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| **Subseries:** | NSC/DC Meetings Files |

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| **OA/ID Number:** | 90009 |
| **Folder ID Number:** | 90009-008 |

**Folder Title:**
NSC/DC 008 - March 17, 1989 - NSC/DC Meeting on NSR-4 re: U.S. / Eastern Europe Relations, Keywords: Europe, East

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# Withdrawal/Redaction Sheet
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| Doc. No. / Type | Subject/Title | Date | Restriction | Classification |
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| 01a. Minutes | Deputies Committee Meeting<br>Re: Discussion of National Security Review (NSR) 4 (4 pp.) | 3/17/89 | (b)(1) | S |
| 01b. Summary | Re: Summary of Conclusions (2 pp.) | 3/17/89 | (b)(1) | S |
| 02. Minutes | Deputies Committee Meeting<br>Re: Discussion of National Security Review (NSR) 4 (2 pp.) | 3/17/89 | (b)(1) | S |
| 03a. Memo | G. Philip Hughes to Distribution List<br>Re: Deputies Committee Meeting (1 pp.) | 3/15/89 | (b)(1) | S |
| 03b. Agenda | Re: Deputies Committee Meeting U.S.-Eastern Europe Relations (1 pp.) | 3/17/89 | (b)(1) | S |
| 04a. Memo | Condoleeza Rice to Robert M. Gates<br>Re: Deputies Committee Meeting to Review NSR 4 (7 pp.) | 3/15/89 | (b)(1) | S |
| 04b. Summary | Re: Executive Summary (26 pp.) | n.d. | (b)(1) | S |
| 04c. Appendix | Re: The Sources of U.S. Leverage (6 pp.) | n.d. | (b)(1) | S |
| 04d. Report | Re: National Security Decision Dierective 54 (4 pp.) | 9/2/82 | (b)(1) | S |
| 04e. Agenda | Re: Deputies Committee Meeting U.S.-Eastern Europe Relations NSR-4 (1 pp.) | 3/17/89 | (b)(1) | S |



**Collection:**

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**Pinksheet Number:** cap1419
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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

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Deputies Committee Meeting
March 17, 1989, 5:30 p.m. - 6:30 p.m., Situation Room

SUBJECT: Discussion of National Security Review (NSR) 4: U.S.-East European Relations

PARTICIPANTS:

White House
Robert Gates (Chairman)

NSC Staff:
Condoleezza Rice

Office of the Vice President:
Carnes Lord

State:
Robert Kimmitt
Thomas Simons

DOD:
William Taft
Ronald Lehman

JCS:
General Robert Herres
Carl Farsis

CIA:
John Helgerson
Stephen Kaplan

OMB:
William Diefenderfer

USTR:
Joshua Bolton
David Weiss

ACDA:
George F. Murphy, Jr.

USIA
Marvin L. Stone
Michael Pistor

COMMERCE:
Allen Moore

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Minutes

Robert Gates opened the meeting and noted that, over the next two to three weeks, the Deputies Committee will meet frequently to discuss the findings of the National Security Reviews. He congratulated the PCC for the production of a very good draft for NSR 4.

John Helgerson presented a summary of the NSR's assessment of the situation in Eastern Europe. He focused his remarks on Hungary and Poland where there is potential for dramatic change. The regime in Hungary is not the sponsor of a reform program. Rather, weak and divided, it is being carried along by events. In Poland, the Roundtable talks appear to be moving toward a successful conclusion though many difficult issues remain. Walesa and the moderate Solidarity leadership are thought to be losing ground among their own constituency, however. Moscow appears to be supportive of the reforms as long as they do not threaten membership in the Warsaw Pact and the CEMA.

Robert Kimmitt then presented a brief overview of current policy and of the key issues raised by NSR 4. He noted that we may face the question of our response to Eastern Europe sooner rather than later if the Poles reach agreement at the Roundtable. Kimmitt reminded the participants that, in 1987, then Vice President Bush promised publicly that the United States would show "financial flexibility" if political reforms were carried out in Poland. He said that State believes that it is probably time to take a more aggressive approach in Eastern Europe in response to the opportunities there, perhaps undertaking an initiative at the Presidential level.

Kimmitt identified three key issues that emerged from NSR 4:

--Whether and how to respond to possible opportunities in Eastern Europe. What tools are available should we decide to do so?

--Whether to update the terms of differentiation.

--Whether to enter into a dialogue with the Soviet Union concerning Eastern Europe.

Gates then asked for comments on the first issue.

The participants agreed that there are new opportunities in Eastern Europe and that the United States should adopt a more active policy course. They were unanimous in urging updating of NSDD 54 (written in 1982) to reflect the current situation.

Several members of the DC urged us to take a cautious approach. William Taft (Defense) and Robert Herres (JCS) underscored the dangers of pushing too hard since initiatives must be sustainable and take account of the fact that our policies are not determinative. Herres noted that the national security implications of instability in Eastern Europe were understated in NSR 4. George Murphy (ACDA) added that we should not be too anxious to respond to Eastern Europe because the countries are still members of the Warsaw Pact.

Several participants addressed the issue of U.S. leverage to affect change. Thomas Berger (Treasury) noted that the U.S. has limited economic resources and that the West Europeans may be willing and able to do more. He warned that we should not ask for concessions from the IMF or the World Bank for Eastern Europe unless the countries are urged to undertake economic reform. Without fundamental economic reform, any assistance will be wasted.

Gates asked whether it would be possible to lay out a challenge program for Eastern Europe in which economic assistance is tied to step by step economic and political institutional reform. The first phase might involve OPIC guarantees or GSP treatment rather than money out of pocket. If the Roundtable succeeds there will probably be domestic political support here and we would have a chance to affect the legislation. Even if our financial resources are limited, we might be able to use those resources to guide and shape our allies' response, seeking to tie Western economic assistance to further political and economic institutional reform. Berger said that it would be necessary to study the policy implications of OPIC and GSP treatment for Eastern Europe.

Joshua Bolton (USTR) commented that the most attractive levers are trade levers but that they are meager and, in some cases, use of them would contravene our general trade policy. There are protectionist pressures on the Hill that might react badly to any perception of subsidization of Polish trade.

Allen Moore (Commerce) understood the difficulties expressed but noted that the trading community senses new opportunities in the Eastern Bloc. He thought that, while GSP, OPIC or other legislative concessions would be symbolically important, they would not address Eastern Europe's fundamental problem, overbearing debt. He said that Poland's debt situation is unique since $27 of the $39 billion dollars is official, not commercial, debt. This gives the Paris Club greater leverage and, perhaps flexibility, in dealing with Poland. Several participants questioned, though, whether Eastern Europe should receive more favorable debt treatment than Latin America, a region, they agreed, of great strategic importance to the United States.

Marvin Stone (USIA) agreed with all who had spoken and noted that there are non-economic levers of influence with the East Europeans. He apprised the group of the extensive agreements that USIA has signed with Hungary for training of English teachers and the coming agreement with Poland for a cultural center.

Turning to the second issue, all participants urged revision of the terms of differentiation as laid out in NSDD 54. Currently, the U.S. differentiates among East European countries on the basis of domestic liberalization and foreign policy independence from Moscow. The latter criterion needs to be revised, however, since it does not guarantee policies that are supportive of U.S. interests. The group agreed that we should judge East European foreign policies on the basis of U.S. interests rather than in reference to Moscow. This would mean pressing the East Europeans on their support for terrorism, their participation in technology theft and their intelligence activity against the U.S.

The participants were unanimous in the judgement that dialogue with the Soviet Union concerning Eastern Europe is wrought with political and symbolic difficulties. Robert Kimmitt said that the President, above all, had to be comfortable with this issue and that it should therefore be discussed by the principals. In general, the group thought that the United States would be courting disaster in discussing the limits of East European reform with the Soviets. We should continue to treat the countries of Eastern Europe as sovereign nations, particularly when they are seeking and achieving distance from Moscow.

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

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Summary of Conclusions
Deputies Committee Meeting, March 17, 1989

The Deputies Committee met to consider the response to National Security Review (NSR) 4: U.S.-East European Relations. The DC deliberations centered on three issues raised by NSR 4: how to respond to change in Eastern Europe; revision of the terms of differentiation as stated in NSDD 54; and whether to open dialogue with Moscow concerning Eastern Europe.

The participants agreed that this is a period of profound change in Eastern Europe and that NSDD 54, which has guided U.S. policy in the region since 1982, needs to be updated. If the Roundtable negotiations in Poland conclude successfully in early April (as they are expected to do), the U.S. will be asked to respond. This is especially so in light of the pledge, made in 1987 by then Vice-President Bush, to show financial flexibility when and if the Poles undertook fundamental political reform.

The group discussed the implications of the changes in the region for U.S. policy. There are essentially two policy options; go forward with our current supportive, but relatively low key approach to the region; adopt a more visible policy, perhaps including Presidential initiatives. If the second approach is taken, the NSC will need to determine at what level and how aggressively to pursue this activism. The goal of our policy must be to encourage peaceful transition and we must keep in mind the national security implications of instability in Eastern Europe.

The DC discussed the tools available to the United States to affect change in Eastern Europe. American financial resources are limited but most agreed that our political influence may be useful in helping to shape the response of our allies, attempting to see, for instance, that Western economic assistance be tied to economic and political institutional reform. There was general consensus that we should be careful in encouraging the IMF and the World Bank to make exceptions for Eastern Europe unless the countries entered into programs of economic restructuring. It was noted that some of the austerity measures required by international financial institutions could lead to political instability in Eastern Europe, however.

The participants believed that the East Europeans will seek debt relief and it was noted that a high percentage ($27 of $39 billion) of the Polish debt is owed to governments. Though this

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gives the Paris Club considerable control, the participants were generally wary of major initiatives on the Polish debt. Some asked whether Eastern Europe warranted more sympathetic economic treatment than Latin America.

Other ways of assisting the East European economies were also considered, including investment guarantees by the Overseas Private Investment Corporation (OPIC) or favorable terms of trade for selected Polish products through the Generalized System of Preferences (GSP)-- rather than debt relief or new money for credits. If the Polish Roundtable succeeds there may be domestic support here for change in the extant legislation that governs OPIC and GSP. The participants agreed that the United States should, within budgetary limitations, expand its cultural activities in Eastern Europe.

The DC considered revision of the terms of differentiation as laid out in NSDD 54. Currently, the U.S. differentiates among East European countries on the basis of domestic liberalization and foreign policy independence from Moscow. The latter criterion may no longer be appropriate, however, since the East Europeans may undertake policies that, while different from Moscow's, are not supportive of U.S. interests. The DC agreed that we should judge East European foreign policies on the basis of U.S. interests rather than in reference to Moscow. This would mean making Eastern European technology theft, support for terrorism, and/or intelligence activities factors in our differentiation decisions.

The DC was united in the view that dialogue with the Soviet Union concerning Eastern Europe is wrought with political and symbolic difficulties. In general, the committee thought that the United States would be courting disaster in discussing the limits of East European reform with the Soviets. Moreover, such discussions would alarm the allies. The United States should continue to treat the countries of Eastern Europe as sovereign nations, particularly at a time when they are seeking and achieving distance from Moscow.

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Deputies Committee Meeting
March 17, 1989, 5:30 p.m. - 6:30 p.m., Situation Room

SUBJECT: Discussion of National Security Review (NSR) 4:
U.S.-East European Relations

PARTICIPANTS:

White House
Robert Gates (Chairman)

NSC Staff:
Condoleezza Rice

Office of the Vice President:
Carnes Lord

State:
Robert Kimmitt
Thomas Simons

DOD:
William Taft
Ronald Lehman

JCS:
General Robert Herres
Carl Farsis

CIA:
John Helgerson
Stephen Kaplan

OMB:
William Diefenderfer

USTR:
Joshua Bolton
David Weiss

ACDA:
George F. Murphy, Jr.

USIA
Marvin L. Stone
Michael Pistor

COMMERCE:
Allen Moore
Susanne Lotarski

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generally wary of major initiatives on the Polish debt. Some asked whether Eastern Europe warranted more sympathetic economic treatment than Latin America.

Other ways of assisting the East European economies were also considered, including investment guarantees by the Overseas Private ~~Protection~~ Investment Corporation (OPIC) or favorable terms of trade for selected Polish products through the Generalized System of Preferences (GSP) -- rather than debt relief or new money for credits. If the Polish Roundtable succeeds there may be domestic support here for change in the extant legislation that governs OPIC and GSP. The participants agreed that the United States should, within budgetary limitations, expand its cultural activities in Eastern Europe.

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KEYWORDS: EUROPE EAST DC

NSR MINUTES

SUBJECT: MINUTES & SUMMARY CONCLUSIONS OF DC MTG TO REVIEW NSR-4 / US - EAST EUROPEAN RELATIONS

ACTION: FOR DECISION DUE: STATUS C FILES IFM

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| Brent Scowcroft | | | |
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WASHINGTON, D.C. 20506

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March 21, 1989

ACTION

MEMORANDUM FOR ROBERT GATES

THROUGH: ROBERT BLACKWILL RB

FROM: CONDOLEEZZA RICE CR

SUBJECT: Minutes and Summary Conclusions of the Deputies Committee Meeting to Review NSR 4: U.S.-East European Relations

The participants list and minutes of the March 17 DC meeting on Eastern Europe are appended at Tab I. There is a summary of conclusions at Tab II.

RECOMMENDATION

That you approve the attached minutes at Tab I.

Approve ___R___ Disapprove ________

Attachments
Tab I Minutes and Participants List
Tab II Summary of Conclusions

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SUBJECT: DEPUTIES COM MTG TO DISCUSS NSR 4 RE US EASTERN EUROPE RELATIONS

17 MAR

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DC

SUBJECT: DEPUTIES COM[redacted] MTG TO DISCUSS NSR 4 RE US EASTERN EUROPE RELATIONS
17 MAR

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| Bob Gates | ~~8~~ | | |
| Brent Scowcroft | ~~9~~ | | |
| Philip Hughes | | | |
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| Bob Gates | 3 | Bf ✓ | ✓ |
| Brent Scowcroft | | | |
| Philip Hughes | | | |
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| DIRECTOR, USIA<br>400 C Street, S.W., Room 800 | 1 | | | |
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| UNITED STATES TRADE REPRESENTATIVE<br>Room 209 Winder Bldg. 17 & F St. NW | 1 | | | |
| THE DIRECTOR, FEMA<br>1500 C Street, Room 828 | | | | |
| DIRECTOR, DMSPA<br>Room 3E813, Pentagon | | | | |
| THE SECRETARY OF TRANSPORTATION<br>400 7th Street S.W. | | | | |
| MANAGER, NATL COMMUNICATIONS SYSTEM (NCS), Room 4125<br>8th & SO Courthouse Rd., Arlington, VA | | | | |
| THE SECRETARY OF HHS<br>200 Independence Avenue, NW, Room 615F | | | | |
| THE SECRETARY OF HUD<br>451 7th Street SW, Room 10000 | | | | |
| THE SECRETARY OF EDUCATION<br>400 Maryland Avenue, SW, Room 4181 | | | | |

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THE WHITE HOUSE

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FROM G. PHILIP HUGHES GH. 456-2224

(NAME) (EXTENSION) (ROOM NUMBER)

MESSAGE DESCRIPTION DEPUTIES COMMITTEE MTG ON NSR 4

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| TREASURY | EMILY WALKER | EXEC SEC | |
| DOD | GEORGE COLE | EXEC SEC | |
| COMMERCE | CRAIG HELSING | Chief of Staff | |
| CIA | LAWRENCE SANDALL | EXEC SEC | |
| JCS | ANTHONY MANESS | EXEC ASST | |
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REMARKS *** PLEASE DELIVER ASAP ***

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

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20175

March 15, 1989

MEMORANDUM FOR

MR. CARNES LORD
Assistant to the Vice President
for National Security Affairs

MR. DAVID HAUN
Executive Assistant to
the Director, OMB

MR. MELVYN LEVITSKY
Executive Secretary
Department of State

MR. H. LAWRENCE SANDALL
Executive Secretary
Central Intelligence Agency

MS. EMILY L. WALKER
Executive Secretary
Department of the Treasury

MR. GARY EDSON
Chief of Staff
U.S. Trade Representative

COLONEL GEORGE P. COLE, JR.
Executive Secretary
Department of Defense

CAPTAIN ANTHONY MANESS
Executive Assistant to
the Chairman
Joint Chiefs of Staff

MS. PAT KEARNEY
Special Assistant to
the Secretary
Department of Agriculture

MS. ROBERTA RIFKIN
Executive Secretary
Arms Control and Disarmament
Agency

MR. CRAIG R. HELSING
Chief of Staff
Department of Commerce

MR. ARTHUR E. GREEN
Acting Executive Secretary
U.S. Information Agency

SUBJECT: Deputies Committee Meeting on National Security Review No. 4 (~~S~~)

A meeting of the Deputies Committee will be held to discuss NSR-4 (U.S.-Eastern Europe Relations) on Friday, March 17, at 5:30 p.m., in the White House Situation Room. Attendance should be principals plus one. Please call the Executive Secretary's office, 456-2224, with the names and dates of birth of attendees. (~~S~~)

G. Philip Hughes

G. Philip Hughes
Executive Secretary

Attachment:
Tab A Agenda

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PER E.O. 13526
2012-1560-MR
8/22/2013 MM

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AGENDA

Deputies Committee Meeting
U.S.-Eastern Europe Relations
NSR-4

March 17, 1989
5:30 p.m.

I. Introductory Remarks by the Chairman

II. Review of Findings - NSR-4

<u>Assessment of the Situation</u>

Comments by the Deputy Director of Central Intelligence Designate Richard J. Kerr

<u>Review of Current Policy</u>

Comments by the Under Secretary of State for Political Affairs Robert M. Kimmitt

III. Policy Issues for NSC Consideration

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

UNCLASSIFIED W/
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20175

March 14, 1989

ACTION

MEMORANDUM FOR G. PHILIP HUGHES

FROM: CONDOLEEZZA RICE RGB for

SUBJECT: Deputies Committee Meeting to Discuss National Security Review No. 4 (U.S.-Eastern Europe Relations)

The subject meeting is scheduled to take place at 5:30 p.m. on Friday, March 17, in the Situation Room. The notification memorandum is attached at Tab I.

RECOMMENDATION:

That you sign the memorandum at Tab I.

DECLASSIFIED
White House Guidelines
E.O. 12958, SEC 3.4 (B) September 11, 2006
By CAP NARA, Date 10/14/09

Approve ✓ Disapprove ____

Attachments:

Tab I Memorandum to Executive Secretaries

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NSC/S PROFILE

RECORD ID: 8920182
RECEIVED: 15 MAR 89 19

TO: GATES

FROM: BLACKWILL
RICE

DOC DATE: 15 MAR 89
SOURCE REF:

KEYWORDS: USSR
DC

EUROPE EAST
AGENDA

PERSONS:

SUBJECT: BACKGROUND MATERIAL FOR DC MTG ON 17 MAR RE REVIEW NSR 4 / US - EAST EUROPEAN RELATIONS

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ACTION: NOTED BY GATES    DUE DATE: 08 FEB 90    STATUS: C

STAFF OFFICER: RICE    LOGREF: 8920175  8920205

FILES: IFM O    NSCP: DC008    NSR0004    CODES:

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D O C U M E N T   D I S T R I B U T I O N

FOR ACTION    FOR CONCURRENCE    FOR INFO

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E.O. 12958, SEC 3.4 (B) September 11, 2006
By CAP NARA, Date 10/14/09

COMMENTS:

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RECORD ID: 8920182

ACTION DATA SUMMARY REPORT

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E.O. 12958, SEC 3.4 (B) September 11, 2006
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**National Security Council**
**The White House**

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| | SEQUENCE TO | HAS SEEN | DISPOSITION |
|---|---|---|---|
| Bob Perito | 1 | ✓ | A |
| Philip Hughes | 2 | JPH | |
| Bob Gates | 3 | | |
| Brent Scowcroft | 4 | | |
| Philip Hughes | | | |
| Situation Room | | | |
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| NSC Secretariat | 5 | LMS 5/21 | R |
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A = Action I = Information D = Dispatch R = Retain N = No further Action

cc: VP Sununu Other ______

COMMENTS

Should be seen by: ______
(Date/Time)

89 MAR 12 P9: 40

From Gates folder

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

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20182

March 15, 1989

MEMORANDUM FOR ROBERT M. GATES

THROUGH: ROBERT BLACKWILL CR for RB

FROM: CONDOLEEZZA RICE CR

SUBJECT: Deputies Committee Meeting to Review NSR 4: U.S.-East European Relations

This memorandum lays out our suggestions for structuring the DC meeting on Eastern Europe. The response to NSR 4 is at Tab I, NSDD 54, current U.S. policy toward Eastern Europe is at Tab II, the agenda for the meeting is at Tab III and the list of participants will be forwarded to you. We understand that you have a copy of the tasker for NSR 4.

There are three issues that require thorough discussion at this level and at the NSC in order to guide the development of a new NSD on Eastern Europe:

-- <u>Responding to Change in Eastern Europe</u>

Is there an "historic opportunity" unfolding in Eastern Europe? How important is this region to us and where does it fit in our global strategy? Is it time for a more proactive policy in the region?

What instruments are available to us and how much can the United States affect developments in Eastern Europe? Should we undertake an initiative that uses economic assistance to promote further political and economic institutional reform?

What are the consequences of greater U.S. involvement in Eastern Europe? What are the consequences of a less active U.S. policy?

Should we structure an initiative concerning Eastern Europe that is bipartisan and sustainable with the allies? Should we build a strategy that insures economic reform as well as continued political evolution in the region? If so what are the specific steps that we need to take?

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-- Redefining the Terms of Differentiation

Current policy differentiates policy toward the East Europeans on the criteria of foreign policy independence from Moscow and internal liberalization. Is the criterion of foreign policy independence still relevant? Are there other criteria that should be included?

-- Dialogue with Moscow on Eastern Europe

Should the United States place Eastern Europe on the regional agenda with the Soviet Union?

The central issue is how the United States intends to respond to the rapidly unfolding political events in Eastern Europe. Specifically, we must decide whether we will extend economic assistance to East European countries that meet our criteria of political reform, what kind of assistance, and how much. If, as expected, the Polish Roundtable Talks reach a successful conclusion in a few weeks, the decision for Poland will be upon us. This DC is not, in our judgement, the appropriate forum for full discussion of the President's specific response to events in Eastern Europe. But it should begin to set the context for Presidential decisions concerning Poland.

If the NSC discussion goes well, or if the President wishes to pursue an active U.S. course regarding the future of Eastern Europe, we should consider making this subject a major Presidential initiative in the near future.

The other two issues, how to define the terms of "differentiation" in the current environment and whether to engage the Soviets in a dialogue on Eastern Europe are important but less pressing.

The meeting should begin with a brief summary of the situation in the region by Dick Kerr followed by a review of current policy and the findings of NSR 4 by Bob Kimmitt. You may then want to list the major policy issues inherent in NSR 4 and guide the participants through the major issues in the following manner:

Policy Issue One: Responding to Change in Eastern Europe

Issues: Is there an "historic opportunity" unfolding in Eastern Europe? How important is this region to us and where does it fit in our global strategy? Is it time for a proactive U.S. policy in the region?

Discussion

We need to decide whether the events now unfolding in Eastern Europe meet our criteria for fundamental political reform. Poland and Hungary are in the most advanced stage of reform-but the signals that we send will be read by the conservative elites in Czechoslovakia, the GDR and Bulgaria. Romania is a special case. There is a consensus position in NSR 4 that Eastern Europe is entering a period of profound change. The confluence of political and economic crises and Soviet tolerance indeed, pressure for reform, has set the stage for potentially dramatic change in Poland and Hungary. There is some disagreement on how far reaching the reforms will be. Some, for instance, argue that the political reforms coming out of the Roundtable agreement in Poland will be less fundamental than they appear on the surface. While that could objectively be true, it is difficult to imagine the United States dismissing a compromise endorsed by the Church, Lech Walesa and Jaruzelski. But caution is warranted because the potential for instability leading to reversal and repression is high.

Obviously, as the region where Warsaw Pact and NATO forces stand poised for world war, the significance of Central Europe is clear. Moreover, instability and repression in Eastern Europe would have dire consequences for East-West relations and for the course of reform in the Soviet Union itself. That the stakes are very high and that Eastern Europe is important to us is not controversial; the policy implications of that conclusion are. Arguments about a consistent global debt policy, as noted below, expose a likely view by Treasury that there are other regions of equal importance, for instance Latin America, and that Eastern Europe does not deserve special treatment.

Issue: What instruments are available to us and how much of an effect can the United States have on developments in Eastern Europe? Should we undertake a major initiative that uses economic assistance to promote further political and economic institutional reform?

Discussion

If we decide to actively promote reform in Eastern Europe, economic assistance is the West's most potent weapon. There may be other instruments but aid is what the regimes seek and is arguably the only lever to which they will respond. You will remember that then Vice President Bush laid out a formula for Poland that promised economic assistance when certain political conditions were met.

The issue of assisting Eastern Europe economically will be contentious, with Treasury and Commerce already diametrically opposed to the European Bureau at State. Current

U.S. policy (NSDD 54) assigns predominant weight to economic rather than political criteria in questions of debt relief, in U.S. sponsorship of countries for membership in international economic organizations and in extension of credits. NSDD 54 flatly states, "The U.S. extends debt relief only when necessary as a financial measure to ensure repayment and when the debtor country embarks on a program of economic and financial stabilization."

State has traditionally argued that economic assistance is our most powerful lever to promote political change. Jim Baker, as Treasury Secretary, was against economic assistance to Eastern Europe for political objectives. We do not know whether his views as Secretary of State will be different. The Defense Department tends to be cautious about credits for Eastern Europe but is concerned primarily about maintenance of a strict COCOM regime.

There are several good arguments against using economic levers to promote political change. First, Treasury and Commerce argue that economic assistance should be tied to fundamental economic reform because, absent that, Western assistance will be wasted. Treasury and Commerce are haunted by the 1970s when massive credits and assistance disappeared into the black hole of a structurally weak Polish economy, allowing the government to postpone reforms and to undertake policies that amassed the enormous debt ($40 billion). The economic agencies argue that we must maintain a consistent global debt policy; what we do for Poland, they contend, we must be willing to do for Mexico. Second, there are those who cite limited American resources and point out that the Europeans, particularly the Germans, possess financial clout that we do not.

While sound, these arguments do not address certain political realities. First, in most countries of Eastern Europe political reform is a precondition for economic reform. Austerity measures cannot be instituted by illegitimate governments and in Poland, for instance, the regime's desire to broaden the political base stems from recognition of that fact. Similarly, while it is true that our financial resources are limited, their monetary value may understate their political weight. In many cases, the Europeans, East and West, are looking to the United States to give political signals to international economic institutions like the IMF.

In short, the West lacks direction on how to respond to opportunities in Eastern Europe. It is difficult to imagine that we could take the lead in developing a political strategy that links political reform and economic assistance without the expenditure of American resources. The issue is how much and what kind of assistance we would need to grant in order to maintain leverage with our allies, especially Bonn, in this process.

Finally, if we undertake initiatives in the region we must be careful not to overstate U.S. or, for that matter, Western influence. Moscow's tolerance for change in the region is still the decisive variable.

Issue: What are the consequences of involvement? What are the consequences of a less active U.S. policy?

Discussion

The dangers of involvement stem largely from the uncertain prospects for successful reform in Eastern Europe. The impact of the Western economic assistance initiative could be minimal and the region could explode anyway. We would then be linked with the failure of the reform. It is also not out of the question that the Soviets would see a major initiative as threatening their interests. On the other hand, if we are passive and the region explodes, we will surely be criticized for inaction. A step by step response that gradually increases our involvement and support, as political and economic reform unfolds, may mitigate against this danger. Moreover, it is worth noting that there will be a Western response; the issue is whether the United States will take the lead. If we do not, our allies, who do not share our views on the priority of political reform, may grant aid unilaterally. This would temporarily remove reformist pressures and allow the regime to postpone, yet again, fundamental political reform.

Issue: Should we structure an initiative that is bipartisan and sustainable with the allies? Should we build a strategy that promotes economic reform as well as continued political evolution? If so, what are the specific steps that we need to take?

Discussion

Any economic assistance package would need to be structured to give the West maximal and continuing leverage in the political/economic reform process. Once granted, debt relief or economic incentives cannot be taken back easily. The East Europeans are seeking three kinds of assistance: debt relief, credits and access to economic subsidies and guarantees from the U.S. government and multilateral organizations. While the decisions to grant one kind of aid or another are separable, there are important linkages from the point of view of the East Europeans. For example, the staggering debt is an impediment to further credits and to private investment. Thus, clearing the debt record has become the number one priority of the regimes.

The official-commercial debt for Eastern Europe is about 94 billion dollars. Poland accounts for 40 billion of that and owes about 2 billion to the United States. While debt forgiveness can be granted unilaterally by the U.S., Congress has mandated that any such debt relief must not be done for political reasons unless it also reduces the U.S. budget deficit. Given the mood concerning our own budget deficit, it is unlikely that Congress will repeal this legislation. This probably means that coordination through the Paris Club (the association of the seven major government creditors) is the only way to grant debt relief.

The U.S. government does not have excess capital to extend substantial new money to Eastern Europe. Given the region's dismal record in the 1970s, there would be resistance to such an approach from Congress and the financial agencies. The allies, especially West Germany and Japan, are in a position to do so.

Access to economic incentives, such as investment guarantees through the Overseas Protection Investment Corporation (that insures investors against nationalization of property, etc.), or to the Generalized System of Preferences (that amount to duty free entry of imports for qualifying countries) require revision of existing legislation. With the exception of Poland, granting of Most Favored Nation status (MFN) is prohibited by Jackson-Vanik. While these incentives could probably be granted more easily than debt relief or credits, protectionist elements in Congress will be suspicious of GSP extension. These economic incentives would have minimal impact on U.S. budget outlays.

Any initiative on economic assistance would require revision or repeal legislation (like Jackson-Vanik, for instance) that inhibits normal economic relations. Thus, an initiative would require coordination within the Administration, with Congress and then with the allies. As noted above, these issues will quickly be upon us in reference to Poland. An interagency group PCC is getting underway to address a policy response to Poland, but keep in mind that the entire region will see that policy as a signal.

Policy Issue Two: The Terms of Differentiation

Issue: Current policy differentiates the East Europeans on the criteria of foreign policy independence from Moscow and internal liberalization. Is the criterion of foreign policy independence still relevant? Are there other criteria that should be included?

Discussion:

The policy was developed in the 1970s. But some of Gorbachev's foreign policy initiatives are favorable to us. For instance, Romania's foreign policy has been independent but, currently, this means refusing to respect the Helsinki accords on human rights.

It might be more appropriate to base the criteria on subjects of direct interest to the United States. We could, for instance, make technology theft, support for terrorism, and/or intelligence activities against the U.S. policy issues with respect to the East Europeans. If these states can gain greater distance from Moscow, they can be pressured to cease, or at least reduce, their involvement in these intelligence activities.

Policy Issue Three: Dialogue with Moscow on Eastern Europe

Issue: Should the United States place Eastern Europe on the regional agenda with the Soviet Union?

Discussion

This issue comes out of the Kissinger Plan as it is understood (or perhaps misunderstood) publicly. There is no record of Kissinger's conversation with the President so we do not know the details of the proposal. Kissinger has written, though, that the current prohibition against formal discussion with the Soviet Union on Eastern Europe should be dropped and that we should make clear to the Soviets our vision for the future of Eastern Europe. He implies that this would be tantamount to a final settlement of the cold war, promoting an end to the division of Europe.

Those who hold this view argue that the Soviet empire is disintegrating and that, given the implications for stability in Central Europe, the U.S. must develop a strategy for managing the political evolution of the region. Some, though not all, would argue that we should tell the Soviets what we are willing to accept and give guarantees that we will not exploit (by military power) change in Eastern Europe. The Soviets might then sign a pledge of non-intervention.

The apparition of a "second Yalta," has made this idea unpopular in many quarters and it is right to ask whether we should define the limits for Eastern Europe and provoke allied concerns about U.S.-Soviet condominium.

If this meeting produces thorough airing of these issues, we suggest moving quickly to an NSC meeting on Eastern Europe. We are in some danger of having events in the region outrun our current policy and would hope to be able to issue a new NSD soon. Since we are managing the process, both of us would like to participate in the DC. If there is only one seat available, Condi Rice will attend.

CR for CR for
Adrian Basora and Tim Deal concur.

Attachments:

| | |
|---|---|
| Tab I | Response to NSR 4 |
| Tab II | NSDD 54 |
| Tab III | Meeting Agenda |

## EXECUTIVE SUMMARY*

### The Opportunity

Profound political, economic and social change is underway in Eastern Europe, and pressure for meaningful economic and political reform is strong and growing, although the pace, scope and prospects for such reforms vary markedly by country.

As a result, the U.S. has unique new opportunities to encourage real progress toward long-standing U.S. goals: democratic self-determination and market-oriented economies throughout Europe. If current trends continue and are generalized, Eastern Europe itself, and its role in the international system, will be fundamentally different by the end of the century. The area will be much more diverse in its domestic arrangements and foreign policy approaches. It will be more difficult for the Soviet Union to impose either its model or its will throughout the area, even if Soviet forces remain. The East European regimes will be subject to much more public scrutiny, and more sensitive to perceived national interests. Even Communist parties in government will have to build formal or informal coalitions with others if they are to govern effectively. The economies will be more decentralized, with substantial private and cooperative sectors, although the area will continue to be economically depressed in relative terms. In short, the systemic differences between East and West Europe which caused and then perpetuated the Cold War will have been substantially altered in our favor.

### Current Policy

There have been three principal expressions of U.S. policy:

-- A policy of "differentiation" is defined in National Security Decision Directive (NSDD) 54 of September 1982, and has been further developed since then in individual "challenge programs" for each country.

-- In September 1987, then-Vice President Bush told Polish leader Jaruzelski that Polish political reforms would "increase further international confidence in Poland as well as facilitate the U.S. ability to be of assistance." For example, he said, positive movement on a law of associations permitting trade union pluralism and free elections "would give the U.S. more flexibility on the financial side."

-- In December 1988, NATO Ministers agreed to a report proposed and in major part drafted by the U.S. which states specifically: (a) that the Western Allies have no interest in

*Although many of the problems and issues dealt with in this review also affect our relations with Yugoslavia, that country and our relationship are also so different as to merit separate review.

increasing the potential for instability in Eastern Europe; (b) but that they also have no interest in propping up unrepresentative regimes; (c) and that their interests are best served by peaceful, creative change in a democratic and market-oriented direction.

The Policy Dilemma

Under our current policy, we have had enough leverage to encourage modest changes in the directions we have defined, and maintain Western cohesion around an approach which accepts use of economic leverage to promote political change and better human rights performance. But we now face a major dilemma. East European governments embarked on serious reform see new Western economic and financial inputs as critical to their efforts. There are analytical questions as how far if at all continued reform requires such inputs, or, conversely, how much sustained reform is required to make them effective. But U.S. ability to provide any new input is severely limited by a thick web of legislative, regulatory, budgetary and political constraints on use of most potential instruments, and the need for consistency in global debt management policy. Meanwhile, in Poland and Hungary the pace and potential of change are outrunning the leverage available to us to encourage more, and the same could happen with other area countries in the mid-term. Furthermore, some of our Allies have more available economic resources than we do, and they are more inclined to expand economic ties to the East without the political/human rights conditionality we support or the same degree of concern about illegal technology transfer, hostile intelligence, collusion in terrorism or arms sales to Third World radical regimes and Soviet client states.

The question is whether our national interest in East European reform is worth the effort to mobilize the resources required to maintain U.S. influence and leverage, in the region and with our Allies, to ensure that the reform trend proceeds consistent with our longer-term policy objectives. The first test case could be Poland, where if the current Roundtable negotiations reach agreement we would have to decide quickly how to respond to an almost certain request from the Government, Solidarity and possibly the Church for economic support, bilaterally and in international financial institutions.

A positive response to Poland -- and other East European countries embarked on similarly significant political and economic reform -- would require tough decisions and major political efforts, within the USG, with the Congress, with the U.S. public and with our Allies. As examples, it could require an approach to Poland's staggering official debt which may be difficult to fit into -- or could severely damage -- our global debt management strategy; and down the line it could require us to go for controversial new or amended legislation on MFN, official credits, tariff preferences and OPIC investment guarantees. A negative response, on the other hand, could be read to mean that our policy toward Eastern Europe is mostly rhetoric, either cynical or basically indifferent on substance. We could continue to use political, informational and cultural tools to maintain influence in the region, but we would sacrifice our best leverage, together with much of our ability to keep the West Europeans and Japanese sensitive to the need for political reform, human rights performance and strict tech transfer limits as they expand economic ties. In particular, there is a risk that our Allies, particularly the West Germans, would use their financial clout to "stabilize" the region by underwriting the inherently unstable status quo. In sum, we face a genuine challenge, with implications for our standing and influence in Eastern Europe, for U.S. alliance leadership, and for our international economic policy.

A Framework Approach

The review sets forth a three-part U.S. policy framework, building on the then-Vice President's 1987 challenge to the Poles and requiring adjustment of NSDD 54. It envisages our pressing issues of general U.S. interest (drugs, terrorism, the environment, technology transfer) with all countries of the area, regardless of the state of overall relations with each country; continuing modest challenge programs involving specific steps of mutual interest with Bulgaria, Czechoslovakia, the GDR and Romania; and more ambitious challenges, in addition to such steps, involving U.S. economic and financial support for major political and economic reform, initially for Poland and Hungary, and perhaps eventually for others if and as reform accelerates. Whether or not we decide to adopt and pursue our interests within this framework, we will need to continue work with our Allies to ensure that the expansion of Western economic ties with the East European countries is related to the latter's economic and political reform efforts and respect for human rights.

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The review assesses the current situation and its implications for the U.S. and the Soviet Union; identifies certain specific East European challenges to U.S. interests; summarizes U.S. policy objectives; makes recommendations for policies that will permit the U.S. to meet the challenges and seize the opportunities; and summarizes sources of potential U.S. leverage within the suggested three-part framework approach.

In Part III, the review also addresses an important question circulating in policy circles about a possible high-level dialogue with the Soviets about Eastern Europe, based on the hypothesis that U.S. and Western interests there are best served by evolutionary change with the least possible instability, and that the USSR's interests are now best served by a guaranteed zone of security along its western borders. Serious advantages and disadvantages of such a dialogue are identified, without a recommendation.

## I. ASSESSMENT OF CURRENT SITUATION*

Eastern Europe is entering a period of profound, probably confusing change that will have important implications for U.S. interests. Gorbachev's policies, coupled with serious economic deterioration and social discontent in Eastern Europe, have increased the potential for instability. But they have also expanded the scope for diversity and experimentation. Regional political and economic diversity has increased considerably. No Eastern European leader wants to introduce a Western-style democracy or market economy, as this would mean the end of party control. Yet some have been compelled by popular pressures to make compromises and changes, and are no longer able to revert to old ways of governing.

The impetus for change is coming from both within Eastern European societies and from Moscow. Moreover, whereas in the past East European regimes were able to deliver economic growth and improved living standards, in recent years their economies have stagnated due to systemic defects, obsolescent industries and debt repayments; a sense of hardship has developed anew. The peoples of the area demand change more loudly, and the regimes have become increasingly uncertain and divided about how to proceed. Western economic prosperity and general unwillingness to give unconditional economic assistance, together with the dynamism of newly industrializing countries in the Third World, further increase the pressure.

### The View From Moscow and Prospect for Crisis

Gorbachev believes the East European regimes must implement economic and political changes to avert instability, and he has given them significant latitude in undertaking reforms. However, he has noted that change must not jeopardize continued membership in the Warsaw Pact and CEMA, maintenance of public order and the dominant role of the party, or support for Soviet foreign policies. In Hungary and Poland, debates over reform already threaten to impinge on some of these taboos.

In Eastern Europe heightened popular demands and declining regime confidence have considerably increased the prospect of serious instability. Large disturbances and perhaps a major upheaval are plausible not only in Poland, but also in Romania and Hungary. Turbulence has even increased in Czechoslovakia and East Germany. In the event of a major blowup, at least in the next year or two, the besieged regime would almost certainly strive to reassert control, even if this meant bloody repression.

A potentially critical exception may be Hungary, where the leadership might not have the will or desire to resort to such repression; it might hold off or act with only half measures, thereby putting the onus on Moscow.

*While many of the problems and issues dealt with in this review also affect our relations with Yugoslavia, the country and our relationship are so different as to merit separate review.

All of the regimes have internal security or paramilitary units specially trained to deal with riots, strikes, demonstrations, and other disturbances. However, if these select units were overwhelmed by the size of a rebellion, they might find their regular army units less reliable as instruments of oppression, and again find themselves dependent on Moscow for survival.

The inherent uncertainties and tensions in the Soviet approach to change in Eastern Europe are best captured in their comments on the Brezhnev Doctrine. The intentionally ambiguous stance on the question of Soviet intervention in Eastern Europe serves to soften Moscow's image in the West, while still reminding the East Europeans that such intervention cannot be ruled out. The Soviets probably have different thresholds of tolerance in each of the East European states, but certain developments--for example, the inability of a local regime to maintain internal control or an announcement by a regime that it was leaving the Warsaw Pact--would prompt the USSR to at least consider pressure, intimidation, and perhaps even military intervention.

Hungary

Hungary will probably continue to evolve toward a limited democracy, despite sharp divisions within the top leadership between advocates of radical reform and the more conservative wing, with General Secretary Grosz inclined toward the latter. Hence, it is plausible that in the next two to five years, Hungary will elect to its parliament at least a large minority and conceivably even a majority of noncommunist members. Almost certainly the Communist Party will continue to control the security and foreign affairs ministries, but nonparty organizations could gain control over some domestic affairs ministries and, at a minimum, exercise strong influence over key dimensions of public policy including education, housing, and health. Free assembly and speech also are likely. A freer press will be allowed, with every topic open to discussion, even Hungary's ties to the Soviet Union. For all this to happen, though, the opposition and populace will have to act in a highly disciplined fashion, and the Communist Party will have to remain weak and divided--or reunite around a more coherent reform strategy.

The leadership currently appears determined to avoid coercive measures, allowing the formation of new political parties, unions, and interest groups. Coercive actions could lead to a major clash with society, end all hope of reestablishing a national consensus, and ruin any chance of improving economic performance. Nevertheless, the regime could overreact and resort to coercion in response to incidents of labor or other unrest that seem increasingly probable because of falling living standards and increasing unemployment.

Even if the political system is considerably transformed over the next five years, the economic situation will not improve significantly in this period unless the regime radically implements a broad array of reform and austerity measures--a course that could trigger widespread unrest and even prompt a massive upheaval. Whatever the pace of reform, the private sector and foreign investment will continue to grow in importance; yet rising debt-service payments after 1990 will limit the resources needed for investment and foreclose improved living standards for broad segments of the population.

Poland

The eruption of labor unrest in April-May and again in August 1988 pushed General Jaruzelski's regime to enter into an unprecedented set of negotiations with the political opposition led by Solidarity (i.e. the Roundtable talks). As in Hungary, prospects for significant political and economic liberalization are present; so are very serious obstacles. Success in the Roundtable process is far from certain.

While it may eventually make important concessions, the regime currently is despised by the populace, badly divided and trying to avoid crossing the lines of engaging in meaningful powersharing or of giving up its command economy.

However, the regime has offered Solidarity conditional relegalization, minority government participation, an independent publication and up to forty (40) percent of the seats in the new Parliament (including ten (10) percent to other opposition elements).

The regime's strategy is to coopt the opposition by making what it hopes are no more than tactical concessions. In return, the regime seeks to force Solidarity and Church support for an austerity program that might after a few years lead to renewed economic growth and new breathing room to reassert its political authority. The regime may be expected to use available opportunities to divide the opposition and allow the Party to retain decisive if circumscribed power.

Both Walesa and the Church are well aware of the regime's intentions, but believe the negotiations offer opportunities for significant success. Both want to avoid violence and improve the lot of the populace. But while they are inclined toward moderation, they will resist being coopted by the regime. They also cannot dictate to young factory workers and students who are in desperate economic straits and have become wary of those preaching moderation.

Poland will probably evolve toward more consultative relations with its political opposition, possibly significant minority representation in the Sejm, and conceivably, opposition dominance in social welfare policy arenas. Meanwhile, the strength and vitality of the Party will continue to wither. The regime will probably allow significant private control over the economy and an accompanying loss of party control. It will not give up security and foreign policy functions, and significantly, Solidarity has not sought to place these on the negotiating agenda. Such a broad course of events would keep the Church and many in the opposition supportive of a moderate course, as long as they saw a continuing favorable evolution. Nevertheless, the danger of renewed repression will be greater and last longer than in Hungary.

Severe unrest over the next several years could lead to new repression to thwart favorable change, but the combination of probable Soviet uncertainty together with the regime's past failed experience in the post-martial law period and the disastrous state of the economy would be important deterrents to regime crackdown. Tactical saber-rattling and temporary get-tough policies would be more likely.

However, in any political scenario that does not include massive Western economic assistance, the economy will not recover for at least five to ten years, and probably longer. It is not clear when an initial upturn in living standards could be expected and continued economic privation could lead to an upsurge of unrest. It will be a long time before market forces replace administrative controls in Poland; radical economic decentralization and injection of market forces would create massive unemployment in the absence of new job-creating industries. Enormous inflation will occur in any case. Thus, it is certain that Poland, like Hungary, will continue to pursue aid from the West.

Elsewhere in Eastern Europe

Elsewhere in the region, change has been much less dramatic. In Czechoslovakia, the new leadership under Milos Jakes has adopted the vocabulary but not yet the substance of reform, and it continues to react forcibly to suppress dissent. Bulgaria has actually backed away from serious debates on reform, and party leader Todor Zhivkov has strengthened his conservative grip on power by removing a rival favored in Moscow. Romania has even more conspicuously flouted Gorbachev's pressures for change, as party leader Nicolae Ceausescu has presided over an increasingly personalized and authoritarian regime. The Honecker leadership in East Germany, while adamantly anti-reformist, has taken advantage of Soviet "new thinking" in foreign policy to develop ever closer ties with West Germany.

But these regimes also have been affected by Gorbachev, and they all have serious economic problems for which Marxism-Leninism offers no solutions. Czechoslovakia and East Germany will almost certainly witness noteworthy political changes in the next several years, and Bulgaria and Romania will too when their current leaders pass from the scene. Economic reform will probably lag behind political change.

The chances of serious instability are greatest in Romania, where a popular upheaval could possibly overwhelm the security forces or, more likely, produce a cabal aimed at overthrowing Ceausescu. The Soviets would not interfere to save Ceausescu, but would rather seek to forge an improved relationship with a likely conservative, but more pragmatic, successor regime.

Czechoslovakia and East Germany have already witnessed new demonstrations, and more and larger outbursts of dissidence are probable. Both regimes show signs of increased divisions and vacillation, and have sought to ease growing political pressures by loosening up in small ways. Real change is unlikely in these regimes, however, unless new, reform-minded leaders come to the forefront or Moscow steps up pressure. In the latter case, the course of political evolution could become highly unpredictable. Although we are uncertain where such developments would lead, more pluralistic and decentralized regimes are probable as long as Moscow does not militarily intervene or threaten to. We anticipate new leaders in at least two of these four countries in the next five years, as well as continued prodding for change by the USSR. Major political and economic change in Poland and Hungary would further force the pace of events in these neighboring countries.

Implications for the U.S. and Soviet Union

Forces currently at work and the recent pace of developments suggest that Eastern Europe will in the next five years witness considerable further liberalization and economic decentralization. It would, however, take at least five years for a significant new weakening of the Soviets' hold over the region to develop, and perhaps a minimum of ten years for a considerable breakdown in the CEMA trade structure and Pact military relations--webs that the Soviet leadership is intent on maintaining.

Notwithstanding developments so far, the danger of an explosion and new repression will continue to exist for a long time. Such action by an East European regime, let alone Moscow, would seriously threaten the favorable course of East-West relations, depending on the international situation and the country where it occurred.

As long as the Soviet Union maintains the massive military forces that it does in and adjacent to Eastern Europe, its allies will be extremely sensitive to Soviet security demands. Large reductions in this military presence would lead to a changed political environment favorable to both greater independence from Moscow and closer relations with Western Europe, but these political consequences would also be in the more distant future. Major Soviet force reductions in the forward area would significantly reduce the USSR's coercive hold on the region, especially in the GDR. Moreover, while reductions in East European armed forces could help ease East-West tensions and may gain the regimes some domestic credit, they will also diminish the regimes' psychological dominance over their citizens and their citizen's views of the postulated threat from the West. Moscow has always had concerns about the reliability of these countries in an East-West conflict; Soviet doubts would almost certainly increase if East European governments began to reflect the sentiments of their citizens.

Overall, change favorable to U.S. interests is underway in Eastern Europe. Continued political and economic evolution will further weaken the bonds between these countries and the Soviet Union, and the differing paces of evolution in the region will themselves weaken Eastern Europe's cohesion. Institutionalized relations with the OECD nations would inevitably make them less responsive to Soviet economic, foreign, and even military policies. East European would be more responsive to Western concerns about their support for international terrorism and probably even their illegal acquisition of technology if they gained greater independence from Moscow and could expand economic ties with the West.

Significant East European evolution would also change the construct of Europe. All but Bulgaria culturally and historically identify their aspirations with the West, not Russia. Almost inevitably, West European commercial dealings and other ties with these countries, including Bulgaria, would grow more rapidly than U.S. ties with the region. The prospect of East European nations developing strong ties with the EC also will grow, strengthening the sense of "Europeanness" on both halves of the continent. West Europeans, particularly West Germany and Austria, but others as well, want to institutionalize new relationships with the region as much and as rapidly as possible. West Germany especially wants to strengthen relations with East Germany, and in a relaxed political atmosphere the subject of reunification will be more boldly discussed by Germans. This evolution would further weaken the bonds between these countries and the USSR and hasten the transformation of what was an outwardly uniform bloc of states into an increasingly diverse region with common problems but markedly different solutions to them.

## II. SPECIFIC CHALLENGES TO U.S. INTERESTS

In addition to the strategic or geopolitical challenge which the process of change in Eastern Europe presents to U.S. policy, we face related but separate East European challenges concerning specific U.S. interests. All the East European states engage in activities hostile to U.S. interests, including intelligence operations, the illegal transfer of technology, support for international terrorism, and disinformation campaigns. The Soviet Union frequently uses the East Europeans as its proxies or stalking horses. These are, so to speak, East European constants of the East-West landscape. We would have to deal with them even without the broad changes now underway in the area. But those changes may give us a better handle for dealing with them more effectively.

## Intelligence Operations

East European intelligence services are among the best in the world and pose a significant threat to U.S. security interests. With the exception of the Romanian service, they all work closely with and under the direct guidance of the USSR in conducting clandestine operations against the United States with activities conducted according to a division of labor based on common requirements and task specialization. The East European services also participate jointly and individually in a Soviet-managed intelligence collection program aimed at assessing the East-West balance of power and providing early warning indicators of hostilities.

East European services have had some success in recruiting U.S. officials, military personnel and citizens in the United States and especially in Western Europe. For example, former U.S. Army Sergeant Clyde Lee Conrad worked for almost 10 years for Hungarian intelligence while he was assigned in West Germany. Some services, such as Poland's, enjoy the advantage of easy access to former citizens and to U.S. citizens who can be manipulated with threats to relatives living in Eastern Europe.

## Terrorism

East European countries have played an important role in aiding and abetting terrorist organizations favored by the Soviets in challenging U.S. policy interests.

-- Most East European countries provide conventional military training to personnel from either the PLO or Middle Eastern states sponsoring terrorism. East Germany, Czechoslovakia, and Bulgaria also provide training with terrorist applications to radical Palestinians and "national liberation" groups.

-- All East European countries sell arms to radical Middle Eastern countries and to gray markets. Their weapons -- Bulgarian hand grenades, Polish submachine guns, Hungarian pistols, and Czechoslovak explosives -- often have been used in terrorist acts.

-- East Germany and Poland allowed the Abu Nidal Organization (ANO) to operate trading offices on their territory until 1986 and 1987 respectively, when publicity and Western pressure forced host governments to terminate these ANO operations.

-- Bulgaria and East Germany are major offenders in allowing terrorist transits and residences. Hungary, while generally more cooperative in U.S. counterterrorist efforts, also has a poor record due chiefly to its more open borders and lax surveillance.

## Technology Diversion

The Soviets rely on their East European allies to help to close the technology gap with the West through illegal acquisitions of Western science and technology. Under Soviet direction, the East Europeans target militarily significant Western technology through intelligence channels and acquire dual-use technology through trade diversion programs using Western businessmen as middle men. While many of these transfers are done at Soviet behest, East European regimes often desire advanced technology for domestic purposes.

-- Bulgaria and Hungary are active illegal technology diverters. For example, the Bulgarians gave Moscow access to sophisticated Japanese computer technology; and the Hungarians have diverted a large portion of the integrated circuits they acquired from the West.

-- East Germany illegally acquires large quantities of dual-use Western technology for its own high technology industries but often balks at sharing technology with Moscow.

-- Poland has occasionally exported Western technology indirectly, such as by embedding Western integrated circuits in computer exports to the USSR.

-- Romania clandestinely acquires COCOM-controlled technology but probably seldom shares it with the USSR, having passed a decree to exclude foreigners, including Soviets, from Romanian factories.

All except East Germany have taken steps to facilitate joint ventures, partly in an effort to acquire more Western technology, but so far these initiatives have attracted few Western partners. In the political sphere the East Europeans will use their new ties to the European Community (EC) to lobby for weakening of COCOM controls and access to EUREKA, the West European advanced technology program. Although the EC has endorsed the current COCOM rules and has refused to include science and technology in new cooperation pacts with East Europe, various West European political parties and interest groups are pressing for relaxation of controls.

## Third World

East European regimes provide a range of support to Soviet activities in the Third World that challenge U.S. interests. Several East European intelligence services specialize in covert political action, propaganda, and influence operations designed to support Soviet foreign policy. These include disinformation campaigns against the United States in the Third World that almost certainly were planned in the USSR.

Largely in support of Soviet foreign policy objectives as well as for commercial profit, the East Europeans are premier arms sellers to the Third World, particularly to radical regimes, other Soviet client states, and insurgencies hostile to U.S. interests. Accounting for 5-10 percent of world arms sales over the past four years (spurred on by the Iran-Iraq war), Eastern Europe ranks among the top weapons suppliers with Czechoslovakia and Poland leaders within the region. Although global arms demand is weak, East Europeans will probably continue to find a lucrative market among traditional East Bloc weapons users such as Syria, Iraq and Libya, and with Iran.

An important adjunct to arms sales has been the expansion of East European training programs for Third World military personnel, terrorists, and insurgents. East Germany leads the way, with a total advisory presence in the Third World equal to that of all the other Eastern European countries combined. East European intelligence services also provide intelligence and paramilitary training at sites in East Europe.

## III. U.S. POLICY OBJECTIVES IN EASTERN EUROPE

National Security Decision Directive (NSDD) 54 of September 1982, defined U.S. policy objectives toward Eastern Europe as:

-- loosening the Soviet hold on the region, and

-- thereby facilitating its eventual reintegration into the European community of nations.

In pursuing NSDD 54, we have continued to differentiate our approaches toward the individual countries of Eastern Europe. Specifically, we have sought with each country to promote more democratic trends, respect for human rights (both civil liberties and individual human freedoms), a pro-Western cultural orientation, more private market-oriented economic development, and free trade union activity. Overall, and in the long run, we seek to lessen their economic and political dependence on the USSR and to undermine the military capabilities of the Warsaw Pact.

While NSDD 54 set out two criteria upon which differentiation would be based -- relative foreign policy independence on the part of a given East European government (compared to the USSR) and relative internal liberalization -- the logic of NSDD 54 centered on internal developments as objects of our policy. In doing so, we assumed that domestic liberalization would set in train forces leading to greater national autonomy, ultimately to the benefit of U.S. and Western security and foreign policy interests. That remains a valid assumption.

The main practical importance of the criterion concerning foreign policy independence has been to permit some constructive relations with Romania at a time when it was uniquely different from the Soviet Union and the other Pact members on issues like relations with Israel, Jewish emigration and Soviet and proxy (Cuban, Vietnamese) troop contingents in Angola, Afghanistan and Cambodia. Nonetheless, Romania's limited foreign policy independence has become gradually less significant to U.S. interests in the face of policy changes by its Soviet and Eastern European allies.

In developing our bilateral programs, we have also sought to make progress on the specific challenges to U.S. interests identified in Part II above. We have made clear to each East European country that activities hostile to U.S. security interests are obviously great obstacles to developing a better relationship with the U.S. East European desires for COCOM approved technology, export credits, most-favored-nation (MFN) trade status, support in debt negotiations and greater political recognition may afford the U.S. some leverage in pressuring the East Europeans to restrict their hostile intelligence activities, illegal technology transfer, arms sales and support for terrorism. The Polish, Hungarian, and Bulgarian regimes have responded on the terrorism issue by curtailing some of their support for terrorists. But in the areas of illegal technology transfer, arms sales to the Third World, and intelligence operations, the East Europeans are unlikely to curtail their activities, regardless of U.S. pressures. Major change in East European performance in these areas will remain tied to changes in Soviet policy. And the economically strapped East Europeans will be loath to halt longstanding hard-currency earners such as arms sales relationships.

In pursuit of our objectives of democratic self-determination and market-oriented economic management, NSDD 54 authorized use of a potentially powerful series of tools, such as MFN, credits, debt rescheduling, scientific exchanges and high-level visits. While East European regimes seek from the West symbolic political recognition in the form of visits and high-level contacts, their substantive objectives in relations with us focus on economic and financial issues. NSDD 54 explicitly noted that U.S. political objectives, along with financial criteria, could be taken into account in reaching decisions about debt rescheduling, credit access and East European participation in international institutions, but it was ambiguous about the relative weights to assign to political objectives and financial criteria.

The U.S. has used economic policy tools negatively in the region, e.g., imposing sanctions against Poland in the post-martial law period. However, the USG did not make extensive positive use of the financial levers set out in NSDD 54. For some time after 1982, the situation in Eastern Europe was relatively stagnant. Opportunities for the pursuit of our more far-reaching objectives were limited and the positive use of these instruments was correspondingly limited as well. (The U.S. did apply economic policy tools positively with Poland in 1986-87, when MFN was restored essentially in return for the release of political prisoners.) However, during the past year, even in the wake of dramatic political and economic changes in some Eastern European countries, pursuit of our more ambitious objectives continued to be constrained by the existing web of legislative, regulatory, policy and budgetary limits.

In short, since the last policy review toward Eastern Europe, the U.S. has had in place an effective, comprehensive policy of differentiation which underpins our long-term objectives toward the region as well as the tools necessary to carry it out. Because the base of relations was low before 1985-6, we have been able to exert leverage and achieve some movement on our specific criteria essentially without resorting to the more far-reaching tools identified in NSDD 54.

The Impending Dilemma

Former Deputy Secretary Whitehead made six exploratory trips to the region in 1986-88, putting into place bilateral challenge programs with the individual countries of Eastern Europe, probing their capacity to move forward in relations on a "step-by-step" basis, based on our criteria for improvement.

In a watershed visit to Poland in September 1987, then-Vice President Bush presented General Jaruzelski with a more comprehensive challenge program, which was in effect a conceptual model for an active pursuit of NSDD 54's objectives throughout the region beyond step-by-step. The Vice President outlined specific political steps the U.S. favored, including Solidarity's relegalization, and stated that a positive GOP response "would facilitate U.S. willingness to assist Poland;" "the U.S. would respond positively to such steps," by showing "flexibility on the financial side." This was the most ambitious articulation of differentiation to date and appears to apply in principle to Hungary as well as to Poland.

By content and profile these remarks by now-President Bush constitute an exceptionally strong commitment to positive U.S. support for reform in Eastern Europe -- a commitment almost impossible to rescind or ignore. Consequently, in Poland and Hungary we may soon face the challenge of success, i.e., implementing the President's framework. Conceptually, we require leverage that functions over time: economic steps that would unfold if and as regimes take political and economic steps in our interests. But we face serious constraints on our ability to proceed in this direction, as discussed in later sections.

Our Eastern Europe policy also has an alliance aspect: West Europeans are more eager than we are to expand economic ties and more inclined to do so without political or human rights strings attached. With that in mind, the U.S. took the lead within NATO in formulating the framework for a coordinated Western policy toward the East European countries. The North Atlantic Council approved this approach at the December 1988 Ministerial. The NATO paper states specifically: (a) that the Western Allies have no interest in increasing the potential for instability in the region; (b) but that they also have no interest in propping up unrepresentative regimes; and (c) that our interests are best served by peaceful, creative change in a more democratic and market-oriented direction.

Given their proximity, their resources and their long historic involvement with Eastern Europe, the positive engagement of the West Europeans can do much to open up Eastern European societies to contacts and thereby promote positive political, economic and human rights developments. But we will need to work with them to ensure that the expansion of economic ties with the Eastern European countries is related to the latter's economic and political reform efforts and their respect for and institutionalization of human rights. In particular, we will need to ensure that the Allies, particularly the West Germans, do not use their financial clout to "stabilize" the region by underwriting the inherently unstable status quo. (Bonn's relations with the GDR are a special case different from the FRG's dealings with other East European countries.)

<u>Is U.S.-Soviet Dialogue the Answer?</u>

Further, we need to address the notion, now gaining currency in some policy circles, that U.S. objectives in Eastern Europe are best achieved -- and the inherent dangers of instability in the region best averted -- through direct dialogue with Moscow. Although variously elaborated by proponents, the core proposals hold that: (a) disintegration of the Soviet Empire is a genuine possibility and threatens the stability of the entire European continent; (b) passive waiting for the disintegration (or even its pro-Western evolution) is no policy; (c) our current policy of East European "differentiation" is inadequate to the task of managing the more dramatic crises expected in the 1990s; and (d) mutual interests can be served by direct, U.S.-Soviet talks.

We already discuss Eastern Europe with the Soviets in a variety of fora: our embassies in Eastern Europe routinely exchange views and information with Soviet counterparts; academic and non-official exchanges between U.S. and Soviet East European specialists are taking place; in the CSBM and CFE negotiations we will be dealing with the Soviets bilaterally, as well as multilaterally, on specific issues of security in Europe. The concept of putting Eastern Europe formally on the U.S.-Soviet regional agenda, however, goes far beyond such exchanges. Its hypothesis is that American (and Western) interests are served by evolutionary East European change with the least possible instability. And that Soviet interests are now best served by the creation of a guaranteed zone of security along its East European borders.

This proposal is sure to be controversial, because it has serious advantages and disadvantages:

-- The advantages are: it is an activist policy (although some call it "preventive diplomacy") which takes seriously the historic consequences of East European instability; it would meet the criticism that we are neglecting or underestimating the importance of Eastern Europe by leaving it off the U.S.-Soviet agenda; if the trade-off were achieved, it could enhance Soviet tolerance of reform in ways beneficial to the desires of East Europeans and our own policy objectives; if we decided to adopt a policy of linking disparate issues in the U.S.-Soviet relationship, it could provide us with additional leverage on other issues of interest to us.

-- The disadvantages are: a Soviet commitment to non-intervention would be of doubtful real value if the day comes when the Soviets must decide whether East European reform threatens vital Soviet interests,; given current trends, a U.S. offer to "respect vital Soviet interests" in the area would be hard to justify in public, and would confirm the view of those who insist that Yalta was about spheres of influence and not about self-determination and free elections; by asking the Soviets directly whether they have renounced their East European power position, we may well get the wrong answer, and thereby needlessly narrow the margin for maneuver the East Europeans now enjoy; politically it could be challenged by the right as abetting the enemy, and by the left as an affront to Gorbachev's leadership; finally, the notion of a U.S.-Soviet dialogue on Eastern Europe ignores the certain negative reactions of the East European peoples themselves, and of our West European Allies, beginning with the French.

## IV. POLICY RECOMMENDATIONS

The changing environment in Eastern Europe offers the West unique opportunities to encourage real and substantial progress toward democratic self-determination and market-oriented economies, goals which will move the Eastern European states in the direction of their eventual reintegration into the European community of nations. To capitalize on these opportunities, the U.S. and its Western partners would have to offer imaginative new proposals to those Eastern European countries which support economic and political reform and human rights to help them: (a) cope with outstanding debt, both private and official; (b) meet their need for new private capital investment and management knowhow; and (c) surmount trade barriers, especially in Western Europe, which inhibit Eastern European access to EC markets.

The Special Problem of Debt

One source of economic leverage, action on debt, can be considered only within the context of the overall U.S. debt strategy in general and the Paris Club principles and procedures in particular. USG debt policy, pending the outcome of the review presently underway, is that we will consider rescheduling debt on a case-by-case basis, in close coordination with our Allies, for those countries seriously undertaking economic reform.

Preliminary end-1988 hard currency debt figures, in billions of dollars, are:

| | |
|---|---|
| USSR | 41.7 |
| Poland | 38.9 |
| GDR | 20.0 |
| Hungary | 18.0 |
| Bulgaria | 7.6 |
| Czechoslovakia | 6.0 (est) |
| Romania | 2.4 |

Although debt forgiveness can be granted unilaterally, the USG is constrained from doing so by Congressional action taken in the 1970's which effectively limits the use of debt relief as an aid device and mandates that debt reduction have a direct impact on the U.S. budget. In view of the current crisis of U.S. savings and loan institutions and the state of domestic agriculture, Congress is unlikely to change these rules. Any new Paris Club measures which are broadly applicable to middle-income countries should also be available to East European countries.

Other Constraints

Other economic incentives, such as OPIC investment guarantees, more liberal GSP treatment, or new interpretations of existing legislation (e.g., the intent of Jackson-Vanik: free emigration or broader human rights?) may require new or amended legislation. As Congress may balk at what they perceive as special treatment for Communist countries, extensive public diplomacy efforts at home and abroad will be essential to build a case for a more dynamic policy approach to Eastern Europe. Finally, we must remember that the U.S. cannot go it alone. The West Europeans and Japanese will have to provide many of the financial resources the U.S. lacks. We need to orchestrate our efforts to get the most from the least.

Our strategy for Eastern Europe should include a reexamination of the goals and objectives of NSDD 54 in light of the significant developments in Eastern Europe since 1982 as well as a revision of its "foreign policy criterion" to reflect the new reality created by Soviet foreign policy under Gorbachev. Having a foreign policy different from the Soviet Union is no longer sufficient grounds for favorable treatment from the U.S.; instead, we should be looking for foreign policy stands specifically concordant with U.S./Western approaches. Beyond that, we should consider an approach for Eastern Europe which builds conceptually on the framework then-Vice President Bush set forth to the Poles in 1987, as described in Part III.

The following sections describe the range of initiatives on which we could decide to draw; subsequent sections suggest a three-part framework approach for dealing with the individual countries of the area, based on the degree of reform underway in each.

Instruments of Regional Application

1. CFE and CSBM:

Negotiations on conventional forces and confidence- and security-building measures are our principal tool for addressing one of our priority needs in Eastern Europe: reducing the conventional forces imbalance, caused primarily by the presence of Soviet troops in the forward area, and enhancing stability. They will presumably also be the primary prism through which the Soviets consider their security requirements. The negotiations begin this month.

2. Socio-Political Initiatives

To promote the establishment of democratic institutions in the region such as independent political parties, trade unions, youth and church groups, USIA should increase programs which offer direct contact with key audiences (e.g., more publications, more exchanges at the secondary and university levels); strive to open up the more tightly closed countries (Romania, Bulgaria, Czechoslovakia and the GDR) through increased radio broadcasting, exchanges and full use of USIA television capabilities; and establish cultural and information centers wherever possible and sharply increase English-language teaching and local language programs. (Any expansion of such programs, especially the establishment of new cultural centers, would require increased funding for USIA). We might also consider sending Peace Corps volunteers to selected countries to help train English-language teachers.

3. External Debt

Together with our Allies we should consider ways to help the Eastern Europeans, especially Poland, cope with their massive external indebtedness consistent with our overall debt policy and in conjunction with an appropriate program of economic reform. As noted above, we should make available to East European countries any new Paris Club measures broadly applicable to middle-income countries as a group.

4. Economic-Commercial Activities

To promote the development of market economies in each country and increase U.S. exports, the Department of Commerce, through its contacts with U.S. private industry, support for private-sector organized economic councils, participation in joint economic/commercial commissions and active East European trade promotion programs, should promote expanded trade and investment in the region, but without changes in U.S. law and regulations and with full respect for their provisions. As noted in the Appendix on sources of U.S. leverage, to enhance leverage in the economic/commercial field we would have to seek new or amended legislation to authorize certain Eastern European countries eligiblity for multi-year MFN, OPIC guarantees and GSP treatment.

5. Security Initiatives

To increase contact with the important military sector in Warsaw Pact regimes, we should seek to gain greater access and understanding of Eastern European military establishments at all levels -- policies, doctrines, programs, budgets and capabilities, as well as the outlook, abilities, and relationships of key personalities.

The U.S. should seek to have defense/military contacts with all the countries of Eastern Europe, though they should be built up gradually, consistent with a plan for each country, and in such a way as to reinforce differentiation. This is one avenue of communication which could remain open while other, more politically sensitive contacts, are proscribed because of a particular country's repressive internal policies. For example, as state-to-state relations worsen with Romania, low level military-to-military contacts could be maintained as a sign that the United States has not written off future improvement of relations. More robust programs should be pursued with Hungary and Poland. Some contacts could be established with Czechoslovakia, the GDR and possibly Bulgaria. Contacts with the GDR should be initiated in consultation with the FRG, and conducted in a manner consistent with our Berlin responsibilities.

6. Intelligence Operations and Technology Transfer.

Language to be submitted by agencies:

7. The Environment

We could propose an international crash program to attack the region's growing air and water pollution problems, drawing largely on U.S. and other Western private expertise, interest and funding. In turn, we would expect the Eastern European governments to commit themselves to remedial actions and necessary resource outlays. The EPA, in cooperation with the private sector and Governments in the region, could prepare a master plan setting specific targets for air and water pollution by a given year.

8. Representation Initiative

A general initiative that would be in our interests and would support the activist approach we envisage is to establish a slightly increased U.S. official presence. With more extensive representation by competent specialists fluent in local languages we could better reach out to political opposition members, to commercial and cultural representatives, and to people outside the capitals. We would thus be able to monitor better the actual impact of the reform policies we seek to encourage.

At present we have no representation in northern Poland, the birthplace of Solidarity. A small two-person Consulate could be re-established in Gdansk (one State Department and one USIA officer). In return, we would permit the Poles to establish a similar-sized Consulate on the West Coast. Having a Consulate in Gdansk would help us keep in close and continuing contact with the Solidarity leadership.

The United States closed its Consulate in Bratislava in 1950 and we now have no adequate way to cover the important political developments in Slovakia. We still own the building, which includes two apartments, and could reopen the Consulate as a two-person post (one State, one USIA) to include a library and cultural center. Reopening our Consulate in the capital of Slovakia could be done at modest cost and would enable us to keep in contact with Slovak dissidents and Catholic Church representatives. Such action would send a strong, positive signal to Czechs and Slovaks alike and would be a popular step on the Hill and within the Czechoslovak ethnic community. In return, we might have to allow the Czechoslovaks to open a similar-sized post in Chicago or New York, which would raise new counterintelligence concerns.

Bilateral Programs

In developing our leverage with the individual countries of Eastern Europe, we would draw on the range of initiatives described above to develop specific challenge programs. Since these will reflect the nature of the regimes and their relations with us, they fall into three categories: the countries with more conservative regimes (Bulgaria, Czechoslovakia and the GDR), the countries where the regimes are grappling with real political reform (Poland and Hungary), and unreconstructed Romania. This suggests a three-part framework approach for U.S. policy, with scope for change from one category to another.

1. Challenging the Reluctant Reformers.

It would be appropriate to continue the challenge programs we have undertaken with the countries -- Bulgaria, Czechoslovakia and the GDR -- that have lagged well behind in internal liberalization and have only reluctantly undertaken some minimal aspects of economic or political reform or human rights improvement. Through former Deputy Secretary Whitehead's visits, we have signaled our willingness to improve relations on a step-by-step basis while at the same time making clear that we expect progress in areas of importance to us -- human rights, counterterrorism, combatting drug trafficking.

With these countries, we should continue to press forward on those issues and on political-economic reform and human rights improvements, insisting on continued contacts with opposition elements and supporting them where we can. With the GDR, as with the Soviet Union, we should continue to look to their conduct with regard to the Berlin Wall and inner-German border as a yardstick of their commitment to openness and respect for human rights. We should also challenge the GDR to settle U.S. and Jewish claims as another step on the road to significantly enhanced relations.

While trade levels remain modest with these countries, USG staff-level activities, such as trade experts' roundtables, business facilitation working groups and specialized trade briefings, should be used to further U.S. economic/commercial interests and expand trade. USG support for the Bulgarian, Czechoslovak and GDR business councils and participation in major trade fairs in these countries should also be used. On a broader plane, the U.S. should continue to insist that Bulgaria's accession to GATT can be supported only when Bulgaria has transformed its economy into one compatible with GATT principles.

2. Challenging Poland and Hungary

These two countries are engaged in a potentially serious reform process in both economics and politics, and over the long term we should aim to push them in the direction of a core tradeoff: we would offer substantial support and cooperation in return for and to underpin genuine political, human rights and economic reform. We may be nearing the point where such an offer is called for.

In Poland's case, if the Roundtable talks there reach agreement, we will be under heavy pressure from the Polish Government, Solidarity, the Church, the U.S. ethnic community and Congress to help support the country's transition to a more democratic and free political and economic system. Steps we could take include:

a government-to-government investment agreement and/or an OPIC insurance program; increased EXIM activity, if economically justified; GSP tariff treatment; support for strengthened Polish relations with the IMF, provided that Poland can demonstrate its ability to implement and perform under an economic reform program; a request to Congress for additional funds for joint commission charitable programs; negotiation of a Small Business Agreement; increased annual funding for S&T from $600,000 to $2 million; and reciprocal reduction or elimination of diplomatic travel restrictions.

Negotiation of a bilateral tourism agreement and reopening of a West Coast trade office should also be considered. At this challenge level, we should consider adding a reduction or elimination of illegal technology transfer and intelligence operations benefitting the Soviets to our priority desiderata.

We could establish priorities among these measures and calibrate them depending on internal developments. If all goes well, we would encourage a visit by the President to Poland during the first two years of his administration, using the visit both to reward progress and to press for further change according to what remains on our agenda.

The case of Hungary demonstrates the continued need for differentiation even in the core tradeoff stage. Economically, Hungary is ahead of Poland in changes instituted and announced, and it is seriously discussing major change in its political system. In Hungary we need to build upon the relationship established in recent years to keep up the pressure for political and economic reforms. In this context we could well afford to ask the Hungarians to work with us to make English their second language, and to provide access to the Hungarian market for U.S. exports. In return, we recommend considering:

modification of Hungary's MFN status under existing U.S. law; a government-to-government investment agreement; OPIC insurance; and GSP.

As with Poland, we could consider offering a bilateral tourism agreement, and a small West Coast trade office staffed by personnel not enjoying diplomatic immunity. As with Poland, at this level of challenge it would be appropriate to consider added stress on the importance of reducing or eliminating illegal technology transfer and intelligence operations. And, as with Poland, we recommend suggesting to the Hungarians that President Bush would like to visit Budapest early in his Administration.

3. Romania: the Special Case.

Romania is in a class by itself. In dealing with Romania we should attempt to keep engaging the regime, no matter how exasperating this might be, in order to press on human rights, on obstructionism in the CSCE, on access for our Embassy to GOR officials and dissidents, on a revitalized cultural relationship. We also want a better bilateral trade balance with the Romanians, and we want them to continue a relatively independent foreign policy in ways which support U.S. objectives. In the short term we must continue to engage the Ceausescu Government and promote wider contacts with up-and-comers -- including the military -- who may compose a post-Ceausescu Government. For now, we have only one initiative to propose: scheduling of the next joint Economic Commission, provided the Romanians take concrete steps to address the 4:1 imbalance in bilateral trade (e.g., through conclusion of a major commercial transaction) and indicate they will reverse the deteriorating conditions for Western companies operating in Romania. We should continue to support and protect the small core of U.S. businesses operating in Romania (20 U.S. companies with offices in Bucharest).

## V. SUMMARY OF THE SOURCES OF U.S. LEVERAGE*

There are two forms of potential U.S. economic leverage: bilateral and multilateral.

U.S. bilateral economic leverage is constrained by legislation which prohibits or restricts normal economic relations, including limitations or prohibitions on granting Most-Favored Nation (MFN) status, official credits, specialized trade preferences (i.e., Generalized System of Preferences -- GSP), and eligibility for OPIC.

The granting of MFN and new official credits and guarantees to the Eastern Europeans is restricted, under the provisions of the Jackson-Vanik Amendment, to countries which permit free emigration without a Presidential waiver. Waivers are subject to annual review by the Congress of emigration practices, which extends to human rights more generally.

Existing legislation also constrains the granting of OPIC coverage and GSP tariff treatment. Currently, OPIC is prohibited from operating in Eastern Europe and Poland, Czechoslovakia and the German Democratic Republic are ineligible for GSP. Further, beneficiary countries are required to meet international standards of workers' rights and to meet other criteria.

The USG extends debt relief only when necessary as a financial measure to ensure repayment and when the debtor country embarks on an economic/financial stabilization program.

* A complete inventory of all sources of U.S. leverage follows as an Appendix.

The U.S. regularly undertakes concessional sales of foodstuffs to developing countries. Such a program exists in Poland with the local currency of these sales to be used for projects within Poland. Such programs depend on the availability of excess commodities.

U.S. strategic concerns will remain paramount concerning technology transfer. Establishing special categories for the Eastern European countries, while technically feasible, would certainly complicate an already cumbersome process, and probably risk even greater COCOM circumvention.

Turning to multilateral economic leverage, the U.S. has long supported IMF membership for any country which is prepared to accept the obligations of Fund membership, although we abstained in the case of Poland. Hungary, Romania and Poland are members of the IMF, the IBRD (World Bank), and its related institutions, IDA and the IFC. Membership in the IMF and IBRD would require that countries adopt market-oriented reforms and open their economies and policies to surveillance and consultations. The U.S. must be prepared to consider each case on its merits. Membership would also raise expectations that the IMF is prepared to conduct programs in each of these countries, possible only if the member is willing to agree to undertake difficult domestic policy adjustments. Nevertheless, the IMF and IBRD could provide useful technical assistance.

On the economic/financial side, in sum, we should consider the following candidates for U.S. leverage instruments:

MFN and New Credits

-- Work with the Congress to reach agreement on the narrow interpretation of Jackson-Vanik.

-- Propose an amendment to Jackson-Vanik to provide a mechanism for a less cumbersome multi-year grant of MFN.

-- Discuss with Congress the possibility that some East European countries could effectively become market economies in the next several years and what this implies for Jackson-Vanik.

Support in the IMF/IBRD

-- Signal East European members that the U.S. would be willing to support programs for them if the programs are economically sound, which implies that they must generate enough domestic support to give the programs a chance to succeed.

OPIC Guarantees

-- Propose an amendment to the 1989 OPIC Reauthorization Act to include all East European countries on the list of countries in which OPIC can operate. We should assure Congress that we would not encourage OPIC operations in any East European country until that country meets international standards of workers' rights.

Concessional Sales of Foodstuffs

-- Work with Congress to extend concessional sales of foodstuffs to other East European countries, in support of economic reform, using the Polish program as a model.

GSP

-- Propose an amendment to the GSP legislation to remove Poland, Czechoslovakia and the GDR from the list of countries which legally cannot receive GSP. We should assure Congress that we would not propose GSP for any of these countries until that country meets the workers' rights requirements of the law.

The U.S. also has a range of instruments available in political relations.

High-level visits are among the most effective. The East European countries are eager for visits by senior USG officials (President, Vice President and members of the Cabinet). Granting or withholding such visits sends a strong signal, and has provided useful tools to get movement on our human rights agenda (including family reunification) or action on other specific issues.

Similarly, the East European governments are interested in regular senior-level political consultations. While such consultations provide the same type of leverage as high-level visits on current issues (e.g., arms control, regional security, human rights, terrorism, drugs), they have less impact, and we therefore favor them on an ad hoc basis, rather than the regular consultations the East European would prefer.

Through public diplomacy, we have potent influence on internal developments in Eastern Europe. We help shape domestic agendas by access to the peoples of Eastern Europe through the now unjammed radio broadcasts, and increasingly through official media.

Defense/military contacts are also a source of influence on a politically significant element in Eastern Europe that has traditionally been suspicious of or hostile to the West and the U.S.

The CSCE process provides a framework in which we can press for compliance with CSCE commitments, including respect for human rights and economic reform. The three upcoming follow-on conferences on the human dimension provide us with an opportunity to confront the individual Warsaw Pact countries concerning human rights violations or, as appropriate, recognize progress made. The Bonn Economic Conference will provide a forum for promoting market-oriented economic policies.

The East Europeans are interested in the opportunity to hear Western views on arms control and present theirs without Soviet filters. If U.S.-Soviet relations are positive -- including in the arms control area -- the East Europeans have more room for maneuver. In addition, individual East European countries have specific hopes concerning the removal of Soviet troops (Hungary in favor; Czechoslovakia opposed), a U.S. and Western objective in the upcoming conventional arms negotiations (CFE). We have engaged in several rounds of briefing Warsaw Pact countries on our arms control policies and our discussions with the Soviets. Looking ahead to the start of CFE and the follow-on negotiations on confidence- and security-building measures (CSBM), we believe these discussions should be made a regular practice.

Turning to leverage in the cultural and exchanges field, the U.S. employs USIA programs and exchanges to reinforce the twin goals of political liberalization and economic reform, to demonstrate Western values and to expand contacts. Strong possibilities for effective cooperation also exist in such fields as the environment, agricultural research, agricultural marketing, scientific research, and business management. U.S. expertise in these areas is very attractive to the Eastern European countries.

U.S. radio broadcasts serve two basic purposes: to provide news and information about the U.S. and our foreign policy (VOA) and provide a surrogate source of uncensored domestic, regional and world news (RFE). The cessation of jamming in Eastern Europe this past year will likely expand RFE's audience and its impact on regional developments.

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# APPENDIX

## THE SOURCES OF U.S. LEVERAGE

o ECONOMIC RELATIONS

U.S. economic leverage is constrained by legislation which prohibits or restricts normal economic relations, including limitations or prohibitions on granting Most-Favored-Nation (MFN) status, official credits, specialized trade preferences (i.e., Generalized System of Preferences -- GSP), and eligibility for OPIC.

MFN

Granting of MFN to all Eastern European countries, except Poland (grandfathered), is restricted under the Jackson-Vanik Amendment (Section 402) of the Trade Act of 1974. Under this amendment, MFN cannot be granted to any nonmarket economy not then receiving MFN, if that country denies its citizens the right or opportunity to emigrate, or imposes more than a nominal fee or charge on emigration. Hungary obtained MFN in accordance with Trade Act provisions. Romania also had MFN, but renounced it in 1988 to avoid further annual review of its human rights record.

There is a general consensus in the Congress and the executive branch that Jackson-Vanik has increased U.S. leverage in promoting emigration. A difference has emerged over whether countries, in order to be granted MFN, should be required to meet the specific test of the law (i.e., freedom of emigration) or a much broader human rights standard. We believe a strict application of the legal requirements for MFN gives the Administration greater flexibility and hence more leverage, including leverage on the USSR.

There is also no provision within the law to "graduate" a country from Jackson-Vanik, or to provide a less burdensome multi-year certification. Countries granted MFN under a waiver now undergo annual reviews which address both emigration policies and human rights performance. A country with no *de facto* emigration restrictions, e.g., Hungary, still faces these annual reviews. Under current law, if we were to determine that Hungary does not require a waiver, this would require a semi-annual report by the President, possibly a more demanding and contentious requirement than the annual waiver. In addition, economic reform programs may lead to a point where Hungary, or another Eastern European country, should no longer be classified as a non-market economy. There are currently no explicit provisions in the law to remove Hungary, or another Eastern European country, from the list of such countries;

though arguably we may do so, thereby permitting the extension of MFN for three-year periods without the possibility of annual recision on the basis of a deterioration in emigration policies.

Credits

The USG is also prohibited from extending government credits to any country which does not meet the requirements of the Jackson-Vanik amendment. This limits USG credit programs in Eastern Europe to Hungary and Poland, which was eligible before the Trade Act took effect. In addition, Section 620(f) of the Foreign Assistance Act prohibits assistance to countries "dominated by international communism," without a presidential determination that such a loan is in the national interest. Although Poland qualifies under the law for bilateral credits, U.S. agencies are unwilling to grant new credits because of the level of debt and arrears outstanding to Poland and the GOP's continuing refusal to live up to its Paris Club commitments. There is no restriction on credits to Hungary because of the Jackson-Vanik waiver.

IMF/IBRD Membership and Support

"It has long been U.S. policy to support membership in the IMF of any country which is prepared to accept the obligation of Fund membership" (from NSDD-54), although we abstained in the case of Poland in June 1986. Currently, Hungary, Romania and Poland are members of the IMF, the IBRD (World Bank), and its related institutions, IDA and the IFC.

Membership in the IMF and IBRD for the remaining countries would require that countries adopt market-oriented reforms and open their economies and policies to surveillance and consultation. The U.S. must be prepared to consider each case on its merits. Membership would also raise expectations that the IMF would be prepared to conduct programs in each of these countries. The kind of economic policy adjustments the Fund would seek in order for Eastern European members to use its resources will undoubtedly pose wrenching political as well as economic choices for these regimes that may be difficult to make. Nevertheless, the IMF (and the IBRD) could provide technical assistance to its Eastern European members without active programs. This would help them with the kind of expertise needed to reform their economies.

OPIC Guarantees

Section 620(f) of the Foreign Assistance Act explicitly prohibits OPIC programs to Eastern European countries without a presidential determination. In addition, under current law, OPIC can only operate in countries that meet certain workers' rights provisions. In 1988, the Reagan Administration supported legislation that would have permitted OPIC operations in Hungary. However, this legislation was defeated in the

House, partly because of poor legislative management and partly because of strong opposition from the AFL-CIO on the workers' rights question.

Government-to-government agreements on investment should be explored as an alternative to, or a precondition for, OPIC programs, particularly with Hungary and Poland, where U.S. investors have shown the greatest interest. Both countries have taken steps to liberalize their investment laws, and have expressed interest in exploring some kind of bilateral investment agreement. Such agreements would require a commitment by the Eastern European government to protect U.S. investments and profit repatriation. Once established with Poland or Hungary, such agreements would provide a precedent for encouraging more favorable investment regimes elsewhere in Eastern Europe.

OPIC guarantees or government-to-government arrangements on protecting private investment would be useful levers to promote private sector growth and U.S. private investment in Eastern Europe. (We would continue to monitor these to ensure their nonstrategic content.) Eastern European countries are seeking direct private investment in order to obtain managerial expertise and the transfer of technology. Hungary, Poland and Romania (IMF members) could also potentially benefit from membership in the new IBRD-affiliate -- the Multilateral Investment Guarantee Agency (MIGA).

Technology Transfer

U.S. strategic concerns will remain paramount. Efforts should continue to streamline COCOM lists and to improve the efficiency of the U.S. export control review process. Establishing special categories for certain Eastern European states only complicates an already cumbersome approval process; case-by-case review permits a limited amount of fine tuning among countries and end-users within these countries without opening up inconclusive debates about principles. For educational purposes, we can engager in a discussion of export control matters which encourages 1) an informed, realistic understanding of U.S. export licensing policy and practice (such a dialogue has been successfully initiated with Hungary) and 2) openness and cooperation in complying with U.S. export administration regulations. However, DOD believes that discussions of this kind are not an appropriate form of leverage because it implies the possibility of a trade off.

Debt Rescheduling

U.S. policy is to extend debt relief only when it is necessary as a financial measure to ensure repayment and when the debtor country embarks on an economic/financial stabilization program.

Concessional Sales of Foodstuffs

The 1988 Trade Act provides for sales of foodstuffs to Poland where the local currency generated by domestic sales of these commodities will be donated to projects within Poland. As appropriate the U.S. should consider expanding this program to other countries within Eastern Europe. This program depends on the availability of excess commodities.

GSP

The Generalized System of Preferences (GSP) eliminates U.S. duties on certain commodities produced and exported by "developing countries." However, the GSP legislation specifically prohibits GSP for Poland, the German Democratic Republic and Czechoslovakia as "developed" countries. As an additional threshold, the legislation prohibits GSP for countries dominated by "international communism". Countries receiving GSP must also meet international workers' rights standards, and Romania lost GSP treatment two years ago under this provision.

Economic-Commercial Activities and Programs

Bilateral economic commissions provide an important forum for discussion of bilateral economic/commercial relations with Poland, Hungary and Romania and should be continued. Staff-level activities through the Department of Commerce also can be used effectively, particularly with those countries where we have non-normalized trade relations. Examples of this type of activity include: trade experts roundtables, business facilitation working groups, specialized briefing (both in the U.S. and abroad).

An agressive and more diverse trade promotion program is an effective way to penetrate Eastern European markets and to advance overall U.S. commercial interests. Active participation in the major Eastern European trade fairs on a full cost-recovery basis should be continued and we should expand the use of smaller trade promotion vehicles such as trade missions, single-company exhibits, etc. Strong USG support for the Economic Councils should be given to aid the private sector's efforts to open up Eastern European markets to nonstrategic trade.

Cooperation in Tourism

With greater openness in Eastern Europe, increased cooperation in tourism offers an excellent opportunity to further U.S. objectives in the region; tourism MOU's and agreements are low-cost USG initiatives, require commitments from the Eastern European country, and can bolster U.S. exports and tourism-related American investment in the region.

o POLITICAL RELATIONS

High-Level Visits: Eastern European countries readily welcome high-level visits of USG officials (President, Vice President and members of the cabinet). In fact, they frequently view the visits as indications of good relations. The existence or absence of such visits sends a strong signal. High-level visits have been useful tools to get movement on our human rights agenda (including family reunification) or as a means to raise other specific issues. We should be prepared to expand the use of this tool, particularly for countries engaged in political liberalization or economic reform.

Political Consultations: Eastern European governments are usually interested in regular political consultations at a senior level. We have been hesitant to institutionalize such discussions. However, we do favor enhanced political consultations with the Eastern European countries on current issues (e.g., arms control, regional security, terrorism, human rights, drugs).

Public Diplomacy: Through public diplomacy, the U.S. has a potent source of leverage on internal developments in Eastern Europe. We have the ability to influence domestic agendas by going directly to the peoples of the area on such important issues as human rights, and Western democracy and market economies as models for society. The means are powerful and must serve carefully defined policy objectives.

Consular and Diplomatic Restrictions: U.S. restrictions were put in place in order to protect the national interest from the threat of espionage. We should be prepared to fine-tune restrictions on an individual basis, based on reciprocity.

Defense/Military Contacts: These are also a source of leverage and can be political events of some significance.

The CSCE Process: The CSCE process provides a framework in which we can press for compliance with CSCE commitments, including respect for human rights and economic reform. The three upcoming follow-on conferences on the human dimension (Paris in 1989, Copenhagen in 1990 and Moscow in 1991) provide us with an opportunity to confront individual Warsaw Pact countries on their human rights violations or, as appropriate, recognize progress made. The Bonn economic conference will provide a forum for promoting market-oriented economic policies.

o CULTURAL RELATIONS, EXCHANGES, USIA PROGRAMS

Cultural Relations: The U.S. should continue employing programs to reinforce the pro-Western orientation of the area.

Scientific and Other Cooperative Programs: Strong possibilities for effective cooperation exist in such fields as the environment, agricultural research, agricultural marketing, scientific research, and business management. U.S. expertise in these areas is very attractive to the Eastern European countries.

USIA Programs and Exchanges: Traditional USIA programs (AMPARTs and IVP's) can reinforce American goals of political liberalization and economic reform. Educational exchanges, exhibits, and publications provide a significant means to demonstrate Western values and expand U.S. contacts with a wide range of Eastern European society.

Nature of Radio Broadcasts: U.S. radio broadcasts serve two basic purposes: provide news and information about the U.S. and U.S. foreign policy (VOA) and provide a surrogate source of uncensored domestic, regional and world news (RFE). RFE has long played a vital role in the countries of Eastern Europe, with an estimated listening audience of 34 million throughout the region. The cessation of jamming in Eastern Europe this past year will likely expand RFE's audience and its impact on regional developments. Although RFE is administered by an independent federal agency (the BIB), it provides along with VOA direct access to a broad cross-section of Eastern European society in support of U.S. foreign policy objectives.

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THE WHITE HOUSE

WASHINGTON

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September 2, 1982

*National Security Decision Directive 54*

UNITED STATES POLICY TOWARD EASTERN EUROPE * (~~S~~)

I have reviewed the interagency report on United States policy toward the Warsaw Pact countries of Eastern Europe. I have determined that the primary long-term U.S. goal in Eastern Europe is to loosen the Soviet hold on the region and thereby facilitate its eventual reintegration into the European community of nations. Western influence in the region admittedly is limited by Moscow's willingness to use force against developments which threaten what it perceives as its vital interests in the region. The United States, however, can have an important impact on the region, provided it continues to differentiate in its policies toward the Soviet Union and the Warsaw Pact countries of Eastern Europe, and among the countries of Eastern Europe, so as to encourage diversity through political and economic policies tailored to individual countries. While the impact of differentiation in some cases may be marginal, it offers the best vehicle for achieving the primary U.S. goal of weakening overall Soviet control in the region. In implementing this policy, the baseline for comparison will be our policy toward the Soviet Union. (~~S~~)

Differentiation will aim at:

-- Encouraging more liberal trends in the region.

-- Furthering human and civil rights in East European countries.

-- Reinforcing the pro-Western orientation of their peoples.

-- Lessening their economic and political dependence on the USSR and facilitating their association with the free nations of Western Europe.

-- Undermining the military capabilities of the Warsaw Pact.

-- Encouraging more private market-oriented development of their economies, free trade union activity, etc. (~~S~~)

* In this NSDD Eastern Europe refers to Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, and Romania. Yugoslavia will be the subject of a separate NSDD. Given Albania's seeming disinterest in a viable relationship with the U.S. at this time, and its non-membership in the Warsaw Pact, it does not merit either inclusion in this NSDD or a separate study. (~~C~~)

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This policy represents a continuation of differentiation toward Eastern Europe which has been U.S. policy for nearly 20 years. While the fundamental objectives of differentiation remain the same as in the past, its implementation will differ in that we will proceed more cautiously and with a clearer sense of our limitations, including budgetary ones. (~~S~~)

In implementing its policy, the U.S. will calibrate its policies to discriminate carefully in favor of governments which:

-- Show relative independence from the Soviet Union in the conduct of foreign policy as manifested by the degree to which they resist associating themselves with Soviet foreign policy objectives and support or refrain from obstructing Western objectives; or

-- Show relatively greater internal liberalization as manifested in a willingness to observe internationally recognized human rights and to pursue a degree of pluralism and decentralization, including a more market-oriented economy. (~~S~~)

The U.S. Government will consider each factor to an appropriate degree on a case-by-case basis. States that fail to show internal or external independence should be treated essentially as we treat the USSR. U.S. concessions should be in exchange for concrete actions demonstrating independence. Rewards must be earned. In addition, we will carefully tailor our rewards in order to minimize benefits to the Soviet Union. (~~S~~)

The U.S. Government will employ commercial, financial, exchange, informational, and diplomatic instruments in implementing its policy toward Eastern Europe to include the following:

-- Most-Favored-Nation (MFN) Status. MFN status will be exploited consistently with U.S. law and policy objectives when the states of Eastern Europe are responsive to our concerns on such issues as family reunification and human rights (including freer emigration). Our actions in this regard will depend on the readiness of the relevant East European government to enter with us into a constructive bilateral relationship. (~~S~~)

-- Credit Policy. Access to private and official Western capital is a key asset for the economic development of Eastern Europe. The U.S. Government extends financing which benefits Eastern European countries as well as U.S. trade interests through a number of programs. In deciding on the extension of such financing, we will take into account U.S. political and security objectives within the framework of U.S. law, agencies' regulations, and economic criteria on a case-by-case basis. We will seek to avoid situations in which reverse leverage related to the overextension of credit could be exerted by the debtor country. (~~S~~)

-- International Monetary Fund (IMF) membership. It has long been U.S. policy to support the membership in the IMF of any country which is prepared to accept the obligations of Fund membership. The U.S. will continue to place economic and financial factors first among other decision criteria when considering IMF membership in individual cases; we will also continue to judge applications on a case-by-case basis, giving due weight to political and security factors when considering whether countries, particularly those in Eastern Europe, can be expected to meet the obligations of Fund membership fully and without reserve. (~~S~~)

-- Debt Rescheduling. U.S. policy is to extend debt relief only when it is necessary as a financial measure to ensure repayment and when the debtor country embarks on an economic/financial stabilization program designed to rectify the country's financial position. Normally, we expect such a program to be supported by an agreed regimen of conditionality. In addition to these financial criteria, political and security objectives will continue to be given due weight in reaching a final decision on rescheduling the debts of Eastern European countries. (~~S~~)

-- Technology Transfer and Export Controls. U.S. strategic concerns will remain paramount. Since there is a high probability that technology legally sold to any Eastern European country other than Romania will be passed on to the Soviet Union, it will not be possible to differentiate in the provision of COCOM-controlled production and process technology. However, a cautious U.S. policy on the sale of end products can be a facet of a differentiated policy toward Eastern Europe provided such sales will not prejudice U.S. efforts to strengthen the COCOM system. (~~S~~)

-- Cultural and Educational Exchange and Informational Programs. Such programs will be employed to reinforce the pro-Western orientation of the populace in Eastern Europe, and communicate U.S. views to audiences there. (~~S~~)

-- Scientific Exchanges. Through exchanges and increased interactions, the USG will continue to work to reinforce the Western orientation of East European scientific-technical elites. Scientific exchanges will continue to be subject to our strategic concerns with technology transfer and diversions. (~~S~~)

-- High Level Visits, Ship Visits and Consultations. Such actions provide an opportunity to show U.S. support -- or by their absence, lack of support -- for an individual country's policies. (~~S~~)

-- International Organizations. International fora will be exploited particularly for negative differentiation, to focus world attention on actions by the Soviet Union and Eastern European states which violate internationally recognized human rights or norms of international behavior. (~~S~~)

-- Restrictions on Eastern European Diplomats and Consular Personnel. Restrictions provide a means of regulating the number and activities of Eastern European diplomats in the United States in accordance with our approval or disapproval of the sending country's actions. Use of this tool will be considered in the context of reciprocal actions and their impact upon U.S. security and other interests. (~~S~~)

Ronald Reagan

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# AGENDA

Deputies Committee Meeting
U.S.-Eastern Europe Relations
NSR-4

March 17, 1989
5:30 p.m.

I. Introductory Remarks by the Chairman

II. Review of Findings - NSR-4

<u>Assessment of the Situation</u>

Comments by the Deputy Director of Central Intelligence Designate Richard J. Kerr

<u>Review of Current Policy</u>

Comments by the Under Secretary of State for Political Affairs Robert M. Kimmitt

III. Policy Issues for NSC Consideration

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