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BILDERBERG MEETINGS

KNOKKE
CONFERENCE

21-23 April 1972

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INTRODUCTION

The twenty-first Bilderberg Meeting was held at the hotel "La Réserve", Knokke, Belgium, on 21, 22 and 23 April 1972 under the Chairmanship of H.R.H. The Prince of the Netherlands.

There were 103 participants from the United States, Canada, Australia and 14 Western European countries, as well as from various international organizations. They consisted of members of governments, politicians, prominent industrialists and bankers, lawyers, journalists, national and international civil servants and outstanding representatives of the academic world and other groups.

In accordance with the rules adopted at each Meeting, all participants spoke in a purely personal capacity without in any way committing whatever government or organization to which they might belong. In order to enable participants to speak with the greatest possible frankness, the discussions were confidential, with no representatives of the press being admitted.

The Agenda was as follows:

The state of the Western community in the light of changing relationships among the non-Communist industrialized countries, and the impact of changing power relationships in the Far East on Western security.

The Meeting was opened by H.R.H. The Prince of the Netherlands, who extended a special welcome to the ladies present, this being the first occasion on which women had participated in the Bilderberg Meetings. His Royal Highness conveyed the gratitude of all the participants to their Belgian and Dutch hosts, and read telegrams which he proposed sending to H.M. The King of the Belgians and H.M. The Queen of the Netherlands.

The Prince expressed regret at the absence of Professor John Pasmazoglu, whose request for a passport to attend the Conference had been denied by the Greek authorities.

After recalling the rules of procedure, His Royal Highness turned to the subject of the Agenda.

WORKING PAPERS

The groundwork for discussion at the Conference consisted of four working papers distributed in advance to all the participants. Two were prepared by American participants, one by a British participant, and one jointly by a Netherlands and an International participant.

Following are summaries of these working papers, and of the comments of their authors in introducing them to the meeting:

A. "ECONOMIC ISSUES BETWEEN INDUSTRIALIZED COUNTRIES FOR THE SEVENTIES"

I. Background

The American author of this paper began by saying that the industrialized countries of the non-Communist world could take considerable satisfaction from their record of dealing constructively with major economic issues during the postwar period. The result had been unprecedented growth and prosperity for all.

The reconstruction of Western Europe and Japan, and reconversion from war to peace in the US and elsewhere, had been achieved more quickly and effectively than anyone had dared hope in 1945. The individual tasks of each country had been facilitated by enlightened international cooperation – through the Marshall Plan, other *ad hoc* reconstruction organs, and in a whole host of new institutions for economic collaboration. For the first time in modern history, nations had started working multilaterally to solve common problems.

From the mid-fifties through the latter sixties, this habit of working together had become more deeply ingrained and everyone had benefited accordingly. Europe had embarked on a historic path of economic integration, with the encouragement and help of the US. The wider institutional framework for economic collaboration – IMF, IBRD, GATT, OEEC and its successor, OECD – had functioned well and was adequately suited to the task.

The Bretton Woods system, with a convertible dollar at its center, and world trade rules developed at Havana, based on multilateralism and the most-

avored nation principle and focused on tariff reductions and non-discrimination, had been adequate to cope with existing problems. As a result, the Western industrialized world had made impressive economic strides. This success on the economic side had in turn fostered close political ties and a common sense of purpose, which helped the Western alliance to withstand the political pressures of the cold war.

The success of the Kennedy Round, resulting in a more far-reaching reduction of tariff barriers than had seemed possible, had been the most dramatic and – as it turned out – last great achievement of this period. It was to be, unfortunately, not the threshold of greater economic cooperation, but rather a turning point from an era of collaboration to one of uncertainty and crisis.

During the last four or five years things had not gone well. Protectionism was on the rise in the US and elsewhere, and the monetary system had broken down. Collaboration on economic policies toward others – Communist and Third World countries – had become the exception rather than the rule. To many outsiders, including the US, European integration seemed a threat rather than a benefit. The validity of existing institutions and rules in the monetary and trade fields was being questioned.

This general deterioration had culminated in the crisis of August 1971. While the December agreements on exchange parities had defused the most dangerous elements of this situation, many fundamental problems remained unsolved. Once again there was danger that our inability to deal constructively with monetary and trade problems would create disorder and hardship, that recession in one country would lead to depression in another and to world crisis for all. More than ever before, the interrelationship of our individual domestic fortunes with the international politico-economic state of affairs had been brought home to us.

II. The problems and the issues

What was the cause of the present state of affairs, and what was the agenda of problems which the non-Communist industrialized countries had now to face? In the author's view, our economic agenda contained some urgent unresolved issues left over from the Sixties, as well as a complex set of entirely new questions, arising from the altered circumstances in the industrialized world.

These changed circumstances called for innovation in methods of economic cooperation and in the reshaping of our institutions. But no new institutions would be effective if we did not recover our political will to work together; if we did not turn away from neo-mercantilistic nationalism in our economic affairs; and if we did not resist the inroads of competitive power bloc politics.

Without attempting to analyze the entire range of outstanding issues, the author suggested three fundamental questions:

1. What changes in the international economic environment confronted us in the seventies, as compared with the preceding two decades?
2. What problems arose from the new circumstances, and which ones were left over from the past?
3. Were our existing institutions still suitable, and what changes did they need?

III. A changed international economic scene

One important change related to the position of the US. Until the late sixties, American predominance had been the major element around which the West's economic relationships were built. The US had accounted for a towering share of world production and had been by far the major market and the largest trading nation in absolute terms. The dollar had dominated the world's monetary system, providing liquidity to finance the growth of international commerce.

In the seventies, US economic leadership was no longer unchallenged. American dominance had been reduced as the power of Europe and Japan had risen. During the past two decades, the US share of world GNP had dropped from almost 50 per cent to 30 per cent. In 1950, the US accounted for 76 per cent of total world production of motor vehicles and 46 per cent of steel. By 1970, these figures were down to 30 per cent and 20 per cent, respectively. Meanwhile, the EEC's share of motor vehicle production had risen from 14 per cent to 24 per cent, its share of steel output remaining even at about 20 per cent. Japan, producing almost no motor vehicles 20 years ago, made now 17 per cent of the world's total. Her share of steel production had risen from 2 per cent to 16 per cent in 1970.

World trade trends and national reserve positions also showed a relative weakening of the US in favor of Japan and the enlarged European community.

The decline of the US's economic predominance had impaired its capacity for leadership in the solution of common problems. This now had to be a shared task, with the constructive impetus coming as often from Europe and Japan as from the US.

America's will to play its old role had perhaps been diminished as much as its power to do so. Vietnam had turned the country inward, toward greater nationalism and protectionism. This trend might not be irreversible, but to provide counterweights and to stimulate the most constructive American responses, intelligent non-US initiatives were needed.

A third changed circumstance of the seventies was that trade was no longer the dominant element in international economic relations. The dramatic increase in transnational investments was having a profound impact on our relationships, fundamentally altering the agenda of issues confronting us. We now had to deal not only with the problems of merchandise trade but also with the large volume of direct foreign investment and exchange of services. The explosion in communication and travel had altered the economic scene. Many of the factors of production once considered as "fixed", had become quite mobile.

During the decade of the sixties, the book value of US direct investment in plant and equipment abroad more than doubled, to a total of \$78 billion. The share of these investments in Europe quadrupled from \$6.7 billion to \$24.5 billion. The output associated with these investments exceeded many times the volume of imports or exports of any of the major trading nations.

The changing composition of the US balance of payments showed how international economic relations had shifted. In 1970, gross income from US private investment abroad was \$8.7 billion; net US investment income stood at over \$6 billion. These figures were several times as large as those prevailing a decade or two ago. US income from royalties and fees had increased more than ten-fold - from \$200 million in 1950 to \$2.3 billion in 1970. At the same time, while the overall volume of imports and exports rose significantly, the traditional US annual trade surplus of \$5 or 6 billion had dissolved into a deficit.

There was nothing alarming about these changes; economic interchange, reflecting technological advances, could mean greater prosperity for all. But dealing with the accompanying problems and complexities would entail changes in our focus and in our institutions.

A fourth important element of change for the seventies had to do with the rise of the multinational firm (MNF) - through which international direct investments and the transfer of technology and know-how had been effected. It was so far largely an American phenomenon but the growth of the MNF was bound to become generalized. Most developed countries would be both investing and recipient nations, and thus share a common set of partially similar and partially conflicting interests.

While international investments through MNFs generally produced a net economic gain for all, they posed vexing dilemmas. Although we were becoming more economically interdependent, each nation faced internal pressures for change and social justice, for the preservation of the environment, and for the protection of its citizens from the dislocations of rapid economic and technological growth. Each country wanted to deal with these pressures in its own

way, yet found its freedom of action circumscribed in the face of our increased economic interrelationships. The MNF had thus put into question the adequacy of many of our old ways of handling international economic problems. Most of our monetary and trade rules had been devised before the MNF was on the scene, and needed reevaluation and adjustment.

The world of the seventies would also differ from that of earlier decades because of major structural changes in the developed world. With the accession of the UK and others to the EEC, the US would be confronted with a large European economic bloc, to which was associated a number of limited partners, developed as well as developing countries. This meant that negotiations on trade, monetary and investment questions would have to be conducted on a different basis than during the years when regional economic groupings were still relatively unimportant. Would the old most-favored nation principle still be relevant? Should the US develop a bloc of full and limited partners of its own?

A second structural change was the rise of Japan as a third major economic force. Japan's role among the industrialized countries would have to be redefined, as regards both her rights and her obligations.

And, of course, the end of the Cold War and the shifting power relationships in Europe and Asia had given rise to further structural changes in world economic relationships.

IV. An agenda

A variety of problems arose from this new situation. But while these problems could be stated as separate and distinct, there was a much closer interrelationship between them than ever before. Problems of trade could no longer be seen as separate from questions of exchange rates or investments; agricultural and industrial trade problems were closely entwined. In an increasingly inter-related world, economic issues and problems were inevitably more interdependent.

1. *Agricultural Trade.* This problem, which the industrialized nations had never adequately faced, required urgent attention. Without new understandings on this subject, progress in other areas of trade relations would become increasingly difficult. The principal nations should not let this relatively limited, though politically sensitive, sector of economic life frustrate across-the-board advances on trade matters. Progress in liberalizing agricultural trade was bound to be slow because of the complex interaction of domestic politics, internal support programs and international trade considerations.

Temperate agricultural trade covered a wide range of commodities and transformed agricultural products. Each country had practiced excessive protectionism, mainly for political reasons. But the EEC's Common Agricultural Policy, with its particular system of supports, variable levies and export subsidies, had immensely complicated the problem for everyone. Much of the US frustration over the EEC was related to CAP's deep protectionist bias. The US admittedly had its own quantitative agricultural restrictions, but their impact amounted to less than half the volume of the EEC restrictions. The US was also less restrictive than Japan or the UK in this area.

No single formula could resolve the problems of agricultural trade, but the EEC's suggestion of negotiating total levels of protection and support was the right approach. The problem lay in measuring these overall levels fairly so as to enable all countries to contain domestic protectionist pressures. At a minimum, negotiations on agriculture should be aimed at limiting export subsidies. At the same time, broad differences in efficiency between countries should be recognized.

No new major initiative or negotiation to deal with the problems of agricultural trade should be left to ministers of agriculture. The best way to frustrate progress in this field would be to ignore the broader political context of such an issue by restricting its scope to functional specialists.

2. *Industrial Trade.* The Kennedy Round by no means disposed of all remaining problems regarding tariff protection on industrial trade. While average tariff levels were generally low, these global measures hid the high levels of protection, particularly on value added, in many significant sectors for most advanced industrial nations. Furthermore, even low tariffs had a restrictive effect on trade potential.

The remaining areas of relatively high tariff protection were the most difficult cases, such as the textile industry, with which past negotiations had had no marked success. A new initiative was needed here, and perhaps the industrial nations should consider committing themselves to the goal of eliminating all tariffs within a decade or less. Negotiations on tariffs alone, though, would no longer work. There had to be simultaneous progress on agricultural trade, as well as on the removal of non-tariff barriers to industrial trade.

The best approach might lie in sector negotiations. This was tried in the later stages of the Kennedy Round, without notable success. But with careful preparation, it offered the best way to enhance further progress on reducing protection in industrial goods. Sector negotiations among principal industrial countries would cover, in addition to tariffs, such non-tariff barriers as tax incentives, export subsidies, quantitative restrictions, sanitary, safety and eco-

logical requirements and the like. Probably a coordination of domestic adjustment mechanisms would also have to be discussed.

3. *The Case of Japan.* Japan had become one of the most powerful and important industrial and trading nations in the world, by every measure: share of world GNP, industrial production index, reserve position, and export volume. In the space of 20 years, her total output had passed the economies of West Germany, France and the UK, and now ranked behind only the US and the USSR.

Politically and economically, it was vital to insure that Japan remained firmly integrated into the Western trading system. Recent developments in the Far East and US policy changes in this area underlined this necessity. Two sets of economic negotiations were required. On the one hand, Japan had to end her policy of protectionism, which was unbecoming a powerful trading nation. On the other hand, the discrimination practiced against Japan by most industrialized countries had also to be substantially reduced if not eliminated.

A possible approach would be to set a date by which every major country agreed to do away with any special rules or regulations aimed, directly or indirectly, against Japan alone. In that way Japanese world trade, both ways, would be integrated into general worldwide arrangements, particularly the sector discussions on industrial trade mentioned above. The future of the textile agreements (LTA) could also be decided in this context.

4. *Investment Rules and the Multinational Firm.* Ways had to be found for resolving the problems created by transnational investments and the proliferation of multinational firms. First, the relationship of direct investments to trade and monetary problems had to be established. Second, consideration should be given to establishing international rules and mechanisms governing direct investment operations, including general rules of behavior for investors and norms for the treatment of such investors by host countries.

For example, the GATT had set up a framework limiting the degree of discrimination toward imports over domestic production. At the same time, a mechanism had been created for negotiation of reductions in the levels of discrimination, and a set of rights and obligations established for importing and exporting countries alike. Perhaps a similar approach should be considered for international investments, aimed at limiting direct and indirect discrimination against foreign investments and defining a country's rights and obligations when discrimination exceeded agreed levels. "Discrimination" should include such matters as tax treatment, access to credit and government contracts, and the like.

Inasmuch as an increasing volume of world trade between advanced countries was accounted for by multinational firms, all future trade negotiations should recognize the growing importance of this trend.

5. *Economic Policies Toward Communist Countries.* During the cold war years, there had been a reasonable Western consensus regarding economic and trade policies toward Communist countries (understandings on the extension of credit, strategic goods limitations, etc.) There was no longer any pretense of a coordinated approach in these matters, though, and the Western industrialized countries needed to reexamine the situation in light of their common concerns and of the vastly changed circumstances of the post-cold war period.

The questions involved were complex and highly political: To what extent should Communist countries be encouraged to become part of the Western trading system? Should our trade relations be governed by special GATT rules or by bilateralism? Was the COCOM List still relevant? Should credit policies or the licensing of technology to the East be coordinated? Or should each of our countries simply follow its own policies in these areas?

6. *Economic Policies Toward Developing Countries.* One of the most disturbing aspects of the present international situation was the growing disparity in levels of economic development between rich and poor countries. Unless the rich nations could soon find means of assisting more effectively in the transfer of resources to the poor countries – through trade, aid, investments, technology and training – the common goal of a peaceful world might well prove illusory.

As this problem was shared by all industrialized countries, a coordinated approach was needed. Past achievements in this area had left something to be desired. The success of the policies we adopted toward each other, and our own levels of economic prosperity, had a direct bearing on the development efforts of the poor countries. We therefore had a considerable responsibility to weigh the effects of our actions on the developing world.

Future trade negotiations had to include new steps to widen access for LDCs to developed country markets, either through regional groupings or on an overall basis. Consideration of investment rules had also to take into account the problems of the developing world, and a renewed set of understandings and commitments about direct transfers through economic assistance programs was in order as well.

7. *Monetary Reform.* The world monetary system was badly in need of fundamental reform. The events of August 1971 were perhaps the inevitable culmination of a progressive breakdown of the old system under the pressure of changed

realities and the unwillingness of the principal powers to play their part in needed reform.

Since Bretton Woods, world trade had grown manifold. Foreign investments, accompanied by large and rapid short and long term capital movements, had become a major factor in international interchange. Communication and technology had transformed the economic scene. The position of the dollar had been altered. The old system could no longer adjust to these changes, and the agreements reached at year-end were at best an interim solution.

The task of fundamental reform was urgent, if we were to avoid a divided and restrictive monetary system. We needed to assure the free flow of money which would provide adequate foreign exchange reserves to accommodate steadily rising levels of trade and investment. It was important that new agreements be reached as soon as possible, so that the largest degree of convertibility of the dollar could be reestablished. The new system had to contain a better adjustment mechanism than the old one, so that individual countries would no longer be forced to choose between domestic stability and international disorder.

V. Institutional arrangements

The last few years had shown that the rules and institutions created in the immediate postwar period, though they had served us well for over two decades, were no longer adequate. No set of institutions would work unless the advanced industrial nations shared a common purpose and the political will to work together and compromise. On the other hand, historical evidence indicated that the framework of institutional arrangements could have an important bearing on the ability of nations to resolve vital problems arising between them.

1. *GATT Reform.* Any review of existing rules and institutions had to take account of the increasingly close interrelationship between trade, monetary and investment problems. Therefore, a basic restructuring of the GATT was necessary, to enable it to handle such issues as non-tariff barriers; sector negotiations; agricultural trade; and the future of the most-favored nation principle. Furthermore, GATT rules had to be brought into conformity with the changed monetary situation.

2. *An Investment "GATT".* A new institutional framework was required to deal with the growing problems of transnational investments and the multinational firm. This responsibility could be given to the OECD or to an affiliated organization created especially for this purpose.

3. *Restructuring the IMF.* A review of the IMF articles was needed to assess the implications of a movement from fixed to more flexible exchange rates and from a reliance on gold and a convertible dollar to non- or limited convertibility and increased reliance on special drawing rights.

4. *Institutional Coordination or Amalgamation.* Would it continue to make sense in the future to seek to resolve related problems in three separate organizations: the GATT, IMF and OECD? Given the interaction of trade, monetary and investment questions, a single forum with a coordinated set of rules might be more advantageous. In any case, the institutional framework and the rules governing the future of our economic relations would require careful consideration and reform if we hoped to succeed in dealing with our major economic problems.

* * *

In presenting his paper, the author confessed that he was somewhat pessimistic about the prospects of "our not just drifting, but really sliding, into serious trouble over the next few years." We no longer shared a common view of the future. The US had become more inward-looking and less able to provide world economic leadership, while Europe and Japan were preoccupied with their own problems. Moreover, our institutional framework was "woefully deficient."

The author suggested the following questions for discussion:

1. Was the underlying bias of the last two decades - in favor of multilateralism, and the progressive reduction of barriers to the free movement of all the factors of production - still valid for the seventies and eighties, as the author himself believed? Or were we instead moving towards a new or intermediate stage in which the development of a strong European bloc of countries ought to be counterbalanced by a US-led bloc? This implied that there would initially be discrimination between such blocs, but in the end they might work together to coordinate their policies.

2. Given the complex economic agenda, who could and would define the road ahead, the common direction in which we should move? Did the Europeans realize that they would now be dealing with "a very different US for some time to come"? Was Europe capable of assuming an important global leadership role? The scheduled autumn summit meeting would give the Europeans a timely opportunity to enunciate their goals and initiatives for the Western world, if they were indeed ready to "look beyond their own very close commer-

cial interests and to take a somewhat broader and more enlightened view toward the future."

3. Was there agreement about the nature of the new problems, such as that of transnational investments, which promised to cause more friction between nations than trade or monetary problems had in the past?

4. Which of these options should we choose as a blueprint for repairing the institutional framework?

(a) Simply try to strengthen existing institutions: GATT, IMF, OECD.

(b) As a variant on (a), add more bilateral or trilateral links and relationships among the principal countries, e.g., between the US and the EEC, or the US, EEC and Japan.

(c) Create an entirely new institution, perhaps by merging the GATT and the IMF, adding a superstructure for policy coordination, such as a more restricted executive committee.

(d) As a variant on (c), revitalize the GATT and redefine the IMF, but bring them more formally into a closer working relationship by establishing a coordinating mechanism and executive policy-guiding group. The author indicated his preference for this latter option.

* * *

B. "WESTERN EUROPE AND AMERICA IN THE SEVENTIES"

I. Introduction

1. The principal contentions of this paper, which was written jointly by a Netherlands and an International participant, were: (a) that European security was dependent on close relations between the US and Western Europe, to which there was no alternative in the foreseeable future; and (b) that the international economic order was dependent on joint leadership by the US, Western Europe and Japan.

2. The authors were aware that "Western Europe" was an over-simplification. With the exception of the relatively limited field in which the nations of Western Europe had decided to operate as a unit (the European Community) there was no "Western Europe" which could help to manage world affairs. There was no actor, only a group of nations more or less closely organized in different types of international organizations.

3. Important changes had admittedly taken place on the international scene during the last decade:

- The USSR had achieved military parity with the US;
- A fundamental conflict had arisen between the two major Communist powers, one effect of which had been to bring the US into a triangular relationship with them;
- Japan had emerged as a major economic power and a potential political and military one;
- The status quo in Central Europe had been accepted by the West;
- The US was no longer able to lead the Western system alone, as it had during the two postwar decades, and it did not seem willing to continue in that role, even if its resources were to enable it to do so.
- The UK and three other West European countries were joining the EEC, terminating an old conflict and enlarging Western Europe's potential for playing an effective role in the world;
- There had been profound social change in the industrialized countries, marked by a shift of emphasis from quantity to quality, and a tendency to become inward-looking.

But in the judgment of the authors, these numerous changes had not fundamentally altered the situation, and the most important assumptions underlying postwar policy remained valid.

4. In analyzing the situation of the West and seeking solutions for the seventies, one risked confusing the feasible with the desirable. In the past, many of our policies had been based on the desirable, neglecting the limitations imposed by the feasible; an example was the concept of an Atlantic partnership between two equals.

The European nation-state had proved to be a tough animal. Ten years of Gaullist foreign policy and the Vietnam war had affected the course of history. On the other hand, policies based on a restricted assessment of the feasible would lack the inventiveness and vision required to assure security and economic order in the seventies.

II. European security

5. Although it could not be detached from the pattern of global security, the European security situation was as follows:

6. a. The USSR had achieved military parity with the US.

b. Soviet tactics were changing, but there were no grounds for assuming that the Soviet Union's objectives had changed or would change considerably in this decade.

c. NATO had a dual function: its forces had first to deter the USSR from military adventures, and secondly be capable of dealing with possible situations involving armed conflict.

d. For the first function, the American strategic nuclear force was indispensable; but without a sizable conventional US presence, America's strategic nuclear force would lose its credibility in European and in Soviet eyes.

e. There was in the foreseeable future no credible European substitute for the US strategic nuclear force.

f. Consequently the question whether the second function could be fulfilled without American conventional forces was irrelevant.

g. The European contribution to the NATO effort was insufficient and ought to be increased, either through higher expenditure or better organization.

h. This was essential to enable NATO to cope with its two functions, and to maintain the climate necessary to permit the US administration to stand by its nuclear and conventional commitments.

7. *Re 6a - Soviet military capabilities*

The USSR had managed simultaneously: to build up a considerable force at its Eastern borders; to become within 10 years a global maritime power; and to increase its military power on its European borders. The necessity to arm against China had not involved a reduction of Soviet capabilities on (and under) the high seas and in Europe. It was speculative to assess the reliability of the Warsaw Pact forces from the Soviet standpoint, but the organization of the Warsaw Pact could not be compared to that of NATO.

The military organization of Eastern Europe was based on a network of bilateral agreements between the USSR and the East European countries. In the Czechoslovak conflict of 1968, the East European forces had been placed directly under the Soviet high command and the Warsaw Pact structure had not come into operation. Any negotiations between NATO and the Warsaw Pact had to take into account the fundamental difference between the two systems.

8. *Re 6b - Soviet intentions*

Four strategic policy aims were clearly discernable in Soviet policy toward Western Europe: (a) to avoid a military confrontation with the US; (b) to consolidate and legitimize its power in Eastern Europe; (c) to weaken the Atlantic alliance, primarily by the removal of the American presence on the Continent; and thus (d) to become the dominant power in Europe.

The tactics used in the pursuit of these objectives and the priorities given to each of them changed with the times. The consolidation of Soviet power in

Eastern Europe was at times accorded priority over attempts to dissolve the Western alliance. Max Frankel's statement in the *New York Times* (December 22, 1971) that "whatever long-term advantage they seek from a divided Europe and declining American power there, it is thought to be secondary to the desire to protect what they have, while the West seems willing to concede it", had to be qualified by pointing out that tactics changed but political objectives remained constant.

9. *Re 6c - NATO's military role*

NATO's strategic concept was difficult to understand and to explain to parliamentary and public opinion, partly because of the intrinsic complexity of a concept aimed both at deterrence and at survival in a military conflict should deterrence fail. "Massive retaliation" had not been a particularly attractive concept, but at least it had the advantage of being clear. "Flexible response" was now the only acceptable military doctrine, but it had the disadvantage of great complexity compounded by being couched in a military jargon compared to which the language of medieval theological disputes was a model of simplicity.

It was nevertheless important that NATO's role should be understood by the average citizen. This was not primarily a task for NATO, but for national governments; in the long run no meaningful defense effort could be maintained without a broad basis of popular understanding. Flexible response required a major nuclear strategic and tactical arsenal plus a major conventional element. A change in the total force of NATO and in the relative strength of its components would create unrest not only within the alliance but also in the USSR, because major changes on our side tended to make it uneasy and nervous. While military postures should be adaptable to circumstances, we should not lightheartedly change a posture that had thus far preserved peace in Europe.

The desire to reduce defense budgets was universal in Western Europe. It was dangerous to rationalize this desire by the introduction of new strategic concepts, invented not because the situation had basically changed but as a pretext for reducing expenditure. The most recent and fashionable of such new concepts was labelled "crisis management".

10. *Re 6d - The American military role in Europe*

Twenty-five years after World War II, the security of Europe was still dependent on the American nuclear umbrella and on a conventional force of approximately 300,000 troops. It had to be recognized, though, that the domination of Western Europe by the Soviet Union would be fatal to the security of the US. However, this did not provide Europe with an automatic safeguard. In

a democracy the translation of a fundamental security interest into an adequate defense posture involved a difficult political process. Most countries, including the US, did not need to go far back in their history to find examples of fundamental security interests *not* translated into defense realities. The fundamental US interests could not, therefore, be viewed in isolation from the European defense effort. A feeling that the defense burden was not equally shared could result in such strong political pressures for the US to reduce its commitments that this idea would prevail over what was and would remain a basic American interest.

Western Europe and the US were faced with the following paradox: On the one hand, the American nuclear commitment to Western Europe was not seriously questioned in the US. However, in the light of US/Soviet parity, the credibility of this commitment was being questioned in Europe. On the other hand, the necessity for a sizable US conventional presence on the Continent was not seriously questioned in Western Europe, although the necessity for this force was seriously questioned in the US.

To understand this complicated situation, the following points had to be underlined:

a. The danger today for Western Europe, as well as the US, was not open Soviet military aggression but the opportunities which a weakening of the alliance would give the USSR to impose its will on Western Europe in one way or another.

b. As John W. Tuthill had put it in a paper prepared for the Atlantic Institute, "a substantial reduction in NATO conventional forces would induce a reversion to reliance on almost automatic use of tactical nuclear weapons in the event of a military action which was interpreted as an act of aggression".

c. American conventional forces differed from their European counterparts in that they belonged to the only power in the West which the USSR considered as really relevant. These forces demonstrated to the Soviet Union that aggression in Europe meant war with the US. Favorable results from the German Ostpolitik and of future East/West negotiations depended on their continued presence.

d. There was no magic in the figure of 300,000, but NATO had preserved peace in Europe *because those men were there*. To quote Tuthill again: "It would seem reasonable to put the burden of proof on those arguing - with such persistence - for a substantially lower figure. The issue is simply whether the credibility . . . of the US overall deterrence would remain unchanged after a further substantial reduction of US conventional forces".

That, then, was the American "quid". What about the European "quo"?

11. *Re Ge, f and g - The European role*

A. In the nuclear field:

The authors did not expect much difference of opinion as to the irreplaceable nature of the US nuclear guarantee. From a strictly technological and/or economic point of view, the possibility of creating a European substitute might be arguable, but politically this was hardly the case. Without a strong central authority empowered to act immediately, a nuclear force was useless because it lacked credibility. Western Europe would not have such a central authority during the next decade. Furthermore, a European nuclear capability could not be built on the basis of discrimination; neither the German Federal Republic nor its Western neighbors, however, could accept German cooperation on a non-discriminatory basis.

Even if this problem could somehow be solved, the present political climate in Europe ruled out the immense economic effort required to build a nuclear strategic deterrent. The idea itself would split public opinion right down the middle, making progress in European integration almost impossible. Again, this long-range effort would postulate a continuation of the US guarantee - or Soviet acquiescence - while the effort was being made. Both were unlikely.

However, this left open the question whether there should be any nuclear role in addition to the American one, either for the nations of Western Europe collectively or for France and Britain, who already had nuclear capabilities. It seemed improbable that either the French or the British nuclear force would disappear in the near future. Recognizing that they could not replace the US nuclear guarantee, there were several alternatives for their relationships to the alliance, between themselves and with their European allies. But the complicated problems inherent in each of these possible relationships would not be easily solved. The differences between French and UK relations with NATO, the US involvement in the construction of the UK nuclear capability, and the problem of emergency decision-making all militated against an integrated, joint Anglo-French force. However, there might be possibilities for less far-reaching cooperation between the two forces, although a solution would have to be found to the awkward problem of discrimination vis-à-vis the other West European nations, especially the German Federal Republic and Italy.

The only way in the near future seemed to be careful nurturing of the procedures initiated in the NATO Nuclear Planning Group, aimed at improved coordination of development and targeting and better information for the non-nuclear NATO members. All the rest required time and prudence, but no options should be foreclosed. The authors shared Ian Smart's conclusion (Adelphi Paper No. 78) concerning the prospects of Anglo-French nuclear cooperation:

"Caught between the inadequate, the impossible and the incredible, the idea of Anglo-French nuclear cooperation will still offer obvious attractions. To regard it as a logical step towards the ultimate creation of a new Europe may not be unreasonable. But to regard it as an immediate contribution to the cohesion of the West or as a sure escape from the internal problems of alliance or community would be obtuse."

For the foreseeable future, the European contribution to NATO and the Western defense burden would have to be mainly in the field of conventional forces.

B. In the conventional field:

Current force levels in Europe were already at a dangerously low point, creating serious security risks. Moreover, the present political climate, a wrong interpretation of the character of the present détente, the priorities given to domestic requirements and a general lack of willpower made it unlikely that our forces could be maintained at present levels. To avoid a further weakening of the alliance, this trend had to be reversed.

It was dangerous to assume that an increased US defense budget and the maintenance of the present American commitment to NATO could be combined with a general tendency to reduce European efforts, even if such reductions were rationalized through new strategic concepts. The only way to reverse the present trend was through greater "Europeanization" of the present contribution.

At present, each country performed a national effort with land, air and naval forces; this would be hard to continue during the seventies, and impossible during the eighties. One was appalled by the inefficiency and duplication, and the near-total failure of substantiating the concept of "balanced collective forces" adopted 20 years ago. What was presented as a joint NATO effort generally turned out to be a shaky array of national efforts, often inadequate in themselves. This situation had to be improved, through focussed political willpower, inventiveness and energy.

The obstacles were daunting: institutional vested interests, traditions and national industrial policies had to be surmounted. Defense support was the obvious field - training, logistics and procurement of arms, leading to what François Duchêne had described as a European Defense Support Organization (*Foreign Affairs*, October 1971). Complicated multilateral arrangements with a maximum of countries participating were not the only road to greater effectiveness. Sensible arrangements between two or three countries might contribute much to the solution of some of the most burning problems. Urgent action in this field was needed to prevent a serious weakening of the European defense effort, which was an indispensable part of the total NATO effort and was also

essential to insure the maintenance of the American contribution.

In future East/West negotiations, the way had to be kept open for closer Western European cooperation. If our intention about this were not stated clearly now, the USSR might well try to block future developments of this kind, claiming that European defense cooperation would endanger détente. However, European security, involving as it did the maintenance of a credible American military presence in Europe, was not determined only by the politico-military situation: It was closely linked to the state of economic relations between Western Europe and the US and to the problem of reshaping the international economic order.

III. Economic relations between Western Europe and America and their joint role in reshaping the international economic order

12. Tensions in economic relations between Western Europe and the US would likely be with us for some time. Hard bargaining was going to take place over a wide field, ranging from oranges to dollar convertibility, and these disputes had to be seen in the right perspective. These points might be useful in determining this perspective:

- a. The way in which Western Europe and the US handled their economic relations would have an impact, not only on their economies, but also on their security and on the international economic order taking shape during the seventies.
- b. Transatlantic economic difficulties were the result of many changes that had occurred since the institutions and practices of the postwar international economic system had been elaborated.
- c. As a consequence of these changes, the leading industrial powers - the US, the European Community and Japan - had to accept responsibility for the "joint management" of the international economic system.
- d. Western Europe's future was greatly dependent on the kind of economic order that lay ahead. At the same time, "joint management" posed institutional problems for the member states of the EEC, which would have to be solved if economic restrictionism with all its political consequences were to be avoided.

13. Re 12a - The impact of European-US economic relations

The growth of the economies of Western Europe and the US had been favorably influenced by the freedom with which goods, capital and services had moved between them since the war. Nevertheless, exports represented only 4.4 per cent of America's GNP. For the member states of the European Community after enlargement, the figure would be 9.7 per cent, excluding intra-Community

traffic. As of 1970, trade with the EEC represented 17 per cent of US international trade, and trade with the US 18 per cent of the Community's international trade.

Yet these figures did not give a complete picture of the importance of US-European commercial relations. Industrial imports from the US contained a high technology content of considerable importance to the European economy; for the US, Western Europe was an area with which an appreciable trade surplus was earned. Nevertheless, in purely economic terms, increased protectionism between the two might not be terribly costly. But commercial conflicts had a tendency to spread and to spill over into other fields, such as the flow of services and capital.

Furthermore, the security of both Western Europe and the US depended on their continuing close relations. Protectionist measures could easily give rise to a state of mind which would not be conducive to the kind of relations that our security required. Finally, if the two giants of international trade really got into each other's hair, then the prospects for a relatively open international economic system would be slim.

14. *Re 12b - The origins of the present economic difficulties*

Since World War II, the economic order of the free market world had been guided by the US in the general direction of a relatively liberal "one world" perspective; American leadership had been based on that country's preeminent economic strength and monetary reserves. Several factors had changed this situation drastically:

- Japan had quickly become a major economic power, thanks largely to a strong emphasis on exports, made possible by the US-led international economic order. Some adjustment in this emphasis on exporting capacity in favor of production for domestic needs was now necessary. Such adjustments, however, always involved a considerable time lag, especially where governments were involved.
- The nations of Western Europe had risen from their ashes - with a time-lag of 30 to 50 years - and were applying Keynes' lessons.
- A wide range of interacting factors - from telecommunications and aircraft to the multi-national corporation - had speeded the movement of important factors of production: capital, know-how and management techniques.
- Movements of capital and know-how, leading to further division of labor, required adjustments. Rising standards of living, though, had decreased the mobility of labor. Labor now refused to be simply a factor of production, and as such made to bear a large part of the adjustment costs. Since

governments had taken few positive measures to ease adjustments, there was a growing tendency among trade unions to "outlaw the law of comparative advantage". In the US, for instance, the AFL-CIO were now in the protectionist camp.

- Finally, affluence was leading to a greater emphasis on the "quality of life". We would soon see new definitions of GNP, expressed to include all those social burdens (pollution, noise, human adjustments, etc.) that had been excluded as long as full emphasis was laid on the efficient production of more goods. This change of emphasis was all to the good, but it would create new problems in international economic relations.

15. *Re 12c - Joint US-EEC-Japan responsibility for the international economic order*

The changes in relative power between the US and its partners made it impossible for the US to continue to lead the system single-handed. However, leadership exercised jointly by equals was in general less effective than that exercised by *one* leader who happened to be stronger than his junior partners.

Leadership of the international economic order would today have to take into account the new emphasis on the "quality of life" and the resultant political pressures. The most important rule of the trade game as played over the last 25 years had been a negative rule, limiting the freedom of the players - the rule of nondiscriminatory and most-favored-nation treatment. Progress towards trade liberalization had been based on this rule and measured through an exchange of tariff concessions. In monetary matters, the rule had been fixed exchange rates, adjusted only when the balance of payments position became desperate. This old order had simply required a certain amount of faithful observance of those rules by the players, and a leader, relatively law-abiding himself and strong enough to move the others in the right direction.

The pressures from the present "quality of life" emphasis, however, would often lead to action on the national level, not subordinated to those relatively simple international rules which had hitherto formed the basis of the system. The growing number of "voluntary" restraint-of-export agreements were attempts to deal with problems that could not be settled by the official rules. The growing reluctance to accept the social costs of adjustment would probably lead to more, not less, discretionary (and discriminatory) action by national governments. For instance, greater flexibility of exchange rates between the US, Japan and the EEC seemed now generally accepted as necessary, but this would call for more discretionary governmental action than the fixed-rate system of the past.

Today's situation therefore compelled us to abandon the relatively simple implementation of a set of rules in favor of the more difficult task of continuously harmonizing diverging interests in fluid, unpredictable situations. The

choice was between some form of joint international management or growing economic disorder, with all its political consequences.

For private enterprise, management was a difficult science but one that had to be mastered to survive. For public administrators – public administration being to business administration what astrology was to astronomy – “management” often meant simply the ability to muddle through, to deal sensibly with critical situations. In the present context, therefore, “joint management” did not imply something neat, logical and coherent. We would certainly not see in this decade proper coordination of monetary policy, or of pollution adjustment and employment policies.

But in a world where the conventional distinction between internal and external economic policy was increasingly meaningless, there would be a vital need for a great deal of intelligent and far-sighted “ad-hocery” (to borrow a term from Sir Alec Cairncross). Governments would be well aware of the importance of their joint interests and of the price their nations would have to pay for the failure to “muddle through”: i.e., growing international disorder and a threat to the political climate of communication and comprehension, essential to our security and to our chances of moving towards a world in which people would be “free”, however vague that term might be.

16. Re 12d – The enlarged European Community's stake in reshaping the international economic order

The enlarged European Community had a vital stake in the maintenance of international economic order. Although the Community as a whole was much less dependent on international trade than its members were individually, its reliance on trade remained considerably greater than that of the US (not to speak of the Soviet Union) and was only slightly less than that of Japan. As its share in world trade was greater than that of any one country, its leverage was considerable.

International economic order was also vital to Western Europe for non-economic reasons. Whatever progress Western Europe might achieve towards unity, in sheer power terms it would remain highly vulnerable, because of its geographic situation and its essential diversity. Its geopolitical vulnerability; its “identity”, inseparable from diversity; the aspirations of its peoples: all these factors would lead a Community of Western European nations to favor a world of “contractual relations”, (François Duchêne's term) over a world of “force relations”, be those forces economic or military. Thus not only Western Europe's economic interests were at stake in the reshaping of the international economic order, but also its conception of civilization itself. Outside necessities and this conception were driving its nations towards forming a Community

where diversity was maintained, but where the ancient right of a nation to be judge in its own cause was gradually relinquished. The defense of their own interests obliged the nations of Western Europe to pursue these same objectives in their joint external relations.

17. Re 12d – Western Europe's special problems in contributing to “joint management”

A sense of history and an understanding of their own interests would not in themselves endow the nations of Western Europe with influence in the world. They could only take an active part in reshaping and maintaining the international economic order by speaking with one voice. Continuing inability to speak with one voice to its most important trading partners, would not only be a threat to the internal cohesion of the EEC but would severely limit Western Europe's influence in the world, as well as its chances to construct an international economic order conducive to its vital interests.

18. What should Western Europe and the US do?

If the enlarged EEC made progress in solving its formidable institutional problems, what should the Community and the US then actually do? On both sides, the complaints were many: undue protectionism in agriculture, disregard for the MFN clause on one side of the Atlantic, monetary policy and a growing range of protectionist measures on the other, etc. For the important problems, there were no ready-made solutions. They could only gradually be discovered. Here, as in most important matters, it was procedures that counted. The authors offered a few final words about these procedures:

- Today's problems could not be solved by applying absolute principles such as “nondiscrimination”, or “free trade in agricultural products”. In many cases, the need would be for joint discretionary action that took account of general objectives and of the context in which international economic problems arose – a context that would often make internal adjustment measures a *sine qua non* for liberal trade policies. In future, then, more and more internal measures would have to be influenced by international discussion.
- When and wherever possible, rules of conduct ought to be established, because without accepted general objectives and a minimum of ground rules “joint management” would be impossible.
- But a great deal of not-so-neat “ad-hocery” would be required. In such situations, continuous consultation plus readiness to state one's interests bluntly, but also to make sensible adjustments to meet the interests of the other party, would be vital elements in “joint management”.
- These consultations would have no chance of success, though, if conducted

within the framework of a narrow mandate. For the difficult problems, solutions could not simply be negotiated, but had to be jointly discovered. This presupposed free-ranging discussions and the ability to search for various possible solutions together, something ruled out by detailed and limited instructions.

- For Washington as well as for Brussels, it would not be enough to lay down a mandate for negotiators. The coherence and security of the West during the next decade would depend to a large extent on the capacity and the willingness of the US government (including Congress) and the institutions of the enlarged European Community to delegate the task of reshaping and managing the international economic order to people able to speak with authority and entrusted not only with the task of negotiating but also with a much more demanding one: that of invention.

* * *

The Netherlands author suggested these questions for discussion about their paper:

1. Was their fundamental assessment about East-West relations correct? Although tactics had admittedly changed, was it still the strategic aim of the Soviet Union to be the dominant political power on the continent of Europe? The author felt that this view was "not shared, to say the least, by a very substantial and powerful element of our public opinion", including the leftist political groups, certain segments of the news media, much of the intellectual community, and adherents of various churches.

2. Given the broad disagreement on that subject, what could be done to formulate an assessment that was more acceptable to a broader segment of political and public opinion, so that the West could enter into discussions with the East backed by some sort of consensus?

3. Was it true that the vital nuclear and conventional presence of the US on the Continent was conditioned by a meaningful European defense effort? Did this not imply much more effective integration of some elements of the European contribution, and perhaps even a role in the nuclear field?

4. Was it also true that the continued American presence was conditioned as well on a minimum of order in the economic relations between the US and Western Europe?

5. Could the institutions which had worked well in the past, but seemed out-moded today, be readjusted to the new circumstances, or would entirely new forms of cooperation need to be devised for the future?

* * *

The International author suggested that the discussion should deal with the question of whether there was still any life left in Ricardo and his law of comparative costs, on which we had constructed our international economic understanding. In the speaker's view, Ricardo "may not be dead, but he is in pretty poor shape." As in Christian or "pop" theology, the death or decline of God had the effect of depriving us of a system of simple ethics or principles, and forced us to find our way in a very different world.

As an illustration, the author mentioned the issue of efficiency versus mobility. If Ricardo were fully alive, then mobility, even with its disadvantages, had to be accepted if it meant increased efficiency. But with the emphasis which our affluent society was placing on the "quality of life", it might well be that efficiency had to suffer. Workers who refused to move from one region of a country to another, or to change jobs several times, might turn out to be "rather fundamentally right".

One conclusion to be drawn from this was that the distinction between internal and external policies would become even less clear. For example, the failure of the US to apply "serious policies of adjustment" could be a greater impediment to international trade than even the common agricultural policy of the European Community.

If we were not going to be ruled by eternal principles and by the living Ricardo, we were going to be ruled by man. This meant lots of "discretionary action", aimed at specific problems in a specific context, and not based on clear and absolute rules. In that case, the resolution of internal institutional problems within the US and within Europe would be decisive for their relationship.

The first big Common Market had not been in Europe but in the US, and it had provided a splendid demonstration of increased efficiency and decreased dependence on international trade. Following that example, the European Community was considerably less dependent on the world than were its member states themselves. But though trade might become less vital, the danger was that increased protectionism might easily lead to a state of mind that could imperil the minimal international order we were seeking.

The maintenance of sound European-American relations would require that we all give leeway to our representatives, not simply to execute a negotiating mandate, but "to invent the ways and means of living together in [the twilight of Ricardo]".

* * *

C. "POWER RELATIONSHIPS IN THE FAR EAST: A EUROPEAN VIEW"

I

The British author of this paper alluded to the fact that the structure of the international system developed in the later 1940s was now undergoing a considerable modification; in an age of rapid social, economic and technological change, a quarter century was a long time for any one pattern of interstate relations to endure. It was in East Asia, where the interests of four powerful states were involved, that the transformation of alignments, policies, and perspectives was likely to be most marked. Writing in January 1972, before President Nixon's visit to Peking and Moscow, before the presidential election, before the end of the Vietnam war, and before it was clear how some of the economic problems between Japan, the US and Europe were to be resolved, the author said it was difficult to do more than construct a series of alternative hypotheses about the nature and the effect of the new Asian power balance.

Several factors clouded one's estimate of the future. The first concerned the degree of popular and Congressional support in the US for an active foreign policy over the next eight or ten years. By comparison with his four predecessors, President Nixon had attempted a much sharper definition of American external interests. The country at large was preoccupied with domestic concerns and there was resistance in Congress to large defense and foreign aid costs. In particular, it seemed that the American sensitivity to developments in the Pacific and East Asia, which could be traced back to the late 19th century, might now be undergoing a sea change.

The second uncertainty was whether the Soviet Union, as she increasingly acquired the characteristics of a global superpower, would become more militant and egocentric, or more relaxed and accommodating towards other major states, more or less concerned with international stability and internal economic development, less or more cautious in her external policy.

The third was the effect on China of being fully accepted once again as a great power, a member of the Security Council, in normal diplomatic relations with a growing number of states. Would this affect her attitude of suspicion of the West and of Japan, of hostility towards the Soviet Union, or her determination to pose as the champion of the developing world?

Finally, how would Japan interpret her political and strategic interests as the relations of the other major powers developed in the next few years? How would she use her formidable economic power and influence?

In any case, the politics of East Asia were likely to be dominated by a

multiple balance in which the policies and attitudes of each of the four major powers would be affected to a greater or lesser degree by those of the other three. Indeed the balance had been multipolar in that area since the early 1960s in the form of a triangular relationship between the Soviet Union, China and the US. The 1970s might see the entry of Japan, to convert a triangular into a quadrilateral balance. Such a multipolar relationship had existed in East Asia in the early part of this century, up to 1940 (although the relative strength of the major actors was then quite different, with two mainland powers relatively much weaker); and, despite moral disapproval of balance of power diplomacy, the US had participated in it.

One difference between the East Asian power balance of the early and of the late 20th century was that the absolute power – strategic, economic, demographic – of all participants had greatly increased. But the nature of the new relationship would be profoundly affected by the forms of power which were considered by participants and their allies as most relevant. Because of its European origin, the phrase "balance of power" evoked the assumption that political and military power were the dominant considerations in maintaining equilibrium. But this had been in an era between the end of religious ideology and the rise of massive economic power: today both ideology and exportable wealth – aid, investment, trade – were conventional techniques for asserting the interest of great powers. What form of power would be most relevant in the diplomacy of the East Asian quadrilateral in the next decade and beyond? If it were strategic nuclear power, then the two superpowers would be in a much stronger position than China, and Japan might remain very much the junior partner. If rivalry placed a high premium on conventional military power, then the US would be in a relatively weak position vis-à-vis the mainland states and Japan could more readily augment her strength. If nuclear weapons were seen increasingly as frozen assets and the level of territorial conflict remained low, then economic considerations would become important, which would give a premium to Japan and make China the weakest of the four. If national will and ideological consistency were prime assets, then China's position would be relatively much stronger. The wisest assumption was that all four forms of power would be relevant, although probably strategic nuclear power would play a less decisive part than in the first quarter century of the nuclear age, or than it still did in Europe.

One had to be careful about applying the classic European balance of power concept to the future situation of East Asia. It had been made possible largely by the existence of a common diplomatic language and common standards of behavior among all the European ruling classes, combined with a minimum of domestic political pressures. This was not true of the developing situation in

East Asia, where the balance was likely to be operated by four powers representing four different civilizations, ideologies and economic systems. Alignments would be harder to construct and harder to undo than in the ballet dance of mid-18th century Europe.

Moreover, ambiguity surrounded the Western notion of "balance", which had been used historically not only in the sense of an equipoise between a number of states, but also, particularly in the last 150 years, in the sense of a coalition to contain the ambitions of a dangerous power or group of powers. The Asian balance could as easily fall into this latter pattern of balance as the classic one, even though at present there might be a considerable element of mutual distrust among all four partners.

II

The author thought that these were the most likely assumptions about the participants in, and the nature of, the developing Asian power balance.

(1) There would only be four major parties to the Asian balance, at any rate for the next decade or more. India was potentially one and so was Indonesia. But Indonesia now had her hands full with domestic reconstruction; and India not only had the problem of recreating a viable balance in the subcontinent itself but had become an ally of the Soviet Union. Neither country could project any significant power abroad. Even in the unlikely event that India became a nuclear power, her preoccupations would be with her own security.

(2) Western Europe would not be a direct participant in the Asian power balance, although it would have an indirect bearing on it by reason of its relationship to both American and Soviet policy. But the constituent countries of Western Europe would be too concerned with their own organization and the protection of their interests in Africa, the Middle East and Eastern Europe to become deeply involved in the politics of the Far East.

(3) With respect to the American definition of US interests in Asia, the author did not belong to the school who would apply Hume's analogy "The Athenians, . . . finding their error in thrusting themselves into every quarrel, abandoned all attention to foreign affairs" to future American policy. Despite the process of narrowing and sharpening American external interests and the pressure of domestic concerns, the central position of the US in world politics and economics was not going to permit isolationism. But, while President Nixon, if re-elected, and probably any Democrat who might succeed him, would oppose any precipitate reduction of military and economic involvement in Europe, major American force reductions were taking place in Asia. Those forces that remained would be primarily for the support of allies, and not to

maintain a general concept of international order or to sustain an overall Asian balance of power. Although a diminishing American concern with the shape of things to come in East Asia was not likely, in view of US security interests there, it was probable that America would narrow her interests from a general sense of responsibility for Asian order to certain key countries of Pacific Asia, such as Japan.

But the American role in the Asia power balance would be more diplomatic and economic in its emphasis. If a conflict between the major participants and their allies should threaten, the US would be less willing to intervene directly or with military force than she had been in the past. This was not so much a consequence of strategic parity as of a general American reluctance to deploy ships and divisions across the Pacific.

(4) The approach of the Soviet Union to the foursided relationship in East Asia might be easier to predict. Moscow's new confidence had been born of its strategic parity with the US, its presence in the Middle East and the Indian subcontinent, the global diplomatic value of its expanding navy, and the prospective recognition of the status quo in Europe. But in East Asia the Soviet Union had to tread warily. Her ideological dispute with China might eventually ameliorate, but their border dispute would be a cause of continuing friction, especially in view of the xenophobia many European Russians felt about the Chinese menace. North Korea was an unreliable ally, and Russian military support of North Vietnam did not seem to yield much influence over its policy. The relationship with Japan was diffident and suspicious, but the Soviet Union might become dependent on Japan for the development of Siberia and for technological products in general.

The Soviet Union would therefore probably pursue a cautious policy in East Asia, at least for the next five years or so. But one of her prime interests would continue to be to prevent the expansion of China's influence into South and Southeast Asia, into Africa and the Middle East; and to do this so as to disorient Western interests at the same time.

(5) China's attitude to the emerging balance had to be governed in large part by her economic weakness. Despite a large conventional military establishment, she could not project power far beyond her borders. Her gradually augmenting strategic nuclear capability might give her influence disproportionate to its actual size and range, but she would remain vulnerable to strategic threats by either of the superpowers. Her principal source of strength was the example she provided to other developing countries, of how they could escape the embraces of the superpowers and how a poor country could pull itself up by its own boot straps.

China's attitude to the other three partners in the balance would be one of

almost equal suspicion. The USSR was the prime adversary for the time being, and it was difficult to envisage a rapprochement between Moscow and Peking except for purely tactical purposes, barring the appearance of a rising threat from the West to the security of China. But rapprochement with the US or Japan appeared no more likely. As long as there were American military installations in Thailand and Vietnam, near China's southern border, the US would be seen as an adversary state. The distrust of Japan was based not only upon fear of the success of a country which was originally a cultural province of China, but on memories of recent aggression and the sense that Japan, more than the US, might be the stumbling block to a recovery of Chinese sovereignty over Taiwan and of influence in Korea.

There was an apparent paradox in the situation confronting the Chinese leaders in the next decade. A country that for two millennia had regarded itself as the center of the world and participated only fitfully in the modern states system did not take readily to the adjustments required of a multiple balance. Yet China had a greater interest than the other three in the maintenance of a four-cornered relationship, including driving a wedge between Japan and the US. The resolution of this paradox might lead her to place only part of the emphasis of her foreign policy in securing the maximum autonomy in her relationship with the Soviet Union, Japan, and the US, while making a maximum effort to secure the moral leadership of the Third World. But she was not an expansionist power in the territorial sense, though she was revisionist in relation to the other three partners on the issues of Taiwan and the Sino-Soviet border.

(6) A fully independent Japanese foreign policy would be slow to evolve. Though the next decade might be one of domestic social and economic consolidation after the fabulous economic growth of the sixties, Japan would be a large exporter of capital and therefore increasingly interested in the political stability of the societies of the Pacific littoral, Australia and Southeast Asia where it would primarily be invested. She would be increasingly concerned about markets, but she would continue to feel vulnerable both to direct strategic pressure and on her sources of raw materials, which would make her unwilling to throw her weight around in East Asia.

Japan had learnt that economic cooperation with the Soviet Union would not lead to political concessions over Sakhalin and the Kuriles and she feared the return of Taiwan to China. She would be reluctant to forego her security relationship with the US, unless some catastrophe should prove that the US could no longer guarantee her security. Though Japan could become an operational nuclear power comparatively rapidly, the author foresaw continuing reluctance to take the risks involved. Some Japanese with more ambitious

concepts saw Japan playing the same balancing role in the quadrilateral relationship of East Asia as Britain had played in the pentagonal power balance of mid-19th century Europe, but presumably they would remain in a minority.

III

More than a generation had passed since we had had any experience of a multiple relationship of strong powers, and the future would not be a projection of the immediate past. To the author, the following were conceivable combinations, listed roughly in ascending order of probability:

1. *A revival of the Sino-Soviet alliance* to contain Japanese economic power in Asia and oust Western influence for good. Undoubtedly there had been advocates of this in high places in both capitals for the past decade, but serious students of the Sino-Soviet rift seemed agreed that, even though Moscow might now be prepared for this, Peking was not. It could not be ruled out, but it looked increasingly unlikely, not only because of xenophobia in both countries, but because "imperialism" no longer presented a sufficient challenge to overcome national and ideological rivalries.

2. *A Soviet-American understanding* to restrain their competition in East Asia while maintaining strategic postures, which would neutralize the effect of Chinese nuclear weapons and discourage Japan from going nuclear. This implied broadly parallel action by the superpowers in the UN and elsewhere if conflict occurred among local powers. However, as it suggested just the kind of collusion that Peking assumed was taking place, it risked arousing further Chinese hostility and justifying in her eyes an active policy of disruption in southern Asia and elsewhere in the Third World. It might also provoke the hostility of Japan. At the same time, experience in the Middle East had shown that, even where the two superpowers did have some common interests, they had limited control over the actions of the local powers.

3. *An American-Japanese-Soviet entente* to contain China and promote the common interests of major industrial powers. In many ways this would give Japan the best of both worlds; a continuing American security guarantee and access to Soviet raw materials and markets. But as a political combination it had several of the defects of a purely bilateral Soviet-American entente, with the added disadvantage that it would lead to a hardening of Chinese attitudes and the hostility of the rest of Asia.

4. *A Sino-Japanese entente*, with the US playing a muted role in East Asia and the USSR concentrating on the containment of China in Southern Asia and elsewhere. While this would have various attractions for Japan, it would be difficult for China to embrace in ideological terms, despite the prospect of restraining Japan's military activity and gaining access to her technology. The US and Europe would probably feel that Japan was leaving the Western system, which would complicate her access to Western markets and would probably jeopardize the continuation of the Japanese-American security treaty. The Russians would sense a resurrection of the "yellow peril"; and, since Japan was as vulnerable to Soviet as to Chinese strategic pressure, it would probably be seen in Tokyo to create as many risks as advantages.

5. *A Russo-Japanese entente*, which seemed to the author fairly probable if strategic competition were stabilized and the Asian balance became more governed by economic considerations. Japan could accelerate the exploitation of Siberia, while the consumer market of European Russia was ripe for cheap television sets, cameras, and washing machines, which the Chinese market was not. If the US and Western Europe turned increasingly hostile to Japanese commercial penetration, this possibility would have to be taken seriously. But if this change in economic relationships appeared to lead on to a Russo-Japanese political alliance, it would represent such a decisive shift in the central balance as to cause second thoughts in the West.

6. *A modified version of the status quo*, in which existing alignments held but the major powers ceased pursuing universalist policies in Asia, and tacitly acknowledged each other's spheres of primary interest. At the strategic level, the direct interest of the US in the security and well-being of Japan, the Philippines, Australia and New Zealand would be accepted, as would that of the USSR in the Indian subcontinent and South Asia. At the economic level, the interest of Japan in the well-being of Indonesia would be recognized. Encircled by these countries lay the small states of Southeast Asia - "the Asian Balkans" - which would be open to the political or economic penetration of the four partners in the Asian balance but not to the point of dominance.

This pattern would have several advantages for the US. Her sphere of primary interest would not be contiguous with that of the USSR, thus minimizing the risks of superpower confrontation. Since the US-Japanese security treaty would be maintained, it would not involve a crash program of Japanese rearmament. The economic and political development of Southeast Asia would continue to elicit resources from Western Europe or its major individual powers who still had interests in the area. But it also posed difficult decisions for the

US, by turning China into a status quo power, at least in her relations with the US and Japan. This would mean the return of Taiwan to China, the eventual removal of all American military forces from Thailand and South Vietnam, and the quiet burial of SEATO.

It presented equally difficult choices to the other three powers; Soviet acceptance of the legitimacy of Japan's interest in Korea and of China in North Vietnam; Japan's acceptance of the return of Taiwan to China and of the principle of self-restraint and generosity in her economic relations with Southeast Asia; China's recognition of the legitimacy of her partners' interests in what she regarded as her own continent, as well as the adoption of a tacit preference for exercising influence with small governments rather than working for their overthrow.

Despite these difficulties, this sixth pattern of the Asian balance seemed the most realistic objective, and the one most likely to promote order without hegemony in Asia. Granted it implied the acceptance of similar rules of conduct by four wholly dissimilar countries, but since a multiple balance of power was in any case emerging in Asia, the leaders of all four countries were bound to give serious thought to the conditions for its maintenance; in the process they could not fail to discover that equilibrium in any form depended as much on the development of common attitudes about the limits of competition, about the balance between initiative and self-restraint, about mutual rights of interpenetration in areas of secondary importance, as it did on any pattern of political alignment or military deployment.

This process might take time, but fortunately the experience of the past 10 or 15 years had shown that modern communications (aided now by the presence of all four partners in the UN), combined with the awful consequences of a potential breakdown in balances of power, could bring leaders, brought up in isolation from each other, to a working consensus much more rapidly than in the past.

* * *

In his introductory remarks, the author noted that Taiwan might not in fact prove to be the stumbling block to Sino-Japanese relations that it had seemed when he wrote his paper. Furthermore, he was not sure that he agreed with the contention of working paper "D" that Japan was potentially the most powerful Asian-based nation. Could this not be equally true of the USSR? However, he concurred in the view that the greatest danger to the stability of the Far East was the re-emergence of an alienated and nationalist Japan.

The author pointed out that, in discussing the various alternative develop-

ments which were conceivable in the next 10 or 15 years, he had not necessarily been talking about alliances or *renversements des alliances*. He had used with some care such expressions as "entente", "understanding" and "parallelism of policy".

* * *

D. "THE CHANGING CONFIGURATION OF POWER IN ASIA"

This paper, submitted by an American participant, began with the observation that for more than two decades the Atlantic nations had concentrated on assuring that the power balance was not shifted toward the East by a Soviet lunge across the Iron Curtain. Now tensions had diminished as the Russians had lowered their voices, while the geographical focus of conflict had changed. Today world attention was diffused. Europe was no longer the center of anxiety as men spoke of "détente", while in Asia new arrangements of power were taking shape.

The author was aware that the following analysis might seem overly cautious and pessimistic, but he felt we were passing through a particularly dangerous time when euphoria could overcome logic and hope be confused with reality.

I. *The new situation in Europe*

Although the Soviet Union was no more immune to change than any other nation, it was prudent to assume that its leaders had not abandoned their ambition to dominate Europe, in spite of their changed tactics. Preoccupied with China and aware that they had gained nothing by their frontal drive against Western Europe, they were seeking to consolidate their Eastern European empire. At the same time, they were exploiting Middle Eastern chaos to circumnavigate Europe's southern flank, push into the Mediterranean, and establish a beachhead in Egypt.

Their naval build-up was freeing them from the limitations of land-based power, so that, once the Suez Canal was reopened, they could strengthen their presence at the mouth of the Red Sea and begin to build up leverage in the Persian Gulf. They might establish a naval force in the Indian Ocean to cause mischief in Africa and the subcontinent and create a valuable nexus between their Atlantic and Pacific fleets. This hypothesis would explain Russia's costly

championship of Delhi, the hope of forward bases, either in India or Bangladesh. The current Soviet tactics toward Europe seemed aimed at two central objectives: to stimulate an American withdrawal from Europe, and to block progress toward European unity. Whether this tactic would succeed depended on responses from both sides of the Atlantic. Vietnam had revived a latent American isolationism, and, barring a more ample European response, Washington would be forced to deploy its troops from the eastern hemisphere.

Once the US Senate had tasted blood, so to speak, pressures would mount for the removal of the Sixth Fleet from the Mediterranean. Without the visible deterrent of American naval and ground forces, the Soviet Union might pursue an adventurous Mediterranean policy - reopening the Canal unilaterally, isolating Israel, and driving toward hegemony over the southern littoral of the Mediterranean.

As for the Kremlin's second objective - to slow European unity - the prospect of an enlarged Community had raised the hopes of those who believed, as many Americans did, that the British would apply their pragmatic political genius to the building of institutions that would give reality to Europe. This could come none too soon, as the ties of common purpose were beginning to unravel. Soviet agitation for a European Security Conference was breeding further dissension within the Atlantic alliance, and it was disquieting to foresee the disarray of an unravelled West confronted with the disciplined representatives of Eastern Europe.

Thus, many in the US viewed Europe as being in a race against time, to see whether the drive toward unity would gain sufficient momentum to offset the old forces of fragmentation. Without a sense of common purpose, and the institutions to make it effective, Europe's resistance to the Kremlin's divisive tactics might not long survive the withdrawal of the American presence. If the USSR emerged as the most powerful organized force on the European land mass, one could imagine one Western European nation after another accommodating to this "new reality" - making its separate peace with Moscow on conditions that might jeopardize Western freedom and common values.

America and Europe together now faced the practical question of how to avoid giving the game to the other side, taking account of domestic currents in every country that might frustrate realistic policy.

II. *The new situation in the far east*

Political analysts disagreed about which geometric figure best described the emerging power arrangements in the Far East. Some spoke of a power triangle of the US, Japan and China; others insisted on a second overlapping

nuclear triangle of the US, China and the Soviet Union. The author preferred the trapezium (or, in British usage, "trapezoid": a quadrilateral, no two sides of which were parallel) composed of Japan, the Soviet Union, China and the Atlantic nations of North America and Western Europe.

In analyzing the power of each side, one could define national "power" as the ability to influence the conduct of other nations. This had traditionally been thought of mainly in military and economic terms, but there were also less tangible elements, as had been shown by France under General de Gaulle and India in its brief season of moral leadership among the non-aligned nations.

Side one - China

China's gifted and diligent population comprised perhaps 800 million people, or nearly one-fourth of the human race - homogeneous in culture and social behavior, if not fully in ethnology. Ninety percent of its population was jammed into the eastern one-third of the country. Some agricultural areas supported six or more persons per acre.

This extreme overcrowding caused chronic food shortages, while the poverty of the countryside made capital formation and industrial development slow and painful. Its gross national product was probably about \$100 billion - roughly Italy's - much of it subsistence farming with no surpluses. Despite the alluring prospect of 800 million customers, China would not, for many years to come, be a world economic power, or even the most important power in the Far East. Its present role in world trade was less than that of Finland or Hungary; imports and exports in 1970 were each little more than 2% of GNP. Nor was the self-reliant Peking government likely to incur the substantial external debt necessary for accelerated industrialization.

China's rudimentary nuclear capability probably added little to its political strength, and it was unclear why it had chosen to divert resources into nuclear weaponry. The deterrence of Japan or the Soviet Union seemed an unlikely motive; they were more likely to be provoked by a Chinese nuclear arsenal. It might represent simply an instinct for protection against whatever aggressor might appear, combined with a vague longing for great power status. Though China's nuclear strength was minor compared with that of the US or the Soviet Union, it held special awesome appeal when coupled with her vast manpower reserves.

Those reserves were an important but elusive factor in assessing China's power. Despite its limited economic resources and military competence, China was impossible to ignore. It had a special fascination - the magnetic attraction of mass - and the industry, discipline and intellectual capacity of its people were

bound to cast a spell. Its influence would be greatest among other poor nations, who would look to it for leadership.

But, beyond that, China was no longer the sick man of Asia. Deplorable as the authoritarian character of the Peking government was, it had replaced a corrupt and antiquated structure with one that appeared to work. Public health had been improved and people were adequately fed and reasonably well provided for.

In spite of traditional xenophobia and the strident tone of Chinese propaganda, one felt that the people were not being prepared for foreign adventures but for improving and defending the domestic scene.

China's ability to throw its weight about in the world arena had been considerably enhanced by its United Nations membership, with the veto power acquired as a permanent member of the Security Council.

China's position in the calculus of Far Eastern - and, indeed, of world - power rested not so much on quantifiable factors as on intangibles. Perhaps the most important of these intangibles was Peking's position as the rival Eastern capital of the Communist Church, which, combined with its military threat to the Soviets' Siberian territories, gave China special importance as a constraint on Soviet freedom of action.

Side two - Japan

Japan's claim to a superpower role rested solidly on its achievements as the world's third industrial power. Although Japan had so far been content with a "low posture" in political and military matters, this was likely to change. Recent events had shaken Japanese complacency and precipitated national soul-searching. Japan was a nation with fragile moorings, and the direction in which it finally set sail would do much to shape Far Eastern and - ultimately - world politics.

Sides three and four - the Soviet Union and the Atlantic powers

The US and USSR had long occupied center stage as political and military superpowers, but the Soviet Union was not likely in the near future to make much impact on the world trading and monetary system; its economic power was only a fraction of that of the Atlantic nations.

America's economic dominance was being challenged by the enlarged European Community and the rapid growth of the Japanese economy. In the military and political sphere, the situation was less clear. The European nations were essentially a regional power factor concentrating on their own defenses.

Without greater political unity, their voice in the shaping of Far Eastern politics would continue muted.

III. Relations with other nations in the trapezium

Relations between China and the Soviet Union

The fear and antipathy between Moscow and Peking were more than ideological; they were compounded of history, geography and population. Although China was a hopelessly crowded country, Siberia, to the north, was an empty continent, large parts of which had been taken from China in the 19th century. In the whole of the USSR east of the Urals, there were only 58 million people, roughly two-thirds of whom were non-Slavic.

The Soviet leadership had long feared separatist movements in these non-Slavic states. The character of the terrain and the inadequacy of transport and communications made disaffection there hard to put down, and some recent outbreaks had been stopped only with the expenditure of considerable blood and treasure. The Soviets were alarmed not only by China's claims to large areas of Siberia, but also by her intensive propaganda broadcasts in local languages to the Soviet republics of Central Asia.

The USSR now had perhaps a half-million men along the border, and as many more guarding the Maritime Provinces, which were strategically vital to the Soviets for easy access to the Pacific.

The maintenance of nearly a million men to protect Siberia against China was a critical drain on Soviet resources. It was most probably based on the Soviet's belief that, before the task became too costly and difficult, they would need to destroy China's growing nuclear installations by a strike based on conventional weapons, aimed not merely at reducing the nuclear menace but also at teaching the Chinese a lesson. Under this hypothesis, the enormous array of force along the border was there to check a massive Chinese northward surge that might follow a Soviet airstrike. Unquestionably Peking feared such a strike and hoped that visible Sino-American communications might deter the USSR from a reckless move. Even if fear and antipathy did not lead to a Sino-Soviet clash, they were likely to continue to poison relations between the two countries.

Relations Between China and Japan

The possibility of a remilitarized Japan offered more seeds of future international conflict for China. The brutal Japanese occupation of China accounted for the deep fear and hatred of Japan in the minds of many Chinese. The incessant bluster on this subject was not without its political purpose, but com-

parisons with the Soviet fears of German *revanchism* overlooked this critical difference: postwar Germany was far less powerful than the USSR, while Japan was now potentially more powerful than China.

Forecasting relations between China and Japan was complex because of the intermixture of politics and economics. Now that the US had opened communications with Peking, American policy was no longer a constraint on Sino-Japanese trade. The Japanese shipping lines serving Taiwan had been reduced from five to two, while Japan geared for the aggressive penetration of the Chinese market. That process had in fact already started, since Japan's trade with China in 1970 had been approximately equal to its trade with the Soviet Union.

Yet the shift of Japan's interest from Taipeh to Peking would not be a simple exercise. It had invested roughly \$200 million in Formosa and the volume of its trade with Taiwan exceeded that with Mainland China. Nor would Peking submit to Tokyo's embraces without exacting a high cost. Japan would be expected to repudiate the San Francisco Peace Treaty and to conclude a new treaty with the Peoples' Republic. This would pose problems in Japan's relations with Taiwan, and it would require Tokyo to face new demands for reparations which Chiang Kai-shek had been gracious to waive. This would generate almost intolerable tensions in the overwrought environment of Japanese politics.

Problems of this kind did not, however, preclude doing business, and Japanese businessmen had already indicated that they would not let sentiment interfere with commercial relations. Of all the nations of the trapezium, Japan had the greatest interest in, and capacity for, developing substantial trading relations with China. With 80 to 85 per cent of its population engaged in agriculture for domestic needs, China's raw materials would be its only substantial exports, while Japan was poor in raw material terms. But it was clear that China would accept much help from Japan in developing its resources. The Chinese would probably seek to build their economy with minimum dependence on any other nation. As they would be especially careful not to become dependent on Tokyo, the Chinese might spread the risks by encouraging modest economic and technological relations with the Atlantic nations.

Although Japan and China shared deep historical and cultural ties it appeared that they would sooner or later become active rivals for the dominance of East Asia. Japan had already gone far toward gaining control of those raw materials that had formed the target for her East Asian Co-Prosperity Sphere, but China had assets to redress the balance, including 21 million overseas Chinese scattered throughout Asia and the Pacific. Peking's enhanced standing after President Nixon's visit would bring to many overseas Chinese a new sense of community with the homeland, an important factor in the game of power politics.

In political relations with the rest of East Asia, China might well hold an advantage over Japan, due to the memories of the Japanese occupation. Some might also have memories of an earlier Chinese dominance. But China today did not appear to be in an expansionist mood, and until it began to rattle its nuclear weapons, the nations of the area were not likely to stand in much fear of it. What had kept Japan thus far from a more assertive political role had been largely its dependence on America and the consciousness of resentments resulting from World War II. But with the advent of a new generation, a more assertive policy was inevitable, and it was here that Sino-Japanese political rivalry could become acute. If one tried to predict Asian power relationships over the decades ahead, Sino-Japanese rivalry appeared a more likely prospect than Sino-Japanese cooperation.

Relations Between China and the Atlantic Powers

It seemed generally agreed that the security of the world was better served by having China looking outward across its borders rather than seeking to shut itself off from the world. Yet the resumption of communications by no means assured that China's role would be constructive in terms of Western desiderata. Peking's welcome to President Nixon seemed to be a tactical maneuver to put the Kremlin off balance by generating doubts that the US would remain a passive bystander if the Soviets were to launch a strike against China's nuclear installations. In addition, it was reasonable to assume that China's talk about a remilitarized Japan reflected a genuine fear. In view of the Nixon Doctrine and America's withdrawal of forces from Southeast Asia, it was unlikely that China still feared American encirclement. If it could now alienate Washington's affections and lead to a loosening of America's bonds with Japan, it would certainly try to do so. But that did not mean that China and the West were likely to develop common interests or to establish close relations. Certainly, so far as the US was concerned, political relations were likely to remain in limbo until there was some deal between Peking and Taipei.

Much the same could be said of economic relations. As the Atlantic nations were farther from China than was Japan, and had less need of China's natural resources, the possibility that China's trade with the West would reach substantial proportions seemed highly doubtful. In bad crop years there would be sales of agricultural products and quite likely we could all sell substantial amounts of capital and consumer goods to China if we were willing to extend soft credits, but that seemed improbable. Since trade with Communist countries largely involved nonconvertible currencies, it had to be arranged on a bilateral basis or through cumbersome barter deals. The hard fact remained that consumers who earned \$100 per capita each year were not likely to swell trade.

Relations Between Japan and the Soviet Union

Japan's relations with the Soviet Union depended on a number of imponderables, the most important of which was probably the durability of American influence in Tokyo. Almost by reflex, the Japanese had responded to the American shocks by rolling their eyes toward Moscow, and the Russians had been quick to respond. Whether the Soviet-Japanese talks about the islands off Hokkaido would lead to a treaty between Tokyo and Moscow was for the future to decide, but progress on the commercial and economic fronts seemed assured. It was another sign of growing interest that the Japanese had sent a mission to study a pipeline from oil and gas fields in the Soviet north that would give Japan access to a source of energy other than by the long haul from the Persian Gulf, through which it now obtained 80 to 90 per cent of its oil. Here again though, there was no assurance that a deal could be made.

The Japanese antipathy towards the Russians went back to the 1905 war, nor could Japan forget the Soviet intervention of 1945. Thus - provided the Atlantic nations shut off commercial outlets for Japanese goods - no one should expect Japan to take any action that might jeopardize its position in Western markets for the limited advantage of Siberian raw materials. After all, Tokyo had little respect for the Soviet economic system.

Yet, though the Japanese were wary of the Kremlin, their political strategists still toyed with improved Soviet relations as a counterbalance against China, and a hedge against the loss of American support. If, as a result of insensitive American policy, Japan should be led to play an independent political or military role, it could hardly avoid thinking in a classical balance of power pattern.

Relations of Japan With the Atlantic Nations

The Atlantic nations had so far regarded Japan primarily as an economic rival that exploited the advantage of lower cost labor and did not always live by the trading rules followed by other nations. The Western European nations had interposed a number of discriminatory provisions against imports of Japanese products, while the US had improvised a series of "voluntary agreements" and other quantitative devices. The Japanese meanwhile had been dilatory in moving toward the liberalization of their restrictions on trade and investment. The result of this uncoordinated approach had been to embitter relations with Japan and to create distortions in trade patterns. While the US had been accepting at least 30 per cent of Japan's exports, the share going to the European Community had been not much more than six per cent.

Here was a situation which called for multilateral diplomacy. Unless the problem were approached through a concerted effort of the Atlantic nations, mounting pressures in the US were likely to lead to the closing of the American

market to a growing sector of Japanese production, diverting surpluses to be dumped in the markets of Europe and elsewhere.

The Japanese were only a hundred years away from a feudal system, and their economic structure, institutions, and ways of doing business were fundamentally different from those of the Western nations. To accommodate Japan to Western trading and monetary systems would be a subtle and difficult task — not to be undertaken by one country, but by the whole Western community. Only in this way would it be possible to absorb Japanese exports under conditions where all the industrialized nations faced similar competition and no nation profited from protectionism.

The response to this dilemma had been quite inadequate on both sides of the Atlantic. The nations of Europe had tended either to dismiss the problems posed by Japan's economic ascendancy out of confidence in their ability to protect their own markets or had dismissed the whole question on the grounds that Japan was a special problem to be dealt with by the US. Unfortunately, Washington had done much to encourage this reaction. Such a procedure was, however, finally bankrupt and it was long past the time when the Atlantic nations should face that fact honestly. If the Western European nations had not yet progressed sufficiently to play a world political role, they had certainly gone far enough to play a major role in trying to make sense out of our system of trade and investment. In America today there was much learned talk about Japan being capable of sustaining a consistently higher rate of economic growth than could other industrial countries, but this should not be taken for granted.

Several developments might mitigate the current imbalance. The Japanese were embarked on a period of national rethinking, questioning the assumptions of the past. Did their mercantilist instinct to pile up increasing reserves from exports any longer make sense? Should they not divert more of their resources and energy to elevating the quality of Japanese life and improving their infrastructure? Was their single-minded penetration of markets, with no attention to the attendant disruption, producing an undesirable backlash? They were, in short, beginning to take account of the requirements imposed by the world's increasing interdependence.

Another factor was the limited size of the labor reservoir, which was likely to cause a massive flow of investment into the labor-intensive industries of the less developed countries to build sources of production not only for industrial components but simple manufactures, leaving Japanese domestic industry to concentrate on increasingly sophisticated products.

These imponderables cast doubt on the assumption that Japan would continue to increase its productivity far faster than the West; indeed, one could not yet measure the degree of competitive advantage Japanese goods might have

lost in the recent adjustment in currency parities. But the maintenance of discriminatory trade restrictions against Japanese products would have corrosive political consequences and in any case it would not improve the situation in third markets, which the Japanese would more and more preempt for themselves.

Solving this problem with a minimum of political damage might call for unorthodox measures that could result in fundamental changes in our world trading system. But no solution could be found in the unhealthy environment that now persisted, in which American industry felt increasingly impotent while the Europeans washed their hands of what they regarded as an American problem. Europe could no longer turn its back on the problem of Japanese exports, the most critical problem confronting our trading system today. By the same token, the US could not expect to resolve that problem through bilateral restraint arrangements of one kind or another. For the foreseeable future, though, the US would need to continue its special responsibilities in military and political affairs. If the Japanese lost confidence in the American security commitment, remilitarization would become a necessity.

There were those who disputed this, but in the author's view it was dangerous to gauge the future conduct of a nation by the transitory mood of its people. As Japan felt its own burgeoning economic strength, a new generation would demand that it cease playing a diffident role in the political affairs of the Far East. Since political stature had traditionally derived from military competence, Japan would not be content to rest its security solely on an American promise.

How Japan shaped its own destiny and what kind of military establishment it built remained the most important issue in the Far East. No one could predict what the process of remilitarization might do to the Japanese psyche and the tranquility of Asia, where scarcely a country had not known conquest and occupation by Japan.

IV. The basic requirements of a Far Eastern policy

The position of Japan as potentially the most powerful Asian-based nation was thus central to an effective Far Eastern policy for the Atlantic powers.

President Nixon seemed to have assumed that traditional balance of power politics were not only possible but necessary in a multipolar world. His trip to China appeared to lend American support to the weaker of the two nations in the Communist power constellation, with the hope of deterring the more powerful from a policy of adventure and providing a further inducement for it to come to terms with the West. Behind this drastic departure from postwar policy was the President's concept of a "strong, healthy" balance between five superpowers assuring the peace of the world.

The President's frank recognition of *realpolitik* was novel and refreshing, but the concept of an "even balance" among five powers needed considerable qualification, as it was clear that the five powers were not in fact equal. The game of balance of power politics in the Far East today could not be successfully played by the US alone. The President's trip to China had created great uneasiness in Tokyo, and it ought to be the objective of both the US and Europe to assure that Japan was a full party to the strategy.

In the author's view, these elements seemed essential to an effective policy for the Far East:

(1) The Atlantic powers should strive together to solve the problems presented by Japan's extraordinary economic competence, developing through multilateral discussions with Tokyo the accommodations necessary to bring Japan into a full and equal participation in the world trading and financial system.

(2) As Western Europe moved toward unity, it should broaden its horizons, breaking free from its preoccupation with regional problems so that it could again play a role in Asia.

(3) The Atlantic nations and Japan should develop an effective coalition to deal with the two Communist capitals. Balance of power politics had to be played in the Far East in a manner that did not detach Japan from the West but gave it a full role in shaping a common strategy.

This prescription would be difficult to follow, because nations found it easy to go their own ways, while coalitions were slow and cumbersome; but if one accepted the author's central thesis that the gravest danger to the stability of the Far East was the reemergence of an alienated and nationalised Japan, then the indicated lines of policy should not prove too much of a burden.

* * *

The author of this paper summarized for the participants the impressions he had gathered during a very recent trip to Japan at the invitation of the Japanese government.

Of the various "Nixon shocks", as the Japanese referred to them, of the previous summer, the most disturbing to them had clearly been the news of the President's trip to China. The way in which that had been announced had been particularly embarrassing to Prime Minister Sato, who had been under pressure from his own party as well as from the left-wing opposition to make a vigorous overture towards Peking.

Even more discomfiting had been the implications for what the Japanese had regarded as their special relationship with the US. Many of the Japanese

had long hoped that their mutual security agreement with the US would in time ripen into a mature partnership or coalition. But President Nixon's concept of "an even balance of five powers" seemed to go directly contrary to the idea of a mature coalition. The Japanese feared that some of the long hours of American discussion with Chou-en-lai were devoted to balancing the power of the US against that of Japan.

The result for the Japanese was an atmosphere of suspicion, an enormous sense of doubt about their relationship with the US, and a feeling that perhaps they should look for new friends. For complex reasons, there was a feeling that this search should start on the mainland. The Japanese felt guilty for their part in the rape and partition of China at the end of the 19th century, for their invasion of Manchuria in 1931, and for the death of millions of Chinese during the last war.

More subtle than this historical background was the cultural one. The Japanese seemed burdened with a sense of having turned their backs on the East, of having betrayed their own heritage, when they emerged from their isolation a hundred years ago and began consciously to imitate the West. Many of them felt that their society was rather empty and sterile, and that they had perhaps given up too much. This led to a desire to re-establish roots in the mainland, to try to regain something of their Asian heritage.

The author's impression from his talks with political and intellectual figures was that the Japanese were prepared to make very substantial concessions to achieve that goal. For their part, the Chinese were likely to drive a hard bargain, to demand that the Japanese acknowledge that Peking was the sole government of China, and that Taiwan was a part of China, and to insist that the Japanese abrogate their 1952 peace treaty with the Nationalist Chinese. The Japanese were prepared to do all these things promptly, and no one could stop them.

Far more serious, though, were two other conditions which the Chinese would probably put up to Japan. The first was that the Japanese should deny the Americans the use of bases in Japan to carry out their defense agreement with Taiwan. The second might be the same sort of demand with respect to American bases in Japan for the defense of Korea. As such conditions would make the defense of Taiwan, and especially of Korea, almost prohibitively costly, American opinion would begin to question whether the US could continue to underwrite the defense of Japan itself. Thus we were presented with this dilemma: Whatever concessions the Japanese made to China out of concern that their commitment from the US was not dependable enough, might tend in effect to erode that commitment.

The author did not foresee a friendly Sino-Japanese relationship persisting

for a long time, because of the contrast between the industrially thrusting power of Japan and the economically backward state of China, and the fact that both were very proud peoples. An intense rivalry could be expected to develop between them for the hegemonic dominance of Asia.

In the process, though, the Japanese might be pressed by their own anxieties, internal dynamics, and disillusion with the West, toward neutralism and then rearmament. Unless some very active measures were taken jointly by the US and Europe to restore confidence in the total situation, we could expect to see a succession of abrasive problems driving the Japanese toward remilitarization. The eventual result – a nuclearized Japan – would be most unstabilizing, like an armed ship that had broken its moorings and was crashing about on the high seas.

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DISCUSSION

The wording of the single agenda topic, as well as the tone of the working papers, emphasized the interrelationship of diverse elements – geographic, cultural, political, industrial, commercial, military – and the discussion inevitably reflected this complexity.

For ease of summary, however, the subjects touched upon during the Conference can be dealt with under two broad, and somewhat arbitrary, headings – “economic” and “security”.

* * *

ECONOMIC CONSIDERATIONS

The crumbling community of purpose

One theme running throughout the discussion was the “crumbling of the community of purpose”, as the author of American working paper “A” had described it. After a postwar period of cooperation, and then of increasing difficulty, “the reasonable management of our part of the world – of like-minded countries – had fallen into a measure of disarray”, in the words of a Canadian participant. We were threatened with polarization that could lead from commercial irritation, to trade war, to political estrangement. The agenda of this

Conference offered “the challenge of seeing the situation as a whole, so that some answers might become dimly discernable”.

There had been an erosion, not only of our consensus, but of our rules and institutions, in the eyes of an American observer. International business was becoming “a mixture of absentminded optimism and adversary proceedings”, and the task of defining problems and solutions was bound to be infinitely more difficult in the present climate. A German speaker agreed that, without a sense of community and partnership, we were heading for a destructive confrontation of national interests.

An International participant expressed the widely held view that there were no fundamental transatlantic differences; we belonged to the same civilization, and our economics and our security were linked together. Yet our day-to-day relations were increasingly marked by frictions, such as on trade and military questions, which over the longer term risked permanent damage to the community. What was missing was a minimal consensus about objectives for the medium term of the next five to ten years.

A Belgian speaker conceded that a certain optimism was warranted by the fact that the free industrial countries agreed on ultimate aims, and that French policies were now more in line with those of her partners and less hostile to the US. But he, too, was worried about the lack of procedures for tackling the secondary problems which had recently proved so irritating to our relations. We needed a timetable for establishing some cohesion between Europe and the US within the next five years on medium-term problems.

The American author of the working paper recognized that short-term problems should ideally be viewed against the backdrop of medium- and long-term considerations, but he warned that, if this became a guiding principle for action, it would be “a formula for disaster and inaction”. We needed to understand these interrelationships, but we had to be satisfied with partial and limited progress on individual problems. It was impossible to keep all of the elements in balance at all times. “We are just not smart enough, and the world is too complicated.”

In the introduction to his working paper, the American author had asked, “Who is going to define the road ahead . . . the common direction in which we must move?” A suggestion in this regard was offered by a fellow American participant, who summarized a proposal he had recently made for the establishment of an “International Commission on Peace and Prosperity”. This idea had grown out of a conviction that national governments – and even international organizations, such as the UN – were so preoccupied with the day-to-day business of managing the complex problems of society that they had little time to think about the future, to try to anticipate the issues of a decade or two

hence, and to initiate some thinking about them now.

The accelerating pace of change in social and political life, in technology and communications, was engendering anxiety, confusion and uncertainty. Population growth and rising rates of production and consumption were imperiling our environment. As existing institutions were ill equipped to undertake a comprehensive review of such problems, perhaps a useful contribution could be made by the private sector.

The speaker recommended bringing together a group of some 30 to 50 "wise men" from the leading industrial nations of the non-Communist world: Europe, North America and Japan. These citizens would represent a broad spectrum of the private sector: science, business, labor, the church, the academic and professional worlds. They would be drawn as well from different age groups, but the primary criteria for their selection would be such personal qualities as leadership, judgment and breadth of understanding, and insight into contemporary issues. The aim would be to try to find "the Jean Monnets of today". To enlist the most qualified people, and to foster a concentration of effort, the life of the Commission should be limited to two years. To insure its independence, it should not be identified with any existing organization.

The subjects to be dealt with could be divided into a number of categories, and subcommissions might be created, which in turn could draw on additional people. Nonmember observers might be invited to participate - from government, the developing nations, even the Communist world. A small secretariat would concentrate, not on fresh research, but on gathering data from available sources. The Commission could deal with such issues as environmental control vs. economic growth; individual freedom vs. egalitarianism; problems of urban life (housing, crime, drug addiction, financing urban education); and so on.

The Commission's report would be given to governments and to the public in a manner designed to produce the maximum impact. Whether its conclusions would be supported or acted upon would depend largely on the quality of its work.

The notion of such a Commission was endorsed by a number of participants, some of whom suggested specific items for its agenda. An International speaker saw it as a tool to help reestablish the necessary balance between understandable domestic pressures and responsible government, to "aid those in our governments who want to take, and are capable of taking, a responsible position in these fields". A Netherlands participant welcomed the idea of a commission from the private sector, which he said could come to conclusions on these multifaceted problems in one-third the time required by a governmental organization. He wondered whether the Business-Industry Advisory Committee to the OECD could not be useful in launching the proposed Commission.

An American speaker reminded the conference that the "wise men" technique had been used before. He was all for it in principle, but unless there was "a political will on the part of governments to really move in some direction, to really use the efforts of such a group, it will be just another set of documents that will be read by a small group of interested people and filed for future reference . . . hopefully".

The claims of domestic priorities

"The underlying tension in the international economic system", according to an American participant, "is the one between the increased economic interdependence of countries and the national desire of individual countries to maintain sovereign control over their own economies. . . . It's the vitality of Ricardo, not his death, which is causing so many of our problems today." The intensified interaction among the economies of the industrialized countries had brought them into such intimate contact that any interruption in the flow of goods, services or capital was costly in both economic and political terms. Many people did not yet realize, the speaker added, "how much the US attitude toward that trade-off between economic interdependence and national control over its economy has in fact changed."

The American author of the working paper felt that the US still had an instinctive drive for leadership in international economic affairs, but that its domestic preoccupations were such that it would be difficult for any administration in the foreseeable future to provide the sort of leadership that Europe had become used to. A compatriot sensed "a lack of will, of conviction" on the part of his government.

A Swiss participant recognized that Europe should make a greater effort, but he was more optimistic about America's ability to continue taking the lead. Economic problems today were not so fundamental as to justify a mood of negative resignation.

This issue was of course by no means confined to the US. In the view of a Canadian speaker, an essential condition for progress in international cooperation during the seventies would be a recognition both of the legitimacy of national aspirations and of the means of setting limits to them. He quoted a European analyst who had written, "Those who wish to prevent a revival of nationalism are well advised to pay special attention to the defense of national interests."

The speaker went on to discuss some special characteristics of the Canadian economy which conditioned her foreign economic policy. Canadian manpower was increasing at the exceptionally high annual rate of three to four per cent,

making it difficult to contain unemployment, which was unequally distributed over the country, as language differences hindered the mobility of labor. Traditional stabilization policies were therefore ineffective. With full employment, Canada's accounts would probably be in the red, and a constant rate of exchange would have to be financed by the entry of capital. These domestic pressures explained Canada's traditional dislike of economic blocs and her preference for free, multilateral trade relations and a fluctuating rate of exchange.

An International participant referred to the consequences of a possible crisis of economic growth in the developed countries. While it would not, in his mind, justify a "modern ideology of cultural despair", it did threaten to limit the room for maneuver of governments, who might be less able in the future to resist domestic pressures against free trade and open exchanges.

Added to these economic pressures were changes in social and philosophic values. An Italian speaker remarked that the classical concept of GNP was nearly obsolete, as the objective of mere economic growth was being supplanted by a concept emphasizing balanced, qualitative elements. But at least some growth was a prerequisite for socio-economic stability, so that in shifting toward more social goals we could not afford to sacrifice high economic efficiency. This required a new coordination of the technological and social sciences to improve the productivity of the tertiary social services sector; a premature and abnormal growth of that sector would not improve the quality of life.

A French participant observed that young people today were less vitally concerned with the equilibrium of the Western world than their counterparts of 15 to 20 years ago had been. The "cement of anti-Communism" had been dislodged by the "friction of economic prosperity". While those in power now were still influenced by their cold war experience, the leaders of tomorrow risked being conditioned by nationalistic, isolationist reflexes. Unless they were reached by an appropriate political appeal, they were likely to gravitate toward irrational, utopian solutions.

Another French participant alluded to some of the controversial aspects of the "quality of life" concept. For one thing, some of those who were most actively interested in it were apparently not much interested in anything else. For another, it alienated many people in industry to be told that all they had learned about more and better production was outmoded. Finally, these non-quantitative notions were incomprehensible to large segments of the population in all of our countries, as well as in the Third World, who were still striving to achieve a satisfactory level of subsistence.

The speaker was not convinced that an individual's search for "quality of

life" was prompted by an anti-economic bias. Rather, it seemed to be an extension of the evolving demand of the consumers for better products, and not simply more of them. But "quality" was always a costly luxury, and it would only be achieved if society made an economic effort at least as great as that which it had made to reach a subsistence level. This would require new initiatives by industry and governments.

Trade relations

A Swiss participant, who said that his country was interested in both regional and worldwide cooperation, felt that the objective of a truly multilateral trading approach did not rule out bilateral, trilateral, or bloc-to-bloc negotiations. These were not mutually exclusive alternatives, but complementary approaches. Some issues were too complex to be handled except on a regional basis, while European-American relations suggested a bloc-to-bloc dialogue. In any case, he hoped that the major trading partners would adhere to their pledge to begin new negotiations by 1973, a view shared by a Canadian speaker.

A British participant doubted that negotiations would get going at the pace required until the main motivators of world agreement, notably the US, clarified their objectives "in maintaining a cooperative development of the monetary and trade systems". He feared that America was suffering from too rapid a liberalization without any controls. What was required was, "not a wholesale onslaught on all trade restrictions, but a serious creation of a system of international disciplines that will allow liberalization to proceed at a pace consistent with the capacity for organizing structural change".

In the opinion of an American speaker, it would be a mistake to insist that trade and monetary negotiations move ahead at the same pace. Trade discussions, which should begin within the next year or so, would have to take account of developments since the Kennedy Round, particularly the new position of Japan and the tendency of the European Community to give special access to its market to its associated states, the former colonial areas, which carried serious implications for the rest of the world.

An International participant observed that, while protectionism had decreased gradually over the past 20 years, we had come to a sort of stalemate, where the will to move ahead was blocked by formidable obstacles. If we wanted to go further, we had to be prepared to go a great deal further. It was useless to try to deal only with customs duties; one had to put on the table such matters as the free movement of capital and labor, rules of competition, and state subsidies.

The speaker went on to express reservations about the systematic use of

sector negotiations, which had a certain logic but tended to compartmentalize international trade. This concern was echoed by a Canadian participant, who alluded to his country's rather inconclusive automobile agreement with the US. He also mentioned that, while tariffs had been reduced in recent years, there had been a rise in nontariff barriers, which were "far more arbitrary and discriminatory".

The author of the American working paper intervened to say that he had meant to recommend sector discussions only as one technique in the context of a broader understanding. The US/Canadian automobile agreement was not a sector settlement, but "a very special arrangement between two countries, ill-conceived and poor in execution".

A US participant thought that it had been a mistake at the time of the Kennedy Round not to include "fair international trade" among our objectives. An across-the-board slashing of tariff rates had been unwise in the absence of a simultaneous attack on nontariff barriers, such as subsidies, indirect taxes and investment restrictions. To illustrate the result, he mentioned the loss of 125,000 jobs in the US consumer electronics industry, which had provoked such protectionist responses as the Burke-Hartke bill.

The author of the working paper did not agree that problems of adjustment in individual countries constituted a valid excuse for not reducing trade barriers; it was up to each nation to work out its own adjustment policies. If there were any life in Ricardo, the loss of 125,000 jobs in one sector should eventually mean an overall improvement in the welfare of the US through the creation of new jobs in more productive sectors. The question was not of the gross effect on certain jobs, but the net effect, and the answer lay in enlightened leadership.

An International speaker suspected that proponents of "fairness", or of "orderly marketing", were really aiming to protect a position which they had achieved, instead of continuing to try to work by rules which gave them an opportunity to make further advances. An American participant found cause for optimism in the fact that a recent speech by a US Treasury official on "The Fairness of Trade Doctrine" dealt only with nontariff barriers. It omitted all mention of wage differentials, which had been at the heart of the "fair trade" debates of the 1950s.

A German speaker observed nevertheless that differences in wage levels, as well as in fringe benefits, slowed progress in European economic integration, for instance by complicating transnational company mergers. Better coordination of labor and social legislation was needed.

With respect to agricultural trade, an International participant made a plea for restraint in discussions on this subject, to avoid hostile polemics which could

lead to general estrangement. It was easy to attack Europe's Common Agricultural Policy, but the US benefited from its own farm protectionism. Agriculture was not simply a matter of foodstuffs; there were human and social aspects. It was important to try to keep our farmers from forming a permanent mentality of *anciens combattants*. All of our countries would agree that the present system was unsatisfactory if for no other reason than that it was too expensive for everyone, and we had to work together to shape an alternative.

The case of Japan

The Japanese economic situation was the key to most of the problems under discussion, according to a Norwegian speaker. Japan's recently-acquired strength derived from her exports. Last year, for example, steel exports had increased 30%, and she had shipped abroad 1.5 million cars out of a total production of 6.5 million – an impressive record for an industry that had really started only a decade ago. Japan was obliged to import virtually all her raw materials, and she bought roughly half the coal and iron ore shipped in international trade. Even these enormous purchases were not enough to balance her accounts, and the speaker felt that she must begin to import consumer goods, too.

Underpinning this gigantic trading machine was a unique working partnership of industry, government and society, which welcomed bigness as an asset and imposed no antitrust restrictions. Given the Japanese competence and ambition, one could extrapolate from the present situation a formidable growth curve. The business philosophy of the Japanese amounted to a religion. "Advising them to do some rethinking" was not enough. The speaker, who said he was a liberalist, advocated some hard "missionary" work to try to produce a change in Japanese philosophy. As the Nixon administration had already taken unilateral action, perhaps some help could also be provided by the Europeans in this regard. They had not yet felt the pinch, but they probably soon would.

An American participant agreed that it was in the mutual interest of Europe and the US to try to knit Japan into the framework of our overall economic relationships, even though trade patterns up to now had been predominantly Japanese/American. The Japanese had to reorient fundamentally their way of doing business with us; some of it was cultural, which would be difficult to change, but much was planned and systematic.

A British speaker added that the Japanese had particularly to learn the lesson of restraint in their dealings with their raw material suppliers, to whom they sometimes displayed a certain ruthlessness. Moreover, they were acquiring some of the classical motives of imperialism in the cheap labor areas of Southeast Asia, to which they looked increasingly for the manufacture of component

parts. It seemed to a Canadian participant that the improper exploitation of natural resources, at least, was within the capacity of the host country to control.

An International participant referred to the growing volume of offshore direct investment by Japanese firms, especially in Southeast Asia. Some of this was being forced by land shortage and environmental problems at home, and some was at the invitation of multinational firms who wanted Japanese partners for political or economic reasons. The Japanese were also investing in the Middle East to insure their oil supplies. These were welcome developments, as they helped bring Japan out of her isolation.

A French participant wondered what the reaction would be to an attempt by the Japanese to take over a large, publicly-held US company. An American replied that it would probably give rise to much debate, concern, and useful self-analysis; and that the Japanese "might succeed if they picked the right company".

A Portuguese speaker emphasized the dependence of the Japanese on the rest of the world for both raw materials and outlets for finished products. He felt that they had demonstrated neither remarkable scientific ability nor marketing capacity, but had succeeded in world trade thanks largely to the pressure of lower prices. Yet the Japanese people had become used to prosperity and full employment, and a slowdown in their economic expansion might produce social unrest which would be difficult for their political institutions to manage.

An American participant with extensive experience in international business cautioned against underestimating the Japanese, technologically or commercially. They were spending over \$170 million annually in the computer industry, and would soon surpass the entire American research and development effort in that field. They were already investing about as much as the US in consumer electronics research. Moreover, Japanese firms would soon be multinational in investment as well as trade.

Another American speaker said that it would be to the advantage of Japan and to the rest of the world if she were to devote a larger share of her resources to upgrading the consumption of goods and services in the home market, thereby reducing her reliance on exports for continued growth. But during the time needed to accomplish this shift, Japan would have to rely on greater access to markets outside the US, and the speaker hoped that Europe would be increasingly hospitable to goods from Japan as well as from other Asian countries.

The outlook for Japanese trade patterns was the subject of several interventions. An American participant said that, while Japan would certainly like to develop her relations with China and with other Communist states, projections indicated that her primary economic interests into the next decade would

continue to be with the West, and with Australia, New Zealand and South Africa. The percentage of her export trade with the "planned economy bloc" in 1980 would be about 9 per cent, compared with 5 per cent today. (A German intervention pointed out that there was little prospect of the Soviet Union buying consumer goods from Japan with hard currency.) Japan was prepared to invest more at home for social services and to take a modest cut in her growth rate, but that would still leave her with substantial annual growth.

An International speaker remarked that a reasonable level of prosperity would have to be assured for Japan in the interest of world stability, but that she would be called upon to make certain sacrifices for political reasons, in the same liberal spirit that the US had shown in opening up its market to permit Japan to return to a normal democratic role in the world.

It was right that Europe should buy more Japanese products, according to a Belgian participant. One already found her steel, automobiles, textiles and electronic goods on the market. The quantities would increase and Japan was even free to put up plants in Europe. What was not right was the absence of reciprocity in Japan. Direct investment was limited to a minority share, and licensing fees were artificially low owing to the lack of effective competition.

The speaker was all in favor of expanding Japanese-European economic relations, if it could be done in a fair and systematic way, but there was no reason for Europe to make unilateral concessions to a lower wage country which seemed to have little concern for the domestic well being of its people. This was a subject which the European Commission might study for the autumn summit meeting. A Dutch participant lent his support to the notion of Europe taking a greater share of Japanese products if there could be some sort of "negotiated restraint" on the rate of growth of this trade.

A German speaker reported that two or three countries in the European Community had safeguard clauses and one had a system of quotas, but that very little use had been made of these devices in the past, or was likely to be in the future. There were no longer any obstacles in Germany, which had become Japan's biggest European customer, accounting for half of her exports to the EEC. Even so, Germany took less than 3% of Japan's total exports.

This was not because Japanese goods had been discriminated against, but because a major Japanese trade offensive had not yet been launched on the European market. If it were, he thought the Europeans would be ready to import more, to take some of the weight off the US, but what Europe could not do under the GATT rules was to give the Japanese a preferential agreement. In any case, the Americans would not welcome a special commercial association between the EC and Japan. The speaker noted, incidentally, that Japan's exports amounted to only about 10% of her GNP, which did not seem so dis-

proportionate as to require a major revision of her investment structure.

An American participant, who received support from a Swiss speaker, took issue with some implications in preceding interventions that we ought to seek a bilateral balancing of Japan's trade with Europe and/or the US. The kind of multilateral trading and payments system that we all seemed to advocate in principle – and which had recently been shored up by the exchange rate realignment – was aimed at giving each country an opportunity to achieve a viable balance with the rest of the world as a whole. It was contradictory to be concerned about the effects of the directional flow of Japan's trade with one or the other of us.

The speaker happened to agree that it would be in Japan's interest to change the structure of her investment, but in the end that was for her to decide. If she wanted to continue to export large quantities of manufactured goods as the leading edge of her economic growth, there should be no objection so long as she avoided disrupting the international trading and monetary system. That would mean increasing her imports proportionately (including manufactured goods) and/or revaluing her exchange rate so as to change the pattern of capital movements as well as the trade in goods and services. At the same time, this participant urged the Europeans "to raise their sights a bit" in looking for ways to help bring Japan actively into the task of restructuring the world trading and monetary system.

An American intervention suggested that it was a mistake to analyze Japanese trade in terms of quantitative measures of dollar value. The problem presented to the US by Japanese imports had not been so much their total volume, which was relatively modest, as the fact that they tended to be concentrated in very narrow sectors, impairing price structures with practices that sometimes bordered on dumping and disrupting the whole market. The Japanese had to be educated in "good manners . . . in new patterns of conducting their commerce", a task in which Europe could help the US.

The West in turn needed some educating about Japan, the speaker claimed. It was completely outmoded to think of her as a low-wage, Far Eastern country engaged in cheap mass production. She was now the world's third greatest industrial power, endowed with a high degree of sophistication, and it made little difference whether she was located in the Pacific or the Mediterranean. Japan was experiencing the same problems as other industrialized countries – environment, social infrastructure, quality of life – about which there should be a great measure of consultation.

Building a sensible kind of world economic community required a serious joint effort by the US, Japan and Europe. The US could not do the job alone, and if it tried there would be troublesome distortions, with America turning

more protectionist and Japanese surpluses dislocating world markets.

The need for a strong European side to this triangle was endorsed by an International speaker, who said that it would have political as well as economic value, serving to counteract Japan's cultural pull in the direction of China.

On the other hand, an Italian speaker expressed reservations about the prospects for an effective triangular cooperation between Europe, Japan and the US. While some of the arguments advanced in favor of such cooperation were based on pure mercantilism, others were more valid. And yet the reaction of many Europeans was hesitant, if not negative. There was a feeling that Europe was preoccupied with its own problems, and that if it could not expect to make its weight felt in the Pacific it should not spend its time and effort in vain.

But Europe did share with Japan and the US the distinction of being one of the three global power blocs (assuming the USSR was still defined as a continental power), and an effort ought to be made to make the interests of these three blocs more convergent, or at least less divergent.

The speaker's recent discussions with Japanese leaders had convinced him that they were now "available" for discussions, particularly on the subject of how they could concentrate on those exports which would be less disruptive of the economics of importing countries. As one could not be sure how long this mood of "availability" would last, no time should be lost. The OECD was probably the most appropriate forum for these discussions.

The practical difficulties of effectively enlisting the cooperation of the Japanese to solve common problems was mentioned in several interventions. A British participant with business interests in Asia sensed that the "Nixon shocks" had engendered a mood of distrust and uncertainty there, but that the Japanese were determined to overcome the effects of trade restrictions and the revaluation of the yen.

This speaker was joined by a number of others in expressing bafflement and frustration at Japanese ways: their thought processes, decision-making procedures, and above all their behavior at conferences. They were often represented by blocs of silent delegates who hesitated to participate in the frank and open discussions required, preferring to caucus together before producing a formal statement of their position. It would take time and patience to break down these barriers to communication, but an attempt had to be made to bring the Japanese more and more into international meetings and discussions.

An International speaker thought that the Japanese were not as far removed from the rest of us as some of the interventions had suggested. The chairman of the GATT committee investigating the consequences of British entry into Europe was Japanese, as was one of the most valuable members of the OECD

high-level group. There were many other instances of active Japanese cooperation.

Another participant reported on the valuable contribution made by the Japanese to the International organization which he was involved in administering. Granted, their large delegations had only one spokesman. This was due not only to their tradition, but to their shortage of "exportable" high officials with languages and experience. Most of the delegates were there to observe and learn.

In the speaker's experience, the Japanese, more than any other people, "attach a tremendous importance to being with the Western nations in daily cooperation, to learn what is happening elsewhere, and to use what is told to them . . . They are very polite and appreciative, and generally use the organization most actively . . . Not every member country reacts always in that way". Underlying this attitude was the Japanese feeling that they should grow out of their bilateral link with the US into a broader economic relationship with Europe, Australia and New Zealand as well.

Two other speakers - one Australian and the other American - cited examples of productive conferences they had attended with the Japanese on business, intellectual and cultural topics. There were now many more influential Japanese who were able and willing to converse with people from abroad, and the time was ripe to take advantage of this evolution.

An American participant observed that much of the foregoing discussion seemed to assume deliberate Japanese policies in these matters. In truth, Japanese responses in external relations were often simply a reflection of the country's internal political culture, with its tradition of strict hierarchy, an elaborate superior/inferior order, and close interaction between business and government. The Japanese found it difficult to conceive of equal partnerships, which made it all the more important for Europe and the US to work patiently to build a sustained relationship with Japan to bridge that gap.

European perspectives

Several interventions having referred to the difficulty of effectively coordinating economic, monetary, political and security elements, a Belgian participant spoke of the importance of having the enlarged European Community able to act as an *interlocuteur valable* in all these areas. To do this, there had to be a will to create a united Europe, which in turn meant that the younger generation had to be politically inspired by a European ideal.

In the opinion of a Swiss speaker, though, youth could no longer be rallied to economic or military security goals. They would only respond to such political

objectives as an improvement in the quality of life. Both effective institutions and dedicated men were essential to the strength of the West, but the defect of European Community institutions was that collaboration was largely on a governmental basis, which implied decisions based on power. More emphasis should be put on collaboration between parliaments, "where the good argument has a much better chance to get through".

An International participant said that one lesson to be learned from recent European experience was that no economic progress was achieved without a political understanding. The Common Market had its origins in a political determination to prevent future wars by forging links of interdependence. This had led to a second motive, an economic one, but success in that field had unfortunately deprived public opinion of a sense of urgency about moving on ahead, as there seemed to be few barriers left to surmount. Perhaps we had all expected too much too soon from this rapprochement of states; it was disappointing to see how slow the process of integration was.

New political incentives now had to be found to infuse Europe with a feeling of solidarity. In the meantime, we were passing through a stage of "intermediate regionalism" in Europe and other parts of the world, notably Latin America and Africa. The speaker hoped that we could avoid hostility between regional economic groupings, as well as a competitive proliferation of them.

Another International participant counseled against an "all-or-nothing" approach to regional developments. It had always been the viewpoint of the European Community (which, incidentally, was far from constituting a "gigantic trading bloc" with much of Africa) that close regional cooperation, even political integration, was compatible with the acceptance of broad international rules such as those on which GATT and IMF were based. As to the slowness of EC decision-making procedures, it should be borne in mind that the Community was trying to work out common policies in an increasing number of areas, that it was succeeding relatively frequently now, and that there was probably no other instance of a group of free countries cooperating out of their own free will in this way. It was significant that the governments of the member states found it necessary to try to coordinate their foreign policies, whether they always succeeded or not.

The speaker went on to say that one of the major tasks of Europe, which would become even more evident at the summit meeting, was "to define its personality in the world". An important facet of this was its role in the trading system, and he was not convinced that Europe saw its responsibility in this area in terms of the US-Europe-Japan triangle that had been mentioned. One could not envisage the creation of a sort of economic "security council" of these three partners, and moreover one needed the collaboration of Australia, New Zea-

land, Canada, Switzerland, Sweden, and the other European countries who would not, in the foreseeable future, be members of the EC.

The Community was therefore inclined to regard the composition of OECD as being better suited to the tasks at hand, and it was looking for ways to define in that body – for execution through GATT – the reforms needed to cope with such issues as transnational investment, the crisis of growth, regional groupings, monetary-trade links, and development assistance (for which Europe had a special responsibility). Europe was convinced that it was in the interest of all to maintain “the rules of free trade”, and to do this multilaterally. This was not to say that the US would not continue to warrant the top place among Europe’s partners, although there would not always be a convergence of interests.

The urgent need for an improvement in the Community’s decision-making procedures was the subject of two Belgian interventions. As of late last year, there were 352 proposals “in the pipeline” from the Commission to the Council of Ministers for decision, and nearly half of these files had not yet been dealt with. As a result of such delays, Europe’s objectives, intentions and reactions did not emerge clearly. This problem was on the summit agenda, and it was to be hoped that the enlarged membership of the Community would facilitate the shaping of global European policies, which had been politically impossible when only the Six were involved.

An International participant pointed out that the formulation of US policy was likewise hampered internally by imperfect coordination between the administration and the Congress. An American speaker agreed, but was worried that the Community would either be inhibited from making any decisions at all, or would make them so slowly and imperfectly that its relations with the rest of the world would be damaged. A fellow American regretted the irresolution of his own government, as well as the absence so far of a single voice to speak for Europe, but he found that crises somehow produced concerted and effective action anyway, as the work of the Group of Ten had demonstrated in recent months.

Looking ahead, a German participant wondered whether the Americans, who had always favored closer European unification, would not view with mixed feelings the fact that they were now to be left out of political consultations, which would henceforth take place in the Davignon Committee instead of within NATO.

A Turkish speaker observed that his fellow participants tended to think of Europe in terms limited to the Ten. He deplored this, as it presupposed that Europe could expand only from an economic and technological base, neglecting its ancient civilization of common moral and political characteristics. His own country was not among the Ten, yet it did not regard itself as part of the

“Third World” either. He could not speak for other nations, but they probably shared this feeling. He was not without hope, however. Not long ago Turkey and Greece had been complete outsiders to the Community; then they had become associates; and now there was even a possibility of their being invited to attend the summit meeting.

The intervention of a Swiss participant carried a similar theme. The enlargement of the EC only toward the north held worrisome implications for the political evolution of the Mediterranean basin. Within the Community itself, Italy was giving cause for concern, with outbreaks of violence reminiscent of scenes half a century ago. As for other nations around the Mediterranean, the US and Western Europe were willing to maintain military bases in them but otherwise they were “excommunicated” because their regimes were not democratic.

This attitude showed a misunderstanding of the social, spiritual and cultural mores in these countries. The people of Spain and Portugal valued liberty as much as anyone, but the realities of their existence did not produce the ideal *homo democraticus*. We could not condone the methods used in Greece, but it was vain on the other hand to talk of “restoring democracy” where one had not really existed before – at least not of our brand. The Turks were struggling to maintain a rightist regime, which also perhaps merited some criticism. Yugoslavia after Tito would be a question mark.

These were all peoples with strong nationalistic pride, and our refusal to help them in their development, our placing them “in quarantine” because of our prejudices, risked creating a “culturally unbalanced, marginal Europe”.

Support for the preceding intervention was expressed by an Italian speaker, who advocated shifting the strategy of the Community from an ideology largely dominated by industry and French agricultural interests to one focused on the needs of Europe’s developing regions. This could be called a “southern strategy”, if one were to include Yugoslavia, toward whom the Community’s policy had always been shortsighted in the speaker’s estimation. It flattered the Europeans to be told by the Americans that a grand destiny awaited them in Asia, but they had first to face problems nearer home. A Europe turned mainly to the Atlantic, and “looking into just one small corner of the Mediterranean”, would be weak and vulnerable, especially when confronted with the “southern strategy” of the Soviet Union.

Relations with the Third World

A Norwegian participant said that the possibility of believing in the future had to be given back to the younger generation, who had lost it. If his own

children had been listening to this conference, their reaction might well have been this: "Of course, it is very good to establish an acceptable currency system, and so on . . . But you have been discussing agricultural policies in terms of shipping products from one overfed part of the world to the other, not taking into consideration the need to feed the two-thirds of the world who are not in a position to get the necessary number of calories." This disparity between rich and poor, and the rapid destruction of our natural resources, were the essential problems of today and tomorrow.

A Canadian speaker stated that events of the last few years, particularly the Vietnam war, had convinced his countrymen that military responses did not necessarily provide the best solution to changed circumstances. Accordingly, as Canada's defense budget was reduced each year in real terms, its foreign aid budget was increased. Similarly, a Netherlands participant foresaw his country's carrying a bigger burden of development assistance to the smaller Asian nations, although a military role there was out of the question.

At the same time, public pressures for a reduction in foreign aid were building up in the US and Europe, according to a British participant. In Britain today, it was difficult to interest the man in the street in the concept of a united Europe, much less in aid to underdeveloped countries. Yet it was important for Europe not to be left behind in this field, in which the US and Russia had been active for so long.

By the middle of the next decade, the developed third of the world should be able to put its standard of living at any level it wished. What use would it make of this economic power? Should it turn inward, to improve its environment, its social services, its quality of life? Or should it - as the younger generation believed - raise to affluence the remaining poor two-thirds of the world? Ideally, both these goals could be accomplished.

An International speaker felt that Europe had a very special responsibility to the less-developed world, and he believed this could be the characteristic purpose of the European Community in its foreign policy in the years ahead. Europe would need to be selective in terms of instruments and of areas, but this did not mean concentrating solely on Africa and the Mediterranean. In fact, the developing nations of east Asia and the Indian subcontinent were now directing an exaggerated amount of expectation at western Europe, as a negative result of apprehension about the spheres of influence of the US, Japan, China and the USSR. Many Asians felt that by establishing close ties with the free countries of Europe they could strengthen their economic and political cause without any strings attached.

Of all the major partners in world economic - and perhaps political - affairs, the European Community seemed best fitted to contribute to the promotion of

regional cooperation and economic development in Asia, and in so doing it might gradually become a global power.

A Belgian participant also referred to Europe's desire to aid in the economic development of the Mediterranean and Africa, where it had certain primordial ties. Unfortunately, however, her efforts in this direction encountered the opposition of the US, which felt that such a relationship was detrimental to its own interests.

To this remark, an American speaker responded that, while the US welcomed both Western aid to Africa and new manifestations of European unity, it simply did not believe that a reciprocal preferential association between Europe and Africa was the best way to organize North-South relations. "Slicing the world up like an apple" would inevitably increase pressure on the US to take a similar role toward Latin America. What would be done then for countries, such as India and Pakistan, which were not located immediately south of the great industrial regions? The speaker answered that a global, multi-lateral approach was much to be preferred.

A British participant mentioned that US aid programs in southeast Asia had helped immensely to raise living standards there over the past 25 years. It looked now as if this aid was decreasing, but he was heartened to see it being replaced by investments of American companies. "Nothing but good can come of this." But much of Asia was worried about what it sensed to be a growing mood of isolationism in the enlarged EC, and the speaker was encouraged to hear other participants affirm Europe's intention to actively support regional Asian development groupings.

An American participant, noting that a substantial part of the US capital outflow had gone to the Third World, said that Japan, with some \$17 billion in reserves, was now well equipped to devote more of its resources to development financing.

The creation of a "bank of technology and know-how", on which less-developed countries could draw to increase productive employment, was proposed by a Swiss participant. The fruits of research were intellectual property, which had to be protected through patents and licenses to insure progress; at the same time, the developed nations wanted to assist the growth of the Third World. One way of accomplishing this would be for industrial companies to deposit their technology with a "bank" which would arrange for it to be licensed on a long-term basis, on easy terms, to developing countries. Such a bank, which might be an agency of an existing international organization, would be staffed with consulting engineers to supervise the start-up of new plants until they could be turned over to local management. Governments of the licensee countries might intervene in the payment of royalties. The use of such a bank for

the transfer of technology would have the advantage of being multilateral as well as nonpolitical.

An American participant observed that the Western world could not hope for internal cohesion or for a role of global leadership until it rid itself of the belief in its own ethnic superiority. There were not many of us who still regarded the color of a man's skin as important, but a lot of other people thought we did and there were unfortunately times when we lent credence to that notion. This was a particularly galling matter to the Third World.

Economic dealings with Communist countries

A German participant disagreed with the author of the American working paper, who had deplored the decreased coordination of economic policies toward the Communist world. The speaker felt that the situation had been worse in the 1950s, even under the pressure of the cold war, with much discord beneath the surface of cooperation. The debate then about strategic goods limitations had been dangerous for the Western community; the COCOM list now was so restricted that it presented no obstacle to trade with the East.

Credit policy was now well coordinated, with an agreed maximum of eight years, compared with some cases of 15-year maturities a decade ago. Furthermore, each trade agreement was the subject of consultation in Brussels, and the common foreign trade policy was scheduled for inauguration early in 1974. In short, Europe had achieved more common policies and responses to the Eastern countries than ever before, even without military pressure from NATO.

The Soviet Union had recently approached European and Japanese groups to discuss a joint venture for exploiting the resources of Siberia, such as copper, nickel, cobalt and iron ore. The Russians had concluded that the Japanese were inclined to shy away from long-term investments that did not promise a quick commercial advantage, but the speaker was convinced that if the Russians really sought international cooperation in Siberia they should invite Japanese as well as European partners to form a consortium. This would test the seriousness of recent Japanese promises about investing abroad.

Two participants who were industrialists saw little likelihood of such a consortium coming into being. A Finnish speaker predicted that it would be difficult to get the Russians to undertake serious negotiations with an international consortium. They calculated that it was to their advantage to deal separately with each nationality. From the point of view of the potential partners, a German speaker pointed out that large European users of critical raw materials, such as iron ore, generally preferred for their own security to have a share in the producing mines on which they depended. However, they were typically

committed to take only a marginal share of the production of each property, not a voluminous one. This system suggested some inherent limitations in a Siberian consortium.

An Australian participant sensed that Europeans were overly preoccupied with safeguarding themselves from Russia. On the dairyman's theory that "the closer you get to the cow, the less the kick hurts", he advocated closer economic ties between the non-Communist industrial countries and the Soviet Union.

The speaker had visited dozens of Soviet factories himself and talked with many industrial managers there. He found the Russians eager to do business with the West, especially to acquire our technology, on the basis of multilateral rather than bilateral exchanges. But it was particularly difficult for them to adjust their system - which was quantitative, having started from a generalized scarcity - to our qualitative system. The West should therefore take initiatives, in GATT or elsewhere, to make institutional adjustments which would enable each side to benefit from increased economic interchange.

Two other participants were less inclined to expect significant advances soon in dealings with the Communist countries. An International participant thought that Europe's trade with the Soviet Union might grow, but would be less important than its relations with the Third World. Nor did he foresee much commerce with China, regardless of China's attitude. A British speaker anticipated that the Chinese would concentrate on trying to buy technology, and would not allow their economy to be significantly affected by trade restrictions which might be imposed by other countries.

Transnational investment issues

Several interventions touched on the role and behavior of the multinational firm (MNF). An Australian speaker reported that among the MNFs active in his country were both "good and bad corporate citizens". It was not a question of black or white, but the world did need a code of behavior and responsibilities applicable to MNFs and host countries alike.

A Canadian participant said that MNFs gave a promise of progress, but that no means had yet been found to make them subject to political authority. The widespread US control of industry in his country presented a unique problem which could not be analyzed simply in terms of textbook principles of mobility of capital and fixed exchange rates. While America's balance of payments had been in the red year after year, its direct long-term investments abroad had doubled in the 1960s. This "new mercantilism" had caused feelings of exasperated dependency in Canada, and the government was formulating a general policy on the subject to safeguard national interests.

A compatriot, on the other hand, felt that the phenomenon of MNFs in general gave no cause for alarm, as their activities were, in the end, subject to the laws of host countries. He could see that their operations abroad might detract from employment and exports at home, but he was not sure that there were serious economic disadvantages to the host countries.

The author of the American working paper replied that he had not meant to suggest that the growth of the MNF was an ominous or dangerous development. It was, however, a potential irritant in international relations. Perhaps more European and Japanese firms would have to join the ranks of the MNFs before we would recognize the need for a general framework of conduct.

The speaker went on to take issue with the contention that capital exports were a new form of mercantilism. His philosophy was that a logical corollary of the free movement of goods was the free movement of capital. He added that recent US experience did not demonstrate the use of a balance of payments deficit to buy up foreign industry. During the last five years, US income from foreign investments was twice the amount of capital outflow.

A fellow American pointed out that the level of new US direct investment had been declining in relation to the stock of existing investment. The outflow in 1971 on direct investment account amounted to around \$4 billion; about half of this went to western Europe and there was virtually no net outflow to Canada. These figures suggested the interesting question of how countries with a large stock of US direct investments would manage to transfer the income on it without a corresponding new inflow across their exchanges.

Another American participant addressed himself to a previous Canadian intervention which had suggested that changes in the capital account should bear a portion of the burden of balance of payments adjustment. In the speaker's view that suggestion had indicated two erroneous assumptions:

(a) *That the burden of the recent adjustment was in fact being borne wholly by the trade account.* In truth, last autumn's exchange rate changes would have major effects on international capital movements as well as on the trade account. Foreign direct investment by US firms would be less than it would otherwise have been, and direct investment in the US by foreign firms would be greater.

(b) *That adjustment via the trade account tended to export unemployment, whereas changes in the capital account did not.* International shifts in employment were effected through changes in capital movements, as well as through changes in the trade balance. If the US, for example, faced the alternatives of an increase in its trade surplus or a reduction in capital outflows, it was not clear at the outset which would have a greater effect in exporting unemployment. The AFL-CIO

in the US was more opposed to foreign investment by US firms than to imports from abroad, on the grounds that it exported jobs. The TUC was taking a similar position in the UK. In the speaker's view, many foreign investments did not export jobs, but some of them did. The implication that a reduction in foreign investment could be accomplished without shifting jobs, whereas an increase in the trade surplus necessarily changed jobs internationally, was wrong and could lead to erroneous policy implications.

International monetary reform

An American participant said that the reconstruction of the world economic system would have to take account of a fundamental change in US objectives and attitudes. Until last year, the US had followed a policy of "benign neglect" toward its balance of payments. Although this had not always been appreciated abroad, it had provided an umbrella under which trade liberalization and economic integration could flourish. Other nations were enabled to run massive trade surpluses and increase their reserves. The US had now "joined the mercantilist race". It wanted to play by the same rules of the game as the others, which would greatly complicate the coordination of international economic policies.

The recent breakdown of the monetary system had not occurred for the reasons that Professor Triffin had been warning about for the past 15 years — that the build-up of dollar holdings around the world would "come home to roost", thus forcing the US off the fixed convertibility of the dollar. It had resulted instead from this US decision to stop financing its payments deficit and to assert the sovereign right of initiating changes in its exchange rate to make the necessary adjustment. As the international role of the dollar and the inflexibility of the Bretton Woods rules made it seemingly impossible for the US to achieve this adjustment unilaterally, as most other countries could, the American administration was constrained to take the measures of August 15, which the speaker personally deplored.

In his judgment, whatever new adjustment process was devised should permit the US to take initiatives to change its exchange rate, for two reasons:

(a) *The exchange rate was the only effective means whereby the US could adjust its balance of payments.* Foreign trade was too small a part of its economy to allow a correction in the external payments position through an adjustment in the internal level of demand. In some situations, the reduction of excessive inflation for domestic reasons would incidentally help the balance of payments position, but there were times, such as the present, when the high unemployment level

ruled out deflationary policies sufficient to affect the balance of payments. The other alternative, control over external transactions, had proved relatively ineffective.

(b) *The US could change its exchange rate more easily than could other countries.* As the external sector in the US was relatively small, compared for instance with Canada, Germany or Benelux, a change in the exchange rate had less domestic economic impact and was thus less difficult politically.

For these reasons, it appeared desirable to look to US-initiated exchange rate changes to provide some of the stabilizing element that had been supplied in the past by the role of the dollar and the financing of US deficits.

In response to comments by a Netherlands and a French participant, who had praised the wisdom of the founding fathers of the IMF, the American speaker made it clear that he was not advocating floating rates, but more frequent use of rate changes. This greater flexibility would indeed require intensified international cooperation to avoid competitive devaluations.

The Netherlands participant reminded the meeting that in a world of floating rates, which required no reserves, the IMF and Special Drawing Rights would be superfluous – a point which was sometimes overlooked in monetary arguments. He favored the Bretton Woods principle of tying a change in parities to the concept of fundamental disequilibrium. If somewhat greater flexibility were now required, we should proceed very carefully in applying it, to avoid the “beggar-my-neighbor” policies of the 1930s.

The speaker said that “a system which is at first sight one of fixed parities, but allows so much scope for a change in parities that it is for practical purposes almost a system of floating rates, is the worst possible solution, because it’s no system. It’s between the one and the other, which could only create confusion”.

A British participant feared that those, like himself, who believed that fixed exchange rates were essential to a multilateral trading system, were rather against the trend of the times. Many politicians with an insufficient understanding of the subject were quick to blame our past difficulties on “the old-fashioned rigidity of those who were not prepared to devalue whenever it was convenient”. They did not appreciate that a question of central political principle was involved, and they needed to be made aware that the convenience of unilateralism in monetary arrangements bore a heavy price in political and trade terms.

An argument for a system of fluctuating exchange rates was offered by a Canadian participant. He recalled that the immediate postwar period had been marked by generous American spending abroad for reconstruction. This selfless mood had gradually evolved into one of “neo-mercantilism”, culmi-

nating in the American measures of August 1971, which were inevitable but excessive. The US, still in a strong net creditor position in the world, was aiming nevertheless at a \$7 billion trade surplus so as to be able to continue to export capital and build up assets abroad.

Undoubtedly the Bretton Woods system of fixed rates had assured convertibility, encouraged trade, and promoted the growth of competitive, productive enterprises on a global scale. The trouble was, we were all pursuing other objectives as well. Fixed rates favored external over internal equilibrium and, as in any regime where prices are fixed, required that adjustments be made quantitatively. This system had thus stimulated trade as well as capital movements, both short and long-term. Interdependence between countries had grown much faster than it would have under floating rates, and the recent monetary crisis was one result.

The Bretton Woods system had favored capital movements as an adjustment mechanism, but they had taken on an unexpected importance and now presented a series of problems. The speaker recommended going to the root of the matter and considering the advantages of a system of fluctuating exchange rates. The widening of bands was a step in the right direction, but we had to go even further.

A Belgian participant remarked that the recently-devised “snake in the tunnel” arrangement, while admittedly rather fragile, was a pragmatic transitory solution. It provided the necessary stability for intra-European trade, while permitting a wider margin of flexibility against the dollar. The latter aspect was particularly important, as it was not healthy for Europe to be so subject to all the influences which domestic US political and economic events exerted on the dollar market.

This was not meant to imply a European lack of confidence in the fundamental strength of the dollar. On the contrary, the recent devaluation should give the Americans an enormous advantage in the next two to three years, since the present wage cost per unit of production, compared to a 1963 base, was 107 for the US and 130 for Europe.

In another context, this speaker referred to the depressive effect on European industrial growth that any reduction in military security would produce. The young might welcome troop withdrawals, but the reaction of more mature investors might be to liquidate their Continental investments. The resulting capital shortage would force governments toward a more socialistic economic model, which would bring us in the end nearer to the Soviet system.

With reference to the forthcoming negotiations for monetary reform, an American participant said that there was a great deal of sentiment in his country for a forum broader than the Group of Ten, to give a voice to the developing coun-

tries as well as some of the smaller industrial nations. He favored the proposal for some kind of grouping within the IMF.

The agenda of these negotiations should distinguish between short and long range perspectives. As for the near-term outlook for the US balance of payments, the immediate adverse effects of the exchange rate alignment on US imports were obvious, but it appeared that the positive effects would evolve at roughly the rate envisaged at the time of the Smithsonian Agreement. Shortrun capital flows had not been reversed as briskly as anticipated, but there had been some return of funds to the US.

The short-run convertibility problem was essentially a technical one of getting the IMF operating again, and discussions were underway on that. In the longer run, convertibility was really a question of liquidity, and hinged on the composition of international reserves and the procedure for converting them. In the speaker's view, US reserve assets would not support an early return to traditional convertibility, and an expanded role should be considered for SDRs and similar instruments, all within the context of the IMF.

The Smithsonian Agreement had been a vote in favor of fixed exchange rates, but to make that system work we would probably have to count on continued capital controls, as well as a more flexible rate adjustment mechanism. A system of fixed rates among large trading blocs differed markedly from one among a number of smaller units, so that European monetary integration would eventually add another dimension to the picture.

A Belgian speaker commented that it was inconceivable that we could go along indefinitely without some sort of international monetary agreement, including resumption of convertibility. He hoped that his American friends could soon give some indication of when the IMF would be functioning again.

An International participant said that it would be a great mistake to base permanent monetary reforms on the temporary situation of one country, even if that country happened to be the most important one in the world. Everyone was appreciative of America's postwar contributions to the Western community, and recognized the special reasons for her balance of payments difficulties. They were even prepared to exempt her from the embarrassing task, which had fallen to so many other countries with payments problems, of having to give the IMF a letter indicating what domestic policies she intended to pursue to extricate herself from her difficulties. But care should be taken not to let the short-term concerns of one nation dominate the shaping of a long-term monetary regime which would be applicable to all.

The remodeling of the economic and monetary system should not fail to take account of the momentous changes facing the oil industry, according to a US participant. Until the commercial advent of nuclear power in the 1990s, the 12

states represented by the Organization of Petroleum Exporting Countries would control the world's major source of energy. In view of their present demands, it looked as if the annual cost of US oil imports would jump from \$3 billion last year to \$20-25 billion in 1980. The Arab nations would then be the great possessors of the reserves and the wealth.

Working together: institutions and attitudes

An International participant drew a distinction between two questions: (a) To what extent were new institutional arrangements required generally for our international cooperation? and (b) what kind of special institutional arrangements were needed for the forthcoming negotiations on monetary reform and trade liberalization?

The latter question was perhaps the more controversial one. There was some sentiment, especially on the American side, for bringing the monetary and trade talks together in a special forum, on the theory that sound monetary arrangements had to be based on an appropriate trade policy and a strong US balance of payments position. Most European countries and Japan, on the other hand, feared that progress on monetary reform might be frustrated if it were tied to concrete trade negotiations. However, they saw another way of putting these two subjects into a single framework: by insisting on a restoration of convertibility as a precondition of trade discussions. This was in line with their conviction that trade liberalization depended on more interdependence, greater international cooperation in creating equilibrium, and a stronger discipline in turn in the monetary field.

In any case, there was likely to be general agreement on the need for some degree of parallelism in these negotiations. In the speaker's opinion, existing institutions, such as the IMF, OECD and the Group of Ten, could adequately handle the various components of the trade and monetary issues. However, in order to bring the developing countries also into the negotiations, the governors of the IMF should perhaps come together to form a Group of Twenty. The OECD could then provide the umbrella under which the components of the trade and monetary negotiations could finally be merged in an agreed economic policy.

On the question of more permanent arrangements, the speaker again believed that existing institutions were sufficient, although more attention would have to be paid to the interaction of *issues*, as distinguished from national *economies*. International commerce, for example, was affected not only by trade policies as such (tariffs and quotas), but by a wide range of other economic and social policies (balance of payments, comparative inflation rates, exchange

rates, taxes, regional industrial programs, consumer and environmental policies, etc.). To avoid distortions of trade, these sectoral policies had to be harmonized, and the OECD was increasingly involved in this work of "horizontalizing" policies which had heretofore been dealt with mainly in a "vertical" way.

The need for institutional continuity was stressed by another International speaker, who believed that we should work from within the IMF and the GATT to improve them. He was also looking to the OECD high-level group to produce some imaginative proposals.

A German speaker said that the GATT ought to be preserved, in spite of its defects. Reform of its activities could be progressive, starting perhaps with non-tariff barriers, which held an interest for both industrialized and underdeveloped countries. The advisability of keeping existing specialized institutions was endorsed by an Australian participant, who recommended, though, that coordination among them be improved.

Reform of the IMF was supported by a Belgian intervention, which mentioned the possibility of creating a global central bank through the expanded use of SDRs.

A German participant advocated the establishment of permanent institutions through which a continuing dialogue could be maintained between the US, Canada and Europe. Without that, the transatlantic coordination of monetary and economic policy would be impossible; it had proved difficult enough just within the European Community. This proposal was seconded by a Swiss speaker, provided that multilateral relations were not sacrificed. He went on to express his concern with the emphasis on institutional reform, which tended to sidetrack discussions from substantive to procedural questions. Existing institutions such as the GATT would be able to deal with a wider range of problems, such as agriculture and nontariff barriers, and OECD was the normal forum for linking commercial and monetary matters.

The American author of the working paper reiterated that institutional reform was necessary, but said that it would be stillborn if it were not backed up by the resolution of member governments to make use of the institutions. If there was no political will to act, "it will just mean more meetings and more travel for the already badly harassed civil servants and ministers."

This speaker went on to record his reservations about "ad-hocery." This had in fact been practiced to a significant degree in international economic relations in the last 25 years; many of us had learned that it was a mark of wisdom and maturity to get along by making compromises. But there was a fine line between pragmatism and opportunism, and the danger was in elevating "ad-hocery" to the level of a principle of action. It was still indispensable to have a common set

of objectives on which we could all move. This reaction was echoed by a Netherlands participant, who regarded "ad-hocery" as a dangerous concept. The 1930s had furnished an example of the results of generalized "ad-hocery". The post-war change to rules and institutions had been a notable advance.

The International author of the working paper sensed a basic division among the participants about the value of "ad-hocery", and he felt that his defense of it ran counter to the mood of the majority, who were seeking more precise, concrete guideposts. But the speaker was convinced that we were entering a period of great uncertainty. "We won't have free trade," he predicted, "and we won't be protectionist; we will have 'fair trade'". We're not going to be dependent, and we're not going to be independent; we're going to be interdependent. We're not going to float, we're not going to have fixed rates; if anything, we're going to have a dirty float. We're going to internalize external costs. The pillar of our thinking - GNP - is on the way to being obsolete. We don't know any longer what are our domestic policies and what are our foreign policies. We live in a world where everything has to be organized: fresh air is the result of organization. But at the same time we live in a world which, much more than 10 years ago, hates organization. We are going to be forced to live in larger and larger units, but at the same time we are going through a period in which more and more emphasis is put on local authority."

As long as we lacked a common set of coherent goals, it was better to stay with "ad-hocery". The speaker recalled Lord Bryce's observation that the greatness of Massachusetts lay in its exceptionally well-drafted constitution and the rejoinder of another Briton, writing at about the same time, that "the men of Massachusetts could make *any* constitution work."

Hopefully we would one day again have better rules to guide us, but now seemed to be a time in European-American relations when we would have to look for "the men of Massachusetts," so to speak, instead of the constitution.

* * *

An American participant, tying together a number of threads of the discussion, said that he had been much taken by the notion of elevating "ad-hocery" to the level of principle. He understood the International author of the working paper to have been warning against theoretical overprecision in a very practical world - against what the poet had called "dreaming of systems so perfect that none of us would have to be good". The speaker had been reminded too of Churchill's description of the formulation of British policy: "When we draw a line, we blur it."

With the measures taken last August 15, the US had "thrown all its chips

into the game". It had ended the temporizing and patchings of the present and previous administrations, and it must now feel that results commensurate with an initiative of this scope were essential. This would explain why the US was unwilling to rush into negotiations on the reform of the monetary system until the whole range of related issues had been laid on the table. Criticism of this attitude, at home and abroad, was not altogether well founded.

The Smithsonian Agreement had been a very considerable one, with the removal of the 10 per cent US import surcharge, but concern had been expressed that more had not happened since then. The speaker did not feel, though, that the follow-up had fallen behind schedule. A "clean" US gold bill had been passed, and certain trade matters had been adjusted. There had been a reaffirmation of the viability of the Smithsonian parities, which had helped to stabilize the foreign exchanges. There was no evidence of an "engineered delay" on the part of the US in proceeding to the negotiating table.

These were some of the "strategic" issues to be thought about before negotiations began:

1. What did Europe want to become? How essential to the existence of the EC was the Common Agricultural Policy in its present, very expensive, form? What were the implications for the Eurodollar and Eurobond markets of the narrow band of exchange rate fluctuations? What kind of capital controls would be needed to "keep the snake from getting stuck in the tunnel"?

Recent amendments to British regulations permitted UK companies controlled by EC nationals to raise in the UK all the finance required for their operations there. Would this kind of discrimination against non-EC-controlled companies raise the specter of retaliation? Would the EC monetary design be clear at the summit in October, or earlier? This had some bearing on when negotiations could usefully start. With how many voices would Europe speak?

2. What were the implications of the fact that the US was no longer the only free world power? Did this mean that the asymmetrical postwar world, in which the US had played a unique role as "buffer, provider and absorber", was passé? Did America's friends now accept that there was a more symmetrical relationship, which allowed her to pursue her interests in the same way that others could pursue theirs?

3. What was the national view about the priority of domestic as opposed to international objectives in monetary matters? If the dominance of domestic priorities was clear, we should have a floating exchange rate system, clean and free. But this was obviously rejected by the Smithsonian Agreement.

The speaker did not believe that Ricardo was dead or that his law of comparative costs had been repealed. It had perhaps been defied and submerged temporarily, but the world was still not rich enough to forget efficiency, unat-

tractive as that word might be. No one would be eager to buy stock, in his own or any other country, that needed government intervention to protect it from the law of comparative costs.

We had to adhere to a system which would provide an external spur to national governments to pursue policies that would keep their own money "straight". This would mean that, where domestic priorities were regarded as predominating, the measures to effect them had to take into account the international repercussions. For example, there was the trade-off between inflation and unemployment. The US did not intend to tolerate an unemployment level of six, five, or maybe even 4.5 per cent. But there were different ways to approach this which had greater or less impact on America's international accounts. The US might have to resort to such devices as public service jobs to bring down unemployment the last one-half or three-quarters per cent to an acceptable level. The same approach was applicable to agriculture.

4. There was now wide agreement about the need for parallel or contemporaneous negotiations on related matters. The time schedule for trade and monetary negotiations might be different, but they required coordinated direction.

Once we had developed some clear views about these "strategic" issues, negotiations could proceed fairly directly on what one could call "tactical" matters: amendment of the IMF articles on parity changes; the "dollar overhang"; sanctions to be applied to surplus as well as deficit countries, etc. Such a prospective schedule - getting to the conference table later this year - did not pose any great threat to the unravelling of the parities established last December, although there might occasionally be waves of uncertainty.

Bernard Shaw had once observed that man was wise, not in proportion to his experience, but in proportion to his capacity for experience. The speaker was convinced that the Bilderberg Meetings had over the years helped its participants enlarge that capacity in addressing the future. All of us who were engaged in getting the world's work done, whether in the private or the public sector, had to seek to do it better, and more humanely, with more responsiveness to the wishes of the people in our different societies. Thereby the constraints of need would be lifted from more and more people, and the vista opened to a fuller, more rewarding life in a world community made safer and more secure. In so doing, we should have met the most demanding standards that we could set for ourselves.

* * *

SECURITY CONSIDERATIONS

The new geometry of Asian relations

An American participant offered the following generalizations in his reaction to the working papers:

1. A loosely-knit multipolarism was making its appearance on the global scene, with special consequences in Asia. It made more sense to conceive of this as a modified alliance system than as "equidistant multipolarism" (which was unrealistic and therefore dangerous).

2. The credibility of Soviet power was at an all-time high in east Asia, despite the partial demise of bipolarism. But this power now had to be concentrated in Asia largely on the containment of China. "Having been the staunchest critics of John Foster Dulles during his lifetime, the Russians were proving themselves to be his most apt pupils."

3. The uncertainties surrounding China's future role in Asia related at least as much to domestic Chinese trends as to foreign policy decisions. Internal political instability was likely to continue in the years immediately ahead. Could it be contained at elitist levels, or would it seep down into the broader reaches of society? China's present policy seemed to be to resist Soviet containment while seeking a dialogue with the US, so as to increase its flexibility; to weaken the non-Communist alliance structure in Asia; and to contain Japan politically and militarily, if not economically. China had also given notice that she intended to be a nuclear power and to play a special role in Asia.

4. The credibility of the US was currently in doubt in many quarters in Asia. The transition from an American-centered east Asia to a multipolar Asia had been a traumatic experience for many Asian states and leaders. Paradoxically, the Asians did not question America's military power, but its will; and not its economic strength but the capacity of the US government and private sector to bring the economy into shape. Despite these uncertainties about American policy, the US was still the only omnipresent force in Asia, and the only one with maximum flexibility.

America stood at the apex of the two Asian triangles: the Russian/American/Chinese triangle, important to the issues of peaceful coexistence and weapons control; and the Japanese/American/West European triangle, vital to the economic health of both advanced and developing nations. By virtue of these two triangles, it was essential that western Europe be connected with Asia to insure a peaceful Japan oriented towards the West.

Whether the broader strategy of a political-military equilibrium would work for Asia hinged upon an acceptance by all the major powers of the basic rules of

that game and America's willingness to play a role in it. Asia presented several differences from Europe: the status quo was less firmly established, the risk of local war much greater, the range of ideological and power cleavages wider. Political instability among some of the key actors was a critical and unpredictable variable. The China/USSR relationship would be conditioned by internal developments in each of those countries, and Japan was moving into a stage of indecisiveness. Equilibrium in Asia depended considerably on having strong US and western European sides to the second triangle.

A French participant had found the working papers useful in explaining how political and economic factors were taking their place alongside military power in determining the balance in the Far East. His own judgment was that Japan, although primarily involved with her economic and social development, could not afford to neglect security considerations, being confronted with two continental nations - China and the USSR - who now seemed aimed at building their power in Asia on military rather than economic foundations. At the same time, Japan was not at ease in the traditional game of balance of power politics.

The speaker did not agree that the Russians were treading warily in Asia. Not only were they very active, but they were often imprudent, as with their interference in the Indo-Pakistan war. In Vietnam, it seemed possible that the Russians, who had done so much to fuel the Communist offensive, might now prefer a victory of sorts for Saigon, which would permit further Soviet maneuvering against China. Anticipation of this might be a factor in China's desire for rapprochement with the US. A combination of Japan, China and the US against the Soviet Union was in a way more plausible than a combination against China by the other three. In any case, China wanted to draw as far as possible away from Russia, her principal adversary.

The speaker agreed in principle that the non-Communist nations should make use of frequent multilateral consultations in seeking an equilibrium in Asia, but he was sceptical about getting rising powers such as Japan and the European Community to put their own interests in second place in cooperating on this. We were already asking Japan to pay special attention to the Third World, to southeast Asia, to her links with the US - all of which was perhaps too much to expect of a single country. It might be necessary to wait for the establishment of a firmer status quo before expecting such generosity.

A German participant pointed out that the pattern of the old European balance of power had always been three states united to contain the ambitions of a fourth. In Asia today there were four main powers, but it seemed unlikely that there would be a consensus for very long between even two. We could therefore not expect stability, but the instability of changing combinations. If Japan agreed today to cooperate with Russia in developing Siberia, she would

feel obliged tomorrow to make a conciliatory gesture towards China. While making such a forecast, however, the speaker recalled that nearly every forecast of the past 25 years about Asia had proved wrong. We had felt that international Communism was bound to be strengthened by the Communist take-over of China in 1949, but in fact it had thereby been weakened more than by all the efforts of America and Europe combined.

A Turkish intervention alluded to the conclusion of the British working paper that Asia was likely to see a modified version of the status quo, with the notion of spheres of primary interest replacing that of spheres of influence. The speaker felt that this would produce a most unstable equilibrium, which would bring us back before long to the old balance of power based on the central role of the US (as the only global power) combined with that of Japan.

According to a Swiss participant, the concept of a balance of power was not suited to today's realities. In the nuclear age, power could not be measured objectively. It lay in the credibility of a nation's willingness to take great risks, and the balance could thus easily be tipped by the leaders of one country. Moreover, the balance of power was essentially a status quo system, which frustrated the efforts of nations to move towards a closer community. The speaker believed that we should concentrate on finding a system which would allow cooperation among all states – even the Soviet Union and China.

For the present, though, the overwhelming Chinese emotion was fear of, and hostility toward, Russia. This was the observation of a British participant who had recently visited parts of western China that had heretofore been inaccessible to Westerners. The Chinese looked upon their road-building collaboration with Pakistan there as a means of preventing the build-up of Soviet power in the area. This explained why the Russians were taking such an active interest in India's repossessing enough of Kashmir to allow them an entry into India by another route, bypassing Afghanistan.

The speaker's Chinese friends had told him that they had not gone to the aid of the Pakistanis, as they had promised to do, because they had been threatened with a preemptive nuclear strike. Whether the Russians would in fact have carried this out was immaterial; the point was that the Chinese believed there was sufficient risk of it to hold them back at a moment when their troops were actually in a position to invade. The speaker had concluded that the geometric balance of power in Asia – which was unlikely to be a neat arrangement of three or four sides – was going to be shaped above all by this overriding Sino-Soviet hostility, with China looking for all the allies she could possibly find. He saw little probability, though, of a Russian-Japanese combination directed against the other powers.

A Portuguese participant agreed that the Chinese feared the Soviet first-

strike capability to demolish their nuclear installations more than they feared a remilitarized Japan. They might in fact be led to believe that, if Japan became a nuclear power, the Russians would hesitate to strike China for fear of arousing Japan. The American economic measures of last August, and President Nixon's trip to Peking, had marked the end of the postwar period of ideology and lofty principles. The world had embarked on a practical course where only national interests and the realities of power counted. There was more promise now of an accommodation through negotiation, of a peaceful balance of power through a fair distribution of spheres of influence. But it would be difficult for a long time for any of the Western nations besides the US to play a significant part in the Far East, and the US would not find it easy to choose the right allies or partners.

An Australian speaker wondered whether it was valid to think of a balance in the Far East based almost solely on the roles and policies of the major powers, assigning a virtually passive role to the lesser powers and developing nations in the region. The author of American working paper "D" had concluded that China's power (i.e., her capacity to influence) was derived not from her economic strength but mainly from her sheer mass of 800 million people, which entitled her to one of the sides of the quadrilateral. But in the center of that quadrilateral lived 1,000 million other people. If we were concerned militarily and politically with the "doughnut", we could not overlook the "hole", and the forces at work there representing the will of those people.

The speaker was not convinced that the Russians or the Chinese would accept the notion of spheres of influence in Asia, but if one presupposed the creation of a nice balance around the edges, there might be some interesting "ecological changes" in the center. The concept of the Indochinese states fighting for their ideals, for instance, would acquire a new reality, as would the efforts of Indonesia, the Philippines, Thailand, Malaysia and Singapore in connection with their own development. India, although lacking the industrial strength of Japan and the ideological strength of China, was an important power and should not be regarded as committed to the USSR.

A fellow Australian agreed that it would be a mistake, in articulating a sensible Far Eastern policy, to overlook the forces at work in Southeast Asia, and he cited four recent developments there:

1. *The creation of the Association of Southeast Asian Nations (ASEAN)*, composed of Indonesia, Malaysia, Singapore, the Philippines and Thailand. Started as a regional economic and cultural organization, it had recently put more emphasis on political and security matters, although it was nowhere near being a defense alliance.

2. *The proposal for the neutralization of Southeast Asia*, put forward by Malaysia, had been accepted in varying degree by the other members of ASEAN. The leader of the Malaysian delegation to a recent ASEAN ministerial meeting had declared that "this policy is meant to be a proclamation that this region of ours is no longer to be regarded as an area to be divided into spheres of influence by the big powers".

3. *Ceylon's proposal for the neutralization of the Indian Ocean*, originally adopted by the Lusaka conference of nonaligned nations in 1970, had been forcefully defended at the recent Commonwealth heads of government conference in Singapore. Although not yet widely accepted outside the region, this proposal was important to those countries who feared that the Indian Ocean was in danger of becoming a "big power playground".

4. *The recent declarations by Malaysia and Indonesia that the Straits of Malacca were territorial waters*. This had thrown these countries into conflict with Japan, whose oil tankers passed through the Straits and who therefore wanted them classified as international waters.

Such developments as these indicated that an allocation of Asian spheres of influence among the great powers might not be workable.

An American participant said that a balance of power did not need to imply spheres of influence, and she suggested that a more appropriate concept for some areas of the world, including Southeast Asia, was what Elliot Richardson had called "spheres of restraint". This was a useful corollary to the expansion of regional action described by preceding speakers, and would be even more relevant after the Vietnam war.

Apropos of Vietnam, a Swiss participant wondered what effect the future political organization of that country would have on the various power relationships under discussion. He also questioned the value of military alliances in preserving equilibrium in Asia.

The author of the British working paper commented on several of the preceding interventions. The intended thrust of his paper had been to say that no set of power relationships in Asia would work if the major actors sought exclusive spheres of influence (as the Soviets did in eastern Europe), which should be distinguished from areas of primary interest, based on historic or commercial reasons. The "spheres of restraint" concept was an even better way of putting it, but this question of restraint was going to apply to Japan as well as the other countries.

He did not mean to underestimate countries like Indonesia, but he still believed that the Indian subcontinent was more likely to be an object than a

subject of policy. Regional groupings such as ASEAN were tremendously significant, and the European powers could play a great part in helping to underpin them, both individually as nations and as collectivities. Australia was to be commended for the work she was already doing in this respect.

If, as suggested by a British participant, one forecast a protracted Sino-Soviet conflict (not necessarily military), that would produce a 2-1-1 relationship, which would be more stable than a 1-1-1-1 relationship, and the unstable changing combinations predicted by a German speaker would be less likely. In such a situation, the US would have greater freedom of action than any of the other three partners, but the management of the Asian relationships would require a great deal of professional diplomatic skill; it could not be done by "ad hoc little teams in the White House".

The author of American working paper "D" was in agreement about the stability of a balance of four powers, but he thought that much depended on Japan's future relations with the West. An alienated, strongly nationalistic Japan could be the power that shifted back and forth, that no one could quite count on, and that would produce a very unstable balance indeed.

Ingredients of the Japanese situation

The special ingredients of Japan's situation were analyzed in several interventions.

A US participant expressed general agreement with the introductory remarks of the author of American working paper "D", but said he would disagree on one or two points. Like England, Japan was an island country lying off the coast of a great continent, and the historical dilemma of the Japanese had been continental involvement versus isolation. Over the years, Japan had varied in her choice: at times intimately involved with the continent, at times quite separate from it. A related dilemma had been whether to have alliances close at hand and an intense regionalism or alliances with separate and far distant areas. In modern times, Japan had generally formed alliances out of Asia to support her policies in Asia, notably with the British early in this century and with the Americans since the last war. These dilemmas were not over. Various psychological and immediate political pressures were pushing Japan back toward involvement with the continent, hopefully not on the basis of the 1930s but in a new way.

Projections indicated that Japan's economic relations would be predominately with the advanced West until at least well into the next decade. The success of these trade relations would determine to a large degree whether we could work out a strategy for a broad balance of power encompassing Asia and the

industrialized West. In the political sphere, instability might grow in Japan just as it was inevitable in China. Japan had no consensus on foreign policy, but the speaker believed that a majority of conservatives and a number of moderates preferred a modified alliance with the US. Public opinion figures, however, showed a trend favoring neutralism and a broad accommodation with China in both the economic and political spheres. Conservatives would ideally like to transfer their China policy from recognition of Taipei to recognition of Peking, but with continued economic ties with Taiwan. Pressures were strong, though, for a "total Peking solution".

In the military sphere, the speaker did not think that present trends were toward remilitarization. In his view, Japan would keep her military options open, and the answers to these two questions would influence her ultimate decision:

1. *Would a substantial external threat be perceived, from China or elsewhere?* At the moment, no such threat was felt, so public and elitist opinion was far from agreed on accelerated military development, let alone nuclearization.

2. *Could some degree of credibility in the American military commitment be maintained?* In sum, this participant expected Japan for the time being to be occupied with a minimal role in Asia, not a maximal one, and to be handicapped at home with confusion and indecision in her policy making. This would make it difficult to achieve a viable military-political equilibrium in Asia.

The author of American working paper "D" intervened to say that he had not meant to suggest that Japan would become a nuclear power in the near future. What he anticipated, though, was that Japan would try to normalize her relations with China, to reestablish her Asian ties and roots; that neutrality would eventually give way to Sino-Japanese rivalry; and that forces would then build up leading Japan to rearm and to develop a nuclear capability. The speaker recognized that this would entail an agonizing change in the Japanese constitutional system, but he suspected that their ability to further stretch their constitution was considerable.

The references in the preceding speaker's working paper to China's interest in seeing the US denied use of Japanese bases for the defense of Taiwan and Korea elicited an intervention from another American participant. He noted that the Japanese had sometimes been compared rather simplistically to a school of fish, who would rapidly turn course and dart off in another direction if a stone were thrown in front of them. While the Chinese undoubtedly wanted further reductions in American forces in East Asia, one suspected that they might prefer to have the US "move out very slowly indeed", for fear of what

the Russians might do in the event of a sudden vacuum. Thus the "Japanese school of fish", deflected by China, might find themselves "swimming in between the American rock and the Chinese shoal, in a kind of tripartite arrangement, designed primarily to deal with the immediate concern that both the US and the Communist Chinese have over the power of the Soviet Union."

An American participant who had recently spent a year in Japan and elsewhere in the Far East commented on the implications of internal Japanese political developments. Prime Minister Sato's expected successor, Mr. Tanaka, was a much younger man representing an altogether new generation. To sense what this change would mean to Japanese-American relations, an analogy to German politics was useful. In terms of orientation, Mr. Sato was comparable to Dr. Adenauer, Mr. Ohira, the foreign minister, to Dr. Erhard, and Mr. Tanaka to Mr. Barzel or Mr. Strauss, "without Chancellor Brandt in between". Thus we would experience, as it were, an abrupt transition "from Adenauer to Barzel/Strauss without the intervening decade".

This important change would coincide with a period of social and political fragmentation within Japan, in which the ruling LDP party was losing support and would be less able to govern effectively. For this reason, the speaker was not inclined to agree with the forecast in the preceding intervention about Japan's "going nuclear", which would require more political cohesion. In his view, the danger in the intermediate longer run was not that Japan would become a major negative force in international affairs, but that she would fail to be a constructive force.

Another significant current development had to do with the return this year of Okinawa from the US to Japan. Part of that island chain had recently been identified as potentially rich in oil, a matter of tremendous importance to the Japanese. However, both Chinas were claiming sovereignty over these islands, and there was a danger that either of them might try to plant its flag there in the near future. The US was adopting a neutral position in the matter, which infuriated the Japanese body politic.

Thus, for the first time in 25 years, the Japanese would be left alone to assert one of their national rights without assistance from the US, which would have a negative effect on Japanese-American relations. This issue illustrated the insecurity of Japan, which was the most isolated of all the world powers. It now had no intimate association with any major foreign government, and no natural geographical role to play. China had mainland Asia, Indonesia was becoming the dominant offshore southeast Asian power, and India was asserting itself as an important regional power. But Japan had no point of reference. She was no longer an Asian power in terms of economic development, and was not satisfied to be a junior partner in an increasingly unpredictable relationship with the

US. After World War II, the project of a united Europe had given a sense of direction to Germany, but Japan had no equivalent. This made it all the more important for the West as a whole, not just the US, to try to create a wider framework for Japanese involvement, designed to give the Japanese a sense of political direction.

The suggestion of a wider framework for Japanese participation was endorsed by the author of the British working paper, who felt that it behooved the international community to treat Japan with as much magnanimity and respect as possible. As soon as Europe was organized to speak with one voice, he would be happy to see one of its two seats on the UN Security Council given to the Japanese.

A Turkish speaker suggested that NATO might be a convenient place in which to discuss ways of bringing Japan into a closer association with the West. He added that there was no reason to expect that Japan would continue indefinitely to be an exception to the modern rule that the effective deployment of economic and political power depended on a strong military infrastructure.

An American participant with important diplomatic experience in Japan was optimistic about the prospects of her remaining oriented toward the West. Given her desire to enhance her position in the world community, where else could she turn but to the US and Europe? The speaker would have liked to see President Nixon give the Japanese at least 48 hours' advance notice of his Peking trip announcement, but that was apparently impossible in view of secrecy requirements. It should be borne in mind, though, that the Japanese had sent dozens of missions to Peking over the years. In any case, there remained a reservoir of friendship and good will toward the Americans in Japan dating from their postwar reconstruction work.

A view sharply in contrast to several of the preceding interventions was offered by a Portuguese participant. He predicted that it would be impossible to draw Japan away from China and to lead her to cooperate with the West in any stable and prolonged way. The Japanese would accept Western help to the extent needed to regain their empire (economically speaking), but they could not afford to watch the Chinese developing separately and independently. The risk for them was that the Chinese would gradually oust Japanese commerce from Eastern and other markets in the same way that the Japanese had ousted American, British and other European enterprise from those markets. The speaker compared Japan's present situation to that at the beginning of this century, when she found it useful to have an alliance with Great Britain, then the foremost global power. For similar reasons, it had been in her interest after the last war to be allied to the US. Sooner or later – "and probably rather sooner than later" – Japan would rearm and go her own way again in the Far East.

A Swiss participant said that for Japan to cooperate effectively in a larger community, it had first to "find its identity". This was a task it had to accomplish alone, not by seeking help in the Western countries or elsewhere. In this context, Japanese nationalism was not seen as a bad thing.

A Danish participant sought to explain Japan's insular mood by reference to currents in her past. Although the Japanese had a warrior tradition, they had not been an expansionist people during the larger part of their history. In the first half of this century, they had copied Western methods of military and colonial expansion with tragic efficiency. The dismal outcome of these adventures had left a deep mark on the national character. A senior official in the Ministry of Foreign Affairs, recently returned from duty abroad in important Western capitals, had remarked to the speaker: "Those were eight years torn out of my Japanese life". A people as inner-directed as the Japanese – including the younger generation – would be rather slow in changing from their present attitude of foreign noninvolvement, of "faceless friendliness to all". This policy had served Japan well in the past, and presumably could still do so in a period of changing power relationships in east Asia.

Fundamentals of the East-West relationship

A number of speakers addressed themselves to the question of the assessment of East-West relations contained in the Netherlands/International working paper.

As viewed by an American observer, Soviet policy towards Europe, while reflecting certain continuing objectives as defined in the working paper, was operating in a vastly different international context, which itself was changing the character of that Soviet policy. For much of the cold war, Soviet foreign policy had been essentially regional, with Europe as the focal point. Today its European policy was one important aspect of a Eurasian policy covering a series of interrelated objectives pertaining to that continent as a whole. It was essentially defensive in the Far East, particularly with respect to China. The recent diplomatic maneuvers toward Japan had been designed to offset the new American-Chinese dialogue. But Soviet policy tended to be politically more offensive elsewhere – in the Middle East, in south Asia, and in the Mediterranean (where it was combined with the defensive objective of consolidating the Soviet position in eastern Europe).

In the context of this Eurasian policy, the USSR was aiming to neutralize western Europe politically, dealing from a bloc approach but bilaterally with individual European states. It was exploiting US fatigue, the new strategic parity, and the absence of any cohesive Western concept of future East-West relations.

Although the Soviet Union was perhaps doing reasonably well with this policy, it was pursuing it in the face of some basic weaknesses which could vitiate it in the long run. For one thing, Russian leadership was in the hands of an aging political elite, which had not been changed in character for a decade. It was cohesive in composition but divided in outlook, disagreeing over such issues as the Ostpolitik and dealings with the US and with China. Once this fragmentation became dominant, or key leaders passed from the scene, the very cohesive character of the leadership would quickly force qualitative changes. This would produce a "generational jump", with all its unforeseeable consequences.

Secondly, the USSR was pursuing this policy from an inadequate economic/technological base, which it was seeking to improve by utilizing Western cooperation. Thirdly, the problem of nationality tensions was increasingly evident in the Soviet Union, and promised to intensify in the coming decade. Finally, there were troubled relations in eastern Europe, with Rumania, Yugoslavia, and even such a loyal associate as Hungary.

A Norwegian speaker suggested that higher standards of consumer consumption in the Soviet Union and other Eastern countries, combined with the effect of the new Communist center in China, were bound to produce political and even strategic changes in the East. But one would have to be very far to the left to deny that there were still dangers on the northern flank of NATO and elsewhere in the world. One reason for Russia's opposition to the extension of the EC was that a united Europe appealed to the younger generation and offered them a possibility of remodeling their society.

An Italian participant agreed with the assumption of the two working papers that the basic Russian strategy was unchanged, although tactics might have been modified. Westerners who looked hopefully for a sudden Soviet change of attitude did not understand the pace of life in the East, which was a very different world. There was a fundamental contradiction between the Soviet and, say, the American way of reacting to domestic weaknesses. The former was to take an expansive, outward-looking position in order to strengthen the rule at home; the latter was to turn inward.

A French participant stated that the West had been mistaken in supposing, in the early cold war days, that the Soviet Union intended generalized aggression against western Europe. Even in 1947-48, Stalin had not envisaged that. But it was equally wrong now to attribute to the Russians the same open-minded aspirations for goodwill and mutual understanding that we felt in the West.

As others who were acquainted with the Soviet Union could confirm, this was a totally secondary matter to them. They might not be planning aggression, but

neither were they seeking abstract equations such as a balance of power or preservation of the status quo (except in those exceptional areas where the status quo was satisfactory to them). They always tried simply to obtain what they felt like having, and their objective was an expansion of the socialist regime abroad. They needed international conflict and tension to induce their people to submit to domestic restrictions. The West should therefore have no illusions about the Russians agreeing to a détente, which would in turn unlock the solutions to all our problems.

An Italian speaker said that the Russians, having achieved the rank of a Eurasian continental power, would now concentrate on the steps needed to become a global power (to which Europe, Japan and China could not aspire, being pre-empted by Soviet-American competition). This involved carrying out "the master plan of the czars", as Stalin had mentioned to Hitler: control of the Dardanelles, the Suez Canal, and the fertile Mesopotamian crescent. The Russians wanted to "work on the world chess board" and they had already moved their pawns rather far. The crucial area now was the Middle East, the turntable between the Atlantic and Pacific worlds, where the Soviet Union was using the Arab-Israeli conflict to advance its own interests.

Continuing with the chess analogy, a Netherlands participant remarked that the West was "playing with the black pieces", i.e., it presumably would never attack. As so many arms could now be launched at zero hour, the advantage of being able to take the initiative was greater than ever; therefore, the player with the black pieces should have more pieces than his opponent. Yet the Soviets, with 160 divisions and 9,800 combat aircraft, were adding to their military capability by building up a powerful navy. Their maritime presence was now global and they had more submarines on the high seas than the Germans did during the last war. They were continuing to increase their forces in Europe, where they already outnumbered NATO two to one in most conventional fields. Did all of this indicate a real desire for détente? Obviously Soviet policy was shaped by complex and inarticulate factors, but what was going on in the "think tanks" in Moscow? A Norwegian participant was thinking along the same lines. As we watched the overwhelming Russian forces being strengthened every day, was it not prudent to assume that the Soviet leaders had not abandoned their ambition to dominate Europe?

A Portuguese speaker conceded that a drastic change in the situation of the Soviet Union was not impossible. It could be brought about by new leadership, by the secession of the Baltic states, the Ukraine or other Soviet republics, or by Chinese domination of Siberia. For the foreseeable future, though, Russia would be the principal adversary of the West. So long as that was the case, one could not rule out the possibility of a general and global war. Technology

changed a great deal, but not human nature. In the speaker's words, "wars are an outcome of the existence of unprotected wealth, and that is precisely what we mean when we speak about responsibility and leadership - the protection of that wealth. As long as wealth exists in the world, there are bound to be wars, and if we believe otherwise we are bound to suffer many disillusion's".

According to an American participant, more and more people over the past decade had become willing to risk such disillusionment, believing that the risks involved in containment and confrontation were now escalating, while those of détente were not.

In the view of an American participant, the present Soviet aim was clearly to achieve strategic superiority, recognizing that there was a stabilization in the center of the European flank. Their objective was to increase their stability on the Chinese border, and to erode the flanks on the north by the use of sea power in frequent exercises and demonstrations of force. Stated simply, they hoped in time "to see Finland become a Latvia, Sweden become a Finland, Norway become a Sweden, and to see Iceland eroded."

In the south, by a combination of sea power and the presence of military forces, they were again aspiring to erode our flanks. Their efforts to open the Suez Canal would undoubtedly be handled in a way to keep that sore open; the last thing they wanted to see was an Israeli-Arab settlement. In the Pacific, they sought to cow Japan and to continue their encirclement of the People's Republic of China. One explanation of their activity in the Indian Ocean, as offered by the author of working paper "C", was that they had perhaps been reading a heavy diet of Admiral Mahan. Another, which the speaker was inclined to believe, was that they were seeking to compete with US influence, and to encircle China. They might also be seeking to protect Soviet sea-based deterrent systems there, or to deny the US the opportunity of stationing its own forces there. Above all, though, they were mindful of the fact that the oil of that area was the jugular vein of the whole free world, and that a naval presence gave them the capability to do something about it.

It was always dangerous to try to correlate naval presence and foreign policy success, but the speaker believed that there was in fact a close correlation when maritime power was married to an aggressive foreign policy. During the past 10-12 years, the Soviet presence in the Mediterranean had grown from zero to 18,000 ship/days a year, while the presence of the US Sixth Fleet had deteriorated from about 18,000 to 14,000 ship/days. The Russians had acquired access to airfields in Syria and Egypt, and were constructing a naval base just east of the Libyan border.

In the Indian Ocean, the US presence had remained relatively constant at about 2,000 ship/days a year, while the Soviets' had grown from zero to about

4-5,000. With their achievements in Somalia and Yemen, the Russians could control the Red Sea. They had acquired oceanographic and air landing rights on the island of Mauritius, were attempting joint oceanographic efforts with the Indians, and were prepared to begin using ship repair facilities in Singapore. Perhaps they had not fully decided how they would use these new naval advantages, but merely sensed that they could "get the best possible deal from strength." (Concern about the implications of this extensive Soviet naval build-up, particularly in the Indian Ocean, was also expressed by an Australian and a Swiss participant.)

The American speaker observed that the Russians had embarked upon détente, but perhaps only "to permit them to further weaken our collective resolve in order that they can continue with this rather peaceful reordering of the world in their image." The American strategy - and hopefully that of the free world - was to compete in the strategic field, at great expense on the part of the US. It had been suggested that in the center the US should do less and expect Europe to do more. In any case, there was recognition that the US had to do more on the flanks to demonstrate its power and to try to settle the open sore of the Suez Canal, to reduce the conflict in the Moslem world.

The speaker believed that the Nixon administration's efforts with regard to détente were forcing the Soviet Union to do more with regard to the border with Communist China. The American doctrine was clearly to reduce its land forces in Asia and to convince Japan to do more, while temporarily holding in the Indian Ocean. The US effort was based partly on the hope that in time the Soviets would come to support détente for its own sake, and not for their own venal purposes. Under the Nixon Doctrine, the US had reinforced the Mediterranean during the Jordanian crisis, and the President had taken the politically courageous decision to go into Cambodia, which had produced a tremendous setback to Communist efforts there. He had again taken the courageous decision to deploy a task force to the Indian Ocean, and he had now risked doing what President Johnson had done, out of similar courage: losing domestic popular support by endeavoring to deal with the recent massive form of conventional invasion of South Vietnam.

These actions of the US administration embodied an attempt to give an ally a capability to handle his problem with indigenous forces, while continuing to provide "capital intensive" naval and air support. America's European allies had reason to be considerably reassured by the success of these efforts.

Another American participant remarked that, if indeed the Nixon Doctrine had been exemplified by the US invasion of Cambodia, the dispatch of a task force to South Asian waters and the unilateral bombing of North Vietnam, then possibly we should get rid of that Doctrine. It had, after all, been designed to

emphasize indigenous responsibilities, but in practice it was an ambiguous "half-way house" which defied public debate and clarification.

Although the speaker had no nostalgia for the old kind of bipolar world, he saw in these recent examples of American intervention a foretaste of the kinds of problems the West would have to face in a multipolar world. The emphasis on balance, *realpolitik*, flexibility, unexpectedness and surprise as attributes of leadership would serve to further separate the perception of policy by the public and the execution of policy by governments. It would tend to accentuate "gamesmanship" (which was increasingly out of favor with a growing segment of Western culture), and to release all of the competitive and frustrating impulses that led to fragmentation of policy. Moreover, it threatened to obscure the élan, the life force, of democratic societies which we had been striving to uncover in many of these discussions.

The author of working paper "C" found distasteful some of the formulations of the Nixon Doctrine which suggested that a five-power world had somehow been brought into existence by a deliberate act of American policy. On the contrary, it was something that had emerged and whose rules we had yet to learn. An enormous part of world politics, including the whole field of strategic relationships, was still governed by the bipolar relationship of the US and the USSR. Nevertheless, there were five centers which had different degrees of autonomy at quite different levels of power. If it could be preserved with peace, this autonomy was not a bad objective. Coupled with diplomatic skill and leadership, it offered an opportunity for identifying youth with its society. It would be a great mistake to aim at a balance-of-power world as our ultimate objective, especially in a world which generated as much power as ours did.

The American author of working paper "A" pointed out that much of the discussion at the Conference had apparently proceeded from the premise that the Soviet Union was indeed "the enemy". The speaker did not necessarily disbelieve this assumption, but neither did he regard it as an article of faith, as members of a somewhat older generation often did. For many, now in their thirties and forties, who had been still quite young at the time of the Marshall Plan, of Korea, of the Berlin blockade, the basic assumptions learned in the immediate postwar and cold war period were not so deeply engrained.

This middle generation, while frequently impatient with the impracticalities of the under-30 generation, was at the same time tempted to examine some of those unquestioned premises on which much of our policy-making had been based for more than 20 years. What if, for example, the basic assumption of continuing Russian hostility were untrue? What if the actions of the Soviet Union as we perceived them were based on the same misinterpretation of the future, tied to the thinking processes of the past? What if they were reacting to

us only because we reacted to them in the same way? Given the changes in technology, in communications, in weaponry, in economic standards of living, in the aspirations of our young people, should we not ask whether that single principle which had had to guide our actions over the last 20 years was necessarily the right one for the future? Admittedly there were lots of evil men in the history books, but there were also many tragic cases of misunderstandings about basic intentions.

A Turkish speaker asked whether, and how, the outlook of the West would be any different if we assumed that Russia was in fact not our enemy. The response of an American participant was that, to begin with, we could not measure the degree of Russian hostility without knowing the extent of change within the Soviet Union. But we should not act so as to make our assumptions self-fulfilling prophecies. In reacting to the Soviet Union, we should leave open the option for change within that country, and this latent possibility of change was a compelling reason for promoting a "détente which is impregnated with political content".

Another US speaker observed that one's assessment of Soviet aims depended more on one's experience than his age. He recalled the high hopes held by many of his generation in 1944-45 that the West would be able to continue working with our wartime Russian allies, and the abrasive shocks and gathering disillusionment of the succeeding years. It was not until the Korean war, though, that the American administration had been able to persuade the Congress to approve the expenditures and the changes necessary to restructure the country's security posture. Many, like the speaker, had thus come to their assessment of the Russian menace "the hard way", and it was understandable that they had read subsequent events in the light of that experience.

Those who had had the responsibility of dealing with policy matters in those days talked to younger men today across a gap of experience, which was often translated into a "generation gap". But it should not be forgotten that members of an even older age group, such as Henry Wallace in the US, had held a view very similar to that held by many young people today.

It was essential that we understand and debate the question of these underlying assumptions, and their significance for the future of that part of the world that Bilderberg concerned itself with.

The American author of working paper "D" commented that the practical conduct of foreign relations required at least some basic assumptions, which of course had to be frequently reexamined. An assumption that the Soviet Union was not aggressive or expansionary was unfortunately a dangerous one, though, in view of the evidence to the contrary. The Soviet system was one which most Westerners found abhorrent, yet the Soviet leaders believed it would prevail

and constantly said so. It was a closed society, both intellectually and physically. Moreover, the Soviet Union seemed engaged in an unremitting effort to expand its territorial dominion. It had become a Mediterranean power and had recently concluded with India a bargain whose import was not yet entirely clear. A change in our assumptions did not seem warranted in these circumstances, and might involve us in very great difficulties.

An International participant reminded the conference that it had not been mistrust by the West of Soviet intentions, but good faith bordering on fatal naiveté, that had led to Russian dominion over the states of East Europe. And that had occurred at a time when the US, with its monopoly of atomic weapons, could have imposed its will on the globe. The West had given the Russians the benefit of every doubt, and was apparently still inclined to do so. But the lessons of the recent past did not justify our postulating "a peaceful Soviet Union, misunderstood and afraid of aggression by the West, pining to establish a world free from fear and based on the rule of law. Although many of our youngsters, inspired by partially well-meaning but arrogant intellectuals, seem to follow that dangerous line of thought, human nature has not suddenly changed for the better; the same facts, circumstances and motivations which made for crisis and war in the past are still there".

The speaker went on to point out that the proceedings of the Soviet Communist Party congress had made clear that détente was designed to facilitate Russia's expansionary moves. In addition, there were the facts of the Soviet military build-up. During the last five years, Russian arms spending had increased 15-20 per cent, whereas NATO during the same period had decreased its expenditures by 3.6 per cent, while the GNP of the NATO countries had increased by 26 per cent. All of this should serve to open the eyes of citizens of the Western alliance.

A Norwegian speaker suggested that participants with differing views about the extent of the Soviet menace might agree nevertheless on this proposition: "Let's negotiate with the Russians; let's not look upon them as enemies. But let's negotiate from strength. That's what it's all about."

The evolution of Western public opinion

Alongside this problem of assessing Soviet intentions, there was the separate but related question of the place of mutual security considerations in general as an organizing principle of the Western community. The discussion on this subject, to which a number of participants contributed, touched at many points on the current evolution of Western public opinion, particularly the attitudes of the younger segments of it.

An American speaker thought that the West had been moving away from opposition to the Soviet Union as a single organizing principle. In her view, it was important to introduce more consciously a different organizing principle, constructed along community-building or problem-solving lines. Where possible, one could try to bring the eastern European nations, the Soviet Union and China into this problem-solving world, but as we would obviously make more progress working with countries which shared our economic and cultural systems, we should not seek a universal approach in all cases. This problem-solving approach was supported by a Canadian participant, who pointed out that many problems which we used to think of as being national in scope were now seen to be local manifestations of global problems.

An American speaker described the erosion in his own country of the political will to respond to threats to our mutual security interests. Until very recent years, sustaining a foreign policy in the Western industrial democracies had been a relatively simple thing. The pressures of Soviet mobilization had been felt by all, and the stakes in terms of economic, political and security interests had been evident. The situation today was much more complex. Within the last 20 years, the world had changed more in many ways than it had in all previous recorded history. Unprecedented material prosperity had been matched by severe social dislocation. Within its own borders, America now had an "underdeveloped country" of some 30 million poor people, and the mood of the entire nation had been altered by the long and costly Vietnam war. Cross-currents in the daily news perplexed the man in the street. At the very moment that the Vietnam conflict was being escalated to new heights, US Congressional leaders were talking to Chou-en-lai, demonstrations were flaring up on college campuses, the SALT talks were underway in Helsinki, and American businessmen were welcomed in Moscow.

Against such a background, American political leadership today had an extremely difficult job to evoke the continuing domestic political support on which international commitments had to depend. Opinion polls had indicated that the vast majority of the American public was no longer in favor of sending US troops to the aid of foreign friends whose frontiers had been violated. It was no good replying that these people had not learned their history lessons, and that they did not appreciate the "grand design" that would have to be constructed even without their support. No Western democratic society could pursue for long a foreign policy that did not have the backing of a substantial body of public opinion. It was therefore incumbent on enlightened Western leaders to try to repair this communication breakdown, to give new life to a public understanding of our mutual security interests.

According to an International participant, the rapid but uneven rhythm of

change in many sectors of our life had made it increasingly difficult for the public to understand the issues and to follow political leadership. It did no good, though, simply to deplore this fact.

A Frenchman said that leaders should not be discouraged by contrary public opinion but should surmount it to carry through the programs which they reasoned were needed. A characteristic of contemporary society, as contrasted with that of the early postwar period, was a general dissatisfaction with the models of civilization in which we lived. We saw this expressed in various forms of *contestation* in the West, but the phenomenon was even more accentuated in the Eastern countries, where the intellectual elite had so little hope that they gave up all interest in general or political problems. In both cases, the result tended to be a blocking of the system.

An Icelandic participant spoke of the discipline needed in the West to meet the challenge confronting us. Visitors to Russia saw monuments everywhere to the heroes of World War II, which served to remind the people constantly of the sacrifices needed to insure the defense of the homeland against invaders. This was in sharp contrast with the West, where individuals went their own way in pursuit of happiness, and the emphasis was on a wide range of consumer goods to contribute to a higher standard of living. We certainly did not want the Eastern system, but to preserve our free society the voters and taxpayers would have to sacrifice some of their material goods. To convince them to do so, political leaders had to communicate their ideals and their vision.

The need of a wider vision was also mentioned by a US speaker, who was worried that isolated but powerful segments of American public opinion were actively opposing many of the symbols and institutions of international cooperation that had been built up since the war. One way to help counter this trend would be to include in such conferences as this more of the young people who were on the threshold of responsibility for the conduct of foreign affairs. The era of Marshall Plan cooperation had forged invaluable transatlantic acquaintanceships, and it would be useful if the same sort of working relationships could be established among members of another generation.

A Netherlands participant criticized the responsible leaders in the West — government officials, parliamentarians, university professors, trade union leaders — for “retiring behind intellectual walls, saying to each other that it is too difficult to explain to the man in the street” the advantages and the weak points of the capitalist system. People were troubled by the dehumanization of personal relations in our society; by the maldistribution of our great wealth; by the mistreatment of minority groups; by the job insecurity of industrial labor; and by the inequality of educational opportunity. They did not understand why large sums of money had to be spent for defense against the presumed

aggression of a country that few had ever seen, while the aggression of a friendly nation was to be seen on television every day. Western society was not being questioned because its political, economic or social systems were fundamentally wrong, or because the critics had all turned Communist, but because people did not feel that the society was any longer theirs, and could not understand why they had to live as they did. An immense effort was required to promote education, the quality of life and international solidarity. This would involve “an enormous redistribution of wealth and power, and a lot of imagination”.

A Portuguese speaker said that he did not know of a government anywhere in the world that did not want to improve conditions, to make life better for everybody, young and old alike. The issue was how to go about it, what methods to use to secure a common goal. Devising policies to control the use of resources, to improve the quality of life, and so on, involved political decisions: choosing the neighbors and friends who were able and willing to cooperate with one. This brought us to the notion of spheres of influence, or spheres of restraint, which were two sides of the same thing. The political life of the world was thus organized through a sort of series of “solar systems”, and the point was to select the system to which it was in one’s interest to belong.

The speaker suggested that many in the younger generation did not want to concern themselves with such practical political matters. This was perhaps a legacy of the cold war years, during which the youth of every country had been subjected to an intense and bewildering variety of propaganda. It was now up to experienced and responsible older people to elucidate their knowledge and their values for the younger citizens.

A German participant did not see an end to the ideological contest confronting the young. In Germany it might even intensify with the closer contacts produced by détente. In the Federal Republic, for example, housing was scarce and rents were high; in the German Democratic Republic housing was also a problem but rents were low. In the GDR, primary education in many areas was superior from a technical, pedagogical viewpoint to that in the Federal Republic. From such comparisons, a new ideology was likely to emerge, not only in Germany but elsewhere. The younger generation would no longer be satisfied with answers which referred to permanent Soviet aims, to power trapezoids and the like. The only way to appeal to them would be to propound better alternatives within our own system. An appropriate slogan might be “Détente begins at home.”

According to another German participant, the ignorance of history and weakened loyalty to the state which were characteristic of much of German youth today were traceable to the discontinuity caused by the memories of the National Socialist regime. Progress toward European unification had not

moved fast enough to give the younger generation an opportunity to orient itself in a new direction, which would have bridged this gulf.

An American participant observed that the young people coming out of the universities today were not interested, by and large, in working through existing institutions and mechanisms, which they felt were wrong and needed changing. Yet the people we needed in government and other institutions were precisely those who sought progress through change. If we recruited only those who thought like the older generation, we would perpetuate a difficult situation. This problem had to be solved if the estrangement of the generations was not to worsen.

Another US speaker, who was continuously in touch with young people in his professional work, said that the attitudes of youth today, while far from homogenous, differed in two significant respects from the attitudes of the older generation. One had to do with the fundamental perception of the nature of the world. The elders were inclined, in light of their education and experience, to think in international and power terms. The young, on the other hand, tended to think in global terms and to be concerned with planetary problems, which led to different emphases and evaluations. (An intervention from an American speaker, who claimed to be the youngest participant, disagreed with this. He was distressed to see that most of his contemporaries and sub-contemporaries failed to look at world problems in global terms, but took instead a narrowly nationalistic view.)

A second contrast was between the fundamental optimism of established society – despite the strains of our times – and the wave of cultural pessimism which seemed to engulf many of the young. Their fascination with such subjects as the end of natural resources, zero growth, and the nature of modern society reflected this cultural discontinuity.

There was no doubt that the young ought to be included and involved in the discussions and decisions of the international community, but the question was How? They should not be included just because they were young or because they had different points of view. Nor would it contribute to a creative dialogue to invite them simply to criticize the foreign policies or values of the older generation. The speaker felt that a more constructive approach would be to enlist the cooperation of younger people in devising solutions to specific complex problems of an economic or political nature.

The reaction of a Canadian speaker to that suggestion was that the function of youth was more to point alarm signals than to solve problems. A fellow countryman alluded to the heavy impact which direct action by young people could nonetheless have on political life. One quarter of the Canadian electorate at the next general election would be between the ages of 18 and 23, and it was

idle to pretend that this would not have an important effect on national policy.

A British parliamentarian was not at all sure that there was a correlation between political leaning and age, or even experience, for that matter. Different people simply thought about things in different ways. Two recent examples belied the assumption that youth was predominantly pacifist and left wing. The first British election to include 18-year old voters had produced an emphatic Conservative victory. In a recent Gallup Poll in Norway, the strongest support for NATO and continued watchful defense had come from the under-25s. And the speaker's own experience in dealing with groups of voters had been that views on international affairs as well as other issues were not horizontally stratified according to age, but cut vertically through different generations. This participant went on to condemn the practice, often encountered in political debate, of seeking to bolster some unorthodox or "nonestablishment" suggestion by "calling on hidden battalions of youth" (or women, or some other broad segment of the population that happened not to be well represented on the spot to speak for themselves). A US participant, whose work took him frequently to college campuses, agreed that it was an unwarranted simplification to presume to characterize the views of "youth". As with China, there were very few "experts" on the subject.

Interventions by two other Americans emphasized the fault of the older generation for the breakdown of communication and understanding with youth. One speaker, who had pursued a military career, said that in his experience the morale of young people today was generally very high. Although they wanted to adhere to life styles that they considered relevant, "when we communicate, when we make them understand, we get intelligent obedience of even unpopular orders." The other participant, an educator, was convinced that "the problems of youth arise out of a reflection of the disabilities of the adult world."

In the view of a Swiss participant, Western society was passing through a new age of rationalism, "with all the consequences that rationalism had in the 17th and 18th centuries." Every assumption was being questioned, and much of the contemporary social unrest and conflict was due to the inability or unwillingness of those in authority to rationally defend their assumptions.

A Netherlands participant thought that the following quotation was apposite to the discussion: "If teachers tremble for their pupils, and rather curry favors than lead them with a firm hand in the right direction, with the result that the pupils ignore such teachers; if it has gone so far that youth feels equal to the elders, and indeed opposes them in word and deed; if the elders, on the other hand, mingle among the youth and try to speak their language, ignoring their foolishness and ill manners; if indeed the elders participate, afraid to make the

impression of being spoilsports or dominating; if, as a result of that, youth is getting gradually rebellious and feels easily hurt if anyone dares to tell them off; if it has gone so far that they are ignoring the law to show that they have no one in authority above them; then the freedom of democracy, so abused, will lead direct to the slavery of tyranny."

The speaker identified the author as Plato.

Implications for European security

This evolution in the mood of public opinion within the Western community held serious implications for European security arrangements: force levels, the European effort, the negotiating posture of the alliance, and notably *the American commitment*.

A number of interventions dealt with the paradoxical situation described in the Netherlands/International working paper: the divergent European and American estimations of (a) the credibility of the US nuclear commitment to Western Europe, and (b) the necessity of a sizable American conventional presence on the Continent. (The discussion on this issue prompted an Italian participant to suggest that it might come to be referred to as "the Knokke Paradox". It was, in his view, an anxiety-creating situation, which called for urgent study.) A Canadian speaker remarked that the indefinite continuation of the presence of American troops in Europe was another of those basic assumptions which needed to be questioned.

A US participant agreed with the working paper that the American nuclear commitment to NATO was "totally unquestioned" in his country, but that the necessity or desirability of maintaining American troops in Europe at present force levels was being "very strongly questioned." The US would ultimately have to face the budgetary problem represented by this sizable component of defense expenditures, but it was the balance of payments cost that was already producing grave political repercussions in Congress. If a way could be found to reduce substantially the payments impact, "we would gain a considerable lease on life for present troop levels in Europe." In addition, though, the US was looking increasingly for what was euphemistically referred to as "progress in Europe," which phrase covered not only burden sharing (beyond simple offset) but also greater political cohesion within Europe, to produce a more effective overall military effort.

If conditions did not change materially along these lines, the speaker predicted that the US Senate would sooner or later pass the Mansfield Resolution, providing for a unilateral reduction of American troop levels in Europe. The speaker did not favor this resolution, but he felt that some alternative plan for

the future ought to be laid out. He proposed setting a time limit of perhaps three years, during which period the status quo would be maintained and members of the alliance could have serious discussions about what they wanted to do. The gradual reduction of American force levels - perhaps to the 150,000 figure - that would probably take place after that would thus be the result of multilateral consultation and not of the unilateral action of a single chamber of the US Congress. American opinion would welcome a common European foreign and defense policy, and the conversion of the roughly 1,000 Anglo-French nuclear weapons into an effective force, but, paradoxically, "it would be bad news if it happened too fast."

The alleged predominance of balance of payments considerations was challenged by another US participant, who pointed out that the payments impact amounted to around \$1 billion. In his view, a more fundamental philosophical question was involved: Why, more than 25 years after the war, was the presence of 300,000 American combat troops necessary in Europe to maintain the peace and the balance of power with the USSR? The Mansfield Resolution was supported by over half the US senators, most of whom had served in the armed forces and known the horrors of war at first hand.

The author of the British working paper was not so sure that Europeans doubted the credibility of the American nuclear guarantee, but they clearly were concerned about the likelihood of a substantial reduction of forces on the Continent in the seventies. This would be done partly for balance of payments reasons, but much more because of America's changeover to volunteer forces and the greater emphasis on its naval capability around the world.

The speaker did not anticipate a general American withdrawal, however. For one thing, the US would need a minimum of 150,000 men to man the high level of tactical nuclear weapons on the Continent and to fulfill its obligations to Berlin. But the essence of flexible response had to be maintained as a strategy, and there was a lot of dangerous talk about the early use of tactical nuclear weapons in a crisis. At the same time, it did not look as if a gradual reduction in deployed American manpower could be replaced from European sources.

A Netherlands participant agreed that "US troops are an integral part of the defense of Europe, because they cannot be replaced by troops of the same quality in the foreseeable future." If America withdrew troops, it was not clear where else she would place them outside the US. As for the balance of payments impact, the speaker believed that the Federal Republic of Germany was making up for the greater part of that, which was perhaps not generally known.

An American speaker described what he perceived to be the thinking on military matters in the US. In recognition of some of the domestic factors mentioned previously in the discussion, President Nixon had stated that a

continuing American military presence in Europe would have to be justified by a more equitable sharing of responsibility. The Congress in turn had shown its concern by reducing the administration's defense budget by \$2 billion in fiscal year 1971 and \$3 billion in 1972.

There was widespread recognition that the strategic field represented a non-zero sum situation, and that a successful SALT agreement would be to the benefit of all. The Soviets would try to use their two or three advantages in the strategic field for psychological gain. The task of the US military was to continue strategic programs which would serve either to modernize the deterrent force under a successful SALT agreement, or to serve as the base for further additions if the race unfortunately continued. In either case, large sums of money would have to be spent in the strategic field. There was no reason to doubt America's intention to retain the capability so to damage in a second strike that a first strike should not occur, which was important for the security of Western Europe.

American conventional forces, on the other hand, would have to be maintained with what was left in the budget, as it were, given the pressure of political and economic factors. Although the military chiefs would seek to postpone it as long as possible, a reduction in US force levels in Europe appeared inevitable, in view of American obligations elsewhere in the world. The actual danger of war in the center of NATO had subsided, thanks to the continued linkage of America's strategic commitment to its conventional presence. On the northern and southern flanks, though, continuing Soviet pressure required US naval forces to be on guard.

At the same time, the US was aware of its responsibilities in the Pacific and Indian Oceans. During the last few years, America's Asian allies had increased their armed forces from one million to two million, while 500,000 US troops had been withdrawn from southeast Asia and 60,000 from elsewhere. Yet, pursuant to the Nixon Doctrine, the US was demonstrating its willingness and capability to reinforce with naval air and other air power in a crisis situation, such as in Jordan. This was contributing directly to European security by protecting essential supply lines for oil and other resources.

This rapid reinforcement capability depended on control of the seas through adequate sea and air power, and America's permanent presence in the Mediterranean and occasional presence in the North could only be maintained if her allies showed themselves willing to do more. This implied a greater sharing of research and development costs, improved procurement procedures, and a coordination of the linkage between military sales and commercial sales. America's contribution to European security involved not only the direct support of NATO, but the support as well of areas that were vital to Europe, such as the

Middle East and the Indian Ocean. To enable it to carry out this mission, America hoped for greater help by its European allies in the solution of its financial problems.

In response to a question by a Norwegian speaker, three other American participants stated their belief that, in spite of the domestic pressures and demands on its resources, the US would act to honor its NATO commitments whenever necessary.

An Italian speaker thought that the position of the US now was analogous to that of the British when they withdrew their last troops from Calais. After having felt for three or four centuries that they had to have their forces on the Continent at any price, they acquired a new freedom to act in the rest of the world. In a similar way, the US now had a strong intermediary position with Peking and Moscow, who would talk with Washington but not with each other.

In the judgment of an International participant, a precipitous or panicked withdrawal of American troops from Europe would have negative psychological effects. On the other hand, it was not healthy to have the whole European defense system depend indefinitely on the credibility of their continued presence, so that it would be prudent to plan for an alternative balance of forces.

Another International speaker alluded to his recent conversation with a prominent American legislator, who had expressed his impatience with Europe's continued dependence on American defense assistance. The speaker had replied that neither foreign policy nor military policy were matters of philanthropy. If the American people and government had concluded that Europe was not necessary for the defense of the US, they should "clear out today, rather than tomorrow."

A French participant felt that the discussion was unfortunately moving onto a rather narrow Cartesian framework, which could be outlined as follows: (a) There had been no change in Russia's aims, which could only be contained by (b) a nuclear deterrent, which was only credible if supported by (c) 300,000 American troops in Europe, which could only be maintained if the US received (d) economic help from her allies. The logic of this could be pursued to the conclusion that the fate of Western civilization depended, in the last analysis, on some quantitative economic measure, such as the annual export of x million American chickens. Such an equation omitted the aspect of human reactions and public opinion.

The speaker suggested an inverse logic: (a) To maintain its defense establishment, America was asking its allies for (b) financial help, which it needed as the result of its (c) internal problems - "international politics being only the residue of problems which one has not been able to solve at home" - such as unemployment, export difficulties, the disaffection of youth and the aftermath of Viet-

nam. (d) If these problems could not be solved in the US, they could not be solved in any society. (e) If the Americans had lost faith in the US, could they be surprised that Europe was reluctant to help by taking up the dollar?

On the subject of *Mutual and Balanced Force Reductions*, the author of the British working paper saw little future in them unless they were conducted on a purely bilateral Soviet-American basis, which would do enormous damage to the cohesion of the alliance. A Netherlands participant said that MBFR, while originally a worthwhile initiative, had been pursued with insufficient preparation and promised very few results which would not really weaken NATO.

An Italian speaker noted that the American eagerness to begin MBFR negotiations – which was understandable in light of US domestic pressures – had not been reciprocated by the Russians, who were noncommittal on the subject. This coolness was likely designed to enhance their bargaining position. The USSR would probably respond in the end with a proposal for the reduction or partial withdrawal of station troops (on the Western side, principally American units with nuclear elements), and only later of national troops (mainly the Bundeswehr). By thus drawing a distinction between the troops of the various Western nations, the Soviets would have driven a wedge into the alliance.

The speaker was equally dubious about the proposed *Conference on Security and Cooperation in Europe (ESC)*. Here, it was the Americans who had been reserved, with the Europeans yielding to pressures from the East. The Russian strategy for the ESC was founded on their realization that, while they were well entrenched in East Europe, their influence in the West was diminishing, as the national Communist parties moved further away from Moscow's orbit. The ESC was designed to give the USSR a *droit de regard* in Western Europe, and the risk was that the conference would produce limitations on Western Europe's control over its own political and military development, such as the right of a Soviet veto of the coordination of nuclear armaments or other defense systems. That would prove disastrous for Western Europe, especially with the increased need of a coordinated tactical nuclear force resulting from strategic arms limitations. As with the MBFR, it would be well in the case of the ESC to keep in mind "the golden rule of French diplomacy," which was always to ask *Qui est demandeur?*

An International participant also expressed concern that the ESC might result in a freezing of the status quo, which would tie Western Europe's hands as far as future unity on defense.

The author of the British working paper had little faith in the benefits to be derived from an ESC, which was "one of the most fantastic diplomatic opera-

tions ever conceived." It would have 32 participating nations, compared with 26 at the Congress of Vienna, which had had trouble enough coming up with any solutions. If the first major East-West conference in Europe in 40 years resulted in a shambles, a *dégringolade*, it would be a very great pity, and would increase tensions in Europe. However, if it were broken down into subcommittees, it might do some useful work in the field of crisis management.

A Norwegian speaker, who said he was not at all opposed in principle to *rapprochement* or to a security conference, felt nevertheless that for the West to participate in an ESC in its present state of disunity would be to "play the cards right into the hands of the Soviets." The picture he drew was of "an untidy and unravelled West against the solid and disciplined Eastern side, with a few canaries singing their little independent songs as a showpiece under the paw of the bear." Neither the US Congress nor European parliaments seemed willing to face the fact that we were up against overwhelming Soviet forces. We needed courage from the political leaders on both sides of the Atlantic to tell the public the truth and to vote for the necessary remedies without looking for political popularity.

This view was not shared by a compatriot, who felt that to emphasize the possible negative results of the ESC would make it even harder in the future "to sell Western policies in the same way and with the same success as many of those who are now selling the policies of the East." According to the speaker, "one of our main problems in recent years has been the losses in the fight for public opinion." The West needed "to strike back in a progressive way, orientated towards the future."

A Belgian and an Italian participant viewed the preparations for an ESC as another step in the European Community's process of defining its own identity. An International speaker said that the conference would have to be "carefully and prudently prepared, without too many illusions." The maintenance of Western cohesion and a strong defense posture was imperative if a *détente* policy were to succeed.

A Portuguese speaker predicted that China, even though not a participant, would try to exert its influence on an ESC. The Chinese hoped for a reunified Germany, which would put a large and powerful nation on the other side of the Soviet Union, and they could be expected to try to drive a wedge between the Western powers by offering concessions to those who would support German reunification.

An American participant admitted that he shared many of the concerns and reservations about ESC, but "given the nature of Western public opinion, particularly the attitudes of the younger generation, a negative response at this stage would be extremely counter-productive. It would simply play into the

Soviet hands." It would make it easier for the Soviet Union to pursue its bilateral policy toward the West, designed to divide it. While the speaker was sympathetic to much of the substance of the *Ostpolitik*, for example, this was a case of a policy pursued essentially on a partisan basis within a nation, and on a purely national basis within the alliance. In the past, German policy had sought maximum objectives, such as reunification and membership in NATO, at minimum cost. Today, it seemed aimed at minimum objectives at maximum cost, namely a tenuous status quo in return for Germany's legitimization of its own division. The West needed to define the positive constructive content of a *détente*, so that it could be seen as a means to an objective, and not as an end in itself.

Interventions from four German participants responded to the foregoing remarks about the *Ostpolitik*. One speaker said that he, too, regretted that the *Ostpolitik* had become a matter of partisan politics in Germany, but unfortunately "that was just one of those things that happen." But as for the *Ostpolitik* being pursued as a national policy, the speaker believed that, with the ratification of the treaties with Moscow and Warsaw, this phase would be concluded and German activity would be part of the common Western approach. A compatriot concurred in this prediction that the *Ostpolitik* would be completely multilateralized, but he added that the policy had never been pursued on a purely national basis, as the negotiations with Russia and Poland had been closely related to the Berlin talks and coordinated with the allies from the beginning. Furthermore, West Germany had had clearly in mind the short-term objectives of ending the cold war situation with the East and assuring the security of Berlin.

Another German speaker reminded the meeting of the very thin majority available to the government for the historic vote on the Eastern treaties, to which a fourth speaker added that, in this special case, the German parliament was not really representative of German public opinion. A Netherlands participant remarked that the ratification of the treaties was immensely important for Western unity as well as for East-West relations. The German *Ostpolitik* commanded wide support among various political parties in other European countries, many of whom were prepared to push for recognition of the German Democratic Republic in case the treaties were not ratified.

Referring to the efforts of responsible people on both sides of the Atlantic to discourage any sizable American withdrawal from Europe, a Norwegian speaker said that the same motives were behind efforts to strengthen the *European contribution* to the mutual defense. Unfortunately, it did not look as if the European political leaders of today had the will or the ability to withstand the same sort of pressures as were being brought to bear in the US Congress. The

speaker did not believe that the Europeans could realistically say to their American allies that the prospects were bright for increasing Europe's own military strength.

A Belgian participant saw a double role for Europe's defense effort. Not only was it the second pillar of the NATO alliance, but it was important for the future development of the European Community itself. The achievement of an integrated defense effort would require the same degree of political will as that involved in the creation of the Community. If this seemed unrealistic, well so did many aspects of political life.

A Portuguese speaker agreed that Europe's ability to contribute to the defense of Western civilization would be undermined if she allowed herself to be divided by minor local differences. An International participant said that the most welcome help which Europe could give to the US in its monetary difficulties would be to assume a greater share of the common defense burden.

Another Portuguese speaker commented that America's inability to be present everywhere in the world provided an opportunity for Europe to play an important role in the defense of the Indian Ocean area, not only because of the oil supply routes, but because of the increased Chinese and Russian infiltration into East Africa.

A very different mood was reflected in the remarks of a Canadian participant. He said that the attitude of his countrymen had been profoundly affected by the Vietnam war, and he suggested that there was little enthusiasm in Canada for "making trade and monetary concessions so as to help permit the deployment of American forces in the Middle East and the Indian Ocean, as well as in Europe." It was not a question of control of such forces, but of a different perception of what was in the interest of the Western community and of its individual nations. In somewhat the same vein, a Netherlands speaker said that, after the Vietnam war, it was unthinkable that "the European nations would be very ready to go into Asia together with the US, as a kind of junior partner."

The author of American working paper "D" responded that the question of sending European troops to Asia was not really at issue. The point was that Europe and the US had made a cooperative effort for many years to build an adequate defense against the expansion of Soviet power in Europe. But now, as had been pointed out by another speaker, the Soviet Union had become a Eurasian continental power that fronted on two oceans, and the Western response therefore had to be a continental one which recognized the interrelation of the Atlantic and Pacific worlds. We could no longer talk about strategy in regional terms; unless it was approached in a global fashion, there would be a great deal of wasted effort. The problem in Western Europe was not at bottom a military one, as there was a stand-off there. It was a problem of political will:

whether the Soviet Union was to be confronted with a fragmented or a unified Europe. And one of the points of building an effective Europe was presumably so that it could play a responsible role not merely in one region, but in the world.

Two interventions dealt with the problem of how the European states could get better value for the \$25 billion they spent annually on defense. The author of the British working paper thought that the question of a European nuclear force was irrelevant for the present, but that much more attention should be paid to manpower systems. A number of these had become very old-fashioned for their purpose. Either they were conscript systems, in which the period of training was too short to produce an effective soldier, or they were selective service systems, like Germany's, which were more and more unpopular with the young. All systems involved very high overheads. The speaker wondered whether the trend should not be toward a mixture of regular forces with territorial or militia forces, which was being actively studied in Germany. It was not a popular concept with the military, as it involved difficult problems of command and control, and would require re-thinking a great deal of NATO strategy.

But the Europeans had to go very much further in reordering their defense establishments, not only to convince the Americans, but to convince themselves. Should the Eurogroup of NATO defense ministers be regularized and given a secretariat and a function of its own, or should one accept the logic of the European Community and go for something more ambitious, that included France? There was clearly a fork in the road ahead on that question.

The speaker's own preference for a next step in defense cooperation would be a European defense institute, a sort of RAND, where the differences of conception, organization and tactical doctrines that existed among the European powers could be hammered out and presented to governments as a unified position. Any major overhaul of European military systems would require a considerable step forward in political institutions, so the overriding question was whether the political will power, inventiveness and energy existed to see this through.

A Netherlands participant discussed the effect of technology and inflation on the cost of defense. In 25 years, the price of a marine reconnaissance aircraft had risen from \$300,000 to \$8 million. Much of such increases related to equipment refinements, but recent annual wage inflation rates of between 10 and 16 per cent in many Western countries meant that defense expenses were increasing faster than the income of governments. In addition, there was "an appalling inefficiency and duplication in the West" in the research and development and production of arms. If NATO were empowered to make R & D

decisions as speedily as it could make purely military decisions, this problem would not exist, but "the national state is a tough animal."

The speaker favored starting right away on short-term procurement problems with arrangements between two or three countries. "A more multilateral arrangement generally results in the creation of a sheep with five legs." A breakthrough for the long-term, such as for the production of one kind of tank in the eighties, had to be prepared for. It required a mental breakthrough first, but this would be easier now that it was generally realized that no one nation, except the US, could carry the burden of research in all arms systems.

The Euro-group within NATO should never be institutionalized, but the European partners should be able to profit fully from the research of all the NATO powers. The speaker had the impression that France unfortunately would not return to integrated NATO military commitments in the near future. He was reminded of the story of the automobile driver, responsible for a serious road accident, who had told the judge, "I thought somebody else was driving."

Peace was the final product of a complicated process of foreign policy, of defense policy, and of all the other data that had their impact on international relations. Peace could be compared with health: someone who had not been ill for 27 years did not think much about doctors. When they got a slight case of 'flu, they complained about the cost of medical care; when a really serious illness came along, the cost of medical care was irrelevant. One of the foundations of an effective defense was an informed understanding public opinion. There was little difference now in this respect between the US and Europe. We all wanted to find an optimistic explanation for the acceleration of the Soviet arms build-up. "We'd like to think they just possess the arms to exhibit them like a stamp collector does. In the old days, it was not very difficult to tell the youngsters what they were doing when they were soldiers, and why. At the moment it seems rather difficult."

The speaker was convinced that there was not enough awareness in NATO of the importance of adequate public understanding. Action had to be taken to explain why there was an urgent need to improve the quality of our defenses. More information ought to be released on the activities and equipment of both NATO and the Warsaw Pact forces. In the speaker's view, "NATO so far has conducted its affairs in an atmosphere of too much spurious secrecy. The need for security in vital matters should not be allowed to go so far as to isolate the organization from the public."

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In summarizing the discussion, a US participant observed that there appeared to be some general agreement that a certain psychological and political malaise preoccupied many of our societies. In part, this was a product of the rather precipitous decline in optimism that had marked the latter part of the 19th and early part of the 20th centuries in the Western world, combined with the disappearance of any credible cosmic theory. Much had been said about the end of ideology, particularly in the so-called advanced world. Yet we faced societies, many of them highly mobilized, which still did have an ideology, although in some cases it was more official than operative.

The problem before us warranted two approaches: First, to try consistently to get at the realities, even if they did not create in and of themselves an ideology. Throughout much of the world today a giant paradox was evident. One could talk about the second nationalist revolution, even as one was striving by word and deed to move toward internationalism. Both of these forces were present in very powerful form, and in some respects they were interactive.

Nationalism today was by no means confined to the so-called late-developing countries, or the non-Western world, and perhaps one should reconsider why nationalism was again on the rise after having been recently proclaimed passé. In part, this was a product of the frustrations of seeking identity in a larger community. Nation-building was far from complete in most of our societies and was an enormously difficult process. Thus to try to establish identities on an ever broader, more heterogeneous scale, was bound to be emotionally tiring and politically difficult.

At the same time, we had witnessed the new ideals that identity ought to be more particularly with the smaller rather than the larger community, and one saw this in many of the drives to find identification at the subnational unit in a new intensified form. Moreover, many of us were close to what we called "post-modernism".

The speaker suggested that the participants at this Conference represented the truly revolutionary societies of today. He had spent half his life in the Afro-Asian world, and while the word "revolution" was powerful there, the fantastic changes that were affecting our values, our relationships with each other, our sense of units, were occurring much more in the so-called advanced world. The tempo of change was so extraordinary in our world that we were faced with a climactic revolution that had been going on for decades and affected every generational group. These matters were related as well to the nature of our negotiation process for the seventies. We could set aside the question of whether the Russians or the Communist bloc were our enemies or potential allies if we would look at the process of negotiation with the Russians and others in a different light: not in a lineal fashion - up, across and down - but in the task of

moving circles, from circles of disagreement to circles of partial agreement. The whole process of the seventies was going to be that of trying to enlarge the arenas of agreement and to diminish or contain the areas of disagreement. And this did not require any totalistic concepts of enmity or friendship.

Secondly, in the matter of negotiations, one of our great problems was going to be the inequality of the internal pressures composing the societies who were negotiatory. The major pressures that could be mounted upon the open societies were internal, and they would affect the timing of negotiations as well as the extent of concessions. We did not have a similar set of internal pressures in the less open societies. Perhaps a dynamic regionalism on the part of small nations and non-involved major powers, could help the process of global pressures upon the less open societies and make the negotiatory process more viable.

In many of the subjects that had been discussed, probably the central problem was how, in the midst of the most intense revolution that has ever occupied mankind, our societies, which were in the vanguard of this revolution, could also accept international responsibilities and keep always open this question of changing priorities: how to balance revolution (and we were the revolutionaries) with international commitments, how to make intellectualism and rationality acceptable when we no longer had a cosmic theory.

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During the Conference, a dinner for the participants was graciously offered by the Belgian government, at which the Prime Minister, Monsieur Eyskens, addressed the guests.

In closing the meeting, His Royal Highness expressed his gratitude to various persons who had worked particularly hard to insure the success of the Conference: notably the authors of the working papers, the interpreters, the secretariat, and all the members of the Belgian and Netherlands staff who had handled the arrangements for the meeting.

On behalf of all the participants, an American spokesman thanked The Prince for having organized and directed this most interesting Conference.