

# THE HERITAGE LECTURES

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NIS Aid:  
A View  
From the Hill

*By Senator Mitch McConnell*



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# NIS Aid: A View from the Hill

By Senator Mitch McConnell

Support for Russia on Capitol Hill, like Russia itself, is in transition. Two years ago, when I was the ranking member, not chairman, of the Foreign Operations Subcommittee, I worked closely with the Administration to draft and pass a \$2.5 billion package of aid, two thirds of which was planned for Russia.

Since then, direct bilateral aid, loans, financing, and agricultural credits for Russia have consumed \$8.4 billion of the total \$11.5 billion provided all the republics. Add to that the recent \$6.2 billion in loans extended by the IMF and you have a sense of the enormous commitment that has been made to Russia.

This year the Administration is seeking a little under \$800 million for the NIS. I don't mean to overwhelm you with numbers, but as the debate over assistance heats up this year, I think we should all keep in mind the proportionately larger amount Russia has already received relative to her neighbors.

With the new majority, I think you will see new U.S. policy and aid priorities established. In this context, and as the new chairman of the Foreign Operations Subcommittee, I thought I would review three issues of concern that I have about our program—namely, the type of aid, the balance in recipient allocation, and the political conditions relevant to administering our program in Russia.

When I went to Moscow in 1993, it was very clear to me that no amount of aid would change Russia. Investment, trade, and the private sector were the keys to success. U.S. companies—large and small—were eager to develop ties, but all the businessmen I spoke with had a common set of problems. There was no rational tax structure, contracts were difficult to enforce because of a lack of a commercial code or regulatory mechanisms, and banking and financial transactions were nearly impossible to carry out.

To respond to these concerns, I included language which linked aid to Russia on progress in implementing comprehensive economic reforms based on market principles, private ownership, respect for contracts, and equitable treatment of foreign investment. The Subcommittee strongly encouraged the Administration specifically to support efforts to strengthen the private sector, such as providing advice to the Duma in the drafting of commercial laws. As one of your panelists, David Rossiter, may have explained, we also encouraged partnerships between AID and private enterprise.

I think the record of our success has been mixed. With the exception of the large-scale privatization initiative, the Administration was less than enthusiastic about many of our proposals and earmarks. We kept hearing the Russians were not interested in the kind of help we thought would be most effective.

The Administration's opposition has taken many forms. For example, on the assumption that corruption and crime impeded private sector expansion, Congress earmarked \$30 mil-

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Senator McConnell, a Republican, represents Kentucky in the United States Senate. He serves as Chairman of the Senate Foreign Operations Subcommittee.

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lion for a variety of law enforcement programs. With dire warnings that 5,000 criminal organizations were moving in to control banks and industry and attempting to steal nuclear material, we were particularly interested in beefing up FBI training and investigation efforts in the region. Of the \$30 million Congress mandated for these purposes, Judge Freeh had to fight the bureaucracy to get \$6 million.

Although I have been disappointed by the lethargic support for the private sector, I think it is fair to say I have noticed a change in attitude since November. Recently, Dick Morningstar was appointed as the Coordinator for NIS Assistance at State. He has an excellent reputation with the business community earned in the number-two spot at OPIC—I expect his background will serve the program and our interests well.

No doubt he arrives at a crucial juncture. There have been some impressive recent indications of improvement in the Russian economy. Transferring ownership of 15,000 companies to private owners has been an important step—but it is every bit as important to contribute to improving the legal, financial, and commercial conditions essential to sustaining those enterprises. So far, our aid has been short-sighted, but perhaps he can correct that course.

In addition to the type of aid we have offered, my second concern has been its regional distribution. For three years I have argued that we should provide meaningful support for economic and political reform in the other republics. Our aid program should not be an either-or proposition, either we help Russia or the other republics. I think we can—and this year will—assure some balance in the distribution of aid.

Struggling with the same problems as Russia, it is my view that our aid has the potential to go farther in these smaller nations, assuming we develop country-specific strategies. So far, plans for the other republics primarily are managed by contractors in Moscow or simply spin-offs or, in AID jargon, roll-outs of Russia programs. For example, the Russian mass privatization voucher program is being replicated in Ukraine. I think this emphasis may overlook more critical needs in developing the agribusiness sector. Now, more than ever, with less money to spend, we should tailor our resources to maximize their impact.

Turning away from specific issues about our aid program, let me address my third and somewhat broader concern—political reform and the evolving relationship between the U.S. and Russia.

Since I seem to think in groups of three, there are three issues which currently trouble the U.S.-Russian relationship—none of which will surprise you. First, I have reservations about Russian regional ambitions. In a surprising turnabout in early December, Foreign Minister Kozyrev and then President Yeltsin denounced our efforts to expand NATO. Warning of a “cold peace,” Yeltsin declared Russia unwilling to participate in the Partnership for Peace program. To date, they are still stonewalling both NATO expansion and the Partnership. This tension escalates fear in Central Europe about Russian ambitions—concerns which were magnified last week by both Kozyrev and Yeltsin. In commenting on events in Crimea, they both insisted on Moscow’s right to use force to protect Russian minorities.

Compounding these strains is the situation in Chechnya. Although I think there is reason to be relieved over the dismal performance of the military, the brutality of the assault on civilians has caused real alarm. As one Ukrainian said to me, “If they are willing to march on Chechnya, unplanned and unprepared, suffering tremendous casualties both in lives lost and public opinion, who knows what they would do to Ukraine? Chechnya does not really matter to Russia. Ukraine does.” There is no doubt that events in Chechnya have reinforced concerns that decision making in Moscow is unpredictable, with destabilizing consequences.

Finally, and of immediate interest in the aftermath of the Oklahoma bombing, is the nuclear agreement signed between Moscow and Tehran. There is no question that this is a direct threat to the national security of the United States. The Russians have agreed to provide technology, equipment, and technical advice to a terrorist country with no current nuclear capability.

Given this volatile mix, I think it was extremely ill-advised for the President to agree to a summit. I was told the President was going for two reasons: to show support for the Russian people on an internationally important day and to talk tough on these three key issues I have raised.

When it comes to tough talk on these issues, let me remind you that in February, Secretary Christopher said the President would not go to Moscow unless Chechnya was peacefully resolved. The war grinds on, Grozny is in ashes, the civilian death toll continues to mount, but the President is now going to Moscow. In fact, Russian combatants involved in Chechnya will march in the V-E Day parade. I think we squandered what credibility we may have had on this issue by drawing a line, then immediately crossing it.

Now, with the decision made, I think it is essential that the President produce results. It is my view that he should return from Moscow with three concrete achievements. First, I would like to see a real cease-fire and progress on a negotiated resolution to Chechnya. Second, the Russians should sign their individual agreement to participate in the Partnership for Peace as an initial step in supporting NATO expansion. And, finally, I expect the nuclear deal with Iran to be terminated.

I understand these are very tough conditions, but I am convinced that equivocation will only invite further hardening of the line in Moscow. For the past two years, we have accommodated the ebb and flow of the Russian political tide. We have paid a price for our passivity. For our accommodating effort we now see Yeltsin surrounded by reactionary advisors, some of whom view foreign investment as a threat and Chechnya as none of the world's business.

I continue to believe that facilitating the success of the transformation underway in the New Independent States is one of our nation's top priorities. Today, just as in 1993, when we launched one of the largest new assistance initiatives in our nation's history, we still have a vital interest in promoting economic reforms in order to expand our trade and market opportunities. We still have a vital interest in promoting democracy, the proven antidote to territorial aggression and ethnic unrest. We still have a vital interest in dismantling the Russian nuclear inventory.

Our aid and our policy must be more sharply focused, better designed, and, above all, consistent if we are to succeed in meeting the challenges ahead. It will not surprise you to hear me suggest the new majority is eager to take on that task.

