

though admittedly difficult, reform programs; debt service payments have to be maintained and a stable and competitive exchange and trade system achieved.

An important objective of the reform effort in the newly independent states must be to encourage domestic savings and investment, as well as private sector capital flows to the region. This will require the development of an institutional framework that permits private markets to flourish and foster long-term growth. These framework policies will also generate the technical assistance and technology transfers that can be just as important in the reform process as transfers of money.

These policies include private property rights, measures to end monopolies, an effective bankruptcy law and comprehensive financial sector reforms. As well, establishing a legal framework for private markets is especially important if privatization plans are to succeed. And they must succeed, because the privatization of state-owned enterprises provides these reforming states with the best opportunity for growth. Indeed the countries themselves are not alone in seeing opportunities since many Western businesses also enjoy virtually unparalleled opportunities as the transformation of these parts of Europe proceeds. In Czechoslovakia alone, there will be something like 4,000 companies being privatized over the next 18 months.

Western government financial assistance is only part of the answer. Why? Governments can only provide money, but private sector investors can provide so much more. They can provide the thousands of tools that businesses in these countries so desperately need to adjust to the newly competitive environment. The tools they need are those which Western businesses have, tools like transfer of technology, management and production know-how, market access and marketing expertise, financial resources and all the other advantages which strategic partners enjoy.

Therefore, it is critically important that these countries transform their policies so as to make Western private sector investment possible. They must not shrink from the essential job of economic reform, which will put them on the path to economic growth and prosperity. The race is on to transform Eastern Europe and the former Soviet Union from command economies to market-based economies. The winners in this race will be those countries that adopt these reforms the soonest.

One of the perils we all face in making policy and investment decisions is the possibility that economic decline causing social unrest, combined with ethnic tensions, could transform these countries into battlegrounds. In this regard, the circumstances of several of the former Soviet republics and Yugoslavia are wake-up calls to the rest of the world. No people can long