional interest in the projects, however, the final sum has only reached a total amount of approximately US\$ 5 million over the three-year period. Because this program was not structured to exceed a three-year time period, additional SEED funding for these projects is not expected after 1994.

As a result of this, both Scientex and Public Access Inc. have made an effort to integrate various Polish and Hungarian governmental and non-governmental sponsors into the SBAC scheme. This has been achieved to varying degrees of success. In Poland, for example, Scientex initiated the cooperation of the Polish Chamber of Commerce whose president is well connected with the government. As well, some cooperation with local Polish governments have been achieved, despite the fact that the program was not designed as a government-to-government agreement.¹⁶² In Hungary, competition with similar projects such as the European Union's Local Enterprise Agency in Debrecen, have hampered efforts to garner local government and

¹⁶¹ Some criticism of this view and the success of America's small business sector has been raised however, see: *The Economist*, "Did America's Small Firms Ever Get Off the Launching Pad?" (30 June 1990): 61-62.

¹⁶² Jack Wilson, President, The Scientex Corporation, Scientex International, interview by author, 14 January 1994, tape recording. Washington D.C.

non-government involvement in the American project.¹⁶³ While some independent funding through the charging of nominal fees to clients in Hungary and Poland may help, the overall sustainability of these networks without US Congressional funding remains uncertain.¹⁶⁴

As mentioned, the American SBAC projects are not the only ones of this type offered to Polish and Hungarian entrepreneurs. In both countries, the British Know How Fund has financed a similar set of Small Business projects. More significantly however, the European Union sponsors an LEA (Local Enterprise Agency) network in Hungary through the PHARE program (Poland/Hungary Assistance for Restructuring the Economy). Run by the HFEP (Hungarian Foundation for Enterprise Promotion), PHARE's LEA program in Hungary is in fact the largest of its kind throughout the region. By mid-1993, plans to expand this network into Poland were well underway.¹⁶⁵

V.3.ii. The Hungarian Foundation for Enterprise Promotion: the Question of Cooperation and Competition.

Because of its size, scope, and similarity with the American SBAC projects in Poland and Hungary, the PHARE LEA program is a worthwhile program for

¹⁶³ Ralph Blackman, President, Public Access Inc., interview by author, 14 January 1994, telephone interview. Washington, D.C.

¹⁶⁴ Jack Wilson, President, The Scientex Corporation, Scientex International, interview by author, 14 January 1994, tape recording. Washington D.C.

¹⁶⁵ Jon Burns, (former) Program Manager, CEC-PHARE SME Programme, Hungarian Foundation for Enterprise Promotion, interview by author, 17 June 1993. Budapest, Hungary.

comparison. From 1990 to 1992, over ECU 36 million (approximate US\$ 44 million) had been allocated through PHARE for enterprise promotion in Hungary alone.¹⁶⁶ The monies have been administered and managed by the Hungarian Foundation for Enterprise Promotion, an organization whose membership includes the Hungarian government, VOSZ (National Association of Entrepreneurs), the Hungarian Chamber of Commerce, and the Hungarian Banking Association. The London-based office of the consultancy firm of Coopers & Lybrand has been contracted to advise and help oversee the network.

While the network of LEAs is similar in its intent to that of the American SBACs, the scope of the program is larger and more comprehensive. For example, unlike the SBACs, the LEAs are able to offer access to loans and credit as a result of the relationship between the HFEP and the Hungarian banking sector. As well, because of the greater level of resources available to the LEAs through their affiliation with the HFEP and the PHARE, clients are able to access a large information network which provides up-to-date information on business partnerships, export information and government regulations. Both of these services remain unavailable to clients of the American-led business centres.

As with the SBACs' relationship to Scientex and Public Access Inc., the LEAs are independent members of a network of centres which are coordinated by a central body, the HFEP. The scope of the LEA network, however, far outstrips that of the American SBAC program in Hungary. In 1990, with the help of PHARE, the HFEP

¹⁶⁶ For a complete financial outline of PHARE activities in Hungary, refer to Appendix 5.

set up LEAs in six of the 19 Hungarian counties. By April 1993, ten counties were connected to the LEA network, six were scheduled to open before October of that year, and the remaining three counties were expecting to complete their business plan agreements soon after.¹⁶⁷

Due to the role of the European Commission as the G-24 coordinator for assistance to Central Europe, aid to the HFEP LEA Program is organized to enable individual bilateral donors to take ownership for various portions of the project. In the Hungarian county of Csongrád for example, the Finnish Government funded the Szeged LEA's business plan, in Veszprém, the British were able to take credit for the financing of that LEA's business plan, and in Nograd county, Canada is working with the LEA in Salgotarján.

In spite of these successes, as well as the obvious benefits of merging the American effort with that of the PHARE, very little coordination between the two exists. As with many bilateral programs in Central Europe which share a focus, communication between Public Access Inc. and the HFEP has been virtually non-existent. In fact, according to Jon Burns, the (former) Program Manager for the CEC-PHARE SME Programme, as late as February 1993, the HFEP network had had no contact with the SBAC office in Debrecen, even though that office had been in business for over two years.¹⁶⁸ While the Americans were aware of PHARE activities in the SME sector even before the creation of SBACs in Hungary, no effort

¹⁶⁷ Jon Burns, (former) Program Manager, CEC-PHARE SME Programme, Hungarian Foundation for Enterprise Promotion, interview by author, 17 June 1993. Budapest, Hungary.

¹⁶⁸ Ibid.

was made on their part to join forces by taking responsibility for the LEAs in Debrecen or Pécs.¹⁶⁹

The same unwillingness to cooperate has existed with the programs in Poland as well, although much of the short-sightedness has come from the European side this time. Rather than adopt the existing American SBAC structure after funding is halted by Congress, PHARE is preparing to set up its own network beside the American one.¹⁷⁰

The primary reason behind this lack of coordination within the different units of these institutions stems from the competitive aspect of interests among these countries, a factor which mirrors the competitive nature of states within the international system itself. In the American case, the need to establish a program under its own jurisdiction and to identify this project as solely American is evident from the comment made by Scientex Associate, Michael Fields:

Unfortunately when you get an AID program, or a PHARE program or something else, it ends up with that kind of tattoo across its forehead, and nobody else wants to play with it because, it's, well that's PHARE's program, well that AID's program,...¹⁷¹

¹⁶⁹ Ralph Blackman, President, Public Access Inc., interview by author, 14 January 1994, telephone interview. Washington D.C.; see also: Public Access Inc. "A Study and Recommendations for Small Business Development Center Demonstration Projects in Hungary. Report Prepared for The Central European Enterprise Development Commission, 1 September 1991.

¹⁷⁰ Interviews: Jon Burns, (former) Program Manager, CEC-PHARE SME Program, Hungarian Foundation for Enterprise Promotion, interview by author, 17 June 1993. Budapest, Hungary; and, Jack Wilson, President, The Scientex Corporation, Scientex International, interview by author, 14 January 1994, tape recording. Washington D.C.

¹⁷¹ Michael Fields, Program Manager, The Scientex Corporation, Scientex International, interview by author, 14 January 1994, tape recording. Washington, D.C.

V.3.iii. American Interests in the SBAC Programs

As with the Enterprise Funds, the interest of providing employment to American firms is a factor which exists within the SBAC program. Along with this, the general focus of the SBACs on the private sector in Central Europe is similar to that of the Funds in that it helps to cement the American's own view of their leadership in business culture by gaining disciples to the American way of doing things in Central Europe.

As a separate case study, however, the SBAC case becomes important to our understanding of the priority of interests within the United States government. In some ways one might assume that this program serves to compliment that of the Enterprise Funds in reaching a sector which has largely been ignored by the Funds. Unlike the Enterprise Funds, the structural emphasis of the program has been placed almost exclusively on the small business owner. This enables the SBACs to access the more "grassroot" levels of Central European society. With the SBACs, the introduction of American market culture into the Central European society as a whole is far more apparent through the more local character of these Centres, particularly in Hungary.¹⁷² As well, in contrast to the Enterprise Funds, the creation of ties to local governments and non-governmental organizations has been encouraged within the actual structure of the SBAC programs through the need to establish some level of

¹⁷² All of the Enterprise Funds were initially set up in the capital cities of each Central European country, consequently very little work has done outside of these major urban centres. The Polish/American Enterprise Fund has begun to address this problem, however, by moving out into several other major urban areas in Poland via, for example, the Polish-American Enterprise Club and the Enterprise Credit Corporation (ECC) small-loans operation. See: The Polish/American Enterprise Fund, *1993 Annual Report* (30 November 1993): 6.

program sustainability.

This view is incomplete, however, for two reasons. Firstly, the level of funding and the short-term nature of these programs seems to indicate a far lower priority given to the projects by the Americans than that which has been given to the Enterprise Funds. This lower priority comes in strong contrast to the emphasis which has been placed on the PHARE LEA program, where ECU 55 million (over US\$ 44 million) has been allocated to the HFEP over the 1991-1993 period.¹⁷³ While an analysis of European interests remains outside of the scope of this paper, if we assume that the European Union, as with the United States, is acting in its own self-interest when giving aid, the relative funding differential regarding the small business sector does present an indication of the differences between American and European interests and approaches.

Secondly, despite the apparent focus on the "grassroots" section of the economy, like the Enterprise Funds, the SBACs serve an important role in helping to access individuals within the business élite. In their employment processes, both Scientex and Public Access Inc. sought Central Europeans who spoke English and who had demonstrated an understanding of the American business culture. Further training at the University of North Carolina helped to groom the individuals into United States cultural and business "ambassadors". Due to their positions with the SBACs and their training, these Central Europeans are very likely to become members of the Polish and Hungarian business élite and, as such, will help to strengthen relationships between the

¹⁷³ See Appendix 5.

United States and Central Europe in much the same way as Enterprise Fund clients do.

The creation of linkages and business relationships has been an important objective within both the Enterprise Funds and the SBAC program. This objective is also apparent in the final set of SEED-funded programs to be discussed, the executive volunteer program run by the International Executive Service Corps in Central Europe and the Citizens Democracy Corps Business Entrepreneur Program.

V.4. American Executive Volunteer Programs: the IESC and the CDC's Business Entrepreneur Program

There have been two different SEED funded programs which bring volunteer American executives to Central Europe in order to provide advice for firms in need: the International Executive Service Corps (IESC) program and the Citizens Democracy Corps (CDC) Business Entrepreneur Program. The program run by the International Executive Service Corps (IESC), an organization which was founded in 1964, has a long history of assisting indigenous firms in over 98 developing countries. Also known by USAID officers as the "Paunch Squad", due to the fact that most of the volunteers involved in IESC are retired executives, the IESC began operating in Central Europe as early as 1986 but did not establish overseas offices in these countries until the beginning of 1991.¹⁷⁴

The Citizens' Democracy Corps (CDC) was created by President Bush in May

¹⁷⁴ International Executive Service Corps. *Results in Free Enterprise 1990 Annual Report* (January 1991)
i.

1990 as a private non-profit organization in order to "serve as a centre for the exchange of information on [American] voluntary programs in Central Europe and to channel private sector assistance to the region."¹⁷⁵ Originally, the CDC began with two different projects: the Citizens Volunteer Program, a program that places US volunteer advisors with private and public institutions; and the Corporate Assistance Program, a technical cooperation program that places US corporate-sponsored advisors into large indigenous firms on a loan basis.¹⁷⁶ Due to the lack of interests on the part of American corporations, however, it became apparent that there was a need to develop a new program which would rely on individual entrepreneurs and newly retired executives, rather than corporate business.¹⁷⁷ As a result, the Business Entrepreneur Program was started in early 1992 and was in operation until early 1994, when the costs of maintaining the CDC, particularly its offices in Washington, forced the entire endeavour to fold.¹⁷⁸

The IESC and the CDC's Business Entrepreneur Program have been structured in similar ways. The programs have placed American executives into Central European firms on a short-term basis (an average of 2 months per placement). Both have maintained a data bank on prospective volunteers, although the CDC data bank

¹⁷⁵ Citizens Democracy Corps, Inc. Informational Brochure, 1990: 2.

¹⁷⁶ Ibid.

¹⁷⁷ William H. Binney, Director, Business Entrepreneur Program, Citizens Democracy Corps, interview by author, 9 February 1993, tape recording. Budapest, Hungary.

¹⁷⁸ Brian Wickland, Hungary Desk, Bureau for Europe (EUR/RME/ECA), interview by author, 18 January 1994, tape recording. U.S. Agency for International Development, Department of State, Washington D.C.

was more extensive since it also maintained a listing of all American volunteer programs in operation throughout the region. Each program has funded the transportation costs of the American volunteers and their spouses to the country but has required that the recipient company cover expenses regarding accommodation, translation and other incidentals. These requirements have restricted the recipient group of firms to the medium-sized companies since the costs involved have often been too high for smaller entrepreneurs to cover.¹⁷⁹

In the area of funding, both organizations were mandated to rely as much as possible on private sector support. Despite this, each relied heavily on SEED funds from 1990-1993. In the case of the IESC, approximately 46 percent of its total operating expenses have been covered through American government assistance each year. In Central Europe, USAID channelled over US\$ 7 million to the IESC alone by the end of 1992.¹⁸⁰

The CDC began in 1991 with 100 percent of its funding from USAID and, although the goal was to become completely independent of government funding, very little success in finding financial support from the American private sector was achieved during the time that the CDC was in operation.¹⁸¹ In 1992, for example,

¹⁷⁹ Interviews, William H. Binney, Director, Business Entrepreneur Program, Citizens Democracy Corps Inc., interview by author, 9 February 1993, tape recording. Budapest, Hungary; and, David Finch, business journalist, *Budapest Week*, author of the *Business Handbook to Hungary*, interview by author, 14 May 1993 Budapest, Hungary.

¹⁸⁰ US Agency for International Development, *SEED Act Implementation Report, Fiscal Year 1992*, Washington D.C. GPO, January 1993.

¹⁸¹ William H. Binney, Director, Business Entrepreneur Program, Citizens Democracy Corps Inc., interview by author, 9 February 1993, tape recording. Budapest, Hungary.

the CDC continued to receive funding in the amount of US\$ 2.5 million to support its activities for that year.¹⁸²

V.4.i. American Interest in Funding the Executive Volunteer Programs

By providing funding these programs the American government seeks to achieve several objectives. Firstly, as with the Enterprise Funds, the focus remains with private sector-to-private sector assistance. The American government's transfer of assistance responsibilities to private sector organizations is consistent with the economic and ideological pressures within the international system.¹⁸³ That these programs represent the American private sector and their interests is apparent. Although the CDC was initiated by President Bush in 1990 in order to support democratic reforms in Central Europe, it was intended to be operated and maintained by the private sector, was staffed by former business people and, like the International Executive Service Corps, brought American private sector advisors to aid the recipient country business community. While the United States government continues to support these programs financially, the more established IESC does receive approximately 54 percent of its funding from private sources, mostly the American corporate community. The importance of the IESC program and that of the CDC Business Entrepreneur Program to the American government regarding US foreign

¹⁸² This amount covers all CDC activity in Central Europe. Precise figures regarding allocations to the Business Entrepreneur Program are not available.

¹⁸³ As was discussed in Chapter Two regarding decreasing the size and scope of the government apparatus.

policy interests, therefore, becomes evident. In keeping with this, during the 1990-1993 period, USAID grants to the volunteer executive advisory projects in Central Europe were among the largest to be given towards any single set of programs.

Another objective pursued by the American government through the funding of these programs is to promote American business. On an ideological level, bringing American executive advisors to Central Europe is seen as enabling an intangible power transfer. Business relationships are formed between donor and recipient, and the advisor instills a distinctly American approach to tackling the problem at hand. On an economic level, these programs encourage joint cooperation between American and Central European companies. Some of these cooperative efforts have resulted in joint venture agreements between American and recipient country private sector firms. In addition to this, executive advisors have helped to increase the market for American goods and services. Advisors serve to initiate contact between American export firms, thereby creating and supporting the market for American goods in the region. In 1990, for example, the IESC reported that among the companies which received American executive advisory assistance throughout the world, imports of American goods were increased by as much as 44 percent.¹⁸⁴

¹⁸⁴ This figure is based on the IESC world-wide activities.

CHAPTER VI

CONCLUSIONS

VI.1. US Aid to Central Europe

Throughout the preceding discussion of the American aid effort in Central Europe, I have demonstrated the ways in which interdependence, globalisation and other pressures to conform and to compete direct the behaviour of states within the international system. The parameters which are established by the existence of these international system pressures influence the ways in which states' interests are conceived and develop.

In an increasingly globalized and transnationalized system, where the boundaries between domestic and international policies are often blurred, the use of more indirect tools of influence such as intangible power have become important factors in achieving American interests. This is apparent in the growing emphasis on the role of economics in American discussions of national security and the increased percentage of US aid funds directed at economic assistance projects, particularly those in Central Europe. The growth in the use of economic measures such as bilateral aid, in order to achieve foreign policy interests is, in fact, in keeping with the trends and pressures exerted within and without, by the international system.

It is hardly surprising, therefore, that international issues concerning state security and prosperity have become far more complex over the past 20 to 30 years,

and particularly after the disintegration of the Soviet Bloc. Economic interdependence and the globalization of production have helped to reduce the ability of states to act independently. The end of the Cold War has only served to accentuate the increasing complexity of international relations and the rise of economic factors in the international system by eliminating the fear of superpower conflict. Whether this is done directly, due to global economic or environmental factors, or more indirectly through pressures to assert domestic business competitiveness in the global market, the international system, or more accurately, the community of international actors is determining the parameters by which states can react.

Due to the economic, political and ideological realities of the current international system, the move toward extending bilateral aid through private sector firms is growing. This is apparent in the activities of the U.S. in Central Europe. Several factors within the international system will help to ensure that this trend continues. These include: continuing international economic pressure on individual state governments to cut government spending; the need to create leverage for national businesses due to increased global market competition; the growth of liberal economic free market ideology in the international community; and, finally, the restrictions imposed by global economic interdependence and the internationalisation of production processes on the ways in which the United States will seek to influence other states' behaviour.

The move toward focusing on the private sector of a recipient country, rather than on the government sector, is also a trend which will continue in the post-Cold

War era. As illustrated with American assistance efforts to Central Europe, the private sector has been given a high priority in ensuring the overall stability of the global economic order.

Aid to Central Europe is the first large-scale assistance effort to be launched by the U.S. under the conditions of the post-Cold War international system. As such, it provides us with a model for American bilateral aid objectives and programs in the years to come.

VI.2. The American Aid Model in Central Europe

The three sets of programs discussed in Chapter Five form the major thrust of American government assistance to Central Europe. The Enterprise Funds, as the largest set of assistance programs to be initiated in Central Europe, the SBACs, as the American parallel effort to European Union activities in the small and medium-sized enterprise sector, and the volunteer executive advisory programs, encompass the form and intent of American foreign policy in Central Europe. Each provides an understanding of the interests of the United States in the region and an indication of the emerging model of US aid in the post-Cold War period.

As evidenced in the concentration of USAID funding to Central Europe, American private sector participants in the assistance effort represent both their own interests as well as those of the US government. This, along with the concentration of the American government on the economic sector in the focus and delivery of assistance, is indicative of the ideological and competitive nature of the current

international system.

Within its assistance effort to Central Europe, the United States has placed a high emphasis on the need for the transfer of market-economy expertise, knowledge and understanding to the transforming states of the region. As has been discussed in the preceding case studies, the transfer of these intangible elements from the donor to the recipient also carries with it linkages between donor country actors and those recipient country actors who benefit from the assistance extended towards them by, for example, the Enterprise Funds, the SBACs, and the executive volunteer programs in Central Europe. United States funding for these programs, therefore, serves as an investment in intangible power influence.

That the United States is moving towards the use of intangible power influence through its changing assistance structure has become evident. Indirect influence, the promotion of American culture and the confirmation of American hegemony in the Gramscian sense of the term, through the private sector has become the most effective means by which to achieve US foreign policy goals without disrupting the complex relationships within an increasingly global and transnational world system.

Within these very complexities, the importance of the economic sphere has risen. As the security of the U.S. becomes increasingly intertwined with its economic welfare and its ability to compete within the international system, economic interests and the use of economic tools to garner influence within that system will be the priority within American foreign policy.

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A.1**SEED ACT ASSISTANCE TO (FORMER) CZECHOSLOVAKIA**

Total Obligations as of 30 September 1992

(in US\$ 000s)*

TOTAL OBLIGATION: 117 331**ECONOMIC RESTRUCTURING**

Macroeconomic Support	15 000
Privatization and Assistance to Enterprises	19 513
Improving the Business Climate	6 277
Investment and Trade	28 508

Czechoslovakian Enterprise Fund: 27 000

as % of Sub Total: 30.3%

Human Resources	8 007
Agriculture and Agribusiness	3 444
Energy Efficiency	8 468

SUB TOTAL: 89 217
as % of Total: 76.0%

STRENGTHENING DEMOCRATIC INSTITUTIONS

Political Process and Governance	3 526
Democratic Pluralism	1 966

SUB TOTAL: 5 491
as % of Total: 4.7%

IMPROVING THE QUALITY OF LIFE

Short-term Emergency and Humanitarian Aid	4 034
Employment and the Social Safety Net	700
Housing	4 089
Health	3 233
Environment	10 147

SUB TOTAL: 22 202
as % of Total: 18.9%

MISCELLANEOUS

SUBTOTAL: 421
as % of Total: 0.4%

* Source: US Agency for International Development, *SEED Act Implementation Report, Fiscal Year 1992*. (January 1993): 89-90.

A.2**SEED ACT ASSISTANCE TO HUNGARY**

Total Obligations as of 30 September 1992
(in US\$ 000s)*

TOTAL OBLIGATION: 121 206

ECONOMIC RESTRUCTURING

Macroeconomic Support	10 000
Privatization and Assistance to Enterprises	8 458
Improving the Business Climate	6 493
Investment and Trade	48 667
Hungarian Enterprise Fund:	46 962
as % of Sub Total:	52.1%
Human Resources	8 818
Agriculture and Agribusiness	2 680
Energy Efficiency	5 196

SUB TOTAL: 90 160
as % of Total: 74.4%

STRENGTHENING DEMOCRATIC INSTITUTIONS

Political Process and Governance	5 967
Democratic Pluralism	2 397

SUB TOTAL: 8 363
as % of Total: 6.9%

IMPROVING THE QUALITY OF LIFE

Short-term Emergency and Humanitarian Aid	3 735
Employment and the Social Safety Net	1 350
Housing	4 671
Health	3 976
Environment	8 682

SUB TOTAL: 22 414
as % of Total: 18.5%

MISCELLANEOUS

SUBTOTAL: 268
as % of Total: 0.2%

* Source: US Agency for International Development, *SEED Act Implementation Report, Fiscal Year 1992*. (January 1993): 111-112.

A.3**SEED ACT ASSISTANCE TO POLAND**

Total Obligations as of 30 September 1992
(in US\$ 000s)*

TOTAL OBLIGATION: 525 741

ECONOMIC RESTRUCTURING

Macroeconomic Support	199 140
Privatization and Assistance to Enterprises	18 991
Improving the Business Climate	8 730
Investment and Trade	189 159

Polish Enterprise Fund: 188 192
as % of Sub Total: 40.4%

Human Resources	17 574
Agriculture and Agribusiness	19 709
Energy Efficiency	12 672

SUB TOTAL: 465 975
as % of Total: 88.6%

STRENGTHENING DEMOCRATIC INSTITUTIONS

Political Process and Governance	9 037
Democratic Pluralism	2 266

SUB TOTAL: 11 302
as % of Total: 2.1%

IMPROVING THE QUALITY OF LIFE

Short-term Emergency and Humanitarian Aid	7 664
Employment and the Social Safety Net	5 400
Housing	7 597
Health	5 704
Environment	21 434

SUB TOTAL: 47 800
as % of Total: 9.1%

MISCELLANEOUS

SUBTOTAL: 664
as % of Total: 0.1%

* Source: US Agency for International Development, *SEED Act Implementation Report, Fiscal Year 1992*. (January 1993): 141-142.

A.4

DISTRIBUTION OF AMERICAN SEED ACT ASSISTANCE TO CENTRAL EUROPE

Total Obligations as of 30 September 1992*
(in US\$ 000s)**

	frm CZECH	HUNGARY	POLAND	TOTAL
TOTAL OBLIGATION	102 331	111 206	326 601	540 138
as % of Total	15.4%	15.9%	68.8%	100.1%
 ECONOMIC RESTRUCTURING	 74 217	 80 160	 266 835	 421 212
as % of Total	17.6%	19.0%	63.3%	99.9%
 Enterprise Funds	 27 000	 46 962	 188 192	 262 154
as % of Total	10.3%	17.9%	71.8%	100.0%
 DEMOCRATIC INSTITUTIONS	 5 491	 8 363	 11 302	 25 156
as % of Total	21.8%	33.2%	44.9%	99.9%
 QUALITY OF LIFE	 22 202	 22 414	 47 800	 92 416
as % of Total	24.0%	24.3%	51.7%	100.0%

* Figures do not include Macroeconomic Support funds.

** Source: US Agency for International Development, *SEED Act Implementation Report, Fiscal Year 1992*. (January 1993).

A.5**PHARE Priorities and Budget Expenditures in Hungary, 1990 to 1993**
('000 000 ECU)*

AREA:	1990	1991	1992	1993	Total
SME Development	21.0	3.5	11.0	23.0	58.5
Agriculture	20.0	13.0	5.0	30.0	68.0
Education/ TEMPUS	10.7	12.0	16.0	16.0	54.7
Infrastructure	/	11.0	29.0	11.0	51.0
Environment	27.0	10.0	10.0	/	47.0
Privatization	5.0	40.0	/	/	45.0
Social Welfare/ Labour	3.0	/	26.0	10.0	39.0
Financial Sector	6.3	14.0	/	8.0	28.3
Research & Development	3.0	5.0	5.0	/	13.0
Energy	/	5.0	/	/	5.0
<hr/>					
TOTAL	96.0	113.5	102.0	98.0	409.5

* Source: Assistance Co-ordination Secretariate, *PHARE 1990-93, Hungary*, Ministry of International Economic Relations, Republic of Hungary (November 1993)

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