

# Hemispheres

The Tufts Journal of International Affairs

Volume 17

1993

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## FROM THE EDITOR

We live in an age of uncertainty. Indeed, dramatic changes in the structure of international relations have left us to confront a dynamic new world order. The collection of articles in this, the 17th annual issue of **Hemispheres**, represents the ambitious efforts of Tufts' undergraduate researchers at providing insight into the dilemmas, conflicts, and policies that compose the very relations between nation-states.

The articles in this volume are as diverse as the world that surrounds us. And as history is perhaps our only guide in understanding the profound issues that confront us today, the authors in this year's journal have delved into the past to seek out new possibilities for the present and future.

The Editorial Board would like to congratulate Paul A. de Zwart, whose piece, "The EC: A Legal Framework for Industrial Competition," received this year's Hemispheres Gibson Award.

The Editorial Board would also like to extend its deepest thanks to Professors Donald Klein and John Jenke for their advice and support, the faculty members who encouraged their students to submit their works, and Shiraz Cupala and Meredith Hennessey for their production assistance.

Vivek Shah  
Editor-in-Chief



# Journal of the Royal Society of Medicine

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The Journal of the Royal Society of Medicine is a peer-reviewed journal covering all aspects of medicine. It is published monthly, except for two issues which are combined. The journal is divided into two parts: the first part contains original research papers, and the second part contains reviews, editorials, and correspondence. The journal is published by Taylor & Francis Ltd, London, UK. The journal is available online at <http://jrm.sagepub.com>.

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The John S. Gibson Award, named for the first Director of the Department of International Relations at Tufts University, is given annually to the most outstanding and in-depth piece submitted by a Tufts undergraduate to **Hemispheres**.

The 1993 Recipient of The Gibson Award is:

**The European Market:  
A Legal Framework for Industrial  
Competition**

**by**

**Paul A. de Zwart**





# The European Market: A Legal Framework for Industrial Competition

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*by Paul A. de Zwart*

**T**he European Community (EC), a customs union since 1968, became a common market on 31 December 1992, and has since set itself on a course to reach full-fledged economic union. The implications of a common market are manifold, and their impact will be strongly felt in the European business community. This work will examine the legal framework of the Community in which European firms will have to operate, and will also attempt to find a correlation between economic theory on customs unions (and common markets) and trends of industrial concentration in the European Community. Although general trends will be examined, emphasis will be placed on the post-SEA years (1985-present). In particular, recent patterns of mergers and acquisitions will be analyzed, along with a general overview of the new provisions and laws that shall regulate the common market.

This study will be divided into three parts. Since the why and how of the single market program will not be understood if the political and economic motives behind it are forgotten, the first part will briefly examine the history of the creation of the EEC and its domestic economic development since 1958. It will also analyze economic theory on customs unions and common markets. The second part will concentrate on the SEA and its provisions, and interpret aspects of the legal framework of 1992 Europe which are relevant to business, such as EC competition policy. The third section will appraise the benefits and costs of industrial concentration and study current trends in the Community, especially mergers and acquisitions, and relate them to the economic theory presented.

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*Paul A. de Zwart is the former Editor-in-Chief of Hemispheres. Mr. de Zwart graduated last year and is currently working in Australia.*

## PART I

### European integration, an overview: 1947-1985

World War II left the European continent in ruins. Aside from the human loss and psychological trauma, the economic infrastructure of Europe was in complete shambles and had to be rebuilt anew. With American urging, numerous attempts at political and economic union were made in the early post-war years. The intention was to both coordinate economic recovery and to set up a framework of European integration that would institutionally prevent a repetition of the nationalistic fragmentation of the 1930s.

There were two schools of thought on European integration. One, the "functionalist" school, supported economic cooperation but opposed any form of political union. The functionalists were widely represented in the Scandinavian countries and Great Britain, and their view dominated in the formation of the British-sponsored European Free-Trade Association (EFTA). The second, called the "federalist" school, supported the creation of a political/economic union strengthened by a supra-national institution, and received wide support in the Low Countries, Italy and France. Its philosophy provided the basis for the formation of the European Economic Community (EEC).<sup>1</sup>

Several attempts at integration and cooperation (some successful and others not) preceded the creation of the EEC. In 1947, the Organization for Economic European Cooperation (OEEC) was established to coordinate European reconstruction with US aid through the Marshall Plan. In 1948, the customs union between The Netherlands, Belgium, and Luxembourg went into effect, achieving almost total economic union in 1958 with the Treaty of Economic Union, which formalized the integration of Benelux. Concurrently, French fears of a German economic revival prompted plans for a broader and closer economic alliance. On 18 April 1951, the Treaty establishing the European Coal and Steel Community (ECSC) was signed by the foreign ministers of France, Germany, Italy and the Benelux countries. The ECSC was an effective and successful experiment in supra-national management through the exercises of its governing body, the High Authority.<sup>2</sup>

Cooperation on security matters proved to be more difficult. The US pushed for German rearmament and admission to the North Atlantic Treaty Organization (NATO), but met with strong French opposition. Efforts were then channeled into the creation of the European Defense Community (EDC) in 1951, which would have included German armed



forces. However, the French Assembly refused to ratify the treaty in August 1954, killing at the same time any hopes for a proposal by the ECSC for a European Political Community. Nevertheless, in December 1954, a more limited West European Union (WEU) was established which effected German rearmament. In the same year, Germany was admitted into NATO and was made a sovereign state.<sup>3</sup>

An increasing need for a more united and stronger Europe, one that could act as a "balancing" force between the two Superpowers and boost economic recovery, encouraged a meeting at Messina between representatives of the six countries that formed the ECSC under the chairmanship of Paul-Henri Spaak of Belgium. Although political union seemed difficult, integration on economic grounds was actively sought. The OEEC was considered inadequate as a means for furthering European integration since it lacked the institutional strength, and also because of the wide differences between functionalists and federalists. Also, any regional economic union that reserved preferential tariff treatment for its members was illegal under Article 24 of the General Agreement on Tariffs and Trade (GATT), signed by twenty-three nations in 1947, unless tariffs among member states were completely abolished within a reasonable length of time.<sup>4</sup> Thus the Spaak report of June 1955 outlined the formation of a customs union and an atomic energy pool. After two years of deliberations, and strong federalist lobbying, the states that formed the ECSC signed the Treaty of Rome on 24 March 1957. On 1 January 1958, the European Economic Community and the European Atomic Energy Commission (Euratom) came into being.<sup>5</sup>

Before proceeding, it would be useful to outline the principal types of regional economic integration. One type of integration is a **free-trade area** in which tariffs and quantitative restrictions among member states are abolished, but member states retain their own tariffs and restrictions with outside states. The EFTA is an example of a free-trade area. A **customs union** is similar to a free-trade area except that the member states adopt a common external tariff. A third type of integration, the **common market**, is like a customs union but one in which the free movement of factors of production (labor, capital) is allowed. The EC is presently moving toward such a goal. A fourth type of union is **economic union**, which is similar to a common market except that national economic policies, such as monetary and fiscal policy, are unified. Benelux is an example of an economic union.<sup>6</sup>

The Treaty of Rome clearly provided for the creation of a common market. Although Article 9 says that "The Community shall be based upon



a customs union,<sup>7</sup> Article 3 goes further by providing for the implementation of a stronger union. In particular, Article 3(a) calls for the elimination of internal trade barriers, Article 3(b) provides for the creation of a common external tariff, and 3(c) requires the removal of obstacles to the free movement of factors of production. In order to facilitate coordination, 3(h) provides for the harmonization of state laws and 3(f) for the creation of a system that will ensure fair competition. Furthermore, Articles 3(d) and 3(e) called for establishment of common policies in agriculture and transport.<sup>8</sup>

The key to the formation of a European customs union was the elimination of internal tariffs during a transitional period (Article 13). According to Article 8, this had to be accomplished by the end of 1969. The first tariff cuts were made in 1959, and by 1 July 1968, thanks to accelerated cuts in 1961 and 1962, all internal tariffs had been abolished, well ahead of schedule.<sup>9</sup> Several articles of the Treaty dealt specifically with this transition period. Article 12 of the Rome Treaty imposed a "standstill" provision which forbade member states to increase duties or levy new ones. It is interesting to note, however, that Article 226 of the Treaty allowed member states to apply to the Commission for protective measures for sectors of industry which experienced persistent difficulties during the transition period. The most notable case involved Italy and France. France's refrigerator industry experienced serious difficulties because of competition from Italy, and as a result, the Commission allowed the levying of a tax in addition to the 7.5 percent import duty. This specific tax was scaled at 12 percent from 17 January to 30 April 1963, at 9 percent from 1 May to 30 June, and finally at 6 percent from 1 to 31 July.<sup>10</sup>

By 1969, then, the EEC had assumed the likeness of a customs union, and was well on the course to forming a common market. A Common Agricultural Policy (CAP) was established which is still today one of the EEC's major achievements. A transport policy was, however, slow to evolve. Intra-EC trade increased from 32 percent in 1958 to 48 percent in 1969,<sup>11</sup> and grew four times as fast as world trade.<sup>12</sup> Britain, Ireland and Denmark joined the EC in 1973, just as a number of proposals for a stronger union were introduced. Specifically, a commitment was made for a European Monetary Union (EMU), but eventually a more modest scheme was approved which established the European Monetary System (EMS), a system which maintained all the European currencies within a 2.5 percent band, called the snake.<sup>13</sup> The system had a short life, however, since currency and inflation instability caused Britain, Ireland, Italy and France to drop out in 1972. The remaining countries pegged



their currency to the Deutsche Mark. In the late 1970s, after years of political fragmentation caused by the oil crisis of 1973-74, new proposals for monetary union were advanced, which ultimately resulted in the creation of the European Monetary System (EMS) in 1979. In addition, the European Currency Unit (Ecu) was established, made-up of a basket of European currencies, as was the Exchange Rate Mechanism (ERM), a system designed to keep currencies within a 2.25 percent fluctuation band.<sup>14</sup> The EMS and the ERM have survived for over a decade, and have been joined by all member states, including Britain in December 1990. The EMS has warranted closer cooperation and tight monetary discipline, and has regularly required governments to take corrective measures. (For example, France's President Mitterrand was forced in 1983 to halt his socialist government's expansionary policies in order to conform to the EMS.)<sup>15</sup>

Three more countries joined the EC in the 1980s: Greece in 1981, and Spain and Portugal in 1986.

### **Theory on Customs Unions**

Extensive and thorough economic analyses on customs unions abound.<sup>16</sup> The intention here is not to venture in similar studies, but rather to examine general theory on customs unions (which will also apply to common markets), and to relate any conclusions to the study of industrial concentration in the European market in Part III. (With respect to the analysis below, see Appendix I for definition of economies of scale and comparative advantage.)

Theory of customs unions has been confined mainly to the study of the effects of custom unions on welfare (i.e. prosperity). Welfare gains and losses are affected by several factors:

- (1) The specialization of production according to comparative advantage;
- (2) Improved economies of scale;
- (3) Improvement in the terms of trade;
- (4) Increased productive efficiency due to fiercer competition;
- (5) A change in the rate of growth.<sup>17</sup>

The theory of customs union has dealt almost exclusively with (1), with slight attention to (2) and (3).<sup>18</sup> In our analysis (1), (2) and (4) will be examined instead.

The effects of economic integration were generally assumed to



always be positive, until J. Viner showed this argument to be incorrect. He introduced the now familiar concepts of trade creation and trade diversion.<sup>19</sup> An example will help illustrate the concept of trade diversion. Assume we have three countries, France, Germany, and Japan. France and Germany form a customs union, thus eliminating all tariffs between them. Before the union, tariffs in France are 60 percent and in Germany 40 percent. The cost of production of product A (let it be a transistor radio) is \$60 in France, \$40 in Germany, and \$30 in Japan. Prior to the union, France would import from Japan because the cost of a Japanese radio including tariff was \$48 ( $\$30 + (60 \text{ percent of } \$30)$ ), while Germany produced its own (for \$40) since importing from Japan cost \$42. After the union, external tariffs between France and Germany are harmonized to 50 percent (the average). As a result, France now imports from Germany (for \$40) since the cost of a Japanese radio has become \$45.<sup>20</sup> Since production shifted from a foreign low-cost producer to a higher-cost domestic producer, trade was "diverted" instead of created. Trade creation is obviously the opposite. If by theory of comparative advantage production within the union shifts from a high-cost producer to a low-cost producer, trade is created.

Whether a customs union results in an overall gain or loss of welfare can be measured by comparing the amount of trade created with that diverted. However, since the theory cannot predict the effects of a customs union, as these vary depending on specific instances, it is necessary to study empirical data. With regard to the EC, there are great variations in both the empirical results and the welfare analyses of the effects of trade creation and diversion. One ex-post study by Balassa (1975), which took into account changes in the elasticity of demand of the Community (and compared it to that of other countries such as the US), showed that trade creation exceeded trade diversion by at least four times, and was strongest in the early years.<sup>21</sup> Overall, the variations indicate that trade creation totalled around Ecu 8 billion (\$10 billion)<sup>22</sup> and trade diversion around Ecu 0.8 billion (\$1 billion). Other studies, in particular by Mendes (1987), argue that the analyses are incomplete without the measurement of the dynamic effects. In his examination, Mendes estimated that by 1981 EC integration resulted in a GDP that was 5.9 percent higher than that of non-integration.<sup>23</sup>

Despite the different outcomes which result from particular unions, the theory does suggest some generalities: (1) a customs union is more likely to lead to increased welfare if the economies of the partners are very competitive but potentially complementary. The theory of com-



parative advantage dictates that when the member states produce similar products but efficiencies differ, inefficient industries will contract and efficient ones expand. If, however, the member states specialize in different products, the gains in production are likely to be small. (2) The higher the initial tariffs, the larger the benefits in welfare. That is because high tariffs tend to protect highly inefficient industries, and thus the removal of them results in a larger gain. (3) A larger union is likely to increase welfare since it covers a greater proportion of world trade. Also, a greater union increases the probability that trade creation will outweigh trade diversion -- until a union encompassing the world eliminates trade diversion completely.<sup>24</sup>

The analysis of the static effect of trade diversion or creation, static because it measures a one-time gain or loss of trade, overlooks two very important dynamic factors: the improvement of economies of scale, and increased competitiveness. These dynamic (long-term) effects are the ones that could lead to entirely new methods of production, and hence to increased efficiency. With regard to the first, because the size of national economies restrict the size of firms, there may be substantial untapped economies in the market (of the union), the exploitation of which could lead to further trade creation. Suppose that the creation of a customs union has led to trade diversion, which is counted as a disadvantage. However, because of a new and larger market, firms of member states will undertake additional investment to capitalize on the economies of scale, bringing down the cost of supplies from that member state -- possibly even lower to that of the diverted supplies, thus eliminating the loss due to trade diversion.<sup>25</sup> In order to exploit economies of scale, companies need to expand. This can be achieved in three ways: through mergers and acquisitions, strategic alliances (voluntary alliances between corporations to share research, production facilities, and distribution systems),<sup>26</sup> and through internal growth (which can include the establishment of subsidiaries). In the EC several factors have traditionally hindered the attainment of economies of scale. One is the presence of too many sub-optimal firms due to a lack of impersonal competition (see below), imperfect markets, and a preference for high-margin, low-volume strategies.<sup>27</sup> A second factor is the existence of different national standards, in essence non-tariff barriers, the removal of which became the goal of the SEA in 1985.<sup>28</sup>

Increased competitiveness is another dynamic consequence of economic integration. For one thing, existing industries undergo changes. National monopolies, for example, become community oligopolies, and



established oligopolies have to compete with new firms. As a result, both will need to restructure and probably cut costs. Another effect of increased competitiveness is a change in psychology. Studies on Western Europe in 1958 have indicated that relations between firms in member states were friendly and personal. Such environments have traditionally led to collusion and monopolies, especially in states with a homogeneous culture.<sup>29</sup> The opening of national markets threatens that security, since firms will seek expansion in foreign markets where they do not have friendly relations. The situation in the 1980s, with firms in member states sheltered by non-tariff barriers and public subsidies, was not much different.<sup>30</sup>

In terms of the above analysis, the benefits that a genuine single market would bring to Europe were figured at Ecu 15 billion-worth of new business and a 5 percent growth in the medium term.<sup>31</sup> To achieve such a goal, the removal of non-tariff barriers was deemed essential.

## **PART II**

### **The Single European Act**

Just as the creation of the EEC in 1958 was prompted in part by a fear of US economic dominance, the 1985 Single European Act sought to address the EC's growing lack of competitiveness in the early eighties in vital sectors of future development such as information technologies and telecommunications. It was recognized that only a genuine single market of over 340 million people, which allows economies of scale in manufacturing, research and development, could effectively compete with the US and Japan – the Community's main competitors. As the chart shows, Europe trailed the US and Japan in new total investment – a necessary element for the research and development of new technologies.

In past decades, the growth of world Gross Domestic Product (GDP) rose alongside the per capita use of commodity products (steel, energy, cement, etc.). Since the mid-seventies, however, the continued growth of world GDP has been coupled with a levelling off or even decline in the use of these products. The difference in growth was accounted for by the growth in new technologies, notably electronics, telecommunications, and medical technologies.<sup>32</sup> It was the realization of this trend, and Europe's lack of competitiveness in those sectors, that prompted the members of the European Council in 1985 to ask the Commission to draw up a concrete proposal for the completion of a single market. In June 1985, the Commission published a White Paper which laid out 282 directives



that needed to be completed by 31 December 1992 to achieve this objective.

In his speech at Lourdes on 27 October 1989, Jacques Delors, the Commission President, outlined the four principles on which the achievement of the Single Act should be based. First, more competition but also more cooperation; second, the establishment of a minimum set of rules in a market free of obstacles to trade; third, the recognition of diversity among member states and the preservation thereof – the goal of a single Europe not being homogenization; and fourth, “subsidiarity,” since from a “point of political effectiveness, it is important not to concentrate too much power at the top.”<sup>33</sup>

In that same speech, Delors also outlined the six objectives of the Single Act. The first objective is the completion of a single market through the elimination of frontiers and obstacles to the free movement of people, goods, services and capital (Articles 13 to 19 of SEA); the second is cohesion, the promotion of harmonious development throughout the Community through the provision of support to backward regions. In 1991 alone, Ecu 13.6 billion were allocated to the Community structural funds, 60 percent of which will be targeted to the poorest areas.<sup>34</sup> The cohesion program is addressed in Article 23 of the Single Act; the third objective is cooperation on research and technology (Article 24). Numerous programs have already been launched, including ESPRIT (European Strategic Programme for Research and Development in Information Technology) in 1983, and BRITE (Basic Research in Industrial Technologies for Europe) in 1985 among many others. The EC funding for R&D (Research and Development) programs is still small, however, amounting to only about 4 percent of total public spending on research by the 12 member states in 1991;<sup>35</sup> the fourth is monetary cooperation within the EMS (Article 20). (At the summit in Maastricht in December 1991, the commitment was made for monetary union by 1999.) The fifth objective addresses social policy (rights of workers, health and safety provisions, etc.) through Article 21; and lastly, the sixth objective endorses a commitment for the preservation and protection of the environment (Article 25).<sup>36</sup> For the purpose of this paper, only the first objective will be examined.

The successful completion of the first objective requires the elimination of all physical, technical, and fiscal barriers among member states which prevent the free movement of goods, people, services, and capital. Approximately 197 directives of the SEA are reserved for that goal.<sup>37</sup> Physical barriers consist mainly of frontier controls on persons and goods for the purpose of collecting statistics and the enforcement of commercial policy quotas and road safety requirements. Controls on



travellers are performed mainly for two reasons: tax (to check evasion of and immigration (movement of extra-community persons and crime prevention). Controls on goods are made principally for the collection of taxes and statistics, control of import-export licenses, enforcement of health standards, and the imposition of trade quotas (with regard to third-country goods, a practice which, although incompatible with the free movement of goods, is allowed under Article 155 of the Treaty of Rome). The long lines of trucks at busy cross-European frontiers which these controls cause are a common sight, and a frustration to the drivers. The 1988 Commission Cecchini Report (so named after its author) estimated the clerical costs (for firms) of intra-European trade. Average costs ranged from Ecu 26 for imports to Belgium to Ecu 250 for exports from Italy.<sup>38</sup> If these private costs are added to the costs borne by the governments for controlling their frontiers, the Report estimated a total cost to the EC economy of around Ecu 8.9 billion.<sup>39</sup>

Technical barriers, notably the many different national product specifications, add up to even higher costs. For example, the Cecchini Report calculated that the cost of developing a volume car for sale in the various markets is around Ecu 286 million.<sup>40</sup> The figures run into billions when the costs of manufacturing the car for each market are added, and considering that many such cars are developed for the European market at large. Progress in the removal of non-tariff barriers has traditionally been slow. The Cecchini Report assessed that in 1983 there were over 100,000 different standards and regulations in the Community.<sup>41</sup> The harmonization of these national standards will prove to be more than a mundane exercise – alone, the adoption of a standard electrical plug has been figured to cost European countries around Ecu 64 billion.<sup>42</sup> The Commission, however, has proposed a “new approach” for dealing with the problem of harmonization.

The Commission based its “new approach” on the ruling by the European Court of Justice (ECJ) in the *Cassis de Dijon* case in 1979. The Court ruled that products that are legally manufactured and marketed in one member state cannot be banned from sale in another, unless the ban can be legitimized on grounds of safety or health reasons as provided for by Community law.<sup>43</sup> According to that principle, for example, the Court found that Germany must allow the sale of beer brewed by the specifications of other states.<sup>44</sup> This principle of “mutual recognition” avoids burdening the Commission with the enormous task of implementing another extensive body of regulatory legislation. Thus the Commission’s “new approach” is based on two principles: (1) safety and health standards



remain subject to EC regulation (e.g. standards on food); and (2) all remaining national standards will fall under the principle of mutual recognition, with one exception: in areas of high technology, such as telecommunications where inter-operability is necessary, the EC will regulate harmonization. To streamline the decision-making process on directives relating to the completion of the single market (SEM), including harmonization, Article 100 of SEA replaces unanimity with majority voting.<sup>45</sup>

Three other major forms of technical barriers are the constraints on the movement of capital, the restriction of public procurement contracts, and state subsidies to firms. The latter will be discussed below in the context of competition policy. With regard to the first, a key element to the free movement of capital is the establishment of a common market for services (such as banking, insurance, and consultancy), which also constitutes the first step to monetary union, and is vital for the completion of SEM. At the citizen's level, it involves the freedom of depositing one's money or taking out a life insurance policy in any member state.

Public procurement is worth 15 percent of Community GDP (Ecu 4.7 trillion), but only 2 percent of contracts flow across EC borders. The Cecchini Report estimated that about 7 to 10 percent of contracts could be bought by foreign firms;<sup>46</sup> as a result, governments often pay too much for services. The costs that would be saved by liberalizing the sector could total Ecu 21 billion.<sup>47</sup> Progress has been slow in this field. In the 1970s the Commission required the publication of "calls for tender" in the EC's *Official Journal*, but only a quarter of contracts were published this way. Recently, the Commission has sought to set up mechanisms for legal remedies by firms who feel they have been discriminated against. In such cases, firms can complain to the Commission which can implement an investigation, but not freeze disputed contracts. However, if governments ignore warnings issued by the Commission, they can be taken to the ECJ. In one such recent case in 1989, a French company claimed it was the victim of discrimination in the awarding of a large Danish bridge-building contract. Siding with the French company, the ECJ ordered a freeze to the works in progress and a re-opening of the tenders. Faced with legal action, the Danes admitted they had discriminated and allowed the French company to seek damages in Danish courts.<sup>48</sup> A Commission proposal extending the new measures to the public utilities sector (water, energy, telecommunications), was approved in September 1990 and will enter into force at the end of 1992. Nevertheless, most businessmen and women feel public procurement will remain a national affair.<sup>49</sup>



Finally, technical barriers extend into other areas as well, including restrictions on rights of residency in any EC state, different requirements on vocational and professional qualifications, and transport. Transport, which represents 7 percent of Community GDP, is a highly regulated market, in which, among other things, prices of airline tickets are fixed by agreements between governments.<sup>50</sup> With regard to ground transportation, one objective of the SEA is the abolition of restrictions on *cabotage* – the right of foreign haulers to transport goods within a member state's borders – which should reduce the cost to the Community of intra-EC transport by 10-15 percent.<sup>51</sup>

The third type of barriers are fiscal in nature – taxes, essentially. The costs of the administration of fiscal border controls are included in the estimate for customs formalities (see physical barriers above). However, the total cost to the Community, stemming in part from the delays associated with the controls, is a lot higher. Beyond the costs that can be saved, harmonization of tax rates is also necessary to guarantee undistorted trade. The Commission has focused on the harmonization of the value-added tax (VAT) and excise duties levied on products such as alcohol, tobacco and petrol. Since VAT taxes on products are borne by the consumer, a complicated system is required to administer import-export tax refunds. Fiscal borders are essential to this system. Under the current system, for example, a firm in Germany exporting to France must pay an export tax to the German government. In France, the import firm pays an import tax to the French government, and then passes the tax onto the consumer through the VAT. It is the French Exchequer which keeps the tax, while the German government remits the export tax to the exporting firm. The process works both ways, of course, and without fiscal borders, it would be impossible to keep track of all the transactions.

Furthermore, if borders were to be done away with, there would be no controls on tax evasion, and disparities in taxation (i.e. prices) would invariably attract firms from higher-taxed countries to buy their goods in lower-taxed countries, and undersell competitors at home. Businesses need to build different versions of one model to avoid getting caught in luxury tax brackets (see Table). Taking the example of the US, the Commission presented a proposal in 1987 to keep tax rates within a 6 percent band. Specifically, it proposed a 14 to 20 percent band for VAT rates, with a 4 to 9 percent range for essentials, while an average was proposed for excise duties. A three-phase plan has been adopted for the introduction of the new system. The 14 to 20 percent limits for VAT have



taken force since 31 December 1991; from January 1993 the 4 to 9 percent range for essentials will be introduced, as will the abolition on limits on purchases by individuals.<sup>52</sup>

Lastly, a note on Monetary Union is appropriate. Giovanni Agnelli, the Chairman of FIAT, remarked two years before Maastricht that the establishment of a single currency was an essential element of a single market.<sup>53</sup> Of course he was not alone in believing so, since the benefits accruing from monetary union are widely recognized. Fixing the member states' currencies would eliminate the risks due to currency fluctuations, hence stimulate investment; it would increase price stability, and help keep inflation under control. Furthermore, the adoption of the Ecu as a single currency would allow the latter to play a role on international financial markets comparable to that of the dollar and the yen, and would also eliminate foreign exchange transaction costs within the Community. It has been estimated that changing money into local currencies would cost a traveller going to ten of the 12 member countries 47 percent of his money.<sup>54</sup>

Although not dealt with in the SEA directives, many steps toward monetary union have been made in the last few years. In 1989, the Delors Committee presented a three-stage move to economic and monetary union; the Rome summit in 1990 saw the start of inter-governmental talks on EMU; and finally, at the Maastricht summit in December 1991, 1999 was set as the final date for monetary union. The final criteria that must be met by the member states by 1996, before the third stage of EMU, are the following: (1) a rate of inflation and a long-term interest rate that do not exceed that of the three best performing states by 1.5 and 2 percent respectively; (2) a currency which for two consecutive years respects the fluctuation margins of the ERM; and (3) a budget that is not in excess of 3 percent of GDP and a ratio of government debt to GDP not higher than 60 percent.<sup>55</sup>

### **Competition and Industrial Policy**

Industrial policy entails all legislation of the state in relation to industry, and competition policy is one area of it. The Treaty of Rome makes no reference to industrial policy, but Article 3(f) does call for the need to ensure fair competition; specific provisions to that end are laid out in Articles 85 and 86. The EC has made little progress in industrial policy over the years, although attempts were made in the early 1970s to galvanize action in this area through the publication of a *Memorandum*



on *Industrial Policy in the Community* in March 1970, and an *Action Programme in the Field of Technological and Industrial Policy* in May 1973. The principles outlined in these memoranda are very much similar to the six objectives of the SEA, but received little attention until 1985. In the area of competition policy, however, the Commission has accomplished notable achievements.

On request of the European Parliament (EP), the Commission published a comprehensive statement on Competition policy in 1971 in its *First Report on Competition Policy*:

Competition is the best stimulant of economic activity since it guarantees the widest possible freedom of action to all. An active competition policy pursued in accordance with the provisions of the Treaties establishing the Communities makes it easier for the supply and demand structures continually adjust to technological development. Through their interplay of decentralized decision making machinery, competition enables enterprises continuously to improve their efficiency which is the *sine qua non* for a steady improvement in living standards and employment prospects within the Community. From this point of view, competition policy is an essential means for satisfying to a great extent the individual and collective needs of our society.<sup>56</sup>

Albeit this statement illustrates that competition policy is not solely concerned with the prohibition of anti-competitive practices, but also with the promotion of fair competition and the benefits it creates, the former objective remains its principle goal.

The two Articles of the Treaty of Rome which deal with competition, Articles 85 and 86, address restrictive practices (collusive behavior) and dominant positions (monopolies and oligopolies) respectively. It is important to note that regulations apply only to intra-Community situations, although the Commission has claimed it possesses power to apply regulations extraterritorially, similar to US claims for its antitrust rules.<sup>57</sup> It is not sure, however, that the ECJ supports this claim.

Article 85 (1) prohibits a variety of anti-competitive practices involving formal and informal agreements, decisions or concerted actions between firms which affect intra-Community trade. Although agreements are easy to identify, collusive practices are more difficult. In one such instance, the Dyestuffs Case, the ECJ found that several major EEC

producers of aniline dyes, by raising prices by similar amounts on similar dates, acted in concert and were thus in breach of Article 85(1) although no formal agreement existed.<sup>58</sup>

There are exceptions, however. Article 85(3) allows practices which may be technically infringing Article 85(1) if they "(1) contribute to improving the production and distribution of goods or (2) promote technical or economic progress while (3) allowing consumers a fair share of the resulting benefits."<sup>59</sup> On the basis of 85(3), the Commission and the Council adopted several regulations between 1965 and 1971 which specified the exact details of the exemptions.<sup>60</sup>

With regard to dominant positions, any actions which "take improper advantage of a dominant position" are prohibited under Article 86.<sup>61</sup> Hence it is not a dominant position that is forbidden, but the abuse thereof. Several cases have extended the definition of dominance to situations where dominance ensues from other than sheer size. In the United Brands case in 1978, the ECJ declared that dominance also occurs when the concern has "the power to behave to an appreciable extent independently of its competitors, customers and alternatively of its consumers."<sup>62</sup> Abusive behavior can adopt other forms as well, such as monopoly pricing (General Motors, Case 26/75), differential and excessive profit taking (United Brands, Case 27/76), or refusal to supply (Commercial Solvents, Cases 6 & 7/73).<sup>63</sup> Mergers can also lead to abusive behavior (Continental Cans, Case 6/72), but mergers *per se* do not lead to abusive positions. A policy on mergers, although addressed in 1972, has not been formulated until recently (see more below).

Since Articles 85 and 86 do not empower the Commission with any authority beyond that of policymaking, the Council adopted Regulation 17 in 1962 which granted the Commission powers of investigation and prosecution. Specifically, it granted the Commission the right to (a) examine the books (of firms) and other business records; (b) take copies of extracts from the books and business records; (c) ask for oral explanation on the spot; and (d) enter any premises, land and means of transport of undertakings. If the undertaking fails to collaborate, the Commission may levy fines of Ecu 100 to 1,000 a day, and if a violation of competition rules is discovered, it may fine the undertaking up to Ecu 1,000,000 or 10 percent of its previous year turnover.<sup>64</sup> Appeals by firms for the review of Commission decisions by the ECJ are allowed.

Lastly, state aid to firms is both a technical barrier and an anti-competitive practice, since it distorts trade in the private sector. In the



early 1980s, the sum of total state aids was estimated at 2-5 percent of industrial costs in Germany, 5-10 percent in France, Italy, and the UK, and over 15 percent in Belgium (see table next page).<sup>65</sup> State aids can come in the form of tax breaks, low-interest loans, cheap public services, or outright subsidies, and are generally aimed at protecting domestic firms against foreign competitors.<sup>66</sup> The challenge for the Commission is distinguish between legal and illegal subsidies. Article 92 of the Treaty of Rome forbids "any aid granted by a member state in any form whatsoever which distorts or threatens to distort competition by favoring certain undertakings or the protection of certain goods."<sup>67</sup> As interpreted by Sir Leon Brittan, the EC Competition Commissioner, an illegal subsidy "is almost any action in which the state, as owner, acts differently from a private investor."<sup>68</sup> Such actions could be debt write-offs or the above mentioned. In enforcing these rules, the Commission has clashed with governments traditionally supportive of state economies, especially the Italian and the French.

A case involving Renault, a French state-owned car maker and the French government in 1988 is very illustrative. In March of that year, the French government wrote off FFfr12 billion (Ecu 1.7 billion) of debts of Renault. The Commission cleared the action on the condition that Renault cut back capacity and give up its status of *regie* – that of a legal entity that cannot bankrupt. When the French delayed action, the Commission ordered Renault to pay back FFfr8.4 billion (Ecu 1.2 billion) or it would take the case to the ECJ. Although a compromise was eventually reached in which Renault paid back just FFfr6 billion, the case is evidence of the Commission's commitment to do away with such anti-competitive practices.<sup>69</sup>

There are, however, as with Article 85, some exceptions. Three types of aid are deemed legal, namely: (1) aid of social character; (2) aid related to national calamities; and (3) aid to assist regions of the Federal Republic of Germany affected by the division of Germany. Four more categories *may* also be deemed legal at the discretion of the Commission: (1) aid for the development of underdeveloped regions (the Cohesion fund now administers such needs); (2) promotion of important projects with a European interest; (3) development of certain activities or regions; and (4) any situation specified by the Commission.<sup>70</sup> Due to overriding national interests, the Commission has traditionally had difficulty staying abreast of the problem. The magnitude of state aid makes its elimination unlikely by 1993.

The examination of the legal framework of the Treaty of Rome and

the Single European Act pertinent to the regulation of competition between firms in a single market, and the analysis of the economic implications of the latter, allows us to now examine aspects of industrial concentration in the EC. Besides a study of recent trends, an attempt will be made to establish a correlation between the creation of a genuine common market in 1993 and recent domestic and cross-frontier mergers and acquisitions. Furthermore, to better understand the reasons which bring firms to merge with or acquire other firms, a general analysis of industrial concentration will be presented as an introduction.

Before the prescribed examination begins, it is useful to appraise recent progress made by the Commission on merger policy. As noted, the Commission first addressed the issue in 1972, at the Paris Summit held in October of that year. The Commission's proposal aimed to regulate mergers "whereby the undertakings involved acquire the power or enhance their power to hinder effective competition."<sup>71</sup> The motion, however, failed to pass even the initial "proposal" stage. Not until the end of 1989 has merger policy been tackled again.

The question of authority has been one of the bigger problems: do the national governments (UK's Office of Fair Trading, for example) or the Commission have authority over merger regulation? The Commission's proposal, adopted in September 1990, would give the authority to Brussels if the merger deal was to meet three conditions: (1) worldwide turnover of the (would-be) combined companies is over Ecu 5 billion; (2) turnover in the EC is over Ecu 250 million; and (3) not more than 66 percent of the turnover of either of the partners is in any member state.<sup>72</sup>

Though the one-stop principle will apply (that is, only the Commission will examine the mergers which qualify), national governments would get a second chance to inspect a merger on grounds of national interest, and given that competition is clearly not affected. National interests would include areas such as media, defense, and control of banks. There is also a possibility that the threshold of the first condition will be lowered to Ecu 2 billion once the system is properly running, since it is argued that many mergers which would effectively lead to domination escape scrutiny. Under the current criteria, the Commission is expected to examine about 35-45 deals a year; if an Ecu 2 billion threshold is



approved, the number could rise to 100.<sup>73</sup>

### PART III

#### **An appraisal of the costs and benefits of industrial concentration and a study of recent trends in the European Community**

Industries which seek to expand face a fundamental choice between internal and external growth. Internal growth can be achieved through fixed investments, an increase in production capacity, and the establishment of subsidiaries. Fixed investments, however, entail long time-lags before payoffs accrue; additional production may lead to excess capacity for which there is no demand; and expansion abroad is complicated by the unfamiliarity of the markets. Many firms, therefore, seek expansion through external growth -- through mergers.

There are three basic types of mergers. Horizontal mergers bring together businesses with analogous levels of production making similar products (also called substitute products); a second type, vertical mergers, integrate within an organization businesses which are related in the production chain (i.e. one produces inputs for the other); finally, conglomerate mergers combine industries which make products that are unrelated (i.e. which are not substitutes nor inputs for one another).<sup>74</sup> This study will confine itself to horizontal mergers.

There are three ways in which companies can merge horizontally: through full legal mergers, in which one or both of the companies cease to exist; by means of acquisitions, or takeovers, in which one firm acquires a majority stake in another; and through contractual arrangements, which normally involve a joint venture or cooperation on certain projects. Each of the three carry advantages and disadvantages.

Full legal mergers lead to major reorganizations and ultimately to thorough integration, a situation that is virtually irreversible. Cross-frontier mergers in the EC are still very difficult due to different national forms of company law. Mergers are also not yet perceived as a process creating a European-scale company, but are rather viewed as an acquisition of a domestic firm by one of a different nationality -- invariably provoking national susceptibilities. As often the country's largest company and largest single employer, European automakers are a good example. Consolidation in this sector, will become necessary, however, as competition from abroad increases. Whereas in the US, the auto industry is divided among three large manufacturers, Europe has over a dozen, with the largest, such as Italy's FIAT, Germany's Volkswagen, and

France's Peugeot, holding only around 16, 15, and 14 percent of the market respectively.<sup>75</sup>

In view of the formidable legal obstacles, the form taken by current transnational mergers in the Community is that of a takeover. One company will takeover another by acquiring a majority stake in the shares of the latter, either through the stock market or a public bid (to the shareholders). This form of merger creates a highly decentralized organization, composed of a group of companies subject to central control through a variety of links. It carries a number of advantages. First of all, the process is reversible -- the purchased company can be resold. Entry and exit into new markets is easier and is not an adventure, since the newly acquired subsidiaries have regional experience. Also, since the parent company and subsidiaries do not form a legal entity, risks are reduced, and control can be exercised at a low cost. Nevertheless, a comprehensive management strategy by the realized group, one that takes into account such factors as diversity of geography, people, assets, finance, and research, is essential.<sup>76</sup>

The third type of link-up between companies is that of a contractual arrangement. It normally entails two or more companies working together on a project, enjoying equal legal status and collaborating on a basis of unanimity. It is a highly flexible and reversible type of cooperation, though it evolves into a more formal and legal agreement when it becomes a joint venture. Joint ventures involve the establishment of a more or less permanent organization which assumes a legal dimension, and can fall under Article 85 as a form of restrictive practice -- since the partners essentially stop being competitors.<sup>77</sup>

Whether mergers always bring benefits is a highly debated issue. First of all, although two factors -- the obtainment of assets which are working and thus yield quick return, and the automatic expansion of one's market -- are reasons to opt for external growth instead of internal growth, the former does suffer from several problems. Specifically, human problems causing a deterioration of the working atmosphere are often severe and are harmful to efficiency; secondly, the integration of accounting systems is often a laborious task; and thirdly, as mentioned, the Community's varying administrative, legal and tax regulations still present overwhelming difficulties.

Taking these factors into account, empirical research into the effects of mergers has produced interesting results. One study out of many by a pair of management consultants examined US and UK firms. The study, by Coley and Reinton (1988), looked at the *Fortune* 250 and the



*Financial Times* 500 list of US and UK firms which had made acquisitions to enter new markets. They found that only 23 percent of the 116 companies analyzed were able to recover the costs of their capital, or even the funds they had invested for the acquisition. The study also revealed that the higher the degree of diversification, the lower the chance of success, and that acquisitions involving small firms fared much better, showing a 45 percent success rate. The study concluded that the main reasons for failure appear to have been: too high a price paid for the purchase, over-estimation of the potential of the new company, and inadequate post-merger management.<sup>78</sup> The study did not, however, take into account factors such as the dynamic effects of a single market. Consequently, it is useful to subject them to a cost and benefit analysis.

The are mainly three benefits of mergers:

- Economies of scale
- The absorption of costly exterior services
- More efficient management.

An inspection of the first is most essential. The savings obtained by economies of scale result mainly from a better division of labor, the spreading of fixed costs, longer production runs, and a better allocation of resources, all of which increase efficiency and bring down costs. These gains, however, must be weighed against one negative effect of economic concentration, namely monopoly power (deriving from a decrease in competition).

A number of studies view high concentration as a sign of increased efficiency, but others stress the decrease in the number of competitors as a factor which leads to higher prices and a decline of substitute products. Moreover, monopolization may also lead to collusive behavior, since fewer firms are more likely to collaborate. It seems, nonetheless, that the net welfare gains stemming from even a small increase in efficiency are enough to offset the losses due to monopoly power -- although they come in the form of lower consumer surplus and higher returns to the producers. In the European context, the analysis needs to take into consideration the additional effects deriving from the elimination of non-tariff barriers. Here, the gain from economies of scale must be added to gains accruing from a reduction of national monopoly power (many firms, especially in the utilities sector, enjoy monopoly positions), and dynamic effects such as increased competition, higher technological and research collaboration, and improved product quality. (The chart shows the estimated welfare gains for sectors of EC industry that would accrue from exploiting economies of scale.) Lastly, it is important to note with regard to the

monopolization effect that the presence of foreign firms providing additional competition helps limit the increase of prices.<sup>79</sup> (See Appendix II for an analysis of the potential effects of mergers in particular sectors of EC industry.)

The second benefit of mergers is the "internalization" of costly outside services. Instead of relying on the market, firms may absorb others which possess information, distribution networks, brands, key assets or management which can improve their performance. Although these integrations can lead to efficient new synergies, they often fail because of poor coordination, duplication of services, and a lack of flexibility.<sup>80</sup>

Finally, a third benefit arises from the takeover process. The acquisition of a firm allows the replacement of the acquired company's management, which may lead to a better utilization of its resources. This benefit, however, is offset by several dangers. For one, stock markets do not always correctly reflect the value of a company, causing management to pay too high a price for it. In these instances, the benefits ultimately accrue only to the shareholders and the management, to the detriment of long-term gains in efficiency. Also, takeovers absorb a lot of time from the normal running of a firm, often leading to a loss in productivity. In the worst cases, key assets for industrial growth are sold off to finance the takeover. As a last point, it should be noted that a threat of a hostile takeover often encourages the target company's management to improve their performance.<sup>81</sup>

It is within this context that we come now to the study of recent trends of industrial concentration in the Community. The study will support the argument that the rise in Community mergers and acquisitions (M&A), whether cross-frontier or domestic, is in large part a direct result of the 1985 Single European Act program for the completion of a single market. The argument will be based on the theory thus far presented, both on customs unions and on industrial concentration. These theories lead to the following conclusions: The creation of a common market will lead to increased competition, sustained growth, and economies of scale in many sectors including manufacturing, services, and research and development. These new conditions in a market of 340 million consumers will require firms to restructure. In particular, they will have to specialize in what they do best, and dispose of weaker assets. In addition, they will have to extend their geographical sphere of operation to compete throughout the market and to exploit economies of scale. Also, new competition will demand large-scale and strong organizations.



All these factors should lead to a sharp increase in merger activity, both on a national and on a European scale, since we have shown that this form of external growth can help firms reach the aforementioned goals.

The figures support the conclusions. In the industrial sector, the number of mergers and acquisitions, both national and cross-frontier, made by Europe's top 1,000 firms leapt from 185 in 1984/85 to 492 in 1988-89. Seventy-five percent of these firms had sales of over Ecu 1 billion.<sup>82</sup> (The tables above show the growth of the trend in the service and industrial sectors.) Overall, intra-EC deals in 1989 totalled 816, though they dropped to 760 in 1990,<sup>83</sup> a result of the present economic downturn. It is evident from the tables that the majority of deals involved companies from the same country. In 1986-87 domestic M&A made up 69.6 percent of the total.<sup>84</sup> One reason for this trend, which has been amply discussed, lies in legal complications which still arise in cross-national mergers; secondly, national mergers and takeovers have a specific purpose - domestic consolidation in preparation of imminent competition from abroad.

The figures can be better understood when combined with an analysis of the main motives for the mergers. The data comes from public statements given about the transactions, and throw interesting light on the subject (see table). In 1987-88 the main reason was the improvement of market position, (though 30 percent in 1986-87 and 35 percent in 1985-86 indicated rationalization and restructuring), both of which are entirely consistent with the conclusions drawn above. It is interesting to note that R & D did not figure highly as a reason for mergers. However, collaboration on research and development was the reason behind 26.6 percent of joint ventures in 1985-86, 19 percent in 1986-87,<sup>85</sup> and 27 percent in 1987-88.<sup>86</sup>

Thus, even though empirical evidence has shown that more often than not mergers do not succeed, and are not the only way to restructure, they still seem to be the favorite process for consolidation and expansion. France, in particular, has witnessed a sharp increase in merger and acquisition activity, from 39 cross-frontier deals in 1986 to 168 in 1989. French managers believe acquisitions will account for 75 percent of growth between 1988 and 1992, two-thirds of it outside France.<sup>87</sup> French firms are among the most active in international M&A, having in the last three years completed some major deals such as Michelin's acquisition of Uniroyal Goodrich (which made Michelin the world's largest tire manufacturer), and Compagnie des Machines Bull's purchase of Zenith Electronics, also of the US.<sup>88</sup> The reason for the M&A "obsession," as many

articles refer to it, was the belief by French executives that they were at a disadvantage to the competition because their firms lacked an international dimension. Renault, France's largest concern, for example, had a smaller turnover in 1988 than the ten leading American, six largest Japanese, and top three West German companies.<sup>89</sup>

The trend in other countries is not much different. In Holland, domestic M&A have increased from 400 in 1983 to almost 800 in 1989, and in Germany from 500 in 1983 to over 3,000 in 1989 (87 percent of total).<sup>90</sup> M&A in Germany still remains much of a national affair, and a friendly one (i.e. no hostile takeovers), since the market is dominated by firms with sole proprietors (over 75 percent), and one in which banks both mediate merger deals and own high stakes in companies.<sup>91</sup> UK firms, on the other hand, are involved in three times as many deals in the US than in Europe, and operate in a market much more developed in M&A than that of the continent. UK and US M&A advisors are consequently likely to seize the lion's share of the M&A business. US firms such as Goldman Sachs and Morgan Stanley, and UK's Schroder Wagg dominate the financial advisory market.<sup>92</sup>

The completion of the single market has also witnessed a renewed sense of urgency with which non-EC firms seek to establish a stronger foothold in the European market before the end of 1992. Swiss firms such as Nestlé and Asea Brown Boveri (ABB), US's Philip Morris and Pepsico, and Japanese and Scandinavian firms have stepped up their purchasing of European companies. US investment in Europe has increased from Ecu 67.6 billion in 1985 to over Ecu 102 billion in 1988, and investment from Japan has increased from Ecu 1.6 billion in 1985 to an estimated Ecu 11.3 billion in 1989.<sup>93</sup> In contrast to these Commission figures, however, other sources indicate different trends. With regard to the US in particular, they indicate that in 1989 European acquisitions in the US (worth Ecu 30 billion) was six and half times larger than acquisitions in the EC by US firms (Ecu 4.2 billion); secondly, they show only a slight increase of US acquisitions in Europe from 89 deals in 1986 to 120 deals in 1989.<sup>94</sup> It is important to realize, however, that investment and acquisitions are two different things. Since the largest US and Japanese firms are already established in Europe, a substantial part of the discrepancy can be accounted for by a difference of data recording. A large part of the US investment (traced back to the mother companies in the US) could have been employed for internal expansion and intra-EC acquisitions by subsidiaries.

Both intra and extra-European merger activity have also helped



fuel what can be called a self-perpetuating cycle. Essentially, the idea is that acquisitions by competing firms within an industry become the motivation for similar actions by others. This effect has especially been apparent in the food industry. The European food market is a Ecu 563 billion-a-year business.<sup>95</sup> The industry has been restructuring since the mid-1980s to adapt to stiffer competition and Community-wide varying tastes and products. Industry leaders such as Nestlé, the Anglo-Dutch Unilever, Philip Morris, and France's BSN have responded quickly to the new conditions. Since 1988 the industry has witnessed over Ecu 12 billion's worth of M&A. In its biggest deal, Nestlé bought Rowntree, a UK sweets manufacturer, for Ecu 3.96 billion in 1988, while Philip Morris spent Ecu 3.06 billion on the Swiss company Jacobs Suchard in 1990. Unilever purchased over 100 small companies in the second half of the eighties for Ecu 2.01 billion, while France's BSN has bought over 20 worth over Ecu 2.4 billion since 1988. In 1989, Pepsico acquired two of the companies BSN bought earlier in the year for Ecu 1.08 billion.<sup>96</sup> The trend is unlikely to change since the industry is still highly fragmented. The top companies control only around a sixth of a market in which more than 100,000 firms compete.<sup>97</sup>

The fragmentation of the food industry is reflective of the EC industry at large. The table below shows the market share of the five largest EC firms in selected sectors in 1986. The results show that there is still plenty of room for concentration.

Finally, it useful to observe signs of shared convictions by the European service sector that M&A are not just a transitory trend. Besides the consolidation that banks themselves have undergone in recent years, the creation of new M&A divisions attests to the importance of the business. As mentioned, US and UK firms will most likely be at the forefront of M&A advising. But most London banks have M&A teams devoting their energy to the continent; Deutsche Bank opened its division in 1984 and has since established a branch in Paris; in Italy, Mediobanca services many of the large domestic deals, while others, such as the French investment firm Paribas, have entered the Italian market and now operate on a pan-European basis.<sup>98</sup> Scores of other banks concentrate on domestic "niches." All this serves to show that a lot of money is being invested in the future of European M&A, since there is plenty of money to be made, and no one believes that the activity will dry up.

## Conclusion

The implicit argument running through this work was that the Single European Act's program for a single market has been the catalyst for the marked increase in European M&A activity. There is little indication of other causes for this trend, though one article<sup>99</sup> describes two additional aspects of it: one, which was mentioned, is the self-perpetuating cycle caused by M&A activity of other firms within a particular industry. The original cause for the rise of the trend, however, remains the prospect of large gains from a single market in 1993. A second aspect is an "increased sophistication" of European industry. The article mentions that until the mid-eighties, takeovers in Europe were virtually unknown. Here again, it seems rather evident that the "increased sophistication" was indeed inspired by a new need to restructure in view of this year's events -- in ways that previous circumstances never warranted. (Except after the formation of the EEC in 1958. Though little research has been done in this area, it was found that between 1954 and 1965, in nine different industrial sectors in the UK, around 88 percent of the top ten firms' market share increase was due to mergers. Similar results were obtained for Germany and the Netherlands.)<sup>100</sup>

This work has sought to establish a correlation between the completion of the single market and Community mergers through an analysis of theory on customs unions and industrial concentration, and an examination of the objectives of the Single European Act. One key concept to this correlation is economies of scale. A second one, although of lesser consequence, is competition.

The first objective of the Single Act One is the completion of the single market, which, according to theory on customs union (or common markets), will have the dynamic effect of creating economies of scale. Economies of scale are a stimulus for industries to restructure and expand, and to improve their global competitiveness -- which was one of the motivations behind the Single Act. Industrial concentration, horizontal mergers in particular, was shown to be an effective way to exploit economies of scale.

Competition was a second dynamic effect of customs unions. Increased competition (and cooperation) was also the first principle of the SEA. Mergers lead to the consolidation required to effectively meet increased competition, whether from within the Community or from abroad.

With regard to progress made on the completion of the single market, 65 of the 282 provisions of the SEA still awaited accord at the ministerial level in December 1991.<sup>101</sup> At present, another 10 or 15 will



have been agreed upon, but it is the integration of these provisions into national law that needs to be given most impetus. Italy has turned into national law only half of them, while Denmark has pushed through 93 percent, the most of all the twelve EC countries.<sup>102</sup> Needless to say, without a Community-wide legal basis, the single market cannot succeed.

## Appendix I

**Economies of Scale:** Economies of scale (or *increasing returns to scale*) are the opposite of *constant returns to scale*. Essentially, if a proportionate change of input (e.g. into the production process) causes output to change by the same percentage of all inputs, we experience constant returns. If, however, output increases by a larger percentage than all inputs, we have increasing returns. Increasing returns stem from improved efficiency, which can be achieved through a better allocation of resources, division of labor, geometric relations (doubling size may quadruple space), and inventories (size of inventories increase less in proportion to output.) It is implicit in this argument that more gains from economies of scale accrue from larger firm sizes. Within the context of a single market, it must be noted that economies of scale can sometimes not be reached through national economies for a lack of resources, such as large-scale R&D. That is why the high-technology industry will be amongst those benefiting the most from concentration.

**Comparative advantage:** One country is said to have a comparative advantage in the production of a commodity in which its *degree of superiority* is higher. For example, assume America's output per unit labor of food is 4 and of clothing 8. Britain's, on the other hand, is 1 in food and 6 in clothing. Although America enjoys an *absolute* advantage in both commodities, the degree of superiority is higher in the production of food. The Law of Comparative Advantage says that world output for each commodity would increase if each country specializes in the production of that commodity in which it has a comparative advantage. It follows that America would produce food and Britain clothing.

**Oligopoly:** an industry characterized by only a few large firms; as opposed to a **monopoly**, where one single firm dominates the market.

## Appendix II

With an understanding of the potential costs and benefits of horizontal mergers, the following examination will evaluate how particu-

lar sectors of Community industry should potentially fare in terms of benefits and costs. Industries are combined in four groups:

- Industries in which mergers are likely to produce a reduction in competition and no gain in efficiency.
- Industries in which mergers should produce no efficiency gains nor a danger of reduced competition.
- Industries in which mergers should improve efficiency without the danger of reduced competition.
- Industries in which mergers may simultaneously produce gains in efficiency and increased monopoly power.

Four indicators which seek to measure the degree of competition in each industry are used in the analysis. They attempt to emphasize two factors that recently have become more important than in the past, namely the internationalization of competition and the innovation and technical progress that result from it. With regard to the former, European industries must be helped to strengthen their European base for expansion in North America and Japan; concerning the latter, it is important to stimulate competition in Europe and simultaneously develop large-scale European projects which promote research in high-technology areas (see first principle of SEA).

The first two indicators help to identify where the danger of reduction in competition is greater, the other two where concentration should lead to further efficiency. The first indicator is demand growth, which measures the growth in demand over the period 1980-1985 and identifies the stage of the life-cycle of the industry (developing, maturity, declining). The danger of decreased competition is greater in a declining industry, since firms are more eager to increase market share and gain control over their costs in order to offset their reduction in growth. Also, new entries are heavily resisted since the market has little ability to absorb them, and are also at a disadvantage in terms of experience and long-standing relations.

The second indicator is import penetration. As mentioned, monopoly-induced price increases are limited by the presence of foreign firms. It follows that sectors of industry relatively closed to international trade, whether from within or outside the Community, are more in danger to a decrease in competition.

Economies of scale constitute the third indicator. Although they may act as a disincentive to new entrants since large and established firms



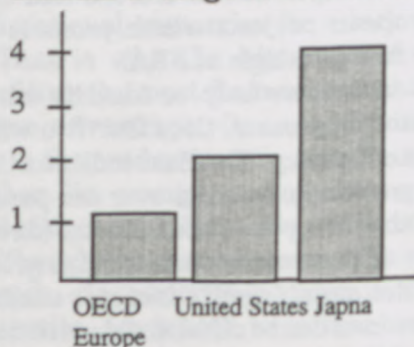
are in better position to capitalize on them, they nevertheless provide a catalyst for concentration. The indicator seeks to identify sectors which would benefit the most from reaching ideal size, and is based on the cost of an extra unit of production for firms operating below 50 percent of optimum scale. The higher this cost, the higher the benefits that would be gained from expansion.<sup>103</sup>

The last indicator is technological content. For industries which are R&D intensive, notably high-technology ones, concentration allows these to reach sufficient size for large-scale research projects.<sup>104</sup>

These four indicators, then, help us identify the probable effects

#### Charts:

**Total Investment, 1979-1987**  
**Annual average % Increase**



Source: OECD

## VAT rates, March 1991

Country	Standard %	Luxury %
Ireland	23.0	-
Denmark	22.0	-
Italy	19.0	38.0
Belgium	19.0	25.0*
France	18.6	22.0
Holland	18.5	-
Greece	18.0	36.0
Britain	17.5	-
Portugal	17.0	30.0
Germany	14.0	-
Spain	12.0	33.0
Luxembourg	12.0	-

\*excludes 8% luxury tax on restricted selection of goods.

Source: UK Treasury

## State Aid to Manufacturing Annual Average, 1986-1988

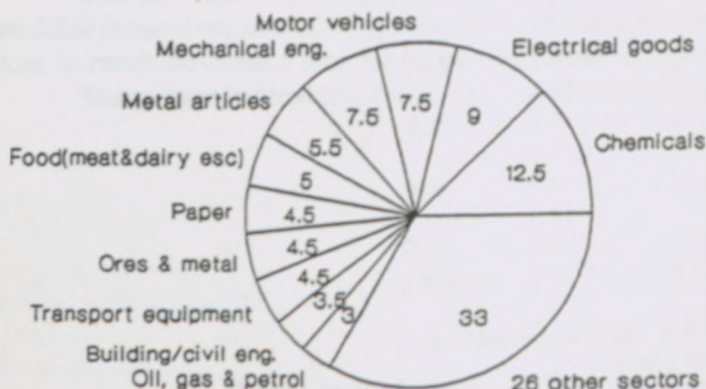


Source: EC Commission



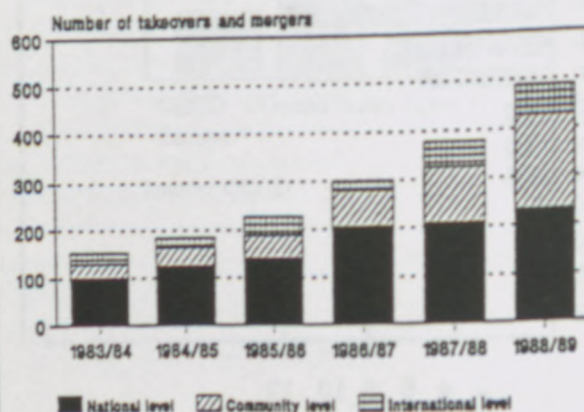
## Potential Welfare Gains from Exploiting Economies of Scale (Ecu billion)

(100% = Ecu 61.5 billion)



Source: European Economy no 35

## Mergers and takeovers in the industrial sector in the Community 1983/84 to 1988/89



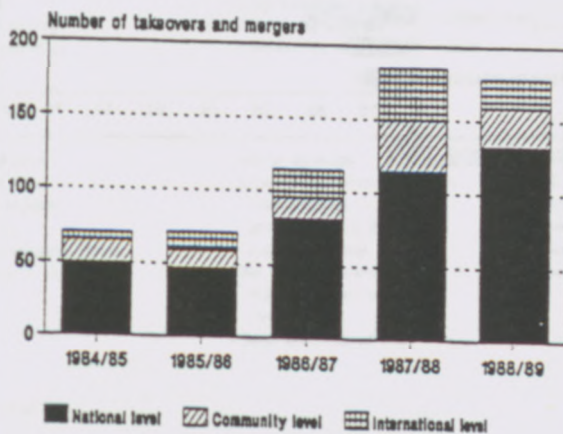
Top 1,000 firms. Source: EC Commission

### Main motives for mergers and acquisitions %

	1987-88	(1986-87)
Improvement of market position	18.3	(11.5)
Expansion	14.1	(22.1)
Complementarity	12.8	(12.4)
Restructuring	10.7	(29.7)
Diversification	6.0	(5.7)
Integration	1.6	-
Synergism	1.3	-
Specialization	1.3	(1.3)
Production and Marketing	0.5	-
R&D	0.5	(5.3)
Others	4.9	(11.9)
Not specified	28.5	-

Source: European Economy nos 40 & 42

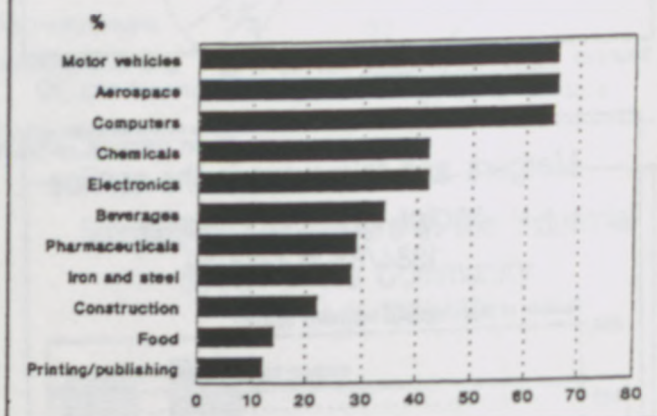
### Mergers and takeovers in the service sector in the Community 1984/85 to 1988/89



Top 1,000 firms. Source: EC Commission



# EC Market share for top 5 companies in selected industries, 1986



Source: Europe 1992

## CLASSIFICATION OF INDUSTRIES FOR MERGER CONTROL PURPOSES

Group	Industry	Characteristics	Implications
1	Building materials Metal goods Paints and varnishes Furniture Paper goods Rubber goods Tobacco	<ul style="list-style-type: none"> <li>- declining or mature industries</li> <li>- markets closed to int'l trade</li> <li>- not technology intensive or slow-changing technologically</li> <li>- limited economies of scale</li> </ul>	<ul style="list-style-type: none"> <li>- Little prospect of efficiency gains and danger of a reduction of competition</li> </ul>
2	Steel Industrial & agricultural machinery Leather/leather goods Fur Clothing and textiles Pulp, paper Jewellery, toys, musical instruments	<ul style="list-style-type: none"> <li>- Declining or mature industries</li> <li>- Fairly open to non-EC imports</li> <li>- Some strong competition from low-wage countries</li> <li>- Limited economies of scale or already exploited</li> <li>- Not technologically intensive or common technology</li> <li>- Some industries highly fragmented (toys, furs)</li> </ul>	<ul style="list-style-type: none"> <li>- Less danger of reduction in competition because of high import penetration and fragmentation in some industries. Mergers are no longer the appropriate strategy. Instead, firms should specialize in top-of-the-range products through modern and flexible technology.</li> </ul>
3	Advanced materials Chemicals/pharmaceuticals Computers/office automation Telecommunications Electronics Motor vehicles Aerospace	<ul style="list-style-type: none"> <li>- Growth industries</li> <li>- Open to int'l trade</li> <li>- Strong competition from US and Japan</li> <li>- Large economies of scale</li> <li>- R &amp; D very important</li> <li>- Fast-changing technology</li> </ul>	<ul style="list-style-type: none"> <li>- Less danger of monopolization and efficiency is to be gained from mergers. Link-ups will help firms strengthen their European base and internationalize.</li> </ul>
4	Cables and heavy electrical plant Railway equipment Shipbuilding Some food industries (pasta, confectionery, chocolate) Beer	<ul style="list-style-type: none"> <li>- Mature industries</li> <li>- Little intra-EC trade and competition restricted by public procurement and different national standards</li> <li>- Not technology-intensive (food &amp; drink industries) or only moderately so</li> <li>- Large economies of scale</li> </ul>	<ul style="list-style-type: none"> <li>- Removal of non-tariff barriers will bring rationalization and large-scale European mergers. Greater efficiency can be gained but concentration may also lead to monopolization.</li> </ul>

Source: Commission services





of mergers in particular sectors of Community industry (see chart).

### End Notes

<sup>1</sup>Jensen, Finn B. and Ingo Walter. *The Common Market, Economic Integration in Europe*, New York: J.B. Lippincott, 1965, p. 6

<sup>2</sup>ibid., pp. 7-18.

<sup>3</sup>ibid., pp. 18-20.

<sup>4</sup>Denton, G.R. *Economic Integration in Europe*. London: Weidenfield and Nicolson, 1969: p. 56, 57.

<sup>5</sup>ibid., pp. 20-23.

<sup>6</sup>Chacholiades, Miltiades. *International Economics*. McGraw-Hill, New York, 1990: pp. 222-225.

<sup>7</sup>McLachlan, D.L. and D. Swann, *Competition Policy in the European Community*, Oxford, 1967: p. 16.

<sup>8</sup>Swann, D., *The Economics of the European Market*, London, Penguin Books, 1988: p. 12.

<sup>9</sup>Daltrop, A., *Politics in the European Community*, London, Longman, 1986: p. 18.

<sup>10</sup>McLachlan and Swann, pp. 17-19.

<sup>11</sup>Jacquemin, A., *European Industrial Policies and Competition*, ed. Peter Coffey, *Economic Policies of the Common Market*, New York, St. Martin's Press, 1979: p. 22.

<sup>12</sup>Pinder, John, *The Single Market: A Step Towards European Union*, ed. Juliet Lodge, *The European Community and the Challenge of the Future*, London, Pinter Publishers, 1989: p. 94.

<sup>13</sup>Daltrop, p. 168.

<sup>14</sup>Hoffman, Stanley, "The European Community and 1992," *Foreign Affairs*, Fall, 1989: p. 30.

<sup>15</sup>Denton, p. 27.

<sup>16</sup>Krauss, M.D., ed. *The Economics of Integration*, London: George Allen and Unwin, 1973: p. 33.

<sup>17</sup>ibid, p. 34.

<sup>18</sup>Ingram, James: *International Economics*, New York: John Wiley & Sons, 1986: p. 382.

<sup>19</sup>Harrop, Jeffrey, *The Political Economy of Integration in the European Community*, Aldershot, England: Edward Elgar Publishing Limited, 1989: p. 51.

<sup>20</sup>ibid.



- <sup>21</sup>McLachlan and Swann, p. 10, 11.
- <sup>22</sup>ibid., p. 12.
- <sup>23</sup>"Europe 1992: Regionalism and Globalism." *The International Executive*, vol. 33, 1991, p. 29.
- <sup>24</sup>McLachlan and Swann, p. 12.
- <sup>25</sup>Pinder, p. 95.
- <sup>26</sup>McLachlan and Swann, p. 14.
- <sup>27</sup>"Business in Europe," A survey, *The Economist*, June 8, 1991.
- <sup>28</sup>Commission of the European Communities. *The European Community 1992 and Beyond*, Europe on the Move, March 1991: p. 8.
- <sup>29</sup>"Regionalism and Globalism," p. 30, 31.
- <sup>30</sup>Commission of the European Communities, *Opening up the Internal Market*, Europe on the Move, June 1991: p. 11.
- <sup>31</sup>ibid., p. 12.
- <sup>32</sup>*Europe Community 1992 and Beyond*, p. 12.
- <sup>33</sup>*Opening up the Internal Market*, p. 8.
- <sup>34</sup>"1992 Under Construction," A survey, *The Economist*, July 8, 1989: p. 50.
- <sup>35</sup>Pinder, p. 96.
- <sup>36</sup>ibid.
- <sup>37</sup>ibid., p. 97.
- <sup>38</sup>ibid., p. 96.
- <sup>39</sup>Agnelli, Giovanni, "The Europe of 1992," *Foreign Affairs*, Fall 1989: p. 63.
- <sup>40</sup>*Opening Up*, p. 36.
- <sup>41</sup>Pinder, p. 97.
- <sup>42</sup>ibid., p. 97, 98.
- <sup>43</sup>ibid., p. 99.
- <sup>44</sup>Emerson, Michael, et al., *The Economics of 1992*, New York, Oxford University Press, 1988: p. 223.
- <sup>45</sup>"Business in Europe": p. 9.
- <sup>46</sup>ibid.
- <sup>47</sup>*Opening Up*, p. 44.
- <sup>48</sup>"Business in Europe": p. 9.
- <sup>49</sup>*Opening Up*, p. 51.
- <sup>50</sup>Agnelli, p. 65.
- <sup>51</sup>Hoffman, p. 28
- <sup>52</sup>"Multi-speed move to union," *Financial Times*, December 12, 1991: p. 16.
- <sup>53</sup>El Agra, A. M., *The Economics of the European Community*, New York: St. Martin's Press, 1980: p. 115.

<sup>54</sup>Davidson, Scott, *Free Movement of Goods, Workers, Services and Capital*, ed. Juliet Lodge, *The European Community and the Challenge of the Future*, London: Pinter Publishers, 1989: p. 118.

<sup>55</sup>*ibid.*, p. 118.

<sup>56</sup>*ibid.*

<sup>57</sup>El-Agraa, p. 125.

<sup>58</sup>El-Agraa, p. 127.

<sup>59</sup>*ibid.*, p. 128.

<sup>60</sup>Davidson, p. 119.

<sup>61</sup>El-Agraa, p. 119.

<sup>62</sup>*ibid.*

<sup>63</sup>Pinder, p. 100.

<sup>64</sup>"Business in Europe," p. 17.

<sup>65</sup>*ibid.*

<sup>66</sup>*ibid.*

<sup>67</sup>El-Agraa, p. 129.

<sup>68</sup>*ibid.*, p. 128.

<sup>69</sup>"At Last a Merger Policy for Europe," *The Economist*, October 7, 1989: p. 89.

<sup>70</sup>*ibid.*, p. 90.

<sup>71</sup>Commission of the European Communities, *European Economy*, no. 40, May, 1989: p. 13.

<sup>72</sup>Smith, Alasdair & Anthony Venables, *Automobiles*, ed. Gary C Hufauer, *Europe 1992: An American Perspective*, Washington, D.C.: the Brookings Institute, 1990: p. 122.

<sup>73</sup>*European Economy*, no. 40, p. 15.

<sup>74</sup>*ibid.*, p. 15.

<sup>75</sup>Jacquemin, Alexis, "Horizontal Concentration and European Merger Policy," *European Economic Review* 34, May 1990: p. 542.

<sup>76</sup>*European Economy* no 40, p. 18, 19.

<sup>77</sup>*ibid.*, p. 20.

<sup>78</sup>*ibid.*, p. 20.

<sup>79</sup>Jacquemin, p. 544.

<sup>80</sup>"Anglo-Saxons set Sights on Europe," *Euromoney*, February, 1991, p. 51.

<sup>81</sup>*European Economy* no 40, p. 34.

<sup>82</sup>*ibid.*, p. 35.

<sup>83</sup>*ibid.*, no 42, p. 192.

<sup>84</sup>"Business Booms as Brussels Broods," Special Supplement, *Euromoney*, May 1990: p. 15.

<sup>85</sup>*ibid.*, p. 16.



<sup>86</sup>ibid., p. 15.

<sup>87</sup>ibid., p. 7.

<sup>88</sup>ibid., p. 20.

<sup>89</sup>"Anglo-Saxons set Sights on Europe," p. 54.

<sup>90</sup>*Opening Up*, p. 6.

<sup>91</sup>*Europe 199: An American Perspective*, p. 317.

<sup>92</sup>ibid.

<sup>93</sup>ibid.

<sup>94</sup>ibid.

<sup>95</sup>*Business Booms as Brussels Broods*, p. 6.

<sup>96</sup>ibid.

<sup>97</sup>*European Economy* no 40, p. 21.

<sup>98</sup>"EC leaders reminded of single market goal."

<sup>99</sup>ibid.

<sup>100</sup>*European Economy* no 40, p. 25.

# The West German Greens: A Manifestation of the Post-War Bloc System

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by Kevin Bogardus

*It is time ... to move from the divisions of Europe to a situation where all of us can live in security and peace together (Strasser 21)*

Green Parties in Europe trace their origin to the late 1970s and early 1980s. Because of the uncompromising environmental positions of these Green Parties, their power has commonly been viewed as marginal. The single-issue orientation of the European Green Parties and their unwillingness to compromise has limited their electoral success. The West German Greens of today are no exception. However, until the mid-1980s they were quite different than their European counterparts. The Greens of West Germany represented far more than a single-issue -- environmentalism -- and achieved stunning victories both inside and outside the political realm. One must wonder, then, how the Green Party in West Germany (FRG) was different from the others in Europe, why it was successful, and what led to its collapse. Ultimately the answer lies in understanding West Germany's position in the post-war world vis-a-vis its relations with the two superpowers -- the United States and Soviet Union.

A divided Germany in the center of Europe and belonging to two opposing blocs created a myriad of displeasing issues for West German Greens to expose and exploit. The crux of their argument centered on the notion that a divided Germany, as pawns for the two superpowers, was forced to bear unwanted costs, burdens and fears. Moreover, the Greens felt that their own politicians and political system were unresponsive and

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While the West German Green Party was different from the others in Western Europe in its purposes and successes, it ultimately was transformed from its original conception to a typical and marginal, single-issue party. What accounted for this rise and fall? A simple and straightforward explanation is that third-parties -- like the Greens -- are historically unsuccessful for an extended period of time due to institutional obstacles and susceptibility to co-optation. While this certainly seems to be the case with the Green Party, a more complex explanation involves looking at West Germany's relations with the two blocs, but more specifically with NATO and the US.

This paper will show that the Green Party in the FRG (German Federal Republic) both rose and collapsed as a result of the conditions created by the superpower rivalry. Thus, this paper will attempt to show that the Green Party in the FRG was unlike all the others in Europe. Its strength derived from its unique position in Europe and the political realities that were attached to it. Further, the paper will discuss the impact the Green Party had on West German politics and the factors contributing to its marginalization. With this, particular emphasis will be placed on the idea that the transformation from a Green Movement to a Green Party forced it to invest too much of its future success on the whims of politics and politicians, and, most especially, the superpowers.

### **The Roots of the Green Party and its Ideology**

Before investigating the origins of the Green Party in the FRG, a few words of caution must be made. This caution is a matter of semantics, but nevertheless differentiation must be made between the Green Movement and the Green Party. The Green Party did not come into being until 1979 when it entered local elections for the first time. The Greens (Die Grunen), as a movement of idealistic, anti-establishment individuals representing sundry viewpoints, however, received its name in the mid-1970s; and its roots ran as far back as the early 1950s. The antecedents of the Green Party are traced to the early days of the Cold War, when West German rearmament was a contentious issue.

The earliest traces of the Green Movement are to be found in the 1950s in a number of diverse groups. The far Left is particularly noteworthy. While many of the ideas of the far Left were radical, they would be sanitized of their strong communist odors and utilized later by the Greens. The far Left attacked parliamentary democracy as advocated by Kurt

Schumacher. It was their belief that such government only protects the rich and powerful at the expense of the poor, a concept the Greens would emphasize. The far Left instead sought to promote communism/socialism through a mass movement, "to build a united socialist Germany as a neutral bridge between East and West." (Holmes 56) The far Left was enraged when, on October 23, 1954, the end of the three-power occupation of the FRG was agreed upon in Paris and West Germany was admitted to NATO. Members of the far Left felt that the FRG tied to NATO reduced chances for reunification and forced West Germany to be subjected to the vagaries of the US.

The ranks of the discontented grew in 1959 when the Socialist Democratic Party (SPD), at its convention in Bad-Godesberg, "renounced an independent foreign policy and [decided] to work within the capitalist system as a reformist party." (Holmes 56) This was seen as the culmination of many years of moderation by such leaders as Schumacher and Ollenhauer. The policy shift alienated many in the left-wings of the SPD and more radical groups developed on the Left. The Young Socialists (JUSOS) and other student groups were the most visible. (Tipton 221)

The 1960s saw a New Left develop, unified by the desire to reunite Germany. In the late 1960s, this New Left intensified in strength, spurred by US involvement in Vietnam, the Grand Coalition between the Christian Democratic Union (CDU) and the SPD in 1966, and the Harmel Report in 1967. First, US involvement in Vietnam reconfirmed the image of the US as an imperialist power, for those who had forgotten the Berlin Airlift. The Greens would react in a similar fashion to US policy in Central America. Second, the Grand Coalition increased the flight of members from the SPD. And third, the Harmel Report, despite its emphasis on detente, confirmed once again for the New Left the staying presence of the US and NATO in the FRG. (Mattox 7) Regardless of these factors, the New Left collapsed in 1970 and the result was chaos, with many radical groups vying for power.

By the mid-1970s, dominant strands emerged and were woven together to form the Green Movement. One such strand was the "basis democratic" (basisdemokratische) movement which sought to implement a grassroots, nonrepresentative form of democracy to replace the parliamentary system of West Germany. (Holmes 58) Other strands included the New Left Nationalists and a growing ecological movement (based strongly on economic-equity issues). Influential in pulling these strands together was Rudi Dutschke, a student revolutionary from the 1960s. He stood firmly against the US, the Soviet Union and the divided Germany,



saying: "Americanization and Russification are proceeding ahead, but not winning back a real historical consciousness for the Germans." (Holmes 59)

Aside from the Left Nationalists and the ecologists, there were equally strong and similar elements on the Right that would be incorporated in the Greens. The Green Action for the Future, for example, was founded in the mid-1970s by Herbert Gruhl who at times came dangerously close to sounding like a Nazi. Thus, when the Greens met for one of the first times in Vlotho in 1977 it was clear that a union of many disparate elements was being formed, but most notably the extreme Right and Left. The motive was to bridge the "ideological gap of Left and Right and, by doing so, also the division of Germany." (Holmes 59) But the Greens commonly opposed the policies and institutions of both the Soviet Union and the United States.

Despite stating their neutrality vis-a-vis the two superpowers, the Greens frequently turned their ire on the US. This can easily be explained by the fact that the FRG was more linked to the US. While it may be explained in this fashion it cannot be ignored. The Greens were distrustful of both American nuclear policy and its overall pervasiveness in Western Europe. They viewed Western Europe, but especially the FRG, as the puppet and the US as the puppeteer. Thus, going one step further, since the FRG was merely a puppet, the unresponsiveness of the German government could be blamed on the US. Everything associated with the US – parliamentary democracy, corporations, NATO, and the American Army – came under attack. As Holmes writes: "The ideological battle with the United States is put on the same plane as the struggle to prevent Germany from becoming a nuclear battlefield between the superpowers." (Holmes 61)

The ecological side to the Greens was related to this same notion of anti-Americanism. The modern, American culture was attacked specifically. For the Greens, the US represented the quintessential super-industrial society, seeking unlimited industrial expansion. Such industrialization, the Greens believed, promoted and required constant economic growth, high technology, rampant consumerism, materialism, and exploitation of peoples and nature. This radical, political-ecology was inspired by the belief and fear that the US sought to impose its model on the FRG and thus denigrate it.

Recognizing that the US was not the only country pursuing economic advancement, many Greens focused their attention on the broader issue: the world export market. Those holding the most extreme

viewpoint called for German economic nationalism or autarky and the end to international, economic competition as the only means to preserve the environment and slow natural-resource extraction. At the same time, the Greens showed strong support for the Third World, comparing the latter's situation and misfortune to its own. The Greens sought, through large foreign aid programs to the Third World, to create a unified front against the two superpowers, while at the same time experimenting with revolutionary, pre-industrial models of economic organization.

Acknowledging the many viewpoints comprising the Green Party, a couple of blanket statements may nevertheless be made. The Greens supported a pre-industrial society and opposed much of the modern world. Because of this, their social and foreign policies were inextricably linked. This ideology existed in Germany, amongst the intellectuals of the Right, for many years, but it wasn't until the late 1970s and early 1980s, in the midst of the "Revived Cold War," that it was brought to prominence through the Greens. The Green Party served as a vehicle for anti-modernist sentiments stemming from a number of circumstances in Germany.

### **The Greens Mobilize**

In 1969, when Willy Brandt and the SPD came to power there was some reason for both optimism and skepticism among the many divided groups that would later form the Greens. (This optimism helps explain the break-up of the New Left the following year.) Willy Brandt's policy of *Ostpolitik* made many hopeful that the end to the divided Germany, under the grasp of the two superpowers, was near. In August 1970, Brandt visited Moscow and in December of that year he visited Poland. As a result of these visits treaties were signed with both in 1972. Two other important treaties were signed in that year: the Quadripartite Agreement and the Basic Treaty. Both attempted to normalize relations between the East and the West. The Basic Treaty, in particular, recognized the existence of the two German states without dismissing the possibility for unification. In fact, with the closer ties between East Germany (GDR) and the FRG there was hope that such signaled a first step towards reunification. (Burdick 190) But while there was much to be positive about, skepticism and distrust in the US efforts for detente were also present. Many of the future Greens feared the US selling out German interests.

Green fears materialized in the late 1970s when detente broke down and the limits of *Ostpolitik* were revealed. Germany was still



divided, and the FRG remained tied to the US. To make matters worse, relations between the US and the FRG were at an all-time low concerning such issues as economics, human rights and aid to the Third World, to name a few. This was due, in large part, to the personality clash between President Carter and Brandt's successor, Chancellor Schmidt of the SPD. The apparent failure of the US and the FRG to reach agreement on most matters, such as the neutron bomb in 1977, permitted the Greens to question the purpose and future of such an alliance. (Burdick 199) The Greens were also given life when the SPD shifted towards the center of the political spectrum. This encouraged the leftist fringes of the SPD to break off and join the growing Green Movement.

### **The Greens Enter Parliamentary Politics**

The formation of the Green Party in 1979 and its entrance into politics was a major step. While the movement had been building momentum for years, it managed to remain out of the fray of politics. The Greens consciously were an extra-parliamentary force, recognizing the exigencies of parliamentary politics. But in 1979 this philosophy changed in reaction to the dual-track decision of NATO's Ministerial Council. The dual-track decision of December 12, 1979 called for the deployment of 108 Pershing-II ballistic missiles, as well as 96 ground-launched cruise missiles (GLCMs) in Germany (the latter being part of a total 464 to be deployed in Western Europe), unless NATO and the Soviet Union could reach an agreement limiting these weapons and their Soviet counterparts, the SS-20s. (Davis 1) The Greens immediately reacted to such deployment plans, saying that the FRG would be reduced to colonial status or become the 51st state of the US. Others said that it was the US's intent to remove the threat of war from its own land and to place it squarely in the middle of Europe -- in Germany. Gert Bastian, a Green Party member said: "The launching of a Pershing from our soil would be a kamikaze operation for our entire people." (Holmes 19)

Spurred by the dual-track decision and the overall abysmal state of affairs in Germany caused by the superpower rivalry, as the Greens saw it, the Green Party entered politics in 1979 at the local level. For a first effort they were reasonably successful in such places as Bremen and Baden-Wuerttemberg. (Conradt 407) It was after 1979, however, that their political strength grew. They constructed a party that sought to address the needs of all the disenfranchised members of society and approached politics in a very novel way. The Greens were "the anti-party party." (Rogal

72) One member describing the party said: "We are not Left, we are not Right -- we are ahead!"(Conradt 407) And indeed they were ahead, ahead of their time -- a revolutionary force.

A few questions must inevitably be asked when considering the growth of this party. This paper has shown where the Greens came from, but what did they want to do as a political party? What attracted the voters? Were they successful in power? And how long could they last as an "anti-party party"?

### **The Green Party's Approach**

The Green Party, responding to new circumstances in the early 1980s, effectively took key issues and ideas from its ancestors. In the early 1980s, an economic crisis, the dual-track decision, environmental degradation, and societal inequalities allowed the Greens to repackage and sanitize many of the ideas of groups preceding it. Essentially, the Greens focused their attention on the international world community dominated by the US. One Green activist commented: "It is no longer understood that one speaks of progress while we are running to our destruction, practically like lemmings."(Dougherty 69) While the Greens called for zero-economic growth, they nevertheless blamed the world economy for their decline in the photography market and the automobile industry (in both cases Japan was the country to whom the FRG lost out). Germany also faced slower growth rates and higher unemployment.(Wegs 248) It thus seems fair to say that the Greens searched for means by which to oppose the powers that divided Germany, even if at times they sounded contradictory or counterintuitive. Besides zero-economic growth, the Greens more importantly sought new environmental protections, expulsion of foreign troops from German soil, and the dissolution of both NATO and the Warsaw Pact, to be followed by emergence of a neutral Germany.(Haeger 26)

Because the Green program was so inclusive, it was often contentious. For instance, speaking of its platform document, one observer said: "Its 47 rambling, single-spaced pages run to the incoherent ... most are only good for waste paper."(Rogal 72) But this is perhaps too critical. The Greens represented noticeable unrest in society. They represented the "lost children of the country's political system."(Haeger 26) Michael Greve, of the *National Review*, maintained that many of the Greens were "overeducated and underemployed: such people provide a ready pool for recruitment by the peace, disarmament and reunification forces."(Greve 24) Capitalizing on these elements and the fact that the SPD, because of



the country's recession, reduced many of its social programs, the Greens skillfully wound up as a coalition of disenfranchised persons. Such a coalition managed to unite by agreeing to place blame for all their problems on the US and the USSR. Michael Greve aptly comments: "Pessimism is a legacy of the Sixties. The students of the Sixties ... felt that the Bonn 'establishment' was Washington's puppet ... [but] not until the Greens hit the scene did an organization successfully exploit tensions within NATO." (Greve 24)

From Greve's statement one may gather that the Greens were different than their predecessors, in that they were successful. Much may be attributed to the fact that the Greens were a bit less radical than earlier movements had been. For example, in the 1980s both America and the Soviet Union were equally inimical to peace and German unity. Greve calls this the opposition to "Vodka-Cola Imperialism." (Greve 24) The Greens, feeling "skittish about power" (Rogal 72) sought to redefine politics, decentralize it and bring it back to the common man.

From the start, Green Party leaders were fearful that its own success would ruin it. After all, it is easy to run on a platform of no compromise and new political ideals, but once in office the issues come down to either yes or no, not a grayish alternative. In addition, successful third-parties are susceptible to co-optation. This is precisely what happened to the Greens. They entered the fray of politics promising to limit the terms of office for their candidates to two years (by alternating their candidates), to accept only a small percentage of their salaries, to pursue collective leadership, to promote equal opportunity for women, to require regular reporting by the legislators to the party, and to force the resignation of legislators not adhering to party policy. (Frankland 392) The Greens used the rallying cry: "It's too late to leave politics to the men in the pinstripe suits." (Rogal 72) As Petra Kelly, a Green Party leader said, "Change ... has to come from the bottom, not the top." (Haeger 27) This idealism, the Greens would learn, is antithetical to parliamentary politics.

The unorthodox approach of the Greens caught the attention of the media and brought the party much publicity. As a result of this and the fact that the SPD, the other party of the Left, was split over social policies and the "dual-track" decision, the Greens won 5.6 percent of the vote in 1983, becoming the first new party in 30 years to enter the Federal Diet. (Edinger 143) It should be noted that while the Greens benefitted from the disorganization of the SPD, the CDU was the biggest beneficiary, returning to the Bundestag after 13 years in opposition. (Burdick 200) The

Greens entered the Bundestag, with much fanfare, marching for peace and to the sound of African drums. They wore anti-nuclear T-shirt and beards and carried plants, setting themselves apart from the other legislators. One observer commented: "I have never seen anything like it and I don't want to again." (Deming 52) During the swearing-in of Chancellor Kohl, the Greens even walked out, blaming Kohl for supporting NATO's missile deployment in Germany and shouting that it "endangers the existence of our people." (Deming 52)

The media attention quickly left the Greens and the realities of governing were revealed to them. Greve wrote: "With success comes power and responsibility, which fundamentalist movements tend to regard as obstacles to integrity and purity." (Greve 27) This is evidenced with the Green Party of the FRG which quickly split in two, along the lines of Fundamentalists (Fundis) and Realists (Realos). The Fundis refused to compromise and saw the SPD as their worst enemy. The Realos, on the other hand, felt that compromise was needed to get measures passed and to prove that they could rule effectively. The divisiveness of the party and its inability to carry out its new ideas, for instance legislator rotation, was injurious to its morale and made it susceptible to co-optation, as the other parties took more "environmental-friendly positions." (Dickman 6)

While the Greens were co-opted on their environmental stance, their real blow came not from within, but from NATO. True, the Greens represented a grassroots political structure but more importantly they stood in opposition to NATO and the Warsaw Pact. The 1983 Green Party Platform, reacting to the imminent deployment of GLCMs and the Pershing-IIs, stated:

Humanity can only survive if right takes the place of might. We Germans must particularly stress this demand, as any so-called 'emergency' would bring our destruction. The nuclear 'deterrent' has become an ineffective threat, as it implies nuclear self-destruction. Peace and disarmament must therefore become the maxim of German foreign policy and strategy ... Peace must proceed by immediately beginning to dissolve the military blocs, in particular NATO and the Warsaw Pact. This will create the basis for overcoming the partition of Europe and the division of Germany. (Cioc 191)

In effect, the Greens staked their party's success on the obstruction of NATO's missile deployment. Accomplishing anything less than



this would mean falling short of the goals they had set for themselves.

For quite a while it seemed that the Greens might prove a formidable enough challenge. Many began to reconsider the full implications of the Pershing-IIs in Germany. Speaking of the impending deployment of the missiles, one German commented: "Its introduction into the balance of power represents the beginning of a new era." (Wolfe 15) Another cautioned that, "unless the Reagan Administration pauses to take West German sensibilities into account, a cleavage within NATO becomes a possibility." (Wolfe 15) This comment is rather pithy since it emphasizes the Reagan Administration's tendency to ignore the particular interests of many NATO members. Reagan often solely focused on the Soviet threat. For many in NATO and in the Reagan circle, the Green Party represented nothing more than the "Soviet Trojan horseman." (They called attention to reports which stated that the Greens were financed by the Soviet Union. The Greens denied such allegations, but there may have been some truth to them.) The Greens saw the US-FRG conflict as a continuation of the deteriorating relations that began during the Carter-Schmidt era.

For several tense months, NATO wondered if it should push the issue. The Greens were calling for neutralization and denuclearization on the Austrian model. Policy-makers recalculated the strategic gains of the Pershing-II vis-a-vis the diplomatic loss incurred by straining the alliance to the utmost. (Wolfe 15) Nevertheless NATO, in November 1983, began its deployment of the Pershings and the GLCMs. The Greens protested with the "new rallying cry of 'Air Land Battle,' the shorthand for what was seen as the transformation of NATO from a defensive to an offensive alliance ... [with a] first-strike capacity." (Burns 226) But the protests of the Greens Party amounted to nothing.

Thus, after the deployment of the Pershing-II in 1983, the Greens became something of an illegitimate party. Their grassroots approach to government was a failure and most importantly they were unable to assert their position in NATO. In addition, the Greens lost their unique environmental stance to both the SPD and the CDU. Rudolf Bahro, a fundamentalist in the Greens, commenting on the new vacuousness of the party said: "What people are trying to do ... is save a party - no matter what kind of party and no matter for what purpose. The main thing for it is to get elected in 1987." (Dobson 138) The original goals of the Green Party were dead. Only the name remained.

## After the Green Party's Collapse

In 1987 the Greens won approximately eight percent of the vote, but this is deceiving. These votes did not represent the same interests as in 1983. (Szabo 361) These votes were largely the result of the chaos within the SPD. Some votes came from the Germans holding extreme ecological standpoints and in reaction to Chernobyl, but gone from its constituency were the young and the others displeased with the role of NATO. More conservative voters who were coming of age seemed to be the new trend. The Greens were further weakened by their failure to recruit new members. Most importantly, the Pershings had come and peace prevailed. A new era of detente seemed to be dawning with Gorbachev and the resumption of superpower negotiations.

In 1987, the Green Party in Germany joined the ranks of the other marginal Green Parties in Europe. It did so, however, only after a serious experiment in politics. The German Greens were unlike all others in Europe. Because of the central importance (geographically and ideologically) of Germany in Cold War Europe, the FRG was forced to withstand heavy burdens both NATO and the Soviet Union (indirectly) placed upon it. The Greens, thus, were a reaction to the post-war conditions created by the superpower bloc system. These conditions served as the impetus for the slow and revolutionary rise of the German Green Party as well as its eventual collapse. The Pershing missile deployment debate proved to be the decisive factor for both the Greens' rapid rise to success and its precipitous fall.

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# The Past, Present and Future of the Soviet Economy

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by Katherine Ginzburg

Mikhail Gorbachev inherited a wide range of pressing economic problems when he became General Secretary of the Soviet Communist Party in March 1985. The Soviet Union's economic problems encompassed the alarming decline in the growth of output and factor productivity, a growing dissatisfaction with consumer goods quality and availability, a disturbing technological gap with the West, a restive population that was scarcely reproducing itself in the European republics, rising mortality associated with the level of Soviet health care and alcoholism, and finally, a serious food problem. This collection of problems represented not only the legacy of the Brezhnev regime, but also that of all Soviet leaders that created and employed the nation's economic structures. It was perhaps easier to ignore the plethora of issues on this list at a time when the West was experiencing its own economic difficulties of the energy crisis and stagflation; however, the economic expansion of the 1980s intensified the urgent need to contend with these problems. It is important to assess how Gorbachev addressed these crucial issues in light of the inertia of the system, why he failed, and whether he failed as a leader or fell victim to his own reforms before we can speculate about what lies ahead for the economic condition of Russia and the Commonwealth of Independent States (CIS).

## Gorbachev's Inheritance

When Gorbachev came to power he inherited more than the

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problems his predecessor neglected and allowed to accumulate, collectively known from the 1970s to the mid-1980s as the period of stagnation. In addition to *zastoi*, the Soviet Union suffered and endured a growing problem of petroleum and gas export, historic state-building and the legacy of failed reforms with recurring themes.

The period plagued by lack of innovation and the presence of corruption during the Brezhnev years can best be captured by examining a few economic indicators (see Tables 1 and 2). The evidence presented by this data shows that up until the mid 1970s, the Soviet Union level of output growth exceeded that of the United States. Soviet input growth remained slightly above that of the United States, but the margin of superiority had narrowed. Most alarmingly, Soviet factor productivity had been negative since the early 1970s, while US's rates have risen. Considering the Soviet Union is a lesser developed country than the United States, her growth rates should have kept pace with rapid modernization.

The wealth and abundance of natural resources made up for the shortcomings of the system. In the Soviet Union, these are treated as free and unlimited goods. Rising revenues from the massive exports of petroleum and oil deepened the economic crisis and postponed the day of reckoning before the inevitable economic collapse. With the Yom Kippur War and the Arab Oil Embargo imposed by OPEC, Soviet Union's petroleum sales accounted for eighty percent of hard currency earnings. This reality allowed the country to become the largest grain importer, as well as import technological equipment necessary to build up the military.<sup>1</sup> The decline in oil prices and the increase in Russia's own need for energy sources delivered the final blow to the already dysfunctional system.

The command economy is a centrally planned, administratively directed system which does not reflect the forces of supply and demand as does a market economy. The "visible hand" issues five year plans based on previous production quotas and arbitrarily sets prices. Although beneficial in its ability to allocate resources to a desired sector producing rapid industrialization and high rates of economic growth, the disadvantages of unbalanced growth, an over-taught economy, and a lack of technological research make the system undesirable. The current economy also reflected the failures of the historic state building system instituted by Stalin in the 1930s and espoused by subsequent Soviet leaders. According to Stalin's idea of building socialism, the process required certain "unavoidable sacrifices."<sup>2</sup> In the economic realm, this theory translated into



the favoring of military and heavy industry at the expense and neglect of the consumer sector and agriculture. The military achievements created the illusion that the nation was an industrial powerhouse, despite its massive imports of grain and backwardness compared to the West. The best resources went to the top priority -- military and defense, and in the event of unused or unwanted materials they would be divided among all other industries. When the issue of economic growth was raised, the Soviet leadership opted for the extensive growth model, thereby utilizing more factors of production rather than improve the efficiency of the already used land, labor and capital. This model, working best in a lesser developed country, achieves rapid growth in the short run in exchange for encumbrances to growth in the future. The Soviet system had long reaped the benefits of this system, but had proved unwilling to switch to the intensive version. As for the leaders of this system, their lifetime tenure contributes to a lack of accountability and absence of checks and balances. All leaders act singlehandedly and abusively, to a degree in keeping with their personality, thereby suppressing debate and dissent.<sup>3</sup>

Efforts to reform the Soviet economy are not new, conform to certain themes and leave behind some important lessons. Since the New Economic Plan of 1921, Soviet leaders have substantially modified the "classic" system of the command economy. In most cases however, the changes were marginal and did not affect the "real functioning of the system; reform measures remained on paper and those which were implemented were reversed or neutralized by the powerful bureaucracy."<sup>4</sup> Leaders such as Khrushchev and their reform programs illustrate the above reality of inefficiency and reluctance to change perpetuated by the vested interests of the nomenklatura.

Past reforms have not only sought economic improvement by devoting resources to the much neglected consumer sector and rejuvenating agriculture, but also by reducing the central command over all aspects of the economy. Some other themes from previous reforms include the reduction of "petty tutelage" and the introduction of autonomy in the decision-making process for state enterprises, the concept that enterprises should be more responsible for final results including cost coverage and investment plans, and the notion of "direct links" in which enterprises are more closely tied to the consumers in an attempt to serve their actual needs. Lastly, many reforms attempted to grant some autonomy to the agricultural sector.

Gorbachev and his reform advisors must have learned from earlier rejections of the reform effort and Soviet history. The most

important lesson deals with reducing central control of the economy. This opposition threatens the omnipotent vested-interest bureaucracy and their inherent "perquisites," on whom the reform relies for the success of the program and the survival of the leader. Consequently, the sovereign bureaucracy responsible for implementing and overseeing the required changes undermines their success. The "foes of change," as Cohen calls them, who advocate a preservation of the status quo and the belief in Tucker's "sustaining myth," represent obstacles to reform and contribute to unsuccessful policies, leaders, and a nation whose confidence has been tried to the point of inability to believe in and unwillingness to suffer for a brighter future. Managers and workers have historically proved obstinate to reform, for they must work harder, bear more risks, and possibly become unemployed. More recently, Gorbachev's reforms have differed from his predecessors' attempts, in that they sought to improve the efficiency of the centrally planned system and even represented an ambitious transformation to a market economy.

### **Gorbachev's Reforms**

At the time Gorbachev took office he acknowledged the critical situation of the Soviet Union internally and in comparison to other Western nations. Gorbachev's reform efforts fall in two distinct stages both from the viewpoint of time frame and desired goals.

The first Phase, beginning when he took office in March 1985 and ending in mid-1987 could be described as a desire to improve the system by introducing discipline and greater efficiency. Consequently, concentrating on productivity and the life of the consumer, he termed the effort *uskorenie* and *intensifikatsiya* of the economic system that would reverse the long-term decline of growth and production, especially the period of stagnation. This process also involved a political and social democratization that would allow the Soviet leader to create an international atmosphere that would involve arms control and withdrawal of Soviet troops from Europe and other parts of the world. Being a superpower definitely had its costs; military expenditures composed up to 15 percent of the GNP, not including aid to Eastern European and Third World countries.<sup>5</sup> The new environment would allow the Soviet Union to free up the much needed resources to concentrate on domestic concerns, light industry and the consumer sector, rather than spending on the industrial-military complex. This policy would also permit Gorbachev to gain trade concessions and aid from the West. Initially, the measures also intended to



provide Soviet citizens with a stake in the system and a reason to bear the cost of reform. The economic changes also necessitated less political repression; however, while successful internationally, the policy also hastened domestic political disintegration.

The first of the series of reforms was the Anti-Alcohol Campaign. Focusing on the human factors of declining life expectancy and productivity, Gorbachev optimistically believed that this measure would force the country to become sober. The next two features of reform dealt with the employment of resource allocation and increased central recentralization, respectively. First, Gorbachev with the goal of modernizing and making more efficient the industrial base in order to catch up with the West, targeted investment in machine tools, building more domestically and importing more from the West. The creation of superministries was the second innovation. A new state committee, Gospriemka, financially and hierarchically independent of enterprises, was given the authority to reject low-quality output thereby forcing enterprises to concentrate on higher-quality production. Under this system, goods that did not pass inspection, could not be counted toward the fulfillment of the plan, thereby ending the problem of sacrificed quality in order to meet Gosplan's targets. In addition, Gorbachev created Gosagrokombank headed by Murachovsky to address the machine industries in a similar fashion in order to bring greater innovation to agriculture by destroying the bureaucracy, granting autonomy to collective farms, and selling the remaining production. Third, on November 19, 1986, a Law on Individual Labor Activity (*Individual'naya Trudovaya Deyatel'nost'*) was adopted and recognized a need to encourage private initiative.<sup>6</sup> This law provided the first legal foundation for new forms of cooperatives. In essence, the document allowed family members who resided together to form a business, previously considered illegal. The legislation also stated that students, the disabled, housewives, and others not currently employed in the state economy would be allowed to enter the private sector full-time, while others already employed could participate "in the time they have free from work."<sup>7</sup> The benefit of this law includes the enlargement of the labor force, a contribution to the GNP and the provision of goods and services otherwise unattainable. The additional goods to some extent eliminated the ruble overhang and forced out savings that had accumulated as a result of a shortage of consumption goods. Finally, in mid-1986, the State Commission for Foreign Economic Relations was created to coordinate foreign trade decisions under new, more decentralized arrangements.

So, how did the first Phase fail and show a need for the reorientation of reform that initiated Phase Two? To answer this question, we must look at the drawbacks in the measures Gorbachev instituted in Phase One and circumstances in the country. Before the Anti Alcohol campaign which substantially reduced tax revenue, 17 percent of state income came from alcohol sales.<sup>8</sup> People remained unhappy, found inventive ways to obtain vodka, and switched to *samagon* as evidenced by the run on stores for sugar. As reforms under Khrushchev proved agriculture resistant to change, so did Gosagrokombank find it difficult to reform this sector. Murakhovsky, an outsider to corporate culture, instead of revitalizing the institution, found himself defeated by the agricultural bureaucracy. The Law on Cooperatives served to legalize activities that were formerly unsanctioned private enterprises that lay in the underground economy. Once organized, cooperatives found it difficult to access supplies because Gosplan allocated supplies to state enterprises and not cooperatives, the large profits attracted the undesirable criminal element, collectively known as "the mafia," and the state ambitiously desired to tax away as much as ninety percent of cooperative income, thereby reducing the appeal of forming one. The mid-1980s sharp decline in oil prices which greatly reduced hard currency earnings was beyond Gorbachev's control; however, his increased importation of machinery exacerbated the oil crisis. Decreased consumer production, a result of numerous factors, including Gospriemka's rejection of goods and the under-performance of cooperatives, produced even more shortages. All these failures show how Gorbachev wasted time when people were most willing to change and bear the risks of reforms, in this way not taking advantage of what Marshall Goldman calls the "honeymoon period." The consumer shortages show that Gorbachev began with the wrong sequence of reform by not tackling the agriculture sector successfully. Had he produced food for the country as exemplified in efficient Hungarian and Chinese reform, the population would be willing to make sacrifices in other areas of reform. His mistakes show a reluctance to move beyond socialism and firmly insist on private property, quickly making a decisive break from the past. This indecision foreshadows the "treadmill of reforms," the back and forth efforts and indecisiveness that plagued his tenure as General Secretary and finally led to his failure.

Phase Two began in mid-1987 and lasted until the August 1991 Coup, shortly after which Gorbachev lost power. He decided that the old system could not be improved and must therefore be fundamentally restructured through *perestroika*. At the June 1987 Economic Plenum,



the critical problems facing the Soviet Union were at the forefront of discussion. Gorbachev presented the partial dismantling of the economic apparatus and the gradual removal of price controls. The plan encompassed the Law on Enterprises and critical price initiatives.

In January 1988, 50 percent of enterprises were placed under the New Enterprise Law intended to gradually remove, or at least shrink, the role of central planning of enterprises and give more decision-making authority to the managers. The law issued Goszakazy which reduced the old state orders and allowed the enterprise to keep 15 percent of its own production during the first year, and thirty percent the following year. This plan was presumed to be attractive to managers to produce efficiently, expand production, and increase capital investment, thereby not only reducing the need for state subsidies, but also allowing managers to sell the surplus at higher prices.

The price reform and the introduction of relative prices that reflected scarcities and provided a basis for rational decision-making, consisted of significant reforms of wholesale and retail prices under a timetable that stretched into the early 1990s. The intent of the new three-tier system was to create an industrial wholesale price system in which relatively few nationally important commodities had centrally set prices – the bulk were contractually negotiated between the buyer and seller according to rules and limits set by pricing authorities. Retail prices were also to be reformed with the goal of eliminating price subsidies. The great delay in the implementation of this plan dealt with the Soviet authorities' reluctance to turn price formation over to impersonal market forces and an unwillingness to proceed forward.

Finally, the 1987 Law on Joint Ventures encouraged foreign firms to establish businesses in the Soviet Union with their counterparts. This legislation represented a major change of Soviet foreign trade policy and practice but contained essential restrictions in regard to issues such as foreign equity and the 51-49 percent profit repartition.

The assessment of the second Phase includes how the above measures failed in their objectives. First, the major fault with the New Enterprise Law lies in the Supreme Soviet's adoption of new legislation without the removal of the old system which left two contradictory systems in effect and hampered the potential success of reforms. In addition to this fatal drawback, the legislature failed to realize that the managers did not want to sell the surplus production. Not only was it easier and safer for managers to operate under the old system when the ministries demanded 90-100 percent of output and the managers did not

need to worry about selling the surplus in the absence of market infrastructure. Finally, as evidenced by the reluctance for "all out" measures the document not only affected half of the industries, but also fell short of effective privatization, and consequently did not make an adequate transition to a market economy. The gradual nature of reform contributed to a chaotic atmosphere with half of the enterprises operating on state orders and half under the new system. The plan also contributed to a macroeconomic and monetary crisis. The Enterprise Law decreased the product assortment by increasing the production of more expensive goods at the expense of cheaper ones. The plan also raised the number of "new model" items because as a result of minor variations, enterprises could charge higher prices. The increased incomes and demand contributed to pervasive shortages and the downward spiral of the economy. The state of the economy produced a need for radical changes in 1989.

Price reform is critical to the success of other reforms and is most complex. Even countries like Hungary that have had a moderate success in other reforms have had a difficult time with prices. Provided that the Soviet Union had not been remotely successful in its changes, price reform was especially problematic.

Finally, as typical of Soviet power, the Joint Ventures Law was ridden with restrictions that limited its effectiveness. Moreover, once the joint ventures got off the ground, there was a two-sided problem. The perspective of foreign investors shows the lack of confidence in, even fear of, the weak Soviet economy, not to mention stern political control despite the seeming democratization. In this unstable economic environment the cost-benefit analysis does not provide enough conviction to bear risks with uncertain rewards. From the point of view of the Soviet leaders and the population at large, joint ventures were seen as "sale out" of their homeland for the sake of capitalist profit, thereby further frustrating the law's success.

Some critics claim that Gorbachev never had a complete reform package.<sup>9</sup> While the above argument has some validity, other experts like Marshall Goldman and Hewett exonerate Gorbachev from some blame by saying that there was no model, no plan of a socialist country transforming to a market economy for the Soviet Union to follow. As Hewett states, "Western economists knew a great deal about how to manage a market economy, but very little about how to create one."<sup>10</sup>

The results of Gorbachev's enacted policies worsened the economic problems he inherited in the realm of the consumer sector, investment, and the monetary and fiscal crisis. First, the consumer market



continued to disintegrate with lost alcohol sales, reduction of imports of consumer goods, the underfulfillment of plans, investment policy that continued to favor heavy industry, and failure to produce an increase in food supply. While supply of consumer goods declined, incomes rose from cooperative activity and other programs. The combination of these two factors produced longer lines, increased black market activity, alternative channels of goods distribution, rationing and rising open and repressed inflation. The attempt to employ "stabilization" measures counter to the reform, once again perpetuated rather than solved the problem. Second, the investment mess stemmed from Gorbachev's attempt to rectify the "scientific-technical" progress by increasing the growth rate for investment which earlier grew slower than that of consumption. The goal of the policies failed because the decentralization of investment to regions and enterprises produced forces of "localism." Finally, Gorbachev faced a monetary and fiscal crisis of "truly horrifying dimensions" that he failed to recognize until it was too late.<sup>11</sup> By 1989, the budget deficit had grown, because of increased government expenditures and a shortfall in state revenue, to reach 98 billion rubles, equivalent to about 10 percent of the GNP.<sup>12</sup> To make up for the massive debt, the government borrowed an even larger amount from the population and resorted to printing money to bridge the difference between spending and revenue. The faster growth of incomes relative to the supply of goods and services produced a ruble overhang which further fueled inflationary forces to even greater extremes.

Gorbachev should have worked on instilling discipline into the economy thereby improving its efficiency and people's quality of life. Once he went beyond *uskorenie* and *intensifikatsiya* he should have made a clean break from the past, rejected the "myth," and allowed *perestroika* to aid the country in its transition to a market economy. Instead, this "accidental revolutionary" subscribed to the myth and other intrinsic principles, viewed a flaw in socialism that he could ameliorate, and the changes he unleashed constantly forced him to go further than he originally expected. Consequently, people did not know how to function in the chaotic world of central directives and autonomy, which caused a production breakdown with all expecting goods and food, and no one to produce them. Gorbachev did understand that without political reforms, the economic ones would have quickly failed. But the democratization did not come without drawbacks. Regional autonomy and forces of populism began to emerge and plague economic success. He failed to realize the depth of the economic crisis facing the nation, did not improve the system,

decided to throw away the old system "five minutes too late" because the population lost both enthusiasm and faith in Gorbachev.<sup>13</sup> Gorbachev lacked a final goal, and this clarity of purpose made it difficult to assess where and how far to go without a pattern to emulate in transition. "Decentralization is key," said Hewett for decision-making authority should be given to those who have the necessary information about production possibilities and consumer preferences. Although Gorbachev understood the necessity of the above he failed to create an economic environment where such a system would work because the distorted prices and contradictory systems at work hampered the reform effort. Second, as evidenced by Eastern European experiences in the 1970s, property rights provide the best incentives for efficiency and growth, and consequently aid the success of the reform. The Soviet Union lacked the small enterprises that could produce goods and services to the neglected consumer sector because the government failed to provide conditions in which they would flourish. Learning from the "China theorem" which emphasizes the importance of the liberalization of agriculture that leads to a rapid expansion in food supply and consumer goods and services, thereby creating popular support for tougher reforms in the industrial sector, Gorbachev could have embarked on a proper sequence. His chosen gradual approach to industry served to do little but create a chaotic environment, while a better method known as shock therapy could have encompassed a stringent subsidy policy, rapid freeing of prices, a safety net to manage unemployment and pay for job retraining, and currency convertibility.

### **New Soviet Plans' Role in Economic Reform**

The previously described state of the economy produced a need for radical changes in 1989. The Soviet Plans represent a third stage in the final Gorbachev period, characterized by indecisiveness, reluctance to break from the idealized past and implement reform effectively. Gorbachev showed unwillingness to endorse neither the Albakin/Rhyzkov nor the Shatalin Plans that proposed increasingly radical reforms, but tried to incorporate elements of both into the President's Plan. However, as usual on the treadmill of *perestroika*, he retreated by postponing market reforms.

First, the Albakin Plan, the four-stage reform initiative to span ten years from 1990-2000 attempted to tackle price reform, ruble convertibility, and productivity and growth. Stage I sought to reform prices.



While the government would maintain strict control over consumer goods, it would liberalize luxury goods. In addition, new forms of property would be legalized, and state property would be sold thereby forcing unprofitable enterprises into bankruptcy and be bought out by non-state firms. Stage II would continue the denationalization of industry, allow for more retail price flexibility, and initiate the break up of state farms to be completed by 1991. Stage III (1993-1995) would incorporate an increase in competition and the break up of monopolies. Finally, the government would move to ruble convertibility. In the last stage (1995-2000), Albakin wanted to increase productivity and growth, perfect other reforms, create market equilibrium and raise the standard of living. This plan was never implemented due to attacks from both sides of the political spectrum; liberals called it too cautious, and conservatives like Rhyzkov object to its radical nature that could potentially cause hyperinflation and an increase in the black market activity. The plan's fate was sealed when the non-economist Rhyzkov rewrote the document keeping some reforms in place, while eliminating key market mechanisms.

The Shatalin 500 Day Plan (Fall 1990) ambitiously aimed to do more in a year and a half than Albakin would do in ten. Although the plan was too radical to gain approval in Gorbachev's time it served two important functions. One, the plan shocked conservatives and once again showed Gorbachev's unwillingness to break with the past. Two, the plan preempted the nationality question and the granting of power to the republics. In this way the plan left a legacy to Yeltsin and his team of economic reformers who implemented the plan in Russia to guide it and other republics toward capitalism. In short, the first one hundred days would be devoted to the massive sale of state property in order to reduce the size of the state budget and the supply of credit. It also involved budget cuts, such as the ten percentage reduction in military expenditures and a twenty percent reduction in the KGB. This stage also involved agricultural reform which allowed for the private ownership of farms. In the second stage, the government would cease to set prices on non-stable consumer goods, ministries would be abolished, small shops would be privatized and indexation of wages will be used to ease inflationary pressures. The third stage continued the privatization of enterprises while the government maintained control over food prices, oil, gas, medicine and continued to supplement the incomes of the poor, disabled and retired. The final one hundred days would produce a new banking system, tax plans and full ruble conversion. This plan, left as a legacy to Yeltsin, showed the fundamental decentralization of the system by

severing the power of the military, the ministries and other central bureaucracies.

### **Legacy to the Commonwealth of Independent States and the Future**

As the above analysis shows, the Gorbachev years, followed by the mediocre period of *zastoi*, produced "low level performance and incipient decline, which in his own words brought the country" from a state of 'pre-crisis' to one of full crisis.<sup>14</sup> Yeltsin and his band of reforms attempted to cope with the accelerating decline in production, worsening inflation, a breakdown of interregional trade and the fierce struggle between the central government and the republics over the future of the multinational state.<sup>15</sup> But try as they might, the republics of the former Soviet Union are inextricably linked.<sup>16</sup> The historic legacy of republics' interdependence shows their inability to function independently, for they all need each other in order to survive. Each republic has a high degree of specialization, and to some extent, they were all subsidized by Russia. Currently, republics disagree over the course of reform and refuse to sacrifice their autonomy by allowing Russia to handle the fate of their economic future. At the same time, the regional fragmentation causes disruptions in inter-republic trade and the delivery of goods to republics in need of food. Instead of domestic trade, these republics became exporters of goods to other countries, and to protect their own citizens, refused to allow goods to move beyond their borders.<sup>17</sup>

Currently, Yegor Gaidar, the Western-oriented young reformer, has headed the reform effort, emphasizing "Russia first." This preferential treatment has infuriated other republics and lessened their chances of cooperation. The Gaidar team espoused "shock therapy" by introducing market-determined prices, balanced national budgets, and enforcing monetary restraint -- a time tested strategy of the IMF and Harvard economist Jeffrey Sachs, who has worked in advising Latin American and Polish governments on hyperinflation and collapsed economic production.<sup>18</sup> However, as the December 6, 1992 *Wall Street Journal* pointed out, the IMF and the World Bank have finally realized Russia's unique predicament being in a transition to a market economy and the restoration of its economic health, for the country does not have a Central Bank or a monetary reserve structure. Shock therapy can be successful but also bears painful costs of unemployment, inflation, and bankruptcy for subsidized firms. This measure has already been partially successful:



commodity markets have opened up across the former Soviet Union, opportunities for profit have served to bring about ruble convertability, and the food availability concern has prompted Russians to grow their own gardens on unused land and state farms. Even goods have returned to the shops; however, this change was not due to the targeting of supply but the restraint on demand and the release of inventory hoards. With inflation in October 1992 projected to be 1360 percent, the government will need to reach a solution through more benefits than Gaidar's reforms have produced before Russia and the other republics self-destruct.<sup>19</sup> Marshall Goldman said his efforts show that far reaching reform is possible, but requires firm commitment and determination of leaders. Whoever leads the reform effort, whether Gaidar or his successor, must consider a number of crucial factors. Privatization, the cornerstone of a market system, needs to come to the forefront of reform, net positive growth is required to offset the collapse of the state and military sector, the credit crunch must be overcome, the heightened gap between the rich and poor in a historically "poverty for all" society must be contended with, and finally the false optimism, "a light at the end of the tunnel," must be replaced with realistic assessments.

**TABLE 1: Output, Productivity, and Input Growth, USSR 1961-88**

<u>Period</u>	<u>Output</u>	<u>Productivity</u>	<u>Input</u>
1961-1965	4.8	0.3	4.5
1966-1970	5.0	0.8	4.2
1971-1975	3.1	-1.2	4.3
1976-1980	2.2	-1.3	3.6
1981-1985	1.8	-1.1	3.0
1986-1988	2.0	-0.3	2.5

**TABLE 2: Output, Productivity, and Input Growth, US 1961-88**

<u>Period</u>	<u>Output</u>	<u>Productivity</u>	<u>Input</u>
1961-1965	4.8	2.8	2.0
1966-1970	2.8	0.9	1.7
1971-1975	2.3	0.6	1.7
1976-1980	3.3	0.3	3.0
1981-1985	3.0	0.9	2.1
1986-1988	3.2	1.6	1.6

Sources: Handbook of Economic Statistics, 1988 (Washington, D.C., September 1988), p.63.

## End Notes

- <sup>1</sup>Marshall Goldman, What Went Wrong with Perestroika, New York: W. W. Norton & Co., 1992, p. 35.
- <sup>2</sup>Robert C. Tucker, Political Culture and Leadership in Soviet Russia, New York, W. W. Norton & Co., 1987, p. 86.
- <sup>3</sup>Goldman, p. 68.
- <sup>4</sup>Commission of the European Communities, European Economy: Stabilization, Liberation and Devolution, Belgium, 1991, p. 83.
- <sup>5</sup>Goldman, p. 43. It is important to note that Soviet statistics are quite unreliable. The GNP is often inflated to varying degrees, and other information is often absent and figures tend to not account for inflation.
- <sup>6</sup>Anthony Jones and William Moscoff, "New Cooperatives in the USSR," Problems of Communism, November-December 1989, p. 28.
- <sup>7</sup>Jones, p. 28.
- <sup>8</sup>Gertrude E. Schroeder, "The Soviet Economy on a Treadmill of Perestroika: Gorbachev's First Five Years," The Soviet System in Crisis, Boulder: Westview Press, 1991: p. 377.
- <sup>9</sup>Paul R. Gregory and Robert C. Stuart, Soviet Economic Structure and Performance, New York: Harper Collins Publishers, 1990, p. 476.
- <sup>10</sup>Ed A. Hewett, "Is Soviet Socialism Reformable?" The Soviet System in Crisis, Boulder, Westview Press, 1991: p. 367.
- <sup>11</sup>Schroeder, p. 380.
- <sup>12</sup>ibid.
- <sup>13</sup>Hewett, p. 365
- <sup>14</sup>Schroeder, p. 376.
- <sup>15</sup>Alexander Dallin and Gail W. Lapidus, "Beyond Perestroika: The Soviet Economy in Crisis," The Soviet System in Crisis, Boulder: Westview Press, 1991: p. 399.
- <sup>16</sup>Edward Balls, "Managing Divorce between Moscow and Kiev," *Financial Times*, November 23, 1992.
- <sup>17</sup>Marshall, I. Goldman, "Needed: A Russian Economic Revolution," Current History, October 1992, p. 315.



# US Foreign Policy Toward Poland and its Effects on Democratization

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*by Marco Graf*

## **I. Introduction: The Roots of Polish Uniqueness**

### **I.1. Survey: Poland Since 1945**

Poland had always been an exceptional case among the so-called Eastern bloc nations. It tried to follow a Stalinist course to socialism until 1956, but then took advantage of the winds of change which blew from the East. In February 1956, Nikita Khrushchev held his famous "secret speech" on the XXth party congress of the CPSU, and de-Stalinization followed. Poland adjusted to these changes and liberalized its domestic policies<sup>1</sup>.

In June 1956, the government crushed worker strikes, but in October it could not resist the demands of the workers any longer. The workers wanted Wladyslaw Gomulka as their leader. Gomulka was a communist who was head of the Polish Workers Party (PWP) right after the war, but was shortly afterward dismissed due to alleged rightist tendencies. Ever since then, he was thought of as a liberal leader who understood the interests of the Polish working class.

On October 21, 1956, Gomulka became first Secretary of the communist party, which by then, after a merger with the Polish Socialist Party, was the PUWP (Polish United Workers' Party). Gomulka, however, could not meet the expectations of the Polish workers and the Polish people in general. The Polish Crisis, as it came to be known, overshadowed Polish politics from 1945 to the present.

Economic problems were accompanied by disastrous "environmental degradation"<sup>2</sup>, resulting in low life-expectancy and high infant mortality. This situation was later worsened by the so-called Polish debt

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crises.

Gomulka held power until 1970, but was then forced out of office by the same means which enabled him to step into it: the workers went on strike again, using this measure as the only "democratic" weapon that they possessed.

The workers usually went on strike after the government had announced price increases in consumer goods. This occurred in 1970 as well. During the 1970 episode of worker unrest Gomulka decided to use force as a means of resolving the problem. One hundred workers were killed, and as a result, Gomulka was ejected from the Politburo, the policy-making organ in Eastern Bloc countries. Edward Gierek succeeded him.

Gierek embarked on a course different from that of his predecessors. He understood the reasons of the strained political climate in Poland and realized that it was caused by the low standard of living. Therefore, his primary objective was to raise this indicator of social welfare. In order to achieve this goal, he relied heavily on Western aid. Consequently, Polish foreign debt rose dramatically during his 10-year tenure. Furthermore, he developed trade relations with Western countries, both in Europe and on the other side of the Atlantic. This course was made possible through the general climate of East-West relations, which at the beginning of the 1970s had reached the era of detente. While remaining Moscow's political client, Poland became an "economic satellite of the West."<sup>3</sup>

Close economic cooperation with Western countries was not the only feature of Polish uniqueness. It has always had other maverick characteristics as well.

Unlike most other of the countries of Eastern Europe, the Polish agricultural system was left in private hands. Capitalist incentives were working at least in this part of the economy, and by avoiding nationalization of the farming land, the Polish government did not have to alienate (or even kill) the farmers. Therefore, the agricultural sector remained one of the strongest in the Polish economy, but that does not necessarily mean much.

Another atypical element in the alleged "totalitarian" system was the Catholic Church, which had been an integral part of Polish culture for 1,000 years. Therefore, Poland was not an (orthodox) Eastern European country, but rather "an integral part of Western civilization,"<sup>4</sup> indicated by the existence of the old and influential Catholic Church. This, certainly, contradicts the official communist ideology which is atheist. In Poland, however, the Communist party and the Catholic Church found a way to



reconcile their interests (short of legalizing the Catholic Church). Thereby, the Catholic Church served as the main protector of any opposition group in the country, and later became important as a mediator between Solidarity and the government. As a consequence, Polish society never was totalitarian, as it was supposed to be, but was rather "de facto pluralistic".

## **I.2. The United States and Poland**

The United States has always had strong ethnic ties with Poland, due in part to the 10 million Poles who immigrated to the US at the beginning of this century. These former immigrants settled almost entirely in the Midwest of the US and maintain a strong political voice not only in the region in which they live, but nationwide as well. The Polish-American Congress operates as a lobbying group in Washington and its influence is undeniable. On the political stage, the Polish-Americans did not only influence through lobbyists, but a considerable number of Polish-Americans held high government positions as well. In the executive branch this was evident during the Carter Administration, with Zbigniew Brzezinski as National Security Adviser and Edmund Muskie as Secretary of State in Carter's later years<sup>5</sup>.

Furthermore, Poland was a strong pro-Western country within the communist bloc, a characteristic which was very obvious with regard to the population. The party certainly had to echo Soviet propaganda. One must not forget that the German invasion of Poland was the cause for British and French entry into World War II. However, at Yalta it became clear that the Western goal of an independent and free Polish nation could not be achieved. At Yalta, Poland was "sentenced to communism."

During the 1970s the US government applied a special policy to their foreign relations with Poland. It became known as the Sonnenfeldt Doctrine, which claimed that the West could finally achieve an ever more independent Poland if it only provided the struggling country with generous financial assistance. Thereby it could be integrated into the Western economic structures. Besides foreign aid, trade became an important instrument to meet Western objectives.

## **I.3. Russia and Poland**

Polish-Russian relations, on the contrary, have never been very good, perhaps never even "normal." Polish memory has lasted very long.

as the Poles' ancient struggle for freedom from Czarist suppression (that resulted from the three divisions of Poland in the 18th century) is still well remembered. Only in 1918 had Poland regained its status as an independent nation, after being part of the Czarist empire for more than a century. The difficult relationship had to endure even more tragic moments: the Soviet-Nazi pact of 1939 divided Poland into spheres of influence, which the Russians annexed at the conclusion of World War II. Thus the Polish nation was pushed 200 miles westward -- at the expense of German territory. During the war, the Katyn massacre of 4,000 Polish officers was one of the most dreadful incidents that the Poles endured throughout the whole war. Moreover, as the Red Army marched westward and headed for Berlin, it did not support the uprisings in the Warsaw Ghetto in 1944-45. As a consequence, the unsupported uprising was brutally crushed by the Nazis, and thousands of Poles died.

#### **I.4 The Polish Economic Crisis and the Emergence of a Democratic Opposition**

The critical economic conditions in Poland have already been addressed. Price increases led to strikes in 1956, 1970, 1976 and 1980. In this paper, the last incident will be examined in great detail, but the 1976 unrest has to be analyzed here as well. It is important because it stands in direct relation to everything that followed. As previously stated, food price increases were again the source of the workers' discontent, and they led to strikes in June of that year. Gierek reacted prudently, revoking the price increases, but nevertheless prosecuted the illegally striking workers. Many were arrested in these incidents.

Remarkably, the Polish intelligentsia formed a committee for the support of the striking workers. The so-called KOR (Workers' Defense Committee) served primarily for the purpose of defending the imprisoned and charged workers in the courts. However, apart from these immediate short-term aims, an alliance between the working class and the intelligentsia emerged. This marks a major turning point in the history of the Polish opposition movement, because henceforth the democratic forces stood united against the communist government. Two totally different societal groups, which only had their disapproval of the present political system in common, formed an alliance and organized the opposition movement. This is extremely important, because the foundations of



Solidarity, the broad opposition movement, were laid at this time.

## **II: The Solidarity Years -- The Democratic Experiment**

### **II.1. The 1980 Strikes and the Gdansk Agreement**

The year 1980 was again characterized by economic crises. In February, Prime Minister Jaroszewicz had to step down and was succeeded by Edward Babiuch. This change in leadership certainly did not affect the economic conditions. In July, the introduction of higher food prices resulted in local strikes -- first in the area of Warsaw, later spreading all over the country. The government was overwhelmed by the might of the events and pursued a moderate course, trying to fulfill some of the workers' demands, mainly in terms of higher wages. This approach had been approved by Brezhnev in Moscow, whom Gierek had asked for advice in July. In August, the workers at the shipyards on the Baltic coast went on strike, with Gdansk and particularly the Lenin shipyard being the center of the unrest. Lech Walesa, a charismatic electrician, quickly became the leader of the workers and negotiated with the government<sup>6</sup>, which still pursued its conciliatory policies.

The negotiations were concluded with an agreement that was unprecedented in the history of the Communist bloc: the Polish government accepted the existence of an independent, self-governing trade union, Solidarity, and furthermore guaranteed the workers' right to strike. This is especially embarrassing in regard to communist ideology, which cannot be reconciled with the idea of an independent trade union, since the communist party is supposed to be the one and only voice of the working class. Solidarity, on the other hand, had to make concessions as well. The agreement restricted its activities to the economic sphere alone. It was agreed that Solidarity would not challenge the position of the PUWP in political terms and would also accept the international obligations of the Polish nation, namely the (imposed) "friendship" with the Soviet Union and its membership in the Warsaw Pact.

Solidarity restricted its ambitions to representing the working people and acted merely as a trade union. This course was to a large extent the result of the moderating influence of the Catholic Church, which stood between the (democratic) opposition and the communist government. The Kremlin, however, considered Solidarity's very existence incompatible with Marxist-Leninist ideology and demanded the dissolution of the "counterrevolutionary" entity. One day after the landmark Gdansk agreement, the Kremlin sent a message to Warsaw and indicated its disap-

proval. Only days later, Gierek became seriously ill<sup>7</sup> and was succeeded by Stanislaw Kania.

The next decisive step was the judicial registration of the newly formed trade union. The government pressured the (certainly not independent) Warsaw District Court, which was in charge of the registration, to insert a sentence that Solidarity recognized the leading role of the communist party in its statutes. This statement was not part of the original agreement and was therefore unacceptable for Solidarity. Consequently, Solidarity appealed the unfavorable registration terms in the Polish Supreme Court, which in turn restored the original charter of Solidarity. Finally, it was registered without reservation.

The months which followed the Gdansk agreement and the registration of Solidarity as an independent trade union have been characterized as "democracy in the streets." Obviously, the party had difficulty in controlling the whole situation, which in turn disturbed the Soviets. They still demanded the dissolution of the Solidarity opposition, but did not precisely prescribe when and how to achieve this goal.

The PUWP was split. Several factions existed, and Kania could not provide strong leadership.<sup>8</sup> He stood in the middle between those who demanded the dissolution of the party and the foundation of socialist movements which would then seek compromise with all relevant societal groups, and those who demanded a quick (and possibly violent) crack-down. The latter wing, the "Katowice Forum", was supported by Moscow as was Kania.

An analysis of the complicated situation between August 1980 and December 1981 will characterize the major players in this "power game". The title of this paper indicates a focus on US policy; however, the Soviet situation must also be considered, since Poland was located in their genuine sphere of influence and they were much more adept at "solving" crises in Eastern Europe than any other country.

## **II.2. Major Players During the Crucial Months**

### **II.2.1. The Soviets**

As previously mentioned, the Kremlin found Solidarity unacceptable for various reasons: among them were the ideological contradiction of an independent representation of the working class and the fear of a spill-over to other countries, such as the Czechoslovakia, the GDR, or Hungary.

In 1956 and 1968, the Soviets did not hesitate to intervene with



military might, but in 1980-81 they faced a high risk. Clearly, they considered this option and several times were short of fulfilling their threats, when they moved their armies around in the GDR and in their own border regions – for maneuver purposes, as they claimed. The price of such a violent move would have been very high for several reasons,<sup>9</sup> and as a result, the Soviets refrained from a military solution.

Instead, they favored the “internal solution,” a scenario in which the Polish government would deal with Solidarity alone – with the Soviets hiding in the background and saving their faces. To achieve this outcome, the Kania government received massive financial support from the Soviets, but also stood under immense pressure – not only militarily, but also economically.

### II.2.2. The United States

The fall of 1980 was dominated by the American presidential election campaign, in which the Polish crisis played a major role. Campaign statements, however, do not very often reflect the realities of high politics (which is supposed to be the art of what is possible). Both candidates used hostile rhetoric toward any violent “solution” and proposed a hardline policy toward the Warsaw regime in case of a crackdown.

In contrast to the rhetoric, the Carter Administration reacted very prudently to the developments in Poland. The approach of the Carter Administration was in fact a bipartisan policy, which was later continued by President Reagan.

Three major goals were pursued in this stage:

1. Prevent a Soviet intervention.
2. Encourage further dialogue between Solidarity and the PUWP.
3. Discourage radicalization on either side

The policies that were applied to achieve these goals were very different from those of the Eisenhower and the Johnson Administrations in 1956 (Hungary) and in 1968 (Czechoslovakia), respectively. Whereas both former Presidents did not see anything between passivity and Armageddon, Carter prudently used the economic clout of the US – mainly a product of the earlier policies in connection with the Sonnenfeldt Doctrine. Stressing the “internal character” of the crisis, Carter followed the principles of rewarding the Polish government for concessions to

Solidarity and pressuring the Soviets not to interfere in the internal affairs of an independent country. A military involvement of the US was certainly out of the question.

The incentives of the Carter Administration for the Kania government consisted both of economic aid and of favorable bilateral agreements with the US

The Helsinki Final Act served as a lever for pressure toward the Soviets. By signing the Act in 1975 they had guaranteed not to interfere in the internal affairs of other countries -- a provision that obviously contradicts the Brezhnev Doctrine, which granted only incomplete sovereignty to the Eastern European nations.

Furthermore, the US government, which changed in the midst of the developments in January 1981, warned the Soviets that a military intervention would mean the end of detente and a return to the Cold War. Supporting this threat, the Reagan Administration warned the Soviets publicly that economic sanctions would be part of the retaliatory measures.

To forestall the Soviet intervention, the US made public every troop movement of the Red Army, which was indeed on high alert during this time. The probability of a military intervention was very high. The monitoring of the Soviet Army and publicization of its movements was certainly embarrassing for the Soviets, but the Carter Administration made the mistake of predicting an imminent intervention too often, and many soon took an indifferent attitude toward the warnings.

### **II.2.3. Domestic Players**

Earlier the split within the PUWP was described. Solidarity was not a uniform movement either, and within it several voices could be heard. Moderates were satisfied with what had already been achieved in the Gdansk agreement and wanted to restrict the activity of Solidarity to the genuine tasks of a free trade union: representation of the workers in negotiations for better working conditions and higher wages. Radical members, on the other hand, proposed an all-embracing program which would have transformed Solidarity into a political party.

When the PUWP noticed these rifts within Solidarity, it attempted to exploit them. It changed its own course of moderation and intended to radicalize Solidarity, so that it would finally be "forced" to intervene. This policy was successful. The moderating influence of the Church waned, and Solidarity tried to find ways out of its identity crisis:



trade union or political party? The answer was finally given in the first national congress of Solidarity in September 1981, where the "union" adopted an all-embracing political program. It took the steps that the moderates had sought to avoid. The events headed toward their dramatic climax: on December 12, 1981, Solidarity demanded a nationwide referendum on the whole economic and political course of the country, questioning Poland's socialist principles and also its foreign policy orientation, namely the alliance with the other socialist countries in the COMECON and the Warsaw Pact.

In the meantime, the party had transformed itself. Kania was forced out of office on October 19 and was replaced by General Wojciech Jaruzelski. Jaruzelski began to militarize the whole party leadership, purging the apparatchiks and replacing them with generals. A brief trip to Brezhnev, which he undertook in August before assuming leadership, cleared the way for the policies which he would introduce later. A last attempt to avoid disaster was the meeting between Jaruzelski, Walesa, and Cardinal Glemp on November 4, but the situation was evolving too quickly. Neither Jaruzelski nor Walesa had control over the events, and Glemp could not mediate as well as his predecessor Wysinski had been able to in 1980<sup>10</sup>.

On December 13, 1981, one day after Solidarity had questioned the political system of Poland, Jaruzelski undertook his coup d'etat: he declared martial law and reigned over Poland as the head of the Military Council for National Salvation (WRON), abolishing the previous structure of the Polish political system.

### **III. The Martial Law Years and Beyond**

#### **III.1. Solidarity in the Underground**

With the introduction of martial law, Solidarity lost much of its political clout. Jaruzelski forestalled Soviet military intervention by finding an internal "solution" which was acceptable to "big brother" in the East.

Solidarity was caught totally unprepared. Its leadership had become too self-confident and therefore did not prepare for the situation, which had been in the making for several months. Its leaders were imprisoned on the very first days, and the organizational structure of the union was destroyed. On the eve of the initiation of martial-law, Solidarity had 10 million members, which is roughly one fourth of the Polish population. Its membership outnumbered that of the PUWP by four to

one, and the party lost many of its own members to the union.

As a judicial entity, Solidarity was not yet destroyed. Its activities were restricted and certainly impeded by the government and the police, but it was not outlawed. Solidarity's members, however, had to go underground because the regime considered their activities counterrevolutionary. If they were caught by the police, they would likely end up in one of Poland's overcrowded prisons.<sup>11</sup> Among those who were imprisoned in the early days of martial law was the leader of the union, Lech Walesa.

It must be stressed that even as an outlawed organization, Solidarity never used violence to achieve its goals. Consequently, it was called one of the most effective non-violent movements since those of Mohandas Gandhi and Dr. Martin Luther King. This characteristic contributed to Solidarity's image in the West, where it was welcomed with great sympathy.

The morale of its 10 million members was hit hard: they were not prepared to continue their struggle for democracy in the underground. Solidarity's leadership complained about the communist "regime which had practiced the art of repression for 37 years"<sup>12</sup>, thereby implying that Solidarity's own policies did not contribute to the total disaster which came over the union through martial law. The morale of the leadership was only lifted slightly by the fact that Lech Walesa won the Noble Peace Prize in 1983, which he was not allowed to receive personally because he was still under house arrest<sup>13</sup>.

The union remained intact only as a number of small cells, and lacked the overall coordination which was so important during the 1980-81 phase and had been the reason for its great bargaining power. Pamphlets were still printed by the underground press, but their distribution was extremely difficult.

### **III.2. Domestic Politics**

The first months after the introduction of martial law on December 13, 1981 were the most difficult for Solidarity, because it had to adjust to a completely new situation. With Solidarity's leadership being imprisoned and the organizational structure lying in shambles, Jaruzelski sought to regain international prestige by suspending martial law on Dec. 12, 1982, exactly one year after its introduction. It was finally lifted on July 22, 1983, but this did not result in greater individual freedoms, since many of the martial law provisions were incorporated in the Polish civil rights code. The human rights record of the Jaruzelski regime was under



intense scrutiny by Western countries, especially the United States.<sup>14</sup>

### III. 3. Reagan's Response to Martial Law

The United States' reaction to the introduction of martial law came with Reagan's Christmas address on December 23, 1981, ten days after Jaruzelski's coup: after having threatened severe countermeasures during the whole crisis, Reagan delivered on his promises. He finally played hardball with Jaruzelski.

The policies of the Reagan Administration relied (as Carter's had done before) on the economic lever in order to achieve American objectives. Reagan's most important retaliatory measures were the economic sanctions which he imposed on Poland. He did not waste all his ammunition in the first strike, thereby leaving himself a certain flexibility. The Reagan Administration indicated that it was willing to honor every step the Jaruzelski regime would make in the "right" direction: the recognition of human rights. The rescheduling of the \$70 million in interest on the Polish debt in early 1982 can serve as an indicator of this attitude; it sent a strong signal to Warsaw that the administration was still willing to reward progress, and that the bilateral relations had not yet fully deteriorated. In a further move, Reagan extended the sanctions to the Soviet Union as well<sup>15</sup>, thereby indicating whom he held responsible for the situation in Poland.

Another characteristic of the US policies is its so-called "dualism"<sup>16</sup>: while the regime was punished for its repressive actions, the Polish people should not be affected negatively by the American response to the introduction of martial law. The administration sought to uphold the dialogue with Solidarity, but this proved to be very difficult because Reagan did not intend to interfere in the internal affairs of Poland (since that was exactly what he blamed the Soviets for)<sup>17</sup>. On the other hand, the Reagan Administration sought to alleviate the hardships suffered by the Polish people by providing them with generous humanitarian aid.

The goal of preventing the Polish government from outlawing Solidarity could not be fulfilled. On October 8, 1982 Jaruzelski went all the way: he replaced Solidarity with a new trade union which was totally subservient to his party, and therefore could be called neither "independent" nor "self-governing."

The US retaliated immediately, and again Reagan delivered on his threats: Poland's MFN<sup>18</sup> status was suspended and the tariffs for Polish products rose by 300 percent to 400 percent. Trade between the US

and Poland, which was an important element of the earlier policies, broke down almost completely.

The remaining policy goal of the US administration toward the obviously repressive regime in Warsaw, which had become a puppet of the Kremlin, was in my view an attempt to improve the human rights conditions. The Helsinki Final Act served as a basis for the American charges because imprisonment of opposition members and the basic human right to join a free trade union were guaranteed in its "Human Rights Basket." Hence, this act, which the Americans considered useless in the beginning, served as a major policy tool in this phase. It did not only provide the Reagan Administration with a solid foundation of its charges, but was also of immeasurable use to the Solidarity leaders who tried to continue their struggle in the underground. They too could claim that the Polish government had guaranteed the rights Solidarity was seeking. Consequently, judicial prosecution became a very difficult task for the regime.

### **The Nature of Polish "Totalitarianism"**

The human rights standards with which the Reagan Administration confronted the Jaruzelski regime were very rigid. If one considers the fact that several US allies had their own human rights problems (some indeed to a worse extent than those of Poland), one reaches the conclusion that Reagan applied double standards. Obviously, the Reagan Administration wanted to make Poland an example for its emphasis on human rights and it stuck to this approach until the very end. There was no progress in the bilateral relations between the two nations, until the Polish government abided by universal human rights standards. Actually, the human rights situation was not as bad as it was in other countries. This had to do with the existence of entities like the Catholic Church, which was the main guarantee for the "de facto pluralism" in Polish society (see above). Two major reasons can be given for the relative weakness of the Jaruzelski regime in the years after the martial had been lifted:

1. Polish totalitarianism was not nearly as total as it was supposed to be. The many print products (leaflets, brochures, even books) which were issued by the opposition may serve as proof. Szulc points out that even if the "democratic opposition [were] not allowed to organize formally ... it had no



difficulty making its views known through clandestine publications, official newspapers and magazines under even less censorship and open contacts with the foreign press"<sup>19</sup>.

2. The Americans began to intensify their radio programs with which they intended to provide the Eastern Europeans with vital information about the state of their own country and to educate them in democratic traditions. Radio Free Europe (RFE), Radio Liberty (RL) and Voice of America undermined every attempt of the Communists to indoctrinate their citizens with their propaganda. The Polish and the Soviet governments tried to jam the radio signals which were sent to the East, but this attempt was both illegal<sup>20</sup> and unsuccessful. "Publicity has immense importance as an effective protection of such movements as Solidarity."<sup>21</sup>

### **The "Small-Steps Policy"**

The Reagan Administration changed its tough line against Jaruzelski during 1983-84. Still, any improvement of the bilateral relations was linked to improvements in human rights standards, but by then Reagan rewarded even slight improvements. Rachwald calls this new approach the "small-steps policy."<sup>22</sup> To evaluate the internal situation of Poland, the administration sent emissaries on fact finding missions. Senator Dodd, who stayed in Poland in August 1983, "concluded that it would be premature to lift all sanctions immediately. Instead he recommended a partial easing of some of the restrictions."<sup>23</sup>

One of the issues which the Reagan Administration considered vital for its relations with Poland was the fate of the political prisoners in Poland. Several times it pressed for their release, and Jaruzelski showed his willingness to cooperate in the amnesties of 1982 (December 23), 1984 (July 22), and 1986 (September 11). In the latter case he freed 225 opposition members, among them one prominent Solidarity leader. This move was rewarded by the Reagan Administration in early 1987, when after new fact finding missions of Deputy Secretary of State Whitehead, the sanctions against Poland were finally lifted. The struggle between the two countries had lasted for roughly five years, and both sides couldn't achieve their goals completely. The US was successful in terms of human rights, but Solidarity was not yet re-legalized. Therefore, this outcome can be described as a compromise. The Jaruzelski regime, however, had to pay a high price: it not only surrendered to US pressure, but it also ruined the

Polish economy.

## **The Results of Martial Law**

The consequence of martial law was economic disaster.<sup>24</sup> This lay the ground for the final round in Poland's struggle for democracy and enabled Solidarity to finally reemerge.

Jaruzelski's political standing suffered badly from the severe economic crisis which affected Poland during the 1980s. Earlier he could blame US sanctions for no growth and a low standard of living. In 1987, however, the sanctions were lifted, but the economic conditions did not improve. Furthermore, he knew that the task which he had set out for himself was finally fulfilled: Soviet intervention was averted and the internal affairs of Poland were stable (in political terms). A lack of legitimacy was the result of both the way he reached power in 1981 (by a coup d'état) and the economic crisis, which made the defeat of Socialism in the area of economics obvious once more.

Jaruzelski thought he could restore his legitimacy by calling a national referendum in October 1987, in which the Poles could "decide" upon the future route their country was to take. Jaruzelski proposed "economic reform" and "further democratization," but the results were a disappointment for him. Due to the low participation, his proposals were indeed approved by a majority of those who actually cast their votes, but not by a majority of those who were eligible to do so. Jaruzelski did not reach the goal that he had set for himself.

## **IV. Democratization in Poland**

### **IV.1. The Immediate Causes**

The situation worsened from day to day, and the year 1988 was characterized by workers' unrest. Beginning in April (as a reaction to price increases in February) workers stopped working and demanded higher wages<sup>25</sup>. Later, when strikes spread across the entire country, the demands of the strikers were, similar to 1980, no longer restricted to the economic sphere. They saw that the whole economic and political system needed a change and were able to justify their demands with the measures of Mikhail Gorbachev in the Soviet Union. A Polish "perestroika" had to be found in order not to let the Polish economy go further down the tube.

The communists could only resolve the crisis by offering negotiations to Solidarity, implicitly recognizing it as the representation of the



striking workers. This development was clearly favored by the Reagan Administration. Threats to impose new sanctions on Poland, which were issued by the State Department in the spring of 1988, clearly made "little sense".<sup>26</sup> The recent developments in terms of democratization were promising for the first time, since the international environment utterly differed from that in 1980-81.

## **IV.2. Roundtable Talks**

Taking responsibility for the disastrous state of the economy, the government under Prime Minister Zbigniew Messner resigned in September and was succeeded by a new cabinet which was headed by Mieczyslaw Rakowski. The "roundtable talks" which were scheduled to begin in October 1988, did not begin on time, because Rakowski tried to revoke the earlier concessions by setting conditions for the negotiations<sup>27</sup>.

A communist party congress in December resolved the stalemate<sup>28</sup> and it was decided to begin the talks in February. In this stage, the Catholic Church played a vital role by persuading both sides to moderate the rhetoric and the demands and to enter the negotiations without preconditions. Later, the negotiations were scheduled for February 1989, one month after the new US President had taken office.

These roundtable negotiations were unique in Eastern European post-World War II history. The very fact that Poland was the first nation which was trying to find the "national accord" the US had demanded and which was a necessity considering the severe economic problems of the country, was once more a sign of Polish uniqueness within the Eastern Bloc. It was considered "a special case in the communist world," because "only in Poland are the communists prepared to pay the political price of sharing power in order to reform and modernize their economy."<sup>29</sup>

### **IV.2.1. Reasons for Democratization**

What, then, led to this breakthrough in the struggle for democracy? Five reasons have been suggested<sup>30</sup>:

1. Solidarity's steadfastness.
2. The role of the Catholic Church.
3. The economic crises.
4. Western and, in particular, US policy.
5. The impact of "glasnost" and "perestroika", which were

introduced to the Soviet Union by Gorbachev.

We already have explored all the major items on this list and will discuss the impact of American foreign policy in the concluding chapter of this paper, where all three administrations will be compared and their policies will be evaluated.

#### **IV.2.2. Solidarity's Tactics and Objectives**

It has been stated earlier that Solidarity did survive the underground years only as an idea, as a symbol. This, however, was enough to persuade the regime to deal with it during the roundtable talks, in which it played the part of the major opposition group.<sup>31</sup> Solidarity could play this major role, because it had been identified as the "only force capable of mobilizing public support against the regime" and as "an organized and recognized political opposition."<sup>32</sup> This was one of the main advantages Poland had over other Eastern European countries such as the GDR (without a political opposition) or Czechoslovakia, where Charter 77 never was as influential as Solidarity was in Poland.

As if the argumentation of Samuel Huntington had been familiar to the leadership of Solidarity, its delegation consisted of "pragmatists or moderates,"<sup>33</sup> who in turn faced negotiation partners of the same persuasion.

Another change in comparison to the situation of 1980-81 was that Solidarity applied a different tactic: not so confrontational, but rather firm "on basic principles – such as the reinstatement of Solidarity and political democratization,"<sup>34</sup> and rather flexible on other issues.<sup>35</sup>

Moreover, Solidarity intended to change the internal conditions of Poland (although both political and economic), but did not provoke the Soviets by questioning the Polish place in the international system.<sup>36</sup>

Solidarity's goals in the negotiations were, first of all, the legalization of the union (self-governing and free) and "political pluralism," thereby emphasizing political goals and pushing economic aspects in the distant future. Hence, the roundtable negotiations led the way to real power sharing. The communists, on the other hand, were prepared to surrender their power monopoly, although they intended to do so in order to share responsibility for further economic reforms.

#### **IV.2.3. The Roundtable Agreement**



In political terms, Solidarity "won a staggering victory"<sup>37</sup> over the communist government. It achieved its legalization, and furthermore the Polish constitution was amended TO guarantee the separation of powers and the division of the legislative branch in the Sejm (lower house) and a Senate (upper house). Another victor was the Catholic Church, which not only gained a legal status, but also access to the media and the permission to open its own schools.

Poland's road to democracy was clear now: semi-free<sup>38</sup> elections were scheduled for June 4/June 18. Whereas the elections to the Sejm guaranteed nearly two-thirds of the seats to the communists, all the Senate seats were contested freely. The results were astonishing. Solidarity, whose popularity was so low one year earlier, won in a landslide. It won all remaining seats in the Sejm and 99 of the 100 Senate seats. Even if they ran uncontested, some communist candidates were not elected because the voters crossed off their names on the ballots. With 62 percent the participation was relatively high in the first round; it was considerably lower in the second round, where "only one-fourth bothered to vote."<sup>39</sup>

Never had a communist party been so heavily defeated, and had to confess that communism had come to an end in Poland. Had the people possessed the opportunity to vote completely freely, the communists would have been swept out of power immediately. Therefore, the remaining representatives of the PUWP lacked any legitimacy whatsoever, and everybody knew it – even the United Peasant Party and the Democratic Party, which abandoned their role as puppets of the PUWP and defected to Solidarity. As a result, the communists lost even their guaranteed majority in the Sejm.

The election of General Jaruzelski to the newly-created office of the President of Poland on July 19, 1989 did not really reflect the new distribution of power in the country. Although having been elected for a five-year term, Jaruzelski understood that his time was over and stepped down 18 months later.

## **V. Democratic Poland**

### **V.1 Bush Foreign Policy**

President Bush was elected 41st President of the United States in November 1988, when both the Polish government and the opposition still struggled over the actual setting of their negotiations. At the time of his inauguration, this dispute had already been settled and the roundtable talks were scheduled to begin one month later. Bush, therefore, faced a

new situation in Poland, which makes a comparison between his and the preceding Reagan Administration impossible.

Bush's first public reaction toward the roundtable agreement, which had been reached on April 5, was his April 17 speech in Hamtramck, MI, where he addressed a crowd consisting mainly of Polish-Americans. He called the agreement between Walesa and Interior Minister (General) Kiszczak "a watershed in the postwar history of Eastern Europe." Similar to the Carter/Reagan approach in 1980-81, he rewarded the concessions with US assistance.<sup>40</sup> Acknowledging the progress that had been made, he promised a "thorough review of our policies toward Poland,"<sup>41</sup> and announced that the steps which were taken [in Poland] "deserve[d] our active support."<sup>42</sup> Since he proposed mainly economic measures, it may be concluded that the Bush Administration saw economic support as the most effective method to foster democracy in Poland. Actually, even the Polish opposition did not ask for anything else. The establishment of a new political system was left to the Poles, since no foreign country has the right to impose its own system on another; the US would not do this now, just as the Soviets had not in the past.

The rationale was that democracy can only emerge and survive if the material needs of the people are met. Disenchantment with the new system had to be forestalled, since the right to vote cannot replace the daily bread.

During his visit to Poland in July of 1989, Bush again outlined his program in regard to the changes in Eastern Europe in general (he would later fly to Hungary) and to Poland in particular. In a speech to the newly elected Sejm, he faced not only the communists but also the representatives of the opposition. His program consisted of six distinct items, of which four were explicitly economic, one ecological and one cultural. Assistance in political terms was not envisioned, although the opening of a cultural center can be regarded as a step in this particular direction<sup>43</sup>.

The main criticism of the Bush policy had been the low amount of direct aid the US gave to Eastern Europe in general. Small countries like Germany outspent the US, some ten-fold. One should consider, however, that Bush had to formulate his foreign policy under the burden of a huge budget deficit, which made it impossible for him to provide the Poles with the money they would like to receive. Bush's "cheap" proposals relied mainly on the private sector and on the effects of international trade on social welfare, and were more often than not embodied in multilateral efforts. In comparison to the post-World War II program, which the US launched to rebuild Western Europe, Bush's steps were indeed small.<sup>44</sup>



His critics consider this as characteristic of his "reactive" personality, which is good in crises, but which lacks "the vision thing." The difference between words and actual deeds has probably never been greater than in this case.

Luckily, the events in Poland developed in Bush's and America's favor. The results of the semi-democratic election were reversed in the totally free parliamentary elections of 1991, which had been preceded by the presidential elections of 1990, when Lech Walesa achieved the highest public office after Jaruzelski had stepped down voluntarily.

## V.2. Prospects for Stability

Democracy is deeply rooted in Polish culture, but its stability remains a major problem. One reason for this is the fact that the former opposition split: Solidarity does not exist any longer as one group, but rather as many. The political branch of the organization consists of the center-left ROAD, which is headed by the former Prime Minister Mazowiecki, and the center-right Center Alliance (CA), which is led by Walesa himself. Disagreement over the pace of economic reforms and over the future direction of the Solidarity movement in general had contributed to this division.<sup>45</sup>

The national accord, which could be upheld during 1989, was supposed to provide legitimacy for the bold economic reform programs which the Mazowiecki government introduced in early 1990.<sup>46</sup> No party could achieve more than 13 percent of the vote in the past elections. This weakness of the party system might one day be a reason for the instability of democracy in general, since its Western neighbor had similar experiences in the early 1930s.

Furthermore, the authoritarian traits of Lech Walesa are clearly visible; statements like "as Lech Walesa has correctly and democratically decided"<sup>47</sup> are not very encouraging. He is simply not the intellectual leader that Vaclav Havel was for Czechoslovakia. Walesa is not a president who thinks about world politics in analytical terms but rather is concerned with the economic transformation of his country and foreign assistance to alleviate the hardships of the Poles during this period. A populist course can be expected from him. He possesses the character traits to be a union leader, but not those to be the president of a European democracy.

## VI. Conclusion

Communism fell in 1989 in most East European countries, and the vacuum of power paved the way for democracy. The events to which we could be witnesses clearly fall into the category of "snowballing,"<sup>48</sup> but this is certainly not an explanation for the developments in Poland, which was the first of the Eastern European nations to abolish communism. To elaborate the reasons for the regime change in Poland was the purpose of this paper. Another objective was to consider the role the US played in this process.

This question will be discussed in this concluding chapter. The policies of the three consecutive administrations, Carter, Reagan, and Bush were described above.

### **VI.1. Three US Administrations: No Comparison**

A final comparison of their policies towards Poland remains impossible. Each administration faced an utterly different domestic situation in Poland than its predecessor.

Beginning with Carter, US foreign policy was concerned with human right abuses, although Eastern Europe was not the primary focus of this new policy. In addition, the Helsinki Final Act was inherited by the Carter Administration, but was used as a policy tool first after 1977. It was Carter's primary merit to get involved in the "Polish crisis" at all, thereby distinguishing his policies from those of Eisenhower and Johnson, who preferred to keep a low profile in Hungary (1956) and in Czechoslovakia (1968), respectively.

Carter used the only lever he had, which was economic, to encourage the liberalization of the communist rule. His policies were continued after the change in the White House in January 1981 by his successor Ronald Reagan, indicating that US policy toward Eastern Europe had "clear bipartisan support."<sup>49</sup> Reagan led US foreign policy toward Poland during the "darker" years of the relations between the two countries, with the sanctions being his major instrument to force the Polish regime to accommodate the democratic opposition. Reagan's policy proved to be successful in the end, although US influence in Eastern Europe must not be overestimated. Huntington considers US policy merely a "contributing factor."<sup>50</sup> Those who actually were supported by American policy name the Reagan years "a success"<sup>51</sup> as well.

Bush, then, faced a completely changed Poland again. When he took office in January 1989, "a new breeze [was] blowing and a world



refreshed by freedom seem[ed] reborn ... Great nations of the world [were] moving toward democracy through the door to freedom."<sup>52</sup> The Polish communists had already decided to begin roundtable talks with the opposition, and the negotiations started only weeks after Bush's inauguration. Bush, therefore, observed the political "transplacement" and later attempted to assist a Polish nation which was well on its way to become democratic. This attribute might be fitting from 1991 on, although the first non-communist Prime Minister took power in August 1989.<sup>53</sup> Tadeusz Mazowiecki still was elected by a parliament which was not the result of free elections.

Bush tried not to get involved too heavily into the domestic affairs of Poland,<sup>54</sup> simultaneously expecting other nations to stay back as well. Some might call this approach "prudent," others "cautious," but this is not necessarily a contradiction. Bush's predominant reason for acting in the manner he actually did was probably his implicit concern for the internal situation of the Soviet Union. By not celebrating the victory in the Cold War, by not "dancing on the Berlin Wall" and by not making bold speeches, Bush made it easier for Gorbachev to let happen what occurred. This passivity leads Brumberg to conclude that "[d]emocracy in Eastern Europe has come without outside intervention – indeed, with virtually no assistance from the West."<sup>55</sup> I suggest taking this statement with a grain of salt, because the support of Solidarity by the US was crucial in my opinion. Rachwald comes to a similar conclusion:

The transition from a one-party communist state to a semidemocratic political system could not have occurred without an active involvement by the United States on behalf of democratic forces in Poland. The United States provided hope and legitimacy for the antitotalitarian forces in Poland, and kept alive the expectation that democratization would open the door to substantial economic assistance from the West.<sup>56</sup>

## VI.2. Why Democracy?

That the fall of communism resulted in the emergence of a democracy should not come as a surprise, since Poland "should have been a democracy already."<sup>57</sup> The main obstacle was Soviet control over Eastern Europe in general and over Poland in particular.<sup>58</sup> When this control was lifted, the Polish communists could no longer hold their positions.

The Catholic Church played a major role in this transition as well,

but its role in the protection of human rights was considerably higher than in introducing democracy. Democracy remains a form of government which is fully accepted neither in the ranks of the Catholic Church itself<sup>59</sup> nor in the beliefs of Cardinal Glemp. Furthermore, one has to carefully distinguish the actions of individual priests (like Father Popieluszko) from the policies of the Church as a whole. The latter seems preoccupied with its own objectives, which are mainly related to education and religious practices. In recent months, however, the Catholic Church tries to influence Polish domestic politics, especially in regard to the abortion issue which is being hotly debated in Poland at this time.

### **VI.3. Once more: Stability**

The question as to whether democracy in Poland is stable remains open, but it was pointed out earlier that some indicators show that stability should not be taken for granted. The predominant dangers for democracy in Poland are the "transition problems,"<sup>60</sup> of which Poland used to face two: a "substantial external debt"<sup>61</sup> and "extensive state involvement in [the] economy." Whereas the former could be alleviated by cutting the Polish external debt in half,<sup>62</sup> the latter remains an obstacle for all democracies in Eastern Europe. The danger of disillusionment is highly visible everywhere in the region.

The Bush Administration has the same attitude toward this issue. In contrast to earlier attempts to democratize foreign countries, it focuses on socio-economic change in Eastern Europe. The rationale of the policy, which can be traced back to the Reaganomics, is that pushing the state out of the economy will make government weaker and individual freedoms stronger. Therefore, many of Bush's proposals are targeted on transforming the Polish economy, within which the US focuses on private business. Those are expected to be contributing factors in the building-up of a new economic system, which is explicitly drawn after the Western European market economies.

Even more factors let the stability of democracy in Poland appear likely. Chief among them is probably the appeal of the European Community,<sup>63</sup> of which Poland wants to become a member by 2005 or so. Since the EC allows only democratic states to join, this can be considered as a highly effective incentive for Poland to preserve its current form of government and to stabilize its political system.<sup>64</sup> In short, the prospects of stability of



the Polish democracy are quite good.

### End Notes

<sup>1</sup> This came to be known as the "Polish October".

<sup>2</sup> J. Sachs/ D. Lipton, "Poland's Economic Reform", Foreign Affairs No. 69 (Summer 1990), p.49.

<sup>3</sup> Arthur R. Rachwald. In Search of Poland, The Superpowers' Response to Solidarity, 1980-1989. (Stanford (CA): Hoover Institution Press, 1990), p.49.

<sup>4</sup> Dimitri K. Simes, "Clash over Poland," Foreign Policy No.46 (Spring 1982), p. 58.

<sup>5</sup> see Adam Bromke, "Poland: The Cliff's Edge," Foreign Policy No.41 (Winter 1980-81), p. 160.

<sup>6</sup> The government was represented by the later Prime Minister Rakowski.

<sup>7</sup> Although one shouldn't trust the justifications for leadership change in communist countries, in this case they probably did not lie.

<sup>8</sup> The Human Rights Report refers to the PUWP as "divided, disorganized, and ineffectual" (U.S. Department of State. Country Reports on Human Rights Practices (1982). (Washington: U.S. Government Printing Office, 1983), p. 964).

<sup>9</sup> Among them: the danger of armed resistance by the Poles and their army; the danger of destroying the climate of detente; the forgone possibility to exploit rifts in NATO which resulted from the debate about the deployment of medium-range nuclear missiles in Europe; and lastly the dangers for the world-wide appeal of communism as an idea, when the Soviets repeatedly do not abide by international law.

<sup>10</sup> The role of the Catholic Church has always been important, and especially so after Karol Wojtyla had been elected Pope in 1978. His visits, of which most drew crowds of hundreds of thousands of people, showed the impotence of the regime and taught the Poles that they do not have to fear their government any longer. The support Solidarity and the Poles in general received from the church was mainly "in moral rather than in political terms" (Country Reports on Human Rights Practices (1983), p.1061). The biggest concern of the church were human rights questions. Due to its peculiar role in Polish society, it later had the ability to mediate between Solidarity and the communist government.

<sup>11</sup> The situations in Polish prisons were among the primary concerns of the U.S. in its Country Reports on Human Rights Practices between 1982 and 1988.

<sup>12</sup> Abraham Brumberg, "Poland: The Demise of Communism," Foreign Affairs No. 69 (America and the World 1989/90), p.75.

<sup>13</sup> The Country Report on Human Rights Practices evaluates the impact of martial law as follows: "Martial law was a technical success in suppressing open resistance and in frustrating attempts to form an effective underground opposition movement." (Country Reports on Human Rights Practices (1982), p.965).

<sup>14</sup> Whereas Poland was classified as a "Communist country" previous to 1982, the Country Report on Human Rights Practices (1982) characterizes it as "basically a Marxist police state disguised as a military dictatorship". (Country Reports on Human Rights Practices (1982), p.964).

<sup>15</sup> Speech in Los Angeles, December 29, 1981. in: Ronald Reagan, Public Papers of the Presidents (1981), (Washington: U.S. Government Printing Office, 1982), p. 1209.

<sup>16</sup> Rachwald, p. 64.

<sup>17</sup> As a consequence, the Reagan Administration supported Solidarity through organizations like AFL/CIO. As a private organization, the American union could not be accused of interfering in the internal affairs of another country, since cooperation between trade unions is very common everywhere.

<sup>18</sup> Most-Favored-Nation Status

<sup>19</sup> Tad Szulc, "Poland's Path," Foreign Policy No. 72 (Fall 1988), p.222.

<sup>20</sup> A free flow of information had been agreed upon in Helsinki.

<sup>21</sup> U.S. House Committee on Foreign Affairs, Subcommittee on Europe. Poland's Renewal and U.S. Policy Options: A Policy Reconnaissance. (Washington: U.S. Government Printing Office, 1987), p.11.

<sup>22</sup> Rachwald, p.81.

<sup>23</sup> Rachwald, p.78.

<sup>24</sup> Rachwald estimates that the standard of living in Poland declined by 20% per year between 1982 and 1986. (Rachwald, p.76).

<sup>25</sup> Ironically, "as decentralization progressed, workers gained enough influence to push for higher and higher wages. This contributed to an explosion of wages ..., which in turn contributed to shortages, inflation and a rising budget deficit in the last years of the communist regime (Sachs/Lipton, p.50).

<sup>26</sup> Szulc, p.228.

<sup>27</sup> He neither wanted to negotiate with Solidarity nor with Lech Walesa.

<sup>28</sup> Using the terms of Huntington, one could describe the results of this Party Congress as the isolation of the "standpatters" (Samuel P. Huntington. The Third Wave: Democratization in the Late Twentieth Century.



(Norman and London: University of Oklahoma Press, 1991).

<sup>29</sup> Szulc, p.224.

<sup>30</sup> see: House Committee, p.18.

<sup>31</sup> Huntington points out that the actual round-table talks were a farce, because the leading negotiators, Lech Walesa on the side of Solidarity and General Kiszczak for the government, discussed the crucial issues in "secret, parallel talks ... conducted in isolation from the mass media' at a villa at Magdalenka outside Warsaw." (Huntington, p. 167).

<sup>32</sup> Brumberg, p.77.

<sup>33</sup> Brumberg, p.77.

<sup>34</sup> Brumberg, p.77.

<sup>35</sup> By taking this approach, Solidarity acted as Huntington advises: "Be prepared to negotiate and, if necessary, make concessions on all issues except the holding of free and fair elections." (Huntington, p.162).

<sup>36</sup> This attitude clearly indicates moderation. Huntington recommends: "Be moderate, appear statesmanlike." (Huntington, p.162).

<sup>37</sup> Brumberg, p.79.

<sup>38</sup> Walesa has been criticized for his agreement to semi-free elections (Huntington, p.168) as well as for his agreement to tolerate Jaruzelski in the presidency.

<sup>39</sup> Richard F. Starr, "Poland: Renewal or Stagnation?" Current History (November 1989), p.406.

<sup>40</sup> "[H]elp from the West will come in concert with liberalization". (George Bush, Public Papers of the Presidents (1989), p.432).

<sup>41</sup> George Bush (1989), p.431.

<sup>42</sup> George Bush (1989), p.432.

<sup>43</sup> The analogy with the America Houses in Germany after World War II is obvious.

<sup>44</sup> The Marshall Plan had a size of \$200 billion in real terms. This compares with the \$1 billion in direct aid to Poland and Hungary under the Eastern European Democracy Act.

<sup>45</sup> The internal differences are so big that not even the Beer-Drinkers' Party could preserve its unity, although its platform is quite narrow. Consequently, the Poles have two Beer-Drinkers' Parties to chose from in the next election. For the time being, both remain in the Sejm.

<sup>46</sup> This program came to be known both as the "Polish shock therapy" and the "leap to a market economy". As by December 1992, the results of the program are - according to Jeffrey Sachs - very promising, so that we will contemplate the "Polish economic miracle" in a few years from now.

<sup>47</sup> quoted from: Brumberg, p.78. Note: he speaks of himself in the third

person.

<sup>48</sup> Huntington, p.46.

<sup>49</sup> House Committee, p.5.

<sup>50</sup> Huntington, p.98.

<sup>51</sup> House Committee, p.19.

<sup>52</sup> George Bush (1989), p.1 (Inaugural Address).

<sup>53</sup> 1989 is a decisive year in terms of human rights progress, but democracy came about later. The U.S. Human Rights Report on Poland begins by stating "Poland in 1991 completed the transition from a Communist state to a multiparty democracy." (Country Reports on Human Rights Practices (1991)).

<sup>54</sup> Telling is Bush's remark that he did not intent to interfere in "the internal affairs of Poland," but rather wants to symbolize U.S. "support" for the country. Help would come "in an economic sense" and Jaruzelski would not be "push[ed] ... too far". (George Bush (1989), p. 887).

<sup>55</sup> Brumberg, p.88.

<sup>56</sup> Rachwald, p.130.

<sup>57</sup> Huntington, p.63.

<sup>58</sup> Huntington, p.289.

<sup>59</sup> One might consider how the Vatican is organized.

<sup>60</sup> Huntington, p.253.

<sup>61</sup> The external debt was over \$40 billion by 1991, of which \$10 billion was owed to commercial banks and \$30 billion to Western governments.

<sup>62</sup> This relates to the \$30 billion owed to Western governments, mainly the German. The debt owed to commercial banks was rescheduled under the terms of the Brady Plan.

<sup>63</sup> The E.C. can also take credit for "actively promot[ing] democratization" in Eastern Europe. (Huntington, p.91).

<sup>64</sup> A change in the voting procedures might be appropriate to prevent many small parties from being elected into parliament.



# George F. Kennan and Containment of Communism

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by Rafal Golebiowski

*The planner of American diplomatic policy must use the kind of power we do have, not the kind we do not have.*

—Walter Lippmann

After World War II, the United States was faced with the threat of Soviet encroachment on its irreducible interests of liberty, security, and economic well-being. In light of the situation that had developed, the United States' foreign policy was in need of a strategy which was best suited to successfully contain Soviet power. The post-World War II US administrations, faced with the task to stop the expansionist behavior of the Soviet Union, dedicated their creativity to identify and organize into a convincing policy the components of the best possible strategy of containment. In its initial stages of development, the early post-war US foreign policy strategic framework was strongly influenced by George F. Kennan's prescription of a containment strategy, which can be clearly regarded as an accurate assessment of and an instrument to deal with the new geopolitical crisis -- the Cold War.

This study attempts to show that the containment strategy developed by George Kennan, prescribed to and utilized by the United States government, was the most suitable course of action. At the same time, it presents a comparison between Kennan's strategy of containment and one proposed by Walter Lippmann, in an effort to reconcile alleged differences between the two strategies. In addition, the first term of the Truman administration, in the years between 1947 and 1949, and the Nixon and Kissinger years of 1969-1974 are analyzed here to exemplify

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the application of Kennan's strategy of containment.

At the outset, however, it is essential to establish the requirements which define a strategy that is, indeed, "a most suitable course of action" of the United States' government in containing Soviet power. In the simplest terms, there is only one condition that has to be satisfied for a strategy of containment to be accepted as valid one: the fulfillment of the United States' irreducible national interests of liberty, security, and economic well-being. But this ambiguous task alone creates an opportunity for a nearly unrestrained interpretation of the United States' national interests and it fails to give any presupposed framework for the implementation of a US foreign policy.

In order to remedy these insufficiencies, the structure of a good strategy of containment is proposed to be one that is resting on two pillars, two requirements which form its backbone. First, the irreducible United States' interests must be clearly defined. Without this, any proposed strategy loses its value and meaning, for a strategy without a goal is no strategy at all. Defining the US interests could be approached in various ways, be it in geopolitical terms or through economic, social, or other considerations. Also, precise limits on their extent -- the extent of the US commitment to its goals -- are as essential and inevitable in shaping a definition of national interests, as is the need to establish a ranking system among the outlined interests. These conditions lead directly to a second pillar, which requires the correct use of the United States' strengths and influences in the international arena, in order to satisfy the nation's interests. The "correctness" mentioned here means the best possible evaluation of the threats of Soviet expansionism, and more importantly, a correct perception of the United States' powers in conducting foreign affairs. This can be achieved by analyzing the nation's power in economic, geopolitical, historical, or other terms. The aim of all these considerations is obvious: to create a strategy of containment which successfully balances the ends with the means, as to ensure its vitality and reduce the risks of its failure.<sup>1</sup>

An important explanation must be added: the two pillars presented above are by no means two separately determined requirements of a good strategy. What makes a good strategy is precisely their compatibility with each other. The availability of means determines the scope and priority of the US interests. The opposite is also true: sometimes, the importance of certain US interests may require the government to resort to means which would normally be viewed through the cost-benefit analysis as less desirable.



To close the circular flow of logic, the fact must be acknowledged that simply striking a balance between the means and the ends may prove to be as inadequate as the inability to do so. This is due to the subjectivity in defining the United States' interests and powers, perceptions of which might be highly inaccurate from the start. The result of that might be a balance of means and ends on a wrong level. This dilemma is encountered in the realm of economics, where the scholars studying the macroeconomic theory of a free market have at last come to the conclusion that maintaining equilibrium between spending and income is not sufficient to eliminate the evil of recessions. It became obvious that this equilibrium could be maintained below the level of full employment in the country. Therefore, a good strategy takes into account not only the equilibrium of means and ends, but it also projects their definitions correctly. However, as it is usually the case, the "correctness" of such perceptions is verified only after the strategy has been implemented.

### **Kennan and Lippman Reconciled**

In 1947, when his article appeared in *Foreign Affairs* under the title "The Sources of Soviet Conduct," the mysterious writer, Mr. "X", displayed a great understanding of the Soviet behavior. George Kennan, who was the author of this article, provided an insightful analysis of the Soviet conduct in the international arena, having focused on its underlying premises – a grain of truth in communist ideology, which gave the Soviet Union vibrance of spirit and substance of its soul. The truth spoke of inherent weaknesses which exist in the capitalist societies, and which could not be healed simply through a free market approach. The ideology developed by Marx and Lenin offered an alternative – communism – which was to contain a scientific rationale, unshaken and historically determined in the evolution of societal structures on the face of the earth, and, bearing such a certainty and self-proof, that it gave an automatic justification and flexibility to the tools used to embody it in real life.<sup>2</sup> Kennan knew this. And he knew that ultimately, not the ideology, but the means to implement it, became a focus of the Soviet conduct. And the means themselves were not new, as one might expect of such a revolutionary ideology: they were as imperialistic as they had been a hundred years earlier. Moreover, they were "based on the exploitation of evil, rather than good, in human nature,"<sup>3</sup> and they were the immediate determinants of the Soviet foreign policy in the post-World War II era.<sup>4</sup>

Walter Lippmann placed a greater emphasis on Soviet military

potential than Kennan did -- Kennan's view of Soviet threat was primarily psychological. Lippmann pointed to the great advantage the Soviet Union possessed over the United States on the Eurasian continent. US infantry, as compared with the Soviet one, was inadequate, and he urged US statesmen to evaluate Soviet power in these terms when the United States establishes its commitments abroad.<sup>5</sup>

Cutting through the mist of Soviet rhetoric, Kennan and Lippmann arrived at these perceptions of the nature of Soviet threat. However, their prescriptions for the United States' conduct in the international affairs were very similar.

### **The Principles**

The X-Article written by Kennan in January 1947 was not intended to be a doctrine of the United States' relations with the Soviet Union. However, a great deal of importance was soon attached to it, as it received publicity in the main sources of American media. Due to the fact that the article was written for limited, internal use in the State Department, and to the short period of time it was prepared in, Kennan's thoughts did not transcribed accurately in the written word. "So egregious were these errors,"<sup>6</sup> Kennan wrote in his memoirs, "that I must confess to responsibility for the greatest and most unfortunate of the misunderstandings to which they led." A wave of fierce criticism of Kennan's ideas broke out and found its leader in the person of Walter Lippmann. The great tragedy of the situation was that Lippmann's views coincided with those of Kennan, who had failed to express them clearly in the X-Article.

The writings of both men reveal the importance each of them attached to the necessity of identifying the United States' national interests. The irreducible US national interests were the concepts which appeared in the definitions US interests offered by Kennan and Lippmann. Kennan wrote in 1948: "The fundamental objectives of our foreign policy ... must always be:

1. to protect the security of the nation, by which is meant the continued ability of this country to pursue the development of its internal life without serious interference, or threat of interference, from foreign powers; and
2. to advance the welfare of its people, by promoting a world order in which this nation can make the maximum contribution to the peaceful and orderly development of other nations



and derive maximum benefit from their experiences and abilities."<sup>7</sup>

Lippmann spoke in similar words. He wrote, that "we must discover the true American national interest. We must bear in mind always that there is at stake the life or death of multitudes, victory or defeat in war, the well-being and indeed the survival of the nation."<sup>8</sup> He went on saying that, "if in our search for the true American interest, we fail to find it correctly and to explore its implication exhaustively, our policies will be unworkable in practice because in fact they do not recognize the realities of our position."<sup>9</sup>

Kennan and Lippmann agreed that there are five geographical areas, which are extremely important in the maintenance of world order, due to their industrial military character. It was in the primary interest of the United States, according to both men, to prevent these regions from falling under control of forces hostile to the United States' security, liberty, and well-being. These geographical power centers were: the United States, Great Britain, Germany and central Europe, Japan, and the Soviet Union. One of them was already under communist control.<sup>10</sup>

The balance of the United States' national interests with the means that the country possesses -- a second essential step in formulating a good foreign policy -- became an even more important point for Kennan and Lippmann. Samuel P. Huntington, in the first paragraph of his article, "Coping with the Lippmann Gap," addresses this issue by reviving Lippmann's words written in 1943, in which Walter Lippmann placed great emphasis on the essentiality of achieving a balance between ends and means. "Foreign policy," wrote Lippmann, "consists in bringing into balance, with a comfortable surplus of power in reserve, the nation's commitments and the nation's power."<sup>11</sup> The expenditures of the nation could not go beyond the assured means, or insolvency and disaster would result in the US foreign relations.

Curiously enough, besides the balance itself, Lippmann's words point to the idea that was mentioned earlier, namely, that the balance alone sometimes is not sufficient. "A comfortable surplus of power in reserve" is required for the balance to be meaningful in the US foreign policy framework. Only when the interests and available means are identified correctly, only when it is clear that a "comfortable" situation develops after the defined ends and means are in equilibrium; then the correct balance will be reached.

For George Kennan, balancing the United States' commitments, which arise from the national interests, with the capabilities of the state

to fulfill them, was a no less important matter. Kennan regarded prioritizing the nation's interests to be imperative due to limitations on any nation's resources and, consequently, its capabilities to conduct foreign affairs successfully.<sup>12</sup> There was a constant dynamic relationship between the ends and the means which always lead to, what John Lewis Gaddis calls, an "organic equilibrium": "It was a view conscious of the fact that because capabilities are finite, interests must be also; distinctions had to be made between what was vital and what was not."<sup>13</sup>

However, the "organic equilibrium" encompassed more than that. The picture becomes more complex, when a choice between available means to satisfy one or more of the state's interests must be made. Then, the national interest at stake becomes a determinant of the means chosen. Thus Gaddis follows the description of the "organic equilibrium": "It was also sensitive to the need to subordinate means to ends; to the danger that lack of discrimination in methods employed could corrupt objectives sought."<sup>14</sup> Kennan's and Lippmann's views on this aspect of the equilibrium of national interests and capabilities remained similar. Their closeness resulted from their balance of power considerations.

Kennan favored the idea that when the United States' irreducible interests are at stake, the power that the nation possesses takes precedence over the principles to which it aspires.<sup>15</sup> The basic logic behind this view is that, although, conducting foreign affairs from the standpoint of principles is closely related to American traditions, most of decisions made in the international relations are deeply rooted in the balance of power approach. Preservation of the US interests and maintenance of world order congenial to those interests, Kennan argued, more often than not requires such an approach to be taken. The collective action -- a wide consensus achieved through the international parliamentarianism, and the hope for mutual benefit to stem from the United States' relations with other states, were regarded by Kennan as highly inadequate. However, it must be remembered that this view did not reject alliances based "upon real community of interest and outlook, which is to be found only among limited groups of governments, and not upon the abstract formalism of universal international law or international organization."<sup>16</sup>

Lippmann wrote in similar words. "The will of the most powerful states to remain allied is the only possible creator of a general international order."<sup>17</sup> The will, of course, is to a large extent measured by the national interests of each state to enter such an alliance. Lippmann, like Kennan, did not believe in sentiments as determinants of the world order. He also shared with Kennan the same view on the importance of national



interests in shaping its conduct in the international arena. Lippmann knew that, unless there exists a compatibility of interests between and among states, the use of balance of power politics is inevitable. In 1943, Lippmann hoped that the great powers -- the United States, Great Britain, Russia, and other that emerge after World War II -- will be able to share an "enlightened interest" and establish certain laws respected by all of them.<sup>18</sup> Nevertheless, when the Soviet power emerged as a major post-war threat to the US interests (and to the interests of other powers), Lippmann wrote in 1947: "I agree entirely (with Kennan) that the Soviet power will expand unless it is prevented from expanding because it is confronted with power, primarily American power."<sup>19</sup>

### **Containment of Soviet Threat**

Based on the similar perceptions of the principles guiding a formulation of the United States' conduct in the international relations, Kennan and Lippmann approached the reality of the Soviet threat in the post-World War II era in a similar manner.

Threat has no meaning, unless evaluated with respect to the nation's interests. Kennan and Lippmann insisted that the ideological difference between the Soviet Union and the United States should not be the cause of concern of American statesmen when dealing with Soviet expansionism. The pressing issue was the power politics that the Soviet Union was conducting in the international arena. Lippmann expressed this view (which he derived from DeWitt Clinton Pool's studies on this subject) in his historical examinations of Russian-American relations. The concern of each nation over their own national interests has carried both states through the history of their relations, and there was no reason why in the post-World War II years this behavior would be altered.<sup>20</sup>

Kennan recommended a strategy of containment that was to deal with the Soviet challenge on three levels:

- (1) restoration of the balance of power through the encouragement of self-confidence in nations threatened by Soviet expansionism;
- (2) reduction, by exploiting tensions between Moscow and the international communist movement, of the Soviet Union's ability to project influence beyond its borders;
- (3) modification, over time, of the Soviet concept of international relations, with a view to bringing about a negotiated settlement of outstanding differences.<sup>21</sup>

Lippmann's views closely followed Kennan's recommendations.

### Level 1

Both men pointed to five regions of the world which were of extreme importance to the maintenance of world order -- the United States, Great Britain, the industrial Rhine valley, the Soviet Union, and Japan. One of them, obviously, was under the forces of communism and the goal was to prevent the Soviet expansion into the remaining ones. However, "the ultimate goal was not a division of the world into Soviet and American spheres of influence, but rather the emergence over the long term of independent centers of power in Europe and Asia."<sup>22</sup> Kennan and Lippmann objected to containing communism at every point in the world geography, and to stationing US forces around the borders of the Soviet Union. The expenditures of such an approach would be clearly unacceptable to the United States, and the primary United States' interests -- Kennan's and Lippman's concept of priority given to the five geographical areas mentioned above -- would not require such efforts to be made.

Thus the geographic scope of US interests was identified. The military power, however, was not the preferred means, but rather economic aid, that both Kennan and Lippmann prescribed in order to achieve this objective. "The public announcement of a long-term program of American economic assistance would in itself do much to restore self-confidence in Western Europe, Kennan believed, so long as it treated that region as a whole and allowed recipients considerable responsibility for planning and implementation."<sup>23</sup> Germany, as well as Japan, would be rehabilitated in order to establish stability essential to contain the spread of the Soviet threat. Lippmann, a great supporter of the Marshall Plan for European recovery, followed the same view.<sup>24</sup> However, military strength was never neglected by either man: "armed strength was essential as a means of making political positions credible, as a deterrent to attack, as a source of encouragement to allies, and, as a last resort, as a means of waging war successfully should war come."<sup>25</sup>

Thus the strategy outlined by Kennan and by Lippmann limited the United States' commitments in the world and allowed a great deal of flexibility in choosing means to contain Soviet expansionism. The limited geographic scope and the flexibility in means were essential to avoid situations in which the US adversary can use more superior weapons, and in which the balance between US ends and means could not be achieved.

However, a difference appeared between the views of the two



strategists over the US aid to Greece and Turkey. Kennan believed that, although the United States was not to resist communism beyond the established geographical scope, some areas, not included in the four major ones, might be drawn into the scope of US commitments, only, if that was essential to secure US interests in the areas of primary concern. This would not mean, however, that the Soviet threat had to be contained at every point it appeared.<sup>26</sup> Lippmann did not approve this notion, by criticizing the US involvement in Greece and Turkey – involvement that was justified by Kennan, although not explicitly by his strategy – as a threat of over-extension of US commitments abroad.<sup>27</sup> Also, Lippmann considered the Soviet military potential as too overwhelming to the US military capabilities in this region.

## Level 2

In addition to the necessity to have the four power centers stable enough to resist Soviet expansion, Kennan believed in the need to reduce Soviet influence outside its borders. However, in fear of unnecessary conflicts which might force the United States to over-extend its commitments, this could only be done, in his view, by indirect methods. One of them was the economic aid mentioned earlier. "This would have the advantage, not only of restoring the balance of power, but of removing or at least mitigating the conditions that had made indigenous communism popular there in the first place."<sup>28</sup> Clearly, Lippmann would not object to this view, as he considered the Marshall Plan essential to contain communism.

As far as the Soviet influence in Eastern Europe was concerned, Kennan prescribed only discreet measures to affect the unfavorable situation. (In regard to the spread of communism in China, Kennan recommended a policy of noninvolvement.) He believed that sooner or later the East European states will follow Yugoslavia's secession from the Soviet block. Titoism should be encouraged by the United States "and for the moment this meant being willing to tolerate, and even cooperate with, East European communist governments independent of the Soviet Union for the purpose of containing the Soviet Union."<sup>29</sup> Kennan expected an eventual self-destruction of Soviet expansionism, and, upon first signs of this phenomenon, the US strategy of containment would be achieved largely through the support of nationalism in the states of the communist block.

Lippmann, on the other hand, did not encourage any, even

"discreet," measures to reduce the Soviet influence in the communist block. The United States would be dangerously meddling with the overwhelming Soviet military power.<sup>30</sup> He did admit, though, that "the boundaries of the Atlantic community (where US interests lie) are not sharp and distinct, particularly in the case of the Germans and the western Slavs."<sup>31</sup> In addition, he praised the Marshall Plan, under which the US offer to facilitate post-war recovery of Europe was extended also to the East European states.<sup>32</sup>

### Level 3

Kennan hoped to bring about a change in the Soviet concept of international politics "away from ... the conviction that security required restructuring the outside world along Soviet lines ... to ... the toleration and even encouragement of diversity."<sup>33</sup> Neither an all-out war, nor diplomatic negotiations, did Kennan consider as the appropriate measures to achieve the desirable outcome. Instead, he favored the idea of using deterrents and inducements -- what he called "counter-pressure" -- to create situations in which the Soviet Union would find it disadvantageous to concentrate on the elements of conflict in the international relations, and, consequently, in which their actions would be modified. This would be achieved best by preserving "the integrity and dignity of its [United States'] example, that the true glory of Russian national effort can find its expression only in peaceful and friendly association with other peoples."<sup>34</sup>

Lippmann also hoped to change the Soviet view on international relations but he believed in a greater potential for the US-USSR co-existence. He proposed a "policy of settlement" which would involve diplomatic negotiations with the Soviets. Lippmann wrote that, through diplomacy, the United States could lead the Soviets into a situation in which, "whatever they think, whatever they want, whatever their ideological purposes, the balance of power is such that they cannot afford to commit aggression."<sup>35</sup>

On the following pages, an attempt will be made to analyze the first term of the Truman administration and the Eisenhower administration as ones that were closest to approximating the containment strategy outlined above. Even though, the strategies prescribed by George Kennan and Walter Lippmann have been portrayed as very similar, for simplicity sake the strategy, against which the two administrations are going to be analyzed, will be referred to as Kennan's strategy of containment.



## Truman Administration, 1947-1949

In the years of 1947 through 1949, the United States' foreign policy shaped by the Truman administration largely exemplified the recommendations developed by George Kennan. Kennan's strategy of containment found its applications mostly on the first two levels discussed above. This could be observed in the administration's foreign policy initiatives such as (1) the Truman Doctrine, (2) the European Recovery Plan -- the Marshall Plan, (3) reliance on the atomic bomb as the ultimate deterrent to Soviet aggression, and (4) support of Titoism. However, Kennan prescriptions of a strategy of containment were in conflict with the administration's decisions to (1) extend the US assistance to Greece, (2) continue US military presence in Japan, (3) support the creation of the North Atlantic Treaty Organization (NATO), (4) accept the division of Germany, and (5) increase development of nuclear weapons.

In spite of the inequality between the numbers of evidence in support and against the application of Kennan's strategy in these years, as suggested by simple mathematics, the importance of the first set of facts outweighs that of the latter. First of all, a crucial trend in the foreign politics of Truman administration must be brought to light, namely, that balance of power was accepted as a concept of conducting relations with the Soviets and "a residue of universalistic thinking remained (only) at the level of long-term aspirations."<sup>36</sup> Seyom Brown, in his book *The Faces of Power*, emphasizes the difficulty with which the balance of power considerations were publicly accepted by Truman as a proper approach in the relations with the Soviet Union after World War II. Truman realized the essentiality of this concept; however, he was also concerned with the post-war expectations of American public for a peaceful world order. The departure from a universalistic approach of achieving a harmony of interests in the international arena to power politics was nevertheless evident.<sup>37</sup>

And secondly, the geopolitical reasoning on Truman's policy staff reflected Kennan's view that the Soviet threat would be contained best by keeping the four industrial-military centers of power (the United States, Great Britain, Germany and central Europe, and Japan) out of Soviet control. This strategy was referred to as "strongpoint defense," in contrast to the "perimeter defense," which required resisting Soviet expansion at every point of its manifestation.<sup>38</sup>

Washington realized the necessity of establishing a world order in

which, at least the geographical areas of US primary concern, were independent and capable of "resisting attempted subjugation by armed minorities or by outside pressures." These were the words of the Truman Doctrine presented on May 12, 1947. Although critics will point to the broad geographical scope of US interests (resembling the "perimeter defense concept"), as articulated in the actual wording of this doctrine, Truman's view was that US resources are limited and the geographical limitations are fully acknowledged.<sup>39</sup>

The Truman Doctrine, however, followed Kennan's prescriptions not only in this respect, but also in the means necessary to implement it. Working towards a goal of building strong and independent power-centers through the containment of the Soviet threat, Truman said:

I believe that our help should be primarily through economic and financial aid which is essential to economic stability and orderly political processes.

If we falter in our leadership, we may endanger the peace of the world – and we shall surely endanger the welfare of our nation.<sup>40</sup>

Truman's rhetoric was soon followed by the European Recovery Program, announced in June 1947.

The Marshall Plan did more than satisfy Kennan's recommendations of restoring the strength of Western Europe. It was also offered to the East European countries, which, however, did not accept it due to the pressure from the Soviet Union. But from this year on, these states would be watching the impressive growth of the West European countries, as an opportunity lost in the name of communism. And this would lead to mixed feelings and differences in views among the communist states. Indeed, these sentiments were prevalent in the past few years, when the break-up of the Soviet block became a reality. Millions of people looked with their hungry eyes across the border which had been marked by the Iron Curtain. It was overpowering to see the popularity and vibrance of American and West European spirit there which they had thirst for all these years. Kennan's prescriptions to affect the Soviet dominance outside its boundaries were to a great extent fulfilled by the creation of the Marshall Plan. And, although not entirely due to this plan, nowadays, Russia's approach to international relations has undergone a major change.

However, the Truman administration did not exclude the military



force from the balance of power calculations altogether. It concentrated on the cheapest approach – the atomic bomb – as the means to contain the Soviet threat. Of course, nuclear weapons were regarded as the ultimate deterrent and not as a tool of coercion in the US relations with the Soviets. Other instruments, such as covert action, propaganda and physical warfare techniques were not used to any great extent, due to a lack of resources.<sup>41</sup>

Kennan's view about a limited use of military means went hand in hand with Washington's policies until the second half of the year 1949. Following the detonation of the atomic bomb by the Soviets in August 1949, the United States' policy on the importance of military weapons changed with the increases in the US nuclear arms development. Kennan believed that the nuclear weapons can be used only for deterrence and he advocated a "minimum deterrence" approach. He argued, that "the very decision to build the (new, hydrogen) bomb would inhibit bargaining with the Russians on international control, since the Kremlin was unlikely to negotiate from a position of weakness." Truman at that time was convinced, however, that the United States, being poor in manpower, must rely on the nuclear weapons, and not allow itself to bargain from the position of weakness. At that time, Kennan's and Truman's views diverged.<sup>42</sup>

Nevertheless, there was one other US initiative taken during these years which reflected some parts of Kennan's view of containment. The administration's support of Tito's regime in Yugoslavia, was an indication of seriousness that Truman attached to Kennan's notion of exploiting differences among the individual states of the communist block. Tito's break with Moscow in June 1948 caused the administration to express its readiness to establish diplomatic and economic relations with Yugoslavia. Titoism was viewed as a vital force that lead to disintegration and erosion in the Soviet block, and it was in the US interest to keep it alive.<sup>43</sup>

In the years 1947-1949, the Truman administration took some actions which Kennan opposed. One of them, the decision to increase the nuclear arms development in 1949, was already mentioned. The other four – the administration's approach to Greece, Japan, Germany, and NATO – remain to be discussed. However, all of these show that the deviations were much weaker than the congruities between the strategy prescribed by Kennan and that followed by Washington.

The US assistance to Greece was being extended clearly beyond the geographical scope outlined in Kennan's strategy. John Lewis Gaddis

wrote that "Kennan's strategy (did not) provide safeguards against the possibility that successive losses of peripheral areas to Soviet control might cause psychological demoralization in more vital ones; this was why Kennan himself, in apparent defiance of his own strategy, supported American military assistance to Greece in 1947."<sup>44</sup> Although in conflict with some basic propositions of his strategy, Kennan justified this decision, because (1) it was well within US capabilities, (2) without it the Soviet Union would gain a substantial advantage in the area, and (3) its success would carry outside Greece.<sup>45</sup>

Japan, on the other hand, being one of the five major world power centers, required protection from Soviet expansionism. Both Truman and Kennan regarded this as one of the primary areas of the US strategy of containment. The difference between Kennan and the administration surfaced in their approaches to achieve this goal. Kennan saw demilitarization and neutralization as the means to contain the Soviets, because withdrawing US forces from Japan would eliminate US military presence from the Soviet "backyard," and thus convince the Soviets to abstain from expansion into China. The State Department considered this approach as too risky, and the presence of military forces in Japan continued.<sup>46</sup>

The same scenario was experienced in the case of Germany. Kennan's hopes of reaching a mutual gain settlement between the United States and the Soviet Union by unification, disarmament, demilitarization, and neutralization of Germany, were also destroyed by the high risks of the proposal. However, as much as these risk analyses stood in the way of the ultimate creation of independent industrial-military power centers, that's all they were – the impediments. Clearly, the general structure of Kennan's strategy of containment was still evident in the political thinking of the Truman administration.<sup>47</sup>

There was one more conflict between the strategies of Kennan and the Truman administration. Kennan regarded the US support of the formation of NATO as a factor which narrowed the opportunities for negotiation with the Soviets. He pointed to the fact that by establishing NATO, the Europeans concentrated more on their military concerns rather than on the economic recovery, and this would, naturally, lead to greater worries for European security and of a possible Soviet attack. But, once again, Kennan had to give in on this issue, as he realized that the Europeans, scared and tired by the war, place their security above their economic well-being. Nevertheless, he contented himself with the idea that "our present policy is still directed ... toward the eventual peaceful withdrawal of both the United States and the USSR from the heart of



Europe, and accordingly toward the encouragement of the growth of a third force which can absorb and take over the territory between the two."<sup>48</sup>

### **Nixon and Kissinger, 1969-1974**

The United States' relations with the Soviet Union under the Nixon administrations are characterized as "detente." Nixon's and Kissinger's views in conducting US foreign policy were to a great extent congruent with the principles of the containment strategy established by George Kennan in the late 1940's. Although detente envisioned a new world order with a greater potential for peaceful co-existence of the two superpowers, this vision was no different from the ultimate goals projected by Kennan's strategy of containment. And the very nature of detente was in agreement with the realistic approach taken by Kennan, for as Kissinger once recalled: "Our objective was to purge our foreign policy of all sentimentality."<sup>49</sup>

The Nixon administration believed in the benefit of multipolarity in international relations. The United States was in no position to pull the strings attached to all states of vital concern to America in order to contain Soviet expansion. The world was drastically different from the one of the Truman years: the economies of the West European states and Japan had recovered substantially; new developing nations were emerging rapidly in the international arena; the increasing dependence of the industrialized nations on oil escalated the strategic importance of the Middle Eastern oil-producing countries; and the communist movement was at least dissected by the divergence of the ideas of Moscow and Peking. All these things caused the administration to believe that the new world order would have to be based on recognizing the limits of the US influence in the world affairs and attaching a greater importance to the great economic powers. One difference from Kennan's strategy was that the administration considered the five industrial-military power centers to be the United States, the Soviet Union, Western Europe, Japan, and Communist China.<sup>50</sup>

However, such an international order could be achieved only by a realistic evaluation of the nation's interests "so as to avoid squandering its resources in the service of idealistic goals peripheral to the central balance of military and geopolitical power." The balance of power approach to achieve and maintain the multipolar world order was also in agreement with Kennan's strategy of containment. Accordingly, ideology was eliminated from the balance of power considerations, and the position

of other countries in relation to the United States was to be determined by their action in the international arena. Economic power was regarded as "the key to other kinds of power."<sup>52</sup>

This administration took the first steps in accordance to its rhetoric toward terminating the war in Vietnam. The United States was losing its efforts, lives, valuable resources, and was endangering its bargaining position vis-a-vis the Soviet Union by its involvement in Indochina. Washington proposed, first, in 1969, a mutual withdrawal of US and North Vietnamese forces from South Vietnam; later in 1970, a standstill cease-fire, to allow the North Vietnamese forces to retain the conquered territories in South Vietnam while US forces would be withdrawn from the South; and finally, in January 1973, the Agreement on ending the War and Restoring the Peace in Vietnam was reached. The process of ending the conflict in Indochina was long and the administration may be blamed for it, as well, as for the invasion of Cambodia in 1970. But the fact remains that Nixon was dealing with a conflict whose roots should be searched for in the previous administration, and that under his administration it was terminated.

Nixon and Kissinger favored the idea of creating world order through exploiting the similarities between the United States and the Soviet Union. But, again, this was not because of a growing sentimentality within the administration toward the idealistic approach in conducting foreign affairs. The balance of power considerations were applied here most of all, except a new view was that it was much more vital to concentrate first on the similarities rather than differences between the two superpowers. Such relaxation of tensions would be harder to manage, but it would provide a sound base for a more diverse order in international relations. The three major initiatives taken on the part of the administration in this direction were (1) the US-Soviet strategic arms limitation talks (SALT), (2) economic detente, and (3) step-by-step diplomacy in the Middle East.

The Nixon administration faced from the start the reality of an unprecedented Soviet military build-up. The way that Nixon approached this problem was through the United States - Soviet strategic arms limitation talks, in hope to bring the nuclear power competition between the two nations under conditions of some restraint. In Moscow, in 1972, treaty was established to limit antiballistic missile systems and the agreement to set temporary ceilings on offensive strategic systems was reached. Through SALT, Washington was able to have the Soviets agree to some mutually beneficial rules on the military component of interna-



tional relations. The Soviet Union was now able, to some extent, to focus its attention on its domestic economic problems, and the United States was relieved from some pressures of the power race. The Nixon administration acted along the lines of Kennan's strategy of containment, by modifying Soviet behavior in international relations. Moreover, it made it possible to reduce the use of resources channeled into the military side of the balance of power politics, and divert them into the economic means of foreign policy. Also, the quantitative limits established through SALT, did not weaken the United States' power, for there was a great deal of flexibility allowed in the kinds of the nuclear weapons the United States could have.<sup>53</sup>

Economic detente was another approach taken by Washington to link its actions with the goal of changing the Soviet foreign policy conduct.

The 'basic principles' signed by President Nixon and General Secretary Brezhnev on May 29, 1972, affirmed that "The USA and USSR regard commercial and economic ties as an important and necessary element in the strengthening of their bilateral relations and will thus actively promote the growth of such ties. They will facilitate cooperation between the relevant organizations and enterprises of the two countries and the conclusion of appropriate agreements and contracts, including long-term ones."<sup>54</sup>

A mutual interest of preservation of peace would naturally flow out of these actions. Although, in 1947, Kennan did not have much hope for diplomatic negotiations, he would, probably, not object to this outcome during Nixon years. The world was different now, and the Soviets were more ready for this US approach, as the years of Stalin's dictatorship were gone and their country had experienced a relaxation of relations with the surrounding world under Khrushchev. In addition, the United States' improved relations with China, being in agreement with Washington's concept of the new multipolar international relations, made it possible to induce the Soviets into cooperation with the United States. The Soviets, obviously, would want the United States to have stronger relations with them, than with the Chinese.<sup>55</sup>

Economic detente produced yet another effect which was one of the goals that Kennan's strategy aimed for, namely, the discreet pressure which made the people of the communist block look upon their lives and evaluate their position in the world. It would be hard to measure the

actual extent of it, but I believe it existed. People living in the communist states, detached from the rest of the world, were bound to be curious of anything that was beyond their boundaries. And, when food was one of the things they received from the West during the times when they needed it the most, they began to uncover the real potential of the non-communist world. Nowadays, in Russia, American label on any product raises its attractiveness ten-fold. And it is not necessarily because of its higher quality, but because it stands for whatever the Soviets have been missing in their lives. In my memories from Russia and from Poland, there remained a vivid picture of the impact created on people's attitudes by anything that penetrated the Iron Curtain. With the breakup of the Soviet empire this effect is more evident than ever. Nowadays, a Russian asked, how he will survive winter without starving to death, says not to worry - the Americans will help.

The United States' relations with the Soviets were given an additional dose of Nixon's perceptions of peaceful co-existence during the US-Soviet management of Middle Eastern crises in the years 1970-1974. Nixon's and Kissinger's approach to the Soviet buildup of Egyptian military power, the Jordanian crisis of 1970, and the Arab-Israeli war of 1973, was to balance power in the region by concentrating on the similarities of interests of the Arabs and the Jews. This was embodied in Kissinger's "step by step diplomacy." The immediate goal was to achieve agreements between the Arabs and the Israelis on the issues on which they shared similar views. Then, committed to the initial agreements, both sides would continue the settlement of the remaining issues by diplomatic means.<sup>56</sup>

The importance of oil-rich Middle East to the United States required action which would secure this region from further clashes and conflicts that would be exploited by the Soviets. Kissinger's approach to get the Soviet Union involved in managing the crises had an ultimate goal of depolarizing the region from the pro-Soviet and pro-American groupings of the Middle Eastern states. This could have only been achieved by making the Soviets realize that it would be counter-productive to maintain the balance of power in the region through a rigid polarization.<sup>57</sup> Although, in 1947, Kennan had not charted the Middle East as one of the geographic regions that lies in the United States' primary sphere of interests, the strategic importance of this area had greatly increased over the years. And even though the limited geographic scope of his strategy would not permit it, Kennan would most likely support the US involvement in Middle East, similarly to the times when he had justified the US



military aid to Greece. The fact remains, though, that the US policy in the Middle East succeeded, to some extent, to change the Soviet politics in this area.

During these years, however, some actions taken by Washington went against the basic elements of Kennan's strategy of containment. One of them, was the US involvement in Pakistan-Bangladesh conflict, in 1971, where the administration aligned itself with Pakistan, which, in turn, was in continuous conflicts with India. Washington regarded India's victory over Pakistan as endangering the balance of power in the region. Another one, was the CIA covert operations in Chile to support the opponents of the Marxist regime of Salvador Allende Gossens, in 1973. Nixon believed that the existence of a South American government which had followed the Cuban example was a danger to South America and the United States. In addition, in 1974, Kissinger's reaction to the fact that the Portuguese government had two communist and several socialist members, resulted in a 17-month-long US political quarantine of Portugal, until the communists were denied their posts.<sup>58</sup>

Clearly, these events did not reflect the principles of Kennan's strategy of containment. Kennan wrote that the containment of communism "was not something that I thought we could, necessarily, do everywhere successfully, or even needed to do everywhere successfully."<sup>57</sup> However, there were only a few of such US actions during the years of the Nixon administration, and they did not resemble the entire picture of Washington's approach to contain the Soviets – an approach which was in a surprising agreement with the guidelines prescribed by Kennan a quarter of century earlier.

### **Forward to 1994**

The disintegration of the Soviet state and the political revolutions in the countries that once belonged to the communist bloc bring the US government's search for the best strategy of containment to an end. They also end the problem of the United States being forced by the Soviet threat to identify the United States' interests within, and beyond, the scope of the nation's capabilities. The Truman administration, in years 1947-1949, and the Nixon administration, in years 1969-1974, conducted foreign policies which were, to a great extent, in the agreement with George Kennan's strategy to contain communism. Looking upon the recent events that shook the communist world, a special tribute must be paid to

Kennan's nearly half-a-century-old predictions of this outcome, and to the United States administrations, which, at least partially, supported Kennan's views.

### End Notes

<sup>1</sup>This paragraph was inspired in its entirety by the Introduction of Seyom Brown's, The Faces of Power, Columbia Univ. Press, New York, 1983.

<sup>2</sup>George F. Kennan, "The Sources of Soviet Conduct," US Foreign Policy Since 1945. Foreign Affairs, New York, 1991, pp. 852-858.

<sup>3</sup>Kennan, as quoted by John Lewis Gaddis, Strategies of Containment, Oxford Univ. Press, New York, 1982, pp. 35-36.

<sup>4</sup>*Ibid.*, p. 34.

<sup>5</sup>Walter Lippmann, The Cold War, US Foreign Policy Since 1945, p. 874.

<sup>6</sup>Kennan, Memoirs 1925-50, Patheon Books, New York, 1967, p. 359.

<sup>7</sup>Kennan, as quoted by Gaddis, Strategies of Containment, p. 27.

<sup>8</sup>Lippmann, US Foreign Policy: Shield of the Republic, Little, Brown and Company, Boston, 1943, p. 137.

<sup>9</sup>*Ibid.*

<sup>10</sup>Kennan, Memoirs, p. 359, and Lippmann, "The Cold War," pp. 875-878.

<sup>11</sup>Samuel P. Huntington, "Coping with the Lippmann Gap," US Foreign Policy Since 1945, p. 454.

<sup>12</sup>Gaddis, Strategies of Containment, p. 31.

<sup>13</sup>*Ibid.*, p. 32.

<sup>14</sup>*Ibid.*, p. 32,33.

<sup>15</sup>*Ibid.*, p. 32.

<sup>16</sup>*Ibid.*, p. 28.

<sup>17</sup>Lippmann, US Foreign Policy: Shield of the Republic, p. 166.

<sup>18</sup>*Ibid.*, p. 175.

<sup>19</sup>Lippmann, "The Cold War," p. 869.

<sup>20</sup>Lippmann, US Foreign Policy: Shield of the Republic, p. 138-146.

<sup>21</sup>Gaddis, Strategies of Containment, pp. 36,37.

<sup>22</sup>*Ibid.*, p. 41. This view was also expressed by Lippmann, "The Cold War," p. 883. Lippmann – and Kennan – acknowledged a necessity for an ultimate withdrawal of both the US and Soviet forces from Europe as a best strategy of containment.

<sup>23</sup>*Ibid.*, p. 37.

<sup>24</sup>Lippmann, "The Cold War," pp. 878-882.



- <sup>25</sup> Gaddis, Strategies of Containment, p. 39. Dangers of using military power are also expressed by Lippmann, "The Cold War," pp. 874-875.
- <sup>26</sup> Ibid., p. 41.
- <sup>27</sup> Lippmann, "The Cold War," pp. 875-878.
- <sup>28</sup> Gaddis, Strategies of Containment, p. 45.
- <sup>29</sup> Ibid., p. 46.
- <sup>30</sup> Lippmann, US Foreign Policy: Shield of the Republic, pp. 149, 150.
- <sup>31</sup> Lippmann, "The Cold War," p. 875.
- <sup>32</sup> Brown, p. 43.
- <sup>33</sup> Gaddis, Strategies of Containment, p. 48.
- <sup>34</sup> Kennan, as quoted by Gaddis, Strategies of Containment, p. 50.
- <sup>35</sup> Lippmann, "The Cold War," p. 833.
- <sup>36</sup> Gaddis, Strategies of Containment, p. 56.
- <sup>37</sup> Brown, pp. 29-44.
- <sup>38</sup> Gaddis, Strategies of Containment, pp. 58, 59.
- <sup>39</sup> Ibid.
- <sup>40</sup> Brown, p. 41.
- <sup>41</sup> Gaddis, Strategies of Containment, p. 63.
- <sup>42</sup> Ibid., pp. 79-82.
- <sup>43</sup> Gaddis, Strategies of Containment, pp. 67, 68.
- <sup>44</sup> Gaddis, "Containment and the Logic of Strategy," The National Interest, Winter 1977/8, p. 32.
- <sup>45</sup> Kennan, Memoirs, p. 320.
- <sup>46</sup> Gaddis, Strategies of Containment, pp. 77-79.
- <sup>47</sup> Ibid., pp. 74-76.
- <sup>48</sup> Ibid., p. 73.
- <sup>49</sup> Ibid., p. 342.
- <sup>50</sup> Brown, pp. 328, 329.
- <sup>51</sup> Ibid., p. 323.
- <sup>52</sup> Nixon, as quoted by Gaddis, Strategies of Containment, p. 280.
- <sup>53</sup> Brown, pp. 340, 341, and Gaddis, Strategies of Containment, pp. 3245-328.
- <sup>54</sup> Brown, p. 354.
- <sup>55</sup> Ibid., pp. 344-353.
- <sup>56</sup> Ibid., pp. 382, 383, 410, 411.
- <sup>57</sup> Ibid., pp. 412, 413.
- <sup>58</sup> Ibid., pp. 415-417.
- <sup>59</sup> Kennan, Memoirs, p. 359.

# The Vietnamese Road to Recovery

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by Kha Nguyen

For over a decade Vietnam has struggled to achieve economic prosperity and growth in a region where economic success has been the rule and not the exception. As other countries have developed and prospered, the leaders of Vietnam have witnessed their economy stagnate and flounder in the midst of triple-digit inflation, double-digit unemployment, and decreasing standards of living for the populace. Confronted with these economic difficulties, Party Secretary Nguyen Van Linh initiated a policy of *doi moi* (economic renewal) in 1986. *Doi moi* emphasized the growth of agricultural production, the development of light industry (textiles and consumer goods manufacturing), and the expansion of foreign trade and investment as catalysts to revitalizing the listless Vietnamese economy.

In this study, I will analyze what policies and regulations have been implemented to attract and facilitate foreign aid, investment, and trade with Vietnam. More importantly, I will examine how the countries of Asia (i.e. China, Japan, ASEAN, and the NICs -- in this study the term NICs will refer to South Korea, Taiwan, and Hong Kong; Singapore will be included in the ASEAN group of countries) have responded to these new policies. I will also explore the many obstacles to foreign investment and trade that remain as well as highlight future barriers to the expansion of trade, investment, and aid between Asia and Vietnam. I also intend to illustrate the often inseparable link between politics and economics in a region where geo-strategic and military concerns are increasingly being overshadowed by political-economic interests.

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## What is wrong with the Vietnamese economy?

By the middle to late 1980s, the strain of maintaining a million man army, combined with the international economic isolation imposed following Vietnam's invasion of Cambodia, had begun to cripple the already inefficient and inept centrally planned Vietnamese economy. Inflation was out of control, the standard of living was declining, and agricultural output had declined to the extent that Vietnam had become an importer of rice, which is shocking in light of the fact that Vietnam has two of the most fertile river deltas in Southeast Asia (the Mekong and Red River deltas). Soaring levels of unemployment, low levels of savings and investment, as well as declining levels of industrial output, further worsened Vietnam's economic plight. Recently, the American refusal to renegotiate Vietnam's debts to the International Monetary Fund (IMF), which would have cleared the way for future loans to Vietnam, along with Soviet cuts in economic and military aid, have served to limit Vietnamese efforts to restructure and modernize their economy.

With a per capita income estimated to be between \$200-\$300 annually, Vietnam ranks among the poorest countries in the world. Yet another indicator of Vietnam's low standard of living is the average daily caloric intake of 1940 calories, considerably lower than the United Nations mandated minimum of 2300 calories (Cima, *Vietnam: A Country Study*, p. 143-145). One of the factors that had contributed to Vietnam's economic woes and declining standard of living was rampant inflation, which as recently as 1988 had averaged 600 percent (*Far Eastern Economic Review*, 4-27-89, p. 71), leading to successive devaluations of the dong, the official currency. These constant devaluations exacerbated the trade deficit as essential imports such as oil and fertilizer rose in price. This hyperinflation also led to declining savings and investment as Vietnamese sought to offset the decreasing value of the dong by purchasing gold rather than depositing their earnings in banks.

Agricultural output had also declined throughout this period as collectivization and adverse weather conditions resulted in successive poor harvests. Lack of fertilizers and poor management by agriculture ministry officials were also cited as contributing to diminished agricultural output. Industrial output also suffered from shortages of raw materials and poor decision-making which resulted in industrial output reaching only 50 percent of total capacity. Outdated equipment, deteriorating infrastructure, and energy shortages were further constraints on industrial productivity.

Unemployment which averaged 20 to 30 percent during the middle to late 1980s (Cima, "Vietnam's Economic Reform", p.786) was yet another problem. The withdrawal of Vietnam from Cambodia in 1989 and the subsequent demobilization of half a million men did little to alleviate this problem. Recent reforms aimed at de-centralizing the economy, ending state subsidies for industries, and making enterprises more liable for profit and cost should further aggravate the unemployment situation. Worse yet, the collapse of communism in Eastern Europe and the Soviet Union may lead to the repatriation of the 180,000 Vietnamese working in these countries (Asia Yearbook 1991, p. 237). The return of these Vietnamese will not only worsen unemployment but also weaken the economy as Vietnam will then cease to receive the repatriated earnings of these overseas laborers.

The collapse of communism in Eastern Europe and the Soviet Union has also marked the cessation of Soviet economic and military aid to Vietnam. This loss of economic aid is especially disheartening for the Vietnamese who had depended upon the Soviets to supply nearly all their fuel requirements in 1989, 80 percent of their fertilizer needs in 1989, and \$15-18 billion in financial aid during the most recent Vietnamese five-year plan from 1986-1990 (Asia Yearbook 1991, p.239). Equally damaging is the fact that many Vietnamese industries and hydroelectric dams were built by the Soviets and thus must be serviced with Soviet-made parts which are no longer available. Although Vietnam has sought to supplant the decreased trade and economic aid from the former Soviet bloc with increased trade, investment, and aid from the Asian region and Europe, continued American refusals to allow the restoration of aid from the IMF, the World Bank, and the Asian Development Bank have hindered Vietnamese efforts to redirect and reinvigorate their economy.

### **How has Vietnam tried to attract foreign aid, investment, and trade from the Asian region?**

Faced then with declining Soviet aid and worsening economic conditions in the late 1980s, the leaders of Vietnam viewed the acquisition of foreign aid and investment and the expansion of trade as essential cornerstones of their economic reform program. Hoping to follow the trail taken by so many of its more prosperous Asian neighbors, the leaders of Vietnam felt that foreign investment and aid would bring technology that would transform and modernize the Vietnamese economy and allow it to mount an export drive. In order to attract foreign aid, investment, and



trade, particularly from Asia, Vietnamese leaders initiated a two-part policy of seeking to promote regional goodwill and cooperation by moving to resolve regional political conflicts in which Vietnam was entangled while simultaneously implementing domestic economic policies which would encourage and facilitate foreign investment and trade with Vietnam.

The first initiative is an illustration of the linkage between politics and economics. For over a decade, with only the Soviet bloc to provide assistance, Vietnam had been barred and isolated from the Western and Asian economic order because of its political policies in Cambodia and elsewhere. With the disintegration of the Soviet bloc and increasing need for economic growth, however, Vietnamese leaders were forced to resolve Vietnam's regional political conflicts in order to hasten Vietnam's reintegration into the world economy. In pursuit of this policy, Vietnam withdrew from Cambodia, agreed to repatriate Vietnamese boat people, improved relations with China, and attempted to settle the MIA issue with the US. Domestically, Vietnamese leaders promulgated a foreign investment law, established export processing zones, and liberalized and decentralized the trade sector.

With their decision to withdraw from Cambodia in 1989, Vietnam's leaders transformed Vietnam from an Asian pariah state to what some observers heralded as the "newest (economic) dragon in Southeast Asia." By withdrawing from Cambodia, Vietnamese leaders allayed ASEAN fears of Vietnamese imperialism and relieved Chinese anxieties over the establishment of a Vietnamese dominated Indochina. In soothing these fears and anxieties, Vietnam was then able to strengthen relations with its Asian neighbors and thus expand its trade with the Asian region and attract more investment. The participation of Vietnam in the Cambodian Peace Accords which were signed in late 1991, and Vietnamese willingness in late 1989 to accede to British, Chinese, and ASEAN demands that it repatriate the tens of thousands of boat people that had spread throughout Southeast Asia served to promote regional goodwill and further consolidated growing economic and political ties between Vietnam and the rest of Asia. A recent summit between Vietnam and China, after a decade of tense relations, at which trade and provisional border agreements were signed, is yet another indication of Vietnamese efforts to expand their regional trade channels by resolving their political conflicts.

Another important political conflict which has hindered Vietnamese economic development is the continuing US-led embargo of Vietnam

which was instituted in 1975. Although many European and Asian countries have ignored the US embargo, continued American denial of IMF funding has slowed Vietnam's economic development. Despite Vietnamese fulfillment of US conditions (i.e. withdrawal from Cambodia, Vietnamese participation in a Cambodian settlement, and Vietnamese assistance in resolving the MIA issue) the US remains unwilling to restore IMF funding.

Domestically, Vietnamese authorities promulgated a foreign investment law in 1987 aimed at luring investment to Vietnam and widely proclaimed as "one of the most liberal investment laws in Asia" (*FEER*, 9-5-91, p.62). The new law allowed 100 percent foreign ownership of enterprises, tax credits for projects which generated exports, employment, hard-currency earnings, or technology transfer, a two-year tax moratorium, and tax exemptions on certain imports and exports. Vietnamese officials increased incentives for foreign investment in Vietnam in 1991 by creating an export processing zone (EPZ) near Ho Chi Minh City. Aimed at foreign companies wishing to manufacture textiles or consumer goods, foreign enterprises in the EPZ would be able to import raw materials and export finished products duty-free, they would also have a four-year tax moratorium, and a minimum monthly wage of \$50 for their employees. Income tax for these enterprises would also be reduced from 10-25 percent to 10-15 percent and repatriated profits would be taxed at five percent instead of the normal 10-15 percent for foreign investors (*FEER*, 2-14-91, p.40). It is also important to note that Vietnamese efforts to expand exports have led to the decentralization of the export industry as the government has allowed, for the first time, private trading companies to conduct trade in commodities such as rice.

How successful, then, have Vietnam's political policies and economic reforms been in attracting Asian investment, aid, and trade? While Japan, the largest aid-giver in Asia, has yet to resume aid to Vietnam, it is evident that Vietnam has succeeded in enticing Asian investment and in expanding trade to the region. In 1988, trade between Asia and Vietnam totalled \$703 million (Direction of Trade [henceforth DOT] 1991, p.410). By 1991, this total had doubled to \$1.5 billion (Economic Intelligence Unit [henceforth EIU], Nol 1992, p.28). Total investments in Vietnam by Asian countries has also increased significantly, with Taiwan leading the way with investments totalling \$537.6 million (EIU, No4 1991, p.29). Hong Kong has the greatest number of projects in Vietnam with 68 (*FEER*, 9-5-91, p.62). In the next section I will analyze how the nations of Asia have responded to Hanoi's policies and what apprehen-



sions and anxieties continue to shape Asia's investment, trade, and economic aid policies towards Vietnam.

### **Asia's Response**

#### **Vietnam's Leading Asian Trade Partners**

<b>Country</b>	<b>Total trade (exports and imports) for 1991</b>
Singapore	\$1 billion (estimated)
Japan	\$801 million (for the first eleven months of 1991)
Hong Kong	\$297 million (for 1990)
South Korea	\$171 million
Thailand	\$107 million (for 1990)
Taiwan	\$100 million (for 1990)
Indonesia	\$68 million
Malaysia	\$48 million (for 1990)

(sources: DOT 1991; EIU No.1 1992, No.4 1991, No.3, 1991)

#### **Vietnam's Leading Asian Investors**

<b>Country</b>	<b>Cumulative investment as of 1991</b>
Taiwan	\$537 million
Hong Kong	\$230 million
Japan	\$104 million
South Korea	\$58 million
Thailand	\$8 million
Indonesia	\$7 million
Singapore	\$1.5 million
Malaysia	\$0.4 million

(sources: *FEER* 12-19-91, 6-27-91, 10-3-91; EIU No.4 1991, No.1 1992; *Business Asia* [BA] 2-10-92)

#### **Vietnam's Leading Asian Aid Donors**

<b>Country</b>	<b>Total aid for 1992</b>
Japan	\$32 million (proposed amount, still undelivered)
Thailand	\$8 million (technical assistance)

(sources: *FEER* 10-3-91; EIU No.1 1992)

## Japan

### Profile of Japanese trade and investment with Vietnam (\$mn)

	1985	1988	1989	1990	1991
Total Trade	\$225	\$391	\$519	\$801	\$801
Investment	NA	NA	NA	\$89	\$104

(sources: DOT 1991; Asia Yearbook 1991; *FEER* 3-30-91; EIU No.2 1991, No.1 1992)

In examining the Japanese response to Vietnam's economic reforms it is important to examine the motivations for renewed Japanese aid, investment, and trade, as well as spotlight the political constraints on Japanese policies. By re-establishing aid and investment ties and expanding trade with Hanoi, Japanese leaders hoped to enhance regional security and advance Japanese commercial interests in Vietnam. Tokyo viewed the Vietnamese withdrawal from Cambodia as a window of opportunity through which investment, foreign aid, and trade ties could be established in order to incorporate Vietnam into the regional economic order which would contribute to long-term regional security and stability. Japan also felt that these economic ties were vital to Japanese commercial interests seeking to capitalize on Vietnam's plentiful raw materials, untapped consumer market of 64 million people, and cheap, disciplined labor force. In establishing and strengthening these economic ties, however, Japan has been constrained by its adherence to the US embargo and has limited its aid and investment in Vietnam, although Japanese support for the embargo may be wavering.

Japan has, in fact, moved quickly to expand its trade ties with Vietnam. Trade between the two states which continued quietly despite the US embargo has grown steadily throughout the 1980s and the 1990s from \$225 million in 1985 to \$519 million in 1989 to an estimated \$1 billion in 1991 (see profile). Although Vietnam's principal exports to Japan are primary products such as crude oil, iron ore, coal, and seafood products and its principal imports are finished goods such as motorbikes, consumer electronics, fertilizer, textiles, and steel, Vietnam has maintained a trade surplus with Japan since 1989. In 1990, Vietnam's exports to Japan totalled \$543 million (mostly crude oil) while imports totalled \$236 million.

Despite Japan's strong trade ties with Vietnam, Japanese corpo-



rations have been hesitant to invest heavily in Vietnam because the Japanese government has restricted investment out of respect for the US embargo, and many corporations are still unsure of Vietnam's economic stability. Perhaps more importantly, Japanese corporations are awaiting the resumption of aid to Vietnam through the Official Development Agency (ODA). Although the ODA was scheduled to provide a \$32 million aid package in September 1992, this aid appears temporarily blocked, and Japanese corporations hoping to garner ODA-sponsored projects in Vietnam or benefit from ODA-funded improvements of the Vietnamese infrastructure will continue to withhold their investments. Japanese investment in Vietnam then should not increase dramatically from its present level of \$104 million (see profile).

Nevertheless, the day when full political and economic relations between Vietnam and Japan are restored appears to be on the horizon. Within the last year Japanese trading companies such as Tomen, Mitsubishi, Sumitomo, and Nichimen established representative offices in Ho Chi Minh City and Hanoi in anticipation of expanding trade, investment, and aid links. The number of Japanese trade delegations visiting Vietnam has doubled and a Japan-Vietnam Economic Relations Committee has been established. Efforts to reschedule Vietnam's \$200 million debt to Japan (EIU, No.1 1992, p. 29) and continued Japanese interest in constructing an oil refinery at Vung Tao south of Ho Chi Minh City are further indications of the strengthening political and economic relationship between Hanoi and Tokyo. And finally, at the last IMF meeting in Bangkok in October 1991, Japan demonstrated its growing unwillingness to adhere to the US embargo by quietly endorsing, for the first time, French efforts to establish a \$140 million bridging loan in order to repay Vietnam's IMF debt, which would have allowed for the restoration of multilateral development funding to Vietnam.

The expansion of trade between Vietnam and Japan as well as slowly developing economic aid and investment ties are representative of the growing Japanese commitment to respond to Vietnamese political policies and economic reforms by incorporating Vietnam into the regional economic system in order to insure regional stability and to advance Japanese commercial interests in the region.

## ASEAN

### Profile of ASEAN trade and investment with Vietnam (\$mn)

	1985	1988	1989	1990	1991
Singapore					
TT	\$60	N/A	\$324	\$812	\$1 bn (est).
CI	N/A	N/A	N/A	N/A	N/A
Thailand					
TT	\$ .8	\$13	\$59	\$107	N/A
CI	N/A	N/A	N/A	N/A	\$8
Malaysia					
TT	\$13	\$31	\$51	\$48	N/A
CI	N/A	N/A	N/A	N/A	\$.4
Indonesia					
TT	\$11	\$27	\$54	\$68	N/A
CI	N/A	N/A	N/A	N/A	\$6.8 mn

(sources: DOT 1991; *FEER* 6-27-91; EIU No.1 1992 p.30, No.3 1991)

TT=Total Trade

CI=Cumulative Investment

Like Japan, the nations of ASEAN view expanding trade, investment, and aid links with Vietnam in the aftermath of the Cambodian conflict as vital to building regional stability and fostering economic prosperity. In pursuit of this policy, the leaders of ASEAN have signed economic, trade, technology, and tourist cooperation agreements with Vietnam. Trade links have increasingly expanded, and total ASEAN trade with Vietnam has grown from \$55 million in 1987 to over \$1 billion in 1990 (DOT 1991; EIU No. 1 1992, p.30). ASEAN has also responded to the lure of foreign investment and Vietnam's economic reforms by investing \$44 million in Vietnam (*FEER*, 6-27-91, p.52). Political relations have also been normalized as Vietnamese and ASEAN leaders have visited each other's capitals and have proclaimed their unifying goal of creating a secure and economically vibrant Southeast Asia. However, even as ASEAN and Vietnam begin to consolidate their political and economic links, fears and uncertainties on both sides, which remain from the Cambodian conflict, continue to slow the reconciliation process.

Within the last three years, following a decade of tension and hostility, Thailand has led the ASEAN rapprochement with Vietnam.



Guided by Prime Minister Sricharatchanya's principle of creating an economic "Golden Land" in Indochina (*FEER*, 2-23-89, p.11-12), Thailand has expanded trade and increased investment in Vietnam. Trade between the two countries grew to \$107 million in 1990 (see profile) after having dwindled to \$2.8 million in 1986 (DOT 1991, p.410) during the height of Thai-Vietnamese hostilities surrounding the Cambodian conflict. Thai investment in Vietnam as of the spring of 1991 had been a modest \$8 million (*FEER*, 6-27-91, p.52), most of which had been invested in natural gas extraction and seafood harvesting. Prospects for greater Thai investment in Vietnam, however, appear limited because of Vietnamese apprehensions. Many Vietnamese leaders, for instance, have viewed Thai investment in industries which exploit Vietnam's natural resources as worrisome and threatening, especially considering the not so distant tensions and hostilities which have characterized Thai-Vietnamese relations. Compounding the uncertainties in the Thai-Vietnamese political and economic relationship is the Thai refusal to allow the establishment of a Vietnamese consulate in northeastern Thailand among the 50,000 Vietnamese refugees who have established residency there. Thai officials cite "security concerns" and fear the establishment of a consulate in the region might be used to incite the Vietnamese community. It seems then that while Thailand has eagerly supported Vietnamese economic reforms in hopes of furthering regional security and prosperity the remnants of Thai-Vietnamese hostility and distrust may hamper future growth in investment and trade between the two states.

Because of its dependence on trade, Singapore maintained trade relations with Vietnam, throughout the 1980s despite the ASEAN embargo. Although most of the trade occurred in smuggled goods, estimates of the trade flow between the two countries are in the hundreds of millions. Furthermore, like the rest of ASEAN, Singapore expanded its trade flows and increased its investments in Vietnam following the signing of the Cambodian Peace Accords. Even though it has not pursued a policy of fostering regional stability or prosperity through the integration of Vietnam into the regional economic order, Singapore has become Vietnam's largest and most important trading partner with total trade expected to exceed \$1 billion in 1991 (see profile). The removal of the Singaporean investment ban in November of 1991 opened the way for modest investments of \$1.5 million in the Vietnamese economy by export oriented manufacturing industries wishing to take advantage of Vietnam's abundant and cheap supply of labor. The normalization of political ties, the establishment of air links, and the signing of economic and commercial

cooperation agreements should further strengthen political and economic bonds that will insure the continued growth of trade and investment between the two states.

Like Thailand, Malaysia and Indonesia have also sought to enhance regional cooperation and prosperity by expanding their trade, investment, and aid ties with Vietnam. Besides expanding trade with Vietnam which has grown from \$31 million in 1988 to \$48 million in 1990 (see profile), Malaysia has also entered into a variety of cooperative agreements to produce rubber and fertilizers as well as supply technical assistance to Vietnam. Indonesia has also increased its trade with Vietnam moving from \$27 million in 1988 to \$68 million in 1990 (see profile). Indonesia has also invested \$6.8 million in Vietnam, \$5 million of which is part of the only foreign joint venture in banking.

Like Japan, the nations of ASEAN have responded positively to Vietnamese political and economic policies as they seek to foster regional cooperation and prosperity as well as gain access to Vietnamese natural resources by broadening their investment, aid, and trade relations with Vietnam.

## NICs

### Profile of the NICs trade and investment with Vietnam (\$mn)

	1985	1988	1989	1990	1991
South Korea					
TT	N/A	N/A	\$87	N/A	\$171
CI	N/A	N/A	N/A	N/A	\$58
Taiwan					
TT	N/A	N/A	\$41	\$100+	N/A
CI	N/A	N/A	N/A	N/A	\$537
Hong Kong					
TT	\$152	\$228	\$270	\$297	N/A
CI	N/A	N/A	N/A	N/A	\$230

(sources: *Business Asia* [BA] 2-10-92; *FEER* 12-19-91; EIU No.3 1991, No.4 1991; DOT 1991; Asia Yearbook 1991)

TT=Total Trade

CI=Cumulative Investment

South Korea, Taiwan, and Hong Kong, like the rest of Asia, have moved to broaden their economic ties with Vietnam following the resolu-



tion of the Cambodian conflict. Motivated primarily by commercial interests, the NICs have significantly widened their investment links and increased their trade flows to Vietnam in hopes of garnering access to Vietnam's consumer market. Furthermore, the NICs view greater investment in Vietnam as vital to capitalizing upon Vietnam's abundant natural resources and plentiful labor. The importance of normalizing and expanding its economic links with Vietnam, then, has precluded the NICs from emphasizing the development of its political ties. For the NICs, Vietnam's role in sustaining regional security is, at best, a secondary concern.

Indicative of the NICs unrelenting commercial drive has been the exceptional expansion in trade and investment between Vietnam and South Korea, Taiwan, and Hong Kong. For instance, trade between Taiwan and Vietnam expanded from \$41 million in 1989 to over \$100 million in 1990 (see profile). Likewise, trade between Vietnam and South Korea and Hong Kong grew from \$87 million in 1989 to \$171 million in 1991 and from \$228 million in 1988 to \$297 million in 1990 respectively (see profile). Most of the trade between the NICs and Vietnam is in the form of Vietnamese exports of natural resources and subsequent imports of badly needed fertilizer, steel products, and chemicals from these countries.

The NICs, however, have also invested heavily in Vietnam, with Taiwan the leading investor in Vietnam in terms of value of projects and with Hong Kong the leading investor in terms of number of projects. With its abundant natural resources and cheap labor, the NICs have increasingly begun to envision Vietnam as a future production base for their labor-intensive, export-oriented manufacturing enterprises. This is especially valid for Hong Kong and Taiwan who have attempted to limit their links, and thus their dependence on China, and subsequently have sought to transfer some of their labor-intensive manufacturing enterprises to Vietnam from China. Illustrative of this policy is the fact that Taiwan, the leading investor in Vietnam, has invested \$537 million in Vietnam as of 1991 while Hong Kong, the second leading Asian investor in Vietnam, has invested \$230 million (see profile). Investment banks in Hong Kong have also moved to expand their interests in Vietnam. Hong Kong-based Credit Lyonnais Securities and Smith New Court Far East have established investment funds valued at \$130-\$180 million and aimed at investing alongside multinational corporations entering into joint ventures in Vietnam (*FEER*, 6-6-91, p.31). Although it, likewise, views Vietnam as a future export-oriented manufacturing base, South Korea has been more reticent about investing in Vietnam and has thus far invested a more

modest \$58 million.

It seems then that, like so many other Asian nations, the NICs have responded to Vietnam's reforms and broadened their trade, investment, and aid ties. Unlike many other Asian nations, however, the NICs have expanded and should continue to expand these links with commercial interests as their primary motivation.

## China

As part of its efforts to rebuild regional political ties and foster greater goodwill in the wake of the Cambodian conflict, Vietnam moved to normalize relations with China in November 1991. Although little was achieved outside of signing trade cooperation and provisional border agreements, the Vietnam-China summit marked the restoration of political and economic links between two countries who have recently found themselves to be increasingly ideologically isolated in an expanding non-communist world. Hence, thrown together, perhaps more out of fate than choice, China and Vietnam have grudgingly moved towards broadening political, social, and economic relations through expanded trade and economic aid ties. While trade between China and Vietnam crested in 1990 at the very modest figure of \$1.1 million (DOT 1991, p.410), the expanding transportation and trade links that are flourishing at the unofficial, grassroots level along the Vietnamese-Chinese border certainly are harbingers of increased trade flows. China has also entered into a joint venture with Vietnam to develop a resort complex north of Haiphong. The Chinese have also granted some economic aid in the form of technical assistance to help modernize Chinese-built steel mills from the sixties.

Despite the warming of Sino-Vietnamese relations, tensions concerning border violations, sovereignty over the Spratly and Parcel Islands, and the Vietnamese debt to Beijing, valued at anywhere from \$17 to \$185 million (depending on which side you ask) (*FEER*, 11-21-91, p. 11), will continue to hinder trade growth and investment expansion. Moreover, deep-seated Chinese distrust of Vietnam matched with Vietnamese unwillingness to "back down" from China on any contentious issues will further impede the normalization of a relationship that, at best, will probably be one of co-existence rather than cooperation. Vietnam's present and future concerns

It is evident by analyzing Vietnam's trade and foreign investment statistics for the last four years that Hanoi's attempt to broaden Vietnam's



trade flows and attract foreign investment and aid has been a success. Led by Asia's political and economic initiatives in response to Hanoi's reforms, Vietnam's export volume has grown from \$531 million in 1988 (DOT 1991, p.410) to \$1.9 billion in 1991, 80 percent of which went to Asian countries (EIU, Nol 1992, p.28). Likewise, foreign investment in Vietnam has increased from negligible levels in 1988 to \$2.5 billion in 1991 (Daily Report [henceforth DR], 12-30-91, p.74), with Asian countries accounting for \$946 million. A few Asian countries such as Japan, Thailand, and Malaysia have also assured Hanoi of small amounts of development funding and technical assistance. Nevertheless, countless impediments remain to the future expansion of Vietnamese-Asian trade, investment, and aid links. In the short term, a constantly fluctuating currency, a weak, undercapitalized banking system, and a deteriorating infrastructure are serious obstacles to the expansion of trade and the growth of investment. Further hindrances to increased foreign investment are the surprisingly high costs for services and labor, a cumbersome and corrupt bureaucracy, and the lack of established commercial laws and financial regulations. Still further down the road, Vietnamese leaders will need to persuade the US to end its embargo and restore multilateral development funding to Vietnam. Vietnam's leaders will also need to address the growing specter of neo-colonialism in Vietnam.

One of Vietnam's present constraints to trade growth is its fluctuating currency. At the end of 1991, the dong had dropped to 14,700 dong:US\$1 from 9,410 dong:US\$1 in August. However, by February 1992 the dong had risen in value to 10,500 dong:US\$1 (*FEER*, 2-27-92). This sharp swing in value threatened to bankrupt many private Vietnamese trading companies who had risked their future on the expectation that the devalued dong of December 1991 would boost exports. Another obstacle to the expansion of trade and investment is Vietnam's capital poor and undeveloped banking system. Because many foreign banks are still hesitant about investing in Vietnam, foreign investors, who are unable to attain credit from Vietnam's undercapitalized banking system or foreign banks often have to finance their own projects. Vietnamese banks are also frequently delinquent in paying letters of credit to trading companies which serves to further hamper trade. Perhaps most importantly, Vietnam's banking system has limited foreign currency reserves of only \$10 million (Wilson, p.30). When this hard currency shortage is exacerbated by a trade imbalance (i.e. imports exceed exports and more foreign currency is leaving rather than entering Vietnam), inflation increases as foreign investors and local importers become willing to pay more dong for the

limited hard currency available in order to pay for their imports, which has the net effect of further devaluing the dong.

However, Vietnam's crumbling infrastructure is its greatest encumbrance. Aware of this fact, many corporations have been reticent about investing in regions where there are few paved roads, limited access to port facilities, and little modern telecommunications. Partly as a result of this, foreign investors have shied away from investing in coal and mineral extraction projects in the, still, war-torn north and central regions of Vietnam. Instead, foreign investors have concentrated their investments in the south where road, air, and telecommunications links are better developed and port facilities are easily accessible. Nevertheless, one UN official estimates that Vietnam will require at least \$10 billion to modernize its infrastructure. For instance, of Vietnam's 60,000 miles of roads only 10-13 percent are paved. Highway 1, the major road link between Hanoi and Ho Chi Minh City is rapidly deteriorating, and most rivers must be traversed by ferry because of a lack of bridges. The rail system is under-utilized because there are only enough rail cars to transport 60 percent of train cargo (*FEER*, 5-27-89, p.72). Air Vietnam, the national airline, often fails to maintain its schedule because of technical problems and the lack of qualified pilots. And some observers suggest that Air Vietnam should not be operating at all because of its questionable airworthiness.

Vietnam, though, has made some important improvements to its infrastructure. In 1987, Overseas Telecommunications International of Australia installed a Vista earth station in Ho Chi Minh City, which linked Vietnam, for the first time in nearly a decade, to the outside world. The installation of digital switching systems by Alcatel of France and Siemens of Germany brought facsimile and international direct-dial services to Vietnam. Improvements to Vietnam's two ports, in Haiphong and in Ho Chi Minh, have also helped to expand trade flows. In 1990, the expenditure of \$1.7 million on new cranes, forklifts, and warehouses as well as the purchase of container handling equipment helped contribute to the growth of Vietnamese trade, especially at the port in Ho Chi Minh City where trade volume expanded from 2.3 million tons in 1987 to 4.3 million tons in 1990 (*EIU*, No.3 1991, p.26). Vietnam's ports, however, will require perhaps tens of millions of dollars to upgrade ship handling facilities and storage warehouses as well as combat the silting problems that have affected both ports.

Although many companies were lured to Vietnam with the belief that labor and services would be less expensive than in neighboring



countries, few corporations have found this belief to be a reality. For instance, the government imposed minimum monthly wage of \$50 for workers employed at foreign enterprises, though recently revoked, is higher than comparable minimum wages in Indonesia. Commissions that corporations must pay to state service organizations which supply workers to foreign enterprises add to labor costs. Many foreign investors have also discovered that the Vietnamese government often charges foreign enterprises higher rates for utilities. Sporadic power shortages and high telecommunications charges are other, often times, unexpected costs for foreign investors.

Many foreign investors also cite Vietnam's cumbersome and corrupt bureaucracy as another hazard to conducting business in the country. Jurisdictional conflicts, an unwieldy decision making process in which countless ministries must approve a project, and bureaucratic inexperience in dealing with a market economy have combined to slow the process of proposing, accepting, and implementing a joint venture to an experience that can require years rather than months. Many investors have also grumbled that in order to speed up this process bribery is their only option. Another concern of foreign corporations is the lack of formal and established commercial laws and financial regulations governing technology transfer, banking, labor, and corporate income tax. As a result of this, many corporations fear that they may get caught in the middle of shifting and developing laws and regulations.

What lies ahead for Vietnam? Having overcome one obstacle by re-building its political and economic ties with Asia, Vietnam must now address the many financial, bureaucratic, and infrastructure problems that presently block and will continue to impede its road to economic development. While Vietnam may be able to resolve its financial and bureaucratic difficulties without outside assistance, Vietnam will surely require international funding and technical support in order to modernize its infrastructure. Therefore, Vietnam must direct its efforts towards ending the American embargo and towards the restoration of multilateral development funding from the IMF, the World Bank, and the Asian Development Bank. American refusal to restore IMF lending to Vietnam has already delayed a \$140 million project to lay a fiber-optic cable from Hanoi to Ho Chi Minh City (*FEER*, 2-13-92, p.41) and threatens to slow the construction of a \$1 billion refinery near Vung Tao. And despite the continued US refusal to resume trade and multilateral funding to Vietnam (much to the anger of the Vietnamese), Hanoi must realize that the pace of Vietnam's progress down the road towards economic prosperity is

dependent upon acquiring the technology and funding necessary to rebuild its infrastructure.

Another concern for Vietnamese leaders is the disproportionate share of foreign investment that has occurred in industries which extract and exploit Vietnam's natural resources. While the percentage of foreign investment in industries which deal with Vietnam's natural resources has declined from previous years to about 50 percent in 1991 (EIU, No.3 1991, p.21), Vietnam's leaders must be wary of moving towards a state of neocolonialism in which the nations of Asia exploit Vietnam's natural resources and cheap labor without transferring any technology or skills and attempt to offset the resulting trade imbalance by exporting finished goods, such as consumer electronics, textiles, and automobiles to Vietnam. Unfortunately, this trade pattern is characteristic of Vietnam's current trade flows with the NICs, ASEAN and Japan. However, because of Vietnam's current economic condition it is perhaps unavoidable. Therefore, if Vietnam is to avoid falling into the trap of neo-colonialism, Vietnam's leaders must be cognizant of the fact that Vietnam's trade composition must expand to include more finished goods as Vietnam progresses down the road towards economic recovery.

In the late 1980s, fueled by the despair and the hunger that accompanied its economic impoverishment, Vietnam moved to re-establish political and economic links with the world. Abandoned by the communist bloc and isolated from the American-led Western bloc, Vietnam found support principally from its Asian neighbors. By pursuing a policy of political reconciliation with these Asian states and by implementing domestic economic reforms, Vietnam's leaders were able to consolidate and expand trade, investment, and economic assistance flows between Asia and Vietnam. And while political distrust between Vietnam and Asia as well as weaknesses in the Vietnamese bureaucracy and economy have limited the growth of Vietnamese-Asian economic ties, the support of these Asian nations has ensured that Vietnam will continue to advance down the road towards economic development and prosperity.

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# Japan's Official Development Assistance Program: Implications for Asia

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by Marc M. Groman

**T**he purpose of my paper is to examine the factors which influence Japan's Official Development Assistance Program in general, and then focus on its application to the countries of Asia. In 1989, Japan's Official Development Assistance (ODA) reached \$8.965 billion, overtaking the United States to become the world's largest donor — a position which the US had held for over 25 years. In this paper I will analyze this new role that Japan has undertaken by examining the evolution of Japan's ODA, the quantitative and qualitative aspects of its ODA and the reasons that lay behind Japan's rise to its current position. I will then analyze the regional distribution of Japan's ODA, focusing on the significance that Asia holds in Japan's aid program.

## Development of Japan's ODA Program

Japan's ODA program began in 1954 while Japan itself was still an aid recipient. The aid provided by Japan at that time consisted primarily of war reparations and technical aid in conjunction with the Colombo Plan. Between 1954 and 1959 Japan signed reparation agreements with Indonesia, the Philippines, and Burma, and also agreed to provide grant assistance to Laos and Cambodia. These reparations and grants served as a method of reviving economic ties with Southeast Asia and set a precedent for the geographic concentration of Japanese ODA in Asia.

Through the early 1960s, Japan's aid program remained a small part of Tokyo's broader policy of fostering mutually beneficial economic

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ties with Asia. During this time, rather than labeling its economic assistance as "aid," Japan used the term "economic cooperation." Beginning with India in 1958, Yen Loans, under the direction of the Export-Import Bank of Japan, formed the basis of this early "economic cooperation" program. As Japan expanded its aid program, it needed to develop a governmental organ responsible solely for aid distribution. In 1961, Tokyo established the Overseas Economic Cooperation Fund (OECF) to assume the responsibility of disbursing ODA loans and by the mid-1960s Japan had a well established bureaucracy for aid distribution. In 1961, Japan became a founding member of the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) and, in 1964, graduated from the status as an aid recipient and was admitted to the OECD.

Although Japan had become a major aid donor by the mid-1970s, it was the implementation of the four Mid-Term Target Plans beginning in 1978 that rocketed Japan's ODA program to its current number-one position. The first Mid-Term Target (MTT) was proposed for the years 1978-1980 and set out to double the amount of ODA in 1980 from the 1978 level of \$1.42 billion. After achieving that goal, Prime Minister Suzuki announced the second MTT plan which, during the 1981-1985 period, was once again intended to double the current amount of ODA allocated. Although Japan only reached 85 percent of its goal, Tokyo announced the third MTT, which, initiated in 1986, was targeted to expand ODA distribution over the next five years to more than \$40 billion. After reaching this goal ahead of schedule, Prime Minister Takeshita announced the fourth MTT in 1988 which set out to make the total ODA, for the five-year period of 1988-1992, \$50 billion.

In 1989, Japan became the world's leading donor of ODA, surpassing the US by \$1.301 billion in aid disbursements which totaled \$8.965 billion. While this represents a 1.8 percent decrease from the 1988 figure of \$9.134 billion, it marked a substantial jump from the 1987 figure of \$7.454 billion (see Chart A). Although the dollar-based value decreased in 1989 due to a 7.6 percent decline in the value of the yen against the dollar, there was a 5.7 percent increase in Japan's contribution in yen terms. Furthermore, Japan's share of combined ODA of DAC members rose from 12.3 percent in 1980 to 19.3 percent in 1989 (MOFA, p.11).

### **Quality of Japanese ODA -- How Japan Measures Up**

Although Japan has attained the status of the number-one donor

of ODA in actual dollar terms, Japan does not rank well when compared on other bases with the ODA programs of other DAC countries. As a percentage of GNP, Japanese aid in 1989 remained at its 1988 level of 0.32 percent, placing it 12th among the DAC countries in terms of GNP ratio (see Chart B). Furthermore, statistics for 1989 indicate that Japan ranks 10th in per-capita ODA contribution among DAC countries.

The most severe criticisms of Japanese ODA, however, are not as to the quantity but the quality or "softness" of its aid. Critics point to the low percent of Japan's grant share and grant element in ODA. Grant share is the percentage of aid that does not require repayment. Grant element is an indicator of the "softness" of the overall terms of aid reflecting interest rates, grace period, and repayment periods. The 1987-88 grant share average for Japan was 46.6 percent and the 1987-88 average for grant element was 75.4 percent (see Charts B and C). In both cases, Japan ranks last compared to the other DAC donors in terms of the softness of aid. As of 1989, Japan remained the only DAC country that did not meet the DAC's norm of 86 percent for grant element (Islam, p.51).

The percentage of aid which Japan allocates in loans is 55.2 percent, a sharp contrast from Sweden, Ireland, Australia and New Zealand, which have all-grant programs. This exceptionally high percentage of loans fosters criticism that Japanese aid is self-serving and designed to promote Japan's own economic interests. Tokyo supports its use of loans by arguing that it "instills fiscal discipline in recipients" (Orr, Summer-Fall, 1990, p.136). Japan further defends the high percentage of Japanese aid that requires repayment by arguing that its program emphasizes support for self-help efforts by the developing countries.

Technical assistance which consists of training, dispatchment of the Japan Overseas Volunteers and the providing of technical equipment, is another aspect of the Japanese ODA program which has come under criticism. Technical cooperation is 12 percent of total Japanese ODA, substantially lower than the DAC average of 21.3 percent (MOFA, p.64).

Another factor measuring aid quality is the degree to which aid is "united" (i.e. not subject to conditions requiring the employment of companies from the donor country). In 1988, 72.8 percent of Japanese bilateral ODA was untied, ranking third among the DAC countries (see chart E). Despite this impressive figure, the private sector and business interests play a large role in Japan's ODA program, and as such, much of this aid is, in fact, geared to help Japanese industry. The Japanese bias in favor of Japanese commercial interests stems from the request-only policy in which the Japanese government responds only to specific project



proposals submitted by recipient countries. In practicality, Japanese companies are often the designers of such proposals from recipient countries, substantially increasing the chance that a Japanese firm will receive the benefits of "untied" contracts. Japan argues that the participation of Japanese companies in the aid process is beneficial because recipient governments do not have the means to formulate aid projects. Japan further argues that the request-basis principle reflects Tokyo's policy of providing support for the self-help efforts of developing countries.

In the face of international criticism, Japan is moving toward improving the "softness," or quality, of its aid program. The Fourth Medium-Term Target calls for the expansion of grant aid; in particular, it provides for the increase of grant aid and debt relief to the least developed countries (MOFA, p.13). The budget for technical cooperation has been increased as well. Although Tokyo is making efforts to improve the quality of aid, R. Byron Sigel, Second Secretary of the Economic Section of the American Embassy in Tokyo, asserts that "the prevailing view of the American Administration is that Japanese ODA is still primarily tied to its own economic interests" (Schultz, p.14).

### **Japan's Foreign Aid Apparatus**

The major obstacle which Japan faces in aid policy formulation and implementation is that there is no clear political arm for the development of aid policy. Lacking both a political and administrative center, the system lacks direction, leadership and implementation skills (Islam, p.77). In contrast to the United States, where the executive and legislature determine aid policy, it is the Japanese bureaucracy that plays the major role in aid policy formulation. Four ministries share the responsibility for aid policy: the Ministry of Foreign Affairs (MOFA), the Ministry for International Trade and Industry (MITI), the Ministry of Finance, and the Economic Planning Agency. Furthermore, two organizations serve as the main implementing organs, the Overseas Economic Cooperation Fund (OECF) which is responsible for yen loans, and the Japan International Cooperation Agency (JICA), which directs grant assistance. Although MOFA primarily decides the distribution of grant and technical assistance, loan policies, including distribution and concessionality criteria, require consensus among all four ministries. Aid objectives of the different ministries are often in conflict and inter-ministry rivalries further hinder aid policy. For example, while the Ministry of Foreign Affairs evaluates aid policy in terms of diplomacy and foreign policy, MITI

approaches aid from the perspective of business and international trade (Islam, p.57). The Diet plays practically no role in the decision-making process. For the most part, Diet members are limited to complaining about aid decisions with which they disagree after the fact.

Another factor which hinders change is that Japan's foreign aid apparatus is greatly understaffed and faces shortages of employees with aid-related expertise. The funds available for ODA have reached the point where Tokyo has difficulty in distributing all the funds the government appropriates. From 1975 to 1985 spending on aid quadrupled while aid staff during the same time increased by only 11 percent. In 1988, there were 1,539 aid-related personnel within the ministries and organizations involved in the aid process in Tokyo. This figure contrasts sharply with the US figure of 4,695 people employed by USAID in Washington (see Chart F). Tokyo must centralize and expand its aid apparatus if Japan hopes to increase its role as an effective world leader in ODA.

### **Principles Behind ODA -- What Drives the Japanese Aid Program?**

Despite impressive increases in the quantitative aspect of ODA and attempts to "soften" aid, Japan is criticized for lacking a set of clear principles in aid distribution. Tokyo still faces harsh criticism that its aid program is designed to serve the economic interests of Japan rather than to aid developing countries. Robert Orr, director of the Kyoto Center for Japanese Studies, argues that the Japanese aid bureaucracy has "never really embraced the Western concept of 'aid', which, in Japanese eyes, often seems synonymous with international welfare" (Orr, Summer-Fall 1990, p.137).

Just as the Japanese aid program has evolved in dollar terms, the principles guiding the aid policy have evolved as well. In the early stages, economic self-interest was clearly the basis behind aid distribution. Aid was first viewed as a means of re-establishing economic relations with Asia. The primary motivation in reviving economic ties was to secure a steady supply of raw materials and to create markets for developing Japanese industry. It was also Tokyo's hope that the distribution of aid would enhance Japan's image and help bring her back as a respectable member of the international community, thus making her a viable partner for trade and investment. As the aid program rapidly expanded, Tokyo's focus turned to the promotion of Japanese exports through tied aid and loans. The promotion of exports remained the central principle guiding policy until the 1973 oil crisis when Japan turned to a policy of



"resource diplomacy" (Doherty, p.130). In an effort to secure vital natural resources and strengthen ties with oil-exporting countries Japan began to pour funds into resource-rich nations. During this period, the exclusivity of economic considerations in aid policy ended and the concept of aid as a "diplomatic weapon" arose (Orr, 1990, p.55).

The 1980s saw the further evolution of ODA and the emergence of a new set of principles behind the aid policy. These new principles incorporated political, strategic and humanitarian factors, in addition to traditional economic motivations.

In the strategic sphere, a new direction in aid policy was clearly initiated in 1980 by Prime Minister Ohira who advocated promoting "comprehensive national security" through aid policy. In conjunction with this new line of thinking, Japan pledged to increase aid to "countries bordering on conflict areas" (Doherty, p.137). As a result, in 1980, Japan increased aid to Thailand, Pakistan, and Turkey. In the following year, Prime Minister Suzuki embraced a broader perspective in granting aid, calling for increased aid to "those areas which are important for the maintenance of peace and stability in the world" (Inada, p.401). It is important to note that the "strategic" aspect to the granting of ODA is not inconsistent with Japan's basic philosophy (i.e. Japan views a peaceful world conducive to free trade as necessary to its security).

Political factors play a significant role in Japanese aid policy as well. As a country that does not exert military influence, ODA serves as an important component of foreign policy and diplomacy in promoting friendly bilateral relations. As a major industrial country that is the focus of much world criticism, aid is further spurred by Tokyo's desire to improve its image and by its fear of being isolated by the international community. For Japan, economic aid has to be a "prime method of winning foreign friends and of trying to secure Japan's future. It is a matter of survival" (Holloway, p.64).

Another major factor causing Japan to increase and redirect aid is American requests for aid allocations to countries that America perceives as critical for military or diplomatic reasons. For example, Japan's tremendous increase in aid to the Philippines in 1984 was a result of requests made by President Reagan during his 1983 visit to Japan (Kubota, p.142). The primary motivation behind this aid was to strengthen Japan-US relations and to quell the calls from Washington for Japan to "share the cost of promoting international security" (Inada, p.399).

In contrast to the self-motivated purposes for providing aid, Tokyo has recently stated that "the sole purpose of Japanese aid is to support

efforts to alleviate poverty and foster economic and social development in developing countries" (MOFA, p.32). Although oversimplified, this statement does represent a new emphasis on basic human needs in Japan's aid program, an aspect that had been lacking in the past.

In making a thorough examination of what actually drives the various aspects of Japan's aid program, it is necessary to analyze the regional distribution of aid and examine in each region to what extent the political, economic, strategic and humanitarian factors affect this distribution. The balance of this paper will isolate and focus upon the aid program in one specific region, Asia, the main recipient of Japanese ODA.

### **Geographic Distribution and the Concentration in Asia**

Asia has always been, and to this day continues to be, the major recipient of ODA from Japan. In 1989, Japan distributed 62.5 percent of its ODA to Asia, 15.3 percent to Africa, 5.4 percent to the Middle East, and 8.3 percent to Latin America (see Chart G). The top five recipients of bilateral ODA were, in the following order, Indonesia, China, Thailand, the Philippines, and Bangladesh. With a 17 percent share of total bilateral ODA, Indonesia was the biggest recipient for the third consecutive year (see Chart H).

This concentration in Asia is not new. In fact, in 1972, Japan allocated 98 percent of its ODA to Asia. The shift of aid away from Asia was sparked by the oil crisis of 1973. By the end of the 1970s, Japan developed a 7-1-1-1 formula for aid distribution. Asia was to receive 70 percent of Japanese ODA while Africa, the Middle East, and Latin America were each to receive 10 percent. Although the percentage of aid to Asia did decrease by about 30 percent, Asia is still by far Japan's main priority in ODA distribution and, in absolute terms, aid to Asia has increased tremendously. Japan is the largest single donor to all Asian recipients of aid except for Vietnam, Cambodia, Laos, Pakistan, and South Korea.

This concentration of ODA by the largest distributor of aid has been the target of substantial criticism from the non-Asian community. Tokyo is faced with demands that it implement a more global approach to aid distribution. One criticism resulting from Japan's concentration of ODA in Asia is that the share of least-developed countries that are the beneficiaries of Japanese aid is far below the DAC average. However, in examining the aid distribution patterns of other DAC members, we see that such regional concentration is not unique. Great Britain allocates almost 70 percent of its ODA to Commonwealth countries while the US



concentrates over two-thirds of its ODA in just six countries, pouring about 30 percent of its aid into Israel and Egypt alone (Orr, 1987, p.45).

Japan has had to contend with its image as a "bad guy" in the Asia-Pacific region. It is criticized for not importing enough from the Asian region, not transferring technology to the Asian countries, and driving hard bargains with them (Lincoln, p.14). Furthermore, the memory of the destruction and militarism of World War II remains strong among the Asian nations. ODA in Asia serves to enhance Japan's image as a responsible member of the Asian community and help alleviate the resentment of Japan's economic dominance in the region.

Pan-Asian sentiments further underlie this regional concentration, as Japan, the only First World nation in Asia, believes that it is in its best interest to provide aid to its neighbors. As stated by Tokichi Takano, an advisor to the Ministry of Foreign Affairs, "as an advanced industrial nation in Asia, Japan considers it its duty to actively cooperate in the economic development and enhancement of living standards of developing countries in the region" (Takano, p.50).

The regional emphasis which Japan places on Asia in her aid program can be explained by several interrelated factors, which include geographic location and historical and cultural ties. While these factors do play a role, they are intermingled with the more specific considerations which actually drive Japan's ODA program: political, economic, strategic and humanitarian.

## **ASEAN**

Throughout the 1980s, Japan allocated approximately 30 percent of its annual aid to ASEAN, more than the Middle East, Africa, Central America and South America combined. Japan has been the source of over 50 percent of ODA received by the ASEAN states and has maintained the rank of the number-one donor in the region throughout the 1980s.

As previously stated, post-World War II aid in the form of reparations made to ASEAN states set the precedent for the current high level of aid ASEAN receives from Japan. Reparations served to open up and expand Japanese markets in Southeast Asia, establishing a basis for the present levels of economic cooperation and aid. Reparations, and later ODA, were pursued in ASEAN in order to help erase the prejudice, suspicion and fear of the Japanese that lingered from World War II.

Economic interests have played a major role in Japanese aid policy in ASEAN. The ASEAN states have served as a major source of raw

materials and natural resources for Japan. For example, Japan, which is 99.7 percent dependent on imports of oil, has made considerable efforts to secure a steady supply of Indonesia's oil exports. This is reflected in the emphasis which Japan places in its ODA to foster development of natural resources and large energy-related infrastructure projects in the region. With respect to economic interests, ASEAN also provides a strong market for Japanese goods and investment.

Political and strategic concerns are an important element as well. Japan's prosperity and regional role hinges upon ASEAN remaining stable -- and not hostile. Southeast Asian sea lanes are crucial for the secure flow of raw materials to Japan, including petroleum and iron ore. Security concerns have prompted increased aid efforts to both the "front-line" state of Thailand following the Vietnamese invasion of Cambodia in 1978 and to the Philippines during periods of political turmoil and instability. Both aid policy initiatives, but particularly aid to Manila, coincide with "American strategic objectives" and reflect Tokyo's desire to pacify Washington (Orr, 1987, p.53). However, regardless of the policy objectives of the US, no other region in Asia is "perceived by Japan as more vital to its political and economic interests" than ASEAN (Brooks, p.329).

Although ASEAN states receive the highest priority in ODA spending from Tokyo, they are still highly critical of Japan's aid program. Japanese aid has been regarded as self-serving, based on short-term Japanese interests. Critics have gone so far as to label Japanese ODA "Official Destruction and Alienation" (Schultz, p. 12). The quality and allocation of aid has faced much criticism as large infrastructure projects often do not reflect development priorities. Furthermore, the substantial sum which Japan allocates in loans has led to the accrual of large debts to Japan. With the allocation of yen loans Tokyo is "producing as much debt as development" in ASEAN (Orr, 1990, p.80). In 1984, Prime Minister Mahathir Mohamad of Malaysia charged that Japanese policy in the region was "only motivated by its need to sell its own products" which he claimed "was no different from colonialism (Kubota, p.143).

## China

China has been among the top two recipients of economic assistance from Japan since 1982. Japan and China negotiated agreements for loans in 1979 and since then Japan's ODA allocations to China have grown at a rapid pace. In 1988, Japan provided China with 53.6 percent of total ODA received by China. The next largest donor was France, which



contributed 11.2 percent (MOFA, p. 163).

There are several intertwining reasons for Japan's massive aid allocations to China, touching upon political and strategic factors, as well as economic. In the economic sphere, MITI views China as a potential market for Japanese products and as a possible source of oil, coal, and other resources. Although yet undeveloped, Japan hopes to tap this market in the future by developing strong economic ties with China through aid. Annual trade levels between the two are growing rapidly, having passed the \$10 billion mark in the 1980s. Japanese aid fosters infrastructure development and increases the capacity of China to purchase Japanese products. The majority of Japanese ODA to China is in the form of loans which in 1989 funded such projects as port expansion, dam construction, waterworks improvement, and Beijing subway construction.

In the political sphere, Japan's aid to China reflects diplomatic ties which have been "perhaps the closest and friendliest of any two Asian countries" (Brooks, p.331). The aid program is, however, part of Japan's role as a member of the Western bloc. The US is prohibited from extending ODA to China by the Foreign Assistance Act because China is a "member of the international communist movement" (Orr, 1990, p.73). Assisting China in its modernization program serves as a means of propping up the pragmatists within the Chinese government and supporting economic reformist policies of Deng Xiaoping, thereby helping to keep China in line with the Western bloc on major foreign policy issues (Inada, p.405). This support for a moderate and more open China is clearly in the interest of the US, as well as Japan.

In contrast to the ASEAN states, China received no post-WWII reparations or aid. This is primarily due to the fact that Japan's policy towards China had been dictated by the Sino-US estrangement (Orr, 1990, p.53). Some government officials have stated that the high levels of aid that China is now receiving are in part due to this lack of post-war reparations (Orr, 1990, p.53).

Aid to China was temporarily frozen in response to the incident in Tiananmen Square in June 1989. Japan played a very low-key role in the international condemnation of the Chinese government and resumed aid to China quickly. Disbursements resumed in Fall 1989 and negotiations for new loans began in 1990 after the US began to relax its own position on China (Lincoln, p.12).

## **Republic of Korea**

Despite often cold diplomatic relations, South Korea has been a significant recipient of Japanese aid. Since the late 1960s, Japan has extended numerous OECF and Ex-Im loans to Seoul. During Nakasone's visit to South Korea in 1983, he committed Japan to providing South Korea with a total \$4 billion in aid over a period of seven years beginning in 1983 -- with \$1.8 billion in concessional loans and \$2.15 billion in Ex-Im Bank credits (Orr, 1987, p.57). This aid package was the result of a controversial request by Seoul for a \$6 billion aid package. It is likely that Tokyo's willingness to grant such a comprehensive aid package was influenced by pressure from the United States (Kubota, p.142).

South Korea maintains that since it is a buffer between North Korea and Japan, Japan should be expected to provide South Korea with economic aid. The controversial nature of this type of "security-related economic assistance" was reflected in the unusually extensive treatment it received in the Japanese media (Inada, p.401). Although South Korea emphasized the issue of security in its aid request, Japan maintained the position that its ODA was for economic development purposes only. The Japanese yen loans to South Korea primarily funded projects aimed at improving South Korea's infrastructure such as waterworks, disposal facilities for urban waste and sewage disposal plants (Inada, p.409).

## **Southwest Asia: Burma, Bangladesh, Pakistan, Sri Lanka and India**

As one of the poorest countries in Asia, Burma has been the focus of a large Japanese aid program beginning with post war reparations. In 1988, Japan provided 78 percent of the total economic assistance received by Rangoon. The dependency on Japanese ODA is emphasized by the fact that Japanese ODA accounts for over 20 percent of Burma's budget disbursements (Orr, 1990, p.85). Although presently a poor nation, Japan sees Burma as a nation with economic potential and significant energy resources, a critical need of Japan (Brooks, p. 329). However, the aid given at this time is primarily geared toward stabilizing the politically volatile government and providing humanitarian aid. With the rise of political unrest and substantial human rights violations in 1988, Japan, along with other DAC countries, suspended aid, demonstrating the use of aid as a political and diplomatic tool. However, in March 1989, Japan, breaking with the policies of other donors, resumed aid to Burma. It is likely that business interests had a strong role in the resumption of aid to Burma.



(Orr, 1990, p.85).

In 1989 Bangladesh received \$370.6 million, or 5.5 percent of Japan's total ODA budget (MOFA, p.45). Bangladesh's GNP per capita is \$160 per annum, making it among the poorest in the world and one of the neediest countries in Asia (Orr, 1990, p.91). Since Japan has little political or economic interest in Bangladesh, Japanese ODA in Bangladesh is primarily humanitarian. This is reflected by the fact that Bangladesh has been the top recipient of Japanese grant aid for most of the 1980s.

Both Pakistan and Sri Lanka hold strategic importance to Japan and the West. Aid to Pakistan was boosted following the Soviet invasion of Afghanistan in 1979, placing aid to Pakistan as a "country bordering areas of conflict" (Inada, p.401). Following the invasion, Pakistan was pushed into a position of importance for the security of the Western bloc, resulting in US pressure on Japan to extend aid. Furthermore, Japanese ODA has had to fill the gap left by the US because the US put a temporary freeze on ODA to Pakistan due to its pursuit of nuclear technology (Inada, p.405). Therefore, aid to Pakistan reflects a desire to maintain a healthy relationship with the US and to demonstrate a commitment to global security.

Political strife in Sri Lanka has caused concern over its long-term stability and of the possibility that extended unrest could invite unwanted foreign intervention. These possibilities have been one of the reasons for the extensive aid to support Sri Lanka (Orr, 1990, p.92). Throughout the 1980s both Pakistan and Sri Lanka have been among the top 10 recipients of Japanese ODA.

Japanese ODA to India began with yen loans in 1958 and by 1986 Japan had become the largest donor of ODA to India. Japan defines the basis of its economic cooperation with India as assistance in the development of infrastructure (Koppel, p.1053). Japan's extensive ODA program in India is based upon a mix of "geo-political and economic" factors (Koppel, p.1052). In the past, India was viewed as vital to Asian stability due to its size and proximity to Communist China. Like the ASEAN states, Delhi has pressed complaints about the low grant ratio of Japanese ODA and further cites frustration with the non-transparent nature of Tokyo's policies and priorities.

### **Conclusion -- The Future of Japan's ODA Program**

Japan is facing growing international expectations regarding her responsibilities to the international community. It seems that the general

world opinion is that "yes, Japan is doing more, but it is not doing enough" (Islam, p.3). The questions that remain to be examined are to what extent will Japan be both willing and able to meet these growing expectations and to what extent will Japan assume a position of global leadership in aid policy formulation?

Despite the fact that Japan has surpassed the United States and become the number-one donor of ODA in dollar terms, Tokyo has not sought to take the helm in agenda and rule-setting or shown a willingness to manage the consequences of global ODA policy. Japan's inability and lack of desire to become more assertive in policy formulation can be explained by a number of interrelated domestic and international factors, including the reactive nature of Japan's foreign policy, Tokyo's inadequate ODA apparatus, strained economic and political relations with DAC countries, particularly the US, and suspicion of Japan's economic intentions in recipient states.

These factors will continue to affect Japanese aid policy in the 1990s, ensuring that Tokyo will maintain its "back-seat" position in ODA policy formulation. Assuming a leadership role requires one to make unpopular, or controversial decisions, a role which image-conscious Tokyo is apprehensive to undertake. In light of recent trade tensions with both DAC and aid-recipient states, Japan will remain content to increase its share of the monetary burden but let the US and multilateral organizations dictate policy. Japan will remain a major team player, but will not become captain any time soon (Rix, p.472).

If Japan is to fulfill its responsibilities as a global economic power, Tokyo will have to continue to improve both the quantity and quality of its ODA program and reconsider the way it prioritizes the principles which lay behind aid policy formulation. The rapidly changing international environment of the 1990s will force Tokyo to shift further away from economic considerations in aid policy, and use a broader based policy which considers political, strategic and humanitarian concerns. Events such as the dissolution of the Soviet Empire, the weakening of the US economy, the formation of the EC, and the growing economic gap between the Northern and Southern hemispheres will play a role in future Japanese aid policy. The 1990s will see a new focus on humanitarian considerations, reflected in the increased diversion of ODA funds towards the least developed countries of the world, particularly those in Africa. Despite new humanitarian considerations, it is unlikely that Japan will abandon its philosophy of emphasizing "self-help" for recipients through loans and request-based policies.



Facing growing criticisms that its aid is over-concentrated in one region, the 1990s will see a more global approach to Japan's aid policy. Due to the change in East-West relations, it is likely that two new areas will become recipients of Japanese ODA -- Eastern Europe and Indochina. Economic self-interest and the desire to break into the still immature markets of Eastern Europe will motivate Tokyo to provide aid to the economies of Eastern Europe. In addition, Japan's concern "over the promotion of democracy" and for its image as a country committed to international economic development and stability serve as other motivating factors (Orr, Summer-Fall, p.146).

There is already evidence of this shift in policy as it affects Indochina. Japanese-Vietnamese talks were held in January 1992 and Hanoi has expressed its hope that Japan will begin ODA disbursements to Vietnam in the near future (EIU, p.14). Tokyo is also anxious to commence economic cooperation programs with Indochina, a potential market of 70 million people. Although an ODA program in Vietnam is likely, Japan will hold off until there is a more substantial improvement in Hanoi-Washington relations.

A third possibility, although less likely at this time, is the allocation of Japanese ODA to the republics of the former Soviet Union. Instability, ethnic rivalries and political turmoil which plague the new republics will make Tokyo apprehensive about initiating extensive economic ties and allocating substantial ODA. Pressure from the international community will be necessary if Japan is going to become a major aid donor in this region. The Russian Federation, on the other hand, may become the beneficiary of a large aid package from Japan if the dispute over the Northern Islands is settled. The stability of Russia, due to its size, location, and potential military strength, is of tremendous importance to world stability. Furthermore, the vast resources of Siberia and issues of security due to its proximity to Japan are factors which Tokyo, in particular, cannot afford to overlook.

Although Japan will initiate a more global approach to aid distribution, Asia will remain Tokyo's top priority. For geographic, economic, strategic and political reasons Japan cannot decrease ODA to Asia. There is concern in Asia that Japan, under international pressure, will be forced to reduce ODA disbursements to the region. Such sentiment is particularly strong in the ASEAN countries that saw the percentage of Japanese ODA they received drop following the establishment of the Japan-China loan agreements in 1979. Japan will, however, successfully resist outside pressure to divert its aid from Asia. Even if Japan continues

to pour 70 percent of its ODA budget into Asia, Tokyo will have to do more to maintain strong relations with the rapidly expanding economies of Asia. The utility of Japanese aid in Asia is diminishing and the Asian countries will begin to demand more from Japan, Asia's only First World country. Japan must open up its domestic markets, transfer technology, and work to eliminate the "colonial" nature of its economic relations in addition to providing yen loans.

With ODA budgets increasing in the 1990s beyond Tokyo's ability to effectively disburse the funds, Japan will begin to enter more and more into joint ventures with DAC states that possess manpower and experience. Rather than see Japan rise as the world leader in ODA, joint cooperation or a partnership with the United States is likely to occur.

*(continued on page 154)*

**Chart B: DAC Countries' ODA (1989)**

Country	ODA (\$mn)	rank	ODA/GNP ratio (%)	rank	ODA/per capita (\$)	rank
Japan	8,965	1	.32	12	74.5	10
US	7,664	2	.15	18	41.2	15
France	7,467	3	.78	5	122.9	5
West Germany	4,953	4	.41	9	77.1	9
Italy	3,325	5	.39	10	54.4	13
UK	2,588	6	.31	13	46.3	14
Canada	2,302	7	.44	8	90.3	8
Holland	2,094	8	.94	4	151.1	4
Sweden	1,809	9	.98	3	181.2	2
Australia	1,017	10	.37	11	66.6	11
Denmark	1,003	11	1.00	2	179.4	3
Norway	919	12	1.02	1	233.9	1
Belgium	716	13	.47	7	60.4	12
Finland	705	14	.63	6	122.9	6
Switzer- land	559	15	.30	14	92.7	7
Austria	282	16	.23	15	39.8	16
New Zealand	87	17	.22	16	31.6	17
Iceland	49	18	.17	17	16.1	18



**Chart A: Japan's ODA Performance**

Year	ODA (\$ bn)	Increase (%)	ODA (\$ bn)	Increase(%)
1980	3.304	25.3	7.491	29.6
1981	3.171	-4.0	6.993	-6.6
1982	3.023	-4.7	7.529	7.7
1983	3.761	24.4	8.933	18.6
1984	4.319	14.8	10.258	14.8
1985	3.797	-12.1	9.057	-11.7
1986	5.634	48.4	9.495	4.8
1987	7.454	32.3	10.782	13.5

**Chart C: Grant Share  
(1987-1988 average)**

Country	rank	Grant Share (%)
Sweden	1	100.0
Australia	1	100.0
New Zealand	1	100.0
Ireland	1	100.0
Switzerland	5	99.5
Norway	6	99.4
Denmark	7	98.1
UK	8	97.8
Canada	9	97.4
Finland	10	91.9
US	11	91.2
Belgium	12	90.6
Holland	13	86.4
France	14	78.2*
Italy	15	76.9
West Germany	16	69.0
Austria	17	64.6*
Japan	18	46.6*

Total DAC 78.4

Source: (MOFA, p. 8)

\*1987 data

**Chart D: Grant Element  
(1987-1988 average)**

Country	rank	Grant Share (%)
Sweden	1	100.0
Australia	1	100.0
New Zealand	1	100.0
Ireland	1	100.0
Switzerland	5	99.9
Canada	6	99.6
Norway	6	99.6
Denmark	8	99.5
UK	9	99.0
Finland	10	97.7
US	11	96.9
Holland	12	94.1
Belgium	13	94.0*
Italy	14	92.0
France	15	89.3*
West Germany	16	86.1
Austria	17	76.2*
Japan	18	75.4*

Total DAC 90.4

Source: (MOFA, p. 9)

\*1987 data

**Chart E:  
% of Untied ODA for top DAC donors**

Country	rank*	untied (%)
Japan	3	72.8
US	13	26.1
France	9	50.7
West Germany	8	54.8
Italy	15	12.3

Source: (MOFA, p. 20)

\*ranking based on 16 DAC countries

data for Belgium and Finland was not available



**Chart F: Annual ODA Disbursements and Personnel Levels  
(1982-1988)**

	1982	1983	1984	1985	1986	1987	1988
<b>Personnel</b>							
Japan	1287	1324	1372	1424	1452	1496	1539
US	5406	5273	5168	4904	4668	4667	4695
<b>Disbursements (\$ mn)</b>							
Japan	3023	3761	4319	3797	5634	7454	9134
US	8202	7992	8711	9403	9564	8945	9777

Source: (Orr, 1990, p. 50)

**Chart G: Geographical Distribution of Japanese Bilateral ODA**

Region	1980	1987	1988	1989
Asia	1,383(70)	3,416(65)	4,034(63)	4,240(63)
N.E. Asia	82(4)	557(11)	725(11)	919(14)
S.E. Asia	861(44)	1,866(36)	2,197(34)	2,226(33)
ASEAN	703(36)	1,680(32)	1,920(30)	2,132(32)
S.W. Asia	435(22)	970(19)	1,109(17)	1,091(16)
Middle East	204(10)	526(10)	583(9)	368(5)
Africa	223(11)	516(10)	884(14)	1,140(15)
Central and South America	118(6)	418(8)	399(6)	563(8)
Other*	13(2)	372(7)	525(8)	560(8)

Source: (MOFA, p. 42)

\*Includes unallocable aid

Figures represent net disbursements, \$ mn

Figures in parentheses represent the share in the totals

Chart H: Ten Major Recipients of Japanese Bilateral ODA

Rank	country	1985 share	country	1988 share	country	1989 share
1	China	15	Indonesia	15	Indonesia	17
2	Thailand	10	China	11	China	12
3	Philippines	9	Philippines	8	Thailand	7
4	Indonesia	6	Thailand	6	Philippines	6
5	Burma	6	Bangladesh	5	Bangladesh	5
6	Malaysia	5	Pakistan	5	India	4
7	Bangladesh	5	Burma	4	Sri Lanka	3
8	Pakistan	4	Sri Lanka	3	Pakistan	3
9	Sri Lanka	3	India	3	Nigeria	2
10	Egypt	3	Egypt	3	Kenya	2
	Total Above	67	Total	62	Total	62

Source: (MOFA, p. 44)

Japan, wary of being perceived as a challenger to the US, particularly in Asia, will continue to use ODA policy as a means of pacifying Washington.

Japan has just begun to recognize the responsibilities and expectations that go along with being an economic power. More importantly, Tokyo has come to understand that it must undertake these responsibilities with vigor if it hopes to maintain its current economic prowess in an increasingly interdependent world. This realization will be reflected in Japan's ODA program through the 1990s and into the 21st century.

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# Water Scarcity and Israeli-Jordanian Relations

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by Sol P. Nasisi

In the last several years, a new trend has emerged when discussing relations between states in the Middle East. This trend, adopted by politicians, academicians, and technicians, predicts that water scarcity will be the next catalyst for conflict in the region. In order to continue their quests for industrialization, food self-sufficiency, internal stability, and security, states will need greater and greater quantities of water, and will turn on each other in a Darwinian struggle to secure this vital resource. In 1987, the London *Economist* published an article which predicted that "the next war in the Middle East could be fought not over oil, the region's most plentiful resource, but over water, its scarcest."<sup>1</sup> Dr. Mohammed Nour of the United Nations Development Program agrees with this assessment, stating: "The next few decades will show that water is a much more inflammatory issue than oil."<sup>2</sup>

These predictions seem particularly relevant for Israel and Jordan, two warring and antagonistic states that share a large percentage of their water resources, and whose high population growth rates, coupled with industrialization and a bad drought, have increased the need for additional water sources. In 1990, King Hussein of Jordan demonstrated the volatility of water by declaring that water disputes were the only issues which could lead to war between Israel and the Hashemite Kingdom.<sup>3</sup> While the King's comments may have been directed more towards Israel's intransigence in agreeing to World Bank funding of the Unity Dam, it nevertheless underscored the tensions which water, and water-related projects, can engender in this volatile region.

Despite these tensions, and the messianic messages of the press,

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a close analysis of the politics, economics, and technical issues which underlie the water scarcity problem in Jordan and Israel seems to show that such a view is inappropriate, and, in many respects, wrong. Politically, domestic considerations, such as the weakening of Israel's ideological commitment to agriculture, and Jordan's increasing democratization seem to portend more flexibility and bilateral cooperation in solving the problem. Economically, a cost-benefit analysis shows that different pricing mechanisms and alternative technologies are more efficient in increasing water budgets and eliminating scarcity. Technologies such as drip irrigation, waste-water reuse, genetically manipulated crops, and desalination are feasible and already being employed in some areas. Large scale implementation and expansion of such alternative technologies has increased markedly in the last ten years, and future water development plans will draw increasingly on their benefits. Through a juxtaposition of political, economic, and technological conditions, Jordan and Israel will be able to resolve their water problems peacefully, and cooperatively, creating a more stable and prosperous Middle East.

### **Water Scarcity – The Social and Economic Importance of Water**

Water is the world's most important resource, although its general abundance has made it strategically unimportant in comparison to other resources such as oil and iron ore. In region's of scarcity, water is fully appreciated, for while most of the nations of the industrialized world view energy as the central "limit to growth," water can be just as much of an obstacle. Almost every industrial process and reaction, from diamond cutting to Potash mining, requires large inputs of water. Agriculture, the largest water consuming sector in the world, needs enormous aqueous investments to successfully irrigate thousands of hectares of fruits, vegetables, and feed.<sup>4</sup> In Israel and Jordan, growing water shortages could disrupt the stability of the entire region, halting economic growth, drastically lowering living standards, and destroying each country's agricultural base.

### **The Hashemite Kingdom of Jordan**

With the third highest population growth rate in the world, an influx of over 300,000 Palestinian refugees from Kuwait, and growing agricultural and industrial sectors, Jordan faces a very serious water



shortage in the future which could undermine and destroy many of the country's advancements.<sup>5</sup>

Jordan utilizes 100 percent of the 880 MCM of water at its disposal, representing 40 percent of the total available surface water, and 110 percent of renewable groundwater supplies.<sup>6</sup> Water poverty is defined as a minimum of one MCM per 1,000 inhabitants per year, and with a population of 3.3 million, Jordan can only supply 0.26 MCM per person.<sup>7</sup> While strides are being taken to develop new sources of water, and to utilize the remaining 60 percent of the available surface water, most are too costly to implement without international aid. The price tag for the Al-Wehdah Dam is over \$250 million, while transporting water from the strategic Disi aquifer could reach as much as \$1.10 per cubic meter of water, over three times the normal development cost.<sup>8</sup> For a country with a total yearly GDP of only \$4.25 billion, this represents an enormous and unfeasible outlay.<sup>9</sup>

While water supplies have remained fairly constant over the last five years, water consumption has been moving upward as illustrated in figure 6.<sup>10</sup> If these tendencies continue, demand will eventually equal and exceed supply, jeopardizing future economic growth, standards of living, and political stability.

Water demand in Jordan can be divided into three categories: municipal, industrial, and agricultural. The water demand of these three sectors will more than double in the next 30 years, led by rapid increases in agriculture.<sup>11</sup>

### **Agriculture**

Agriculture, although only 10 percent of the nation's GDP, plays a central role in Jordan's economy and national policy. Economically, its impact is quite broad, affecting the industrial and service subsectors, as well as supplying employment to a large number of Jordanians.<sup>12</sup> For example, the packaging and transportation industries rely on agriculture to form the backbone of their revenue and business. At the same time, Jordan has made it an avowed goal to reach and maintain food self-sufficiency. Irrigation already consumes 70 percent of Jordan's fresh water, and water scarcity could jeopardize any future agricultural growth.

To maintain self-sufficiency in the wake of a burgeoning population, Jordan will need to divert more water into agriculture. Jordan irrigates 55,000 hectares, mostly in the dry Jordan Valley and Southern Gor Canal.<sup>13</sup> Irrigation is necessary because most of Jordan's rainfall does

not fall over the fertile and arable deserts. This, combined with high levels of evapotranspiration in the hot summer growing season, means that irrigation must be used to cultivate a large part of the arable land. By the year 2000, irrigation is expected to increase by over 36,000 hectares, and then remain at constant levels well into the future.<sup>14</sup>

Preventing this increase will be almost impossible believes Dr. Tatafta, a water expert from the Royal Jordanian Scientific Institute. He maintains that cutting water "from agriculture, and using it for industry means decreasing our self-sufficiency of food ... which means that we have to depend on importing food from outside. This means hard currency."<sup>15</sup> Because of the instability of economic conditions in Jordan following the Gulf War (Jordan lost \$3.6 billion in 1991 representing 77 percent of its GNP), Dr. Tatafta does not believe the country can afford to make the shift.<sup>16</sup> Mrs. Sasha, a farmer in the Jordan valley echoes this sentiment, saying that "we can't cut farming. The land is the only resource Jordan has except for some phosphate."<sup>17</sup>

Regardless of private desires and imperatives, these cuts have already begun, and the average farmer is only given enough water to sow 25 percent of his land.<sup>18</sup> Samir Kawar, the Minister of Water and Irrigation says that these cutbacks are "creating a social problem — causing a social problem which is very drastic."<sup>19</sup> Whether or not Jordan can continue cutting its allocations to agriculture without precipitating wide spread social unrest depends on how responsibly the government proceeds in developing new sectors of the Jordanian economy.

## Industry

Water scarcity will also jeopardize the growth of Jordanian industry, which has been rapidly increasing its water demand. Between 1986 and 1990 Jordanian industries have increased their consumption of water from 25 MCM to 43 MCM.<sup>20</sup> If this trend continues, industry should more than double its water use to 96 MCM by the year 2020.<sup>21</sup> The major water-consuming industries in Jordan are: The Arab Potash Co., The Phosphate Mining Co., Jordan Petroleum Refinery, and the Al-Hussein Thermal Power Station. Various other chemical, pharmaceutical, and paint factories also contribute to industrial demand. The different components of Jordan's industrial sector (mining and quarrying, manufacturing, electricity and water supply, and construction) account for 29 percent of GDP, and over 80 percent of the country's exports.<sup>22</sup> Conversely, exports account for 60.9 percent of GNP, and raise \$727 million in hard currency



for the cash-strapped country.<sup>23</sup> Clearly, industry plays, and will continue to play an increasingly bigger role in Jordan's economic development. This role will be have to be sacrificed without sufficient water.

Municipally, shortages have the potential to create hygiene problems and further increase the frustration of many Jordanians and Jordanian Palestinians already angered by squalid living conditions and poverty. The Jordanian water system serves over 440,000 recorded residential, commercial, and light industrial users.<sup>24</sup> Estimates predict that the population of Jordan will grow from 3.453 million in 1990, to 6.5 million in 2010.<sup>25</sup> Because of Jordan's high population-growth rate, and the influx of refugees following the Gulf War, the water delivery system will be put under increasingly greater stress. Analyses of municipal water supply figures show that demand increased 33 percent, from 134.6 MCM in 1986 to 179 MCM, in 1990.<sup>26</sup> In that same year, Jordan experienced a 35 MCM municipal water shortage which, as shown in figure 3, is expected to nearly quadruple by 2000, and reach 256 MCM in 2010.<sup>27</sup>

Already, shortages are creating hygiene problems. Dr. Alfred Tobassi, a dentist in Amman reports that: "The water from the municipality will come twice a week. When it comes twice a week, I'm satisfied. I [then] have enough water. Last summer it used to come once every 20 days ... and this was is in our vicinity -- which is a doctor's vicinity. In other places, they still have more of a shortage."<sup>28</sup> The poorer elements of Jordanian society, located in the Palestinian Refugee camps, have it far worse. Palestinians complain that they must conserve their scant supply of water and are lucky if the water runs twice a week.<sup>29</sup> When it does, it is not enough to meet even minimal demand. This has inflamed resentment towards the Israelis who occupy their former territory and homes, and are blamed for the abysmal living conditions. Palestinian anger worries the Jordanian government, after all such outrage, augmented by desperate living conditions fueled the brief, but brutal, 1970 civil war. Only by increasing the living standards in the refugee camps can this anger be tempered. This cannot be done without water -- water which does not exist.

As total demand continues to increase, outstripping supply, Jordan will not only be faced with water scarcity, but a water-quality problem. Fares Khalidi, a Jordanian who has done research on the subject, says that "increasing amounts of industrial effluents, as well as skyrocketing population pressures has Jordan's existing water contaminated with chemical and biological material. Industrialization and agriculture all play a part in decreasing the quality of Jordan's water."<sup>30</sup>

## Israel

"Israel's predicament," says Martin Sherman, the former Assistant Minister of Agriculture and a current member of the Tsomet Party, "is that it's a country on the edge of a desert, dependent on the rainfall for its water supply ... On the other hand, the long term demand patterns are destined to outstrip the natural supplies."<sup>31</sup> Like Jordan, Israel is a water-poor country, with approximately 0.4 MCM per 1,000 people.<sup>32</sup> Although Israel's population growth rate is low, the arrival of up to one million Soviet Jews will place additional pressure on water resources. Such a strain could force Israel to further reevaluate the role water has in upholding ideology, security, and the economy, leading to painful cuts. If such steps are not taken, water scarcity could lead to a stunted economy, and a rapidly declining standard of living.

Water has always played an important role in Israel's spiritual and physical growth. Moshe Sharett, the former Prime Minister of Israel, explained the importance of water: "Water for Israel is not a luxury; it is not just a desirable and helpful addition to our system of natural resources. Water is life itself."<sup>33</sup>

Israel's water supply in the 1985-1986 season and future projections for the year 2000 are shown in diagram 5.<sup>34</sup> As in Jordan, water consumption is grouped into three categories: domestic, irrigation, and industry. Diagram 7 shows how this water has been divided.<sup>35</sup>

## Agriculture

Like Jordan, Israel relies on agriculture to maintain self-sufficiency. Unlike Jordan, agriculture has played an almost mythical role in the rejuvenation of Israel, and increasing water scarcity could not only have economic, but social and security ramifications, as well.

Israeli agriculture consumes 70 percent of the country's water supply. Because rainfall in Israel, like in Jordan, is concentrated away from the most arable regions, extensive irrigation projects have been developed to supply water and expand agricultural production. It is this irrigation which consumes most of the country's water. Of a total 430,000 hectares under cultivation, about half, or 215,000 hectares, are irrigated.<sup>36</sup> While irrigation has remained fairly constant over the past 10 years, fluctuating between 1,200 MCM to 1450 MCM, future projections show that Israel will have to cut its allocation to 740 MCM.<sup>37</sup>



Planned cuts could leave an indelible mark on Israeli society, for as Israeli Prime Minister Sharett once said, "without agriculture ... we will not be a nation rooted to the world, sure of its survival, stable in its character, controlling all opportunities of production with material and spiritual resources."<sup>38</sup> One of the founding principles of Israel was that through agriculture and working on the land, Jews could gain redemption and make up for thousands of years of agronomic exile. Throughout much of the 19th century, Jews were confined to ghettos, separated from manual work, and the ownership and cultivation of the land. As the idea of Zionism grew, so too did the idea that Jews could gain redemption by creating a nation of their own, and through the work and farming could reunite with Eretz Yisrael.<sup>39</sup> The first leaders of Israel proclaimed it a national goal to "make the dessert bloom," into a land of paradise for the Jews. Nati Barach, a farmer in the Negev says that

in the diaspora, we were not allowed to farm, basically because farming, I think, is the actual way that you acquire ownership of land, deep ownership, not just holding a document. There was also the question ... of being ... I mean, we don't want Israel to be just a big Tel Aviv.<sup>40</sup>

Agriculture was also incorporated into Israel's national security and defense. Settlements were created in unpopulated areas to provide a shield and build the infrastructure needed to repel an Arab invasion.<sup>41</sup> The settlements were self-sustaining, provided defense, and helped the Israeli economy. They gave Jews a way of spreading throughout Israel so that, in the words of one Israeli, the land "wouldn't be occupied by Arabs. That would be the end of the Jewish state."<sup>42</sup>

The current situation puts Israel into a quandary. Shifting water priorities away from agriculture would undermine some of the very goals which built Israel into a modern, prosperous state. Rutika Kaplan, a farmer in the Negev, illustrates the tensions which are at the center of the current water shortage in agriculture. When asked what she thought about facing water cuts, Kaplan replies, "Maybe we would have to bring the desert — to give the desert back to the desert." She believes this would not only "be bad for Israel, but maybe for humanity."<sup>43</sup>

### **Industry**

As part of Israel's economy, industry generates 30 percent of the

country's GDP, and accounts for 88 percent of its exports.<sup>44</sup> Industrial growth has increased this sectors demand for water, and unless it is met, growth will stall, robbing Israel of much of its export revenue. Industry consumes approximately 80 MCM of fresh water and an additional 30 MCM of brackish water.<sup>45</sup> Water utilization has grown by 4 percent per year in the last decade and is expected to continue growing by 1.4 percent per year to 110 MCM by 2000.<sup>46</sup> Mining (28 MCM), chemical (29 MCM), and food industries (processing 20 MCM) are the major consumers, while all other industries utilize 33 MCM.<sup>47</sup>

### **Municipal Water**

Urban water-demand depends greatly on future population projections. Because of uncertainty over the number of immigrants, it has been hard to make an exact estimate of this demand. The Water Sector Master Plan, a comprehensive review of Israel's water policies and infrastructure, estimated that population should grow to about eight million by the year 2010, increasing domestic water requirements to 663 MCM.<sup>48</sup> It could be impossible to meet this level of demand, and Israeli citizens may be forced to alter their consumption habits. Already, restrictions have been placed upon gardening and watering, while efficient toilets and home appliances have been developed to reduce domestic waste without harming the standard of living. Even with these changes, cuts are almost inevitable, and will be painful and not easily accepted for a nation with four times the per capita water consumption of Jordan or Syria.<sup>49</sup> Such cuts will decrease the high Israeli standard of living, and could foment wide social unrest and dissatisfaction.

### **Points of Conflict or Cooperation -- The Jordan Valley**

The increasing scarcity, and resulting water-related pressures, will force both Israel and Jordan to jealously guard their own reserves while looking outward for new sources and supplies. Water scarcity, juxtaposed with religious and political tensions, has the potential to serve as a catalyst in conflict between the two countries. Nowhere is this potential for conflict greater than the Jordan River, and the occupied West Bank.



## The Jordan River

The Jordan River basin is a hydrologically complex system which consists of three major segments: the upper Jordan, the Yarmuk River, and the lower Jordan. Because of its relatively large flow, and confusing hydrology, Israel and Jordan have dueled over its water for the last 40 years.

The upper Jordan is fed by several Karstic springs located on the western and southern slopes of Mount Hennon.<sup>50</sup> The Dan spring, which originates wholly in Israel, is the largest of these sources and merges with the other founts to supply approximately 50 percent of the upper Jordan's discharge.<sup>51</sup> The remaining 50 percent is surface runoff, which merges with the springs about six kilometers inside of Israel to form the Jordan River. The complex hydrogeology of the region makes it very difficult to determine where the water originates. High hydraulic conductivities and permeable rock units suggest that there is substantial water seepage and transmission between groundwater in the neighboring countries.<sup>52</sup> While the Dan spring may be located in Israel, its infiltration area covers Lebanon, Syria, and Jordan.

Regardless of origin, the 500 MCM of water produced by these springs flows into the Huleh valley, where additional water is added from subclustrine sources. Several kilometers south, the upper Jordan comes to an end at Lake Kinnerat, Israel's largest natural fresh water body, where it deposits between 510 and 470 MCM.<sup>53</sup> Climatic variations are reflected in the variability of lake storage between 4,300 MCM, and 3,630 MCM.<sup>54</sup> An additional 110 MCM of water is diverted from the Jordan's upper tributaries, or pumped from aquifers before the water reaches the lake. These extractions, and periodic withdrawals from Lake Kinnerat, allow the Israelis to extract a safe yield of approximately 580 MCM from the Jordan River.<sup>55</sup> Israel not only controls the amount of water which reaches Jordan, but also the quality of this water. If Israel overextracts, the lower Jordan will become saline and unfit for human or agricultural use.

The Yarmuk River is a part of the Jordan River system and a contentious river. It originates from a series of wadis within Jordan and Syria and eventually feeds into the Jordan. Winter precipitation, combined with spring runoff, provide the major sources of water. The river flows along the present boundary between Syria and Lebanon for 40 kilometers before it empties into the Jordan 10 kilometers below Lake Tiberias. None of the 500 MCM which the Yarmuk contributes to the

Jordan originates in Israeli territory.<sup>56</sup>

The lower Jordan River forms the international boundary between Israel and Jordan for its first 40 kilometers. Further south, it runs through the occupied territories, forming the cease-fire line, before winding down the Jordan valley and emptying into the Dead Sea at 398 miles below sea level, the lowest point on earth. The river receives an additional 523 MCM as it flows down the Jordan Valley, 20 percent of this input originating in Israel.<sup>57</sup> Subtracting irrigation extraction, the Jordan River delivers an average of 1,850 MCM to the Dead Sea, a volume which represents two percent of the Nile's annual flow, and seven percent of the annual flow of the Euphrates.<sup>58</sup> This represents twice the amount of water available to Israel and three times the amount of water available to Jordan from other sources.<sup>59</sup> Thus, while a relatively small river by global standards, the Jordan is extremely important in this parched region.

### **Conflict and Cooperation**

The importance and complexity of the Jordan River system has made it a source of conflict for over 80 years. As shown in table 2, both Jews and Arabs have worked to tap the potential of the river.<sup>60</sup> The most enduring and significant of these development plans was the 1955 Johnston Plan.

Mediated by the United States, the agreement sought an equitable way to divide and manage the region's water resources. The division of river-waters proved to be the most contentious obstacle to the plan because of the different demands presented by each country. Table 4 shows this initial disparity.<sup>61</sup>

The final agreement, called the Unified Plan, allocated 400 MCM of the Jordan basin waters to Israel, and 720 MCM to Jordan. Although neither the Israelis nor the Arabs officially approved the plan, both agreed to adhere to the details and spirit of the compromise.

Israel and Jordan proceeded to develop their water resources according to parameters set by the plan. Israel created its National Water Carrier to exploit and distribute Jordan River Water and Jordan created a similar institution called the East Ghor Canal. This fragile compromise did not last long, and before the completion of Israel's National Water Carrier, the Arab states tried to thwart the project by diverting the Jordan's waters away from Israel. Israel retaliated with several air-strikes designed to destroy the diversionary works. While some have argued that these strikes culminated in the 1967 Arab-Israeli War, this



does not appear to be the case. Commenting on the raids, Nassar himself said in May 1964 that he would not be provoked into war "just because Israel committed an act of aggression against Syria and destroyed one or two tractors" (at the proposed diversion canal).<sup>62</sup> The historian Walter Laqueur concurs, saying that the Jordan water dispute "was not among the major causes of the Arab-Israeli conflict, certainly not one of the immediate reasons for hostilities."<sup>63</sup>

Despite the fact that water was apparently not the catalyst of the 1967 War, it led both sides to increase their competition for the scarce Jordan water. Israel destroyed the East Ghor Canal in retaliation for Jordanian-based PLO attacks. It is important to note, however, that although the attack was aimed at a water facility, it had strategic, not environmental motives.<sup>64</sup> United States mediation in 1969-1970, ended the conflict and Jordan repaired the dam and agreed to adhere to the Johnston Plan.

In the 1970s Jordan became interested in a \$600-\$800 million project to tap extra runoff from the Yarmuk River. World Bank funding for the massive project was vetoed by Israeli demands for a percentage of the dam's holdings. Lack of funding forced Jordan to abandon the project and lose a volume of water equivalent to 30 percent of the country's entire water budget.<sup>65</sup> Tension has also been exacerbated by purported Israeli overpumping of the Yarmuk River. Jordan alleged in 1975 and 1979 that Israel was interfering and overdrawing its quotas of the Yarmuk River, threatening Jordanian supplies.<sup>66</sup> Competition has also increased for the groundwater supplies near the Jordan-Yarmuk River junction. Israeli authorities claimed that Jordanian pumping in this location could damage future Israeli water sources -- and then began "retaliatory" drilling.<sup>67</sup>

Today, although relations over the Jordan's waters are mostly stable, they are also slightly tense. Jordan has accused Israel of violating its quotas and overpumping water, and Israel has flatly denied any wrongdoing. Dr. Tatafta states that Jordan "must receive its fair share of the Jordan River,"<sup>68</sup> while Martin Sherman insists that all "agreements have been scrupulously kept."<sup>69</sup> Jordan also complains that because of Israeli overpumping, the lower Jordan has become useless for irrigation and drinking water. "The Israelis have ruined the water," says Ms. Sasha. "Something must be done, or there will be nothing left growing in the Jordan Valley."<sup>70</sup>

## The West Bank

Perhaps no other area in the Middle East is as rift with political tension, frustration, and conflict as the West Bank. Jordan is half Palestinian, and any extra hostility on the West Bank has the potential to cross country lines and precipitate conflict with Israel. With an estimated supply of 836 MCM of high quality water, the West Bank could become the focal point of such hostility.<sup>71</sup> Thirty percent of Israel's water supply originates in the West Bank, prompting government officials to claim that the health of Israel's water system and future development depends on this source. Angered by such talk, Palestinians claim that Israel is not only stealing their water, but preventing access to it and as a result, destroying Arab agriculture and standards of living.

Israel and the Palestinians both claim ownership of the water stored in the Yarkon-Tanamin Aquifer. While the majority of the region's water originates in Palestinian territory, its hydrologic flow is towards Israel.<sup>72</sup> By utilizing sophisticated drilling systems, the Israelis have been able to pump 80 percent of the region's underground water, or about 300-350 MCM.<sup>73</sup> Israeli restrictions on new Arab wells has kept Palestinian consumption of the aquifer water to only 50 MCM.<sup>74</sup>

Underground and surface reserves supply Israel with approximately 33 percent of its water.<sup>75</sup> In August 1990, former Agricultural Minister Rafael Eitan exploited this dependency by printing several full-page ads in Israeli newspapers, warning that giving back the territories and the water they contained, would put Israel in "mortal danger." Martin Sherman, who worked under Eitan at the Ministry, explains that giving back the West Bank might destroy Israel's sovereignty.

Because, for instance, the Chamber of Commerce of Palestine might want to build up -- might want to establish an electronics industry somewhere ... and the toxic metals might seep into our water supply. Now we've got no control over that -- we need what's in a sovereignty: supreme authority over those kinds of decisions because otherwise we just can't control our destiny.<sup>76</sup>

Israeli control of West Bank water has severely reduced Palestinian agriculture, and increased the ire and anger of the population. Neither a Palestinian individual nor village has received permission to drill a new well since integration, and existing water allocations remain at their 1968 limits.<sup>77</sup> Water that is allocated cannot be used after four in the evening,



the traditional and scientifically best time to efficiently irrigate crops. The Israelis have also prevented Arabs from planting trees over natural recharge areas, undermining the replenishment of local Arab aquifers. Cheaper water rates are also given to Israeli settlers in preference to Palestinians, effectively subsidizing Israeli settlers to use more water.

In 1981, Arabs were allowed to irrigate 98,000 dunums out of a total of 2,007,000 dunums of cultivable land, leaving 95 percent of Arab agriculture dependent on unpredictable rainfall.<sup>78</sup> Table 4 shows that despite a growing population, Arab agriculture has expanded very little.<sup>79</sup> Because agriculture plays such an important role in the West Bank economy, this stagnation has increased unemployment, and spurred a mass exodus out of the West Bank. Israel maintains that these figures are wrong, and that through conservation and better management, the amount of Arab land under irrigation has increased 150 percent.<sup>80</sup> While it is difficult to prove or disprove any of these assertions, what remains is Palestinian bitterness at what they view as hydroexploitation.

### **War or Peace?**

#### **Political, Economic, and Technological Alternatives**

While the array of statistics, numbers, and precedents presented seem to confirm that the potential for a water conflict is great between Israel and Jordan, such an analysis is faulty, and like many Malthusian nightmares, presents a distorted half-glance at a complex problem. A changing domestic and international political climate, coupled with economic considerations and technological alternatives, are all conspiring to make a water conflict between Israel and Jordan all but impossible.

### **Politics**

Both domestic and international politics are conspiring to reduce a possible water conflict between Israel and Jordan. Domestically, both countries are adopting water policies that will allow them more flexibility in the allocation and distribution of water. At the same time, while a resolution to the Palestinian problem is still remote, political trends in both countries are moving towards, not away from such a solution.

While agriculture is very important in Israel and Jordan, both countries have made the painful decision to begin cutting this sector, rather than wage war for the resource. In Israel, agriculture, and the whole "green" mentality is losing its ideological shield, and many influen-

tial policy-makers inside and outside the Ministry of Agriculture agree that cuts must be made. Martin Sherman believes that "one thing is for sure, agriculture is going to have to cut back, and it has been cut back rather severely this year."<sup>81</sup> Sima Hezeroni, an official at the Water Commission shows views indicative of the shift in attitude which Israel has embraced over the last several years. She says that

our parents when they came here, and even my generation partly, didn't realize the shortage of water. And we produced a whole myth of green ... of desert bloom ... of quality of life, and we forgot it's not for our means ... We must adjust ourselves to our means.<sup>82</sup>

Provisions of Israel's water planning report, the Water Sector Master Plan, as well as the Ministry of Agriculture, and the World Bank also endorsed such a position. In the preferred scenario of the Water Sector Master Plan, the amount of water dedicated to agriculture would drop from 1,200 MCM in 1985, to 750 MCM in 2000, and to only 550 MCM in 2010.<sup>83</sup> Under such a plan, 600 MCM, or almost one-third of Israel's water budget would be reprioritized towards domestic and industrial use.

While Jordan has not shown such a willingness to curtailing its agriculture, it still has significant reserves of water, such as the unfinished Marquín (Unity) Dam, which only awaits the necessary financing to double the country's water budget. Should a durable and lasting peace settlement be signed, it is probable that such funding would be provided.

Conflict between Israel and Jordan is based on the premise that both nations remain in their current state of war. Yet, recent developments, such as the ascent of the labor party, and the resulting bargaining flexibility shown by Israel, bode well for future peace. Peace would only come if the Palestinian problem could be solved, and one of the sticking points in negotiations has been the future of West Bank water resources. The importance of these supplies has further complicated the peace process. Mark A. Heller, an Israeli, and Sari Nusseibeh, a Palestinian, point out that such water disagreements have the potential to be solved, and should not present insurmountable obstacles in the peace negotiations. The West Bank has a water balance of 850 MCM, and a large unexploited surplus. The construction of dams, irrigation canals, and other water development projects to catch this extra water would mean that



a Palestinian state can potentially have far more water resources at its disposal than are currently available to Palestinians in the West Bank, even without curtailing the use that Israel makes of shared aquifers for agriculture within the Green Line.<sup>84</sup>

The history of the region over the last 20 years shows that stability has increased even as water supplies have decreased. Israel and Jordan are not only enjoying their longest stretch of peace in the modern Middle East, but for the first time, have begun bilateral and multilateral negotiations to diffuse and solve long simmering regional problems and disagreements.

### Economics

Economics relates to water scarcity and conflict in two ways. First, through inefficient subsidies in Israel and Jordan, water is not allocated and used in the best possible manner. Reforming water-pricing would lead to significantly better habits of water usage, and concomitantly, more water. Second, the cost of certain water-saving and water-producing technologies, while still relatively expensive, would be cheaper than war or conflict.

Israel and Jordan both inefficiently subsidize their water. This has exacerbated the scarcity problem, for as Theodore Panayotou states in his paper, *The Economics of Environmental Degradation: Problems, Causes, and Responses*:

In general, the overexploitation, inefficient utilization, inadequate conservation, and lack of investment in regeneration of natural resources can be attributed to undervaluation of resources arising from failure of either the market or the government to efficiently price natural resources according to their social scarcity.<sup>85</sup>

Because of these subsidies, and the forces described by Mr. Panayotou, the demand for water exceeds its supply, and both nations must ration existing water sources.

Mekorot, Israel's water company, estimates that the current subsidized price of water production and supply is 19.5 cents/cu.m<sup>86</sup> Adjusted to real costs, the price jumps to 33 cents/cu.m<sup>87</sup> In 1987, 40

percent of the water was sold below cost, not below real cost, but the already low figure subsidized by Mekorot.<sup>88</sup> This second subsidy was paid for by the government. Currently, subsidies still favor agriculture, for 80 percent of this sector pays 12.5 cents/cu.m., while the industrial sector pays 15 cents/cu.m and the domestic sector pays 26 cents/cu.m. Therefore, the largest water consuming sector of Israel is, from a resource standpoint, being priced the least efficiently. This subsidy can not be justified economically either, for the profitability of agriculture has declined markedly in recent years. In 1981, the marginal product of water for cotton, or the profit on every unit of water supplied to grow cotton, was 23 cents/cu.m., by 1985, it had dropped to zero, and in 1988 it was -11, meaning that for every cu.m of water allocated to agriculture, Israel lost 11 cents.<sup>89</sup> Twenty-five percent of the high-yielding farms and 61 percent of the low-yielding farms had a lower return than their water investment.<sup>90</sup> Israel seems to recognize the problem with the current water subsidy and Martin Sherman believes that the current system

is a very poor way of allocating water, and there are many alternatives which you could use to keep your agriculture competitive without subsidizing the water. Because I'm afraid the system of supports for agriculture, the person who gets the greatest supports is the person who consumes the greatest amount of water. Because its subsidized per cube.<sup>91</sup>

One suggested alternative is to give rebates to farmers who through efficiency, or alternative technologies, increase their yield per cubic meter of water. If water costs 30 cents/cu.m., and a farmer produces a specified amount (x) of product with a certain quantity of water, he would receive a 10 cent reduction; if he produced 2x, he would receive a 20 cent reduction. This form of subsidy, which has been endorsed by the World Bank, would not encourage waste, but rather conservation and efficiency.

Water is also heavily subsidized in Jordan. While the water-pricing system is progressive for domestic use, it is subsidized at a fixed rate for agriculture. The production cost for water has been estimated at .41 JD/cu.m., while 75 percent of the farmers in the Jordan valley pay only .0065 JD/cu.m.<sup>92</sup> Like agriculture in Israel, even with the subsidies, Jordanian agriculture is only marginally profitable. Many farmers in Jordan have been reduced to subsistence agriculture, because in the words of Ms. Sasha, "it is very difficult to make a profit off the land here in Jordan."<sup>93</sup> Pricing reform would hurt some farmers, but its long-term



benefits would be substantial. The World Bank endorsed the need for a such a plan in its 1990 Report on Jordan, stating that

one of the most important recommendations that can be given at this time is that research into pricing, conservation subsidies and like, be performed on a country-wide basis. Such research will provide valuable results and provide the necessary input to a plan to proceed with a full-fledged efficient management policy.<sup>94</sup>

As both countries move closer to unregulated free markets in water, the availability and quality of the water will increase substantially. Like the shocks gripping East Europe and the former Soviet Union, marketization does create an initial period of social chaos and confusion. The rewards would not only be more water, but with the eventual phase out of money losing agriculture, a healthier economy.

Perhaps the most compelling economic reason why Israel and Jordan would not go to war over water is supplied by Ms. Hezeroni. She states that desalination and alternative water technologies "would be much cheaper and much more convenient than any war, the smallest war. I'm not talking about missiles, or atomics, or nothing. Just the smallest, simplest conventional war."<sup>95</sup>

### **Technology**

A host of new technologies exist that could not only reduce the scarcity problem, but in the future, possibly eliminate them. While many are expensive today, they are far cheaper both economically, politically, and socially, than the "smallest, simplest war."<sup>96</sup> They range from more efficient methods of irrigation to salt tolerant crops to nuclear-powered desalination.

### **Drip Irrigation**

Because Israeli and Jordanian agriculture relies heavily on irrigation, any improvement in irrigation efficiency would have a positive impact on their water supplies. Some of this technology is already being employed in Israel and Jordan, where farmers have been able to increase the acreage irrigated, without increasing their consumption of water. Techniques such as high frequency, low volume applications of water

mixed with the exact amounts of nutrients and pesticides have improved soil fertility. Research has provided farmers with the optimal times to plant crops and ensure minimum evaporation alongside maximum growth and yield. At the Volcani Institute in Bet Degan, Israel, research has been done to determine the water needs of crops. Dr. Shainberg, the head of the Soil and Physics Department explains that "there is a response to water. And the yield increases with more water ... what you care about is output/cu.m. If you irrigate with only 200mm rather than 400mm ... maybe the return/cu.m of water will be higher."<sup>97</sup>

If these maxima points on the exponential yield curve can be found, than cuts in water will not necessitate proportionally equal cuts in agriculture. This information, factored in with precise valve and pressure regulators, as well as computer programs which factor in temperature, humidity, wind, and soil moisture content, could significantly increase agricultural efficiency.

Perhaps one of the greatest gains has been made from drip irrigation. Drip or trickle irrigation involves the application of small amounts of water at specific intervals near the stem or roots of the plant. The water is transported in plastic tubes which shield the water from evaporation and give drip irrigation an efficiency ranging from 80 to 90 percent.<sup>98</sup> Both Israel and Jordan extensively use drip irrigation. An example of its efficiency can be provided by results obtained on a 700 hectare banana plantation in the Jordan Valley.<sup>99</sup>

Table 3-2 shows that with the expansion of drip irrigation, water requirements were cut in half for the same yield.<sup>100</sup> In Israel, the expansion of drip irrigation has decreased water use from 8,700 cu.m./ha to about 5,800 cu.m./ha and also reduced the yield per unit water application of some major crops<sup>101</sup> (figure 3-5). Similar techniques are used in Jordan, although they are not as widespread. The cost of drip irrigation is often seen as economically prohibitive, but when measured against the cost of war, it becomes relatively cheap. The cost of one battle tank is enough to buy drip irrigation piping for over 15,000 ha.

### **Wastewater Reuse**

Wastewater reuse offers Israel and Jordan a cheap opportunity to expand their water budgets, while reducing the level of dangerous compounds and bacteria released to the environment. Present technology allows two-thirds of domestic wastewater to be treated and used for irrigation or industrial purposes.<sup>102</sup> Potentially, this will allow both



countries to minimize the impact of population growth on the water budget. For example, an increase of 3,000 people might increase water demand by 3000 cu.m, but 2000 cu.m of this water could be recycled. As a result, water utilization would not increase proportionally to population growth.

The technology for wastewater treatment is relatively inexpensive and has been tested extensively at Israel's huge Shavdan project. Located on the outskirts of Tel Aviv, the Shavdan is a technological wonder started in 1970, and expanded to serve an area of 220 square miles with a current population of 1.13 million.<sup>103</sup> Ninety percent of the water received for treatment is domestic, 10 percent industrial. Future additions will increase the treatment capacity of the Shavdan by 100 percent.

Although retreated effluent can not currently be used as drinking water, it is sufficient for irrigated non-edible crops such as cotton. Table 6 shows the efficiency of the process in removing a large percentage of most wastes from the water.<sup>104</sup> Future modifications, according to chief engineer Avi Aharoni, will further increase the quality of the water, and "in a few years, the quality of will meet and perhaps surpass the standards on drinkable water."<sup>105</sup>

Today, Israel recycles approximately 35 percent of its total wastewater, but has made it a declared national policy to increase this amount to 80 percent by the year 2000.<sup>106</sup> Reuse will eventually supply 300 MCM/year, or 20 percent of Israel's utilizable water resources.<sup>107</sup> Fifteen thousand ha are currently irrigated by effluent, and by the year 2000, advances in technology and realization of the 80 percent reclamation goal could increase this figure to well over 35,000 ha.<sup>108</sup> This quantity of water could irrigate Israel's entire citrus crop and is equivalent to 17 percent of Israel's entire irrigated land surface.

Jordan's production of wastewater effluent is approximately 40 MCM, and is expected to rise to 130 MCM by the year 2005.<sup>109</sup> This water will irrigate approximately 12,000 ha in the future, providing over 15 percent of Jordan's total water needs.<sup>110</sup>

### Crop Developments

In the last twenty years, genetic engineering, as well as an enhanced understanding of crop breeding, has led to amazing and applicable breakthroughs which could greatly benefit Israel and Jordan. A range of new crops have been developed which promise everything from drought resistant maize, to salt-water grown tomatoes.

Perhaps the most promising of the new technologies involves the growth of salt tolerant crops in arid regions. Emanuel Epstein, an agricultural scientist studying salt-water crops sees great potential in the desert:

Despite these precarious conditions, the arid and semi-arid regions are among the most promising ones to turn in our quest to increase production of food, fiber, chemicals, and biomass energy. The relatively untouched soils of these regions are often inherently fertile, the growing season is long, temperature and light density are high, and the atmospheric humidity is low, reducing disease problems. All these features favor agricultural productivity if water and salinity problems be solved.<sup>111</sup>

Studies at the Volcani Institute have been continuously evaluating the feasibility of different crops for such environments. By manipulating and cross breeding different strains, salt tolerant tomatoes can be grown from nearly full-strength seawater. The salt water also increases the quality of the fruit, the taste and size of the tomato. Such breakthroughs are not without problems, for as Menachem Zur, the Director of the Israel Genebank for Agricultural Crops says: "Every solution creates two potential problems."<sup>112</sup> Salt tolerant crops' central drawback is the residual buildup of salt in the ground, leading to increased salt concentrations, and the eventual destruction of the soil. Israeli research has shown that different soils respond differently to salt, and may provide answers to the salination problem. The Israeli average rainfall of 500mm is enough to leach out salt from the light soils while heavy soils will require four times this amount.<sup>113</sup> Crops irrigated with salt water should be grown in areas which are better able to cleanse themselves of high salinity.

Despite these problems, Dr. Zur can envision the development and use of crops able to withstand seawater within the next 15 to 30 years.<sup>114</sup> If only 50 percent of all cotton, vegetables, and tree plants (all of which have already displayed salt tolerance) were switched to salt tolerant water in the next 30 years, this would save the equivalent of 24 percent of Israel's current irrigation budget.<sup>115</sup>

There are also a multitude of new crops being developed and marketed which grow naturally in the desert and require less water than traditional cash crops. The Jojoba bush grows naturally in the desert and has already been exploited commercially. Small plantations exist in both



Israel and Jordan. The Jojoba seed contains about 50 percent oil by weight and is very similar to sperm whale oil. It presently has widespread uses in cosmetics as an essential ingredient in many lotions, shampoos, and conditioners. The oil also has applications in lubricants, transmission fluids, anti-foaming agents, and even as a replacement for vegetable oil in food. Hydrogenated, the oil becomes hard and can be used in automobile waxes, waxing fruit, impregnating paper containers, and making candles.<sup>116</sup> Other desert crops which have potential market potential are guayule, a perennial shrub which produces virtually the same rubber as a rubber tree, Buffalo Gourd, a perennial vine which produces a fatty seed equivalent to cotton seed, and Gumweed. The Gumweed plant produces a sticky resin which can replace artificial resins in many chemicals. The worldwide demand for such resins is estimated at 700,000 tons/year, and with the expected depletion of traditional supply in 15 years, the demand for desert grown Gumweed could increase astronomically.<sup>117</sup>

With water becoming more expensive and scarce for agriculture, and world markets for these products expanding, the desert plants offer the perfect mix for Israel and Jordan utilize in the next generation of arid region agriculture.

### **Desalination**

"The only method which is proven technology," says Martin Sherman, "and is reliable enough to plan future consumption, is desalination."<sup>118</sup> Desalination, or the creation of fresh water from brackish or salty water, is technically the most direct way of solving the region's water problems. Throughout the world, there are over 5,700 desalination plants in operation, producing over 11.48 MCM of water per day.<sup>119</sup> This rate of production would equal Jordan's total yearly water budget in approximately 70 days, and Israel's in 156 days. Plants of up to one MCM/day are currently operating reliably and delivering high quality water.<sup>120</sup> Of the major methods of water distillation, reverse osmosis and multistage flash distillation are the most efficient. It utilizes hydraulic pressure to drive seawater through a semi-permeable membrane of organic material. Multistage Flash Distillation is the most prevalently used technology. It utilizes high temperatures to vaporize the water and separate the liquid from the salty brine. Refinements and modifications since the 1960s have made this process fairly efficient.

In the 1960s, desalination was touted as panacea to all water scarcity problems, but as the price of energy rose, it quickly became

economically unfeasible. The minimum cost for desalting brackish water is estimated to be about 30 cents per cu.m, while the cost of desalinating seawater is approximately 81 cents to \$1.47 per cubic meter.<sup>121</sup> The cost of brackish water compares favorably with traditional water development costs in Israel and Jordan, although the price of desalinating seawater is substantially higher. High energy prices, interest, and taxes make the largest contribution to the cost of water, shown on table 1.<sup>122</sup> Table 2 shows the comparative product water costs for the different available techniques of desalinating 20,000 cu.m. Because energy costs are so significant, there has been talk of building a dual-purpose nuclear-powered desalination plant. If such a cogenerational facility was run properly and efficiently, it could produce huge amounts of water and energy to further stimulate the economies of Middle Eastern states. While such a plant would be expensive, upwards of one billion dollars, it would be a positive, rather than a negative, investment in the region's economies, for the "minute you begin to desalinate, it adds water to the budget. The minute you make war, you only conserve, but you don't create more water."<sup>123</sup>

A comprehensive treaty between Syria, Egypt, Israel and Jordan could divide the production and operation costs of a nuclear-powered desalination plant, and determine how the water should be allocated. While such an agreement may sound outlandish in the context of Middle East history, just such a plan may be circulating between Israel and Egypt. When asked about details of a proposal, Israeli officials will only issue the standard "no comment,"<sup>124</sup> neither affirming, nor denying, collaborative plans. What intrigues exist behind the watchful eyes of the public can only be imagined, but it just may be that a nuclear power plant will be built on the Sinai, where tanks and men once roared in life and death.

### Conclusion

The Jewish, Christian, and Islamic religions all believe that water can either symbolize destruction, or healing and cleansing. In the political, social, and economic realms, this is just as true.

Water has the potential to cause conflict, although the reward for such an action would be small, even for the victor. In the Middle East, such conflict would further destabilize the region, perhaps leading to a new wave of Arab fundamentalism, and the destruction of many of the economic gains made since 1967. Any victory would be pyrrhic, for the rewards of aggression would merely postpone the day of reckoning. Growing populations, mired in misery, would continue to inefficiently



utilize the water until demand once again exceeded supply, precipitating another round of violence and retaliation in an increasingly unrewarding conflict. A cycle of debt, economic collapse, and resource warfare would doom this region to misery and economic regression.

The inherent contradictions between war and the resolution of scarcity have been completely ignored by most experts, who tend to glorify conflict as a solution, albeit a violent one. Yet, throughout history, it is very hard to find one historical example where resource scarcity led to conflict, and even harder to find conflict between two resource-poor nations. Resource-poor countries lack the very resources needed to sustain a prolonged invasion and occupation. Additionally, what does a poor country gain by attacking another resource-poor country? History, from fertile Mesopotamia to industrialized Nazi Germany to and oil-rich Iraq, seems to show that resource conflict is usually over too much, not too little.

Cooperation and peace designed to solve the region's water problems are the only ways to ensure future growth and prosperity. Jordan would be able to implement long idle projects, and receive funding to begin new water development schemes. The country would also benefit from advanced Israeli research on agriculture, desalination, and more efficient irrigation methods. For Israel, peace and cooperation would mean permanently securing its water supply, the beginning of economic integration into the region, and shared investments on projects such as desalination. More water would mean more growth for both states, and contribute to the alleviation of social problems such as unemployment, poverty, and population growth, which have all so destabilized the region in the last 40 years. Rising standards of living, combined with this stability, would greatly bolster the chances for concluding a lasting and true peace.

For the cynics who do not believe that such cooperation is possible in a region divided over politics and religion, the Allenby bridge serves as a powerful example of what states will do when the need arises. The bridge, which provides a crossing point between Israel and Jordan, lies over the contentious Jordan River. To facilitate crossing, these two warring countries have formed an agreement which allows individuals to peacefully transverse the bridge. If Israel and Jordan were able to reach an agreement allowing people to cross the water, it is just possible that they could reach an agreement allowing people to peacefully use the water below.

# Charts

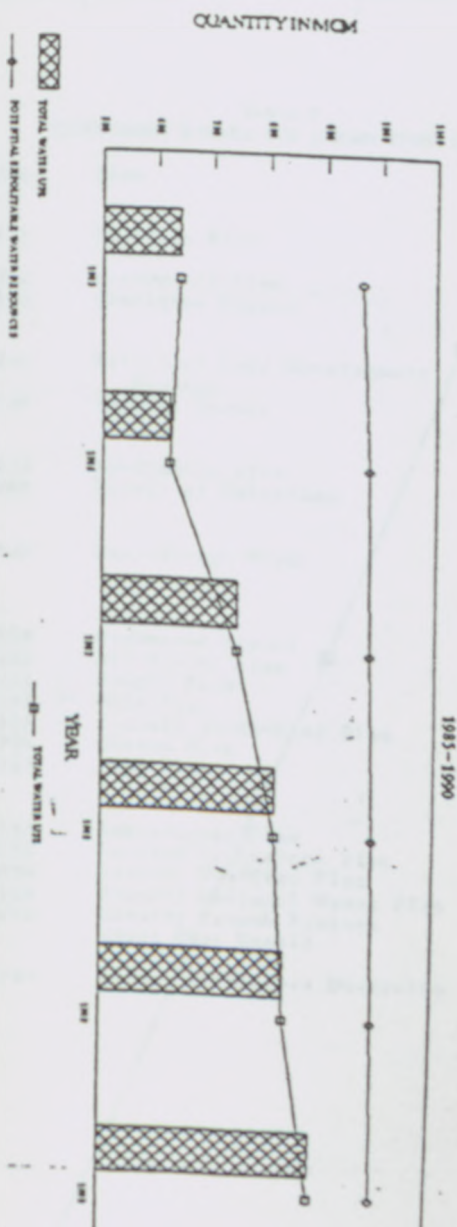


FIGURE - 14 -  
POTENTIAL WATER RESOURCES AND USE



# MUNICIPAL WATER DEMAND PROJECTION

1990 - 2010

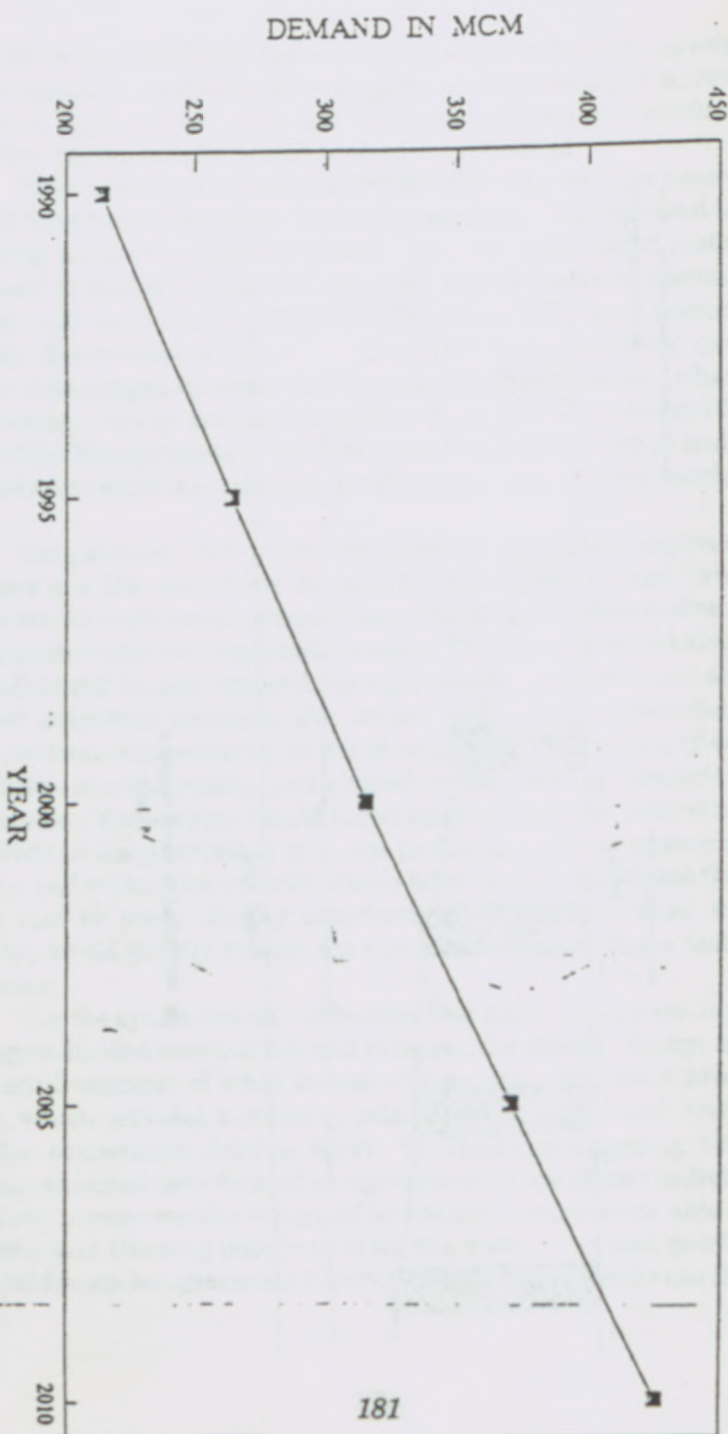


Table 2  
DEVELOPMENT SCHEMES FOR JORDAN RIVER SYSTEM

<u>Year</u>	<u>Plan</u>	<u>Sponsor</u>
1913	Franghis Plan	Ottoman Empire
1922	Mavromatis Plan	Great Britain
1928	Henriques Report	Great Britain
1935	Palestine Land Development Company	World Zionist Organization
1939	Ionides Survey	Transjordan
1944	Lowdermilk Plan	U.S.A.
1946	Survey of Palestine	Anglo-American Committee of Inquiry
1948	Hays-Savage Plan	World Zionist Organization
1950	MacDonald Report	Jordan
1951	All Israel Plan	Israel
1952	Bunger Plan	Jordan/U.S.A.
1953	Main Plan	UNRWA
1953	Israeli Seven-Year Plan	Israel
1954	Cotton Plan	Israel
1954	Arab Plan	Arab League Technical Committee
1955	Baker-Harza Plan	Jordan
1955	Unified (Johnston) Plan	U.S.A.
1956	Israeli Ten-Year Plan	Israel
1956	Israeli National Water Plan	Israel
1957	Greater Yarmuk Project (East Ghor Canal)	Jordan
1964	Jordan Headwaters Diversion	Arab League



Table 4

WATER ALLOCATIONS TO RIPARIANS OF JORDAN RIVER SYSTEM  
(in million cubic meters/year)

Plan/Source	Lebanon	Syria	Jordan	Israel	Total
Main Plan	nil	45	774	394	1213
Arab Plan	35	132	498	182	1047
Cotton Plan	450.7	30	375	1290	2345.7
Unified (Johnston) Plan					
Maabani	35				35
Banias		20			20
Jordan (main stream)		22	100	375*	497*
Yarmuk		90	377	25	492
Side wadis			243		243
Total Unified Plan	35	132	720	400*	1287*

Table 3  
WATER-RELATED CRASEFIRE VIOLATIONS IN JORDAN RIVER SYSTEM FROM 1951 TO 1947

Date	Incident	Immediate Issue	Underlying Issue	Resolution
Spring 1951	Shooting in DMC, both sides invade, Israeli expels Arab villagers from DMC, Israeli air force bombs al-Hammah	Arab resistance to Israeli land seizure, expulsion from DMC	Mish drainage in DMC	Security Council orders return of Arabs, but villages had been razed
9/5/53	Shooting in DMC	Water diversion by Israel in DMC	Sovereignty over DMC	UN orders work halt, US threatens to end aid, Israel moves to take out of DMC
12/12/55	Israelis hit Arab villages NE of L. Tiberias, kill 30 (followed by two days firefights on lake)	Fishing rights	Israeli saboteurs captured (1954) inside Syria	Security Council condemns Israel, Syria says no to Johnston Plan, prisoners returned two months later
1/11/62	Israel destroys Lower Tiberias in DMC	Israeli drainage ditch in Arab village	Use of land	Syria complains to DMC, Israel boycotts

Date	Incident	Immediate Issue	Underlying Issue	Resolution
11/13/64	Patrols, exchange of fire, bombing of Tell el-Qadi (source of Dan R.)	Road building by Israel in disputed territory	Sovereignty over source of Dan R.	Both parties complain to Security Council, Soviets veto
1/1/65	Fatah hits pump station (first in series of attacks on Israel)	Israeli existence	Palestinian self-determination	None
Spring 1965	Patrols, firing on Israeli-Syria border	Road building by Syria in Golan Heights	Arab water diversion	None
7/14/66	Israeli aircraft bombs Syrian construction vehicles, air battle at Banias	Alleged Syrian provocation	Arab water diversion	Security Council discusses, takes no action
8/15/66	Exchange of fire on Lake Tiberias	Patrolling, fishing	Land use in DMC	Syrian note to Security Council
4/2/67	Firefight in DMC	Arab water diversion	Arab water diversion	None
4/7/67	Israeli aircraft bombs Golan, seen over Damascus	Arab water diversion	Arab water diversion	DMC recommended, no action



Table 4.

Area under cultivation in the West Bank  
in selected years: 1956-1981  
 (in thousands of dunums;  
 1 dunum = 1,000 square metres)

Cultivated land	1966	1968	1973	1974	1975	1976	1980	1981
Irrigated	* 100	57	82	81	83	89	92	98
Rain-fed	<u>1,980</u>	<u>1,985</u>	<u>1,941</u>	<u>1,939</u>	<u>1,878</u>	<u>1,931</u>	<u>1,875</u>	<u>1,909</u>
Total	2,080	2,045	2,023	2,020	1,961	2,020	1,951	2,007

Source: Mohammed K. Shalio, "Israeli policy towards economic development in the West Bank and Gaza", in *The Palestinian Economy*, George Abed (ed.), Routledge, London, 1985, as shown in Mr. Hurrari, "Whose hand on the tiller", p. 26.

TABLE 3-2: INCREASE IN 700 HA BANANA AREA UNDER  
DRIP IRRIGATION IN THE JORDAN VALLEY, 1972-1981

Year	% of area under drip irrigation	Annual water applications cu.m/ha	Yields tons/ha/year	Water Consump- tion l/kg yield
1972	0	50,000	30.5	1,640
1973	8.3	47,000	26.9	1,750
1974	14.1	42,740	24.2	1,770
1975	20.7	45,580	39.1	1,170
1976	35.6	39,000	42.4	920
1977	48.3	40,700	36.1	1,130
1978	61.3	38,300	41.7	920
1979	77.8	37,170	44.2	840
1980	75.8	32,030	40.2	800
1981	80.6	28,540	40.3	800



# IRRIGATION WATER APPLICATION RATES FOR MAJOR CROPS, 1970 AND 1984

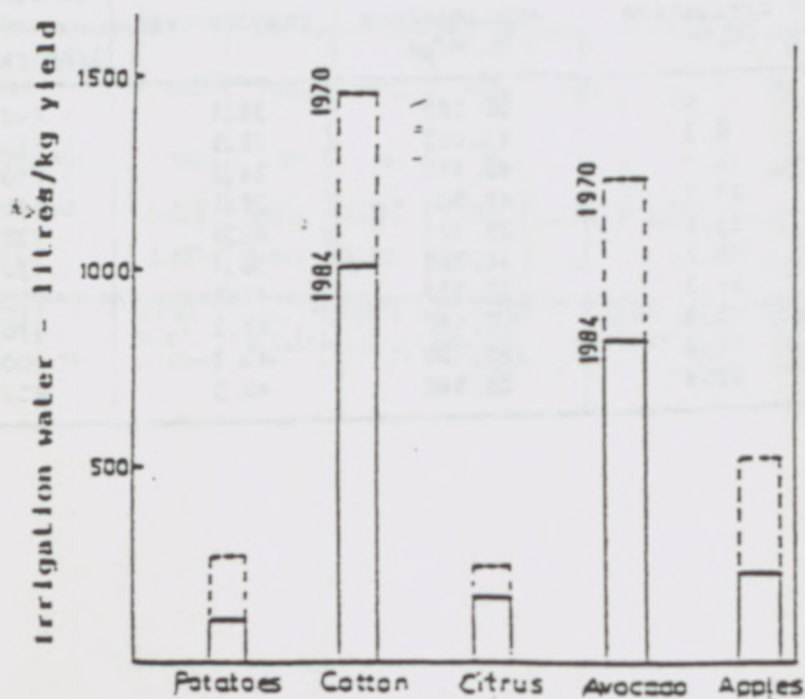


TABLE 6 : SAT PERFORMANCE

Health and Safety Parameter

Parameter	Units	Before SAT (1)	After SAT (OW 017/S) (2)	Percentage Removal %
Suspended solids	mg/l	11.6	0	100
BOD	mg/l	13.5	<0.5	>96
BOD f	mg/l	3.0	<0.5	>84
COD	mg/l	56	12.8	77
COD f	mg/l	39	12.8	67
TOC	mg/l	22.8	3.1	86
DCC	mg/l	17.8	3.1	83
UV 254 Absorbance	cm <sup>-1</sup> x 10 <sup>3</sup>	276	61	78
KMnO <sub>4</sub> Cons., as O <sub>2</sub>	mg/l	12.4	2.1	83
KMnO <sub>4</sub> f Cons., as O <sub>2</sub>	mg/l	10.3	2.1	80
Detergents	mg/l	0.4	0.095	76
Mineral Oils	mg/l	0.5	<0.1	>80
Phenols	Mg/l	11	8.8	27
Ammonia, as N	mg/l	4.2	<0.02	>99
Kjeldhal nitrogen	mg/l	9.5	0.5	95
Kjeldhal nitrogen f	mg/l	8.4	0.5	94
Nitrate, as N	mg/l	1.06	10.30	
Nitrite, as N	mg/l	0.74	0.012	98
Total N	mg/l	11.3	10.8	4
Filtered N	mg/l	10.2	10.8	
Phosphorus	mg/l	4.2	0.027	99
Alkalinity, as CaCO <sub>3</sub>	mg/l	287	262	
pH	-	7.9	7.88	

1. Yearly average - 1981.

2. November 1988.



TABLE 7 : SAT PERFORMANCE

## Bacteriological and Virological Quality

Parameter	Before SAT (1)	After SAT (OW 017/S) (2)
Bacteria, concentration 3)		
Total bacteria	110,000	420
Coliforms	>1,500,000	<2.2
E. Coli	690,000	<2.2
Streptococcus Faecalis	23,000	<2.2 (4)

1) Yearly average - 1988.

2) November 1988.

3) Confirmed results retained by the multiple tube technique in MPN/100 ml (except total bacteria in ND./1 ml)

4) Observation well 09/s

Table 1  
Comparative Investment Unit Costs  
for 20,000 M<sup>3</sup>PD Desalting Plant

Type of Plant	\$/m <sup>3</sup> Installed	\$/GPD Installed
1. Seawater feed		
MSF (economy ratio = 12)	1,980	7.50
Vapor compression	1,240	4.70
RO (two-stage)	990	3.75
Multi-effect evaporation		
horizontal tube (82 °C)	1,510	5.70
horizontal tube-low temperature	1,360	5.15
2. Brackish water feed		
Reverse osmosis	225	2.85
Electrodialysis Reversal 2,000 mg/l	365	1.45
Electrodialysis Reversal 3,500 mg/l	517	1.96

Source: Bechtel National, Inc., Internal Studies

Table 2  
Comparative Product Water Costs  
for 20,000 M<sup>3</sup>PD Desalting Plant

Type of Plant	\$/m <sup>3</sup>
1. Seawater Feed	
Single-purpose plant	
MSF (economy ratio = 12)	1.47
Vapor compression	1.13
Reverse osmosis (two-stage)	1.29
Dual-purpose	
MSF (economy ratio = 12)	1.47
Multi-effect evaporation	
horizontal tube (82 °C)	0.96
horizontal tube-low temperature	0.81
2. Brackish water feed	
Reverse osmosis	0.32
Electrodialysis Reversal 2,000 mg/l	0.30
Electrodialysis Reversal 3,500 mg/l	0.40

Source: Bechtel National, Inc., Internal Studies

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## End Notes

- <sup>1</sup>"Water Conflict in the Middle East?" *The Economist*, Sep., 1987, p. 23.
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- <sup>4</sup>Fetter, C.W. *Applied Hydrology* (New York: MacMillan Publishing Company, 1988)
- <sup>5</sup>The Hashemite Kingdom of Jordan Ministry of Water and Irrigation, Water Authority of Jordan, *Water Crisis in Jordan*, November 1991, p. 21.
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- <sup>8</sup>*Ibid.*, p. 15
- <sup>9</sup>The Economist Intelligence Unit, "Jordan Country Study," 1992, p. 3. GDP given as 2,789 JDmn and converted to dollars using an exchange rate average of JD0.677 per dollar.
- <sup>10</sup>The Hashemite Kingdom of Jordan Ministry of Water and Irrigation, Water Authority of Jordan, *Water Crisis in Jordan*, p.14, figure 6.
- <sup>11</sup>Taleb, p. 35, figure 17.
- <sup>12</sup>The Economist Intelligence Unit, Jordan Country Study, p.3.
- <sup>13</sup>Taleb, p. 36.
- <sup>14</sup>*ibid.*
- <sup>15</sup>Excerpted from an interview conducted with Dr. Tatafta on December 28, 1991, in Amman, Jordan.
- <sup>16</sup>Taleb, p. 13.
- <sup>17</sup>Excerpted from an interview conducted with Ms. Sasha on December 27, 1991.
- <sup>18</sup>NPR, "All Things Considered," December 2, 1991, 8:00 p.m. EDT, p. 17.
- <sup>19</sup>*ibid.*
- <sup>20</sup>The Hashemite Kingdom of Jordan Ministry of Water and Irrigation, Water Authority of Jordan, *Water Crisis in Jordan*, p. 20.
- <sup>21</sup>*ibid.*
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- <sup>24</sup>Taleb, p. 35.

- <sup>25</sup>The Hashemite Kingdom of Jordan Ministry of Water and Irrigation, Water Authority of Jordan, *Water Crisis in Jordan*, p. 24.
- <sup>26</sup>*ibid.*, p.24.
- <sup>27</sup>*ibid.*, p. 27, figure 8.
- <sup>28</sup>NPR, "All Things Considered," December 2, 1991, 8:00 p.m. EDT.
- <sup>29</sup>*ibid.*, p. 18.
- <sup>30</sup>*ibid.*, p. 19. Mr. Martin Sherman, interviewed by author, Tape recording, Tel Aviv, Israel,
- <sup>31</sup>Mr. Martin Sherman, interviewed by author, Tape recording, Tel Aviv, Israel.
- <sup>32</sup>Tahal Consulting Engineers LTD, Israel Water Sector Review, p.2-1.e was calculated by dividing. This number was then multiplied 1,000 to create the proper ratio.
- <sup>33</sup>Miriam Lowi, West Bank Water Resources and the Resolution of Conflict in the Middle East, p.17, Environmental Change and Acute Conflict (Toronto: American Academy of Arts and Sciences/ University of Toronto, June 15-17, 1991)
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- <sup>35</sup>*ibid.* p.3-1.
- <sup>36</sup>*ibid.*, pg.3-2.
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- <sup>40</sup>Nati Barach, interview by John Nielson, in "All Things Considered," (Washington: National Public Radio, December 3,1991) p.18.
- <sup>41</sup>Miriam Lowi, West Bank Water Resources and the Resolution of Conflict in the Middle East, p. 16.
- <sup>42</sup>Nati Barach, interview by John Nielson, in "All Things Considered," (Washington: National Public Radio, December 3,1991) pg. 18.
- <sup>43</sup>Rutika Kaplan, interview by John Nielson, in "All Things Considered," (Washington: National Public Radio, December 3,1991)p. 20.
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- <sup>45</sup>Tahal Consulting Engineers LTD, Israel Water Sector Review,p.10-6.
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- <sup>51</sup>ibid., p.16.
- <sup>52</sup>Fetter, *Applied Hydrogeology*, pp. 75-85.
- <sup>53</sup>Tahal Consulting Engineers LTD, Israel Water Sector Review, p. 2-3.
- <sup>54</sup>ibid. p. 2-3.
- <sup>55</sup>ibid. p. 2-3.
- <sup>56</sup>Naff, Matson, pp. 20-21.
- <sup>57</sup>ibid..p.21.
- <sup>58</sup>ibid.
- <sup>59</sup>ibid.
- <sup>60</sup>ibid.,p.31.
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- <sup>62</sup>Walter Lacquer, *The Road to War: 1967*(London:The Camelot Press Ltd.,1969) p.50.
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- <sup>64</sup>Ibid.
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- <sup>67</sup>ibid., p.53.
- <sup>68</sup>Dr. Tatafta, interviewed by author, Tape recording, Amman, Jordan, January 27, 1991.
- <sup>69</sup>Mr. Martin Sherman, interviewed by author, Tape recording, Tel Aviv, Israel
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- <sup>101</sup>Tahal Consulting Engineers LTD, *Israel Water Sector Review*, p.3-5.
- <sup>102</sup>ibid., p.2-6.
- <sup>103</sup>Tahal Consulting Engineers LTD, Mekorot Water Company LTD., *Soreq Activated Sludge Wastewater Treatment*, p. 1.
- <sup>104</sup>ibid., p. 26.
- <sup>105</sup>Avi Aroni, Chief Engineer, Interview conducted by author, Tel Aviv, Israel, January 6, 1992.



<sup>106</sup>Hillel Shuval, "The Development of Water Reuse in Israel", *Ambio*, Vol 16.1987.

<sup>107</sup>*ibid.* p.194.

<sup>108</sup>Tahal Consulting Engineers LTD, Israel Water Sector Review, p.4-9.

<sup>109</sup>The Hashemite Kingdom of Jordan Ministry of Water and Irrigation, Water Authority of Jordan, *Water Crisis in Jordan*, p.36.

<sup>110</sup>*ibid.*, p. 36.

<sup>111</sup>Wiley Hinman, "New Crops for Arid Lands," *Science*, Vol. 225, p. 1445.

<sup>112</sup>Dr. Menachem Zur, Director of the Israel Genebank for Agricultural Crops, Interview conducted by author, Bet Degan, Israel, January 5, 1992.

<sup>113</sup>*ibid.*

<sup>114</sup>*ibid.*

<sup>115</sup>This calculation was made by adding up the water used to irrigate these crops, and assuming that a 50% shift to salt water is feasible.

<sup>116</sup>Wiley Hinman, "New Crops for Arid Lands," pg. 1445-1446.

<sup>117</sup>*ibid.*, pg.1445-1447.

<sup>118</sup>Mr. Martin Sherman, interviewed by author, Tape recording, Tel Aviv, Israel.

<sup>119</sup>Leon Awerbuch, *Desalination Technology: An Overview*(Cairo: The African Water Summit on Policy and Technology, 1990) p.45.

<sup>120</sup>*ibid.*, p.45.

<sup>121</sup>*ibid.* p.46.

<sup>122</sup>Joyce Starr, Daniel Stoll, *The Politics of Scarcity*(Boulder: Westview Press, 1988).

<sup>123</sup>Ms. Sima Hezeroni, interviewed by author, Tape Recording, Tel Aviv, Israel.

<sup>124</sup>*ibid.*

# Women and AIDS: A Cultural, Political, and Economic View

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by Elana Vatsky

AIDS, or Acquired Immunodeficiency Syndrome, has become a global epidemic, currently affecting over 160 countries throughout the world, of which 47 alone are on the African continent (Schoepf, AIDS Action Research, p. 1). Scientists have determined the biological factors leading to the spread of AIDS: transmission of the virus through blood, semen, and other bodily fluids. Yet, both the origin of the disease and its cure remain a scientific and social enigma.

A comprehensive prevention program combining AIDS education with proper health care and treatment is needed in order to slow, if not to completely halt, the spread of AIDS. However, the pattern of the AIDS spread differs, depending on the global region being examined.

Currently, the World Health Organization's Global Program on AIDS has delineated three major paths of AIDS transmission. Pattern I refers to those areas where most AIDS cases occur in homosexual and bisexual males and intravenous drug users -- thus, those infected are primarily males. The Western industrialized countries, including the US and most European countries, as well as some Latin American countries, follow this pattern. Pattern II describes those cases in which the infected are predominately heterosexual -- most sub-Saharan African countries display this pattern. Pattern III describes those countries where AIDS has just been introduced, where most cases originated outside the country, and where a strong hetero- or homosexual pattern has not yet been established -- the majority of Asian, North African, and Oceanic countries are included in this pattern. (Torrey, p.3)

The diversity of patterns suggests that sexual practice plays a

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significant role in the spread of AIDS. However, these are not the sole reasons for the spread. In this paper, I examine the epidemiology of AIDS in Central Africa, with a focus on Zaire. In particular, I examine lifestyle and cultural beliefs, coupled with how the political and economic situations of the country have affected the relative susceptibility of men and women to the disease. Statistical studies have shown that women comprise a higher percentage of those infected.

The conclusion I reach has two primary parts. First, the economic crisis which began in the mid-1970s, combined with pre-existing cultural structures, have left women in a socially and economically vulnerable position, where their survival strategies have made them most susceptible to infection. Second, when developing a framework on which to base the study of the spread of AIDS or a prevention program, the cultural practices, political, and economic structures must be taken into account, as these lend background and credibility to scientific explanations. Although this paper focuses on Zaire, the conclusions reached can be applied to most of Central Africa, as those countries affected by AIDS in the region have cultural, political, and economic structures similar to those of Zaire.

I divided my paper into four major sections. The first section discusses the background research and scientific statistics regarding the spread of AIDS. This section includes comparative and long-term studies on the spread of AIDS; however, I also hope to establish why the sole use of these studies as an explanation for the spread, and as the basis of prevention programs, is insufficient. The second section discusses the cultural practices and beliefs within Zairian society and how these have been both factors in the spread and obstacles to the prevention of AIDS. The third section examines the political and economic situation in Zaire, both currently and historically, and how these factors have also affected the spread of AIDS. Finally, I examine how popular reactions to AIDS as an epidemic and to the prevention of the epidemic reflect cultural, political, and economic situations.

### **Statistical Information**

Epidemiological data is important because it tells us what sectors of the population and what regions of the country are affected by disease. However, the sole use of epidemiological statistics to determine a prevention program is dangerous, as false conclusions can easily be drawn without an understanding of the background of the country.

The official confirmation of AIDS by the Zairian government came in October 1983 with the establishment of Project SIDA (the French acronym for AIDS), a national AIDS research program (Mann, p. 707). However, the cases noted in this year were not the first to be documented in the region. Serum samples collected as early as 1959 exhibited strains of the virus; since few large sera collections from Africa existed prior to and during that time, scientists cannot ascertain whether or not other areas would have shown seropositivity as early or earlier (Biggar, p. 307). That strains of the virus existed as early as 1959 but did not spread is evidence that something must have triggered the spread of the disease. This trigger couldn't have been sexual practices or then the disease would have reached epidemic proportions much earlier than it actually did.

Determining when AIDS first began to spread is difficult because, as Robert J. Biggar of the National Cancer Institute wrote, "clinical record-keeping is of low priority and even where case-records exist, the data are not supported by sufficient laboratory evidence" (Biggar, p. 80). His conversations with clinicians who practiced tropical medicine in the 1960s and 1970s produce further evidence that despite the gaps in data and incomplete clinical techniques, it is doubtful that AIDS was simply a missed or overlooked disease in the past decades. Biggar reports of his conversations with those clinicians:

They have stated strongly that if AIDS existed as anything other than rare, sporadic cases, it would have been recognized as a clinical entity. The clinical appearance of AIDS patients now being diagnosed in Africa is striking and they find it hard to imagine that a condition as florid as oral candidiasis (common in African AIDS patients) would have been consistently overlooked or that its significance with respect to immunosuppression would have been misinterpreted. (Ibid.)

This case is just one of many cases where evidence uncovered during fieldwork, through interviews, or scientific laboratory tests would exculpate sexual practices as the primary trigger of the AIDS spread. Yet, many scientists, particularly within the early years of AIDS epidemiological research (1983-87) were quick to target the spread to African sexual promiscuity.

For example, an article published in *The Lancet*, a British medical journal, targets heterosexual promiscuity and lack of hygiene as primary



contributors to pathogenesis. As the authors state:

Although the subjects in our study deny overtly promiscuous behavior, their sexual behavior is, by Western standards, promiscuous. The fact that the disease was first recognized in an exceptionally squalid village suggests that lack of hygiene may be important in its pathogenesis—for example, stagnant water collection may be a breeding ground for mosquitoes and overcrowding increases the risk of transmission by insect vectors. (Serwadda, p. 851)

The epidemiological statistics this study produced are important in order to understand which aspects of the population are affected. However, the attempt by the authors to make cultural judgements based on these statistics is dangerous, particularly when these judgements are widely circulated. For example, similar conceptions regarding AIDS in Zaire meant that early prevention programs focused on the education of sex workers rather than on the population as a whole. As Dr. Brooke Schoepf wrote:

Focus on prostitution as the cause of AIDS is misleading. Certainly commercial sex workers are at very high risk. However, the notion that AIDS can be contained among high risk cohorts is illusory. It neglects the socioeconomic conditions that oblige many women to rely on sexual exchange for subsistence. It avoids the fact that due to widespread infection, many spouses and other regular partners are at risk. It neglects the social, psychological, economic, and political motives for men's multipartnerism. Targeting prostitutes for condom information, without providing new STD treatment facilities on cost-benefit grounds is insufficient to limit HIV spread among families and adolescents. (Schoepf, *Ethical, Methodological*, p. 255).

Despite the fact that assumptions based solely on scientific studies are incomplete, an examination of the epidemiological statistics is important as it will show which regional areas and which sectors of the population are being affected by AIDS.

Assessing the percentages of Zairian men and women who are affected by AIDS has been difficult, as knowing how many are affected out

of 35 million people is impossible (EIU, 1992-3). Also, recent studies have been impeded by social unrest. Since 1990, riots have destroyed research facilities and precluded completion of research projects; likewise, economic crisis and government policies have limited the money spent per person on health care to approximately one dollar. However, the 1992-93 Economic Intelligence Unit Country Profile of Zaire estimates that of 35 million people, seven to eight percent of the population is infected with the AIDS virus (EIU, p. 11). Studies conducted in 1986 at Mama Yemo Hospital, the largest public hospital in Kinshasa (the Zairian capital) which serves the poor and working classes of Kinshasa, reported that of the 6,000 women delivering, 5.7 percent were seropositive. In the private Ngaliema Hospital which serves the upper-middle class, statistics from 1986 reported that 30 percent of the 54 delivering mothers had ARC symptoms (AIDS-Related Complex) and 1.5 percent had full-blown AIDS. Also, in 1986, 33 percent of 174 in-patients at Mama Yemo Hospital were seropositive, of these patients, 42 percent were women while 25 percent were men (Schoepf, *AIDS and Society*, p. 224). A ten-year study (1976-1986) of rural Zaire revealed that of the 66 male subjects tested, 73.3 percent were seropositive; of the 24 female subjects, 26.7 percent were seropositive (Nzilambi, p. 277).

Based on scientific studies, we know that AIDS is spreading fastest in the urban areas, while remaining static in the rural ones. We also know that Zaire follows the Pattern II, or the heterosexual spread pattern. However, in order to understand why such practices exist, we must first understand the cultural mentalities and traditions which legitimize these practices.

## Culture

Cultural politics, the context in which a biologically and socially-produced epidemic is endowed with meaning by actors variously situated (Schoepf, *Political Economy, Sex*, p. 9), and the inherently linked cultural logic, the sets of underlying, unspoken premises that determine a group's beliefs and practices (ibid) are instrumental in understanding both the practices which contribute to the spread of AIDS and society's reaction to the disease. In particular, an examination of gender-related structures is important to understand why women are being affected by AIDS.

The country of Zaire is comprised of an estimated 250 ethnic groups, with varying gender-related practices and beliefs. For example, some groups are matrilineal while others continue generational lines



been designated to women since pre-colonial times. However, before Western infiltration, these roles were complemented by male roles in the village thus creating a balance of power and a working economic system. The balance of power and the accompanying conception of women as dependent and worthless without children was more a colonial construction than an indigenous one. As Dr. Brooke Schoepf wrote:

Gender role ideology inherited from the colonial period emphasizes female dependency and male responsibility. In many pre-colonial societies, women held important political offices, including chiefships. In others, women's membership in corporate kingroups protected their access to resources, while collective retaliation sanctioned men who abused their power. Colonial institutions, the "trinity" of state, church and employer, altered the balance of forces and gave elder men new power over women and youth which, in many areas, was far in excess of their former status" (Schoepf, AIDS, Gender, p. 3).

### **Politics and Economy**

Culture has created the conventions governing treatment and attitudes toward women, as well as the reactions and conceptions of AIDS. However, it alone has not brought AIDS to epidemic proportions, as if it had, AIDS would have become an epidemic much earlier than it actually did. Economic crisis and ineffective political policies coupled with society's conceptions of women have created an atmosphere in which women are marginalized economically and must resort sex for survival; at the same time, government inattentiveness to their needs leaves them unable to ameliorate their position in society. This section will examine how Zairian economics and politics, including those policies introduced and existing since colonial times, have led to the spread of AIDS and have marginalized women.

The ideologies of female dependency and male responsibility were introduced in part because of the colonists' missionary mentality that the conversion of this "primitive" group to "civilized," Western ways was their benevolent duty. However, a second and more truthful reason for the introduction of these ideologies was the Belgian's drive for economic profits.

During the early colonial period, King Leopold II of Belgium's

primary goal in the Congo was quick and immense profits from mining and rubber harvesting. However, the forced labor and violence used to achieve his goal disrupted indigenous living patterns. These disruptions in traditional lifestyle led to the introduction and spread of diseases that decimated the population. The colonists sought to reverse the decline in profits brought on by the loss of labor power by instituting policies to increase birth rates (Schoepf, *Ethical, Methodological*, p. 750). Several policies were instituted at this time, including taxation and crop planting obligations for each new wife and the placing of women under the legal control of their husbands. As colonial policies to increase birth rates became more and more established, however, women became increasingly confined to the home and therefore more dependent on male-provided supplements in order to survive. Also, men who sought to get richer acquired more wives and used the planting obligations to have their wives shoulder the burden of farm work. Polygamy thus became socially acceptable, as did the shift in the balance of power that reduced women's status to that of farm workers and made them dependent on men for provisions. Social acceptance of women's dependency on men meant that when the men didn't provide, women had to resort to informal sector work, most often commercial sex work. Likewise, those women who wanted to avoid being placed under their husband's control fled to the towns in search of employment; there, wage labor opportunities being scarce, they resorted to informal economic activities, including petty trade and sex work, in order to survive (Schoepf, *Ethical, Methodological*, p. 750). While these policies were instituted with economic gain in mind, their effects were felt in the cultural arena which then elicited changes in attitudes and practices, many of which adversely affected women and have carried through to post-colonial times.

When the Belgians colonized Zaire (then the Congo) from 1880 to 1960, Zaire was mainly used as a supplier of raw materials, the primary exports being rubber and minerals such as copper and cobalt. Belgium's goal was economic profit -- thus, the colonists showed little regard for traditional Zairian practices or for the welfare of the indigenous people.

The profits from mineral extraction went to Belgium rather than for indigenous use. However, there was no compensation for the labor and supplies men traditionally brought to the village, nor was there any attempt to redevelop the loss of local revenues which occurred with the shift to an export-based economy.

Women in the villages were still required to fill the traditional roles of care-givers and food suppliers, but they had to do so without the



supplements men would provide. Those who could not provide for themselves and those who did not want the extra burden of filling the compulsory crop cultivation quotas fled to the towns and cities in the hope of finding independent employment. However, while discrimination was not overt, women were still excluded from wage labor because it either required physical strength or because it was in an arena where women, particularly indigenous women, were not yet welcome. The ensuing resort to sex work is explained by Dr. Brooke Schoepf when she wrote, "Lack of other opportunity and the earnings to be had, rather than cultural proclivities or individual desires, propelled many into this occupation" (Schoepf, *Sex, Gender*, p. 359).

Indigenous male labor was in high demand in the Belgian-developed mines. The migration of men to mining camps meant more women were needed to supply sexual services and domestic duties. Former slaves, infertile and divorced women sufficed (*Sex, Gender, and Society* p. 359). Labor migration also meant that men would be exposed to new partners and new diseases which they then brought back to their villages.

Prior to the country's independence, Belgium had little interest in developing an internal economic policy for the Congo, which it left basically up to international corporations interested in financial gain (EIU, p. 12). Following decolonization in 1960, Zaire was left in a state of economic upheaval. Belgium pulled out without first training the Zairian people in administration for a stable transition of power, at which point nepotism and family connections rather than experience became employment criteria. The indigenous economic infrastructure had also been substantially weakened due to its import/export relationship with Belgium during the colonial period. The Zairian economy remained export-based following decolonization with two major repercussions: first, the reliance on foreign exchange for finished products meant the internal Zairian economy was extremely vulnerable to fluctuations in world market prices and competition; second, an export-based society with no system of internal development created a dichotomous society with gross disparities in wealth and concentration of resources in the hands of the local ruling classes (Gran, pp. 2-3).

The international oil crisis in 1973 led to a decline in worldwide demand for cobalt and copper which in turn led to an internal crisis. Unemployment skyrocketed and government funds for public investment plummeted. For example, two to three percent of government funds were invested in agriculture in 1974 (Gran, p. 11). Investment funds came from

private domestic and foreign corporations, and from international donor organizations such as the World Bank. However, private corporations were primarily interested in mining and processing for profit. Likewise, donor organizations, such as the World Bank, focused on crop development and mining for exports -- endeavors that would bring temporary stability and, more importantly, debt repayment. However, in neither case has there been investment in rural subsistence agriculture, health, and education -- investments that would have more long-term economic potential than export systems employing only a small sector of the population (Gran, p. 10).

Power within the government and the industrial sector was distributed on the basis of nepotism and family favors rather than on experience with administration (EIU, p. 12). The government system became a bureaucratic system with its members looking to maintain the status quo of personal gain. As Robert Bates wrote: "An important basis of Mobutu's power is his capacity to make appointments to state-regulated industries. Efforts at economic reform repeatedly founder on his determination to manipulate these industries in order to generate privileges for himself and his followers, and to reward those whose support he needs to remain in power" (Bates, p. 105).

In 1971, a policy of economic nationalism was instituted at which point foreign corporations were either nationalized or handed over to private Zairian control (i.e. those in the Zairian elite who were interested in personal profit and not in the welfare of the entire country) (EIU, p. 12). In the late 1970s, the government developed a new strategy in which it planned to transform an agrarian-based economy into an industrial one based on centralization and public investment (EIU, p. 12).

The investment measures were financed by loans and some Western commercial banks. However, this industrialization program was unsuccessful, primarily due to mismanagement and corruption on the government and administrative levels (EIU, p. 12). Zaire thus incurred a huge foreign debt which it could pay only with the aid of Western-developed structural adjustment programs (SAPs). At the same time, the internal economy fell into disarray, with the increasing impoverishment of those not part of the bureaucratic elite.

Within the formal sector of the economy, only 20 to 40 percent of the men and four percent of the women were employed in the cities (Schoepf, *Ethical, Methodological*, p.360). Rural men had the opportunities to gain revenue through truck-route trade and through heavy-labor employment. However, rural women were the ones skilled in agrarian



labor; thus, the primary burden of crops for debt reimbursement fell on their shoulders, thereby exploiting both their time and labor (Schoepf, Sex, Gender, p. 360). Poor and rural families alike used their daughters' attractiveness to gain income. Although this practice is decades old, with AIDS threatening sex workers, a survival strategy has now become a death strategy (Ibid., p. 361). At the same time, families knew that sons have a better chance of employment and thus gave them priority in health care and education over women (Schoepf, AIDS, Gender, p. 3).

Those who couldn't find subsistence employment in the formal sector resorted to work in the informal sector, an indigenous system of trade and barter existing since pre-colonial times (MacGaffey). However, "with everybody selling something," there is little for anyone to gain (Schoepf, Sex, Gender, p. 360). As discussed in the section on culture, in the informal, socially-based economy, the most lucrative income for women is commercial sex work. Single, divorced, and widowed women, as well as those whose regular partners cannot supply adequate support, are forced into sexual relations for survival (Ibid., p. 361). Women are more physically vulnerable to disease as seminal secretions contain a higher concentration of blood than vaginal ones; a man's refusal to wear a condom highly increases a woman's susceptibility.

Government policies that have marginalized women stem from the class dichotomy: those in the government wish to maintain the status quo for personal aggrandizement while disregarding the rest of the population. Only a single dollar per person is allocated to health care, and little attention is paid to women's special needs. At the same time, layoffs due to the economic crisis have targeted women, because those jobs perceived as redundant, include nursing and teaching, areas where women are concentrated. Thus, once again women are left without a feasible means of support.

However, the political and economic crises came to a hilt in 1990, when citizens' frustrations sparked riots in the major cities. Much foreign aid has been pulled out until stability was regained, and many research facilities have been destroyed in the riots. Thus, further health care and research into the spread of AIDS in Zaire has been temporarily halted. While the government has maintained that the number of AIDS-infected citizens is stabilizing, those who have worked directly with the matter say that more and more people every day are being diagnosed with or are dying from AIDS (Schoepf interview: Nov. 1992).

## Popular Reactions

When AIDS was first identified, international education and prevention campaigns were met with denial. Many Zairians believed that AIDS was a lie developed by the Europeans to scare the Africans. The French acronym for AIDS, SIDA, was converted into *Syndrome Imaginaire pour Decourager les Amoureux* — an imaginary syndrome thought up by the Europeans out of jealousy of African lovers (Schoepf, *Ethical, Methodological*, p. 753). SIDA has also come to mean *Salaires Insuffisants pendant Des Annees*, demonstrating frustration with the existing economic crisis.

This denial carried over into the Zairian's refusal to wear condoms, as they were unnatural and a hindrance to virility; their use was likened to "taking a shower with a raincoat on" or "eating candy with the wrapper on" (Schoepf interview: Nov. 1992). Men also refused to use condoms on the grounds that the reduced risk of pregnancy would make women more sexually "adventurous," less afraid to have affairs. They also take a woman's suggestion of condom use as an accusation of infidelity. As one woman said in an interview:

Condom use will have to be initiated by men. Husbands give the orders and wives obey. If a wife were to suggest — and I emphasize the word suggest because a married woman cannot insist in such matters! — her husband would react unfavorably. He would think: 'She is accusing me of infidelity!' (Schoepf, *AIDS, Gender*, p. 12).

Girls on the other hand who were introduced to condoms feared association with prostitution if they suggested using one (Ibid, p.16). Likewise, its association with other STDs leads to the conception that AIDS too can be cured merely by an antibiotic. Finally, part of the conception of denial stems from the influence of the religion. Currently the Catholic Church has taken the stance that although extra-marital relations are sinful, it is better to protect oneself and one's partner's life. However, other churches and sects of Christianity in the region maintained that AIDS is a "divine punishment" and only sinners are susceptible (Ibid, p. 17).

## Conclusion

The sense of women as dependents places them in a vulnerable position when requesting the use of condoms, as they must choose



between abiding by their husband's or their partner's decision or being cast out. Those women who are forced by economic conditions to get money through sex work cannot, unless they are very well-off "vedettes," take the risk of offending a client by suggesting use of the condom. However, economic crisis and lack of political attention has made sex necessary for survival. But in a society where women are expected to conform to men's orders and where condom use carries the stigma of infidelity, prostitution, and contraception, women are at a disadvantage when trying to protect themselves from AIDS — particularly when women are physically more susceptible to AIDS than men.

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# International Neuroses: A Psychodynamic Interpretation of the Arab-Israeli Conflict

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by Naif Al-Mutawa and Eric Schliesser

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**T**he Arab-Israeli conflict is one that has confused many -- especially in light of the recent stepping-up of violence during the peace talks. It seems that the hope of peace has been internalized as a threat by these populations. In this mess, reasonable expectations become interpreted as unreasonable impositions. An example of this is some Israelis taking offense that they are to stop settling immigrants in the occupied territories. The Palestinians, in turn, want peace and want their land back; however, when a terrorist group like Hamas preaches violence and verbalizes irrational thought by wanting to take back the whole of Palestine proper and are deported, the Palestinians boycott the peace talks. Peaceful Palestinian negotiators refuse to go to the next round of the peace talks unless Hamas is allowed back into Palestine, thus promoting violence while preaching peace.

What is going on here? We honestly don't feel that the Palestinians and the Israelis understand what they're doing. However, one thing seems to ring clear as a bell: each group is uncomfortable with the prospect of peace. We do not think that there is an active wish for violence, nor do we think that anyone is to blame. Rather, we feel that it is the force of a combination of history and mass psychology at work. In this piece we will try to prove that the root of adversarial Arab-Jewish relations is embedded in modern times and not as deep and sacred as most fanatics would

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like to believe. In fact, the reason that there is so much strife between the Palestinians and the Israelis has its roots in the Holocaust and in the continued subjugation by external powers.

What exactly do we mean by an "International Neurosis"? According to David Shapiro (*Autonomy and Rigid Character*, 1992), a psychologist whose writings are the inspiration for this piece, in neurosis the personality reacts against itself. It seems that "the neurotic individual has tendencies that his own character can not tolerate and thus reacts against itself with remarkable consequences." True, Shapiro was writing on the individual level -- but what if a whole culture was exposed to trauma, wouldn't it follow that everyone would become neurotic to some degree, doesn't it follow that the way that country conducts itself would be equally neurotic?

At the very thick of it, calling for a peace process and, hence, escalating violence, is about as neurotic as one can get. The response of the Arabs and the Israelis to peace is very reflective of a dysfunctional system. In a system where things are rigid and defined for so long, peace becomes a threat instead of a sanctity. It is our opinion that the Palestinians and the Israelis both are fighting peace because of the unknown that lies out there -- there is a twisted comfort in their relationship, a dysfunctional homeostasis.

The roots of the neurosis in the Israeli population is due to two factors. The first of these factors is the oppression of the Jewish people, coupled with the collective traumatic experience of the Holocaust. According to widely accepted statistics, 12 million people perished in the concentration camps, of which 6 million were Jewish. Why is it that all we hear about is how Jews died in the Holocaust and not about everyone else? To the Jewish people, the Holocaust was a culmination of the pogroms and of other anti-Semitic movements over centuries. Other ethnic groups, like the Poles and the Slavs, had land and support groups to go back to, the Jews had no such luck.

Then, in the middle of this mess, two important occurrences took place. The first of these was the US turning back boatloads of Jews during World War II who ultimately died in the concentration camps, an event US foreign-policy makers are still compensating for. The second was the formation of the state of Israel in 1948, which was followed by the US rushing out to be the first to legitimize it.

Call it foreign policy, call it the result of years of thinking. Whatever you call it, it can not be denied that unconscious feelings and motivations may have contributed to or affected the decisions of policy-

makers. The Israelis need the enemy in the Arabs because they've never had friends and the Palestinians need to be dominated because they have always been part and parcel of another state and or empire.

It seems that the "hypocrisy" of the US, Israel, and the Palestinians has graced the headlines of many newspapers, but few accounts have dug deeper than that. Thus, when the Israelis and the Palestinians preach peace but still want to kill one another, we are presented with a classic neurotic attitude. The same can be applied to a US that preaches peace and equality yet often seems to place Israel above international law.

Shapiro writes that "the discomfoting experience of certain feelings and motivations that are inimical to the neurotic person's attitudes triggers compensating reactions according to those attitudes that diminish or inhibit the discomfoting experience ... an estrangement has developed between how this person thinks he feels on the one hand and how he actually feels and behaves."

The talk of compensation is important to understanding the unconscious motivations of the US, Israel, and the Palestinians. All three engage in actions that hardly benefit them. The almighty superpower called the United States of America cowers in shame and humiliation when an Israeli politician lifts a finger to point towards the West and labels it anti-Semitic. Regardless of its status, the US is not comfortable with it having sent boatloads of Jews to their death. The US is still trying to rid its hands of the blood-spots of the past.

Further, the Jewish people entering Palestine and taking it away from the Palestinians is nostalgic of the Europeans that, not so long ago, took over North America from its native inhabitants, renamed it, and allowed for migration. Thus, by not helping Israel, the US would indeed be rejecting itself and the very principles that it has been founded on. Further, it may well be the US's unconscious wish that it had been there for it in its formative years as it has been for Israel.

The Israelis know that when they entered Palestine they took away a land from its inhabitants, took their houses, their clothing, their belongings. Regardless of religious justification, no man would feel comfortable violating someone else, even out of necessity -- particularly, if a similar incident had happened to him. Further, the declaration of Israeli independence, followed by the immediate rejection and subsequent invasion of Israel by the Arabs, brought to life a "David v. Goliath" archetype that already existed in the collective unconscious of the Jews.

According to Shapiro, the neurotic process may create "an articulation of consciousness that does not represent but in fact distorts actual



feelings, wishes, interests, intentions, the actual state of the subjective experience."

The neurotic person believes that he intends to do what he has no intention of doing. He appears as a hypocrite; hence, the dilemma of the Israeli-American-Palestinian triad of neurosis. We believe that there are no fingers to be pointed unless circumstance can be blamed. Everyone has hardships and what has befallen the Palestinian and the Israeli populations for the past few centuries is unenviable to say the least.

As far as the relationship between the Palestinian population and the Israeli population is concerned, it is the belief of the authors that a sadistic-masochistic relationship may be involved. According to Shapiro, in such relationships, there exists the concept of the degradation or humiliation of one by the other, the imposition of will by one and the surrender of the other.

Shapiro writes, "In the assertive willfulness of sadism or its assertion of power through the degradation of its victim, it is not at all difficult to see modes and aims that may have sources in the impulses of an anal sadistic stage."

The sadism of the Israeli population has its roots embedded both in the Holocaust and in the interruption of the development of the Israelis in the formative years of the state. Thus, Israel is stuck in an attempt to compensate for its maltreatment by maltreating the Palestinians. The aim of Israel becomes the aim of the sadist -- not to make the victim suffer, but to humiliate him and degrade him. The Israelis are consistent with the description of the sadist who "chooses his victims from those who are subordinate to him, the comparatively powerless, those that he can control." Thus, Israel keeps a hold of the occupied territories and refuses to relinquish them in spite of their military superiority to all the Arab states combined. And, against the powerless populations of the occupied territories, the Israeli military flexes its muscles by blowing-up houses, confiscating lands, and settling immigrants -- knowing that it is against international law. Thus, we witness the onslaught of degradation against the Palestinians.

It is our opinion that the Palestinians need to be degraded -- for it is all they know.

Examples of the Palestinians' mass neuroticism and general masochism are numerous. Their self-defeating behavior is reflected both at the grassroots level, as well as at the international level. The sporadic killings of Israeli civilians is clearly self-defeating. There seems to be a vicious cycle involved. The right-wing Likud party comes to power

because of Palestinian unrest. The Palestinians are contained. The Israeli populace votes for Labor, whose leaders lower restrictions, but are thanked by an onslaught of murder. The message is clear from the Palestinians: they need structure. They need someone to tell them what they can and can't do. Any space that the Palestinians are given has been, and will be, transformed into a vacuum of insecurity, acting out and perpetuating vicious cycles. An example of this sort of behavior on the international level includes organized terrorism directed against the Israeli government and its civilians. The Palestinian "government-in-exile" sets itself up in the true spirit of a masochist. It conducts itself in the name of freedom by killing innocent civilians. This leads to the PLO's earning the label of a terrorist organization, making it easily dismissable. Thus, frustration exasperates the situation and the PLO continues in its violence. How does one negotiate with a terrorist? Does one cower in front of one's own population and make concessions? Surely a logical way of contesting Israeli human rights violations is not by killing Israeli athletes in Munich's 1972 Olympics.

The examples go on and on. Our favorite is the fact that the Palestinian leadership actually sided with Iraq during the Gulf War. Yes, more self-defeating behavior. Even more striking is the Palestinian populations who grow up with the false hope that one day Palestine is to be liberated from the Israelis. Any speck of hope is welcomed and reality is ignored. Thus Saddam seemed to feed into the faulty logic of the Palestinians.

And then there is the recent stepping-up in violence during the peace talks. Palestinian actions have the word "neurotic" written all over them. They are engaging in a perpetual bout of self-defeating behavior.

But they say they want peace, they want their land back, and they want the world to condemn Israel. We're not convinced. We still hold true to our assertion that both the Palestinians and the Israelis have internalized the hope for peace as a threat to their way of "doing things" and are therefore reacting against it while appearing to be working for it.

The flip side of the relationship, that of masochism, is religiously observed by both the non-Israeli Jews, as well as the Palestinian population. The differentiation needs to be made about the general attitude of the Israeli Jews who are in power positions and are the majority in their state and the non-Israeli Jews who are a minority everywhere else in the world and hence live in what has now become a self-inflicted fear. According to Shapiro it is "a chronic usually bitter exaggeration and 'nursing' of humiliation, defeats and injustices. These instances of self-inflicted



suffering are an authentic phenomenon of masochism."

The American Jews are unable to transcend their initial feelings of powerlessness and humiliation. This is noted in their massive survivor's guilt experienced when the US turned away boat-loads of Jews that allegedly died in the concentration camps. By refusing to allow the US to retreat from the consequences of its decision and by seizing the opportunity to increase and underscore the burdens that the US had imposed on the Jewish people as a whole, the Jewish lobby exploited the US's thoughtlessness and alleged anti-Semitism.

To follow Shapiro's argument, by unconsciously inflicting on themselves an exaggerated demonstrative form of what was originally inflicted, the American Jewry "transformed [their] position from a powerless and subjugated one to a strong and dignified one." However, to the American Jews, the acceptance of a belated offer to reconcile vis-a-vis the repeated use of the veto in Israel's favor, would have allowed the initial defeat to hold sway. Thus in a repeated effort to appease Israel the US continues to place Israel above international law and Israel continues to violate those very laws on both a national as well as an international level. The US compensates for its blatant exaggerated efforts to appease Israel by presenting talk of strategic importance, shared values, heritage and interest. While some of this may be true, certain arguments are contrived for the purpose of maintaining this neurotic relationship.

Israel does not often comply with the resolutions passed against it and the US has repeatedly vetoed any hope of action, but they'll go and bomb Baghdad for similar violations, a clear example of reaction formation, a process in which one's feelings about a certain issue are repressed and channeled on to another.

Masochists complain a great deal about having been victimized or unfairly treated, and they seem to exaggerate their troubles. They have a marked tendency of exaggerating their suffering to themselves and can't seem to "close the door" on old grievances.

Basically, in Israel we have a Jewish population with power in their hands for the first time in millennia and lo and behold it was a "package deal". You see, the Jews have been systematically raped and down-trodden as a people. They are the only group of people who can claim that they have been subjugated both by the Pharaohs of ancient Egypt as well as the dictators of the 20th century. When one's history is so filled with imagery of abuse, a self-fulfilling prophesy is generated and substantiated time and time again. The abused seem to choose relationships that are abusive because these relationships are all they know. And

to top it all off they are to share their land with another group of people that have been subjugated forever: the Palestinians. Along with their new power, the Israelis were granted Palestinians ripe for prey. And thus in a remarkable extenuation of human nature on the macro-level, the Israelis preyed and preyed. But...are the Palestinians as arbitrarily persecuted as they present themselves to be? Are the Israelis really being plain unreasonable or is there some sort of explanation?

Let us consider the typical Israeli soldier in his 20s. In the back of his mind there is embedded the genuine fear and mistrust of the outside world because of how unfairly it treated the Jewish people time and time again. It is hammered into his subconsciouses. He feels guilty. He is a survivor. He is trained for full-fledged warfare against an enemy that has declared war on his country four times. Now imagine a million such youths whose tour of duty include the imposition of curfews and the dealing with stone throwing children. Imagine the frustration. Now, factor in the weather, the sun of over one hundred degrees in the summer. Does it justify the taking of innocent lives? No, but we can definitely sympathize with the Israeli soldier who was pushed into this act and who will probably never forgive himself for it. Israel is paranoid and it has a right to be so.

In order for there to be an abuser, there needs to be an abused. The Palestinians were ripe for this role. For centuries the Palestinians have been subjected to foreign domination in their own land. The Jews were just one more occupier to the Palestinians. The Palestinians too have been systematically raped and pillaged. The only difference in the situation of these two groups of people in modern day Israel is that the Western Powers backed Israel over the Palestinians and had they taken the reverse stance, we assure you that the Palestinians probably would have treated the Jews in the same way given the same circumstances.

So now we have this "Arab-Jewish" problem on our hand which many people believe has its origins in a deep rooted, centuries old dispute. Not so. The only roots of bitterness have been between "everyone else" and the Jews and "occupiers of Palestine" and the Palestinians. These two groups of people were brilliantly brought together by the infamous matchmakers of the Middle-East, the British (otherwise known as the map makers). We believe that if Brazilians started to pour into Palestine claiming that millions of years ago, before the continents split off, they owned that land, we would now have an Arab-Brazilian problem. The Arabs are not reacting against the Jews; they are reacting against a reminder of foreign domination that had transformed itself into the state. This fed right into the persecution complex of the Jewish people, and



rightly so.

Basically, the trauma that the Palestinians and the Jews experienced led to a block in their collective psyche. Shapiro writes, "What was originally an internal threat to self respect is transformed by the workings of rigid and defensive character into an external threat to self respect." And to paint the picture a bloody red, both sides are acting on this premise.

The Israelis and the Palestinians need each other to feel good about themselves. Perhaps one of the most widely heard arguments justifying the state of Israel is that after the Holocaust the Jewish people needed land for security. We are in accordance with this. However, we have a speculation to contribute to this theory. For the Jewish people it was not merely a piece of land that they needed for security's sake, but a piece of land with a minority that they can finally control. We believe that had Israel been born on an uninhabited island then the Jewish state would target a segment of its own population to torment. It is all they have been taught of authority, it is all they know. This phenomenon is so strong that it can already be traced in the Jewish state with the looked down upon attitude on the Eastern Jews and the Arab Jews.

In the same spirit it seems that had the Palestinians been given their land in 1917 instead of it being given to the Jews, they too would have targeted a segment of their own population one way or another. We are talking about a people who is capable of fighting civil wars on other people's territory. Whether the case in point is the 1970 civil war in Jordan, the civil war in Lebanon in the late 1980s, or the recent fight for power between Hamas and the PLO during the Intifada. There is a constant need for an authority to impose structure on the Palestinians and if it doesn't happen arbitrarily, they know damn well how to get it!

The authors of this piece think that the argument that Israel is presently in its adolescent stage can be made. This same argument can be made for any one of numerous countries that have been established recently. The big difference between Israel and other adolescent countries is the history of severe trauma on behalf of its population thus arresting its collective development and hindering its maturity.

It is the goal of the authors to trace the development of Israel as a state that has been subjected to severe trauma and repetitive breaches of autonomy. When looking at Israel as a child, it is essential to begin with its birth. Israel is unique in that it had a parent that supervised its growth: the British. This role was later given to the US who can be considered a foster parent.

When a child grows up, he is oblivious to what he can get. Shapiro

writes that "the objectification of the world, by bringing external goals into existence, transforms the child into an active goal seeking individual." This argument can be traced in the development of Israel and any one of 100 states. However, what is most striking is that the elements that were to ultimately constitute the state of Israel were all imported out of a history of trauma. The development of Israel is very much tied to the birth of Zionism in the 19th century as a response to centuries of European Anti-Semitism. Whereas before all anyone could verbalize was "Next year in Jerusalem", the Jewish people were now in Israel which transformed them into "active, goal seeking individuals" with the "resettling" of Palestine being their ultimate goal.

Shapiro writes that "it is well known that toilet training can become an area for a contest of wills ... it is not difficult to identify, retrospectively, later distortions of autonomy as outcomes of this encounter with coercive authority: anxious obedience or readiness to submit or surrender are a reflexive and angry resistance to authority and sensitivity to the possibility of coercion and, perhaps above all, a rigid volitional control..." This collective toilet-training stage is very distinct in the Israelis en masse. The contest of wills is evident between the parents, (the British who are the care givers and the nurturers of baby Israel) and Israel. This contest was fought on the immigration level that both sides were arguing over and how much land the Zionists could have. Be it that they started off with nothing, the British probably felt that the Jewish people would be satisfied with less. But the Jews needed to leave Europe because of the harsh anti-Semitic attitude and overstretched the imposed immigration quota of the British. This "contest of wills" transformed itself into terrorism against the British which ultimately declared the birth of Israel and what was expected to be the "autonomy" of Israel, but not so. This is when the US stepped in as a foster parent in 1948.

In 1948 baby Israel had a new parent however, the relationship between the US and Israel can be said to be faulty from the start, depending on the individual bias. Any child that can manipulate guilt in its parent is pathological for it does not allow the parent to contribute to its development efficiently. The guilt that surrounds the US sending back boatloads of would-be Jewish immigrants to their deaths and not bombing the train tracks to the concentration camps are evident in the way that this superpower conducts itself today. If the US were to allow the boatloads of Haitians into the US and were to actively interfere with the attack on the Moslems in Yugoslavia – a blatant attempt of ethnic cleansing – then they would have to face up to their past in which these



two rights were denied of the Jews. Thus the US would be feeding right into its foster kid's bellowing of "You don't love me, mommy!" If the US were to help either of these two people then it is a subconscious affirmation of anti-Semitism for the US would be doing for others what it did not do for the Jews. Further there is a deep need for the US to be there for Israel's formative years for it too encounters similar conditions of arriving to a piece of land that was inhabited by others. It also managed to take over and put the lands' original inhabitants in "camps".

According to renowned child psychologist Jean Piaget, as a child grows he comes into contact with "an already prepared system of ideas, classification, relations -- in short, an inexhaustible stock of concepts." So too did Israel come into contact with the world that did things a certain way. Had Israel matured properly, it too would have followed suit. Both Israel and the disturbed child have in common the fact that they have been subjected to severe, often times repeated, trauma, which leads to a nontrust of their surroundings. The Israelis' collective trauma began way before the declaration of the state. Their collective fears were confirmed time and time again by the Arab armies, who were acting out with the jealousy experienced when a newborn baby arrives into a family. The scuds lobbed over by Iraq during the Gulf War may have only killed one person, but they triggered the memories of mass trauma for millions. Not only was it another attack by an Arab army, but the phallic means employed through the use of missiles that may or may not have contained gas was a painful reminder of the abuse that befell the Jewish people in the concentration camps. This "sexual" assault by Iraq may be able to explain the "acting out" of the Israeli population since the war.

A normally growing child, or state, "would shift in its thinking about things that is 'intuitive', that is dependent upon largely how things look and hence limited to a single viewpoint or an apparent relation to thinking that is based on an awareness of the logical relation among things or classes of things". Israel was denied this stage in its development. It is quite apparent from the way Israel conducts itself that it is working on an emotional level. This is evident in the Israeli deportation of 400 Palestinians instead of trying the 400 and finding them guilty if they were. This is also evident in Israel's allowing of the Sabra and Shateela massacre to occur instead of blocking it. The Israelis have a shaky foreign policy when dealing with the Palestinians as presented in the examples above. A further blatant example of Israel's immaturity is the image of Shamir, the past prime minister of Israel, shaking his fist angrily and calling President Bush an anti-Semite. Clearly, there is

something very immature about this picture.

So where is the US in the middle of this muddle? Well, the US has been busy keeping Israel "alive and kicking", the role of any nurturer. Firstly, had the US not interfered in the war of 1973, the Arab armies might have been able to take back the land lost in 1967. The US airlifted armaments to help Israel win the war. This in turn led to the infamous Arab oil embargo that hurt the US economy. So who benefitted? Israel. Still, the US sticks its neck out for the child it has in Israel. The US repeatedly vetoes anything that might inconvenience or embarrass Israel at the United Nations. Further, the US is busy giving Israel "its allowance" annually and does not think of "grounding" Israel or threatening its allowance until recently. Finally, they have stumbled on a healthier approach. The US seems reminiscent of a parent scared of setting limits on its favorite child, seeing that it has had no problems in the past imposing restrictions on financial help to other countries. This is similar to the situation during the Cold War the US had to put up with Israel. History is taking a healthier turn presently. Israel, who has been "spoiled" until this point was making a fuss about the conditionality of its 10 billion dollar loan guarantee, a clause the US should have incorporated long before Israel began to accept "handouts" to survive. But in the spirit of a pathological family system, the US stepped down from its original stance. Whereas all that was asked of the Israelis was to stop the settling of land that was not their own, a "huff and a puff" was produced and the US gave in.

Shapiro writes that "by creating new, more complicated, more distant aims, and by opening new possibilities of activity, a more consciously directed individual is born, a child (state) who will direct himself according to those more complicated, more distant purposes, in other words, a more autonomous child". At this stage in time, both the Arab governments and the Israeli government are immature in that they are satisfying more short-term aims. Both the Arab governments and Israel possess a military industrial complex to maintain. The Arabs are justifying their military by pointing at the self proclaimed enemy in Israel. However, there is plenty to be said about their maintaining their armies to protect themselves from their own populations. On the flip-side, Israel too needs an enemy to keep their population together.

As the normal child grows, experiencing its own autonomy and its own significance, his interest in simulating adults diminishes leaving those influences in the forming of his own personality. When all has not gone well, as in the case of Israel, development takes a different turn. This



is traced in the repeated trauma that has plagued the Jews' identity. This can also be traced in the repeated attacks on Israel by the Arabs. Out of the four Arab-Israeli wars, only one was initiated by Israel, in 1956. This war resulted following Egypt's nationalization of the Suez Canal. The British and the French "manipulated" Israel into fighting their war to regain Suez. Thus in all four wars, we see a breach of Israel's autonomy.

When events like this occur "the individual (country) continues to live under the sway of images of superior figures and figures of superior authority and may, in the presence of such largeness and authority, continue to feel small and insignificant. Self respect for him is contingent on his likeness to these figures, he continues to emulate them, to attempt to live up to them, to regard himself and measure himself according to them – and continually, inevitably, he falls short. thus he does not simply feel small: he is oppressed by a continuous consciousness of himself as small." This can help explain the maltreatment of the Palestinians and why it is that Israel is moving closer and closer to what the US is like. Across Israel's history, it is evident that in its treatment of others and itself there is a definite reflection of the way it has been treated. Whether the case in point is the abusive treatment of the Palestinians -- detaining them in camps and denying them their rights -- or in the recent need to emulate the US in their political system. Israel is currently pushing to have the Prime Minister directly voted in by the public instead of by the government.

What does all this mean? Well, the arguments that we have made about the Israelis and the Palestinians can be made for anyone of numerous countries. Everyone acts in their own weird way. We have been toying with the notion that if one person that has gone through trauma in neurotic, why can't the way a country conducts itself be neurotic if all its inhabitants were in one way or another subjected to trauma?

Finally, we offer a simple solution to better benefit the peace process. It is the opinion of the authors that less time should be spent negotiating land issues and more time addressing genuine fear and general agitations of each side. We need to measure this problem not in square miles but in "adrenaline" release. The leaders of both sides need to stop manipulating their populations' worst fears to stay in power and start addressing them. If such leaders do not exist then we recommend mass therapy!





