THE BUSINESS OF AMERICA

GORBY'S CASH GRAB

by Irwin M. Stelzer

Mikhail Gorbachev is willing to let Ronald Reagan take the credit for such progress as there was at the Moscow summit; all he wants in return is cash.

That the Soviet economy is in serious trouble there can be no doubt. Gorbachev himself has conceded that the Soviet Union is suffering from "economic failures," "slowing economic growth," "a shortage of goods," and that its economy is one in which "the consumer found himself totally at the mercy of the producer." And the mess is getting steadily worse. Abel Aganbegyan, his chief economic adviser (chairman of the Commission for the Study of Productive Forces and Resources, and head of the economics section of the Soviet Academy of Sciences), says that in 1981-85 "there was practically no economic growth." Per capita income actually declined. Since January 1986, when the new five-year plan was launched, growth is reported to have been about 2 percent per year; that's half of the plan's target rate. One expert on the Soviet economy says that perestroika is "beginning to look like a disaster."

This comes as no surprise to anyone even vaguely familiar with the history of failed efforts by a succession of Soviet rulers to get the country's economy moving. Lenin was himself the first "reformer": his New Economic Policy (NEP) was inaugurated in 1921 in response to widespread unrest among the starving peasants. It included many of the features we now associate with Gorbachev's perestroika—greater reliance on markets, joint ventures between the Soviet state and foreign capitalists, encouragement of cooperatives. But it most definitely did not include a permanent abandonment of authoritarian, central direction of the economy. As Lenin pointed out, "We are retreating . . . in order . . . to take a running start and make a bigger leap forward." The essence of NEP, in Theodore Draper's words, "was to use capitalists . . . against capitalism, to use capitalism against itself. . . . This was the rationale for inviting foreign capitalism into Soviet Russia in the form of mixed enterprises and economic concessions."

The NEP didn't long survive Lenin, and the improvements it brought in economic performance were soon swamped by Stalinism and World War II. Four subsequent efforts at reform—by Khrushchev (1957), Kosygin (1965), and Brezhnev (1973 and 1979)—all "proved disappointing," according to Ed Hewitt, author of the just-published *Reforming the Soviet Economy.*[1]

And now we have perestroika. I say "we" because without Western help its already-slim chances of success would be reduced to zero. Gorbachev needs foreign businessmen to invest in his country's factories, so that he can have goods to export and to sell to the Soviet workers he hopes will now work harder (they won't, unless they can buy something with the incentive wages they will receive); he needs hard-currency loans to finance the purchase of state-of-the-art Western machinery and capital goods; and he needs Western technology, especially computers.

The factory investment will have to be in the form of joint ventures with the Soviet state (only one of the ways in which perestroika borrows from NEP), and on stiff terms. The share of foreign capital may not exceed 49 percent. The manager of the enterprise must be a Soviet citizen. Profits will be taxed at a rate of 30 percent, with an additional 20 percent taken if they are transferred abroad. Most important—and contrary to the impression created by press reports about the opening of mobile pizza parlors and McDonald's—the areas in which foreigners will be permitted to invest are those chosen by the Soviet government for their strategic importance to its economy and security. Capitalists willing to serve the purposes of the Soviet state are welcome; others need not apply.

Vladimir Kamentsey, deputy chairman of the Soviet Council of Ministers responsible for foreign trade, is quite specific in identifying the areas in which the Soviet Union will allow large-scale joint ventures: oil and gas production, instrument making, automotive construction, medical equipment (seen as a potential export market and hard-currency earner), and farm equipment. To this list Aganbegyan adds chemicals.

American business is rushing to oblige. Although only some forty-six joint ventures worth only $30 million have been concluded since the beginning of 1987 (the figure comes from Ivan Ivanov, the number-two Soviet foreign trade official), more are in the works, some 300 if the Soviets are to be believed. Their long-time favorite industrialist, Occidental's Armand Hammer, has announced a number of big new oil and petrochemical projects, including a plastics facility in Western Siberia, this to be financed by a new multi-national chemical consortium. (Hammer also signed an agreement to build the Soviet Union's first golf course.) And the newly formed American Trade Consortium, which numbers among its members RJR Nabisco, Ford, Eastman Kodak, Johnson & Johnson, Chevron, and Archer Daniels Midland, expects at least a dozen joint ventures.

In addition, the Soviet Union plans to step up its own investment, particularly in machine building and metal working. There are three ways Gorbachev can finance this. He can divert resources from his country's enormous arms program and costly foreign adventures. He can forcibly raise the rate of domestic savings by cutting workers' already miserable consumption levels. Or he can borrow from foreign capitalists.

The first of these solutions is a real option only if the West continues to reduce its own defense establishment, something it is under no economic compulsion to do. Unlike the USSR, we can afford guns and butter. The second—reducing workers' living standards—is risky: there are already rumblings of discontent at the below-Third World living standards experienced by most Soviets.

So borrow Gorbachev must. And can. The Soviet Union has already increased its debt to the West from $15 billion in 1983 to twice that level. What has Western financiers drooling is that this may be only the beginning. A leading Soviet economist, Nikolai Shmelev, estimated in a recent article in *Moscow News* that the Soviet Union could, over the next few years, safely borrow $35-$50 billion to support perestroika.

Western bankers are eager to finance this strengthening of the Soviet economy. In January, the Soviets tested the waters with their first-ever trip to Western bond markets; they sold an issue totaling SFr100 million ($71 million) with ease—it was sold out in just four days. And they plan soon to sell a DM500 million ($294 million) issue carrying something like a 7 percent interest rate; Dresdner Bank and three other West German banks will be the lead managers.

Indeed, the Germans are the most active in beating the Russian bushes for business. But others are not far behind. Britain's Lloyds has lead-managed four Euromarket financings for Soviet institutions in recent years; Barclay's has set up a trade-finance subsidiary; and NatWest and Morgan Grenfell have Moscow representatives looking for deals. Even Michael Milken, the Drexel Burnham partner who created the junk-bond market, is interested. He suggested to Gorbachev that resource-rich Russia issue bonds backed by gold or oil.

There are, of course, skeptics—some of whom remember the Bolsheviks' repudiation of the $75 million debt run up by the czars, and others of whom won't play until the Soviets publish suf-

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Irwin M. Stelzer, TAS*'s monthly business correspondent, is director of the Energy and Environmental Policy Center of the John F. Kennedy School, Harvard University, and an American correspondent for the London* Sunday Times.

[1]Brookings Institution, $36.95; $16.95 paper.

ficient financial information to permit them and the rating agencies to appraise the so-called Red Notes. But most observers expect a steady increase in Soviet borrowing, with a dollar-denominated bond issue in London later this year and, the political climate permitting, a "Gorbibond" issue in the U.S. thereafter.

While two of Gorbachev's desires are being met—more joint ventures, some Western financing—his third wish, access to Western technology, is being thwarted, at least for now, by the United States. Most members of the seventeen-nation Coordinating Committee for Multilateral Export Controls (Cocom) want to relax restrictions on the export of high-technology products to the Soviet Union, but the U.S. has held out. The betting is, however, that the jovial atmosphere of the Moscow summit and the departure of hard-line Defense Secretary Caspar Weinberger will soften the American position. Pressure for such relaxation is coming primarily from the French and West Germans, and order-hungry computer manufacturers of all nations.

The real question is whether the West should oblige Gorbachev, and, if so, on what terms. At the moment, the Soviet Union is spending about twice as much of its shriveled GNP on arms as the U.S. Indeed, it was the inability of the Soviet economy to match Reagan's defense build-up that brought the USSR to the disarmament bargaining table, forced it to withdraw from Afghanistan, and is compelling it to reduce support of client states such as Cuba. Without foreign financing of his perestroika, Gorbachev will be under even greater pressure to make concessions on arms control in order to lighten his military burdens.

Fortunately, sober observers have begun to question the wisdom of President Reagan's statement to a group of Soviet students that "nothing will please my heart more than . . . to see a growing, exporting, exuberant Soviet Union." Lord Carrington, the departing NATO secretary general, speaking at the NATO Council's spring meeting, warned that "the Soviet . . . military machine is still, so far, operating at exactly the same level as it was in the days before perestroika and glasnost." Colin Powell, Reagan's national security adviser, also cautioned the West not to help the USSR modernize its economy until there is hard evidence that it had cut defense expenditures. And Defense Secretary Frank Carlucci, hardly a hard-liner, had this reaction to the summit's rosy glow: "If the end result is that . . . the Soviet Union modernizes its industrial and technological base, and if sometime in the 1990s it . . . can produce enormous quantities of weapons even more effectively than it does today, then we will have made an enormous miscalculation."

Clearly, Gorbachev understands that a stronger Soviet economy means a stronger military machine. Hewitt is on target when he points out, "Gorbachev knows full well that military and economic capabilities are intertwined. . . . For Gorbachev, a dramatic improvement in Soviet economic performance is not only good politics; it is an important component of his approach to Soviet national security."

But the West's capitalists are blinded by the prospects for huge profits. Charles Hugel, the president of Combustion Engineering—which hopes to participate in perhaps $20 billion worth of chemical plants in Siberia—has begun to speak out for the repeal of the Jackson-Vanick amendment. That legislation, which ties preferential trade status for the Soviet Union to its emigration policies, is an increasing source of irritation to Gorbachev, and an increasing inconvenience to American firms who want to do business with his country. Those firms will undoubtedly also oppose Senator James McClure's effort to make the Soviets pay with political concessions for the cash and technology they so badly need. McClure would link trade concessions not only to the Soviet Union's willingness to let its imprisoned Jewish population emigrate, but to its compliance with the Helsinki agreement on human rights.

"They really need Western help and they're reaching out for it," Hugel recently told reporters. He and others in the world's business and financial community have apparently forgotten Lenin's frank admission that cooperation with capitalists is to be pursued only so long as it contributes to their eventual destruction. Forgotten, too, is the simple fact that poorer, backward countries are, after all, less dangerous adversaries than richer, advanced ones. □

EUROPEAN DOCUMENT

PRAGUE SPRINGS BACK

by Eric Chenoweth

In the Old World splendor of Prague, the Czechoslovak regime makes sure to remind its citizens that they live in the New Order. In February, the point was made easily enough by the banners hung in celebration of the 1948 coup of Klement Gottwald, which installed the Communist party in full power after three years of a postwar coalition government. On every national monument, in the stores, in the newspapers, and on the walls, remarkably creative and colorful posters marked "February 1948" or "Forty Years of Socialism." Next to them were the more common government invocations: Onward march toward the fulfillment of socialism. Eternal friendship with the Soviet Union. Eternal thanks to the Red Army. (This last refers to 1945 and not 1968, but the message is clear enough.)

Eric Chenoweth is technical assistant in the International Affairs Department of the American Federation of Teachers.

On the anniversary in February, the Czechoslovak Communist party reminded the populace that whatever new winds may be blowing from the East, Czechs shall remain snug within the full Communist legacy of 1948. While the official propaganda now speaks of "democratization" and all the other buzzwords of perestroika, Miklos Jakes, Gustav Husak's successor as general secretary of the party, has made clear he will follow Husak's path. Which is not surprising: Jakes himself was in charge of the party purges and the routing of Czech and Slovak intellectuals in the aftermath of the Soviet invasion in August 1968 that put down the Prague Spring.

Thus Czechoslovakia remains one of the most orthodox East European countries. The consequences for any opposition are severe; imprisonment, internal exile, job dismissal, and all the other repressive mechanisms at the government's disposal are fairly routine. Those active in Charter 77, which loosely unites the opposition, are constantly surveilled and followed. The children of opposition activists are not spared either, and are even denied admittance to secondary trade schools (not that official education is anything to cherish).

The Czechs and Slovaks have had to endure a contradictory history. Caught in the religious and ideological battles of European history, a small country between the great powers of the last five centuries, Czechoslovakia is often seen as a pliant country, and observers cite as evidence the population's unwillingness to take arms against the insuperable Hitler, Stalin, and Brezhnev. Yet within their history is a long tradition of resistance, dating back to the religious reformation led by Jan Hus, and many valiant efforts to retain the rich and complex culture of both peoples. It is in this spirit that a new generation of opposition is emerging, forty years after the February putsch and twenty years after the Soviet invasion.

One sign of this revivified resistance was a demonstration held in Prague's Old Square on December 10 last year, International Human Rights Day. Over two thousand people gathered, the largest such manifestation since 1969, when Husak put down the last remnants of opposition to the Soviet invasion. Although police detained forty people before the march and arrested a number of others for displaying banners calling for democracy and the release of political prisoners, no force was used to disperse the crowd. (Several of those arrested have been