BILDERBERG
MEETINGS

BADEN-BADEN CONFERENCE

6-9 June 1991

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NOT FOR QUOTATION

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INTRODUCTION

The thirty-ninth Bilderberg Meeting was held at the Steigenberger Hotel Badischer Hof in Baden-Baden, Federal Republic of Germany on June 6-9, 1991. There were 110 participants from 18 European countries, the United States, and Canada. They represented government, diplomacy, politics, business, law, labor, education, journalism, the military, and institutes specializing in national and international studies. All participants spoke in a personal capacity, not as representatives of their national governments or their organizations. As is usual at Bilderberg Meetings, in order to permit frank and open discussion, no public reporting of the conference proceedings took place.

This booklet is an account of the 1991 Bilderberg Meeting and is distributed only to participants of this and past conferences and to prospective future participants. Introductory remarks are reported essentially as they were presented, with only minor editing and without referring these texts back to the speakers. Comments and interventions made in the discussion sessions, as well as panelists' closing remarks, are organized and reported according to subject matter and not necessarily in the order in which they were made, nor in their entirety.

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GER	GÜNTHER W.F. DICKE	First Vice President, Deutsche Bank A.G.; Organizer, 1991 Conference
FRA	VERONIQUE MORALI	Organizer, 1992 Conference
USA	CHARLES W. MULLER	President, Murden and Company; Adviser, American Friends of Bilderberg, Inc.

List of Abbreviations

AUS	Austria	ITA	Italy
BEL	Belgium	NETH	Netherlands
CAN	Canada	NOR	Norway
DEN	Denmark	POR	Portugal
FIN	Finland	SPA	Spain
GER	Germany	SWE	Sweden
GRE	Greece	SWI	Switzerland
ICE	Iceland	TUR	Turkey
INT	International	UK	United Kingdom
IRE	Ireland	USA	United States of America

AGENDA

I. EASTERN EUROPE: ECONOMIC PROSPECTS

Moderator: Hilmar Kopper
Panelists: Jean-Louis Cadieux
Thomas W. Simons, Jr.

II. DEVELOPMENTS IN THE SOVIET UNION: POLITICAL AND ECONOMIC IMPACT ON THE ALLIANCE

Moderator: Rozanne L. Ridgway
Panelists: Klaus Blech,
Jack F. Matlock, Jr.
Volker Rühe

III. THE MIDDLE EAST: POLITICAL FALLOUT AND FUTURE PROSPECTS

Moderator: Lord Carrington
Panelists: Richard N. Haass
Tugay Özçeri
William B. Quandt
Patrick Wright
Lawrence D. Freedman
(author background paper)

IV. CURRENT EVENTS: GERMAN ECONOMIC RECONCILIATION: THE TREUHAND EXPERIENCE

Moderator: Franz Vranitzky
Panelist: Birgit Breuel

V. THE PRACTICAL AGENDA FOR THE ALLIANCE

Moderator: John C. Whitehead
Panelists: Henning Wegener
Henry A. Kissinger

VI. DO WE HAVE THE INSTITUTIONS TO DEAL WITH THE AGENDA?

Moderator: Etienne Davignon
Panelists: Robert D. Blackwill
Ruud F. M. Lubbers
Manfred Wörner

VII. ECONOMIC AND FINANCIAL THREATS TO THE ALLIANCE

Moderator: John Smith
Panelists: Michael J. Boskin
Karl Otto Pöhl

VIII. CURRENT EVENTS: SOUTH AFRICA

Moderator: Thierry de Montbrial
Panelists: Conrad M. Black
Vernon E. Jordan, Jr.

IX. CURRENT EVENTS: YUGOSLAVIA

Moderator: Peter D. Sutherland
Panelists: Gianni De Michelis
Franz Vranitzky

OPENING

Lord Carrington, the Chairman of the Bilderberg Meetings, opened the Baden-Baden Conference by welcoming the participants. He reviewed the conference schedule and agenda and the ground rules and procedures for participating in the discussions. He also stressed the importance of observing the private, off-the-record nature of the conference.

I. EASTERN EUROPE: ECONOMIC PROSPECTS

Introductory Remarks
I.

The geopolitical situation of the countries of Eastern Europe makes them an essential piece of the present and future European architecture. Further to the obvious solidarity that has to be shown between democracies, and especially between European democracies, these countries represent both a political, strategic and an economic interest, notably in terms of potential trade.

What we in the European Community have to say on the economic prospects for this region of the world is of course very much determined by what we have been learning in the process of coordinating Western aid for almost two years now.

What has been the European Commission's role? The Commission was formally entrusted with coordinating aid to Poland and Hungary by the G-7 Summit held in Paris in July 1989. Twenty-four nations volunteered to take part in that collective effort. That is the way the economic aid and its Community part, the PHARE operation, (the operation for restructuring the economies of Poland and Hungary) were born.

The Commission has thus been acting at two levels; G-24, on the one hand, through coordination and a sizeable contribution to the common assistance including the implementation of the assistance provided at Community level; and bilateral, on the other, through an improvement of market access conditions for products originating in Central and Eastern European countries, the conclusion of trade and cooperation agreements with all of them, and now negotiation of association agreements with Poland, Hungary and Czechoslovakia.

In this double role, the Commission's action has developed along four main directions:

- the definition of conditions, both political and economic, common to all the G-24, to be respected by applying countries in order for them to benefit from the Western aid.
- once these conditions are met, the improvement of the access to Western and EC markets for goods imported from Central and Eastern European countries.
- the mobilization of the necessary means in order to support those countries' balance of payments.
- the delivery of the technical assistance required for the establishment of an adequate regulatory framework and, more generally speaking, investor-friendly environment in these economies.

Total pledges of the G-24 in assistance to the six countries of Central and Eastern Europe so far amount to around $40 billion over two years. To this, debt relief to Poland worth $17 billion can be added. This amounts to $57 billion. By way of comparison, the Marshall aid in 1989 prices amounted to almost $65 billion over four years.

Of course, such a comparison neglects the fact that today's situation differs considerably from the one prevailing at the end of World War II. It also neglects the qualitative aspects of the aid itself: it was almost entirely composed of grants under the Marshall Plan, while today it includes a very important element of loans.

Since the day we decided to help Central and Eastern European countries, we have faced certain challenges. One is, what is the correct trade-off between economic necessity and political expediency? There is a significant time lapse between the moment people are asked to bear the cost of organizing the transition from a centrally planned to a market

economy, and the moment they begin to reap the benefits. This was also the case for Western Europe after World War II, when almost six years were needed, between 1946 and 1952, to see the first positive results of the Marshall Plan.

The potential conflict between economic necessity and political expediency will have to be solved internally by the Eastern European governments. The Western governments had this in mind when they launched economic aid to these countries: constraints which could be eased by economic support. This will be the case for a longer period than the one initially expected.

How are these countries going to find outlets for their products? Market access was one of the five original purposes of the exercise. Clearly, it is essential that the Central and Eastern European countries, if they are to succeed in their efforts to become market economies, are given the chance to compete against Western goods in Western markets.

A first reason for promoting access to Western markets lies in the necessity for these countries to service their external debt, which represented in 1990 around 70 percent of the value of their annual exports, with the exception of Czechoslovakia at 25 percent and, for well known reasons, Romania at 10 percent.

A second reason is simply to allow these countries to earn the hard currency they need for the purchase of capital goods. This constant need, although not new, becomes predominant in the ongoing restructuring process.

A third reason lies in the advantages to be gained from trade as such. With the CAEM [COMECON] falling apart, new outlets have to be found in order to promote the necessary exposure of national economies to competition and let them find their comparative advantages. That is what has already been done within the G-24 framework. Consequently, exports from Central and Eastern European countries now enjoy, in most of the G-24 member countries, the most favored nation clause, and even the GSP (Generalized System of Preferences) treatment and quantitative restrictions that were imposed on them have been lifted.

What are the results so far? We can only compare 1990 with 1989, so it is just the beginning of the transition process we are looking at. The percentage change in exports from all six Central and Eastern European countries are: to Japan—8.3 percent; to the EC—8.1 percent; to the U.S.—5.8 percent.

In relation to this, it is worth noting that, against all expectations, countries like Poland and Hungary have succeeded in rapidly re-orientating their exports towards markets other than the USSR, mainly to the EC.

The new association agreements, or European agreements, that are now being negotiated, will go further and aim at providing free trade as well as for hopefully sizeable concessions to promote trade in agricultural products. However, the political will to follow this direction will have to be demonstrated, once pressures from well-founded internal interest groups become strong in certain areas, such as textiles, steel, agriculture or the free circulation of people.

How does one strike the right balance between financing and adjustment? It was found that the Marshall Plan was not very relevant to the present needs of Central and Eastern European countries. The task today is more complicated, even if the effort now being undertaken is of a comparable size. Delays in reacting have proved to be shorter than was the case with the Marshall Plan. But overall conditions are different. Western European countries had clear memories of and adhered to the principles of a market economy. They also had the structure and expertise necessary to make such an economy work. The effort had thus to be characterized by short-term technical assistance and long-term financial aid. The situation of Central and Eastern European countries is clearly different, and this will probably necessitate long-term technical assistance, if not shorter-term financial aid. Whole new legal and financial structures and a whole new economic environment have to be created from scratch.

There is a very important lesson to be drawn from the Marshall Plan; that financial flows should run in the right direction; that is, from that country or group of countries that are prosperous enough to have an excess savings capacity to the country or countries that have a net borrowing requirement. That was one of the great achievements of the Marshall Plan forty years ago, and it must be one of the aims of G-24 action today.

In 1990, the Commission took the lead in providing a $1 billion medium-term loan to Hungary and in addressing these countries' macro-economic needs. It is also within the framework of the G-24 that the creation of a stabilization fund for Poland was decided, in which European countries were involved.

Last autumn, taking into consideration the effects of the Gulf crisis, the collapse of COMECON and German unification on these countries, the Commission defined their financial needs for 1991 and formulated proposals to the G-24 in order to meet these needs. This Commission initiative resulted in joint action with the IMF. Thus, the IMF has now granted 1991 loans of almost $5.4 billion in the region, and the G-24 provides a balance of payments support worth $3-4 billion of which the EC ensures 50 percent.

Balance of payments' support has thus been provided until now to Poland, Hungary, and Czechoslovakia, and is being organized for Bulgaria and Romania. However certain fatigue among the donors can be observed today. Nevertheless, it is common knowledge that for some of these countries continuing balance of payments support will have to be provided in 1992 and maybe longer. Otherwise, adjustment and reforms will just not take place.

What can be done to make the supply response in these countries quicker, so that the fall in output bottoms out and recovery begins? The supply response question lies at the very heart of the transition from a centrally planned to a market economy. It is all the more important because of its qualitative nature, since it means both restructuring of the economic infrastructure and of existing production capacities, and development of new private activities. It is what people usually have in mind when they say we are moving into uncharted waters, and that there is no precedent to go by.

The transition from a centrally planned to a market economy is an exercise in turning the tables around. Whereas previously the state assumed responsibility for organizing supply and let demand face the consequences and adjust accordingly, the new situation implies that demand—to be more specific, what Keynes called effective demand —will be playing the leading role. It will be up to the other side to supply, to do the adjusting and the responding.

How quickly can one be sure that Central and Eastern European corporate managers realize that they should forget the old tutelage system, forget that they are in the business of merely seeing to it that government orders are complied with, and instead focus on looking for market signals and on adapting their production methods to what the market is calling for? Already market signals are starting to be recognizable. The private sector is growing and constitutes the only job creator. In Poland, for example, the share of the private sector in industry went from 5 percent in 1988 to 15 percent in 1990 and, in retail trade, from 5 percent to 40 percent. This will have to be increasingly the case, and that means guarding against distortions of all kind. Supply and demand have to be kept on a competitive footing and subsidies have to be reduced considerably. Tax and credit rules have to be just rules, not custom-made measures of supposedly different companies. This will, of course, mean that some existing firms will not be restructured, but will simply have to be closed.

But, to arrange all these necessary adjustments, experience and expertise are needed. They are badly lacking in these countries. They must therefore be brought first from outside

and then transmitted to national institutions. That is what is now being done by the Community under the PHARE program, in coordination with other donors' contributions.

The final and, perhaps, the most important issue is, when will Western businessmen invest in Central and Eastern Europe, and on what conditions? At first, a certain pessimism (Europessimism) existed that was based on wrong assessments and an illusion. The illusion was that the reforms would be achieved quickly. Of course, this could not be the case. Work is considerable, even if a lot has already been done. More public assistance will be needed in order to achieve success. It will be determined by a mobilization of domestic and foreign capital in these countries.

One of the ideas behind PHARE, indeed one of its purposes, was to pave the way for private investment flows. Reforms to make the legal and general economic environment more investor-friendly were promoted to the top of the cooperation agenda in order to advance the day when private financial flows would relay official money. PHARE was never supposed to be an open-ended commitment; it was to be phased out gradually, as more and more private investors recognized the opportunities that Central and Eastern Europe held for them. But, with the exception of Hungary, private funds have not yet been flowing sufficiently into Central and Eastern Europe.

Of course, the concept of privatization itself, as in the USSR, provoked a certain resistance among the people of these countries, who tend to consider that they collectively, as citizens or as workers, own the companies. However, through government action, things are now moving in Poland and Hungary and, to a lesser degree, in Czechoslovakia. Even in Bulgaria and Romania, the road to be followed is well known and defined.

Leon Trotsky, who might not be in fashion at the moment in the countries concerned, wrote 65 years ago (1926) the following words: "It is quite clear that if the impossible becomes possible and the improbable probable, if world capitalism led by European capitalism establishes a new equilibrium...and if capitalist production in the forthcoming years and decades begins to expand, we, the socialist state...will have to try to catch the express train."

We must not only look at Central and Eastern European countries trying to catch the express train; we have to help them to get on it.

Introductory Remarks
II.

It seems that it is Eastern Europe's destiny to be a sideshow. But, going back to the fifteenth century, it has had a tendency to cause trouble and tragedy for the main ring.

Facing West, Eastern Europe has historically been underendowed, underpopulated, and underurbanized: Europe's Wild East. Facing East, however, it has always seemed advanced. Vis a vis the West, it has always been one revolution behind, but it has been half a revolution ahead of its Eastern neighbors.

In the eighteenth and nineteenth centuries, Eastern Europe began the first in a series of catch-up attempts. It freed serfs and tried to build commerce and industry, but it fell even further behind. The tensions of being underdeveloped in comparison with the West have always been dealt with politically. Political domination has always been the solution.

Stalinism was probably the most compelling solution offered to close the gap with the West. This had to be done with surplus peasant labor, without outside capital and with little trade with the West. The process produced large working classes, a large intelligentsia, and large bureaucracies, but not much technology.

By 1930, the peasant labor force began to run out, and Eastern Europe became dependent on foreign trade for economic growth. This meant an increasing dependency on

the Soviet market. Eastern European economies depended on Soviet raw materials to produce goods only the Soviet Union would take. The result was stagnation in Eastern Europe.

There began a new search for political solutions in the 1960s, accelerating in the 1970s. The intelligentsia began to come up with new ideologies.

But economic stagnation continued. The Soviet Union caught up as Eastern Europe slowed down, and it ran into the same problems in the 1970s. The same sorts of ideological solutions occurred in the Soviet Union, which began to want to turn to the West.

Meanwhile the West had moved on to the information age—the next industrial revolution. Eastern Europe was thus another revolution behind.

The Soviet Union then decided to liberate Eastern Europe, to relieve themselves of an economic burden and to get closer to Western markets. This was its means of leapfrogging Eastern Europe into the West.

The first effect of this revolution was to bring to power coalitions of workers and intelligentsia. The second was to lay bare the dependency of Eastern economies on foreign trade—especially the Soviet Union—just as Soviet trade began to collapse. The third effect was to show the need for political solutions.

The West should bear in mind eight pointers in dealing with Eastern Europe: (1) continue to build the architecture for security in Europe; (2) recognize the need for an economic component; (3) realize a radical economic and political transformation is needed; (4) recognize the need for strenuous and strict conditionality for assistance; (5) raise the political priority given to Eastern Europe; (6) avoid ruinous competition among ourselves and among the Eastern European countries; (7) provide technical assistance, market access, and then capital; (8) have an integrated view of the area, which includes Eastern Europe and the Soviet Union together.

It is important to recognize that Eastern Europe has assets for the information revolution that it never had for the first two. It didn't have coal, iron, or oil, but it does have millions of educated, talented people. It has no infrastructure, but it is dedicated to building it, and we have the wisdom and resources to help.

Discussion

Economic and political integration of Eastern Europe. One of the foremost concerns in the minds of participants was to what extent the countries of Eastern Europe should be integrated into the European Community. A German wondered if their admission into the EC might be the answer to the political problem. But the majority of those who addressed this question opposed EC membership for the Eastern European countries any time soon. A Frenchman said that the Eastern European countries would not be ready for EC membership for at least 10 to 12 years, that membership for countries such as Sweden, Austria, and Norway had to be considered first. It was an American speaker's opinion that early EC membership would destroy the Eastern European countries and the EC itself. Putting that thought more mildly, an Italian saw "objective difficulties" in defining how the EC should enlarge to include Eastern European countries.

An American speaker thought it ironic that, now that Eastern Europe had taken a step into the future, the reaction in Western Europe was to appear to be inconvenienced. The developments in Eastern Europe seemed to be causing trouble for the "the club."

The need for an institutional framework. The question of EC membership aside, there was agreement that some sort of institutional framework in which to address the problems of Eastern Europe was necessary. An Italian was concerned by what he saw as the tendency of Eastern European countries toward economic and political fragmentation.

What was lacking was an institutional framework where all the Western and Eastern European countries could get together to discuss economic and political issues. An Austrian agreed with this, saying that the West tended to talk about Eastern Europe as though it were a "branch office." It was important to recognize that Eastern Europe had gotten rid of bureaucratic structures without replacing them with anything else. Technical assistance from the West was needed, involving such things as public administration, setting up of tax systems, etc. A participant from Belgium observed that the success of the postwar period as seen in the Marshall Plan was linked to the credibility of existing institutions. There was today a need for something similar, a system that included countries of East and West.

The roles of the public and private sectors. Observing that the private sector had played a crucial role in the success of the Marshall Plan, an American argued that there was too much thinking about government assistance and not enough about providing a climate for private enterprise to attract private capital. In this regard, it was "naive" to suggest that the Eastern European countries should not compete with each other; they ought to compete for capital, just as the countries of the G-24. Another American supported the emphasis on private capital because, he said, governments could not come up with all the necessary resources.

Nevertheless, the role of Western governments was thought to be pre-eminent by many speakers. It was an Austrian's view that, unlike what had happened in South America, governments had to act before the banks. It was important that governments create conditions for those countries that had been servicing their external debt to be able to continue to do so; financial support was a prerequisite for debt rescheduling. A French speaker saw this as a public responsibility which should not be transferred to the private sector. The role of government, in a Greek's view, should be to prepare the ground for private enterprise.

Conditionality of assistance. Several speakers expressed concern about applying conditions to the granting of Western assistance to the countries of Eastern Europe. An American, questioning the West's will to "put its money where its mouth is," wondered if the imposition of conditions might be a step backward. A speaker from Finland agreed with this, warning that the West had to be careful about how it imposed conditions, especially "value-loaded" ones. Another American responded that conditions had to be used subtly. But the primacy of the political solution and the interconnection between democracy and economic development had to be foremost.

Other Issues. A French speaker queried if any distinctions should be made among the countries of Eastern Europe; that is, should Poland, Hungary and Czechoslovakia be considered a "buffer zone?" These countries, said a Turk, were Europe's "natural children," while Romania and Bulgaria were its adopted children. But the general consensus of those who spoke to this issue was that, while Romania and Bulgaria were starting from a less developed point, they should not be singled out for different treatment.

The same Frenchman wondered if there ought to be a division of labor regarding Eastern Europe and the Soviet Union, with Western Europe taking special responsibility for Eastern Europe and the United States and perhaps also Japan dealing with the Soviet Union. This notion found little support, but several speakers argued that the U.S. and Japan ought to do more.

Some speakers expressed concern about such issues as the problem of nationalities and of social and political instability in Eastern Europe. The people, said a Dane, were losing their purchasing power and were getting poorer. Might there not be serious consequences of people not being able to buy even necessities?

A Spanish participant was prompted to wonder if there was too much emphasis being placed on economic issues. One major difference between the Marshall Plan era and today was that, after the war, there was great destruction which gave impetus to reconstruction. There was an emphasis on creating wealth rather than on redistributing it. Was such an impetus evident in the countries of Eastern Europe? There could be no recovery without the total effort of the populations. An Englishman agreed, saying that what was needed was, more than capital, a "dynamic and systemic change." He suggested that the energy and ability to lead such a process of change might be found in the most recent former prime minister of the U.K. and that perhaps her help should be enlisted.

II. DEVELOPMENTS IN THE SOVIET UNION: POLITICAL AND ECONOMIC IMPACT ON THE ALLIANCE

Introductory Remarks
I.

The internal situation in the Soviet Union is serious, deadly serious, and it will remain so. But the situation is not hopeless. What we are seeing in the Soviet Union is not a major governmental crisis which could be solved within a given system. We are not witnessing an economic crisis which can be solved by the substitution for a bad policy of a better one. What is happening is really the end of a system, the clinical death of the old Soviet system. It is a historical crisis, involving the whole nation, the whole society. It is very different from past crises. It is far-reaching and all-embracing and involves the institutions, the social structure, the politics, and the Soviet mentality. It is a crisis that escapes a master plan for its solution.

We in the West must realize that we cannot think about the Soviet crisis in terms of reform. If we think there can be one big reform that will solve the Soviet crisis, we will be disappointed. The Soviet leadership has mistakenly led us to expect that such reform is possible. When Gorbachev started out, he thought he could reform the old system within that system and come up with something completely new. He felt that just turning some screws would make the system function much better.

The Soviet Vice President said recently that the leadership had operated on the country for an appendicitis and found, upon opening it up, that the body was full of cancer. Gorbachev himself has said that it has taken the leadership six years just to find out where things really stand. Taking these remarks into account, we can understand why things are so confused in the Soviet Union and why we cannot expect it to become clearer in a short time.

The old system has practically disappeared, but it is like a corpse that still has some reflexes and is still moving a bit. There is a political fight going on, undertaken by people who are children of the old system, to build something new out of its fragments. Not much has been built so far, but, the country has been half reformed in the sense that the old system has disappeared.

What about the reconstruction? What are the intentions of Gorbachev and his team? Do they have the right ideas? Not always, because they are children of the old system. They are, as they admit, in a permanent process of learning. Do they use the right political methods? Not always. They are making some mistakes, some real blunders. Do they really know how to put together a real democracy, a free market, and a civil society? No, they do not; they have to learn. They know very little about the mechanisms of a free market economy.

Are the Soviet leaders sincere? This question is frequently raised, particularly in connection with the so-called turn to the right made by Gorbachev last fall and in connection with the resignation of Shevardnadze. Gorbachev, with all his tactical movements, has kept to his line, and that line is leading toward democracy. This is going to bring about new institutions, a new structure of the Soviet Union which is supported by a consensus of the nationalities. In the creation of free market economy, in development of the rule of law, and in the emergence of a new mentality, there has been progress. The glass is no longer quite empty.

What is most important is that the attitudes are changing. The nation is no longer resigned in lethargy. Common people are beginning to grasp such ideas as what a free market economy means for them. People are discussing such things as buying shares in companies. A year ago that did not happen. And democratic freedoms, such as the freedom of discussion, have taken root. It has happened in a very spontaneous way, without any discipline, which is a problem, but in a way that is irrevocable. There can be backlash, attempts to turn the changes back, but this will always face great resistance. People know they want change. They don't know exactly what kind of change, and this is the job of the Soviet leadership to convey.

As for Gorbachev, he will be around for a long time to come. There will be others with him, and there will be fights in store, but he will remain.

Introductory Remarks
II.

As in the political and economic system in the Soviet Union, we are seeing the end of ideology in foreign affairs as well. There are still people who think in ideological terms, but the overwhelming majority are sick and tired of the old ideology. They know it hasn't worked and they are looking for something new. They haven't yet found it, and they are experimenting with different approaches. This has political implications both for Soviet internal and foreign policy.

It is also clear that, with all the formidable hardware still in the hands of the Soviet military (which is something the West must not forget, particularly the nuclear component), the fact is that the political feasibility of using this power directly abroad or even using it for serious threats abroad, has virtually disappeared. It is simply unacceptable domestically to in any way suggest that the Soviet Union might get involved directly in military action abroad. This was very clear in the Gulf crisis, where the most emotional issue was whether Soviet troops might at some point be introduced. The mere suggestion that there might be such a contingency would cause a public outcry at home. We must not forget that there is still immense destructive power in the hands of the Soviet leaders and their military lieutenants, but the political ability to use this power abroad is practically nil.

So what are the Soviet foreign policy interests? They are faced with the necessity of protecting their interests and security without the military dominance and threats they used in the past. This is Gorbachev's foreign policy, it was Shevardnadze's, and it remains Bessmertnykh's. The idea is that, if you cannot insure your security by military force, you better do it by persuasion.

We have been seeing this approach in the very radical changes in Soviet policy toward the Third World. And we have seen it most spectacularly in Europe. It is probably not correct to say that Gorbachev liberated Eastern Europe; he allowed it to liberate itself. He had the wisdom to see that he was unable to prevent it from happening, and it would have been counterproductive to try to do so. That is quite different from being part of his design.

Another aim has to be to secure economic support from the rest of the world, and we see these efforts going on now. To brandish the sword is not a very productive way of doing that, and the Soviet leadership knows it. There are a few marshals and generals who don't, but their views don't go very far these days.

Perhaps most important of all, foreign policy is seen as an instrument to try to prevent outsiders from bringing about the disintegration of the Soviet Union as a political entity.

The changes in Soviet foreign policy in Europe and in the Third World have been very encouraging. We have seen very rapid military disengagement, although there are still

some problems with respect to Cuba and some other places that need to be worked out. But the trend is unmistakable and the results are inevitable. The only question is how fast and under what circumstances will we see a Soviet withdrawal.

The Soviet leaders will continue to talk a lot about arms control, and this time they probably mean it as, internally, they really need agreements to show the people that they are getting something in return for negotiated concessions.

The debate about the Soviet Union is too often about false issues. One of them is, should we help Gorbachev? Of course we should not help any political leader. What we should be doing is supporting those forces which are in our interest, and happen as well to be in the Soviet interest. If these are part of Gorbachev's program, then we should not refuse support. On the other hand, if he wants something that doesn't make sense, we should not support it, just because he has presented it.

In general, our public debate has suffered from a rather indiscriminate and damaging placing of labels on people, such as putting a white hat on Yeltsin and a black one on Gorbachev. This simply confuses thinking about the issues, and we ought not to do it.

Another false issue is, do we financially aid the central government, or do we aid the republics? We should not pour money into the center, or into the republics. We should work with the Soviet Union, conditionally, as it moves toward convertibility, in creating a stabilization fund. It is not in our interests, nor in theirs, to see a replication of the state structure of managing the economy at the republic level, so we need to look beyond that sort of issue. We should also look beyond the idea that assistance is just money. Money is involved in assistance. But we should not feel that we are not doing our part if we are not throwing a lot of money at the Soviet Union.

This brings up the Marshall Plan analogy, which is not a good one. We face an entirely different situation. In the Marshall Plan, there was a Western European pump that was dry, and it needed priming. In the Soviet Union, the pump hasn't even been built yet. If you pour money in, it just flows onto the ground. Worse, if you pour it into the central state system, you preserve this clinically dead body, giving the impression that it might come alive again. That certainly would not be in our interests or theirs.

The Marshall Plan analogy is apt only in the respect that we need collectively to give very careful thought about how to have an integrated approach toward the Soviet Union and Eastern Europe. Eastern Europe is not going to be able to fully become a part of the world economic community if it does not have close economic relations with the Soviet Union. We have to try to bring them both along. It is not a question of giving priority to one or the other, but to the process.

There are certain bottom line issues we must keep in mind. The most critical one for the Soviet Union is to keep the process of opening up and democratization going. Without that, nothing is going to be possible. In the economic sense, this means to create those mechanisms that will make possible the movement toward an open market system in which the private sector will grow and eventually become dominant. We have to keep these strategic goals in mind and pursue policies which discourage backsliding and encourage moving forward.

Introductory Remarks
III.

There is a relationship between the reforms in the Soviet Union and the revolutionary change that occurred in Germany and Central Europe last year. In 1953, Soviet tanks were in the first line to crush the upheaval of the people. In 1989, it was probably Soviet troops who prevented East German security forces from killing people in the streets. If this had happened in the presence of Soviet troops, it would have meant the end of perestroika in the Soviet Union.

The reunification of Germany is an enormous undertaking. The Marshall Plan involved, in today's currency, DM 800 per capita. This year, West Germany is pouring DM 6,100 per capita into East Germany. The success of German reunification will be very important for the development of the new democracies in Central Europe, with a heritage of 40 years of socialism, and also, to some extent, for the Soviet Union. It can be added that, psychologically, the situation today is different from after the war because then, everyone had the same problems. There were no rich people. The problem in Germany today is there are two societies in one state that are 40 years apart. The people in Dresden and Leipzig don't compare themselves to people in Warsaw, Prague, and Moscow, but to those in Hamburg and Baden-Baden, and they feel bad about it. But these differences cannot be bridged in a short time. Our success in doing it will have great importance for the future international role of Germany.

Regarding the Soviet Union, the question is not whether Gorbachev will be around or not, but how long he will be around. That will make a big difference. If he had not been there two years ago, the revolutionary change in Central Europe, including Germany, probably would not have occurred, and we would not have 400,000 Soviet troops leaving Europe. It will make a big difference if Gorbachev stays in the future, and so we should concentrate on preserving what has already been accomplished in the process of reform in the Soviet Union, in spite of the enormous difficulties.

Assistance from the West should be applied in a way to help and support reforms, but not to postpone them or create a situation where they can be avoided. Certain kinds of assistance can give Soviet leaders some breathing space and take pressure off reforms. Much has already been accomplished in terms of arms control, cooperation in regional matters, the larger measure of openness in Soviet society, the breakup of the information monopoly, freedom of opinion, the right of self-determination, foreign contacts, and a more realistic assessment of the Soviet situation.

The reform process is in the interest of the West as a whole, and we should work to make it irreversible and more independent of the fate of individual Soviet leaders. It will be a long process that will require patience, perseverance, and flexibility on the part of the West. What is needed is a cultural change, from the perspective of Soviet and Russian history.

The reforms must be implemented from within. The West should use its imagination in looking for ways to support change toward a more pluralistic Soviet society. Much can be done in this area, quite apart from financial support. We should implement a comprehensive network of relations with people in the republics and local communities. For example, partnerships have been formed between cities, universities, institutes, sports and youth organizations, etc. in Germany and in the Soviet republics. These kinds of contact support and promote the overall process of decentralization.

We cannot expect a clear path toward parliamentary democracy. There will always be authoritarian governmental structures. But we can help build a functioning multi-party system, through which existing power structure can be changed. Democratic movements and formation of parties should be encouraged and supported.

The assistance needed to reform the Soviet economy can only be provided through a global cooperative effort. We will need a joint effort involving Europe, the U.S., and Japan. A normalization of relations between the Soviet Union and Japan is, in this context, in the interest of the West as a whole. Without Japan's financial strength and economic potential, a breakthrough to a market economy in the Soviet Union is hard to imagine.

There is a necessity to expand the advisory functions and information exchanges already being carried out at the governmental level, and there should, in particular, be a strong expansion of training programs. A joint training offensive on the part of Western industrial nations will be needed in many areas to help those who are interested in reforms in the Soviet Union.

It is also very important that the West use its influence to see that peaceful negotiations that are legal and based on mutual consensus are carried out between the Soviet government and the republics. A decision on the distribution of rights and responsibilities between the Union and the republics is urgently needed.

By continuing the arms control process and maintaining secure defenses, the West must insure itself against the risk of failure of the Soviet reform process and the resulting instabilities. The economic crisis in the Soviet Union is putting its military procurement programs under severe pressure. At the same time, the Gulf War demonstrated the technological inferiority of Soviet weapons systems. This dilemma is making further constructive cooperation on arms control a necessity for the Soviet Union. The West should make use of this situation to continue the arms control process at all levels.

Even after the implementation of agreement on conventional arms control in Europe, and even with a new European security structure, the Soviet Union will continue to have the largest land force in Europe and will continue to be a nuclear and naval superpower. Thus, NATO will continue to be indispensable as a guarantor of security in Europe. The West will have to continue to spent a lot of money for weapons, but spending money on the support of reforms in the Soviet Union and on support of new democracies in Central Europe will also enhance our security and will be money well spent.

Discussion

The "grand bargain." The discussion began with a discourse by an American participant on the proposal for a "grand bargain" between the U.S./Western Europe and the Soviet Union on behalf of the transformation of the Soviet Union. The speaker made the following remarks.

What is necessary at the Union and Republic levels is a sustainable commitment to and the day-to-day implementation of a coherent program of transformation—not just more pronouncements, laws, and organizations. With or without Western assistance, the Soviet leadership and the leadership of the republics should undertake these measures:

- Ownership of private property.
- Stabilization of the macro economy, meaning sharp cuts of more than 20 percent of GNP, cuts in defense expenditure, cuts in subsidies to military enterprises and other state industries, and successful control of the money supply.
- Liberalization of prices.
- Privatization of enterprise.
- Normalization of trading practices.

Implementation of these actions would involve hundreds of specific steps, including, in 1991:

- Doubling of private plots provided to families on collective farms.
- Announcement to sell no less than half of all farmland to collective farmers or others in 1992.
- Complete and rapid privatization of all small enterprises in the Soviet Union.
- The sale of not less than half of all state trucks, cars, and tractors to private citizens.

- Cuts in non-salary subsidies of defense enterprises by an additional third.
- A freeze on the adoption of new social spending programs at the Union and republic levels.
- Cuts in other budgetary expenditures in the second half of the year based on new emergency budgets for the republics and the Union.
- Rapid liberalization of prices on broad categories of luxury goods and consumer durables.

The transformation in the Soviet economy that these steps and subsequent actions would represent can only be fully realized with the accompanying transformation of the Soviet political system. The magnitude and difficulty of the economic and political reforms are unprecedented. The initial responsibility for carrying out this transformation to democracy and a market economy rests with the Soviet people and leadership, not with the West. The transformation will require unflinching commitment on their part. But too much is at stake in both strategic and moral terms for the West to stand aside hoping for the best, but expecting much less. The steepness of the path Soviet leaders must follow, the degree of pain, and the severity of the risks—including that of catastrophic failure—depend critically upon the extent of Western engagement. Money is neither the first requirement nor the last. If the West were now to put a bag of billions on the table, failure would be assured. As Secretary Baker said, there should be no big bang at the outset. Instead, Western aid should be incremental and strictly conditional on the adoption and implementation of democratic and economic reform programs. Western aid should go forward in a grand bargain of step-by-step mutual engagement. This means the West would provide large-scale assistance if the Soviet leadership pursues a real program of transformation. If it does not, then aid would not be provided. The West would be called on to provide about $20 to $30 billion per year for the first two or three years. The money would come from the governments and the international lending institutions, and the amount is based on an extension of the calculations presented in the Joint Report on the Soviet Economy by the World Bank, IMF, OECD, etc.

Some have said the Soviet Union is a rich country and should go it alone. Technically, over a long period of time, that is possible. All the changes could, in principal, be introduced in the Soviet Union without financial or technical assistance from abroad. However, radical economic reform in a situation like that in the Soviet Union, where output is already declining very rapidly, would produce massive economic dislocation, a collapse of investment and output, and extremely sharp declines in consumption. Under these conditions, the reform program would probably not be politically sustainable, and economic and political disintegration and chaos would likely follow.

The Soviet Union is indeed at a historic crossroads. Many believe the West can do little or nothing to affect the outcome of the domestic struggle. This is wrong and defeatist. The West's preeminent interests are engaged in the future of the Soviet Union. Western policies should display a vision and energy which clearly defines that fact.

The survival of Gorbachev. Much of the discussion centered on the person of Gorbachev, and the degree of importance that should be attached to supporting his survival at the head of the Soviet leadership. An Austrian speaker reported that it was the opinion of a high-ranking Soviet official that it would not make a great deal of difference whether Gorbachev or Yeltsin were the Soviet leader. The same problems would still be there if Yeltsin's and Gorbachev's roles were reversed. An American argued that the political fates of the two men were intertwined; neither one could survive without the other, as they both had apparently started to realize. A German added that Yeltsin could probably not survive alone on center stage in light of the reactionary forces. The combination of Gorbachev and Yeltsin was probably a good thing.

A speaker from Turkey pointed out that, in his experience, the Russian people had been able to see little difference between the Czars and the Communist rulers, until Gorbachev came along. He was different from his predecessors and ought to be supported by the West, not for himself, but for the ideas he represented. It was an American's view that, in light of all the problems in the Soviet Union, it made a difference how long Gorbachev could influence the process of change, and that was why the West ought to support him.

The state of the Soviet economy. Several speakers expressed concern that the Soviet economy was "on the verge of a total collapse," as a Frenchman put it. Enlarging on this theme, an American likened the Soviet economy to "an erector set composed of many pieces connected to form one large apparatus." If one piece were removed, the whole thing would fall apart. There certainly was the possibility of rapid economic deterioration. There had not yet been much real reform, rather "a lot of talk about how to get there." There were some new themes being talked about, like private property, but little evidence of a readiness to undertake drastic measures. Perhaps, the speaker suggested, Pushkin was right when he said Russia would take 500 years to catch up with the West. In any event, the West should not have very high expectations about the pace and extent of Soviet reform.

A Canadian agreed that not much real progress had been made in reforming the Soviet economy. The country was still ruled by Communists; there was still great resistance to private property; and a huge share of Soviet GNP was still devoted to military spending. A German participant worried about the effect on financial markets, banks, and governments around the world should the Soviet Union not be able to service its debt and fulfill its financial obligations. Normally, a country in the poor economic shape of the Soviet Union would apply to the IMF for assistance. It could reasonably be expected that the Soviet Union would soon apply for IMF membership, and this would present a very complicated situation. Who would become the IMF member? The Soviet Union or the republics? Economically, the Soviet Union was closer to a developing country than a developed one.

Elements of Western assistance. There was much discussion about the scope and form of Western assistance. A Swede expressed the view that the West had achieved rapid economic growth because it had established property rights and a judicial system that fostered the development of free markets. The Soviet Union was unlikely to get anywhere until it established property rights, along with land and capital reforms. One approach to achieving this would be to encourage the Russians to introduce a Western style judicial system by relieving the Soviet debt burden.

An American supported this approach, saying that the West ought not to be too sophisticated in giving the Soviet Union economic advice. A three-point plan was necessary: protect private property, enforce private contracts, and a free market would follow. A legal and moral foundation was necessary for a free market economy. If the West forgot that, it risked giving the Soviets counter-productive advice.

Another American speaker urged the West to look very hard at what types of assistance might or might not advance the goal of Soviet reform. Massive Western aid, even conditional on certain things, was not likely to be productive. It would be counter-productive to lead Soviet leaders to think that massive Western aid would follow economic reform. In this regard, a German added that a Soviet official had remarked to him that "even $500 billion worth of Western aid would not help." The job of economic and political reform was up to the Soviet people themselves. This statement drew several concurring interventions, with speakers emphasizing the need for support of the development of human resources, through such measures as technical assistance and cultural exchanges.

Obstacles to reform. A number of participants expressed doubts about the capacity of the Soviet people to move to a free market system. A Greek thought it would be challenging to teach them to respond to free market principals when they had lived for 70 years under "an oppressive regime with a centrally planned, rigidly stratified economy." A Canadian felt that the West tended to underestimate the degree to which ordinary Soviet citizens had "absorbed the principals of egalitarianism and the degree to which they resented the enrichment of others." This "anti-mercantilist spirit" had roots going back before the Bolsheviks came to power.

An American agreed with this assessment, saying that Soviet leaders were struggling with centuries of attitudes that were inimical to private enterprise. Gorbachev had recently observed that, in the West, a person who worked hard and made money was admired; in the Soviet Union, such a person was considered a criminal.

In spite of this, said a German speaker, one should not forget that there was a functioning market economy in the Soviet Union—the black market. The question was how to legalize it and make it part of the whole Soviet culture.

An Austrian was struck by what he called the "lack of a countervailing power" in the Soviet Union. Without such a force, economic and political reform could not take place. What would be the nature and shape of the countervailing power in the Soviet Union? What was the equivalent of the U.S. Congress, the New York Times, or General Motors?

The issue of the republics. Several participants spoke of dichotomy between the reform process in the Soviet Union and in the republics. Of particular concern was the question of the Baltic states. A Norwegian wondered if the West should directly aid and invest in these states. An American felt that the Baltic states had a special status unlike other republics, and that the West ought to support their right to independence.

A speaker from Greece worried that the West's initiating economic and other relations with the republics would "help create the forces that would bring about the downfall of the Soviet Union." An American agreed that the question of the republics presented a real dilemma. The process of going from a centrally planned to a market economy was a painful process requiring central authority. If the Soviet Union attempted to establish authority democratically, it would surely lose many of its republics. If it tried to establish authority by repression, it would lose the possibility of outside support.

The only course for the West to follow, said a German, was to first support the Democrats in the center, and then to support those in the republics, but not in a way that would be an outside stimulus to disintegration of the union.

The Western objective. An American questioned whether the West really knew what kind of Soviet Union it wanted to see. Much had been said about not weakening the Soviet Union, but, in the light of 400 years of Russian and Soviet history, was it necessarily in the Western interest to have a strong Soviet Union? To this, a Frenchman responded with the question: would the West's interests be better served with a Soviet Union that was in total economic and political collapse? One speaker suggested that the Soviet Union could potentially become a Lebanon on a grand scale. What the West needed, added a German, was not necessarily a strong Soviet Union, but a stable one, because "an unstable one would simply fall upon us."

Another American opined that the West tended to address the Soviet Union much as a parent would address a "rebellious child who had rejected the parent's value system and whom the parent was now trying to bring back into the family." The West should avoid this approach and really decide what its goals ought to be. The primary one, offered the speaker, should be to have a drastically reduced Soviet military capacity. From that objective would follow the question of how best to achieve it and through what kinds of assistance. In other words, it was better to think in broad terms than to get "bogged down in details."

A German agreed that it was "philosophically wrong and politically a mistake" to be paternalistic toward the Soviet Union. The West had to approach the Soviets tactfully, not by offering big plans, but by asking them what their own plans were. No plan could succeed if it were viewed by the Soviets as a dictate from the other side.

An American concluded the discussion with the exhortation that the West put its collective heads together and think through the issues that surfaced in the discussion. We had not yet begun to focus on these issues in the most useful way, nor to think ahead. We had to remember that the West could not impose its own standards upon the Soviet Union.

III. THE MIDDLE EAST: POLITICAL FALLOUT AND FUTURE PROSPECTS

Background Paper

I. Introduction

1. The Gulf crisis was presented as the first great test case of the post-cold-war era. The results of this test can not be fully judged for some time. The primary objectives of the coalition were achieved but the post-war situation is confused and fluid and this makes it unwise to offer quick judgements. Equally, because the new era contains so many dynamic elements, it would be unwise to assume that the Gulf saga sets a pattern for all future international crisis management or that it represents the first stage in the construction of a 'new world order'. Nonetheless, as so many aspects of the events that were set in motion by the occupation of Kuwait last August were unprecedented, their examination should at least provide us with some clues as to the workings of the international system at its latest stage of development.

2. This paper is in three parts. The first describes, in very general terms, some of the major systemic changes of the past few years and their implications. The second part illustrates these features at work in the buildup to the war and its aftermath. The third part draws some conclusions from this experience for the European Community.

II. The new international system

1. Prior to the Gulf crisis there were many who believed that with the end of the cold war, western countries could settle down for a quiet life, as if the evaporation of the most formidable strategic threat would allow engagement in the affairs of the rest of the world as a matter of choice. The turmoil in Central and Eastern Europe, as well as in the Soviet Union, always made that unlikely but the events of the past ten months have confirmed that the West is caught in a web of international expectations and responsibilities from which there is no easy escape. The basic challenge is no longer one of confronting a great adversary but of coming to terms with pre-eminent power.

2. The years which saw the start of the cold war also saw the start of the anti-colonial movement. Arguably the two ended together. The last Western Empire—the Portuguese—collapsed in 1974. Now the Soviet Empire is fragmenting, with the post-1945 acquisitions liberated. This fragmentation has not quite run its course, but already one of the consequences of the revolution of 1989 has been to increase the number of truly independent states to add to the many that have entered the international community over the past 45 years.

3. This means that all the categories through which international politics has been habitually discussed must be reappraised. The idea, for example, that because the East-West conflict has now been transcended the North-South conflict will rush to the fore, is contradicted by the diversity and complexity of the 'South'. States which were once bound together by a shared anti-colonial impulse now find other issues much more salient while the banner of 'non-alignment' is less relevant when the alliance system has become so less significant in the politics of the 'North'. Nor does there seem to be much point in talking about the 'third world' when not only does it now contain so many disparate and often conflictual elements, but the 'second world' has collapsed.

4. The world is no longer characterized by bipolarity, but what has replaced it? Certainly not the multipolarity rooted in the 1970s which posited Chinese and Western Europe increasingly asserting themselves independently of the United States. Nor, despite American leadership during the Gulf crisis, is this now a unipolar world. The United States

is much more of a superpower than the Soviet Union but its less than commanding role in the international economy means that its power is not *that* super. During the crisis it looked to others to help subsidize its military contribution and took care throughout to be seen to be working as part of an international consensus.

5. The collapse of the Soviet pole has had a dramatic effect on the world's political magnetic field:

i. In the past the Western pole(s) were oriented towards the Soviet pole. Its decline leaves the West disoriented. Awareness of Soviet global power guided Western policy in terms of both selecting areas of special interest and accepting limits on intervention.

ii. In the past the West could disregard the needs of Central and Eastern European countries because they were firmly in the Soviet sphere. Now they seek entry into the Western sphere.

iii. East-West antagonism meant that the United Nations was liable to be deadlocked on key issues. For the moment this is not the case, although whether a Soviet Union suffering from inner turmoil will prove easier to deal with than one which was simply hostile remains to be seen.

6. The most critical feature of the current scene is the pre-eminent position of the three poles of the political 'West' —North America, the European Community and Japan (politics and geography get hopelessly confused by these labels). Contrary to the speculation of some of the gloomier international theorists, by and large these appear to be poles of attraction rather than rejection, although this is obviously less so in the economic than in the security sphere.

7. Each of these poles acts as a regional magnet—the United States for the countries of Latin America and the Caribbean, Japan for East Asia, and the European Community for Central and Eastern Europe and, to some extent, North Africa. In each region political life appears no longer as a dialectic between imperialism and national liberation, or capitalism and socialism but of order and disorder, with the relatively orderly states by and large characterized by liberal democracy and market economies (although we must take care in disentangling cause from effect here) and the disorderly suffering from fragile economies and often deep social tensions.

8. For each of the 'Western' poles the main priority lies in its own region. They will feel the most direct effects if disorder takes too strong a hold in their immediate environment. This explains the US preoccupation with Central America. It also indicates the challenge for the European Community in its encounter with a neighborhood where there was a rigid order in the past but where now there is increasing disorder.

9. A number of regions are outside the immediate influence of a Western pole. Some of these are generally well ordered and fully integrated into the international community but others are not. The most problematic areas are South Asia, Africa and the Middle East. These areas have inherent tendencies towards disorder. In the policies adopted by the orderly world to the disorderly there will be a varying mixture of self-interest and moral obligation. The nature of this mixture and its effect on policy-making is critical in orienting Western states to the new international system.

10. By definition, the disorderly parts of the world are awkward places in which to get involved, especially in military terms. 'Realists' warn of the perils of intervention—of getting sucked into quagmires of regional conflicts where our allies are likely to be corrupt, our interests vague and insubstantial, and our best intentions wholly counter-productive. The old reasons for intervention—to block the strategic advances of the Soviet Union or an associated Communist insurgency no longer serve. Nor is the smooth functioning of the international economy so much at risk from regional conflicts as is commonly supposed. Even in the Gulf the implications of Iraqi hegemony for the oil market were ambiguous.

11. Nonetheless, the commanding position in which the West finds itself limits its scope for steering clear of regional conflicts. Past rhetoric and proclaimed values mean that it is difficult for the Western countries to disregard those international problems in which the West has no obvious interest. Public opinion is also a factor here, and we have had a recent example of the role of the media in alerting populations to developing crises on which it thinks some action ought to be taken. It may only be that regional disorder poses a direct challenge to Western interests when it occurs close to one of the Western poles, but one should not underestimate the impact of images of distress or evidence of minority persecution to move policy, nor of the difficulty of ignoring gross breaches of international law.

12. Paradoxically it is easier to avoid enervating entanglements by strengthening international institutions and their norms but this process requires, as we saw in the Gulf, a readiness to intervene. It is easy to be cynical about this sort of intervention by pointing to precedents in which the norms were not enforced. But this course leads only to erosion of the authority of the institutions. If Iraqi aggression had not been so blatant, then no doubt plenty of reasons could have been found to ignore it. As it was so blatant then, to let it pass would have been to acquiesce in the breach of the most elemental of all international norms. Now the case law is positive rather than negative. By taking action in the Gulf to reverse and punish aggression, a precedent for intervention elsewhere has been created. Perhaps more important, a precedent has also been created for humanitarian intervention to protect a persecuted minority.

III. The Gulf Experience

1. The former fear of intervention was based on involvement in protracted civil and colonial wars in which Western states seemed to be working against the tide of both local and international opinion. More recently, rather than get directly involved, the preference has been to support friends indirectly through training programs and arms transfers. The problems here have been that arms sales have a commercial aspect that can override political judgement, which is anyway often dubious because of the fickleness of friendships in disorderly regions. Attempts to exert influence have increasingly come to depend on economic measures—access to Western markets and various forms of assistance in return for political favors and the denial of these and possibly sanctions in response to unacceptable behavior. The problems here have been the adverse consequences for business and financial communities who have been reluctant to suffer for the sake of foreign policy and the unconvincing track record of using economic carrots and sticks for diplomatic purposes. An additional instrument is to downgrade or break diplomatic relations, but this has been largely symbolic and has often proved complicated to reverse even when the immediate upset has passed.

2. It is of note that in the Gulf, when it was possible to agree on substantial measures against Iraq, diplomatic relations were not broken until the war and then formally only by Iraq. During serious crises, forms of communication are essential if there is to be any hope of a diplomatic settlement.

3. Economic sanctions were implemented right from the start and enforced more rigorously than ever before. Not waiting to see whether they could work by themselves, disappointed those who saw this as the best opportunity ever to demonstrate their value in policing the international system. In the end, sanctions were not judged to be sufficient in themselves to force Saddam to back down, at least during the time frame in which it would also be possible to sustain the complementary political and military pressures, without which the sanctions themselves could not be maintained.

4. Sanctions would probably have been more effective if linked to a more promising diplomacy: there was little obvious 'middle ground' upon which to build a deal. Nonethe-

less the influence of sanctions should not be disregarded: an international coalition could be forged around them in a way that would not have been possible in a rush to armed force, and this was also the means by which the United Nations was drawn into its central role. Five months of the embargo undermined the ability of Iraq to sustain a long war. A continued embargo provided the main means of exercising influence over post-war Iraq.

5. It was the blatant nature of the Iraqi aggression which created a political context so supportive of intervention. The intervention was:

- At the request (albeit with a little coaxing) of most of the key Arab states affected by the invasion.
- Supported by a variety of direct and indirect military and financial contributions from many states.
- Endorsed by the UN Security Council.
- Against an enemy which lent itself to being demonized.
- Conducted in conditions which played to the West's comparative military advantages.

6. It should not be supposed that all these conditions will apply in the future. Without local regional interest and burden-sharing arrangements, it is unlikely that Western states, and in particular the US, will be very adventurous in the future. While future adversaries may be less primitive than Saddam Hussein, it is probably also fair to assume that action will only be taken against a regime behaving in an unusually outrageous manner. This leaves two questions: the role of the United Nations and the value of direct military action.

7. The prominent role of the United Nations was helpful but was by no means an anticipated feature of the crisis during its initial stages, and a formidable coalition could have been built outside of it, although its role was significant domestically in all Western countries. This role was made possible by active cooperation with the West by the Soviet Union and more passive acquiescence from China. Whether these conditions will obtain in the future depends upon the general state of political relations with these countries and their own internal development. Uncertainty on this latter point helps explain why even in current circumstances they are clearly unhappy with sanctioning measures which could be seen to violate the principle of 'non-interference', as with the protection of the Kurds.

8. The resort to war followed Saddam's failure to take the Western threat seriously enough: he underestimated Iraq's ability to absorb air attacks and overestimated the pain and political confusion that his forces could inflict on the coalition. This latter point was the key to Iraqi strategy and was supported by the American fear of high casualties.

9. It may well be that, buoyed by the success of Desert Storm, the American public in the future will be more ready to let its governments take military risks. However, without detracting from the skill of the coalition operation, it is important to note the advantages its members enjoyed: deployment to a country that was essentially a large gasoline station, with excellent ports and airfields, time to gather intelligence and prepare full plans, an enemy isolated, enfeebled by sanctions and badly led, complete air superiority and high-quality ground forces. This does not mean that without all these factors the coalition would have lost but each one certainly helped.

10. One of the objectives was to undermine Iraq's capacity to develop weapons of mass destruction. This leads to inevitable speculation of the 'what if Saddam had the bomb' variety. It will take some time before Middle Eastern states are able to pose serious mass destruction threats to the homelands of Western states: the threats they pose are to each other and, perhaps, parts of the Soviet Union. For the time being vague threats of terrorism are more likely. Proliferation tends to follow evident great power disinterest in the security of particular regions (i.e. South Asia) and then reinforce this disinterest. This is likely to confirm the tendency to take military risks only in the event of blatant breaches of international norms rather than in the pursuit of more ambiguous political interests.

11. The war was followed by involvement in what might have been expected to be the 'quagmire' of an Iraqi civil war of uncertain duration. Though the involvement is of a circumscribed nature, and carries few risks of casualties, it has illustrated the political complexities normally associated with this sort of activity including local suspicion, UN resistance and problems with defining objectives.

12. A moral case can be made to support any intervention in aid of a persecuted minority. However, the West is likely to insist that the Kurdish issue is a special case and creates no precedent. Civil wars and persecuted minorities in the disorderly parts of the world may prompt sympathy but little action. The conditions of a sense of responsibility (reinforced by striking media images) may not obtain. Nonetheless where there is evident distress in the neighborhood, countries of the Western 'poles' may find it harder to keep disorder at arms length than they currently suppose. This is especially true for Western Europe.

13. At issue is the redefinition of the Western sphere of influence in the post-cold-war era. For reasons of both interest and locale it seems inevitable that the Western countries will be drawn into regions in which prudence might suggest that they keep well clear. The Middle East is one such region. This is not the place to enter into an extended discussion of Middle Eastern politics. Suffice it to say that here we have a number of illustrations of the problems attendant on any attempt to introduce order into disorderly regions—persuading local actors that high-risk policies are justified by the requirements of a general regional stability, defining regional stability in an area marked by a collection of intense, long-standing and cross-cutting conflicts (of which the Arab-Israeli dispute is but one), accepting that a close political engagement in the problems of a region needs to be backed up by both economic and political commitments.

14. The precedent of international action against aggression is powerful and should continue to be influential. But such crude actions are likely to be quite exceptional: it is more likely that challenges will stem from messier and more ambiguous internal upheavals in particular states. In this sense the more significant precedents may be found in the later stages of the Gulf saga. The action to help the Kurds reminds how Western countries can find themselves with little choice but to become active participants in events that are not clear-cut and contained.

IV. Europe

1. This last point can be explored further by examining the European performance in the Gulf. Because the Gulf Crisis took on a military dimension almost immediately, with the US announcement of the dispatch of forces to Saudi Arabia, the issue was posed to Europe in terms of whether or not to follow an American lead. The Europeans had already signalled that they took the problem seriously by moving swiftly to impose sanctions. They had little choice but to accept the American judgement that the crisis carried further military risks that could only be deterred by active steps from the West. Because there was no mechanism for generating a common European force, the response was inevitably patchy. In these circumstances it was difficult to develop a European diplomatic effort that was both distinctive and constructive. A lukewarm response to the American lead threatened to reduce Europe's weight in coalition deliberations, while a separate and ostentatious diplomatic effort would either be designed to convey the agreed coalition message, which would be pointless, or to convey a different message, which would risk a split in the coalition.

2. The Iraqis showed little interest in Europe, assuming that the key to an agreement lay in Washington. If the Europeans were following the American lead, then there was no point in talking to them. The use of the UN drew Britain and France into a special role in which they could not always share the secrets of the Permanent Members' deliberation with their colleagues and had to accept an obligation to UN resolutions.

3. The one area in which a distinctive European impact was possible was the 'linkage' with the Arab-Israeli conflict. The European Community view had long supported a negotiated solution involving the PLO in the context of an international conference. This contrasted with the view of the United States, although less so in 1990 than previously. There was a sub-theme, reflecting the presumption that for reasons of history and geography, Europeans understood the Middle East better than the United States. This was deemed especially true in connection with the Arab world, in which Europe had special interests, and led to a stress on the Euro-Arab dialogue.

4. European diplomacy up to 16 January 1991 is best viewed not so much as a search for some means of appeasing Saddam, but of preserving this long-standing position and seeking to demonstrate its validity. This was a particular feature of French policy and was pursued up to the last minute. There was never any evidence of Iraqi interest in an international conference in the form in which it was presented. Something far tougher on Israel would have been needed before any sort of fig-leaf for a withdrawal from Kuwait.

5. When the war came, the divisions within Europe were aggravated. Britain and France worked closely with the Bush Administration in managing the diplomatic aspects of the conflict while their forces came under American command in the field. Germany saw the biggest protests in Europe against the war. The German government was obliged to demonstrate its support for the coalition and also moved to support Israel following the Scud attacks—aware of the importance of German technology in the development of Iraqi terror weapons. There were not serious European initiatives during the course of the war.

6. Aware of this, the April European Council meeting in Luxembourg had been intended to discuss how the Community could improve on this dismal collective performance. Instead they took the opportunity to take an initiative to relieve the plight of the Kurds then attempting to escape from Saddam's vengeance. The US was dithering in the face of a problem that had not been fully anticipated. The 'safe haven' idea was circulating before it was proposed by John Major and France was already pressing for action. But by using the Community for this initiative, Major was breaking with past British practice. As one European official remarked at the time: 'The Kurds saved the summit so we must save the Kurds'.

7. Eventually, the United States accepted the logic of the proposal so, in effect, the achievement was to help decide an American debate. If the United States had decided to keep clear, then there would have been little that the Europeans could do. As in the war, the United States was the dominant contributor to the relief effort.

8. In the post-war Arab-Israeli peace process the European role has been limited. Whether the Community should play any role at all was one of the issues on which Secretary of State James Baker was having trouble with Prime Minister Yitzhak Shamir. The suspicion with which it is viewed by Israel means that it cannot play an obvious brokering role. By the same token, it is looked on favorably by the Arab world and can be a preferred Western interlocutor to the United States. Iran, too, has indicated that it will find the Community easier to work with than the United States. This can all be used to advantage in a Western diplomatic division of labor but it also indicates the limits on the Community's ability to act in opposition to, and even independent of, the United States.

9. Can the Community's performance be improved upon in the future? Proponents of a common European defense and foreign policy have two tasks. The first is to convince governments that progress is to be measured by the gradual surrender of the prerogatives of national security policy-making to the Community. The second is to stake out the Community's claim to be an effective instrument of security policy.

10. The standard argument against this, in terms of preserving the sovereign rights of Government, misses the point. Single European states can no longer expect to cope alone on most security issues: the exertion of international pressure and influence requires close cooperation. The problem for the Community is to demonstrate that it is the natural agency for cooperation in this area. NATO, WEU, UN, CSCE, Council of Europe and so on can all claim a competence as well as the EC, and this makes inter-institutional relationships complicated—as if a competitive 'balance of institutions' is taking over from a 'balance of power'. In practice the individual institutions can only be made to work through the input of governments. Europe's rich, complex institutional framework offers individual countries a choice for particular crises. It can be reworked in a variety of ways depending on the nature of the crisis.

11. For the moment the most obvious area for the Community to take a leading role is not with the Middle East but with the post-Communist states of Europe, for this is after all the Community's neighborhood. The general presumption here—how warranted remains unclear—is that the problems of Central and Eastern Europe are now best handled by political and economic measures, with military involvement best avoided. Again this should suit the Community for it already has the competence to take decisive political and economic measures. Its economic strength and cohesion provide a major source of leverage.

12. Yet even here the Gulf experience encourages a degree of caution. On the 'sticks' side existing arrangements made possible swift adoption of economic sanctions and proper enforcement. On the 'carrots' side the Community (and individual states) also sought to play a role through outlays of loans and grants. This came with payments to Turkey, Jordan and Egypt who had been suffering from economic fallout after the imposition of sanctions; support to Israel as compensation for its restraint in the face of SCUD attacks; assistance to the Kurds. In the first two cases the package proved to be complex in terms of the balance of loan and grant and contribution for the budget from individual states, but also politically because of Greek unhappiness with support for Turkey and then the need to balance help for Israel with some for the Palestinians. The third case was simpler and agreed with appropriate haste but it exhausted the budget.

13. One lesson from this might be that the Community needs to streamline its procedures for economic crisis management. There is, however, a deeper problem. The Community's most substantial bargaining card is the offer of access to its internal market. It is this that is going to make the most difference with Central and Eastern Europe: it could become a major factor in Israeli attitudes towards the Community. Unfortunately access to Community markets for textiles and agricultural goods clashes with protectionist instincts. This is an example of how an imaginative external policy requires an imaginative approach to the Community's internal structures.

14. Given these problems with the economic basis of the Community's international role, which is supposedly quite mature, what can be expected of the military basis?

15. Whereas with economic measures the Community is the natural institution through which to introduce and then implement any national initiatives, with defense there are a number from which to choose. The current idea is for the EC to integrate the WEU in some way to develop an 'out-of-area' capability. Institutionally this is just about possible although it requires shifts in membership, carries a severe risk of marginalizing Turkey, and would necessitate building up the WEU far beyond its current competence. All this may only be to create an illusion of an independent capacity: in practice the issue with a rapid response force is whether it is European forces with US logistical and intelligence support (as with the UK in Falklands or France in Africa) or whether it is a combined US and European operation (Gulf/revived Soviet threat in Europe). There are still major structural limitations to the formation of a European force. The prohibition on the use of conscripts meant that France was only able to field a disproportionately small force in the Gulf compared with its total capabilities. Germany is considering a constitutional amendment

but this issue has been postponed and—if agreed—would only allow operations under the aegis of the UN.

16. Unless there can be a common response in terms of a contribution to European defense policy, it seems unlikely that those taking the lead in terms of provision will not also expect to do so in terms of policy design and liaison with the US. The main institutional mechanism for coordinating Western responses to crises beyond Europe (in which NATO appears to be unable to act) remains the UN, and this puts Britain and France in a special role. The bloc approach may anyway be unsuitable for crisis management, which requires intensive 'insider' diplomacy and swift and decisive decision-making. The US has expressed a fear that an EC grouping will turn NATO meetings into replays of GATT by entering with an agreed position which, it will explain, must be respected because it represents a delicate compromise which allows no room for maneuvers.

17. When there have been blatant breaks of international law, whether with the Falklands in 1982 or Iraq in 1990, then the Community can move quite swiftly. However many issues are much more complex in both the principles and interests at stake as well as the detail. Different members of the Community are touched in different ways. This can be problem enough even when it comes to short-term measures but creates even greater difficulties when it comes to longer-term commitments.

18. The argument of this paper has been that the West's challenge for the coming decade is to come to terms with pre-eminent power. As the 'pole' currently experiencing the most dynamic change, Western Europe will face the greatest problems of adaption. The reforms in attitude and behavior as well as in institutions will be forged in response to specific crises. The end of the cold war means that it is no longer possible to offer a 'vision' of the European Community except in relation to its immediate environment and its wider responsibilities.

19. The current vogue for institution-building in the security sphere may be a distraction. It reflects the assumption that the post-cold-war era can at least match the cold war on durability and stability, while scoring higher on democracy and economic growth. The metaphors with which the new order is discussed reflect this yearning. The new order is being 'constructed', it has an 'architecture', the 'foundations' must be strong. There are 'pillars'—even a 'common European home'. But if we make 'stability' the central strategic value of the new age as it was of the former, then we are doomed to continual disappointment. So we must learn the creative opportunities as well as the dangers inherent in perpetual instability and judge policies and institutions by metaphors of movement—flexibility, agility, resistance and pressure, pushes and drives. Judged against these criteria the European Community's common security policy has a long way to go.

Introductory Remarks
I.

An awful lot of books are going to be written about how the last nine or ten months changed the world. It is more interesting here to ask how the events of the last nine or ten months changed the Middle East and the Gulf.

If one looks at the Gulf before and after, there are several things one could point out in the way of contrast. If one were going to observe the principal characteristics of the Gulf before last August 2nd, one would see a situation where the United States and what ultimately became much of the coalition had very little in the way of a real defense capability. It was more planned than real. Second, one would see the growing proliferation not simply of conventional arms but also of unconventional arms: chemical, biological, and nuclear, as well as ballistic missiles. Third, as of the summer of 1988 and the end of the Iran-Iraq war, one saw clearly an increasing reality of what might be described as Iraqi primacy in the Gulf, against a backdrop of fairly regular conflict. There were largely authoritarian societies with very little market economics and very little trade among them. That was really the Gulf that Saddam Hussein decided to change. This was a set of issues that I think we are beginning to resolve.

Let us look at the principal characteristics of the post-war Gulf. First, security arrangements between the United States and its coalition partners in the region, and more generally security arrangements overall, are probably somewhat better. One has the United Nations force on the border between Iraq and Kuwait. Second, after a bit of indecision, we are going to have an Egyptian and Syrian presence in Kuwait. Third, there will probably be a strengthened Gulf Cooperation Council, particularly in the area of air defense, which is where the GCC really did contribute militarily during the conflict. And fourth, there is now an enhanced American ability to interact with these countries in a defense structure. Overall, on the side of the blue team, if you will, things look better.

On the side of what was the red team (the Iraqis), thanks to the war and to Resolution 687, there is in place a mechanism that will clearly prevent the re-emergence of an Iraqi threat. One begins with the fact that thanks to the war, Iraq is in no position any more to project military power significantly beyond its borders. So the biggest threat has been removed, and the ability to deal with whatever threats *do* exist has been built up.

There is now in place a new arms control initiative. There will be a meeting within a month in Paris with the five countries most involved with providing arms traditionally to this part of the world. So, while cooperation among the regional states themselves is probably some time off, cooperation among the would-be suppliers is not in any way a pipe dream. And there have been some changed ways of looking at this part of the world, and as a result, there will be new opportunities to reduce the flow of technology and weapons.

Societies have been shaken up—not simply Kuwait but others—and there will be some new pressures for reform in terms of domestic policies as well as economics. Whether this pressure for reforms translates into opportunities is uncertain. Kuwait will be the most interesting place because of what it was before, because of the trauma. If things do work out even partially, it could become something of a model for some of the other states.

If one were to add all this together, one would end up with a picture of the Gulf that was, in a glib phrase, not transformed but improved very much by the last nine or ten months in terms of the prospects for stability. There still remains however the problem of the Arab-Israeli conflict, which has a spill-over effect. There is still a question of Iraq's reintegration into the region. There is the question of Iran's intentions. So it is not solved, by any means. It will continue to be a theater for the United States that will be more problematic than in either Europe or the Asian Pacific, in part because of geography, in part because of the multiple crises, and in part because of the still relative weakness of the Allies. It isn't going to be easy, but then it never has been.

Over the last three months or so since the shooting stopped, there has been a certain tendency to dwell on some of the problems that continue to exist in this part of the world. While these problems are real, they pale in comparison to what would have been the problem had it not been for the success of the past nine or ten months.

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Turning to the Arab-Israeli question, what the U.S. is trying to do in a nutshell is to get a conference convened—not as an end in itself, but simply because it is the best way to set up an ongoing process, where Arabs (including Palestinians) and Israelis can address the core issues. The Israelis want direct negotiation—they have for years—and the Arabs

clearly want a conference. The U.S. has been trying to come up with a way of splitting the difference. The real problems involve modalities, specifically the UN role and the power of the conference plenary. The initial response to the letters the President sent out have not been terribly auspicious, and success is not certain.

There is no lack of capability; the leaders are strong enough to come to the table if they choose. There is clearly a lack of will to do so, and a real fear that even modest concessions establish precedents that will come to haunt them down the road. If this approach is not successful, the U.S. is not going to stretch it out forever. We will not keep trying to solve these modality problems for another six months. Much sooner than that there will be an inclination to put this approach aside, but not to wash our hands of the Middle East. Rather the U.S. will attack the problems in a different way. There is no sense that this is one of those moments in history when allowing the Middle East to stew in its own juices will create opportunities down the road.

Cutting off aid will not in any way increase the likelihood of Israeli flexibility or openness. If anything that is the best way to create a consensus in Israel around a Likud government, and, more important, around a government that is opposed to any concession and would create a certain go-it-alone mentality. Israelis have to be persuaded that their security is not endangered.

The real leverage is going to have to be the leverage of persuasion. In Israel there are polls showing that there are still 60 percent of the people who are at the moment open for a territory-for-peace type exchange. If we have failed to do anything, it is that we have failed to win the intellectual debate in Israel and the Arab world that peace is not only possible but, on balance, worth it. That would suggest that a possible next phase of the peace process is one that emphasizes a little less diplomacy and a little more debate.

Introductory Remarks
II.

It is true, as the background paper says, that it would be unwise to assert that the Gulf saga sets a pattern for all future international crisis management. The paper's main thesis of pre-eminent power, constant change and the laws of natural selection working on Western institutions is also correct. But it may not be right to see the three poles of the United States, the European Community and Japan acting as regional magnets. It is hard to imagine Japan's neighbors welcoming Japanese efforts to bring order to their region. What could Japan do if, for example, developments in China got seriously out of hand? Exclusive regional specialization is not really feasible for Europe either; in Central and Eastern Europe, the Soviet factor is bound to involve the U.S., even if the U.S. military presence in Western Europe is likely to become increasingly eroded. The main priority lies not so much in our neighborhoods as in our relations with each other. We should also recognize that the three poles do not have equal power of attraction; the U.S. is pre-eminent.

Secondly, how far will the Gulf be a model for the future? The mixture of Western cohesion, activism and external funding which contributed to the comparative success of the Gulf War probably means that the Gulf is an exception rather than a model. The question is whether media pressures will force Western Governments to act against their better judgement. The dilemma which the coalition governments now face about how or when to withdraw from northern Iraq illustrates the danger. One lesson of the post-Gulf phase is that, if we cannot master arms proliferation in all its forms, Governments will have to resist public pressures to intervene physically to right wrongs in the Third World.

Thirdly, there may be lessons from Europe's response to the Iraqi invasion of Kuwait. The response may have been patchy compared with the United States. But what was surprising was not European patchiness so much as the unique and unrepeatable scale of American deployments. It is also worth remembering that Europe's role in the Gulf was bigger than at any time since the end of the colonial period: 35 ships, about 56,000 troops, 9 squadrons of combat aircraft, and responsibility for 21,000 out of a total of 30,000 challenges to shipping. The real test for Europe is not how to deal with a problem which the U.S. is already managing; it will be how to manage the first major regional crisis which the U.S. decides to sit out. This lies at the center of the current debate on a European defense identity.

So, here are some catchwords to focus discussion.

First, media involvement: the Gulf War shows that foreign policy makers will have to take into account the power of the media, the concern of public opinion, as never before. This trend is likely to continue as satellite technology develops. Nowhere in the world nowadays is there "a far-away country of which we know little." This could distort our foreign policy priorities. Telegenic problems will be given priority in ministerial minds over vital interests which cannot be illustrated by eye-catching pictures. Economic and monetary union will always take a back seat to Kurds, in the opinion of the viewing public.

Second, intervention: will the lesson of the UN-backed intervention in Iraq lead to further interventions of this sort? Or will the difficulties of extraction from northern Iraq mean that Western powers will be less ready to wade in later on? It is relatively easy to run your own country; it is relatively easy to defeat somebody else's army; it is easy to criticize other people's Governments. But in the post-Colonial era, it is very difficult to run somebody else's country. In a half-hearted attempt, you end up taking on responsibility without power—as we are in the danger of doing in Kurdistan. The Sudanese are already twitching nervously about the work of similar Western military intervention in the Horn of Africa.

Third, intransigence (to look ahead to the Arab-Israel discussion for a moment): the current efforts of Secretary Baker are clearly at risk from the intransigence of both Syria and Israel. Particularly galling has been the establishment or expansion of settlements on the West Bank just before each of Secretary Baker's four recent visits to Israel. This contrasts with opinion poll evidence that the majority of Israelis are now ready to contemplate negotiations on the basis of land for peace.

Throughout the whole of the Iraq-Kuwait conflict, the Western coalition resisted, rightly, Saddam's attempts to draw parallels with the Arab-Israeli conflict, and his outrageous claim to speak for Islam. But one point of similarity was tacitly acknowledged - injustice. If the injustices of the Palestinian problem are not resolved, the seeds of a major conflagration, backed up by nuclear, biological and chemical weaponry, will remain; and the risks of further explosions of the sort we are seeing this week in Algeria will intensify.

Introductory Remarks
III.

President Bush's statement on March 6 that the war was over may, from a wider perspective, not have reflected an accurate observation. For many the war was not yet over. The Iraqi army, or what remained of it, was engaged in crushing domestic rebellions on two fronts. A civil war that raged several weeks ensued. The Shiite uprising in the south, despite massive assistance from Iran, was the first to be suppressed. Then, the Iraqi war-machine

fell on the Kurds. Guerillas caught in the euphoria of their easily-scored initial successes proved no match for the regular troops of the battle-hardened Republican Guard. With total defeat seeming imminent, panic-stricken masses fearing severe retribution fled their homes to seek safety and shelter in Turkey and Iran, neither of which could cope with a refugee influx of such magnitude.

A human tragedy of exceptional proportions started to unfold on the border strips of both countries. International relief assistance, slow to mobilize, remained at meager, indeed token levels. Soon another military operation involving troops from the U.S. and several other allied nations, this time with the humanitarian mission of creating safe havens on Iraqi territory north of the 36th parallel, had to be launched. As yet, few if any, know for sure how this current episode is to conclude.

Leaving the Mesopotamian situation there and turning our attention to the twin problems of the Arab-Israeli conflict and the Palestinian issue, we see that the war in those theaters as well is far from over. The Egyptian-Israeli peace deal has remained as an isolated diplomatic exercise, and no Arab country has yet followed Egypt's example. Besides the West Bank and the Gaza Strip, Southern Lebanon and the Golan Heights are also under occupation. So is East Jerusalem. Cease fire or armistice lines are not recognized borders and frustrated Palestinians have never officially declared that the Intifada was terminated. The exodus of the Soviet Jewry continues, and the number of Israeli settlements on the West Bank does not cease to proliferate. Occasional incidents of terrorism by marginal Palestinian factions and Israel's retaliatory air-strikes that come in their wake have persisted after the Gulf War, too. A long and arduous diplomatic journey appears to lie ahead of the U.S.-led, Soviet-sponsored efforts to resume the peace process in a substantial and result-oriented manner.

Three questions rise from this picture of the Middle East:

(1) In terms of "political fallout", how likely is it for the Middle East to lend itself to re-ordering on a basis of peace, concord, and cooperation?

(2) Are those developments which we have been witnessing in the aftermath of the Gulf War symptoms of a transformation phenomenon, or do they indicate that little has changed in the region apart from Iraq's loss of stature in the power equation and the relative reinforcement of that of Syria?

(3) Were Iraq's aggressive policies the only evil in the region, or were they just a manifestation of a wider malaise brought forth by unwise decisions and bad statesmanship? If so, are we doing enough to remove the root causes of the malaise so as to prevent similar outbursts in the future? In other words, is it possible or indeed wise to try to control fever merely by administering aspirin?

If, by the "fallout" metaphor, we mean the political refuse of the "Gulf crisis explosion", this can only be gauged through a provisional balance-sheet which, in the longer run, could prove to be quite deceptive. This is because it is too early to qualify the nature of the "fallout". Hence, the measurement of a "fallout" against a time-frame of two months cannot lead us to a healthy conclusion on whether the Middle East would lend itself for re-ordering at this juncture of its history. History advises caution in this respect. As the Turkish saying goes "He laughs best who laughs last".

Moving therefrom to diagnose the events and developments of the last eight to ten weeks either as symptoms of an old order yielding to the new or vice versa, is equally difficult. However they suggest change. There are certain elements there for the optimist's loop to magnify:

(1) For the first time since Israel's foundation as a state, Arabs and Israelis are at least talking about the shape of a peace settlement in the same broad terms.

(2) The defeat of Iraq, at least for the time being, seems to have discredited revolutionary pan-Arabism. It appears that individual Arab states may, in the foreseeable future, act independently and in their own rational interests.

(3) The United States now stands alone as the pre-eminent world power directly involved in the region and, for the meantime at least, seems poised as never before to exert influence.

Arabs and Israelis alike now seem agreed on the concept of a peace conference. Moreover, they seem open to dealing with the easier state-to-state issues ahead of the more complex question of Palestinian political rights. All apparently agree that UN Security Council Resolutions 242 and 338 should establish the underlying principles for a settlement.

Insofar as these impressions are valid, we ought to consider ourselves as living through very special times in the long story of Middle East peacemaking. Provided that such a consideration holds true, then, maintaining momentum is crucially important.

While discussing various aspects of "political fallout", some brainstorming must also be done on the new arms race getting under way in the region. With the Iraqi threat removed; with the Damascus Declaration on the configuration of an Arab defense entente to be backed by a U.S. naval and air presence in the Gulf and beyond; with Iran trying to set in motion some sort of a rapprochement with Saudi Arabia and other GCC states; and with the Arab-Israeli peace process about to be revived, is it not somewhat ironical that such an arms race is still going on? On March 6th, when President Bush declared that the war was over, he also said that "it would be tragic if a new arms race were to develop in the region." On the other hand, economic commentators in the American press say they hope that mounting arms exports will help to sustain the American weapon manufacturers as domestic military sales shrink with new budgetary cuts. What options may be considered to break out of this dilemma?

The second aspect of the discussion agenda bears on "future prospects". Needless to say, these prospects will be determined by how the "political fallout" affecting the present state of affairs is disposed of. Therefore, it might be helpful to refer to these specific areas requiring regional and international attention:

(1) In order of priority, the most urgent issue is the situation in Iraq. How would the displaced masses in the northern and northeastern border-strips and in the flatland encampments return to their homes in safety? What should be done to assure some measure of stability in that country?

(2) How could the Arab-Israeli peace process be turned into a sustained phenomenon and speeded up?

(3) What would be the best way to create an awareness on the part of the Arab nations, and in due course, on the part of Israel, concerning the need to increase multilateral cooperation on a larger regional scale with a view to developing economic interdependence?

Finally we should try to identify and highlight those new factors or characteristics bearing on the changes in the relations among the members of the international community. For instance, during the Cold War, the relations among key countries were relatively stable and clear. There were allies, antagonists and neutrals.

The alignments in the Middle East also reflected a similar or parallel pattern. With the dissolution of military blocs and the loosening of ties between the Soviet Union and its Third World clients, relations between countries are becoming more volatile. Ad hoc coalitions on particular issues such as that assembled for the Gulf Crisis could not have been thinkable during the Cold War era.

It might therefore prove interesting to have a closer look at the international politics of the Gulf Region as an extreme foretaste of what global politics could be like in the future. Iraq, aided by Kuwait and the United States in its 8-year war against Iran, is threatened by defeat when Iran mobilizes its strength. An end to the fighting is negotiated. Iraq invades its former backer, Kuwait. The United States comes to Kuwait's help and puts together a coalition including her NATO allies, the Soviet Union, Egypt and Syria, while continuing—until recently—to classify Syria as a state supporting terrorism. Shifting and ambivalent relationships like these did not typify the Cold War, but they seem likely to be typical of the post-Cold War world.

Introductory Remarks IV.

The magnitude of the Gulf War with its hundreds of thousands of casualties and costing the world some hundreds of billions of dollars, no doubt, led many to expect that there would be changes during the war. Many commentators talked about how we would never recognize the Middle East when this was all over. But of course when we now do look at the Gulf region in particular, it is striking at first glance how little seems to have changed. Still, the balance of power in the area has fundamentally been changed, and dramatically so. For the next several years, at least, and perhaps for the rest of the decade, we are going to be living with the consequences of this shift of the balance of power in the region.

Iraq is much weaker and, with or without Saddam Hussein in charge, will pose no unmanageable threat to its immediate neighbors. Iraq is down, although not necessarily out of the game of intimidation. Iran, correspondingly, is making a significant and quite rapid comeback as a regional player, both by demonstrating extraordinary diplomatic skills during the crisis itself, and since the crisis ended. Iran is rapidly rebuilding its political relations with most of the countries in its immediate vicinity. The Saudis have been visiting, the other Gulf States as well, Egypt has resumed ties, and it is only a matter of time before most countries in the West will be beating a path to Teheran's door, particularly if the hostage issue is resolved. How Iran is reintegrated into the Gulf politics is going to be a big challenge to the West. If it can be brought back into the regional system as a force for at least some degree of stability, fine. If it returns to the region with its revolutionary impulses still intact, obviously it's going to be a very major problem.

Now, how are these changes likely to affect Gulf security, which is the underlying concern of the Western Alliance in that part of the world? The fundamental problem for Gulf security is that there is a built-in imbalance. Iran and Iraq are always going to be more powerful than the small oil-rich states on the Arab side of the Gulf. And there is no single perfect solution for that power imbalance. We have seen several efforts made, such as playing off Iran against Iraq; that was the 1980s strategy, and we saw how it ended. There is also some thought of trying to build up the GCC as a counterweight that can stand on its own feet against either of its larger neighbors, and many countries will rush to pump arms into the Gulf countries. But we should not have any illusions. The GCC will not be able to stand up against Iran or Iraq.

So that really leaves us with a third alternative: some degree of outside power involvement in Gulf security, which is going to primarily mean the United States in one form or another. Even though the Saudis seem to be a bit nervous about the idea of a continuing American presence around the Gulf, and particularly on their territory, it seems inevitable, given this fundamental problem of Gulf security, that the United States is going to need to keep in the vicinity of the Gulf—for a good long time to come—air and naval units, plus a good bit of pre-positioning of equipment. If we succeed in doing that, the problem of Gulf security can be managed reasonably well through the remainder of this decade. In any case, we can have enough power in the region to prevent a repeat of what happened on August 2, 1990: that is, blatant aggression across an international border.

But those aren't the only problems in the region. As long as Saddam Hussein is in power, he is going to have some capacity to intimidate the smaller Gulf States, the Kurds, and the Shiites. And they will be fearful of his attempts at revenge. Some will turn to Iran for help; we've seen that already. And others may eventually seek to appease Saddam himself, if they see no other alternative. This raises a question of whether it should not remain an important goal of Western policy to get rid of Saddam Hussein. Are not he and his regime still a danger? We stopped perhaps at the right moment, but then we didn't do enough to help the very substantial and impressive efforts by Iraqis, Shiites, Kurds and others, to rise up against his thoroughly despicable regime. One way or another we need to think of how we can do what we did not do in the aftermath of the war—that is to help the Iraqis bring about fundamental political change in their country.

Insofar as there is cause to be worried about oil supplies in the 1990s, the main concern is internal instability in Saudi Arabia. Saudi Arabia is so crucial to the balance of oil supplies in the world that we would find it very, very difficult to manage if there were long and severe disruptions inside Saudi Arabia. There is no way of predicting that this might happen. But there is a different kind of threat than that posed by Saddam Hussein and his military machine on August 2nd. And it is a more difficult threat to manage because it may come in many different forms, and may not be deterred by military means. So it is worth watching Saudi Arabia. One should not be particularly pessimistic about the situation there, but there are vulnerabilities. The leadership is not extraordinarily in touch with what we might think of as contemporary trends. It is trying to appease its own conservatives, and there are real problems within that society.

In conclusion, yes, the Gulf is a mess in the aftermath of the War. It would have been a greater mess if Saddam Hussein had prevailed. But there is less reason to worry in the remainder of this decade about an oil price shock than in any time since the 1970s, and that's the good news.

* * *

Was there, in the aftermath of the Gulf crisis, any real change in the political realities surrounding the Arab-Israeli conflict that gave rise to the belief that there were some opportunities? The answer is both yes and no. The end of the Cold War really does remove one of the previous difficulties in Arab-Israeli peace negotiations. The Soviets by and large are not going to be a major difficulty, either as a supplier of arms to the Arab side or as a meddler on a diplomatic front. It is striking the extent to which the Soviets now simply echo initiatives that come from Washington.

Secondly, Egypt, which spent a good bit of a decade somewhat isolated from its Arab neighbors because of peace with Israel, is now very much back in a central position in a very divided world. Egypt has as much clout as it has had in any time in the recent past, without in any sense having to abandon its relationship with Israel. Most Arabs now accept the logic of what Sadat did, even if they don't like his tactics. They accept Israel as a part of the Middle East. They accept that Egypt has made peace, not as a tactic but as a strategic choice, and that the best alternative of other Arab parties is to follow Egypt's lead. The only significant opposition to that point of view in the Arab world today comes from some of the Islamic movements. But the main stream of Arab politics is ready for peace with Israel.

Hussein, who has been in the doghouse for his role in the Gulf, is nonetheless back in a position to play a role in Arab-Israeli peace diplomacy. For the first time since 1985 we can imagine a Jordanian-Palestinian combined approach to negotiating with Israel. The PLO, because of its weakened position, particularly because of its stance during the Gulf war, understands the need to stay in the shadows while West Bank/Gaza Palestinians take the lead in talks with the Americans and with the Israelis. That is a positive development.

Israeli public opinion, despite the dramatic developments of the last few months—in the Gulf Crisis, in the scuds, stabbings, so forth—nonetheless seems to be ready for substantial concessions in exchange for peace. The most recent studies of Israel public opinion show that, if anything, a shift toward more moderate views has taken place over the last few months. People seem to be fed up with the conflict, and are looking for a way out.

Assad, who has traditionally been an obstacle and still is, is nonetheless less capable of being a spoiler because his intrinsic position is weaker with his Soviet backers having cut significantly on his military support and his economic situation at home is quite weak.

Finally, there is the role of the United States. We have probably the greatest chance to lead the peace process we have had in some time. The President is widely regarded positively in the Gulf region. Any initiative he takes can count on quite significant backing internationally.

There is a negative side to the balance sheet. First, there is a fundamental asymmetry in the negotiating process between Israel and its Arab neighbors. What Israel wants is not what the Arabs are inclined to give, and what the Arabs are inclined to give is not what Israel wants.

Shamir may be somewhat interested in dealing with some of the Arab states, particularly the Syrians and the Saudis, and might be prepared to offer something up in such negotiations, although it is hard to imagine what. But strategically it makes some sense. But the same Mr. Shamir is extraordinarily reluctant to make any real concessions to the Palestinians.

On the Arab side, the Palestinians, because of their weak position and the desperate situation of their daily life, are prepared to make quite substantial concessions from their historic positions. They want to get their foot in the door; they accept the logic of a process to get them started. But Mr. Assad—who might have something to offer the Israelis—sees very little in the bargain, and therefore he seems rather shy about tipping his hand.

The make-up of the current Israeli government is also a very big obstacle in getting talks going. Even if Mr. Shamir were inclined to take a step toward negotiating with the Palestinians, he would have to look over his shoulder at a pretty tough opposition from within his own coalition.

And then there is the question that is in everyone's minds. What if we were to succeed with the current initiative; what if a conference were convened; what would they actually talk about? What would we do in the event of a deadlock?

The U.S. government seems to accept that there is *some* opportunity. It doesn't seem wildly enthusiastic about the magnitude of that opportunity, and is proceeding very cautiously.

In answer to the inevitable question of why should we bother at all, there are two strong arguments that must be heard in Washington. One is that in the absence of movement in the Arab-Israeli peace process, there will be, and there has been, a radicalization of opinion both in Israel and among Palestinians and other Arabs (largely in the Arab case to the advantage of Islamic movements). And secondly in the absence of movement, there could be pressure on the viability of the Egyptian-Israeli relationship. Egypt, under President Mubarak, is going to be undergoing a very tough next couple of years. He has his own Islamic movement, and the IMF is going to be putting the Egyptian economy through the ringer. It is conceivable that in a Middle East in which extremist forces are gaining ground; in which there is no peace process; and where American credibility is on the wane, having failed to get the peace process started, Egypt also could feel under great pressure. So the President cannot afford to drop the ball on Arab-Israeli peacemaking. But some approach other than nibbling around the edges of the procedures to convene this conference needs to be imagined.

Discussion

Were the war's aims achieved? It was the view of a number of speakers that the outcome of the Gulf conflict was less than a complete success. To many, it seemed that the pre-war status quo had been restored. An American, who confessed that he would have preferred to see the Allies push on to Baghdad, said that, while it was reasonable for the West to have stopped where it did and hope for a "Ceausescu-like outcome in Iraq," it was not surprising that we now were back where we started.

Another American agreed that the Allies had fallen short of achieving their goal of getting rid of Saddam. We had said that the Iraqi people were not our enemy, but it was they who had suffered the most, and their leader was still in power.

A third American speaker interjected that U.S. policy would be to continue to "create an environment where the Iraqis would realize that Saddam was a millstone around their necks." The U.S. would try to keep sanctions in place. Iraq would not recover its former status as long as Saddam was in power. The idea was that, after an initial period of recovery, Iraq would quickly "come up against a ceiling of diplomatic and political isolation." Sooner or later, the Iraqis—or just one Iraqi—would decide that Saddam had to go.

But a Greek wondered how intent Western policy was on getting rid of Saddam. Perhaps he was a "necessary evil." No one was trying to push him out at present because we did not know what the alternative was.

It was another American's view that the West had come out very well except in the sense that a stable peace had not resulted. But 3,000 years of history gave little reason to expect such a result. The various relationships and balances of power in the region would always be " complicated and impermanent." Stability consisted in keeping these elements in some sort of relationship.

A Greek participant agreed with this, saying that the West had not finished its job. We had to establish security in the region to prevent "radicalization and disintegration."

The key to establishing a security framework in the Gulf was to be found, in several speakers' opinions, in the UN. A Canadian observed that the UN role had been a major ingredient in the success of the Allied coalition, and a role for the UN in the post-conflict environment should be found. With the U.S. and the Soviet Union working together, a unique opportunity was at hand. We should take advantage of the UN's success in the Gulf crisis to give it a role in peacekeeping, humanitarian assistance, resettlement, and in the security system.

It was a Greek speaker's view that any solution to the Gulf situation would have to take into account "human life and liberty." A Turk agreed, saying that governments in the region did not always represent their peoples. In this regard, a French speaker wondered about the compatibility of such goals as the inviolability of borders, self-determination for the Shiites and Kurds in Iraq, and democracy. An American responded that "to write a blank check on self determination of people in the Middle East raised difficult questions." Another Greek agreed, and posed the question of what would happen if the Kurds and Shiites sought special recognition or sought to become part of federated states. How would Turkey, Iran, and Saudi Arabia react?

Other states in the region. An international participant stated that the energy question had to be factored into any discussion of crisis management in the Middle East. The stability of Saudi Arabia was the big issue here. As long as it was strong and stable, there was no worry about energy problems. A Greek agreed, and wondered how stable Saudi Arabia was. How much should the West ask the Saudis to do in the way of financing our efforts in the Middle East? Saudi Arabia was currently running a big deficit, and economic strain could lead to internal problems.

An American felt that the threat to Saudi stability was exaggerated. At the time of King Faisal's assassination, the stability of Saudi society was evident. This was also the case in the Gulf conflict, when Saudi Arabia dealt well with an unprecedented degree of involvement by the outside world. It was not correct to view Saudi Arabia as being "constantly on the brink." The Saudis had shown themselves to be good at the internal management of the various forces in their society.

Turning to Iran, another American asked about the future role of that country, which he saw as a "major potential player and mischief maker" in the area. How did the weakening of Iraq affect Iran?

A fellow American's answer was that there could be a potential challenge from Iran in the long term. In the short term, however, Iran was looking more for integration into the region, for markets, for aid, for political influence, and to break out of its isolation. But, longer term, we had to recognize that there had been only two real powers in the region, Iran and Iraq. If they were not now going to balance each other, there would have to be a third power—either Saudi Arabia, or the GCC, both of which would require assistance from the outside.

A number of speakers addressed the role of Syria in the Middle East, with particular emphasis on its leader, Assad. A Turk warned that the West must be careful in dealing with Assad. An American observed that Western diplomacy had served to build up Assad, making him the "Saddam pillar of the previous diplomacy." This was potentially dangerous.

But another American felt it was unfair to criticize the U.S. for "setting up Assad as the new good boy." Assad had the ability to affect things that mattered to the West, such as the Palestinian issue, the peace process, the future of Lebanon, terrorism, and the flow of narcotics. It was important to engage Assad and Syria, and it had certainly been better to have Syria inside the coalition than outside it.

The Arab-Israeli situation. With reference to the post-Gulf crisis initiatives to find a settlement of the Arab-Israeli conflict, an American argued that the West had won the war but was rapidly losing the peace because it "insisted on dragging the Palestinian issue to the forefront." During the Gulf war, there had been a chance to make progress on the Palestinian issue, because Israel and Saudi Arabia had had a common interest, and the PLO had been discredited. The West had not done much to take advantage of this situation. U.S. policy makers had now decided that a conference was necessary, when the only result of a conference would be to "force everyone back to the same old intransigent positions." Another American echoed this view when he said, "to spend a lot of effort assembling a conference of people who do not want to go into it, in order to generate a deadlock which we don't know how to break, is doing things the hard way."

Observed yet another American speaker, no conference on the Middle East had ever been successful. What had worked had been the active mediation by "the only party that had both carrots and sticks—the U.S." It was not that the U.S. was smarter or more qualified than any other country, but it did have the unique relationship with Israel. It was the one country that could simultaneously reassure the Israelis and pressure them. A Briton agreed that there was nothing equal to the leverage the U.S. had on Israel.

But it was precisely this "stiflingly close identification with Israel" that, in an American speaker's view, had made it impossible for the U.S. to make progress in the region. The U.S. was part of the problem, not part of the solution. A conference would be futile. What would be the incentive for Syria or Jordan to come to the table? The only answer would be for the Europeans to "take this mess out of U.S. hands" and transfer it to the UN Security Council, which should enforce the various resolutions it had passed to deal with the problem.

A Greek agreed that we could not allow a situation to continue that was in direct opposition to Security Council resolutions. We had an obligation to our Arab allies who were under tremendous pressure from their public opinions. We also had an obligation to the Palestinians to prevent them from becoming more polarized and more dangerous. And we had an obligation to the Israelis, who would need more aid to bring in large numbers of Soviet Jews. All of this presented the West with an opportunity that it did not have before.

Regarding the calls for greater European involvement, a Canadian expressed the view that European policy in the Middle East had been to "wait for the proposals from the U.S., and then stake out a position more favorable to the Arabs." Blaming the absence of peace on the reluctance to pressure Israel gave the Arabs little incentive to take U.S. proposals seriously.

Considerable discussion was devoted to the "land-for-peace" concept. In an American's view, the debate in Israel was refocusing along these lines. There was fairly broad public support for some sort of deal. But, as another American pointed out, relinquishment of territory was not acceptable to the current Israeli government.

A third American offered this overview of the current situation. It was not correct to define the issue as land for peace, as though there was a condition called peace between Arabs and Israelis that would result. Settlement of the Palestinian issue could not be compared with the peace agreement between Israel and Egypt. In that case, there was a buffer zone of 140 miles of uninhabited desert. There was no such zone separating the Palestinians and Israelis. The question was not one of land for peace, but land for time. What was needed was a process that allowed Arabs and Israelis to live together in the West Bank in a different posture than the one that now existed, that allowed the restoration of some territories in a way that did not threaten Israel's survival.

Concluding Remarks

In trying to draw conclusions from the Gulf experience for the state of the international system as we now find it, it seems that what we are trying to do at the moment is come to terms with Western power. It is a power of a sort we have never had before, because there is no countervailing power of an equivalent nature to negate things we are trying to do.

On the other hand what we are trying to do, we are trying to do in parts of the world that do not necessarily lend themselves to our attempts to order them, and to refashioning them according to our values and, with due respect, to our interests. In each part of the world there is a confusion of principals, of interests, and of obligations as well. The moral basis of policy often tends to be neglected in governments, because we have to be realistic. But it is difficult for politicians not to be able to legitimize what they are doing, at least according to some basic principles.

These things are easier—though God knows they are hard enough—in our own neighborhood, Central and Eastern Europe. It is not the case that somehow those problems are always going to get pushed to one side because of the Middle East. After all, one of the reasons the gathering storm in the Middle East wasn't noticed is because we were totally

preoccupied with Europe, totally preoccupied with the exhilaration of 1989, and the reunification of Germany. The key agreement between Kohl and Gorbachev was, after all, reached just a couple of weeks before the Iraqi intervention. We are more preoccupied, quite properly, with our own continent, but nonetheless, we have to look beyond that.

What is happening is that, despite ourselves, despite what we may feel to be our interests, we get drawn in. We are getting drawn into Central and Eastern Europe; we'll get drawn in somehow to the Soviet Union; and we're getting drawn into the Middle East. We can't duck our responsibilities; there is nobody else who is able to take them on.

The Gulf situation was made immeasurably easier first because Saddam himself lent himself to demonizing; he fitted the role very well. Secondly, because this was an unambiguous breach of international law; if we didn't deal with it, we really couldn't claim to have any sense of international order at all. And that brought in the United Nations. Finally, we fought the war from a base which has the biggest airfields in the world, first-rate ports, and was essentially a petrol station. And we had five months to prepare the military operation. The idea that those advantages are going to be working for us always in the future is optimistic.

Successfully doing it in itself has an important consequence for international politics in the future. One can't imagine many Third World leaders at this moment scratching their heads saying, "if I had been in Saddam's shoes I would have done a much better job." It was an overwhelming power they faced, and the revival of the sense of overwhelming power in the West is a sobering influence on all international politics from now on. Taking advantage of that, we shouldn't kid ourselves that we could make the same impression in the future so easily.

So the conclusion is that the best thing we can do is work out how to avoid crises, how to be involved before the crises reach that state. And then we get into these endless debates about what are the sources of real instability in the Middle East.

We should be careful about the arms race aspect. Arms will always go into the Middle East, but the amount of money available at the moment is not sufficient to support an arms race of the sort we have known in the past. All the relevant parties have got major economic problems. The cost of reconstruction in the Gulf is going to be enormous, and treasuries are always the best arms controllers.

On the Arab-Israeli issue, it is true that there are many more conflicts in the Middle East than the Arab-Israeli one. And the Arabs are as cynical about the Palestinians as anybody else. The idea that somehow there is nothing closer to the Arab heart than the course of the Palestinians has misled us continuously in the past. This was one of the reasons why much of the advice that was being given during the Gulf crisis was wrong on the nature of the Arab response to a strong stand against Saddam.

Nonetheless, for a variety of reasons of our own, we have reason to be concerned. Israel has the greatest reason to be concerned, because if it doesn't yield with the Palestinian problem now, when the position is full of possibilities and the PLO is weak, when it next tries to deal with it, it will be in a much weaker position itself.

Another important issue is that of the Soviet Jews. They are changing Israeli society daily in quite dramatic ways and quite unforeseen ways. Partly because of the difficulty of absorbing all of these people coming in so quickly with an economy which is not in such a good state, Israel is going to need a lot of money in the future. If one may make a prediction, it seems likely that the Soviet Jews may end up being to Shamir what the East Germans have been to Kohl. They are something that may mark one's greatest triumph but, in the long run, they may cause more political and economic problems than were bargained for.

To draw some conclusions from this, it seems that there is a danger of both exaggerating and minimizing Western power in a situation such as the one we are in. It is too

simple to say that we won the war, but lost the peace. The peace is more confusing than one was led to expect during the war because, during a war, in order to make the whole thing bearable, one tends to talk about better times to come; whatever will result afterwards will be more just and more durable. Many people know from experience that it never happens this way, and there is no reason to expect that it will. That is why it is always important to keep our war aims limited, if we are involved in a conflict like this, and to be realistic about what we can achieve.

And that is why it is not true that it would have been better if we had taken a different position at the end of the war. Although we may well have been able to impose democracy on Iraq, it would have been difficult. If we are going to get involved in this area in the future, when we say we do not intend to go further than a certain objective, it won't be believed. If we say the situation in which we find ourselves requires that we have to go a little bit further than we realized, then the credibility of our future pronouncements is gone. We said we would do something; we did it; we should be proud of what we did. We shouldn't berate ourselves for not doing more. That is not to say we couldn't have had a more intelligent engagement in Iraq afterwards; we could have. But we have to be quite careful about what we say.

The conclusion of all of this is that in the Middle East and elsewhere there is a need to get a sense of the limits and the possibilities of our power, which only comes through experience. It will come through the experience of crises, not through architectures and institution-building and so on. From that we should develop constant engagement. It is not good enough to come into a region at the point of crisis, and to suddenly try to sort it out. If we want to come to terms with our power, we must come to terms with the requirement of constant engagement and the problems of regions other than our own. In doing that, we must be ready to use a whole range of instruments, by no means solely military or economic but the whole range of possibilities. We also must have a sense of the prizes that can be won as well as the penalties if we fail.

IV. CURRENT EVENTS: GERMAN ECONOMIC RECONCILIATION: THE TREUHAND EXPERIENCE

Introductory Remarks

To say that the German problems have been solved already is, unfortunately, far ahead of reality. It will take another five or ten years until the social and economic reunification will be achieved, and probably a whole generation until a complete reunification will be possible.

When I was appointed a member of the Board of Treuhand, our President told me that "from this day on you are responsible for 6,000 small and medium size companies, for about 2 million employees. You better find sooner or later people to work for you, find an office, and find a concept to solve the problem." And this is what happened to everyone who started working for Treuhand, because everything was new. No one had any idea how to proceed. We moved to the Alexanderplatz in East Berlin, to a charming Socialist building, and worked in offices where there were two or three or five or ten of us, with no facilities whatsoever, no phone, no fax. This was a fascinating, pioneering time because we really worked hard; we were convinced we worked for a good idea, for a good goal, and we were convinced we would accomplish our task.

Eight months later, we have 2,000 people working for us. We have moved to a new building, which was built by Goering, the Nazi minister. Afterwards, the Communist government resided in this building. We are the first immigrants to work there. So, first we had to democratize the building, and then all the rest.

The question is what role does the Treuhand have to play in the transformation from a socialist system to a social market system. Many books have been written on how to transform a capitalist system to a socialist system, but there is no book to give us any idea how to go the other way. So, again we had to begin from nothing. We are learning by doing, which is exciting, but includes the risk of making some mistakes. The Treuhand is probably the world's greatest industrial holding, but there is one difference from all other industrial holdings. We want to become smaller, not bigger, every day. We own about 9,000 companies, which is equivalent to perhaps 50,000 western companies. There are huge conglomerates which have to be split up. Our task is to privatize, to restructure, and to close those companies which have no chance in the future.

The politicians founded the Treuhand because they saw that the people who had to make those very severe and painful decisions should be far away from politics. This is why Treuhand will never be popular. Whatever we do— whether we privatize, which to a certain extent always means rationalize, whether we restructure a company or close it down—many people will lose their jobs. There have been too many people and huge bureaucracies in the companies. People who lose their jobs very easily forget that this is a consequence of 40 years of dictatorship, of socialist economy. They believe the Treuhand to be responsible for the problem. That is a reason why we will never be popular.

Under these conditions, the Treuhand has done quite a good job. We have at least done a job that no other administration in the world could have achieved, nor any government. We have sold 2,000 companies. Right now we are selling about 300 companies each month, which means 15 companies each working day. At the same time, we have sold about 20,000 retail shops, hotels, pharmacies, cinemas, book shops, etc. We are very keen on finding new owners, because they are the ones who bring new technology, new management know how, new ideas, new investment. The contracts we have signed

with those 2,000 buyers include promised investment up to 60,000 billion Deutsche Marks. We still have about 2,000 buyers waiting to conclude deals.

More or less all of the companies we are responsible for are in trouble. They have been cut off from world market conditions for 40 years—probably since they were founded. And suddenly they are part of a world-wide competition, and have absolutely no idea how to handle it. They have never heard anything of prices. So, the first step was to develop a global guarantee program to help all of them, because we couldn't test 9,000 of them in two or three weeks. All of them have very heavy financial burdens—100 billion D-Mark worth of debt in those 9,000 companies. There are also ecological burdens and social burdens. None of these companies has any liquidity capital. So they have no chance to survive without any help.

We are now prepared to test companies individually, and determine whether they have a chance for the future or not. We have organized a very complicated set of regulations. We test the plant investment, the business strategy, the net asset value, and many other things. The companies have to deliver a Deutsche Mark opening balance sheet and their business plan. We have some companies which really impact all the people living around them. For example, there are shipbuilding companies employing 50,000 people that are the only employers in the area. We know that the employment in these companies has to be reduced by 60 to 70 per cent at least. The same is true for such industries as chemicals, mining, and textiles. Whole populations are in trouble when one of these companies closes its doors.

What can we do to help? We believe that the important thing is to attract investors. And that includes foreign investors.

Why should a Westerner invest in Eastern Germany? First, Eastern Germany is in the middle of Europe. It has a lot of knowledge about Eastern markets. For many foreign investors it's the entrance door to the European market. And it has a qualified labor force, though without any familiarity with modern machinery. But they have technical skill, and they can learn very easily and fast.

Investors will get grants of up to 50%, tax advantages, long production runs, and skilled labor, which has been cheap but won't be much longer. Those who invest will probably add value to their companies by organizational experience, marketing know-how, sales and distribution networks, and cost management skills. I admit that whoever decides to become an investor must be for quite some time to come a pioneer, because the infrastructure is in very poor condition. There are still few telephones. But the situation is fast improving.

Helping Eastern Germany, integrating it into the European Community, is not only a question of money. In that regard, Western Germany can help. It is not only a question of technical advice, and it is not only a question of giving administrative assistance. It is very much a question of human capital, and of changing the mentality of the people there. They have been living under a dictatorship for 40 years, in which it was dangerous to develop an initiative, or to dare to take risks. The people have to change their attitude toward life. We shouldn't forget that, in their lives, everything has been changed, the tax system, social system, insurance system, school system, health system—all in weeks or months. And all the same, I believe more than 90 percent of the people living in the East are more than willing to be successful and to be part of the Bundesrepublik and the European Community.

We are often asked what we believe the economic prospects are. This is very difficult to say. The construction industry is on its way. The automobile industry is on its way. The service sector is quite successful, because there was no banking, no insurance system, hardly any tourism. All this is growing fast. Even though I believe that the economic prospects are

positive and perhaps will turn around by the beginning of next year, we will still have many problems with the labor market for a good deal longer.

All the same, it is very necessary for us to find new investors, to attract people to come and see. If you want to become a pioneer investor, go East.

Discussion

An economic overview. In a lengthy intervention, a German speaker elaborated on the course of his country's economic reunification thus far. The introduction of the D-Mark to East Germany last summer, before political reunification had taken place, had been a political decision, not an economic or monetary one. In a way, the D-Mark was the vehicle for political reunification.

But few people in East Germany were aware of what it meant to change in one day from a highly controlled, protected socialist system to an economy open to the world market, without protection, with a currency internationally convertible. The result was that almost all East German state-owned companies were no longer competitive.

The economic consequences of this were very different from those in other Eastern European countries. In countries like Czechoslovakia, for example, the currency had been devalued and real income had declined. It was the other way around in East Germany. There had been a dramatic increase in unemployment, up to 30 or 40 percent. And industrial production had declined by 50 percent.

Nevertheless, real income had increased in East Germany. This had occurred because of tremendous transfer payments—this year about 140 billion D-Marks, about two-thirds of East Germany's GDP. Even with this improvement in their income levels, East Germans were uncertain and frightened about the future.

The high level of transfer payments had caused fiscal problems in West Germany, and it was a concern that the East might become a region that would rely permanently on various types of transfer payments, as was the case in Berlin.

However, there would be regions that would develop faster than others. Berlin, for example, was fast becoming the main metropolitan area for all of Eastern Europe.

This year, the worst was yet to come, but, looking ahead to next year, there might be some improvement. Yet it was an illusion to expect, in the foreseeable future, that the East would catch up with the West in terms of living standards. There would be for many years to come a significant differential in income and in living standards between West and East. Thus, there was a risk that the movement of people from East to West would continue. Moreover, it would be the young and educated who would continue to leave the East, causing additional problems for the region.

Yet, one should not be either too pessimistic or too optimistic. With the right policies, there was a good chance that East Germany would have a bright future.

Western experience in East Germany. Several participants who represented companies doing business in East Germany spoke of their experiences there. A Briton reported that his company had had a mixed experience in establishing a newspaper in East Germany. The company had installed high technology printing equipment in its new plant and had trained East German workers in the U.K. These workers were both keen to learn and technologically adept. But their attitude toward work presented a problem. They would do nothing unless directed by authority, and, even then, they would not do much. Their resentment of bosses was a hangover from the days of Communism and would have to be overcome before productivity improved.

A French speaker said his company had had similar experiences. It had found East German workers to be responsive to training, but it was difficult to get them to take any initiative.

Positive experiences in East Germany were cited by two German participants. One said that the productivity of his company's East German workers was rapidly improving and would soon be up to West German levels. Another German, saying that "a German mechanic is a German mechanic," revealed that his company's East German workers had already achieved the same level of productivity as those in the West. The key was proper training.

The human element. A number of speakers emphasized the importance of addressing the human side of the reunification process. A German opined that the psychological problem was worse than the economic problem. The "cleavage that (had) evolved over 40 years was much deeper than anyone thought possible." It would take years, perhaps a generation or two, to overcome.

A countryman agreed with this assessment, saying that Germany was now one country with two societies. One major factor that heightened the sense of estrangement and resentment of East Germans was that they were paid less than West Germans for doing the same work. This was a problem that ought to be dealt with quickly.

Several Germans spoke about the role of the media in exacerbating East Germans' feelings of resentment toward West Germans. Certain publications in East Germany were "creating an atmosphere of hatred," said one speaker.

Said another German, the answer to these problems was to be found in leadership. When West and East Germans worked together as a team they did so very successfully.

Obstacles to outside investment. It was generally agreed that foreign investment in East Germany was very important, not the least because it symbolized the region's having rejoined the world. But several non-Germans expressed concern that the best investment opportunities were reserved for West Germans. An Italian said his country's industries viewed East Germany as a great investment opportunity, but their experience had been that it was hard to get the good businesses.

A German's response was that the Treuhand was keenly interested in attracting foreign investors, and did not believe that "the Eastern part of Germany should be a closed German shop." One explanation of the problems referred to was that there had been no real international marketing due to the fact the there had been virtually no information available about East German companies. Only recently had the Treuhand been able to produce a multi-lingual catalogue of the various companies available for investment.

Other issues. A variety of other questions were raised in the discussion, including these: Who managed companies in the transitional phase? Were the old managers kept on? How were the deficits covered? Was anything being done to stimulate the purchase of companies by East Germans? Was new economic activity being created to compensate for the loss of jobs in areas dominated by one or two employers? What was the impact of unemployment? How great was the migration to the West? Had Germany done anything to reduce subsidies to certain areas of the West that had traditionally received them, so that they could be allocated to the East?

A German speaker offered these responses: In many cases, the old managers were kept on, because there was simply not enough managerial talent available. Efforts were made to keep out those who had been involved with Stasi, but this was difficult in view of the alteration and destruction of records and files in the final months of Communist rule. In the transitional phase, the Treuhand began the restructuring process and covered deficits. But it was working very hard to privatize companies as quickly as possible. There were some instances where East Germans were buying into companies. About 50 percent of the

workers in East Germany had lost their jobs due to closing and restructuring companies, but new jobs were being created in various sectors; about 1.5 million had been created in the past eight months. As to emigration to the West, about 10,000 people were leaving per month. But many were starting to return, as the opportunities improved. Efforts to reallocate subsidies from the West had not been successful.

In response to questions raised in the discussion about the state and outlook of the overall German economy, two German speakers had this to say. The first called Germany "a weakened nation." There was no more talk about the German economic juggernaut. Germany would remain weak for a number of years to come, and would be a high deficit country. The other speaker saw the situation as improving in the next few years in the economic and social sense. It would take much longer to successfully deal with the management questions. The Treuhand would continue to work hard to achieve success as soon as possible. This was important not only to those in East Germany, but to the rest of Eastern Europe as well.

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The discussion of the Treuhand experience generated considerable interest among the participants. The obvious dedication of the speaker, representing the Board of Treuhand, was acknowledged with a round of applause.

V. THE PRACTICAL AGENDA FOR THE ALLIANCE

Introductory Remarks
I.

Harold Macmillan once remarked that Adam said to Eve, as they left paradise, "We live in an age of transition." Things haven't changed all that much; the characteristic of an age of transition is that some of the traditional concepts have to be adapted to new realities.

When the Atlantic Alliance was formed, it was supposed to deal with a number of issues: the Soviet threat; how to relate Germany to the West; how to create a political and security framework for North American participation in European affairs, and how to create a security framework for Western Europe. These issues involved all kinds of political assumptions which, in the late fifties, led to the conclusion that detente and defense were two of the main elements of NATO policy. But now, in the period of the nineties, we live in a clearly changed environment, with different problems and different solutions.

One issue is the future of the Soviet Union, concerning which we in the West are getting ourselves into a quandary. When the Soviet Union was strong, we said we had to make arrangements with it because it was strong. Now that it is weak, we say we have to make arrangements with the Soviet Union because it is so dangerous when it is weak. Are we therefore to assume that the Soviet Union is permanently dangerous, whether it is strong or weak? And how do we adapt our relationship to it? We need some precise conception of what it is we are afraid of that the Soviet Union might do. When people say that there are tens of thousands of nuclear weapons in the Soviet Union, what precisely does that mean, and what can the Alliance do about it? Most of the arms control agreements are marginal in relationship to that problem, even if they reduce the stockpile by half.

Secondly, we have the problem of how we affect the dilemma of the Soviet Union between democracy and disintegration. Is there a solution to this problem? And how can we affect it? It is possible that it cannot be dealt with as long as Gorbachev is around, because he seems to have a mesmerizing impact on all the leaders he has met, so that they are making it a personal issue. But the domestic impact of the Soviet evolution in the various countries, and the temptation of many countries to do something spectacular with the Soviets to relieve domestic problems, may slide us into a situation in which the fundamental realities of the Soviet Union are not fully faced.

Whatever happens to Communism in the Soviet Union, it can be said that the Russian Empire under the Czars and the Commissars has a number of fundamental characteristics. One is that it has always had an army larger than any other European state, and larger than any rational consideration of its defense needs. Secondly, for several hundred years the Russian state has involved itself in a series of international interventions more consistently than any other state. There was the Holy Alliance, there was pan-Slavism, there was Communism. The Russian state has cited some universal principle which justified its actions, and it has taken many international actions in history which could not be justified in purely national interests. Therefore, we must ask ourselves if we can conceive of a structure of the Russian state that would, for the first time in Russian history, focus Russia on its domestic problems. This may be possible in light of the fact that nuclear weapons give an assurance against foreign invasion that no previous Russian state has had.

Some Alliance conception of what it is that we are trying to achieve in the Soviet Union is of great importance. We don't seem to have anything except ad hoc institutional

frameworks, which deal on a tactical basis, in which suddenly the attendance of Gorbachev at some summit becomes a matter of tremendous controversy. We need to have a larger concept.

There is also the question of what is security right now. Clearly the original security function of NATO is no longer the same. The Soviet Union is 700 miles further back. It may be less likely to permit its army to be used abroad, but it still will be the largest army in Europe, and it will be a huge nuclear arsenal. It is wrong to think that the Soviet Union is forever, or for the foreseeable future, incapable of military action abroad. Between 1904 and 1910, Russia was in terrible shape, and yet, by 1913, the German and the Japanese general staffs independently had come to the conclusion that, within five years, the Russian Empire would become an unmanageable threat. They may have been wrong, but they were professionals.

From the security point of view, there are a number of realities. One, Germany will need American support for the indefinite future, because it cannot acquire nuclear weapons. It is therefore most subject to nuclear blackmail, if the Soviet Union exercises its nuclear potential diplomatically. Therefore Germany will always have an interest, if it pursues a rational policy, in an American connection. The French also want an American role in Germany, as a safety net both against a Soviet threat and against unforeseeable contingencies in Germany. And Britain would always be more comfortable with an Atlantic connection.

So the security basis for the Alliance continues to exist, but it needs a new institutional definition, which is somewhat complicated by the emergence of a European identity. On the one hand, it makes absolute sense to say that a politically unified Europe cannot forever renounce a military role. On the other hand, perhaps the biggest long-term problem in the Atlantic relationship is the definition of European identity. It is obscure at the moment because there is no real outside opposition. But it will emerge.

The problem of the European identity, as it has been defined by France especially is that, while the United States can negotiate with national governments at all levels, and there can be a process of forming a view over an extended period of time, in dealing with the European community, the U.S. is dealing with an instructed representative, who presents conclusions after they are already achieved, and who has no flexibility after the conclusions are reached. That is a new procedure, which in the security field, will be unacceptable to the United States in the long run, especially when it is supposed to be residuary guarantor.

Therefore the question of whether there should be European autonomy in the military field, depends crucially on whether a consultative mechanism can be developed in which there can be a formation of views and in which the United States can participate in the formation of views when they are still being formed, rather than being confronted with a fait accompli, either for acceptance or rejection.

This depends also somewhat on the notion of Europe that will develop. What is this Europe? Is it the Europe of the twelve? Is it Europe including the Eastern community? Or is it Europe including the Soviet Union? And how is this identity to be achieved? There are some ideas, primarily in France, and in some circles in Germany, in which the United States is viewed as a balance against the Soviets and, to some extent, against the Germans, and the Soviets are used as a balance against the United States. This is expressed in such ideas as a Europe from Vladivostok to San Francisco. America will not join such a Europe. A Europe in which everybody is allied to everybody means nobody is obliged to anybody. It is really a prescription for nationalism.

The world into which we are moving is, in some of its aspects, more like the 19th century world on a global scale than the cold war world, in the sense that there will be a number of power centers. It is therefore necessary to construct various equilibria by which security and positive goals can be achieved. The two strongest nations in the West, Germany and the United States, have no great nationalist problems with such concepts. The United States emphasizes collective security and world law and world government. Germany practiced nationalism mainly between Bismarck and the end of World War II. Germany has spent more of its history getting unified than in developing a concept of what to do with its unity. So these are two nations that have an intellectual problem with nationalism.

On the positive side, the problems we face are good problems to have. They result from a collapse of Eastern powers that nobody would have foreseen. But we require some more precise definition of how we view the evolution of the Soviet Union and, unless we develop some concepts and institutions to address these problems, we are going to be absorbed mostly in tactics. The solution is largely up to us.

Introductory Remarks
II.

The problems the West faces are real, but they are all manageable. There is no doubt that the Alliance at this moment is changing tremendously. We are adjusting to new security parameters by changing everything: strategy, force structures, composition, command structure, borders, infrastructure, logistics, and political tactics. The astounding thing is that in this revolutionary change of the Alliance, the unity of the Alliance, the ability of the Alliance to move together is unmatched.

It is important that while some things are revamped, reorganized, and rethought, we are clear about one thing: NATO is not a temporary proposition. It is relevant and its relevance will even grow. It has not been tarnished by the talk about a European security structure. Indeed, we have seen the Alliance strengthened by the talk—sometimes loose talk—about the emerging European security identity.

Its relevance is of course multiple, and we are moving much more from a combat-ready instrument to being the great stabilizer of Europe. This comes at a time when it is particularly needed. The text in which the Allies have just again confirmed their enduring basic missions describes the basic mission as "the maintenance of the military capability sufficient to prevent war and to provide for effective defense when needed".

These same documents cover our need to maintain a strategic balance in Europe, which means our ability to set off the conceivable military potential of others. Added to this perennial task is the management of crises which affect Allied security. The documents go on to include a search for a new cooperative approach to European security through dialogue, cooperation, support for democratic reform, peaceful dispute settlement, institution building, confidence building, etc. What emerges from this list is that our key task is to define a relationship with the Soviet Union and the new democracies in Central and Eastern Europe, emphasizing a constructive partnership. These missions translate into a broad range of practical tasks: the reorganization of our internal activity; the accommodation of the emerging European security; redefining the place of America in an Alliance where its military pre-eminence on the continent is no longer the prime indicator of the US role; the future potential and task of conventional arms control; the need to design a new public dialogue on defense; the public information challenge; the need for efforts in the field of arms control.

Four items are of particular importance: first, the new crisis management task; second, the relations with the new democracies; third, nuclear matters, which somehow seem to have disappeared from the scene; and fourth, overcoming out-of-area problems.

Regarding crisis management, security is less than ever purely a military matter. We are more and more coming to a broad, comprehensive security approach with a novel mix of military, political, and economic strategies. This approach requires a great amount of rethinking. NATO's emerging strategy stresses military roles in peace, in crises and, only as an ultimate means, in combat. This means that new crisis scenarios have to be thought through, new plausible, generic military roles must be studied and learned, and a new catalogue of possible escalatory and de-escalatory measures must be worked out and carefully honed through planning, staff exercises, operational rules and new crisis management procedures. In an increasingly war-free security environment, the categories of probable crises are as yet unexplored in terms of time, space and intensity. The crisis management path is uncharted, and the political and military requirements undefined. Crisis care as a mixed political-military task will make it necessary for the political and military establishments to permeate one another and in NATO, the international civilian staff and the international military staff should be soon merged.

In the area of relations with the new democracies, and also the Soviet Union, last year NATO boldly approached its erstwhile adversaries with the offer of cooperation and diplomatic relations. This offer has borne ample fruit, but the job is only half done. Giving the new democracies in Central and Eastern Europe a new political home, while not pushing the Soviet Union over the rim of the European plate, requires both courage and a departure from past ways. This week in Copenhagen, NATO has amplified its offers and confirmed its strategic interest in the undiminished security of the new democracies. Contacts, briefings and visits—all part of this diplomatic business—are valuable and unfold dynamics of their own. They provide reassurance to the new democracies and reach beneath the crust of old political and military thinking in the Soviet Union, thus accelerating a learning process. But they are not enough to underpin the confirmed security interests of the newly won partners. Full NATO membership for the new democracies is a tempting option, but it is not a cogent one. And it is not a great power war that is threatened. Formal security guarantees accompanying full membership in NATO does not meet the primary need of these countries. An interim solution is needed, in which NATO is transformed into a two-tiered structure, where the new democracies would form part of the institutional framework. They would participate in most of NATO's political activities and attend committee meetings, including the NATO Council, on a regular basis, while a separate council and committee would be maintained for the current membership to administer matters pertaining to the mutual security guarantee of the treaty to the integrated military system. Such a two-tiered institutional approach would require no, or only marginal adjustment to the treaty. And the CEE countries would then also establish permanent missions in NATO headquarters, like the traditional members.

Nuclear weapons remain indispensable as the ultimate guarantee of peace, including weapons stationed in Europe. NATO must remain the venue and provide the collective support for the primary nuclear roles of those allies who possess them. Yet a scaling down of nuclear holding to a different, lower order of magnitude is urgent. We must get away from the absurdities of decades of past nuclear policy predicated upon the prospect of multiple nuclear exchanges, multiple targeting at a gigantic and self-defeating level, and the levels of weaponry that went with this philosophy. The perspective of more than 25,000 Soviet nuclear warheads in a crumbling empire, with the prospect of decade-long turmoil, should provide enough of a challenge for rapid and drastic new arms control proposals dwarfing the limited and essentially outdated approach of START. Nuclear arms control must become the vehicle towards the creation of a new, stabilizing nuclear order, based on cooperative approaches, taking the confrontational sting out of nuclear weapons which has made their public acceptability increasingly precarious. Minimum deterrence, with a few hundred or thousand warheads in both the Soviet Union and the Western military system, mutually stabilizing and compatible, is a goal post that should and can be reached in this decade. In the meantime, advance targeting should increasingly appear incompatible with a European security landscape in which all sides have solemnly declared that they are no longer adversaries to one another. The role of nuclear weapons in our security must be reassessed. Their ultimate peace-keeping role is undiminished, but any prospect of immediate deterrent use must be reduced, and any prospect of actual use must be infinitely remote. At the moment, nuclear matters have virtually disappeared from public debate in Europe, perhaps carefully suppressed by Governments, as inconvenient or untimely. This is regrettable. Through such a lapse, the rationale for maintaining a nuclear based posture will increasingly slip from the public mind. It will be difficult to revive. Nuclear matters must remain on the agenda. A new, imaginative thrust in nuclear arms control can provide the vehicle for publicly substantiating the need for the requisite nuclear arsenal of the future.

Finally,there is the matter of out-of-area problems. If the pattern of the future is to move from conflict to crisis, the Gulf event was atypical. Major war is as improbable outside of Europe as inside. But there will be untold crisis situations, where the military roles of individual allies or groups of them would have to rely, as in the Gulf crisis, on NATO procedures and logistic support. And, increasingly, in an interdependent world which underlines the accompanying fragility of the world system, the security of all allies will be challenged in such crises. Future extra-European crises do not challenge Article 5 of the NATO Treaty, which is the security guarantee. They provide new applications to Article 4, the future consultation and cooperation pattern. The task is to devise procedures by which the Alliance recognizes overall security implications for the Alliance of new conflict potentials and risk situations and makes, as a matter of well-practiced routine, logistics, communications, intelligence,infrastructure and cargo capabilities available to those Allies who take on military crisis roles, peace-keeping functions and humanitarian tasks in the wider world. The challenge thus is not to change the NATO Treaty or to assume new collective responsibilities, but to make regular and rapid use of Alliance resources that are permanently available anyway and can be used in situations of collective risks.

Discussion

NATO and West-West Relations. It was the view of a German speaker that, as great as the changes going on in the Soviet Union and Eastern Europe were, no less important were the changes taking place in West-West relations. Certainly it was desirable for the West to try to assist the process of change in the Soviet Union and to work for the stability of the new democracies in Eastern Europe. But there were limits to what the West could do; the best way for it to cope with these changes was to put its own house in order.

NATO needed to do more than adjust its policies here and there, continued the speaker; its "very fundament" was in question. How was the Atlantic relationship to be retained in the future, when military issues were no longer central, when troops were no longer the glue, when military integration was no longer the most obvious symbol of the relationship, and when American dominance and leadership—once natural because of "the sheer relationship of forces and the security requirements"—was no longer natural? The Alliance was changing into something other than a security-focussed one.

The relationship between the U.S. and Europe was of central importance to both; it was necessary to adapt to change by seeking a rationale for preserving it beyond the military one. The Atlantic nations ought to focus their cooperation on a wide spectrum of issues, and accept and adapt to changes in the relationship.

Endorsing these remarks, an International speaker said that the cold war had come to an end precisely because NATO had had a clear vision of the future. What was needed now was a new vision, which accepted the desirability of changing the structure of international relations. Europe and the United States had to share that vision, or NATO would ultimately come apart. Central to a changed structure of international relations was the goal of European integration and the development of an equal partnership between the U.S. and Europe, in which each participated fully in the decision-making process.

Several participants spoke about the need for closer consultation between Europe and the U.S. An American agreed that it would be desirable for European countries to learn about the internal discussions between the White House and the State and Defense Departments while they were going on. The same sort of input ought to be given the U.S. in European discussions. What had to be avoided was one side presenting the other with fait accomplis, achieved entirely by domestic procedures.

A number of European speakers voiced the opinion that the restatement of NATO's strategy that had just been concluded in Copenhagen had been too much carried out in accordance with the U.S. agenda. It was imperative for the U.S. to decide what it wanted in the way of a second pillar of the Alliance. American confusion on this issue was clearly seen in the Gulf crisis, thought a Danish participant. On the one hand, the U.S. had wanted stronger combined European action. On the other, it did not want a united, fixed European position inside the Alliance.

It was a view widely held among American speakers that public support for NATO in the U.S. was not something the Europeans should take for granted. Referring to comments made about a possible nuclear-free zone in Central Europe, a speaker said that U.S. public opinion would not accept a security strategy that shifted the risk of nuclear conflict to the U.S. More important, American public support for NATO and the strong commitment of the U.S. to it could be eroded by a perception that the threat had diminished and that the Europeans were not doing their fair share. At a time when domestic U.S. military installations were being closed for budgetary reasons, said an American, it would be difficult to maintain public support for the presence of U.S. troops and bases in Europe unless it was clearly enunciated that a Soviet threat remained.

The continued need for security. A number of speakers addressed the issue of maintaining NATO as a security alliance. A Belgian said that, at the top of the Alliance's agenda, was the need for "continuing to defend the same principles and ideals we had been defending for more than 40 years." Our security needs had changed, but not our need for security. The Soviet Union remained a superpower on the European continent, and the situation in Eastern Europe remained uncertain. Thus, NATO's defensive role should not be challenged.

An International participant saw NATO as "more convinced than ever about its future purpose." The security premises had changed, but security remained very important, and the Alliance was adapting. There could be no security without a strong military element, and the stability and security that the West had enjoyed was due to the integrated military system of the Alliance. This had to be maintained.

It was natural, in the view of an American, that, when an institution had succeeded, there would be talk of adapting its role to take on new tasks. The problem with this was that the institution might not be particularly well-suited to the new tasks, and might "retard the emergence of new institutions better suited." There was a danger of losing sight of what NATO was still necessary for. So, rather than try to assign new tasks to the Alliance, it would be better to preserve it for its intended purpose, at least until we had a better sense of the dimensions of the residual Soviet threat.

In the view of an International speaker, that threat remained considerable. The Soviet military had agreed with Gorbachev on the need for change, but they expected that the military structure would not materially change. They have since found it difficult to live with change and they have been trying to preserve as much of the military capacity as possible. This had been evident in the various arms control talks, where the Soviets had fought to keep as high levels as they could get. They still had 13,000 tanks and at least 45 divisions available for a European conflict. Thus, NATO still had to think in terms of a military response to the threat.

Other participants expressed concern about the size of the Soviet nuclear arsenal. Whether it was in a process of fundamental change or not, the Soviet Union still maintained enormous destructive power. A Greek speaker suggested that desperate Soviet, or Russian, leaders could, in a possible future scenario, use their nuclear arsenal for economic blackmail.

The continued presence of nuclear weapons and the need to negotiate major reductions was cited by several speakers as another rationale for the maintenance of a strong NATO.

Western policy toward the Soviet Union. An American speaker offered this appraisal of developments within the Soviet Union. There was a dilemma between dissolution and unity. It was unreasonable to expect the nationalities to live contentedly under the Soviet system. Yet there were some "rather extreme examples of nationalism," of attempts to break up a "potentially promising economic cohesion of the area." In any event, there was no possibility of preserving the Russian-dominated union; to do so would cause the nationalist pressure to "tear the country apart." The only kind of solution that was possible was one in which a different sort of union was created, one which the key nationalities considered it in their interest to preserve. This was a problem that Western policies could not solve, or even do much to help them with. Our policy should be hands-off, with the exception of the Baltic states, which, for legal and historical reasons, were a different case.

In addition to the nationalities dilemma, continued the speaker, the Soviet Union was faced with the dilemma of its emphasis on the military. They simply could not continue it without exacerbating their other problems. They were faced with a stark choice. If they sought to preserve their military capacity, their economic system would fall apart. This and other pressures suggested that the military threat would diminish.

A Dutch participant argued in favor of a two-pronged approach to the Soviet Union. First, we should recognize that the political and military threat could once again become a problem. Hence, we had to continue with NATO. But we should also move toward the integration of the Soviet Union in Europe. This could not be accomplished in a short time, but we could start by developing trade relations, possibly including inclusion of the Soviet Union in GATT, and other specific forms of cooperation.

In regard to the matter of integrating the Soviet Union into European structures, an American argued that this would be a mistake, and the West should clearly differentiate its approach to the Soviet Union from its approach to the East European countries. These countries should be moved toward Western Europe, he said, and, in so doing, Western security would be greatly enhanced. But, countered an International participant, we ought to avoid isolating the Soviet Union and increasing their already great feeling of humiliation at having lost the former Warsaw Pact countries.

VI. DO WE HAVE THE INSTITUTIONS TO DEAL WITH THE AGENDA?

Introductory Remarks
I.

The transatlantic relationship brings together the world's two largest trading zones, the two principal centers of democracy and liberalism, the two principal exponents of transnational cooperation and integration, the two regions with the greatest global outreach and sense of global responsibility. The relationship between those two zones, the transatlantic relationship, is the central axis around which the international system revolves. The management of this central relationship, the depth, the intimacy, the functioning of that relationship, is decisive for the development of history. And there is one very simple fact that we should not lose sight of: if Europe and North America stay together, they decide—or at least influence to a large degree—the course of history. If they break apart, they have lost the game.

The next fact: against any superficial evidence, interdependence grows. The Europeans need the Americans, today as much as yesterday, and tomorrow even more. Why? First, the military reasons, which are not the most important, but they are still there. Of course the drastic threat has receded. But looking at the map, at the military potential of the Soviet Union, whatever happens there—even if they would split up and end up with a Russia—it would still be the dominant military power of the Eurasian continent. So history tells us there is a need for strategic balance—in political terms as well. Europeans alone cannot do it. Second, Europe needs the political presence of the United States. The Eastern European leaders are especially aware of this. Even Gorbachev has said Europe needs American presence in Europe. He may have different motives, but the result is what counts.

Looking at Western Europe, the moment the Americans would withdraw politically from Europe, the old power play would restart. Unfortunately the Europeans have not yet reached a state where the process of European unification would go on as it does without the firm political commitment of the United States to Europe. The moment the Americans disengage, some will feel the need to control the Germans. And the Germans of course will react. And other alliances will form: alliances, counter-alliances, and so on. The dynamic of the European process of unification, which the Alliance supports, might not continue without the presence of the United States. So the question for the United States is to disengage or remain here, firmly committed.

The Americans also need the Europeans. Luckily enough, the Americans are now really the only remaining superpower. There can be no world order without a world power which firmly commits itself to that international order. But the United States alone cannot do the job forever. They need the Europeans; they need this other power center. (And, they need also more responsibility taken by the Japanese.)

The fourth reason why interdependence grows is tomorrow's global challenges. Neither the Europeans nor the Americans will be able to solve them alone. So we need each other, and that means that this relationship remains decisive.

Who organizes that relationship? Who manages it? It is the Atlantic Alliance. Who could replace it? Where is there another institution? This is really the main reason for NATO's existence—to manage these trans-Atlantic relationships. We are not looking for a new enemy, a new role, and so on. The role is there. NATO has always been much more than a purely defensive and military alliance. During the cold war this was overshadowed, but it was always a political alliance, and it is even more so today. It is a community of values and of destiny.

If you don't understand that, you don't understand the profound rationale for this alliance. If you want the Americans just to protect the Europeans—a kind of umbrella which is only used when you need military assistance—that is not the vision of the Alliance and you won't keep the Americans here. They have to have their political influence, their political share.

NATO's primary rationale now is to be the anchor of stability. In the face of transition, where instability is natural, where do you find stability? The Japanese Prime Minister has said that NATO must be maintained; it is *the* global factor of stability. That means if you want to have something which gives you stability in the process of change, you need this alliance. That's one rationale.

The second rationale is combined with two processes which we see unfolding at this very moment, and which this alliance has to support and promote. So we see ourselves as not only an anchor of stability, but as promotor of change. These two historic processes are West European integration, the creation of a new security structure for the whole of Europe, including the Soviet Union.

It is not true that the United States or the Atlantic Alliance is against European integration or against the process of a common foreign and security policy. The U.S. needs this as much as the Alliance needs a strong Europe, a united Europe. Only the modalities have to be established. If that means that the Europeans get together, and form an opinion, and then say to the Americans "take it or leave it", we will destroy the Atlantic Alliance. So it has to be a process where they agree. We have just had a very successful meeting in Copenhagen where we agreed on the framework, setting out the core functions of NATO, clearly stating that NATO remains the principal forum for consultation and decision, clearly supporting the process of European unity, including European security and defense. So the way for the Europeans is open.

What we ask for is not rhetoric. What we ask for is contribution and shared responsibilities. It is up to the Europeans now to decide. We have defined the core functions and we have clearly stated the complementarity. Now let the Europeans make their own decisions and fill the framework which we have just set up.

Regarding relations with the other countries of Central Europe and the Soviet Union, we know the differences between the Soviet Union and the Central and Eastern European countries. We have to try—and that is what we are doing—to offer them cooperation in order to build a new security structure together with them, not isolate them, not to put them out of Europe, not to create a very dangerous situation, knowing that the relationship will be a complicated one. You have to balance them on the one hand, to make sure, by your own defense posture, there will be no temptation to use military force. But on the other hand, you must build on that; offer them cooperation; take them in. That is the process in which we are seriously engaged. It may fail; who knows? That is why at present we are not offering membership to the Central and Eastern European countries in NATO. Some of them would like to join. What we offer them is liaison—broadening and deepening. What we offer them is the building of the CSCE institutions which they know cannot replace the stability of NATO.

We have gone one step further in Copenhagen; redefining our strategic interest and making it very clear to the Soviets that this undertaking really rests on the assumption and condition that they establish friendly and good neighborly relations and do not try to re-establish a zone of influence. As soon as they try to do so the cards will be newly shuffled. That means all our options are open. They have an incentive to build up a constructive relationship with Poland, Czechoslovakia, Hungary, and so on. And we will try to help them. Our duty is to try to create this kind of a new Europe based on a framework of interlocking institutions. That is why NATO is trying to strengthen the CSCE process. That is why we are encouraging European unity.

In summary, we are trying not only to provide stability, but promote change, and we can only master that gigantic task if the Europeans and the Americans stay together in this unity of purpose. So we are profoundly transforming our Alliance, not only in strategy, not only in structure, but in the vision of the future.

Introductory Remarks
II.

It is unlikely to be true that Western institutions created decades ago to respond to a divided Europe, East-West confrontations around the world, and a proximate Soviet military threat on this continent, are exactly right in every respect in mission, in membership, and in practice to deal with the transformed world in which we now live. In other words, change is necessary in the institutions.

Bad national policies will quickly infect Western institutions. Or put differently, Western institutions—no matter how ably led—cannot transcend myopic or wrong-headed policies in national capitals.

Regarding adequacy of our institutions, in the security dimension, NATO has responded rapidly and artfully to the new Europe, and it is making good progress towards redefining itself in ways that continue to capture public support.

As for the CSCE, it has made three important contributions to Europe since its inception. It allowed the West in the early 1970s to persuade the Soviets and the rest of the Warsaw Pact to begin the conventional arms control process, which produced the CFE agreement. It gave the West, in the 70s and 80s, a forum to highlight Soviet and East European human rights abuses. And it provided, in July of last year, at the NATO summit in London, a crucial element in Gorbachev's decision to acquiesce in the unification of Germany within NATO.

However, I think the CSCE may have already had its finest hours. It may already be an aging, formerly notable player on the European stage. With its rule of consensus, its lack of military capabilities, its diverse and divided membership, its frail institutional capabilities, it's no wonder that the East Europeans who were mesmerized by the CSCE a year ago, as the future security architecture of Europe, have now come to the sensible conclusion that only NATO can fill this function. Thus their desire to join the Alliance.

The CSCE will sputter along causing no particular harm, but to change the metaphor, it is not a plank one would want to put too many bricks on any time soon.

US-EC political consultation remains largely unsatisfactory. Unfortunately we have not made very much progress in this regard since the Davignon committee and the Year of Europe. This is largely because of the French concern that an intimate consultative arrangement with the United States will shrivel EC integration.

Concerning the WEU, the Administration's response was overly negative to the initiative which was at play at the time. But it may be too harsh to put the entire burden on the United States for the prospect that a WEU independent force is now dying of its own weight. As someone once said, the WEU is a princess that has been kissed many times, but never awakened.

Regarding the European defense identity, even the most ardent US supporters of European integration and the second pillar will worry that the unsatisfactory pattern of US-EC political consultation for about twenty years would carry over in the US-EC consultation on security matters. So it seems natural that Americans would be concerned.

Although it is indispensable for NATO to maintain a military capability we all know that many of the international problems of the 90s are unlikely to have a military response as their answer. In this regard the Gulf War is likely to be the exception, rather than the rule. Those moral enthusiasts who wish to see Western military force used to sort out each and every human rights abuse around the world, are going to be disappointed. Instead, Western governments will mostly ignore these situations, unless they occur in areas important to our interests. Instead we are going to spend our energy on prevention and crisis management, rather than military intervention.

Since issues of political economy are going to be important in the international environment in the 1990s, and decisions by Western governments with regard to the international environment will often be dominated by political issues, the G-7 is a prospective institution made to address many of the problems of the next decade. It has the right membership; it includes the EC commission, which is crucial in the building of the new Europe and in the matters at hand; it is small and allows—even encourages informal discussion in ways the larger institutions do not—an inclusion of the Japanese. That is absolutely crucial, as we look to the 90s, that the Japanese acquire the benefit of Western strategic perspective and analysis, and get a sense of participating in Western strategic decisions. Putting it differently, allowing the West's relations with Japan to be dominated by bilateral trade issues has had a predictable and unpleasant consequence, which may well get worse after the cold war unless we do something institutionally about it. And do we really wish Japan's view of the future of the Soviet Union to be entirely dominated by four small islands? Though they have resonance in domestic politics, they will have little to do with the future of Northeast Asia and the Soviet Union's relationship to the West. And we need Japanese resources to meet the challenges of the 90s. Only the G-7 provides a suitable forum for this intensified Japanese strategic involvement.

With respect to the agenda itself, it seems many of the issues aren't being discussed in a strategic way anywhere. Western economic aid to the Soviet Union, the relationship of aid to the Soviet Union and that to Eastern Europe, Western policies toward China, toward South Africa, toward North Africa, all are matters the G-7 has dealt with before. The environment, terrorism, aid to the developing world—these matters cannot be decided in NATO. There are some mechanisms to discuss them there, but they are not going to be seriously discussed in NATO in a comprehensive fashion, and certainly decisions on these aren't going to be made in NATO, because they are "out-of-area". The US-EC consultative channel remains impoverished on these strategic matters. So let me put a proposal on the table for your consideration: the gradual evolution of the G-7 into a much more formidable institution, with a Secretariat, a G-7 institutional site, perhaps in Brussels, G-7 permanent representatives, along the lines of the NATO council, regular and frequent meetings of G-7 foreign ministers. These matters are too important to only be left to our friends in G-7 treasuries. All these innovations would be appropriate to the strategic challenges the West faces in the 1990s.

Such innovations in the G-7 would not be a cure-all, obviously. They couldn't overcome misguided national policies, and they could in no sense replace NATO's functions. But these innovations would recognize how different our world is, now that the cold war is over, and would recognize the importance of Western instruments of political economy in managing the international environment of the 1990s.

Introductory Remarks
III.

NATO's core function—defending our area—needs no new institution. There is also a second function of NATO, and that is of arms reduction on the European continent. In fact,

NATO is an organization which provides the framework to translate political aims into specific possibilities, and then to put common decisions into practice. The third function of NATO is confidence-building, a prerequisite for achieving results we have agreed upon already, and to achieve new possibilities.

As for the Alliance in its broader political concept, no new institutions are needed, but a political will to use the mechanisms. It is the responsibility of the countries working together in the Alliance to bring the Uruguay Round to fruition in the next six months. How could we lecture Eastern Europe on a market economy, if we ourselves are not able to achieve free trade? The Alliance must also deal with arms control on a global scale: biological, chemical, nuclear. It is not only an East-West problem; it has become a global problem. The fundamental problem of the proliferation of nuclear capabilities could be the new threat.

Another example is Western out-of-area operations. They could be possible in the future, and we have to act as united as possible. NATO itself is not the vehicle for out-of-area operations. But at the same time we have to be as realistic, from the political point of view as from the military point of view. The Alliance provides the political basis for communication, as much as possible based on the United Nations Security Council.

The European Community is changing and developing; we are working now on a political union and a monetary union. The political union aims to strengthen the democratic aspect of Europe and to broaden the community's reach from the economy to other areas. Among these is the foreign policy. The foreign policy will be part of the political unity. But this raises institutional questions. What will be the role of the Commission? And, in relation to that, what does it mean for the European Parliament?

As to foreign policy, which cannot be separated from security policy, here we touch on the relation of the European Community to NATO. The debate is still going on, but there are likely to be three new elements in the political union. First, certain topics will be part of the union and its normal procedures, such as arms export policy, defense industry, and the European stand in non-proliferation questions. Second, security policy in its political dimension will be part of the treaty, with a special procedure. Third, there will be in the future the possibility of a defense organization, but not until the second half of this decade, when the WEU treaty expires.

There is no disagreement among the member states about these elements. First of all, everybody understands that it would be stupid to jeopardize NATO. Secondly, capitals—especially London and Paris—are certainly not prepared to bring their capabilities into an integrated European defense system. Third, foreign policy is influenced by developments in the Eastern European countries.

The WEU may be a sleeping princess, but it is a nice princess, and an excellent organization playing traditionally a very modest role, which is good. For example, it was useful as an instrument to integrate Spain, and especially the nuclear policies of Spain, into the NATO concept. More recently, it has been used to coordinate European efforts out-of-area. It is a structural coordinating mechanism for a European out-of-area rapid deployment force, which should and can only function in close coordination with the United States.

Regarding the CSCE and the larger Europe, there are three baskets. The first basket is human rights, democracy, fundamental values. Here we have the link today to the Council of Europe, a very important institution, with more and more East European members. It provides an opportunity for many initiatives having to do with the so-called social fabric of society. The second basket is security, arms control, arms reduction, confidence-building measures. etc. The third basket is the economic basket. First of all, the European Community should open up its market completely for Eastern Europe, without dragging our feet any longer on textiles, steel, etc. Secondly, the mechanism to make it attractive for companies to go East should be stimulated by the European Bank for Reconstruction. Thirdly, we should facilitate integration by efforts in selected areas, such as energy, the environment, and infrastructure, especially transport and communications. In this approach it is partly a question of private business and partly of public utilities. In this way, we can channel knowledge and management skill to Eastern European countries.

You do have to make a distinction between the Eastern European countries and the Soviet Union, not for fundamental but for practical reasons. We face a double challenge as Europeans. We need an integrated vision of Europe; to help East European countries to become effective members of Europe, to develop initiatives like opening up our markets, and other types of economic assistance, and finally the practical day-by-day work in politics and private industry. This is an integrated vision; it would create a European continent in freedom in accordance with the values of the Alliance.

Discussion

The role of NATO. A German speaker began the discussion with some remarks on the role of the Atlantic Alliance in a changing Europe. NATO was "the most successful alliance in world history." Its problems stemmed from its success, but they nonetheless were problems. The role of NATO was going to change drastically; in the future its task would be "reinsurance and reassurance" more than anything else. The transatlantic relationship was important, but NATO would not continue to be "the central axis of that relationship."

NATO, the speaker continued, could not be the manager of the transatlantic relationship, of East-West relations, of North-South relations, and of world trade. Nor could it monopolize security matters. Here, there was a role for a more distinct European defense identity and for an expanded security role for the CSCE. NATO's initial reaction to the end of the cold war had been a distrust of these elements. Recent NATO decisions also indicated that it was trying to "save the threat," which, politically, did not seem to be realistic.

Several speakers emphasized that NATO was not, and had never been, strictly a military alliance. It was, said an Italian, much more than a security alliance because the Communist challenge was a global one, with ideological, social, and political, as well as military, dimensions. But those other aspects of the threat had collapsed, and only the military threat remained. So the political goals of the Alliance had to be redefined. The risks it faced were different, wider risks, some of which were out-of-area.

A Spaniard argued that we should not be in a hurry to make changes, because circumstances were changing so rapidly. There was a danger that, if new strategies were decided upon too soon, they might prevent "the normal evolution of European political integration and the construction of a European security element."

The European pillar. A number of speakers saw the further development of the European community as being a key element in the strengthening of the European pillar. In the past, observed an Irish speaker, the Iron Curtain had paradoxically provided a certain stability for the development of the EC in the sense that it had indicated clear boundaries within which development could take place. True neutrals stayed out of the Community, and the limits of growth were reasonably clear. Now the Community faced both widening and deepening at the same time. It was important for the EC to define for itself a role in defense, or it risked excluding true political union in the future. This was because the widening process would produce new membership applications, and some of them would contain caveats about how far members were willing to go in the context of European union. Thus, it was crucial for the EC to develop goals which included security and defense.

A German agreed with this assessment, saying that there was a danger in the EC enlarging before defining its political identity. The result would be a "diluted community."

The integration of the Eastern European countries was supported by several speakers. Said a Briton, they should be integrated into the security and trading future of Europe as soon as possible. By bringing them into NATO, said another speaker from the U.K., we would be giving them a "sort of security guarantee which was not a security guarantee."

The West-West link. The link between Europe and the U.S. and the American presence in Europe were seen as continuing necessities by a number of participants. An Italian saw a close link between the U.S. and Europe as being "a crucial element of stability in the world." Said a Spaniard, the link must be permanent, even if the Soviet threat was reduced. To view the development of a stronger European pillar as a threat to the transatlantic link was mistake. Whatever European security dimension emerged, it would have to be complementary with NATO.

An American speaker characterized the importance of the U.S.-Europe link as "the only way to prevent the re-emergence of the struggle for dominance among European nations in both the security and the political areas."

The dilemma facing Europe, said a Briton, was to erect a strong pillar without giving American voters the impression that a U.S. military presence in Europe was not necessary. A Dutch speaker agreed that Europe should not appear to the U.S. to be going its own way.

Several American speakers warned that it was not a foregone conclusion that the U.S. would always want to provide the umbrella for Europe. Their willingness to do so, said one speaker, "depended on what happened under that umbrella." Said another American speaker; the U.S. understood there would be change, but it wanted the right to be part of the process.

A final participant from the U.S. observed that there was an emerging American attitude, resulting from the decline of U.S. economic predominance and the apparent lessening of the military threat, that questioned the traditional commitment to European defense. The Europeans, meanwhile, had become so used to American hegemony that they felt free to make proposals that appeared more forward-looking than the American positions. In this new atmosphere, it would be well for the Europeans to be careful of what they recommended, as the U.S. might accept it.

VII. ECONOMIC AND FINANCIAL THREATS TO THE ALLIANCE

Introductory Remarks
I.

The populations of our countries will lead in time rather than lag behind the military reality. In the U.S., for example, there will be at least a 20 percent reduction in defense spending. And that is the absolute minimum decrease that is possible. It was negotiated in last year's budget agreement, and that was one of the reasons why President Bush signed onto what proved to be a very unpopular—especially in his own political party—budget agreement. He wanted to make sure we had a floor under defense spending. It is important to understand that this floor exists only for the next three years, and that the notion of using the remaining defense budget as a bank to fund other things has been rampant in the United States for some time. Working out a sensible military and security strategy with the United States has to take into account these economic and political realities. It is important that people have that in mind in Europe when they talk about where the security relationship is going.

The perception of a decreased threat will generate much more pressure to redefine national security as economic security, and national security threats as economic security threats. To some extent that is legitimate. Threats to each or all of our economies' growth and the ability to provide rising standards of living to our population are certainly threats. Threats that would hinder our economies in such a way as to threaten our legitimate national security capabilities are also certainly legitimate threats.

It is likely that we will see a resurgence of economic nationalism that will lead to increasing pressure for protectionism and far greater trade conflicts, as security and stability, which have been the hallmarks of defense and foreign policy posture, increasingly come to be defined as protecting the economic status quo ante. This includes entrenched economic interests—the existing firms at the expense of new entries into the market, current technologies over new innovations, or keeping new technologies off the market to protect the owners of existing ones. This kind of incipient redefinition of economic security, which already has a small but vocal minority force in the United States, is very costly and very dangerous economically,and it is one of the legitimate threats to the Alliance.

The notion about where the international economy is going tends to evoke in people in foreign ministries desires for new institutions to manage it. That is something that most economists, regardless of their ideological stripe, tend to recoil from with horror. Because a large part of the natural evolution and growth in our economy will proceed naturally if we keep our markets open and well functioning. The single biggest economic problem we are going to confront, and the kind of thing that is likely to cause problems for our foreign relations and our military relations, will be substantial deteriorations in our economies. This may take the form of something very dramatic and abrupt—a severe world-wide recession, for example—or the threat of a gradual but inevitable loss of economic vitality, growth and productivity. Some have alleged that this is inevitably the lot of the United States, that we'll be surpassed by Europe and Japan. If either of those things occur, they will put into place a great many types of forces which could pose a threat to our alliance.

As a general historical statement, international economic cooperation in the last two or three decades has been far greater than it was in prior decades. And it has been generally successful. So, we now ask what can be done to assist Eastern Europe, and also the developing world, because many potential problems are coming our way economically and politically from the developing world. The very simple answer is that the single most

important thing we can do, which will dwarf any conceivable amount of technical assistance or direct financial assistance, is to sustain economic growth, and maintain and enhance and expand the openness of our economies. The real threats to these countries, as they develop and try to make these transitions, really is the threat to our own growth and openness.

We have all been far too complacent about economic growth in the advanced industrial economies. Perhaps that was because we had a very long economic expansion. There has appeared to be the assumption in the OECD that the movement toward a more integrated market in Europe would simply guarantee robust economic growth, not only through 1992 but thereafter. 1992 was deemed to be a panacea, a magical elixir for economies. And while undoubtedly much of what goes on in that process will be good for Europe's economies, especially for the poorer of the European economies, such as Spain or Portugal, it is important to understand that there are no guarantees in the laws of economics and the nature of economic events. Governments have not been able to come up with any foolproof insurance policies against major economic problems. Neither 1992 nor the North America Free Trade Act nor a successful Uruguay Round are guarantees. They are important steps in the right direction for the nations involved; they will lead to progress; not doing them would lead to a great deal of acrimony and a possible severe downturn in the economy. But it has usually been almost impossible to foretell where the next world-wide economic problem is going to come from. So the threats to growth and openness fall into several categories, some of which are obvious and some of which are not.

First, bilateral trade frictions continue to be of concern, and there are an immense number of them among all countries included in this room and many others, backed up against a successful conclusion of the Uruguay Round. If the Uruguay Round fails, there will be a substantial amount of bilateral trade friction, much of which has been put on hold pending a successful conclusion of the Round. But it is also important to understand that the Uruguay Round is not the end of that process. It is one more important step—a large step if successfully done—a process in the right direction. But that will not be the end of concern about growth and openness and trade friction.

Second, there is an anti-growth mentality of people who believe that the status quo is preferable to growth. This comes from a variety of quarters, and is most obvious and extreme in the environmental movement, whose leaders think of growth as antithetical to the values they would like to impose on their fellow human beings. While an improved environment is not free, it is costly. We can have sustained economic growth and a sensibly improved environment, and there are ways to make the costs of a sensibly improved environment bearable for our economies. But there are, in each of our countries, some real extreme environmentalists who really want to totally stop growth per se as a value in and of itself. At times those particular groups have had some substantial political influence and may again do so in the future.

Third, there is a fear of technology and innovation in relation to possible short-term displacement and reallocation of existing labor. Despite the current recession in many countries and despite the fact that much of Europe has a very high unemployment rate, we are going to see in the United States, Canada, and Western Europe over the next couple of decades, a demography that suggests it is going to be very difficult to have rapid labor force expansion unless people work much later in life than they are currently choosing to do. That is going to mean either substantial pressure for immigration, or pressure for labor-saving technical change, and it is going to mean that the onus of economic growth is going to be placed ever more on capital formation, innovation, entrepreneurship, and advanced technology. We have seen specific episodes of this in various quarters, but it will become more intense because we are approaching an era in which the elderly portion of the populations of Western Europe, the United Sates and Japan, is going to grow very rapidly in the next couple

of decades. That will also put interesting pressure on public social insurance programs, on capital markets, on saving instruments, on private insurance programs, and on the structure of families, which increasingly will see four generations alive simultaneously. And that is going to create strains on many of our existing institutions.

As these different types of changes occur, one of the great lessons of economic history is that mankind is adaptable,and has been able to take advantage of technical change and innovation to create substantial improvements in standards of living. There is a great temptation to resist that and to set up bureaucratic organizations to try to manage things. Sometimes this is for noble reasons, and sometimes it may well be necessary and desirable. But we should try to realize that internationalization and globalization of the economy is primarily a good thing, not a threat, and should be allowed to proceed at its own pace.

Regarding Japan, we have a great stake in an outward-looking, open Japan. It is not easy to negotiate with the Japanese, and there are some serious bilateral frictions we all have and we all work on. But it would be a tremendous threat to the world economy and world stability if Japan turns inward and isn't integrated into the greater global community, beyond just exporting its products.

Thee are two other things worth mentioning. One is the oil market. It seems to be quiescent at the moment, but one could conceive of a time a decade from now when there would be another massive disruption in the Gulf. For the very foreseeable future, for the next quarter century, our economies are going to heavily depend on oil from the Gulf, where two-thirds of the world's proven reserves are. Even if we all decided to go much more rapidly than our populations seem to be willing to allow us in nuclear technology or something else to generate our energy, we are going to be relying heavily on oil from the Gulf for two or three decades at least. So the Gulf is one area where there could be threats. We did very well this last time around; hopefully that could be done if something happened again.

Turning to the U.S. economy, which has been in recession, there is a good likelihood that, in the technical sense, the decline has ceased and a rebound has begun. Only time will tell. It is unlikely to be robust for many reasons, including continued problems in the availability of credit, partly due to the regulation of our financial institutions; an impending large fiscal drag coming from our state and local systems, and so on. Much more a matter of concern is our long-term economic growth, our productivity growth. While the U.S. has the highest absolute level of productivity and the highest standard of living in the world, its productivity growth rate has not been all it could or should be. Without a renewed emphasis on the factors and forces that lead to enhancing economic growth, some of these concerns about the U.S. looking over its shoulder at Japan will begin to influence our population and enter into our foreign relations much more than they do now.

Much of the rest of the world is also in recession. It is doubtful that several other economies in recession will be out as soon as the U.S., and there is likely to be a substantial slow-down in some of the countries that are still doing well.

Introductory Remarks
II.

As far as economies are concerned—economic policy, fiscal policy, and particularly monetary policy—cooperation amongst the members of the Alliance has very much improved over the last 17 to 18 years. since the break-down of the Bretton Woods system. The G-7 was established in 1973, and among the finance ministers involved were two who went on to become leaders of government. They continued the G-7 cooperation.

As far as today's finance ministers are concerned, the cooperation is still very close and has much improved over the years. We do not need an institutionalization of the G-7; we should leave it as it is, as far as the G-7 finance ministers and central bank governors are concerned. We have enough institutions in the field of economic and fiscal and monetary policy.

First of all we have the IMF which, after a long period of stagnation in the 70s, has become, together with the World Bank, the leading international institution for coordination and cooperation. There are now 55 countries under IMF programs, so the IMF is a kind of world government. It plays a very helpful role in the coordination process to prepare the G-7 meetings.

We also have the G-10, which does not play a very significant role as far as the finance ministers are concerned, but plays a very useful role amongst central bankers. The G-10 central bank governors meet every month; and cooperate very closely. But it is not in the press; it is in the background, which is appropriate. The G-10 has played a very useful role in the last 10-15 years in many areas. For instance, when the debt crisis started in 1982, it organized a bridge credit for Mexico within hours, just on the telephone. The G-10 is a very efficient group. One very recent example is the capital adequacy rules which were agreed upon.

What we need is close coordination of our policies. Coordination does not mean that everybody is doing the same thing at the same time. This is especially true with respect to the very recent dispute on interest rates, which was no threat to the Alliance, but caused a little tension within the Alliance. It is widely recognized and acknowledged that different circumstances need different policies.

The United States is still in a recession and it wants low interest rates. Germany, on the other hand, is in a completely different situation. West Germany, which is 90 percent of united Germany, economically speaking, is enjoying a very strong boom, with four or five percent real growth. Germany has a dramatic increase in its budget deficit—up to five percent of the GNP this year—very unfavorable rate settlements, and inflationary pressures, so it would be inappropriate to lower interest rates. Germany has few problems in exchange rates. We have seen inconvenient volatility in exchange markets over the last years. But the dollar/D-mark/ECU exchange rate is not of the same relevance as it was in the 70s. In the dollar area, and in Europe, trade within the area has become much more relevant. In the case of Germany, for instance, almost 70 percent of foreign trade is now within the EEC. The instruments to hedge risks have been developed to an extent which makes it much easier today for businesses to cover this kind of risk. Europe enjoys very stable exchange rates within the Europe market systems, which is good news.

The only bad news in this context may be the GATT negotiations. The European position seems to be rather protectionist and not very much in line with the liberal traditions we have developed in some European countries after the war. This is particularly true in agriculture. It is very positive that we were able to keep markets open after the breakdown of the Bretton Woods system in 1973, in spite of two oil crises, in spite of the debt crisis, and in spite of many other tensions. On balance, world trade amongst the developed countries has developed quite favorably, and there is no reason why that should not be the case in the future.

The economic and monetary future of Europe has developed much further than most people are aware of. This is certainly the case if we look at the markets. The markets are more important than the institutional changes which are always in the limelight. The markets in Europe have developed very well towards economic and monetary union, the classical definition of which is a region without any restrictions on the movement of goods and services, people, and capital. This is one element of an economic and monetary union:

absolute freedom of transactions amongst the members. The other element of an economic and monetary union is fixed exchange rates which, in the last stage of an economic and monetary union, become irreversibly fixed. This means that the national currencies are becoming substitutes in a system with universally fixed exchange rates; i.e., the French franc is the same as the D-mark, etc. From there it is only one small, but very far-reaching step, to one single currency.

If we look at the markets for goods and services, it is very obvious that there are many restrictions left within the EC. The 1992 program will remove the last restrictions which still exist and lead to a more level playing field. This doesn't mean everything must be harmonized; the markets can do the job. But we have to make some progress. As far as goods and services are concerned, we are moving very fast towards a single market without restrictions. As far as people are concerned, some but not all countries have agreed to remove all border controls.

The third element is the monetary integration. There also we have made enormous progress and are very close to a monetary union amongst a group of countries in Europe, where changes in exchange rates for the foreseeable future are not envisaged. This is very close to a monetary union. This group of currencies is becoming larger and larger in a fixed exchange rate system, starting with those who had narrow margins amongst their currencies from the beginning: France, Germany, the Benelux countries, Denmark, and Ireland. Italy joined the club of narrow exchange margins more than a year ago, and has so far been able to defend this narrow margin. On the other hand, Italy is still a little bit out of line as far as inflation is concerned. Their inflation is significantly higher than the rest of the group. And Italy has the highest budget deficit of the group (more than ten percent of GDP), which makes it more and more difficult for Italy to stay in this narrow-margin group without losing competitiveness.

In a second group are Britain and Spain, which have a wider margin, so they can still use the exchange rate instrument for adjustment of imbalances. Then there are two other countries which do not participate in the exchange rate mechanisms: Portugal and Greece. Portugal will join very soon. There is also a fourth group, consisting of countries which have linked their currency to the ECU, or to the D-mark: Austria, Sweden, Norway, and Finland. So the EMS, the fixed exchange rate system, is becoming bigger and bigger, and more important for world trade. This has some relevance for the future of international monetary systems.

This will continue, provided we can maintain the standard of price stability in Europe which we have achieved. This, and the convergence of economic development among the countries with narrow exchange rate margins, was and is the basis for the functioning of that system. This refers directly to the D-mark, which has provided an anchor of stability for the system, and cannot be taken for granted. We have to try very hard in Germany to provide this anchor in the future. The preconditions for that certainly are becoming more difficult, with the budget deficit, trade surplus, etc. The Bundesbank will do everything it can to maintain this role as an anchor of stability. But there is always a risk in all countries that, in such circumstances, the central bank monetary policy will be overburdened. We can decide only on interest rates and liquidity, but not on fiscal debts and wage settlements.

There is a second element, which is the institutional side. That is what is negotiated in the intra-governmental conferences on political union, defense, and the creation of an economic and monetary union. What we are really trying to do in these conferences is to create the institutional and legal framework for common decision-making. The real issue is that decisions not be taken by national institutions but that we either create institutions to take common decisions or move the decision-making process on the national level up to the community level.

This means that the participants have to be ready at one point in the process to give up very important rights, including the right to decide—in the case of a monetary union—on interest rates and liquidity, which has consequences for fiscal policy in other areas as well. The Committee of Central Bank Governors has finalized a very far-reaching proposal for a statute for such an institution, which would enable the European Community to make decisions in monetary policy on a common community level. It remains to be seen if the governments and parliaments of the European states are really ready to give up these sovereign rights to a supranational institution. It is a long process. It was already decided that this would not happen before the end of this century. So we should not expect common decision-making in monetary policy very soon. The new institution, which shall be established on January 1, 1994 and which may carry the name European Central Bank is not the institution for common decision-making. It has already been decided that this institution will not have the rights to decide on interest rates, etc. It is only an institution which is responsible for the coordination of monetary policy.

There is a final aspect we should have in mind when we talk about the future of Europe and which will finally change the face of Europe very significantly. That is the widening of the EC. Austria will soon be the next full member of the EC. There will be other countries. Some have applied, others will. The most important question in this context is what are we going to do with the countries in Eastern Europe: Poland, Hungary, Czechoslovakia. We should not try to block the membership of these countries. They are European countries and the European Community is not a West European Community, it is a *European* Community. Countries like Poland, Hungary, and Czechoslovakia are old European countries. The EC will change its character, and we have to think about what kind of Europe we want. We will have to include all European countries. Even Turkey is applying for membership, but there is a question of whether Turkey is a European country. The EC will have to become much more federalistic, and we may have to envisage different degrees of integration.

Discussion

The role of the G-7. A number of speakers addressed the recommendation of an American that the G-7's role be expanded to deal with the whole range of issues facing the developed world, and that this role be institutionalized. An important rationale for this proposal, said its author, was that the G-7 already addressed the full range of geopolitical issues, economic, political, and strategic.

But, said a Dutchman, we already had suitable institutions, including, GATT, the IMF, and the World Bank, among others. To some extent, they were being weakened by the G-7. It was the view of a Briton that the G-7 should not be made responsible for the totality of problems facing the developed world. There were simply too many problems to be included on the G-7 agenda.

Yet one of the reasons put forward in favor of the G-7, namely the inclusion of Japan, was compelling in the opinion of another speaker from the U.K. Because of the risk of Japan's turning inward, there was no alternative to using the G-7 for political and strategic consultation. This could be done without setting up new secretariats or institutions. There was a real danger of serious Japanese resentment at constantly being asked to contribute financially to international activity, peace-keeping, and Third World development, while at the same time being blocked from full political and strategic consultation with the West.

GATT and the multilateral trading system. The successful completion of the Uruguay Round was seen by many as being crucially important. An Italian expressed

concern about what he saw as a potential for regionalization, as Europe increasingly focussed on trade with Eastern Europe, the U.S. on North American trade, and Japan on trade in the Pacific area. We could arrest this tendency toward regionalization by finishing the Uruguay Round as soon as possible so as to strengthen the multilateral trading system.

An American agreed that regionalism was a concern, but he commented that U.S. fears of a "Fortress Europe" had been largely mollified. The intention of the U.S. government in seeking a North American free trade area was to expand openness within the continent and certainly not to decrease it between North America and Europe or Asia. It was intended to be complementary to the expansion and liberalization of multilateral world trade, not a substitute for it.

Speaking from the European perspective on this issue, a German said that the same kind of integration was going inside Europe. We did have to be careful not to create either a Fortress Europe or a Fortress America. Europe, in the speaker's view, had avoided this risk by liberalizing its capital markets.

It was a Briton's particular concern that, in spite of its benefits, international competition could have consequences that were "profound and destructive" to working people. It was reasonable for those who had to pay the price of this to expect their governments to pursue policies which fairly balanced interests. Too often, governments did not do enough to achieve free and fair competition.

In this vein, an American argued that free trade relationships had to be managed in a way that was "less destructive to working people." He cited the Multi-Fiber agreement as an example of this that, while not perfect, had been fairly effective.

This touched off a debate about the pros and cons of the Multi-Fiber Agreement. A speaker from Ireland called it "one of the most perfidious mechanisms in the world of free trade." It had not served developing countries at all and had denied them access to the world's richest markets. A Briton countered that the Multi-Fiber Agreement "had not intolerably restrained competition." Rather, it had made competition more fair than it would otherwise have been. The speaker commented that "its sins (were) nothing compared to the Common Agricultural Policy."

That remark prompted several interventions on the Common Agricultural Policy. A Canadian opined that agriculture was the most important issue at the Uruguay Round. Much progress on a variety of issues had been made in the negotiations, but it was in danger of being lost unless we could "get over the hurdle of agricultural problems." The cost to the OECD of agricultural subsidies and support has been $300 billion. A German commented that Europe's agricultural policy was becoming unsustainable because of its great expense, which amounted to two-thirds of the EC budget. It was also not sustainable because the need for the EC to open its market to agricultural products from Eastern Europe, where agriculture was particularly important, though productivity very low.

On the broader subject of trade between the EC and Eastern Europe, an American observed that the value of this trade was currently around five percent of total EC trade and was predicted to rapidly grow to 25 percent. This reorientation of Eastern Europe toward the West would be at the expense of the developing world and posed a problem for the West that would have to be addressed. A German agreed with this, saying that, while the developed countries had enjoyed many benefits of the increase in world trade, the developing countries had been largely left out.

Widening the European Community. Several speakers expressed support for widening the European Community by admitting, as rapidly as possible, the other countries of Europe, including those in the East. This prompted a British participant to warn that such widening "should not be at the expense of deepening." It was important to push ahead with the adoption of measures to make the EC stronger, such as completion of the monetary union.

In the context of this part of the discussion, the issue was raised as to whether Turkey constituted a European country, which certainly had a bearing on its application to join the Community. A German suggested that the issue was complicated by the fact that Turkey was an Islamic country. A Turkish participant responded that, "if Turkey was good enough for the defense of Europe, then it was good enough for political and economic integration into Europe."

The U.S. economy. A Canadian voiced worry about budget deficits and debt in general, and of the U.S. in particular. To what extent did the alarming growth in the U.S. debt and its apparently out of control deficit undermine its capacity to lead the West?

To an American speaker, the problem was not so much the size of the deficit as what the money was being spent on. Because of enormous expenditures on such things as health care and interest, the U.S. was not investing in the future, and thus faced the prospect of falling behind competitively. Another American warned that American voters were increasingly asking why more of the nation's budgetary resources were not being spent on the domestic agenda.

Responding to these questions and statements, a third American argued that there was "an immense misunderstanding of the U.S. deficit," and that, for a variety of technical reasons, the deficit situation was not as serious as many believed it to be.

* * *

At the conclusion of the discussion, a Canadian participant offered the following poem, by A.P. Herbert:

MUSINGS ON CURRENCY - 1950

Will nobody ravish the dollar?
Why from rape should the rouble have rest?
Is there no wily Turk who will carnally lurk
And seduce a piastre with zest?
Must the pengo remain unpolluted?
Is all lust for the lire quite dead?
Will none for a lark take a mark in the park?
Or debauch a fair dinar in bed?
Perhaps I am speaking too frankly,
But why should Britannia be mocked?
By pesetas and francs lying virgin in banks,
While sterling's continually blocked.

VIII. CURRENT EVENTS: SOUTH AFRICA

Introductory Remarks
I.

Millions of South Africans, black and white, are no doubt staying home waiting for Mandela and de Klerk to send them direction, peace, tranquility, economic security—free of racial tension so they can get on with their lives. My suspicion is that Mandela wakes up many a night and longs for the solitude and confinement of Robin Island, and de Klerk, from time to time, probably wishes they were cellmates.

My first trip to South Africa was in 1976, a month after the Soweto riots. I went as a Director of the Xerox Corporation to see for myself and to test my views on disinvestment. What I remember most about that memorable trip was my first encounter with the South African government in the person of the customs officer who asked, as I passed through, not whether I possessed guns, ammunition, explosives, or drugs. He asked me what books was I bringing into the country.

My last trip there was as a member of the Secretary of State's Advisory Committee on South Africa, when I was met by a high-ranking government official, taken to the VIP room, and treated as if I were coming to a Bilderberg meeting. On my first trip there in 1976 I met with low level government officials who were barely civil. On my last trip, I met with the head of state, the secretary of foreign affairs, members of Parliament, and was cordially received.

In direct response to internal and external pressures there is no question but that South Africa has changed and is changing, but there is the nagging question as to what the end shall be. Government by its very nature is a responsive-reactive process. The reforms in South Africa, informal and formal, are not the result of government initiative, but are responses to the outrage of the world community and domestic pressures to begin a process of righting historic wrongs.

Last year the South African Government repealed the Separate Amenities Act. This year it has repealed the discriminatory Land Acts and Group Areas Act. Dialogue and negotiation have replaced persecution and repression as government policy for resolving South Africa's many problems. The government ended the State of Emergency last year and has permitted free political activity and an open press. The government has had considerable progress in releasing political prisoners and arranging for the return of South African exiles. Nelson Mandela and Oliver Tambo are the most celebrated examples of these two government policies.

Although formal negotiations have not yet begun, de Klerk, on February first, endorsed the ANC's call for an all parties conference to discuss how to move into negotiations. The timetable for beginning constitutional talks is unlikely to begin until the second half of this year. The ANC is working toward an August date for a Patriotic Front Conference for opposition groups, and it wants to draw other opposition groups into the process to work out common positions. The Inkatha Freedom Party, led by Chief Buthelezi, has agreed to take part in the all parties conference. The Pan Africanist Congress has hinted that it might participate.

Clearly, violence between the Zulus and the ANC has severely tested the peace process. On April 5th the ANC issued an ultimatum to the government on violence and demanded that the government take a number of actions by May 9th, or it would break off negotiations. The ultimatum by the ANC may have prompted the government to speed up the release of political prisoners and to intensify efforts to control the violence.

By the end of May, de Klerk reached agreements with Mandela and Buthelezi. The government agreed to phase out the all-male township hostels, often used to house Zulus outside of their native Natal province. It agreed to insure police impartiality and to ban the carrying in public of traditional weapons.

In response to progress in the peace process, the European Community has lifted its bans on new investment and on iron and steel and gold coin imports from South Africa. Other countries in Europe, Africa and elsewhere have taken similar moves to loosen restrictions on trade and contact with South Africa, some publicly, some not.

The United States is bound by the provisions of the Comprehensive Anti-Apartheid Act of 1986, which sets five conditions for lifting sanctions. The government of South Africa has met the following conditions: (l) the unbanning of democratic political parties, (2) agreement to enter into good faith negotiations, (3) lifting the state of emergency, (4) repeal of the Group Areas Act. The government must still release all prisoners persecuted for their political beliefs or detained unduly without trial. And it must repeal the Population Registration Act. If these conditions are met, the US legislative sanctions automatically terminate.

Thusly, the following issues are raised by the progress that has been made:

1. South Africa's 30 million black majority could only vote on the parliamentary issues of reform with their feet—their blood, sweat and tears of protest, because they cannot vote.

2. The reforms track almost exactly the preconditions listed in the U.S. legislation for lifting sanctions—a response to international pressure.

3. Has implementation of these reforms been impeded by tactical stonewalling by the government? Have complex and laborious bureaucratic obstacles been established to block full implementation? For example, in repealing the Land and Group Areas Act, the government is permitting local communities to institute their own "norms and standards" which would carry the force of law.

4. Are the reforms geared toward breaking the isolation imposed by the international community, while conceding as little as possible on the ground? Is the goal here to abolish apartheid while maintaining white power—to liberalize without fully democratizing?

5. How strong is Nelson Mandela physically and politically? Has Winnie Mandela's conviction eroded his influence? If he gets sick or dies, who becomes the symbolic and authentic leader?

6. How will the anti-apartheid movement resolve the issue of leadership between returning exiles and those leaders who remained in South Africa?

7. How will the reforms affect the momentum of the international anti-apartheid movement, and what form will that momentum take? Will it go the way of Reverend Leon Sullivan?

8. Can ways be found to stimulate the South African economy—the key to the economy of all of Africa—on the theory that good economic times will facilitate the process of change?

9. Is one-man, one-vote possible in the new constitution, while protecting the rights of the white minority, or is some form of power-sharing the answer, short term? Is the deal here to trade what has so far been a white monopoly of power, which can no longer be maintained, for a white veto over how power is used?

10. And finally, will the international community assume that the reforms are enough and go back to business as usual, or will it stay the course until change is complete?

I do not have the answers. I doubt that Mandela and de Klerk have them all. Answers notwithstanding, there is freedom in the air in South Africa—freedom for blacks and freedom for whites. And the leaders, de Klerk and Mandela—if they win, South Africa wins, and if they lose, South Africa loses. And if they in fact really lose, then God help South Africa.

Introductory Remarks
II.

I am basically optimistic about South Africa, and my optimism is based on three things.

First is the quality of leadership. It is a mistake to impute motives to de Klerk on the reason he is dismantling apartheid. No one should underestimate the great courage that is required of him to do this. It is not only the repulsive system of apartheid that he is tearing down, it is the entire history of racial relations in that country. In the 350 years the whites have been there, there has not been any institutionalized system of racial fairness at all. The closest that they seem to have come to it is the attempt at multi-racial democracy under Buthelezi's inspiration in KwaNatal. And we shouldn't lay all of this on the Boers. Even otherwise distinguished English governors like Milner and Rhodes were, in this respect, not distinguished at all.

Mandela is equally clearly a very widely and justly respected leader. He has borne up with a great stoicism under his unjust imprisonment of 27 years. But like anyone who has been out of the play for so long, he sometimes seems like a gramophone record stuck at the point he was removed. Some of these dreary platitudes of his about nationalization of business and his protestations of friendship for Castro and Kaddafi and the IRA and Arafat really sound like the utterances of a Flat Earth Society. He is a sincere moderate, and de Klerk wants to help him prevail on behalf of the forces of moderation within the ANC, who are being sorely challenged.

Buthelezi has equally been persecuted by the South Africans for refusing to become a sort of Uncle Tom, and for declining to negotiate with the Pretoria government while Mandela was incarcerated. He's been reviled by the international left for imposing sanctions on the so-called arms struggle. He is a very distinguished leader of a very strong group.

The second reason for optimism is a matter that has been commented on throughout this Bilderberg meeting in other contexts: the decline of the international left. There surely is a good deal of suffering and misery in the black townships and squatters' camps in South Africa. But there are still large numbers of people pressing against the borders of South Africa, seeking entry. They are fugitives from the shambles of some of the front-line states, self-professedly Marxist, and the impending likely victory of Savimbi in Angola (a victory that might have occurred many years ago if the United States Congress had not pulled the rug out from under Henry Kissinger and the President he served). These facts have not gone unnoticed by the black population of South Africa.

The third and most important reason for optimism about South Africa is that the principal political and sociological fact about that country is that it cannot be governed without the two strongest groups in its demographic patchwork: the Afrikaaners and the Zulus. And the Afrikaaners finally have renounced their attempt to impose a system based upon racial arrogance. Neither the Afrikaaners nor the Zulus will accept a system of the extreme left. In those circumstances, the pathway towards a regime of reconciliation and moderation is not clear and certainly will not be easy. But the extremes, for those reasons, will be avoided.

No one should underestimate the tenacity of the Boers. They are not like other European colonists in Africa. They have been there for 350 years; they embarked on their great trek in 1838 in part because they declined to live in a British Empire that had abolished slavery. When the British Empire tried to gather them in at the end of the last century, they produced a war that lasted three years, until the British injected one trained soldier for every man, woman and child of the Boer population. They burned all the crops and fields, and

herded the whole population, or practically all of it, into detention centers. The Boers are not less tenacious now, as far as can be judged, and they are, in African terms, a military and police super state. Fortunately, this power is being directed in a very positive direction, for motives that are credible, at least for the present.

A few predictions can be made: First, the Inkatha party of Buthelezi, and Buthelezi himself, have to be recognized. It is all very well for the ANC to invite him to a patriotic front meeting and give ultimatums about the disarming of Zulus, because they happen not to be in their homeland of KwaNatal. But the fact that Buthelezi has been systematically denied—not by Mandela, who appears to be well disposed towards him—but by the more extreme elements in this fissiparous monolith of the ANC. He has been denied his rightful status as the third player in the political stage in that country, and this should stop. A good deal of the violence in the townships would cease if the ANC would cease this pretense that all tribal and political movements have been subsumed into it.

As to the ANC, it is coming up to a conference, and we will have to get some indication from them whether they are moving to the left or staying somewhat in the center. It is not clear. De Klerk would certainly like to help Mandela and the moderates within the ANC, but it is absurd for the ANC to advocate retention of sanctions, while advocating increased investment and job creation. It is absurd for the ANC leaders to advocate sanctions while they can be seen every night on television being conveyed around in elongated late model Mercedes-Benzes. It is absurd for them to pretend to have any capacity to conduct an arms struggle or any disposition to do it. In twenty-eight years, they haven't blown up one bridge; they have killed a couple of settlers near Botswana. They are not an effective military force and we should perhaps be thankful for that.

On the question of sanctions, beyond this point and beyond the definitive dismemberment of apartheid in a couple of months, they and the continued quarantine of South Africa do not punish the racially offensive people. They punish those of every group, and every ethnic group, who have courageously torn down apartheid. And that surely is not the purpose of sanctions.

Finally, what about the constitution? De Klerk has said that he plans a huge devolution of power to the states. So it will be, to the maximum degree possible, not ethnic groups being governed by other ethnic groups, but self government at a local level. The central legislatures will have two houses: one man/one vote, and the other supposedly modeled on the US Senate, having equal weighting for each so-called culture. Now that will have to be very delicately defined not to replicate some of the evils of the previous system. But it is not just for the protection of whites. The East Indians are frightened of the Zulus, the Xhosas are frightened of the Zulus, the whites are frightened of the Xhosas. The Zulus appear not to be frightened by anybody, but don't much want to be told what to do. The system is not one man, one vote. It is, in de Klerk's phrase, a vote of equal value for everyone. And, on such a system as that, it would be the most exemplary democracy in the world, except for the countries represented in this room, and not more than ten others.

The polls now show 40% for a united ANC, a little under 30% for the Nationalists—the governing party—and 15% for Inkatha. And de Klerk and Mandela are running approximately even in the whole country as the most esteemed politicians in the country. This is a remarkable achievement for all of these people.

For Mandela to be there at all after what he has been through, and for Buthelezi to be so close to holding the balance of power, considering how he has been reviled by the foreign and domestic left; and de Klerk to be even with Mandela as the most respected politician in the country is certainly more progress than one would have dared to hope for when we last addressed this subject at Bilderberg in Gleneagles in 1987.

Discussion

Current developments in South Africa. An American who had recently returned from a visit to South Africa was impressed by the progress being made toward real reform. It was his fifth visit during a 20-year period, and he had found, for the first time, a "positive face on people of all walks of life within the country." For the first time in South Africa's history, all the various groups were participating in the government and were working toward a mutually agreed upon constitution.

To get to that point, many steps remained to be taken. First, arrangements for a constitutional assembly had to be decided upon. Would the participants be appointed or elected? In any event, there was no doubt that there would be a constitutional assembly, probably later this year.

Meanwhile, of course, there were serious problems to be overcome, including the violence in the black townships, the poor economic status of the blacks, the high cost of housing, and a great deal of unemployment.

At present, the Zulus, led by Buthelezi, appeared to be working closely with the government. The role, and the future of, the ANC was something of a question mark at this point. How much did the ANC and Mandela represent black opinion? To what extent could Mandela lead, and who might his successor be?

With all of this uncertainty, there still was great reason for optimism. The various groups were in a mood to reach a constitutional settlement. There appeared to be a grassroots level government developing in the townships and municipalities, separate from the national government, but working well with it. This presented great hope for the development of a multi-racial government in South Africa.

Several speakers commented on the ANC-Zulu situation. A Canadian pointed out that it would take a long time for social customs to change. There could be no quick fix. It was clear that the Zulus would not let the Xhosas, who mostly made up the ANC, dominate the negotiations. It was an Austrian speaker's view that the West should not favor Buthelezi and be more sympathetic toward the Zulus because they appeared to be more moderate. We should not contribute toward tribal rivalries. We should and must accept whatever was designated by the majority of blacks and their tribal representatives.

In this regard, another Canadian agreed that we should not reassert tribalism, but we should not pretend that it did not exist. It was an important part of the make-up of the people of South Africa. We should not forget, for example, that Buthelezi was not just a political leader; he was also a tribal chieftain. As to the ANC, the speaker continued, de Klerk was wary of its connection with the South African Communist Party.

An American voiced the opinion that Mandela and Buthelezi would be able to find an accommodation. On the question of Mandela's links to people like Castro and Arafat, it should not be forgotten that these people were his friends in his years in prison, and it was understandable that he should acknowledge that friendship. On the general situation, it was true that de Klerk had shown great courage and leadership. But leadership without consensus would not get him far, and courage without support would lead to defeat.

The role of sanctions. An American raised the issue of sanctions and the role they had played in influencing reform in South Africa. What lessons had the West learned about the use of sanctions in support of moral values? Certainly, human rights was a growing part of the West's policy agenda, and economic sanctions were a legitimate tool in seeking human rights aims. In the case of South Africa, sanctions certainly played a role in bringing about change. It was the banking sanctions that were the most effective, because they impacted the South African government's ability to deal with internal problems. They were effective

because they were multilateral. The unilateral sanctions were not particularly effective. They did not stop the flow of goods to South Africa. As far as the U.S. was concerned, they were mainly a matter of U.S. domestic policy. Certain other countries, notably Japan, declared sanctions but then circumvented them through various subterfuges. In general, when applying sanctions, it was necessary to have a high degree of solidarity among countries. Otherwise, sanctions would not be effective.

A German speaker elaborated on the role of banking sanctions. They had had a big effect on South Africa as far as credit flows were concerned. But the end result was, in an ironic way, favorable to South Africa. Without IMF bank credits, South Africa had to pursue "prudent and restrictive policies." It was forced to repay its debt, and its debt level was thus substantially reduced. It had pursued a tight money policy, so inflation, while high, was on the way down. Capital inflows had started again; interest rates were lower than in most developing countries, and, in general, the financial outlook was favorable.

Even if sanctions had had an uneven economic effect, said an Austrian, they had had a great moral effect. South Africa had felt excluded from Western society, and this sense of moral ostracisms had had a profound effect. A Canadian agreed that the greatest impact had been on the pride of South Africans, but, at this point, we should perhaps bear in mind the comment of former Prime Minister Thatcher about "making things better by making them worse."

Said an American, the debate about sanctions should be put behind us. We needed a debate that went beyond sanctions, beyond apartheid. There was not a great deal of time, as South Africa was nearing a "tipping point" as regarded violence. The real question for Westerners was how to convince South Africa to move toward reform, rather than how to push them toward reform.

A speaker from Canada argued that "the punitive approach had become outdated." Now, no single factor was as important in bringing about reform as economic growth and the development of a prosperous black middle class. The West should abolish what was left of sanctions and encourage investment as well as sport and cultural exchange. The support of the international community was essential for de Klerk; he could not achieve his goals without substantial foreign aid and investment.

Developments in the rest of Africa, and beyond. A Portuguese speaker said that South Africa could not be isolated from all that was happening in the region of Southern Africa. There had been a weakening of Soviet influence in the area. The achievement of a peace settlement in Angola had been made possible by cooperation between the U.S. and the Soviet Union. This was important to the whole area. Another factor influencing the region was the policy of South Africa to destabilize its neighbors, which presumably would now stop.

Other speakers felt that developments in South Africa would have repercussions beyond the region and on the rest of the continent. This, in turn would be important to Europe, said a French speaker, as the fate of Europe was closely related to that of Africa.

The reform process in South Africa could also have an important influence on the rest of the continent.

IX. CURRENT EVENTS: YUGOSLAVIA

Introductory Remarks
I.

There are nine different players on the political chessboard in Yugoslavia: six republics, two autonomous regions, and one central government. The six republics are Slovenia, Croatia, Bosnia/Herzegovina, Montenegro, Serbia, and Macedonia. The two autonomous regions are Kosovo and Vojvodina. The central government has the reputation of being a government without a country.

The inter-relationships between those various chess players has been historically complicated. Serbs and Croats are the main antagonists and, even in this century, we've seen a lot of atrocities and terrorism carried out between Serbs and Croats—carried out by military or para-military formations on either side, on the grounds of strict nationalistic approaches. We have seen pictures and TV reports showing people in uniforms not belonging to the military or the police. Those are historic uniforms of the military formations of traditional nationalistic groups of both Serbia and Croatia.

So far, the one and only politician who succeeded in establishing political unity in this melting pot was Tito. He did that on the grounds of a common enemy during World War II, namely the German army, which the Yugoslavs, led by Tito, fought in a guerilla war. He succeeded in establishing unity based on the Communist party, and on the grounds of a police state order. After Tito's death, disintegration started, slowly and gradually, but with no turning point so far. Disintegration has been fostered by a silly political rotation system that Tito left to his successors. This system meant that in the so-called State Presidium, the chairman should be changed, and had to come from a different republic, every year.

This rotation system has led to political paralysis and ultimately to economic disaster. The Slovenes and the Croats are the driving forces behind the will to change that multinational system, with the chief aim being to reach independence from the central government.

The Yugoslav Central government is often wrongly thought by outsiders to be the same as the government of Serbia. This is probably due to the fact that the capital of the whole country is Belgrade, and the capital of Serbia also is Belgrade. So when one speaks of Belgrade, one does not always distinguish between the Serbian government in Belgrade or the Yugoslav government in Belgrade. This is very important, because many people think the Slovenes and the Croats wish to get away from the Communist government in Belgrade.

The government in Belgrade is a Communist one if it refers to Serbia, but it is not a Communist one if it refers to Yugoslavia. During the last two years there were free elections. Only Serbia and Montenegro went on to have Communist majorities. The Communist Party decreased to marginal importance in Slovenia, Croatia, and even Bosnia. More disintegration continues.

So what are the prospects? First, Yugoslavia in its present form is probably not going to continue. There is no indication that Serbs and Croats can agree on a single item about the future. There are no indications that they agree on anything. Slovenia, on June 26, will most probably declare independence. When Slovenia declares independence, this will be a crucial development in terms of how the other republics react. The Slovenes definitely would ask for recognition, and for economic and financial aid and support, because they are a country of only two million people. 65 percent of their exports go to Yugoslavia so, if they get out of Yugoslavia, most probably those exports won't continue any longer.

If Slovenia gets out, the question will come up immediately: what is Croatia going to do? And Croatia is a much more complicated republic. Slovenia's population is made up

mostly of Slovenes. But there are some 800,000 Serbs living in Croatia. And the Serbian President, Milosevic, very frequently has declared that he is not going to let his Serbs go away. And when it comes to Bosnia, many more problems would come up because, in Bosnia, there are not only Bosnians, but also Serbs and Croats. These mixed populations greatly complicate the issue of independence for Yugoslavia's republics.

Westerners generally have the view that Yugoslavia shall stay together. That is probably not going to happen, at least in the present form. More recently there seems to be a slim hope that they may sit down and negotiate.

So for the immediate future there are two main points: first, to avoid economic breakdown; second, to avoid any kind of physical, military, or police intervention, either by the central army or the police forces of the republics. These goals are very much complicated further by the confusing process that is going on with respect to nominating a state president. Under the rotation system, the Croat representative of the State Presidium should take the chair. But, for some reason, they have decided to change the rotation system by not only naming the man, but also voting for him. And there is a stalemate in the State Presidium with the Serbs and the Montenegrans on the one side, and Slovenia, Croatia, Macedonia and Bosnia on the other side. This appears to be four against two, but the Serbs nominated a representative of Kosovo/Vojvodina on their own behalf, so it is four against four. This stalemate means they cannot agree that the Croatian representative should become president.

There is one more point, about Kosovo. Kosovo is an autonomous region in the middle of Serbia. It is inhabited mainly by Albanians. The Serbs claim that the Albanians bully the 10 percent Serbs in Kosovo and, therefore, the Serbs have deprived the Albanians of any democratic rights. There is more or less a military or police occupation. This is a CSCE matter, because of the violation of human rights against the Albanians.

Introductory Remarks
II.

More or less everything in Yugoslavia is pointing towards disintegration. The first question is why are we not accepting the reality of letting Yugoslavia go towards its future of splitting into six or more republics? The answer is very simple, because it is clear what the consequences of such a disintegration would be. Internally the risk of civil war will be very, very high. A direct external consequence is that the disintegration of Yugoslavia and establishment of a Serbian state with hegemony in Kosovo and Vojvodina will bring immediately the risk of a clash with Albania. There are also indirect external consequences. There are many people in Bratislava and in the Baltic republics who are waiting to see what will happen on June 26th in Slovenia. If things continue on their own, the risk of a negative example spreading all over Europe could become very high. There are also people waiting in Moscow. The army, for example, is looking to Yugoslavia and wondering if they will face a similar situation. For the Yugoslav army would be obliged to intervene in cases of civil war or unilateral secession. And the external reaction will be to say if it is possible in Yugoslavia, why not in the Soviet Union?

For these reasons the European countries, and the United States, have to try to deal with a very difficult political situation. The European factor is the only one which can be utilized to influence integration and not disintegration. One thing is clear in the public opinion: they do want to join Europe. That is true for the Slovenes, the Croats, and the Montenegrans. And so we are trying to utilize this political weapon. To send the message: if you want to join Europe you have to stay a united and democratic Yugoslavia.

We have tried to make clear to public opinion inside Yugoslavia, taking into account the fact that this message is not very popular, especially in the northern part of Yugoslavia, that united and democratic would mean also a *different* Yugoslavia. That means we are in favor of an institutional, constitutional change. We may never see this kind of Yugoslavia for these reasons: if Yugoslavia remains untied without constitutional changes, it will not be democratic. It will be a Serbian-hegemonized and not democratically centralized government. If it remains democratic, but without constitutional change, it will not be a united Yugoslavia. The leaders of the republics do understand what could be not only the risk, but also the consequences of a unilateral move towards disintegration.

The EC sent an important, extraordinary mission to Belgrade a few days ago. It was the first time we have sent a mission chaired by the president of the Community—the Prime Minister of Luxembourg—and the President of the Commission, Jacques Delors. They not only repeated the message, but articulated it. The Council of Ministers totally supported this position. That means not only that we are still more than ever in favor of united and democratic Yugoslavia, but we also are ready to make the message specific. First of all, we want respect of human rights. Secondly, we want respect of the existing constitution framework, including the location of the Presidency. Third, we warned against any type of violence. Fourth, we warned against transgression of internal borders.

Jacques Delors has clearly said that the Community is ready, in the case of a peaceful and positive settlement of the problem with constitutional change, to extend strong support to Yugoslavia. This would take the form of starting negotiations for an association agreement similar to the agreements we are now negotiating with Poland and Czechoslovakia, and also extending directly or indirectly, through the international financial institutions, substantial economic and financial support. Although there has been no formal decision in the Community, Delors spoke of a magnitude of four or five billion dollars.

The result of the last meeting of the six presidents of the republics in Sarajevo was that, for the first time, there was agreement, at least in principle, to examine a proposal for staying together. This proposal addresses the Serbian position in favor of the existing centralized Yugoslavia and the positions of Slovenia and Croatia, which say they could accept only a very loose confederation. The intermediate position is labeled a "closed confederation", a union of six sovereign republics agreeing to stay together, and giving the confederate government responsibility for currency, foreign policy, defense, and so on.

It seems that there is still a possibility that peaceful negotiation will prevail. The position the EC has decided to take is to give a clear message to the Slovenian leaders that the European Community will not accept a unilateral declaration of independence. We will repeat this again in the next few days, and next week a written document will be approved, warning them that, two days after the 26th, there would be a European summit, where the leaders of the European Community will tackle this position.

At the same time,we are trying to deliver a similar strong message to the Serbian leadership. Because we have made very clear that if the Serbian leadership were to continue to block the appointment to the Federal presidency, it would create a situation in which all the other European states would see no other possibility than to support the Slovenian/Croatian position.

One cannot be sure about the outcome for a very simple reason. Our moral suasions and our political messages can work with respect to the leadership of the republics. But nobody really knows what could happen with the public opinion at large; in the villages inside Croatia, inside Bosnia and so on. The strange mixture of democracy and heritage of the past could bring very negative results.

Discussion

European policy toward the Yugoslavian situation. A Greek speaker led off the discussion with the view that there was no justification for Europe to support the breakaway of any of Yugoslavia's republics. The situation was very different from that of the Soviet republics, because they had been united by force, while the association of Yugoslavia's republics had been voluntary. Yet what happened in Yugoslavia would greatly influence developments in the Soviet Union, particularly in the sense that the Soviet army would be influenced by whatever action Yugoslavia's army took with respect to breakaway republics.

A number of speakers, referring to both panelists' opening remarks, expressed concern that the EC was taking a position that it did not think would work: to try to prevent disintegration when it felt disintegration was inevitable. And if it was inevitable, asked a German, what was being done to prepare for the inevitable? What were the European options, asked an American. Were more interventionist options being considered?

A Belgian speaker saw the situation as the first time the EC was faced with dealing with something unforeseen. What was its capacity to act, to back up its words with action? To what extent could it support the credibility of its position? What were the options in the security area, asked an international participant.

Other speakers raised questions about using various European institutions to deal with the Yugoslavian crisis: NATO, CSCE, the *Pentagonali*, etc. An Italian speaker felt that the situation was outside of the purview of the Alliance, that secessionist governments would have no right to appeal to NATO. As for CSCE, the central Yugoslavian government would have to approve, as it, and not the republics, was the signatory to the Helsinki Accords.

The *Pentagonali* did have a possibility of exerting some influence.

The problem of self-determination. A number of speakers underlined the practical obstacles to promoting self-determination in Yugoslavia. A Greek speaker expressed concern about a rekindling of the old Macedonian problem. Another Greek pointed out that Kosovo presented a particular problem, because its majority Albanian population were deprived of rights by the Serbs and because, as the cradle of Serbian culture, it was as important to them as Jerusalem was to the Jews. Mixed populations in most of the republics, pointed out an Austrian speaker, made the problem of self-determination a difficult one.

In general, the discussion of the Yugoslavian question raised more questions than answers, but the consensus among participants in the discussion was that it was Europe's duty to try to prevent the disintegration of Yugoslavia.

CLOSING

In closing the conference, the Chairman, Lord Carrington, observed that the issues dealt with at Bilderberg meetings for many years arose from a "very cold world climate," which was expected by most people to go on indefinitely. But the world climate had changed, and could now be considered not exactly hot and sunny, but "unsettled with sunny intervals."

This change in the world climate had been very much reflected in the discussions at the present Bilderberg meeting, and the debates had dealt with the problems of change. It was extraordinary that distinguished people today were questioning whether there was any longer a credible threat from the Soviet Union.

With regard to the Soviet threat, the Chairman advised that we be cautious about discounting it. History showed that we should be prepared for the unexpected. It was a far longer process to build up forces than to reduce them.

Finally, Lord Carrington expressed his thanks to all those who had contributed to the discussions. And, on behalf of all the participants, he thanked the German hosts, Hilmar Kopper, Christoph Bertram, and Otto Wolff von Amerongen; the conference organizer, Günther Dicke; the staff of the Steigenberger Hotel Badischer Hof; the security staff; the Bilderberg Secretariat, led by Maja Banck; and the Honorary Secretaries-General, Theodore Eliot and Victor Halberstadt.