96th Congress } JOINT COMMITTEE PRINT
1st Session }

THE U.S. ROLE IN A CHANGING WORLD POLITICAL ECONOMY: MAJOR ISSUES FOR THE 96TH CONGRESS

A COMPENDIUM OF PAPERS

SUBMITTED TO THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

JUNE 25, 1979

Printed for the use of the Joint Economic Committee

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LETTER OF TRANSMITTAL

JUNE 20, 1979.

To the Members of the Joint Economic Committee:

I am pleased to transmit for the use of the Members of the Joint Economic Committee, other Members of Congress, and the interested public, a compendium of papers entitled "The U.S. Role in a Changing World Political Economy: Major Issues for the 96th Congress."

This compendium of papers, which was initiated last year under the direction of Representative Bolling, is intended to provide for the congressional nonspecialists balanced, factual discussions of the major international economic and related policy issues likely to be considered by Congress in 1979 and 1980. In order to make this collection responsive to the needs of legislators, specialists in each subject were asked to define the issues, provide background information, and describe the various policy options, possible outcomes and potential congressional roles.

It should be noted here that many of these same issues are involved in the committee's ongoing Special Study on Economic Change (SSEC). Here, in a time frame of the next two decades, some of these problems are being studied in the context of providing various long range policy options for the Congress to illuminate paths to alternative futures.

The compendium we are publishing was prepared through a collaborative effort of the Economics and Foreign Affairs and National Defense Divisions of the Congressional Research Service of the Library of Congress, and the staff of the Joint Economic Committee. I wish to take this opportunity to thank the Congressional Research Service and those congressional offices and executive agencies for making available the services of the authors who contributed to this project.

Planning for the compendium was conducted by William W. Whitson, Alfred Reifman, and Mark M. Lowenthal, of the Congressional Research Service, and Richard F. Kaufman of the Joint Economic Committee staff. An advisory panel assisted in the planning and the selection of the issues. Members of the panel were John Ford, Alton Frye, John Hardt, Hans Heymann, Kent Hughes, Brent Scowcroft, and Jeremy Stone. Editing and coordination were performed by Mark M. Lowenthal and Richard F. Kaufman.

It should be understood that any views contained in these papers are those of the authors and not necessarily those of the Joint Economic Committee or individual members.

Sincerely,

LLOYD BENTSEN,
Chairman, Joint Economic Committee.

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INTRODUCTION

(By Richard F. Kaufman* and Mark M. Lowenthal**)

The papers in this volume were prepared to provide Members of Congress with succinct discussions of the major issues in the area of the international political economy that they can expect to face during 1979 and 1980. The goal was to produce a reference work that would be useful to policymakers in the legislative branch.

Any attempt to select from the almost endless list of issues in the international arena 40 or so for detailed treatment must involve a degree of judgment. Doubtlessly, there are topics omitted from this volume which could and perhaps should have been included. But to treat all the important issues would have required several volumes, an effort which would have defeated its purpose.

The persons responsible for planning the project had three principal concerns: First, that the volume discuss those international economic issues most likely to be debated or the subject of legislation during the 96th Congress; second, that the issues selected have major budgetary or economic significance; and third, that the discussions be analytical, balanced and thorough.

To achieve these objectives each author was asked to follow a format requiring a brief definition of the issue, a description of the background of the issue and its relationship to the American economy, and an analysis showing the most plausible outcomes and consequences for international stability and the international economy, the U.S. role and sources of controversy among American policymakers with respect to resolution of the issue, and the possible role for Congress during the 96th Congress.

The volume, as implied by the title, focuses on the changes taking place in the international economy, their effects on the U.S., and the implications for Congress. The essays are divided into four categories:

The International Economy includes discussions of economic issues that are important to the U.S. as well as the rest of the world. The essays in this section deal with the system of floating exchange rates, the balance of payments, the multilateral trade negotiations, transfers of technology, development assistance and trade relations with the Third World, energy and environmental problems.

In *The International Political System* the authors analyze political and military issues that have an important economic dimension and are significant for the U.S. Included here are essays on U.S.-Soviet relations, SALT, conventional and nuclear arms proliferation, human rights, international institutions and terrorism.

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*Assistant director-general counsel, Joint Economic Committee, Congress of the United States.

**Analyst in National Defense, Congressional Research Service, Library of Congress.

Under *Regional Issues* there are two types of essays: those concerning U.S. bilateral relations with Mexico, Japan, China and Taiwan; and issues that involve regional groupings of countries such as economic relations with Western Europe, East-West commercial relations, U.S.-Latin American economic ties, the U.S. economic role in East Asia, the Pacific Basin, the U.S. role in the Middle East and the U.S. role in Africa.

The concluding section, *Foreign Policy Management Issues* contains analyses of the roles of Congress and the Executive, the organization of the defense and intelligence establishments, and proposals to reorganize foreign economic policy mechanisms with respect to economic development assistance and international trade.

Throughout the volume the emphasis is on analysis rather than prescription, and on tailoring the discussions of public policy issues to the unique needs of Congressmen. While each essay is self-contained and can be read separately by those interested in only one or several of the subjects covered, the essays are cross-referenced and organized in a way that provides a comprehensive view of the international political economy from an American perspective.

I. THE INTERNATIONAL ECONOMY

OVERVIEW[1]

(By Alfred Reifman*)

1. The Policy Issues

In broad terms, the United States and the rest of the world face three major economic problems:

First, how to make the world economy more efficient so that it can meet the needs of an expanding population at the lowest cost in human and material resources.

Second, how to make the world economic system more equitable to reduce the extremes of poverty and affluence.

Third, how to manage the increasing interdependence of a world in which governments relinquish sovereignty only reluctantly.

The answers to these problems may emerge as we consider in this section a number of specific questions: limiting inflation and unemployment, reducing barriers to foreign trade, protecting U.S. industry from injury caused by imports, dealing with the U.S. balance-of-payments deficit and a floating (or sinking) dollar, coping with the energy problem, and providing aid and trade opportunities for poor countries. To consider them intelligently, they need to be put in the context of a changing world economy.

2. The Changing World Economy

Today's world economy is shaped by five major developments:

A sharp break in the rapid economic growth of the quarter of century since the end of World War II. Whether this slowdown is temporary or not is a crucial, though open, question.

The growing economic integration, or interdependence, of the nations of the world.

The changing economic balance among countries, principally the erosion of America's domination of the world economy and the rise of Germany, Japan, and Saudi Arabia.

The persistence of widespread poverty in the developing countries.

The threat of shortages of oil and other natural resources.

Each will be discussed in turn.

(*a*) *Growth.*—The economic success of the years 1945–72 was unprecedented. World output tripled, rising by over 4½ percent per year. The fruits of success were shared widely, by developing as well as industrialized countries.

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[1] Unless otherwise noted this report considers only the market economies, omitting the Soviet Union, China, and Eastern Europe.

*Senior Specialist in International Economics, Congressional Research Service, Library of Congress.

However, the massive shocks the world economy received in the first half of the 1970's—particularly the quadrupling in the price of oil, the worst peacetime inflation in modern history, the deepest economic recession and highest unemployment since the 1930's—may have seen an end to the Horatio Alger success story of the preceding generation. Economic growth has slowed markedly in all the industrial countries since 1973. Indeed, many of the problems began in the mid–1960's.

A new era of economic pessimism has replaced the earlier optimism. The themes have changed from "The Affluent Society" to "The Limits of Growth." There has been serious concern about the possibility of Malthusian starvation for widespread groups of people in different parts of the world and the inability of governments to deal simultaneously with inflation and unemployment. There were fears of a total collapse of the international monetary system as the result of the accumulation of dollars by the Persian Gulf oil countries and expectations of trade wars.

The pessimists were proved wrong as the international monetary system did not collapse, recovery got underway in the industrial countries, and a number of developing countries achieved robust economic growth. Yet, nagging doubts remain. Inflation in the United States continues, unemployment persists in many industrial countries, and economic growth shows no sign of reaching its earlier, post-World War II levels.

The slackening of growth reflects a drop in productivity in the industrial countries, particularly the United States. We can detect a number of causes: the decline in investment and nonmilitary research and development, the apparently intractable inflation, the changed age and sex composition of the labor force, a possible erosion of the work ethic, government regulation, the increased costs of environmental protection, security and crime, the elimination of large pockets of surplus labor, notably in agriculture. But some of these factors are reversible, and the sum of them does not explain satisfactorily the recent failure of productivity to advance at more than a snail's pace. Until there is a better explanation of recent trends one must be agnostic about extending them into the future.

The industrial countries, particularly the United States, face a dilemma as to whether their economic policies should be designed to deal with inflation (and balance of payments) or economic growth (and enhanced social programs). This inflation-growth dilemma is likely to persist until new economic tools are developed to resolve both issues.

(*b*) *The growing integration of the world economy.*—The world has become an increasingly integrated, interdependent economic community. Goods, money, people, ideas, and problems travel across national boundaries as never before.

Economic integration, or interdependence, is the result of a variety of forces. Governments have markedly reduced barriers to international trade. Transportation has become much cheaper, and faster. The ease of communication has broken down national barriers to the flow of ideas and information. National capital markets have become intertwined. The multinational corporation has become a major vehicle for the international dissemination of capital, technology, and managerial skills.

The unprecedented vigor of the world economy in the quarter of a century since the end of World War II owes much to these factors. But the growth of interdependence has also created problems. Unemployment and inflation are now transmitted rapidly from country to country. More generally, individual nations, including the United States, can no longer insulate their economies from the effects of adverse developments elsewhere.

The Arab oil embargo was perhaps the most dramatic illustration of how interdependent the world has become. But there are other examples. International factors outside of control of any one nation—notably poor harvests in the U.S.S.R., the hike in the price of oil, and the simultaneous economic boom in the industrial countries—were major factors in the 1973–74 inflation.

Even the United States, the great continental economy, more self-sufficient than most countries, has become more open to influences from abroad. Imports plus exports as a percentage of GNP, rose and reached 14 percent in 1977, still modest but double what it was a decade earlier. The huge U.S. trade deficit has had a deflationary impact on the U.S. economy, contributing to unemployment. (Jobs lost through increased imports were not offset by the jobs created by increased exports.) And, in good part the trade deficit was the result of slow economic growth in Western Europe and Japan.

Since the end of World War II, efforts to cope with the reality of interdependence in economic life have been made in a groping, pragmatic way. A variety of international institutions have been created to bring about coordinated and harmonious practices of nations in international trade, monetary, and domestic economic affairs. International trade rules are set by GATT (General Agreement on Tariffs and Trade). International monetary policy is guided by the IMF (International Monetary Fund); it also provides a part of world monetary resources. Domestic economic policies are influenced by these institutions, by consultations in the OECD (Organization for Economic Cooperation and Development), and by ad hoc meetings of senior governmental officials including regular annual summit conferences.

The degree of economic interdependence is increasing. We see proof in the fact that international trade has risen almost twice as fast as world production; international capital flows have expanded even more rapidly. The internationalization of economic life cannot be reversed except at great economic—and political—cost. Consequently, government policies and international institutions for collective decisionmaking need to be improved.[2]

(c) *The changing economic balance among countries.*—At the end of World War II, Western Europe and Japan were prostrate, their resources drained by the war. The United States, alone among the industrial powers, was not only untouched by the devastation of bombing and invasion but had actually strengthened its economic capacity.

This situation has changed remarkably over the last 30 years. With the help of Marshall plan assistance, Western Europe recovered faster than it had after the First World War and maintained a rapid pace of economic expansion. Japan exceeded this performance by

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[2] See chapter, "A World of Floating Exchange Rates," p. 23.

far, increasing real output by over 10 percent per year during the 1960's. Both Western Europe and Japan greatly improved their economic positions, growing much faster than the United States:

Japan became the second economic power in the non-Communist world, with one-tenth of world output. Germany, the largest European economy outside of the U.S.S.R., produces 7 percent of the world's GNP.

The European Community is a major economic force. Its combined GNP will probably equal U.S. output by the end of the decade. But the European Community is far from being a nation. Economic policy is still primarily the province of national governments.

Despite the fact that they account only for some 2 to 3 percent of world GNP, the oil-producing countries have great economic power. But it is not an unlimited power.

The U.S. impact on the world economy has greatly diminished while that of other countries has increased since the end of World War II. This change in the global economic balance is central to recent economic and political development. Yet, the United States, producing one-quarter of the world's output, remains the dominant single economic force in the world. Though no longer immune to what happens to the economies of other countries, it is not just first among equals, but a preponderant force in the world economy.

It is tempting to believe that, since the United States no longer enjoy the overwhelming economic power it had for two decades after the end of World War II, it need no longer assume responsibility for the economic leadership of the non-Communist world. But the United States is still the only economic superpower. There is no other country in a position to assume leadership. If there is no leadership, coordination of economic policies is far more difficult. Without such coordination, the world economy cannot function well, and flaws in its performance will be costly for all economies, including the United States.

(*d*) *Persistence of poverty in the developing countries.*—Despite rapid economic growth in the developing countries (LDC's),[3] the bulk of their population and, indeed, of the world's population, still live in abject poverty.

One billion people live in countries[4] with per capital incomes of $200 or less per year. Over 1 billion live in countries with per capita incomes between $200 and $500 per year. The contrast between such income levels for over half of the world's population living in non-Communist countries and almost $7,000 per person for those living in the 25 most developed countries is great.[5]

It is also important to recognize that, in addition to the affluent oil-exporters, some LDC's are developing strong, growing, and broadly-based economies. This category includes Brazil, which is an emerging industrial power; Korea, Malaysia, Mexico, the Phillipines, and several smaller economies. In short, the LDC's are not hopeless.

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[3] Industrial production in the LDC's increased by 7.5 percent per year from 1960 to 1970, much more than the 5.3 percent averaged by developed countries. This difference was reflected in GNP's—that of the LDC's rose by 6.1 percent compared to 4.9 percent of the industrial (OECD) countries. Per capita incomes remain low because the original level of income was low and because population grew almost as rapidly as GNP.

[4] Only non-Communist countries included in data.

[5] Data for 1975 from World Bank Atlas, 1977, p. 4.

Economic progress is possible where sensible economic policies are followed.

(*e*) *The problems of resources.*—The oil embargo and the massive increase in price engineered by OPEC, coupled with the sharp restraints on the economic boom of 1972–74 caused by scarcities of other raw materials, have stimulated concern that future economic growth would be restrained by a lack of natural resources.

The experience of the early 1970's coincided with several years of debate on a study, "The Limits to Growth," sponsored by the Club of Rome. This book argued that the resources available to the Earth and the capacity of the Earth to absorb pollution were finite. It concluded that the world could not continue to grow as it had been and that economic stagnation was our future. The authors of "Limits to Growth" were joined by many others who viewed the world in roughly the same way Malthus viewed it when, in the 19th century, he predicted starvation for mankind.

The world's resources and capacity to absorb pollution are not infinite. This is clear: there are physical limits to growth. But it is also clear that the limits to growth are not imminent. Whether they will be a serious problem in the early part of the 21st century—30 years or more from today—is "unproven and unprovable." [6]

Malthus was proved wrong because man's capacity for invention—technological advance—outstripped population growth. As far as we can see into the future—which is not very far—there is no reason to think that this will not continue. There is no sign that the world's supply of natural resources, even such nonrenewable resources as mineral fuels, is in danger of running out. There will be resource problems. Some of them will be reflected in increasing costs of particular commodities. Higher costs should lead to shifting to substitutes [7] and to more economical use of these resources.

Some observers are also concerned that the raw material producing countries could form cartels and limit exports essential to economic growth in the world, in much the same way that OPEC limited supplies of oil in 1973 and raised prices several-fold since then. Most economists, however, believe that "commodity power for the developing countries begins and ends with oil." No other commodity is so under the control of the developing countries, or has so few immediate substitutes, that a cartel similar to OPEC would be feasible and enduring.

A recent OECD study [8] states:

> * * * the natural depletion of resources and reserves is not a policy issue; nor is the overall physical scarcity of industrial raw materials.

A more immediate cause for concern is the limited investment currently taking place to develop the basic natural resources of the developing countries. Fear of expropriation and uncertain government regulation have frightened many would-be investors. As economic expansion in the developed countries recovers, the lack of adequate investment in basic materials may again become a factor limiting the pace of economic growth, as it did in 1972–73.

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[6] Lincoln Gordon, "Limits to the Growth Debate," Resources, No. 52, summer 1976, p. 1.

[7] See the brilliant essay "The Age of Substitutability" by H. E. Goeller and Alvin M. Weinberg, Science, vol. 191, February 20, 1976, pp. 683–689.

[8] Wolfgang Michalski, "Industrial Raw Materials, Physical vs. Political, Economic and Social Scarcity of Minerals," OECD Observer, July 1978, p. 18.

3. The Policy Implications of World Economic Trends

Our past economic successes and current failures provide three lessons for today:

(*a*) Every nation, even the United States, has lost a large degree of control over its economy. This is the meaning of the growing economic interdependence of the world. The increased movement of goods, people, ideas, and capital across national boundaries has been a major factor behind the rapid and sustained economic expansion of the postwar period. It has also been a source of problems, since economic developments in a major country cannot be kept from having an impact on others.

(*b*) With its economic welfare increasingly determined by developments abroad, each nation has an interest in the economic policies of others. It follows that the institutions for international consultation and collaboration to meet common economic problems are essential. National economic policies must take account of their repercussions on other countries. And effective international coordination of economic policies includes not only such staples as foreign trade, exchanges rates, and the balance of payments, but, what is more important, broad domestic economic matters, such as the reduction of unemployment and control of inflation.

(*c*) Finally, the role of the United States is crucial. First, the overwhelming size of our economy and the international importance of the dollar means that we are responsible for much of world economic development, good or bad. Second, no other nation has the economic power that we do. We are still the only economic superpower, the Nation best able to take the initiative.

In the sections below, we examine concrete policy options invloved in (i) improving the productivity of the U.S. economy through foreign trade and investment, (ii) reducing poverty in the LDC's, (iii) maintaining national economic sovereignty in a world where economic matters transcend national borders.

4. World Efficiency: Managing the International Economic System

International trade and investment have been the most dynamic elements in the unprecedent pace of world economic growth in the past quarter of a century. World trade has grown almost twice as fast as production;[9] foreign direct investment has grown very much faster than total investment.

Two main policies have promoted these results: the pursuit of full employment and of a liberal international economic order. These policies have made the world economy more productive, and have averted a return to the nationalistic, protectionist policies of the thirties, which were responsible for spreading and deepening the Great Depression.

More can be done internationally to increase the productivity of the world economy. Further progress requires continuing, if not finishing, the task of reducing artificial barriers—and inducements—to international trade and investment, improving the functioning of the

[9] Between 1953 and 1973, the volume of world trade grew by 8 percent per year and real world output grew by 5 percent per year. The growth in world trade after World War II contrasts with its virtual stagnation between the world wars.

international monetary system and developing new instruments to encourage cooperative solutions to the problems of a highly interdependent world.

(*a*) *Trade.*[10]—The arguments for freer world trade are well known: Foreign trade has an impact on our economy comparable to investment in machinery or improvement in technology. Foreign trade raises U.S. productivity by permitting, or inducing, U.S. labor and capital to shift from industries with low returns to those with higher returns. We import goods that are available more cheaply abroad than at home, freeing our capital and workers to produce goods in which we have a comparative advantage.

This increase in productivity may at times cause temporary unemployment—much as the installation of a new machine or a new product may create temporary unemployment—but it need not be a sufficient reason for restricting imports. We would not try to prevent the introduction of new machinery which displaces coal miners; we would meet the problems of unemployment in other ways. By analogy, a comparable policy might well be followed in meeting domestic problems caused by imports.

The availability of imports tends to reduce domestic inflationary pressures. Inflation is a major threat to all nations; it will not be easy to bring under control. Eliminating barriers to foreign goods, thereby improving the efficiency of our economy and increasing competition, has a role to play in the fight against inflation.

Finally, one of the most effective ways of helping the developing countries is a general reduction in barriers to trade.

There are costs to lowering import barriers. Some workers lose their jobs. Even though others gain jobs in export industries so that the net employment effect is nil [11] and the Nation may well be better off, the costs to those adversely affected cannot be overlooked. Thus, the United States has adjustment assistance programs, imposes a variety of temporary import restrictions, and maintains tariffs on most manufactured goods.

Trade liberalization—the reduction of trade barriers—often creates a political problem since its benefits are diffused over the entire economy while its discomforts are borne by specific industries and localities. Though import competition hurts some individual economic sectors, the national economy would barely notice even the total elimination of import barriers; the resultant increase in unemployment would be less than we experience from normal shifts in our economic structure. Even in the U.S. industry most protected from foreign competition, textiles, worries about the threat of foreign competition may be exaggerated. The World Bank reports that U.S. imports of clothing in 1976 were only 8 percent of U.S. consumption.

(*b*) *Foreign investment.*—Until recently, U.S. opinion, traditionally considered that foreign investment, like foreign trade, is desirable because it raises the productivity of the United States and world economy. In the past few years, however, some voices have been raised favoring limitations on foreign investment in the United States as well as investment abroad by Americans. That shift has been stimulated

[10] See chapter 5 "Multilateral Trade Negotiations," p. 48.

[11] "U.S. Tariff Policy: Formation and Effects," Robert E. Baldwin, University of Wisconsin, for U.S. Department of Labor, Bureau of International Affairs, June 1976.

by the newfound belief that U.S. investment abroad costs the United States jobs, redistributes U.S. income from labor to capital, weakens the U.S. balance of payments and has had some deleterious effects on our political relations, particularly with developing nations. More recently we have observed some concern that foreign investment in the United States may also be undesirable.

To evaluate these matters, we should weigh the following considerations:

In the future, the world may again be faced with major shortages of key industrial commodities, such as those which contributed to the world recession and the double-digit inflation of 1974–75. Moreover, there continues to be a need to recycle funds being accumulated by countries with balance-of-payments surpluses, notably, Japan, Germany, and some oil exporters. To meet these two problems increased investment, domestic and foreign, is required. It would seem unwise to take measures that would restrict needed investment.

Roughly half of U.S. direct investment abroad is in raw materials and related manufacturing, in distribution facilities for U.S. exports, in foreign utilities, transportation, and other services—activities that cannot be regarded as displacing U.S. domestic production or employment.

A good part of U.S. foreign investment in manufacturing seems to be "defensive" in character. That is, an American entrepreneur goes abroad to produce when he sees that a foreign enterprise would expand and take over a U.S. market. In such cases, continued production in the United States is not a realistic alternative. If the American firm does not go abroad, foreign firms may preempt the opportunity, and U.S. jobs and exports would be lost in any event.

America gains by foreign investment. Income on U.S. private direct investment abroad is rapidly expanding and reached $20 billion in 1977.

With more flexible exchange rates, the argument that capital outflows must be limited to protect the U.S. balance of payments has lost much of its rationale.

Finally, a capital-rich country, like the United States, ought to be investing in capital-poor countries. This would help the poor countries develop and would raise U.S. and world income since rates of return on investment are normally higher in areas that are capital poor. Yet, so long as the United States runs a balance-of-payments deficit, foreign countries are, in effect, investing here (or lending to the United States) rather than America investing abroad.

In short, there is considerable reason to continue to adhere to the traditional argument for free international flow of capital—that it raises U.S. and world income—and there are reasons to be skeptical of the opposite conclusion. The one "caveat" is the fact that foreign investment is subject to political abuse and to expropriation. There is no reason, however, to encourage U.S. investment in industrial countries at the expense of domestic investment. With this in mind, a new look might be taken at the deferral of U.S. taxes on American corporations operating abroad.

Foreign investment in the United States adds to the real capital America and its workers have at their disposal. Though it remains small, it is growing rapidly.

Fear of foreign domination of the economy overlooks a number of practical realities: foreign companies are subject to U.S. laws, U.S. antitrust policy, U.S. taxes; they must bargain with American labor; and their properties can be nationalized or controlled.

Moreover, one of the ways we may be able to induce the OPEC countries to maintain and increase exports of oil in the face of rising monetary holdings (which a few of them have), is to provide profitable investment outlets for their surplus funds. Unless this is done, oil in the ground may appear more valuable to them than oil produced.

Similar considerations apply to the increasing concern about the transfer of U.S. technology to foreigners. This technology is paid for. It is an important U.S. export. Moreover, in an open society, with a plethora of technical journals, international meetings, free universities, few things stay secret long. Much advanced technology is available from Europe and Japan. And attempts to limit the transfer of technology could be counterproductive, inhibiting the pace of U.S. scientific and technological advance.[12]

(*c*) *International monetary system.*—The function of the international monetary system, and the uncountable number of blueprints for its reform, is to facilitate world trade and investment.

The success of the world economy since World War II, despite numerous financial "crises," suggests that the system has worked fairly well. Reform has been achieved through responses to events, rather than as part of a grand design. While more remains to be done, it is now likely that there will be no new blueprint such as appeared at Bretton Woods in 1944. Rather the system will continue to evolve to meet new challenges.

What has been achieved? What remains to be done? But, first, why did the Bretton Woods system break down?

(*i*) *Bretton Woods.*—The system established at Bretton Woods never operated as planned in 1944 and finally collapsed in 1971 when the United States suspended convertibility of the dollar into gold. There are three reasons for the failure of the Bretton Woods system:

First, it permitted exchange rates to remain rigid in the face of basic changes in the balance of economic power. Specifically, despite the sharp economic recovery of Western Europe and Japan, the exchange rates of their currencies with the dollar remained fairly fixed. As a result, the dollar became increasingly overvalued after the mid-1960's and there was no effective way to "adjust" to the large imbalances in world payments which resulted.

Second, the Bretton Woods system did not contemplate the large destabilizing flows of capital of the 1960's and 1970's. Indeed, control of capital movements was assumed in the agreement.

Finally, inadequate provision was made to supply the world with needed international liquidity. The amount of gold available for monetary reserves remained fixed while the demand for reserves rose. Increased supplies of dollars for the world required that the United States run balance-of-payments deficits.

(*ii*) *Liquidity.*—One improvement in the monetary system that was achieved by conscious design was the creation, in 1969, of a reserve

[12] See chapter, "International Transfer of Technology," p. 61.

asset, special drawing rights (SDR's), to provide a managed supply of international money. The financial powers expected that SDR's would eventually replace gold and dollars as the center of the world's monetary system.

International reserves are needed to give countries time to adjust their economies to changing economic conditions. If a country had to adjust immediately, for example, to a balance-of-payments deficit, it might impose stringent trade controls with resultant costs to itself and to other countries as well.

Some $10 billion in SDR's were created from 1970 through 1972. The creation of an additional $12 billion was agreed on in 1978, to be issued over the next 3 years. Even the augmented amounts will be far from sufficient to replace the dollar as the international money, even if this were desired.

The major source of international liquidity continues to be dollars created by U.S. balance-of-payments deficits.

(*iii*) *Adjustment.*—In the world of fixed but adjustable exchange rates of the 1950's and 1960's, correction of imbalances in international trade and payments was frequently difficult and costly in both economic and political terms. To eliminate balance-of-payments deficits countries have, at times, created unemployment and, more frequently, have imposed restrictions on trade and capital movements. The adoption of more flexible exchange rates in the 1970's, however, gave governments an instrument to correct imbalances in their international payments without the trauma of earlier periods.

Unlike the highly negotiated creation of SDR's, the regime of more flexible exchange rates was achieved less by design than as an improvised response to the pressure of large imbalances in international payments, notably the persistent U.S. deficit and Japanese surplus. The improvised system has worked quite well especially in riding out the "energy shock" and the high inflation of 1973–74.

But the wide swings in exchange rates of the past year seem undesirable and may be disruptive. Indeed, flexible exchange rates are not the panacea they seemed to be in academic circles (or Treasury Departments) prior to 1971. Sound national economic policies are needed to keep the world economy stable and growing. And governments of the major economic powers could beneficially improve the coordination of their economic policies to avoid working at cross purposes.

(*iv*) *U.S. balance of payments* [13].—The specific question of concern to U.S. officials (and foreign ones as well) is the huge U.S. international payments deficit. In 1978, the balance on current account [14] was negative by $16 billion in contrast to surpluses of $4 billion in 1976 and $18 billion in 1975. The U.S. position on merchandise trade (exports minus imports) was a deficit of $34 billion in 1978 compared to a deficit of $9 billion in 1976 and a surplus of $9 billion in 1975. (The results for 1977 were similar to those for 1978.)

Why the huge deficit? What can be done about it? Why should the United States care about it?

Clearly, at the heart of the U.S. balance-of-payments deficit is its deficit in merchandise trade. The trade deficit is the result of three

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[13] See chapter, "The Balance of Payments and Domestic Policies," p. 40.

[14] The balance on current account is the balance of trade (exports minus imports) plus the balance on services (including travel and income on foreign investment), military transactions and unilateral transfers.

major factors—a huge increase in expenditures for imported oil, better economic growth in the United States than in other industrial countries, and worse inflation in the United States than in other industrial countries.

The huge increase in the value of U.S. oil imports is the result of increasing U.S. demand, declining U.S. production, and the massive increase in the price of oil in 1974. Offsetting this are increased exports to OPEC countries. The net result in 1977 was a U.S. trade deficit with OPEC of $17 billion, equal to more than half the overall U.S. deficit on foreign trade.

The U.S. deficit in trade with Western Europe and Japan must be due, in good part, to the better U.S. economic recovery from the recession. Economic expansion in the United States in the second half of 1977 was a healthy 5 percent compared to an average 3.9 percent from 1962–72; in Japan, the economy grew by 3.7 percent in the second half compared to a 10.3 percent long-term average; similarly, the economy of West Germany grew by only 1.2 percent in the second half compared to a long-term average of 4.5 percent. As a result, U.S. imports from industrial and developing countries rose faster than U.S. exports to them.

The third factor in explaining the huge U.S. international deficit may be the higher inflation in the United States than in the other major industrial countries. This factor, however, has been entirely offset by the declining international price of the dollar. Indeed, the decline in the dollar's exchange rate has more than offset the amount by which the rise in the U.S. price level exceeded that of prices of our major competitors. For example, over the past year the U.S. consumer price index rose by 5 percent more than the Japanese, while the dollar dropped by 20 percent against the yen.

Why are we concerned about U.S. balance-of-payments deficits? They seem enormous compared to earlier years. But one should not exaggerate the size. The cumulative trade deficit, from 1974 through mid-1978, was a huge $56 billion, but this was only 10 to 15 percent of the dollars the rest of the world willingly holds. Of course, the world will become less willing to hold dollars as the deficit persists.

The decline of the dollar is said to undermine U.S. prestige in the world, to threaten the stability of the international monetary system, to enhance protectionist pressures abroad, and to support the arguments of those OPEC countries which want to raise the price of oil. There is doubt about these assertions and their importance. OPEC raised the price of oil in December 1978 because market conditions changed with the absence of exports from Iran. The increased impetus to foreign protectionism, which might well result from the cheaper dollar, would also result from a stable dollar accompanied by more successful U.S. exports and a more balanced U.S. international financial position.

More serious is the impact of a depreciating dollar on U.S. inflation and U.S. relations with foreign countries. A depreciating dollar makes imports more expensive and reduces their price competition with domestic production. And, the U.S. balance-of-payments deficit is a major irritant in our relations with Western Europe and Japan. It has been the principal subject as well as cause of the summit meetings now held regularly by the major economic powers.

These two factors plus a strong belief that the dollar depreciation had gone far enough and that the U.S. balance of payments was turning around led the U.S. Government to adopt a series of measures on November 1, 1978, to strengthen the dollar. This was the first time that strengthening the dollar and the balance of payments had received priority over domestic considerations in U.S. economic policy.

The change, however, may not be as dramatic as it first appeared. Policies to strengthen the dollar also work to fight inflation, now seen as a prime target of policy. Only when there is a choice (or dilemma), as there was in the 1960's, between achieving U.S. domestic objectives (for example, full employment) and achieving an international objective (elimination of the balance-of-payments deficit) will there be a real test of whether U.S. economic priorities have been reordered.

Normally, equilibrium or a surplus [15] in U.S. international trade and payments, and a high, stable or rising dollar are not objectives of U.S. policy. They are the results of policy, American and foreign. The economic objectives of policy are clear—full or high employment, an equitable distribution of income and reasonably stable prices.

The U.S. economy has improved its performance on employment, while Europe and Japan have not done as well. This explains a large part of the U.S. balance-of-payments deficit and the declining dollar as does the poorer U.S. performance on price stability.

The situation is now changing. Economic growth and imports in Europe and Japan are speeding up. Japan's exports are falling. The U.S. economy may be slowing down and the U.S. exports are rising.

5. *The Problem of Energy* [16]

The energy problems facing the United States fall into four broad categories:

How to deal with the likely exhaustion of the Nation's supply of oil and natural gas by the end of this century.

How to deal with a possible embargo or short-run disruption of supplies.

How to deal with high energy prices.

How to manage the balance-of-payments problems.

(*a*) *Exhaustion of U.S. oil and gas.*—The best estimates indicate that the domestic production of oil will peak well before the end of the century and become relatively insignificant in 25 years' time. However, the supply of fossil fuels, primarily coal, is not a real bottleneck. We have huge reserves and the world's supplies are sufficient to last for more than 500 years.

The problem is the economic and environmental cost of these fuels and alternative sources of energy. The cost of alternatives to oil and gas will be high, but experts feel that it will probably not seriously reduce U.S. and world income from levels which might be reached if costs were to remain at current levels.

Running out of petroleum gradually does not present the United States and the world with a catastrophe. Nevertheless, since the time required to produce the new source of energy is long, and the time over which reserves of oil will last may be short, early and effective action

[15] A rich country like the United States ought to have a surplus which is a sign that it is investing, or transferring resources, abroad.
[16] See chapter, "World Energy and the U.S. Economy," p. 98.

by governments to stimulate conservation, exploration and research and development are clearly in order.

(*b*) *Embargo or short-run disruption of supplies.*—The probability of future oil embargoes depends upon political-military developments, particularly in the Middle East, the financial positions of the major oil-producing states, and the dependence of the industrial countries on imported oil as a primary source of energy.

It is not easy to describe a particular constellation of political events which could provoke a future embargo. Another Middle East war would certainly increase the probability of one. Moreover, oil-producing states could use the "oil weapon" to influence the outcome of any of several potential international conflicts.

The probability of an extended embargo is not great. Cooperation of many oil producers would be required and most of them need to maintain their export earnings. The major exception is Saudi Arabia. The industrial countries have an oil-sharing agreement so that singling out one or a few countries should not be very effective. Finally, in time, the oil stockpiling programs of the United States and other industrial nations could limit the effectiveness and, therefore, the probability of another embargo.

More serious would be acts of terrorism or internal disorders, such as are now (December 1978) taking place in Iran, which could disrupt supplies and, consequently, induce higher prices.

(*c*) *Price.*—The problem of the price of oil has two parts:

First, how to deal with an abrupt increase in prices, such as occurred in 1973 and contributed significantly to the subsequent inflation and unemployment.

Second, how to deal with a high level of energy prices. A high level of prices could reduce the U.S. standard of living and rate of economic growth.

The inflationary effects of a sharp increase in the price of oil cannot be readily offset. Attempts to do so will contribute to unemployment, as happened in 1974–75.

An increase in price of imported goods acts like an excise tax. The "tax" will reduce demand and, unless it is offset by more exports or expansionary domestic policies, it will tend to depress output and raise unemployment. This happened in 1974–75 but is not likely to result from the smaller price increase proposed for 1979.

A higher level of oil prices has three implications for the world:

First, it reduces real standards of living in importing countries.

Second, it redistributes world income in favor of oil exporters.

Finally, it helps to reduce demand for and increase the supply of energy, contributing to a resolution of the long-term energy "problem."

For the industrial countries, the overall impact of the 1973–74 changes in the level of oil prices is quite small. They should hardly notice the reduction in their living standards and in their rates of economic growth. The United States, for example, would see its economy grow by 20 rather than 22 percent between 1973 and 1980 as a result of the 1974 increase in the price of oil. This, of course, assumes that the oil-importing countries follow sensible policies to adjust to the higher energy costs.

The redistribution of world income is significant though the results are quite mixed. On one hand, per capita incomes of a few countries—

Abu Dhabi, Kuwait, Qatar and Saudi Arabia—have grown to astronomical levels. On the other hand, over half the population of OPEC lives in Indonesia and Nigeria and these countries still have per capita incomes below $400 per year.

(*d*) *Balance of payments.*—The world monetary system did not collapse as the result of the transfer of huge sums of money to OPEC countries. A number of factors contributed to its durability:

OPEC countries increased their spending (by importing goods and services) at a phenomenal rate.

The remaining OPEC funds had no place else to go but to the major money markets of New York and London. The private banking system "recycled" these funds to other parts of the world.

Many developing countries could draw on increased financial reserves built up during the boom of 1972–73.

To meet another potential large increase in oil prices, the International Monetary Fund has established the Witteveen facility to provide supplementary financing to those in need. Moreover, it is important to note, large U.S. trade deficits allow foreign countries to earn dollars to pay for the increased cost of oil. This process need not hurt the United States since the OPEC countries may well continue to invest a good portion of their financial surplus here; in effect, they will be financing the increased cost of U.S. oil imports.

(*e*) *Oil—a summing up.*—The increase in oil prices has been costly. It exacerbated the 1973–75 recession. Timely, countercyclical government policies, however, could have offset much of the unemployment.

For the industrial countries, the other economic costs have been minor. The transfer of real income to the oil exporters is becoming larger as their imports rise. This imposes a real but small and manageable burden on the oil importers. The balance-of-payments deficits, though of unprecedented size, need not have resulted in serious problems if the deficits had been shared more equitably between the United States and the other industrial countries.

The problems of the industrial countries are due less to the level of energy prices—in real terms they were about the same in 1978 as they were in 1950—but almost entirely to the abruptness of their increase. Had the cost of energy risen gradually the U.S. and the world economy would have adjusted to the 1978 level of oil prices without the trauma of 1974.

The higher price of energy will induce changes helping to meet the prospective exhaustion of the world's supply of oil and gas.

The major economic problems in the energy field are: (1) dealing with the uncertainty of the supply and price of imported oil and (2) adjusting to higher prices (and reduced availabilities) of energy, or, what is equivalent, shifting from an economy based heavily on oil to one based on alternative, and more expensive, sources of energy.

The first, or import-dependence problem can be met by an adequate stockpile of oil. The basic or adjustment problem is being met, in good part, by the higher price of energy. Within limits, price determines how much and how efficiently energy is used, how much and what kinds of energy are produced, and how much is consumed today or saved for tomorrow.

The market is a far from perfect adjustment mechanism. It can act only slowly since basic changes in energy production and use will take decades rather than years. Thus, market forces need to be supplemented by direct measures, such as regulations on automobile gasoline consumption. Moreover, when using price to induce change, policy makers must take account of its impact on different groups in society, on different regions of the country, on the growth of the economy, and on inflation. These are serious and difficult constraints to unlimited application of the classical market medicine.

Nevertheless, over the long term the market is effective in allocating supplies to various uses and to different generations of Americans, and in inducing increased output of oil and the development of substitutes for it.

A huge adjustment is now taking place. Under the pressure of increasing prices for oil and gas and expectation of further price increases, the growth in energy consumption from 1973 to 1977 has been cut sharply. If this cut persists, the energy problem may be quite manageable, requiring as little governmental attention as most problems of economic adjustment.

6. *The Provision of Equity in the International Economic System* [17]

The United States and the other affluent nations have been on a collision course with the poor countries over economic policy for more than a decade. The United States has been advocating measures designed to increase the productivity of the world economy, to increase the size of the pie. The LDC's, on the other hand, have been more interested in getting a larger share of the pie right now. A collision was averted in 1977 because the developed countries agreed, at least in principle, to some of the demands of the LDC's. Negotiations on them are in process.

Widespread disagreement between the United States and many LDC's persists on basic issues, notably:

The degree of governmental intervention in international trade, particularly in trade in primary commodities;

Automatic versus discretionary resource transfers from richer to poorer countries;

The amount of those resource transfers and their distribution;

The role of multinational corporations (MNCs) in international investment, trade, and the transfer of technology;

The decisionmaking process in international economic affairs and the extent to which it should be based on the concept of national sovereignty (one country, one vote) versus weighted voting or purely voluntary cooperation (in, for example, aid-giving).

The demands of the LDC's for changes in the international economic system have grown in the decades since the first UNCTAD (United Nations Conference on Trade and Development) of 1964. But it is not only the substance of the demands of the developing countries which has grown. Equally important is the style and the aggressiveness with which their programs have been advanced.

As a result of the success of OPEC and the dissatisfaction of LDC's generally with the lack of movement elsewhere, the language of LDC speeches and the various documents adopted by the United Nations—notably, the program for a New International Economic Order, and

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[17] See chapter, "U.S. Policy Toward Developing Countries," p. 70.

the Charter of Economic Rights and Duties of States—has become especially abrasive.

At the same time, the United States changed from a position of "stonewalling" to one of negotiation. This change in style, a major new development, is what made the 1975 Seventh Session of the U.N. General Assembly something of a success and allowed the developing countries to leave with a feeling of some accomplishment.

A limited transfer of real resources to the developing countries is likely as a result of the 1975 U.N. agreement. This would come about largely through:

The enlargement of an existing IMF program to finance shortfalls in export earnings. The new financing will be on concessional terms.

The agreement to lower barriers to exports of all countries. This can make an important contribution to the LDC's. Exports of their manufacturers have risen phenomenally, by almost 13 percent per year from 1959 to 1973. If this growth is not blocked or inhibited by trade restrictions of the developed countries, many LDC's will expand their industrial base and increase their (and our) real incomes.[18]

The developed countries are also considering commodity agreements to stabilize the prices of primary products of interest to the poor countries. But such agreements can be effective only for a limited number of commodities, can help some countries while hurting others, and are not the most efficient way to transfer the real resources the LDC's seek.

The United States did not agree on a formula (0.7 percent of GNP) for official foreign aid,[19] or to the use of SDR's as aid. We did, however, agree to support measures to increase the flow of private capital to poor countries.

It is important to remember that the major problems that developing countries have to resolve are domestic ones, not problems of foreign origin. Focusing on foreign problems diverts attention from the main causes of poverty in a developing country. International economic policies can assist in solving some of these problems but only to a limited extent.

The task is not hopeless. As Robert S. McNamara, president of the World Bank, says:

> The past record of development . . . is a very impressive. . . .
>
> Indeed, historically, it is without precedent. Never has so large a group of human beings—two billion people—achieved so much economic growth in so short a time.
>
> In the quarter century from 1950 to 1975 the average per capita income of the developing world grew at over 3 percent a year. The present industrialized countries, at a comparable stage in their own development, required a much longer time to advance as far, and attained an annual per capita income growth of only about 2 percent.[20]

There are reasons why the United States helps the LDC's resolve their economic problems. Perhaps most convincing is the matter of equity or morality. They are poor; we are rich.

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[18] See chapter, "Adjustment Policies and Trade Relations With Developing Countries," p. 88.

[19] The 1-percent target for foreign aid commonly referred to included private investment. It was proposed by the Council of Churches in 1958 and adopted by the U.N. General Assembly in 1960 and again in the fall of 1970. U.S. official aid (excluding private investment) has declined from 2.79 percent of GNP in the early days of the Marshall plan to 0.53 percent in 1960, 0.31 percent in 1970, and 0.25 percent in 1977. More seriously, U.S. official aid has declined in real terms since the early 1960's.

[20] Address to Board of Governors, Sep. 26, 1977, p. 5.

But more is involved. Some observers have compared aid to "low-cost insurance to guard against possible catastrophic events." A world in which the hopes of a large number of people are constantly frustrated by economic conditions would be a world of political instability. It is argued that even if the United States and the other affluent countries could have only a marginal impact on poverty, failure to act, failure to show compassion, would run the risk of alienating much of the world's population.

The United States and the rest of the developed world have to depend more and more on imported materials. In a world of political instability, of anti-Westernism, of anticapitalism, of internal strife abroad, the needed investment for these supplies will not be forthcoming and we would find ourselves with more frequent and more severe shortages of basic raw materials.

Aid and related measures can act as a solvent for tensions between the two worlds, but, it should be recognized, they cannot guarantee economic growth, and the political objectives we seek to achieve may therefore escape us, even with larger amounts of aid.

7. *The Limits of Sovereignty in an Interdependent World*

As discussed earlier, one of the major factors contributing to the remarkable expansion of world economic growth in the postwar period has been the willingness of the major countries to limit their sovereignty. They have:

Limited, through the GATT and the IMF, their right to impose restrictions on trade and payments.

Taxed themselves through a variety of international agreements to provide financing for the economic development of the poor countries and to meet the needs of any country running into temporary balance-of-payments problems.

Altered their domestic economic policies to take account of problems of other countries as the result of meetings of heads of state and consultations in the OECD, the IMF, and special ad hoc consultative groups.

These limitations on national sovereignty have been carefully circumscribed, but limitations they are. They have benefited individual countries and the world in general.

In recent years, however, nations have not been willing to go much further in subordinating national sovereignty to international rules or to international organizations. Current agreements have, in fact, established safeguards to protect national sovereignty:

GATT limitations on the use of trade restrictions may be set aside for a temporary period to take account of domestic problems a country may face as the result of increased imports.

Flexible exchange rates were designed to provide greater freedom of national policies, especially monetary policies, to meet domestic problems. It was hoped that the new exchange rate system would ease pressure on governments to resolve their balance-of-payments problems by domestic measures; for example, by deflation and unemployment for a country with a balance-of-payments deficit. (These expectations have been only partly realized.)

Aid is still provided to developing countries, but the affluent countries have refused to accept any formula providing automaticity.

While the major governments meet together regularly, in the OECD as well as in the IMF and other forums, to coordinate economic policies, the coordination remains primarily a discussion of the economic outlook and policy-intentions of the major countries. Governments usually suggest how the more delinquent countries should act, but they do not attempt to legislate the domestic economic policies that a country ought to follow.

However, since economic developments in the United States depend more and more on developments abroad, and since U.S. economic policies can be thwarted by the actions of other governments, effective cooperation with other countries (whether to meet an oil shortfall, to reduce unemployment, fight inflation, or strengthen the dollar) is an increasingly important element in U.S. economic and foreign policy.

A WORLD OF FLOATING EXCHANGE RATES

(By Stanley W. Black*)

Introduction

It is 5 years since the world's major trading economies adopted floating exchange rates and 4 years since the quadrupling of oil prices helped thrust the world economy into the deepest recession since the 1930's. With this experience behind us we can take a sober look at the operation of floating exchange rates as a basis for a stable world economy.

We ordinarily think of three goals of national economic policy: adequate growth, high employment, and reasonable price stability. Now we should add a fourth: a pattern of international payments that is compatible with reasonable stability of exchange rates. How well have these goals been achieved?

Measured against these goals, the experience of the 1970's has been disappointing. Real growth in the member countries of the Organization for Economic Cooperation and Development (OECD) has continued at a rate of only about 3.5 percent a year in 1977 and 1978, compared with a rate of about 4 percent required to reduce unemployment. As a result, unemployment has averaged above 5 percent of the labor force in OECD countries from 1975 to 1978. Inflation continued at a double-digit average in the European OECD countries for over 4 years after early 1974 and has been rising in North America in 1978 even as it has been declining somewhat in Europe. Payments imbalances among major OECD countries such as the United States, Japan, and Germany have led to substantial changes in exchange rates. In this environment, pressures for protection of domestic industries from foreign competition have become stronger in most countries, and, in some instances have forced governments to yield.

Major Issues

The experience of the 1970's has raised major issues concerning the behavior of markets (whether they are self-equilibrating and will tend toward the goals cited earlier or not) and the behavior of policymakers (whether they are inherently ineffective or have made unwise decisions).

These questions have international dimensions that relate to the processes by which inflation, unemployment, and other economic disturbances are transmitted internationally and the processes by which international imbalances are corrected. This chapter considers those issues in five sections as follows:

(1) We first examine the functioning of floating exchange rates in the international adjustment process. The basic issues in this area are whether floating exchange rates help to resolve international pay-

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ments problems or worsen them, the proper role of exchange market intervention, and the need for, or desirability of, international coordination of national economic policies.

(2) We next consider the effectiveness of national policies in dealing with the twin problems of inflation and unemployment. The basic controversy here is whether national policies can be effective in reducing inflation without raising unemployment or whether a prolonged period of economic slack is an inevitable requirement for "wringing inflationary expectations out of the system."

The two views over which economists and policy-makers alike divide on these questions can be described as "pro-market" and "pro-management". The "pro-market" view suggests that economic policy in all countries should remain cautious to avoid re-igniting inflation in countries with low inflation rates and to retard inflation in countries where inflation remains high. Continued economic slack together with changes in exchange rates and improvements in the competitive structure of the economy can be counted on both to reduce inflation and to adjust payments imbalances, in this view. In time, high employment and adequate growth will re-emerge as a result of market processes.[1]

The "pro-management" view, by contrast, advocates international cooperation and coordination of economic policies to allow more rapid reduction in economic slack and in payments imbalances. Inflation, it is held, can be reduced hand in hand with unemployment by a judicious mixture of cautiously expansionary macroeconomic policies and incomes policies to fight inflation.[2]

(3) We then turn to a description of the national and international institutions for policymaking and the ways in which these institutions interact with each other in the on-going policy debate noted above.

(4) In the next section, we review the functioning of the international monetary system and its gradual evolution in the current international economic environment.

(5) We conclude with a discussion of the changing role of the United States in the world economy in the light of the experience of the 1970's.

Floating Exchange Rates in the 1970's

During the 1970's, the world economy has been forced to adjust to at least two large disturbances:

(*a*) The rapid expansion of international holdings of dollar reserves during the years 1970–72, amounting to a 57 percent increase in the stock of international reserves from this source alone; and

(*b*) The quadrupling of the price of oil between 1973–74.[3]

The expansionary impact of increased dollar holdings abroad was compounded by expansionary monetary and fiscal policies of governments since it came during a period of recession in most countries. By contrast, the contractionary impact of the oil price changes was partially offset by fiscal policy in most countries since it came just after the peak of a business cycle.

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[1] See, for example, Gottfried Haberler, "Reflections on the U.S. Trade Deficit and the Floating Dollar," in William Fellner (ed.) Contemporary Economic Problems, 1978, Washington: American Enterprise Institute. 1978, pp. 211–43.

[2] See Annual Report of the Council of Economic Advisers, Washington: U.S. Government Printing Office, 1978, pp. 111–126, 152.

[3] See chapter, "World Energy and the U.S. Economy," p. 98.

Countries differed markedly in the degree of expansion or contraction they were willing to allow in the early 1970's, so that differences between national inflation rates became pronounced. The decision to allow exchange rates to float in April 1973 introduced a market mechanism for accommodating divergent rates of inflation. For example, more rapid inflation in the United Kingdom and Italy could be offset by the depreciation of their exchange rates against harder currencies such as the U.S. dollar and the German mark. Thus, floating rates seemed to introduce a new degree of freedom, allowing countries to choose their domestic policies without concern about the balance-of-payments consequences.

This new freedom was quickly exercised, both by countries wanting to put expansion first and by countries wanting to put control of inflation first. The result in 1973–75 was a pattern of exchange rate movements that, for most large industrialized countries, just about offset the divergences in the national inflation rates.

The result was a remarkable accomplishment, especially since 1974 saw the OPEC price increase and a $60 billion surplus in OPEC's current balance of payments with the rest of the world, primarily the industrialized countries. The enormous payments deficits generated by the OPEC price increase were accommodated by private borrowing and lending without large fluctuations in exchange rates.

For a number of countries, including the United Kingdom, France, and Italy, as well as a number of smaller OECD countries, the appearence of smooth adjustment was obtained in 1974 by significant amounts of government-induced foreign borrowing. That action was tantamount to government intervention to stabilize the exchange rate. At the same time, countries such as Japan, West Germany, and the United States followed relatively cautious monetary and fiscal policies.

Thus, the seemingly smooth process of adjustment to oil deficits masked considerable differences in economic policy. Some countries—the U.K., France, and Italy—were prepared to continue expansion and borrow to keep their exchange rates from depreciating too fast. Other countries—Japan and West Germany—were prepared to accept relatively higher unemployment rates to keep inflation under control, a policy that tended to cause their payments positions to improve and their exchange rates to appreciate.

The first group of countries did not attempt to use exchange rate movements to redress their external imbalances, since they sought to avoid "real" exchange rate depreciation, that is exchange rates depreciating faster than relative price movements. The second group of countries did not allow exchange rates to reduce their payments surpluses, since their restrictive monetary and fiscal policies tended to perpetuate the surpluses and appreciate their exchange rates. The "deficit" countries of the first group were forced to devalue or depreciate more rapidly in 1976–77 than in 1974–75 and, at the same time, install relatively restrictive monetary and fiscal policies: for example, Sweden, Denmark, Finland, and Norway, in addition to the United Kingdom, France and Italy.

It become apparent in time that floating exchange rates did not eliminate the external payments position as a constraint on domestic expansion. For one thing, it became apparent that lenders soon stiffen the terms for lending to expanding deficit countries with high inflation rates; that action leads to exchange rate depreciation and yet more rapid inflation—truly a "vicious" circle.[4] Similarly, the countries of the second group, which face a "virtuous" circle of appreciation and lower inflation rates, have apparently found it impossible to adjust their external surpluses merely through exchange rate movements.

The clear lesson of the 1970s experience is that adjustment of payments imbalances requires both (a) exchange rate movements that are greater than relative price movements in different countries, and (b) monetary and fiscal policies that assist the exchange rate changes in stimulating changes in trade flows. Stabilizing capital flows from surplus countries to deficit countries can be projected only so long as suppliers of capital can expect interest rates in the deficit countries to be high enough to offset inflation rates and exchange rate depreciation there. It is difficult to maintain such stabilizing expectations in a context of exchange rate depreciation in deficit countries and appreciation in surplus countries, basically because these exchange rate movements will be uneven and uncertain.

The implications of this lesson for the high-inflation, deficit countries are clear. A deficit country must reduce its rate of inflation so as to approximate the average of its trading partners' inflation rates if it is to obtain the private capital inflows needed during the period of adjustment of its deficit. And the framers of domestic monetary and fiscal policies must seek to balance total resources used in the economy with the total produced domestically plus a reasonable amount of foreign borrowing.

The lesson for low-inflation, surplus countries is equally clear, if somewhat more controversial. It is necessary for them to follow expansionary domestic monetary and fiscal policies to reinforce the effect of the appreciating exchange rate and achieve payments equilibrium. If the current account is to remain in surplus, private capital outflows will be needed, and they will occur only if investors can expect that the exchange rate will not keep appreciating at a significant rate. Otherwise, speculative capital inflows will be a recurrent problem.

Developments in 1977 and 1978 have shown that deficit countries can control their internal inflation and external payments problems by means of depreciation together with tight monetary and fiscal policies (combined in some cases with explicit incomes policies), as shown in France, the United Kingdom, Italy, Sweden, and others. One the other hand, during much of the period the United States, Germany, and Japan proceeded on tracks that appeared to conflict with the lessons drawn above for surplus and deficit countries. The brakes applied in 1976 and 1977 in many deficit countries (Sweden, Denmark, Norway, Finland, the United Kingdom, France, and Italy) combined with less expansionary fiscal policies, exchange rate appreciation, and an imbalance between savings and investment in both Germany and Japan to reduce their economic growth significantly below trend in 1977. Thus their exchange rate appreciation did not result in reduced payments surpluses; slow domestic growth depressed their imports.

Conversely, relatively more expansionary fiscal and monetary policies in the United States during 1977 combined with continuing strong private domestic demand and exchange rate depreciation to push eco-

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[4] See, for example, Bank for International Settlements, Forty-Sixth Annual Report, Basel: B.I.S., 1976, p. 8, 30–32, and Rudiger Dornbusch and Paul Krugman, "Flexible Exchange Rates in the Short Run," Brookings Papers on Economic Activity, 1976:3, pp. 568–73.

nomic growth to 5 percent, allowing a significant decrease in unemployment during the year. Although interest rates declined in Germany and Japan while rising in the United States, they did little more than offset the relative inflation differentials among the countries.

Fiscal and monetary policies in the United States, Germany, and Japan did not reinforce the exchange rate movements of 1977 to promote adjustment of international payments imbalances. In fact, monetary and fiscal policies remained largely focused on domestic goals, as is not surprising in such large, financially strong economies. The result in 1977 and 1978 was the emergence of a large current account deficit in the United States and large surpluses in Japan and Germany. There are, of course, some components of these imbalances calling for structural reforms, such as an increase in U.S. energy prices and greater accessibility of the Japanese market to imports of manufactures.

As these developments appeared to persist and to steer the United States into the "vicious" circle, the yen and deutsche mark moved sharply upward during 1977 and 1978. At times exchange markets became disorderly.[5] Essentially, the private markets were unwilling to finance the large payments imbalances at existing exchange rates. Central banks intervened heavily during the period to finance not only the existing current account imbalances but also some perverse private capital flows out of the United States into Japan, Germany, and, during 1977, even into the United Kingdom and Italy. During 1977, the foreign exchange reserves of those four countries increased by SDR 25 billion, largely as a result of exchange market intervention.

By seeking to peg their exchange rates to the dollar and thus avoid appreciation in the face of current account surpluses, the United Kingdom and Italy actually encouraged speculative capital inflow and worsened the payments imbalances. It seems quite clear that Japanese intervention policy at times had a similar effect, although the Japanese Government did not maintain a given exchange rate over any significant length of time. The cooperative intervention policy operated by the German and United States authorities, aimed at smoothing out day-to-day fluctuations in the dollars/deutsche mark rate, seems to have been more successful in reducing short-run fluctuations and not encouraging speculative capital flows than policies seeking to defend a specific rate. On the other hand, there is no question but that the overall movements of exchange rates during 1977–78 will prove helpful in adjusting the payments imbalances in 1978–79.

A major series of domestic and international economic policy actions was taken by the United States Government on October 24, and November 1, 1978. These actions included: (*a*) pledges to reduce the Federal budget deficit and limit Government spending; (*b*) voluntary wage and price guidelines to help reduce inflationary expectations; (*c*) a 1-percentage point increase in the Federal Reserve discount rate and increased reserve requirements on large negotiable bank certificates of deposit; (*d*) doubling to $15 billion the Federal Reserve swap lines of credit with Germany, Japan, and Switzerland, including activation of the previously dormant Japanese swap agreement, allowing increased short-term availability of foreign currencies for interven-

[5] See "Treasury and Federal Reserve Foreign Exchange Operations," Federal Reserve Bank of New York Quarterly Review, Summer 1978, pp. 51–55.

tion in exchange markets; (*e*) a $3 billion drawing from the IMF, together with a sale of $2 billion worth of SDR's to make available an additional $5 billion of deutsche marks and yen; and (*f*) plans to issue up to $10 billion of longer-term Treasury securities denominated in foreign currencies.

These policy changes recognized the fact that both monetary and fiscal policy as well as wage and price policy in the United States had to be seen to be supporting both the control of inflation and the reduction of the external payments deficit before exchange rate expectations could be stabilized.

Given these policies and the 15-percent decline in the trade-weighted average value of the dollar that occurred between the second quarter of 1977 and October 1978, it was then deemed appropriate to mobilize large resources to intervene in the exchange market. For the combined effect of the depreciation of the dollar and restrictive domestic economic policies as well as expansionary policies in other countries should reduce both U.S. inflation and the external deficit.

The experience reviewed here suggests several conclusions on the major issues regarding the international adjustment process.

First, floating exchange rates unaccompanied by reinforcing monetary and fiscal policies cannot on their own adjust payments imbalances.

Second, if exchange rates are allowed to move more than is required to offset differences in inflation rates and if they are reinforced by monetary and fiscal policies, they can contribute usefully to the adjustment of imbalances.

Third, it is difficult to maintain stable expectations of a steady appreciation or depreciation of an exchange rate, since there is no way to guarantee its "steadiness." Reasonable price stability, with approximately equal rates of inflation in different countries, therefore remains a desirable objective under a regime of floating rates as well as a regime of pegged exchange rates. This objective is all the more desirable because the exchange rate expectations of international traders are likely to extrapolate divergent inflation rates into the future, with obvious effects on capital movements.

Fourth, large and financially strong countries are inclined to set their monetary and fiscal policies with little regard to external payments imbalances. Some kind of international coordination or cooperation in macroeconomic policy is therefore necessary to insure that monetary and fiscal policies are designed to assist exchange rates in their external adjustment role without at the same time pushing the world economy toward excessive inflation or deflation. The appropriate nature of such coordination is discussed below under "Institutions for Policymaking."

Fifth, intervention to smooth exchange rate movements is a useful tool of policy, but intervention to peg an exchange rate temporarily may simply invite speculative capital movements.

National Policies for Inflation and Unemployment

The unsatisfactory experience of the seventies has been caused as much by national policy failures as by failures in management of the international adjustment process. As pointed out above, the lack of monetary and fiscal support was a major factor behind the inadequacy of the adjustment of payments imbalances. More fundamentally, however, the excessive inflation rates of the seventies must be laid primarily to overexpansionary monetary and fiscal policies during the 1971–72 period, although some role can be found for miscellaneous supply disruptions, et cetera. The oil price increase of January 1974, only strengthened the impact of a worldwide recession that had already begun in late 1973. Thus the higher unemployment of the 1975–78 period has also been primarily a cyclical phenomenon.

As noted above, some countries sought to offset the impact of the recession by monetary and fiscal policies, while others did so only to a lesser extent, accepting higher unemployment as the cost of better control over inflation. The countries that gave first priority to controlling inflation have taken the position that higher employment levels can only be sustained if inflation is first brought under control by restrictive monetary and fiscal policies. They regard higher unemployment levels as an inevitable cost of restoring price stability after a boom.

Countries with a promanagement view, on the other hand, would argue that in some circumstances, the control of inflation is not strengthened by operating an economy at well below full employment. Rather, such inflation as remains in the system 3 years after the trough of a recession and 5 years after cyclical peak is mainly due to a self-perpetuating expectational process that can only be halted by political and social agreements on acceptable norms for wage and price increases.

The difficulty comes in trying to find the economic and political techniques to enforce such norms. The approaches include Government-formulated voluntary wage and price guidelines, more formal controls, discussions among business, labor, and government on economically appropriate wage and price increases, use of restrictive monetary and fiscal policies as threats, and the so-called discipline of the balance of payments, requiring control of inflation to maintain a competitive position in world markets at a given exchange rate.

While experience with these approaches has been mixed, one common thread runs through it. Such policies can only be successful in reducing inflation if combined with credible monetary and fiscal policies that are also consistent with reducing inflation. Under such conditions, it may be possible to reduce inflationary expectations sufficiently without an extended period of economic slack.

Nevertheless, some economic slack does appear to be a necessary accompaniment of an incomes policy. For, in its absence, ordinary market forces will combine with existing inflationary expectations to defeat the policy. This question is, needless to say, extremely controversial. Conclusions on the weight to be given to incomes policies as against monetary and fiscal policies often reflect differing views on the relative cost of inflation and unemployment as well as on the possibility of affecting inflationary expectations.

Despite such disagreement, there is one aspect of recent experience with inflation and unemployment that appears with remarkable consistency. Countries that have been willing to accept high unemployment and economic slack, with or without incomes policies, have usually succeeded in reducing their inflation rates significantly. This experience includes Canada and the United States through 1976, Germany, Japan, the United Kingdom, France, and the Netherlands, among others. On the other hand, there is the example of Italy to show that it is possible to combine high inflation and substantial economic slack at the same time, when wages are almost completely indexed to prices through the operation of escalator clauses in labor contracts.

There appears to be little comfort for the national policymaker confronted by the choice between inflation and unemployment. Reduced inflation, it appears, can only be obtained at the cost of some degree of economic slack for some period of time. If it is possible to reach a national consensus to reduce inflationary expectations through incomes policies, it may also be possible to reduce the duration of economic slack. But it is a difficult task to win consensus for such policies while avoiding the temptation to use them as a substitute for monetary and fiscal policies.

Institutions for Policymaking in the World Economy

National Policymaking

National policies are made and executed by national governments, except in a narrow area of trade and agriculture in which countries which are members of the European Economic Community have surrendered some sovereignty. International bodies do not otherwise exercise sovereign power; their role is to negotiate and encourage compliance with rules or constraints on national decisionmaking and to seek cooperation or coordination in behavior in the absence of specific rules.

The period of the thirties demonstrated conclusively the damage that can be done by the process of policy competition, in which each country seeks its own advantage (for example, by devaluation or raising tariffs) without regard to the interests of others and reduces the welfare of all in the process.[6] Given the steady advance of world economic integration, the potential for damage is far greater today than it was then. Thus the world has a growing need for arrangements designed to discourage national decisions that have damaging spillover effects on other countries.

Thus decisions taken jointly or in the light of their effects on others' actions will often be seen to have quite different consequences than decisions made singly, as indicated below. Finally, conflicting outlooks in different countries and divergent points of view on the effects of economic policies can lead to misunderstandings which can perhaps best be mitigated and resolved with the assistance of relatively impartial international bodies. This process is only likely to be successful if the conflicting outlooks are not polar opposites, of course. For example, the United Nations has had little success in reconciling the views of the United States and the Soviet Union on the effects of multinational corporations.

International Organizations

In the macroeconomic area, the two international organizations with primary responsibility are the International Monetary Fund

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[6] See Richard N. Cooper, The Economics of Interdependence, New York: McGraw-Hill, 1968, pp. 160–169 on "policy competition."

and Organization for Economic Cooperation and Development (OECD). The Fund was established to supervise rules for payments relationships and to make loans to help countries follow those rules; the OECD, to promote cooperation in the design of national economic policies. The combination of the Fund's rules on pegged exchange rates and its capacity to extend credits to help deal with the temporary payments imbalances among its member countries represented a compromise between those who wanted a strong international institution with control over international reserve growth and those who wanted a weak institution with powers limited to policing the operation of the international adjustment process.

In actual practice, the IMF turned out to be weaker than either group expected, since countries with strong domestic monetary institutions were able to set up financing arrangements outside the Fund, such as the "swap" agreements among central banks. Furthermore, the Fund has never been able to exercise its "police" powers effectively over countries with surpluses in their international payments: creditors are always less vulnerable to pressure than debtors. Not least, the "key currency" role of the dollar under Bretton Woods built a number of other troublesome asymmetries into the system, including the inability of the United States to alter its exchange rate and the automatic financing of U.S. deficits by other countries' intervention activities. Furthermore, there is a narrower range of fluctuation in dollar exchange rates for currencies than in their nondollar exchange rates, because of the dollar's role as the currency in terms of which pegged rates were defined.

Under the burden of these difficulties and strained, in addition, by a large and growing U.S. balance-of-payments deficit, the Bretton Woods structure cracked in August 1971, and collapsed in March 1973, as countries shifted to the floating exchange rate system.[7] By increasing the shortrun variability of exchange rates, this system has reduced somewhat the degree of economic integration noted above and has given national monetary and fiscal authorities a modest degree of additional freedom to manage their policies with less concern about spillover to or from other countries.

As discussed above, countries have made rather different uses of this new freedom, some opting for relatively greater concentration on economic expansion and others opting for greater efforts to control inflation. The exchange rate and balance-of-payments policies that have accompanied these two types of policy have likewise differed sharply. The expansionists have borrowed heavily to allow continued growth, while supporting their exchange rates, the anti-inflationists, using their freedom to concentrate on inflation at the expense of growth, have mainly sought to smooth out fluctuations in their exchange rates.[8]

The IMF's rules have been revised effective April 1978, by the second amendment to the Fund's charter to legalize the shift to floating rates and to provide the IMF with authority to maintain surveillance over the exchange rate policies of members. The new rules require that members direct their overall economic policies toward the goals of

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[7] See Stanley W. Black, "Floating Exchange Rates and National Economic Policy," New Haven: Yale University Press, 1977, for a thorough analysis of the floating rate system.

[8] See Black, op. cit., ch. 5.

orderly economic growth with reasonable price stability. Each member is obliged to (*a*) avoid manipulating exchange rates to prevent balance-of-payments adjustment or to seek unfair competitive advantage through depreciation; (*b*) prevent disorderly conditions in exchange markets; and (*c*) take into account in their intervention policies the interests of other members, including those of the currency of intervention (mainly the U.S. dollar).

Had these rules existed earlier, they might have discouraged some deficit countries from borrowing abroad as heavily as they did in the recent past to hold up their exchange rates while continuing economic expansion. On the other hand, it is hard to see how such rules will have any bearing on the restrictive monetary and fiscal polices of countries which, despite their payment surpluses, choose to concentrate their efforts on controlling inflation. The rules focus primarily on exchange rate and balance-of-payments policies and only secondarily allude to monetary and fiscal policies. This emphasis reflects the reluctance of sovereign nations to accept the application of international "rules" to internal policies involving important domestic political interests.

For this reason, the role played by the Organization for Economic Cooperation and Development in seeking cooperation in the formulation of domestic policies is crucial in a system of floating exchange rates. Such a role was necessary under a system of pegged rates; and moderately increased freedom of national economic policies available under a system of floating rates has rendered this role at least as essential today. In the absence of more adequate coordination of domestic monetary and fiscal policies, excessive reliance on exchange rate changes for balance-of-payments adjustment, unsupported by macroeconomic policies, has led to the development of the "virtuous" and "vicious" circles referred to earlier. In such conditions, wide swings in exchange rates have generated disorderly market conditions with more frequency than is desirable.

Recent experience with macroeconomic coordination through the OECD and the seven-nation "Economic Summit" meetings is instructive.[9] The OECD Economic Outlook of December 1976 named the United States, Japan, and Germany as the three economies whose better-than-average growth rates were expected to assist in the balance-of-payments adjustment process of other, weaker economies suffering from high inflation and balance-of-payments deficits. This so-called "locomotive" strategy was reinforced by the setting of explicit 1977 growth targets for the three at the London Economic Summit of May 1977. However, developments during the year began to make it clear that two of the locomotives, Germany and Japan, would not meet their self-imposed targets for growth and, thus, would exacerbate the adjustment problems of other countries, including the United States. The "locomotive" strategy thereupon degenerated into mutual recriminations. The political repercussions of setting national growth targets in an international context made it appear to be an unproductive exercise that violated the dictum that decisions should be made where the authority resides to carry them out. In fact, it was not the concept of coordination that was a fault, but rather its style.

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[9] The "Summit" participants have included the United States, Japan, West Germany, France, the United Kingdom, Canada, Italy, and the Commission of the European Economic Community in areas of its competence (e.g., trade and agricultural policy).

An alternative process for international coordination of macroeconomic policies has since been developed by the OECD and is reflected in the Economic Outlook of July 1978. This process, which might be called "international examination of constraints on policy" in each country, involves careful study for each country of the internal constraints on policy such as inflation, the size of Government deficits, the level of taxation, the level of interest rates, and the potential "crowding out" of investment, as well as the degree of external constraint imposed by the level of demand for exports, the balance of payments, and potential exchange rate changes. Each country, of course, regularly examines its own constraints as part of the policymaking process. If a large number of countries find themselves constrained by external factors, the OECD is in a good position to point out the possibility of jointly relaxing those constraints through coordinated actions. On the other hand, internal inflation problems must be solved by domestic policies.

As recent discussion of U.S. energy policy and German anti-inflation policy have made clear, domestic and foreign perceptions of problems may differ substantially. In responding to foreign criticism of its energy policy, the U.S. Government has come to appreciate more fully the manner in which a structural impediment such as artificially low energy prices can create a structural balance-of-payments deficit that poses a constraint on policy. Likewise, the German Government has come to appreciate more thoroughly foreign doubts about the need for the continued orientation of policy against inflation when the inflation rate is down to 3 percent and unemployment remains close to its peak 3 years after the trough of recession.

In addition, countries with weak domestic investment and current account surpluses, such as Japan and Germany, have been shown that joint action with other countries can lead to an accelerated growth of world trade, larger exports as well as larger imports, and a better outlook for domestic investment in export-oriented industries. Finally, countries with concern over their level of Government deficits have been shown that joint fiscal action by a number of countries, by raising the level of private activity worldwide, can have a smaller impact on their own Government deficits because of induced higher tax revenues.

Although the OECD is well organized to analyze the benefits available from such cooperation and coordination of macroeconomic policy, it is not in a position to obtain national political commitments to follow the conclusions of its analysis. Such commitments can only be made by national political leaders, and the finance ministers and economics ministers who attend OECD meetings often see themselves as defending the policies of their Governments rather than seeking cooperation.

The economic summit meetings, both the seven-nation meetings referred to earlier and similar EEC summit meetings held more frequently, seem to be the only places where real give-and-take on macroeconomic policy at the international level is possible. Even at the summit, movement in national policies is quite limited. But the July 1978 Bonn summit meeting did provide impetus for the United States to embrace strong commitments on energy policy and anti-inflation policy and for Germany and Japan to agree to lead a wider program of concerted action to promote more rapid economic growth outside North America, where inflation appeared the chief problem. It is to be hoped that this productive process of political commitment, with each Government seeking to accommodate its policies somewhat to the concerns of the others, can continue.

INTERNATIONAL MONETARY PROBLEMS

Choice of Reserve Assets—The Dollar Versus the SDR Versus Other Currencies

The 15-percent decline in the trade-weighted average exchange rate [10] of the dollar from the second quarter of 1977 through October 1978 involved much larger declines of 22 percent against the D-mark, 39 percent against the Swiss franc, and 33 percent against the Japanese yen. None of those three currencies has been as widely used as a reserve asset as the dollar, nor have their monetary authorities sought such a role. But the magnitude and persistence of the dollar's depreciation have caused foreign authorities to move some of their monetary holdings out of dollars into other currencies. For example, identified nondollar official holdings of foreign exchange, including nondollar Eurocurrencies, expanded 38 percent to SDR 22 billion during 1977.

It is patently impossible for the $135 billion of existing foreign official dollar holdings (as of May 30, 1978) to be liquidated, but even a modest amount of diversification of new reserve accumulation could weaken the dollar over an extended period. (Although private foreign dollar holdings are even larger, they are held voluntarily). On the other hand, countries that have intervened in exchange markets to slow the appreciation of their currencies against the dollar, such as Japan, Italy, the United Kingdom, and Germany, have added to their dollar reserve holdings in amounts that probably far exceed the amount of diversification in official reserves by others. Nevertheless, reserve diversification on whatever scale appears as a reversal of the postwar process whereby short-term capital inflows allowed the United States to build up long-term assets abroad far beyond its current account surplus. This process helped create the overvaluation of the dollar prior to 1971. Its reversal could lead to undervaluation of the dollar in the future.

It therefore appears in the interest of the U.S. Government and other responsible leaders of the international monetary system to avoid substantial diversification. It can certainly not be suppressed as long as major exchange markets remain free of controls. Two other potential deterrents to diversification (not mutually exclusive) are the restoration of the dollar's former attractiveness and the partial replacement of dollar reserves by the IMF's reserve asset. Special Drawing Rights (SDR's) The restrictive macroeconomic and wage-price policies announced by the U.S. Government on October 24 and November 1, 1978 were aimed at an early reduction in U.S. inflation and the deficit in the current account of the balance of payments. These actions have helped to restore the dollar's attractiveness, although there was no guarantee that such changes would necessarily be quickly reflected in improved expectations of the future value of the dollar. Therefore, the domestic policy measures were strongly backed up with increased resources to support the dollar in exchange markets.

[10] Weights based on the IMF's multilateral exchange rate model.

The outgoing Managing Director of the IMF, Johannes Witteveen, has suggested introduction of a special substitution account in the IMF to allow dollars to be deposited by countries and held at long-term. Equivalent amounts of SDR's would be created as replacement assets for the depositing countries. The United States would not have to amortize these deposits by running payments surpluses, as in a proposal of the early 1970's. The Witteveen proposal has significant attractions for the United States, since the deposited funds would, in effect, become inconvertible liabilities, and the diversification would be effected outside of the exchange markets. On the other hand, even to consider starting to dismantle the reserve currency status of the dollar would raise questions concerning its future value. The problem for the United States is to design a policy that defends the status of the dollar without becoming defensive. A key constraint in designing such a policy is that macroeconomic policy is essentially determined by domestic considerations. Again, there is no way to force countries to hold dollars if they want to diversify.

The United States has similar concerns about the SDR itself. Should it be made more attractive by giving it a yield closer to the market so that it would be more widely held and used and become a larger quantitative component of international reserves? The September 1978 meeting of the interim committee of the board of governors of the IMF approved recommendations that 12 billion new SDRs can be created over the next 3 years and that the interest rate on SDRs be raised from 60 to 80 percent of the average of short-term interest rates in five leading financial markets. The SDR thus continues on a slow, evolutionary process toward "becoming the principle reserve asset of the international monetary system," as the second amendment to the IMF's charter puts it.

There is another potential threat to the interests of the United States in the international monetary system. The reluctance to allow progress with the SDR in conjunction with a depreciating dollar could lead to a revival of monetary status for gold or the creation of an alternative international reserve asset over which the United States would have little or no influence. Neither of these prospects seems at all likely, but the design of an enlarged European Monetary System (EMS) linking a substantial proportion of European currencies in a joint float against the dollar has at least raised a few questions about them, outlined below.

According to proposals adopted at Brussels on December 4–5, 1978, European member central banks would pool 20 percent of their gold and dollar reserve assets into a European Monetary Fund (EMF), receiving in exchange claims on the EMF denominated in European Currency Units (ECU), which is valued as a weighted average of individual European currencies. By contrast, the SDR is valued as a weighted average of 16 major currencies, the dollar having the largest weight. There appears to be no provision for the ECU to be held by any but European member central banks, so in theory the ECU could not compete with either the dollar or the SDR as a reserve asset. In practice, such use of it could be expected to evolve slowly.

More seriously, the pooling of gold reserves in the EMF seems almost sure to occur on the basis of some price in the neighborhood of market prices for gold. Otherwise, no country could be expected to contribute its assets to the scheme. The process would effectively remonetize gold by using it (together with dollars) as backing for transferable ECU. To some extent, gold is being used this way already as a few countries are selling gold at market prices to obtain dollars to use to support their currencies while others have used gold as collateral to obtain dollars for the same purpose. There seems little to be done about these developments. Their significance, however, should not be exaggerated. After all, economists define money as anything which is accepted as money, so official declarations on gold probably have little real significance anyway.

The Growth of International Reserves

Official holdings of international reserves, primarily used to support the foreign exchange value of national currencies, have increased dramatically and erratically during the 1970s. As noted earlier, during the years 1970 to 1972, official reserves increased by SDR 68 billion, or 86 percent, as the system of pegged exchange rates disintegrated. Since then, reserve growth averaged SDR 19 billion a year from 1973 to 1976, but jumped to SDR 40 billion in 1977 as official purchases of dollars soared while the dollar declined against other major currencies. These figures show that prior to 1977, floating exchange rates appeared to have eliminated the erratic growth of reserves that occurred during the era of pegged exchange rates when foreign central banks bought dollars to hold their own currencies in line. But the change in 1977 makes it clear that the problem of controlling international reserve creation has not been solved.

There is no doubt that some of the 1977 reserve gains were desired, especially the SDR 17.6 billion of foreign exchange gained by the United Kingdom and Italy, and the SDR 8.5 billion of reserves gained by non-oil developing countries. Germany and Japan accumulated dollar reserves as they sought to stem the rise of their currencies against the dollar, while OPEC members ran up another SDR 6 billion of reserves during the year. The expansionary impact that such increased liquidity may bring in their economies will help in part to assist balance of payments adjustment.

The magnitudes and volatility of reserve changes suggest that the process is somewhat out of control. A better balance of macroeconomic policies in different countries which puts less strain on exchange rates in the adjustment process should relieve this problem significantly.

The Role of the United States in a Changing World Economy

We have seen that the world economy has functioned poorly during the 1970's primarily because it has had to cope with several large disturbances that have raised both inflation and unemployment and because national economic policies have been excessively inner-directed, insufficiently cognizant of the need for adjustment of international imbalances. The floating exchange rate system has been both a symptom of and a remedy for this self centeredness. Unless a greater degree of international cooperation can be reached along the lines discussed above, the dangers of division of the world economy into competing blocs will tend to grow, with increased possibilities for protectionism and destructive policy competition.

As the largest single economy of the industrialized Western World and the largest contributor to the international economc organizations, the United States must be aware of its responsibilities for these developments. At the same time, we must remain aware of domestic political realities including concerns about inflation and unemployment. The major international economic challenge facing the U.S. Government at the end of the decade is to deal with these interrelated problems creatively and successfully.

Fortunately, both international responsibilities and domestic needs point in the same direction: toward restoring reasonable price stability and reducing the external payments imbalance in a healthy economy. However, the achievement of these goals will not be easy, since both domestic and foreign cooperation as well as prudent management and risk-taking are required. Domestic cooperation can be achieved most readily for a policy that shows clear prospects of succeeding. Such a policy should be consistent, reducing both inflationary expectations and the possibilities of financing further inflation, hand in hand. That implies that the Government be willing to accept the risk of a recession if expectations begin to conflict with realities. Foreign cooperation can be achieved most readily for a policy that is not self-centered and that takes account of the vital interests of other countries, including their interest in a healthy international financial system and a healthy U.S. economy. Such a policy will defend the dollar by improving its health rather than by erecting defenses around it. At the same time, a cooperative international spirit can be achieved if the United States plays a positive role in international discussions on the evolutions of the monetary system and does not seek merely to protect its own interests in the short run. For the United States, as well as the rest of the world, has a vital stake in future international economic growth.

On the other hand, the day of American "hegemony" in the international monetary sphere seems to have passed. Since the demise of the dollar-centered Bretton Woods system, the strength of the dollar has become more dependent upon world market forces and economic policies both at home and abroad. No longer do foreign central banks unquestioningly support their dollar exchange rates and change par values only as a last resort. Instead, fluctuation in the exchange value of the dollar render instant market judgments on domestic economic policy actions, much as the stock market has always done.

The monetary authorities of the European Community have designed their new monetary system to reduce not only divergent inflation rates in the community, but also, to some extent, their perceived dependence on the dollar as an international currency.

The gradual decline of American influence in the international monetary system is a natural concomitant of the increased economic power and monetary importance of the European countries and Japan as the post-World War II era has subsided into history. Indeed, during the 1970's the end of the Bretton Woods system and the Vietnam war have accelerated this natural movement somewhat. The constructive growth of international monetary cooperation under the revised charter of the IMF, the promotion of macroeconomic coordination under the OECD and periodic economic summit meetings, and the renewed commitment to free trade under the Tokyo round of trade negotiations are essential to the healthy future development of the world economy.

The Role of Congress and the Administration

The foreign economic policies of the United States are traditionally made in partnership between the Congress and the executive branch of government. The Congress has usually played its most significant role in fiscal policy and foreign trade policy. Monetary policy and exchange rate policy are primarily formulated by the Federal Reserve System and the executive branch, respectively, with the oversight and advice of the Congress.

In the light of recent changes in the international economic environment and changes in the U.S. role in the world economy, both Congress and the executive branch need to understand better the new situation in which we find ourselves. Both need to consult closely with each other, with the public, with international organizations, and with friendly foreign governments in seeking the best course of policy for the nation.

As noted above, the framers of domestic monetary and fiscal policy must remain aware of a potential external constraint on the growth of real output and demand. If we face a large and growing trade deficit, it may become difficult to obtain foreign private financing for it without a stiff price in terms of higher domestic interest rates or a depreciated dollar. More specifically, the conclusions on exchange rate policy discussed earlier should be thoroughly studied and evaluated. International cooperation and coordination should be actively pursued, as a two-way process, in both macroeconomic policy and exchange rate policy.

Our overall relations with the rest of the world depend heavily on the management of our domestic economy and our foreign economic policy. As the largest economy of the industrialized West, the United States has distinctive commercial importance to most other nations, developed and less developed alike. Even in countries with different ideological views, economic relations with the United States are frequently of major significance.

It is thus appropriate for the Congress to continue to make efforts to inform itself of the issues and the factors affecting the U.S. role in the world economy and to continue exercising its oversight role of policy formulated by the executive branch.

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THE BALANCE OF PAYMENTS AND DOMESTIC POLICIES

(By Helen B. Junz*)

Issue Definition

A deficit in a country's international balance-of-payments need not be a problem. Indeed, it can be a sign of strength and a surplus can be a sign of weakness. For example, the huge U.S. international surplus in 1975 was the result of the deep U.S. recession of that year (with a resulting drop in imports) not a mark of superior U.S. economic performance; and the emerging U.S. deficits in 1976–77 were partly the result of economic recovery in the United States combined with virtual stagnation or slow recovery in Western Europe and Japan. As a consequence, the 1976 and 1977 deficits could be financed easily as foreign investors perceived the relative strength of the U.S. economy.

But the huge U.S. deficits of late 1977 and 1978 were perceived to represent more basic problems: They reflected, in part, more rapid inflation in the United States than in other major trading nations, especially Germany and Japan. They triggered a decline in the dollar which threatened to go far beyond what was needed to restore health to the U.S. international accounts. The result was increased inflationary pressures in the United States (as the price of imports rose). Consequently, the massive U.S. deficit and eroding dollar became a major irritant in America's relations with Western Europe and Japan.

In this situation, a number of questions arise:

Should tight fiscal and monetary policies be imposed to reduce the balance-of-payments deficit and strengthen the dollar?

Should the U.S. attitude toward the dollar be one of "benign neglect" or "the market knows best," or should the United States intervene to support the dollar?

Should the United States take direct measures to cut the balance-of-payments deficit, such as import restrictions; or to cut the outflow of dollars, such as restrictions on capital flows?

Background

In 1978, the U.S. economy moved into its fourth year of expansion following the 1974–75 recession. By the third quarter of the year, output, as measured by real GNP, was 12 percent above its prerecession peak. At the same time, unemployment had fallen from a peak of 9.9 percent in May 1975 to just below 6 percent toward the end of 1978, and capacity utilization rates in the manufacturing sector were not much below their high 1973 levels. Over the period, the Federal budget deficit was more than halved. The question arises why, with this kind

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of performance, economic problems have been at the center of policy concerns during most of 1978?

The good growth performance earlier in the recovery had been accompanied by good price performance both as compared with earlier inflationary pressures and with price performance in other industrial countries. However, during 1978, the rate of price increase accelerated once again. And toward the turn of the year, consumer prices were rising at an annual rate of around 10 percent as compared with annual increases in the neighborhood of 6 to 6½ percent in the preceding 2 years. Furthermore, the pace of wage increases also began to trend upward during the year. Thus, rising inflationary expectations increasingly began to take hold, affecting spending and investment decisions here and abroad. As a consequence, it was not surprising that policies designed to control inflation became the focus of attention inside and outside Government. The need to give increasing priority to such policies was underscored by developments in the external sector.

The U.S. trade account moved from a recession-induced surplus of $9 billion in 1975 to a peak deficit of $47.5 billion (annual rate, seasonally adjusted) in the first quarter of 1978. While some move out of surplus on trade account was indicated as recovery proceeded and imports rose, the swing of over $50 billion that actually occurred clearly was too large. Whereas during 1976 and most of 1977, the growing trade deficit could be financed relatively easily by spontaneous capital inflows, this no longer was the case in 1978. Investors, who had been purchasing dollar assets under the stimulus of the greater strength exhibited by the U.S. economy as compared with other industrial countries, became concerned about the inflationary outlook and about the rapid increase in financing requirements. The exchange rate, consequently, came under increasing pressure during the year.

From end September 1977 to end March 1978, the exchange value of the dollar depreciated by 6.9 percent against the trade-weighted average of other OECD countries. During the first quarter of 1978, the Treasury and the Federal Reserve System intervened in the exchange markets in support of the dollar to an amount equivalent to $2.7 billion. This constituted a significant increase in official involvement in market transactions as compared with recent years and helped restore calm to the exchange markets. By midyear, however, the dollar came under pressure again; and in August, a number of steps, including a rise in the Federal Reserve's discount rate, were taken to halt the decline in the exchange value of the dollar. But, by September, as inflation prospects appeared to worsen, exchange markets became increasingly turbulent.

On October 24, the administration announced an anti-inflation program "under which tight budgetary restraint, private wage and price moderation, and responsible monetary policy support each other." And on November 1, decisive actions were taken to strengthen the dollar at home and abroad. These actions were two pronged. They involved inter alia: (*a*) A tightening of monetary policy with a rise in the discount rate by 1 full percentage point and an increase in reserve requirements on large certificates of deposit (CD's); and (*b*) actions putting in place a considerable volume of foreign exchange resources for purposes of possible exchange market intervention. The U.S. authorities undertook to mobilize the equivalent of $30 billion in German marks, Swiss francs, and Japanese yen, partly through borrowing on foreign capital markets, while the Governments of Germany, Japan, and Switzerland committed themselves to join with the United States in closely coordinated exchange market intervention.

In testimony before the Joint Economic Committee, Secretary Blumenthal stated that:

> The actions were taken in the context of persisting inflation and financial market conditions—domestic and international—which reflected doubts about the determination of this administration to stop inflation and defend the value of the dollar. * * * Each of these measures must be seen as part of an integrated array of policies. Any one of them alone is not sufficient, but together I believe they do the job.

Subsequently, the dollar exchange rate strengthened, and between November 1 and the end of the year moved up about 8 percent (on a trade-weighted basis) against the currencies of other OECD countries. This recovery about halved the depreciation of the dollar that had occurred during 1978 to 8 percent.

On the whole, economic policy concerns in 1978 seemed to be dominated by external policy considerations to a hitherto almost unknown extent. This would appear to be at odds with what many observers had expected when the international community moved to a system of flexible exchange rates in 1973. They then argued that in a world of floating rates, the exchange rate will adjust so as to correct payments imbalances. This would free other policy instruments, in particular monetary policy, to pursue domestic goals. But, recent developments show that, as should be expected, domestic policies cannot be divorced from external considerations.

First, in a world where the annual flow of goods across borders, at $1.3 trillion, exceeds the total output of goods in the United States by more than one-third, and where international flows of services and capital are a multiple of trade flows, no economy, not even the largest, can insulate itself from the rest of the world. In fact, even in the United States, which among industrial countries is viewed as being less dependent on trade than others, the share of exports in the total volume of U.S. output of goods—goods GNP—has grown from 7.7 percent in 1961 to 12 percent toward the end of 1978. Accordingly, exports have become sufficiently important to overshadow such important sectors as automobiles and residential construction.

Furthermore, the United States has always played a major role in international financial transactions. Because of their openness, size and diversity, the U.S. money and capital markets have become a main, if not the most important, channel for financing international trade and investment. Accordingly, in terms of employment and income flows, the U.S. economy has become increasingly and inextricably linked into other world economies.

Second, persistent pressures on the exchange rate, regardless of whether the system is one of fixed parities or floating rates, can be indicative of domestic economic problems.

The Role of Exchange Rates

Because they are a reflection of underlying economic problems, persistently large deficits in U.S. trade in goods and services—current account—when they are associated with instability in exchange markets, are a cause of concern. A current account deficit that is clearly temporary, and caused by slow growth abroad, or a deficit that is easily financed by capital flows and thus not accompanied by instability in the exchange markets, should not necessarily give rise to concern. In these latter situations, the current account deficit is associated with a domestic economic climate that looks attractive to investors and that, in their view, is expected to continue to provide adequate returns on investments. However, when current account deficits cannot be financed in such a manner, consequent exchange rate pressures reflect a view that investment opportunities are lacking and that expectations of improvement are absent. Under such circumstances, intervention in exchange markets may temporarily supress the symptoms of underlying economic problems, but the likelihood that even stronger pressures will be generated is high.

Where pressures on exchange rates tend to reflect rigidities and adjustment needs in the domestic economy, correction of what has come to be called the "underlying fundamentals" tends to require the use of all available policy instruments. Therefore, it cannot be expected that a change in relative prices, such as can be brought about by a change in exchange rates, can do much more than create the potential for adjustment—as U.S. goods and services become more competitive in foreign as well as in domestic markets, and U.S. exports are stimulated and U.S. imports damped. For the needed adjustment actually to take place, it must be encouraged by the general economic climate, and private investors and consumers must be assured that the potential created will be lasting. Even then, we cannot expect adjustment to take place quickly: First, the private sector will have to recognize the opportunities created; second, recognition will have to be translated into action; and third, action will have to yield results. All this takes time.

Because the effects of exchange rate changes are not readily and quickly observable, some have begun to doubt whether such changes actually have any effect at all. In other words, impatience is leading many observers to doubt the efficacy of changes in relative prices and profits in bringing about changes in trading and investment flows. But, in a world that has come to view inflation as the No. 1 policy concern, there should be little doubt of the ability of the price mechanism to affect production and investment streams. When we know that the erosion of purchasing power through inflation has created uncertainties among investors and consumers sufficient not only to depress investment demand and employment opportunities, but also to lead to misallocation of resources, we cannot doubt the powerful stimuli emanating from the pricing mechanism.

The skepticism regarding the role that exchange rate changes can play in helping to bring about adjustment in part relates to the size of the underlying imbalances. If such imbalances are deeply imbedded in the economic structure, it clearly becomes harder and takes longer to correct them. Also, exchange rate changes often either are not accompanied by appropriate domestic policies or suffice only to preserve the status quo. For example, exchange rate adjustments, in nominal terms, have been quite large in recent years. But until a year or two ago, they have on average been no greater than needed to compensate for differences in inflation rates among trading nations. Thus, they helped to prevent existing disequilibria from becoming even larger but could do little to help eliminate them. More recently, however, exchange rate changes have exceeded differences in inflation rates and, in the case of the dollar, even to an extent unwarranted by the underlying adjustment needs.

The U.S. Trade Deficit and Its Causes

The perception that the depreciation of the dollar during 1977–78 had gone too far—19.3 percent on a trade-weighted basis between September 1977 and October 1978—is supported by the fact that loss of price competitiveness, while a major cause, was only one of several in the rise of the U.S. trade deficit.

First, the shift from surplus in 1975 to a very large deficit in 1978 was associated with the recovery from the deepest recession since World War II. From 1975 through 1978, the U.S. economy not only regained its previous peak level of output but, by the end of the year, actually exceeded it by 12 percent. Such growth performance naturally is associated with a considerable increase in imports. But in contrast with the substantial growth of the U.S. domestic market, export markets have grown much more slowly as other industrial economies barely reached their pre-recession levels of output. In addition, some of the U.S. largest customers in the developing world instituted economic stabilization programs, which cut back on their import demand. Accordingly, both subdued economic growth abroad and the geographical composition of U.S. export markets contributed to low growth in U.S. exports.

Second, U.S. imports of energy rose from less than $5 billion in 1972 to an estimated $43 billion in 1978. Increased import volume would have raised the bill only to $8.2 billion, higher prices account for the remaining $34.8 billion.

In contrast to developments in virtually all other oil importing countries, the volume of our oil imports has risen because of reduced domestic output as well as higher domestic consumption. Over the last 5 years, domestic production declined by 1.5 million barrels a day and consumption increased by 2.5 million barrels a day. Roughly 40 percent of the increase in the U.S. oil imports since 1972 can thus be attributed to reduced production and 60 percent to increased oil consumption. As a consequence, for every 1 percent increase in GNP, our oil imports have been growing by 2 percent. The erosion of domestic output, of course, was underway before the oil price increases occurred and is only now being partly offset by rising Alaskan production.

The third factor in the shift in the U.S. trading position was an erosion of price competitiveness. First, the change in the relative price of oil in 1973–74 was misinterpreted by the public at large as conferring an advantage upon the United States, a large producer of energy, as compared with other oil importing countries. Consequently, demand for U.S. financial assets rose and the price of the dollar was bid up in exchange markets. The loss in competitive position stemming from that appreciation of the dollar vis-a-vis the currencies of other trading nations began to affect U.S. trade flows adversely in 1976 and 1977.

But, more significantly, U.S. inflation rates, as measures by the CPI, accelerated from 6.5 percent in 1977 to an annual rate of 9.5 percent toward the end of 1978, and that trend has continued. This inflation performance was in contrast with that of most other trading nations—

excepting Canada—where inflation rates, though still high in many cases, have trended downward. This difference in inflation performance not only directly affects U.S. competitiveness in foreign and domestic markets, but also affects expectations regarding the ability of the U.S. economy to perform competitively in the near future. Consequently, it also affects the view potential investors form of the attractiveness of holding U.S. financial assets.

Trends Toward Improvement

The reversal of the dollar appreciation of 1975 and 1976 and the coming on stream of greater domestic energy supplies had begun to improve the U.S. trade position well before the actions of October 24 and November 1 were taken.

The trade deficit had receded from a record $47.5 billion (annual rate) in the first quarter of 1978 to an annual rate of just over $26 billion in the last quarter. About one-fifth billion of this more than $20 billion improvement reflects increases in agricultural exports. But by far the largest part of the shift appears to reflect an improvement in underlying conditions. This is indicated by the fact that nonagricultural exports, which had been rising only slowly during 1977, began to move up sharply.

The most encouraging part of the rise in nonagricultural exports was the share increase in exports of finished manufactured goods. Whereas finished manufactures, excluding military goods, had risen by less than 2 percent (in real terms) between 1976 and 1977, they rose at an annual rate of about 17 percent between the fourth quarter of 1977 and September–October 1978. The implied resurgence of U.S. competitiveness is particuarly notable in the area of consumer goods. The United States traditionally has been a weak exporter of consumer goods, and recently competition has sharpened as productive capacity in developing countries has grown and trade barriers have risen. Under these circumstances, the 9-percent rise in the volume of exports of consumer goods (annual rate) over the period, is remarkable. These developments indicate that the steady downward trend in the U.S. share in world markets that prevailed since 1975 may not only have been halted, but actually be in process of being reversed.

Outlook

For the year 1978, as a whole, the trade deficit amounted to $34 billion, with the second half of the year well below that level. And the improvement in the trade account should continue into 1979, despite the increases in the oil import bill owing to the recent rise in oil prices.

The continued improvement in U.S. foreign trade derives from the following factors:

Lagged effects from regained international competitiveness owing to the exchange rate changes of the past year coupled with the measures taken to assure that these price advantages will not be eroded;

The passage of energy legislation and further progress in energy conservation; and

A pickup in growth in the markets of our trading partners.

With the policy measures now in place, domestic and external balance should be on the way of being restored. The measures taken to address the inflation problem together with the November 1 package should suffice to avoid renewed turbulence in the exchange markets. Such turbulence tends to undercut the potential for balanced growth that has been created, because excessive exchange rate depreciation results in increased inflationary pressure, first through a rise in import prices, and second through potential increases in domestic prices as competitive pressure from abroad is reduced. In addition, declines in exchange rates that appear out of line with underlying economic conditions tend to foster a climate in which other trading nations may take defensive measures. Such measures not only prevent restoration of our own external balance, but they also erode the international cooperative framework which is essential for the achievement of balanced growth worldwide.

Direct Measures To Strengthen Trade Balance

What about various proposals to subsidize exports or impose a surcharge on imports as a means to improve the trade balance and strengthen the dollar? A number of factors need to be considered in weighing these proposals:

(1) They may well be in violation of the General Agreement on Tariffs and Trade (GATT). The United States objected to Britain's import surcharge imposed in similar circumstances.

(2) Both an import surcharge and export subsidy are equivalent to a partial depreciation of the dollar—the former on imports, the latter on exports. Why should such special measures of questionable legality be preferred to dollar depreciation?

(3) They not only might be counterproductive, they also do not appear to be necessary. The trade balance is turning around as foreign economies grow, the U.S. economy slows and the deprication of the dollar begins to show results. And, most important, as tight monetary and fiscal policies, together with associated measures instituted to deal with inflation, begin to show effects, underlying competitive conditions will be strengthened in the long run.

Policies Toward Balanced Growth and the Role of Congress

The growing interdependence of the world economies necessitates that in the formulation of domestic policies, effects of such policies on others are taken into account. Economic conditions elsewhere have become so important to each individual economy that "go-it-alone" policies not only tend to be detrimental to others, but actually may rebound on the country that institutes them.

Adjustment to the economic changes of the past several years—the large increase in the relative price of oil, recession, inflation, and slow recovery—is difficult under any circumstances. Therefore, it is not surprising that political pressures have been rising to insulate both individual economies and particular sectors within the economy from the need to adjust to changes in the world's circumstances. But it is also clear that attempts to avoid such adjustment, decrease the flexibility of the economy, lead to inefficiencies and, in the end, bring about a situation that makes the achievement of noninflationary growth impossible. Thus, defensive policies that would restrict the free flow of goods, services, and capital within or among countries, will tend to perpetuate the conditions they are trying to correct. It is, therefore, for reasons of self-interest that countries need to be concerned to correct external and internal imbalances. And that in doing so, they must choose ways and means that make the economy more responsive to change and less vulnerable to economic dislocations.

Most of the economic policy initiatives before the Congress during the current session will have an effect one way or another on the achievement of balance-of-payments equilibrium. First and foremost, are the economic policy measures designed to counter inflation—fiscal and monetary policies, price and wage policy, energy and regulatory policy, and last, but not least, international financial and trade policies. Among the latter, successful conclusion and ratification of the multilateral trade negotiations will play a major role in assuring the spread of benefits from growing international trade on a fair and equitable basis, worldwide.

The national export policy announced in September 1978, together with the results of the multilateral trade negotiations should help to create a better competitive climate abroad and at home. International financial policies, including the shift in intervention policy instituted last year and the strengthening of the resources of the IMF, should create a financial environment conducive to sustained growth in world trade. But the ultimate success these policies will have in translating the trading potential that has been created into actual increases in employment and output hinge most importantly upon their success in increasing competitiveness and flexibility within the economy.

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MULTILATERAL TRADE NEGOTIATIONS

(By Raymond Ahearn*)

Issue Definition

The multilateral trade negotiations (MTN) were initiated in 1973 with the signing of the Tokyo Declaration by representatives of more than 100 countries. This, the so-called Tokyo Round, was the seventh round of such trade negotiations to be held since the end of World War II. Eash of them has contributed to the growth of the world economy by lowering barriers to trade. The purposes of the Tokyo Round were to continue the reduction in tariffs and to negotiate reductions of other barriers to trade.

These negotiations were conducted in Geneva under the auspices of the General Agreement on Tariffs and Trade [GATT]. The GATT, which came into force in 1948, was designed on the premise that the growth of world trade requires international cooperation, agreement on rules of conduct, and a reduction of trade barriers. The liberalized trading system fostered by the GATT contributed to an unprecedented sixfold rise in the volume of world trade between 1948 and 1973 and made a major contribution to the economic growth of that period.

In recent years, however, demands in many countries for protection from foreign competition have increased to a point where a retreat from international adherence to a liberal trading system has become quite possible. The Tokyo Round is therefore of great importance in determining the near-term direction and nature of the international trading system.

Although Congress, in the Trade Act of 1974, authorized the President to reduce tariffs, Congress did not surrender its powers over trade barriers other than tariffs—the so-called nontariff measures or NTM's. Accordingly, the administration will have to seek congressional approval for the NTM portions of any agreements reached in Geneva and will present its proposals early in the 96th Congress.[1] It is not likely that other countries, or the United States for that matter, would accept the negotiated tariff changes without the negotiated changes in the rules on NTM's. It is therefore clear that the congressional reception of the administration's legislative proposals will be crucial to the outcome of the Tokyo Round.

Approval of the administration's legislative proposals requires a majority vote in each House. The Trade Act provides special procedures, including the limitation of debate and the prohibition of amendments, to insure action on the implementing legislation within 90 legislative days of its submission. Each House will probably call for one vote to approve or reject the entire legislative proposal.

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[1] The administration initialled the agreement on April 12, 1979 and plans to submit to Congress by early June the implementing legislation.

Background

Importance of Expanded Trade to the United States

A new trade agreement that again enlarges trading opportunities would seem to be in the general interest of all trading countries, including the United States. The United States is the world's largest trading nation, exporting and importing goods valued at $260 billion, nearly one-eighth of the world total. Expanded trading opportunities over the past 30 years have helped the annual output of the U.S. economy grow from $200 billion to $1.9 trillion.

Although foreign trade has not constituted as large a fraction of total production and consumption in the United States as it has in other countries, its importance to us has been increasing in both relative and absolute terms. Merchandise exports, which constituted less than 4 percent of our gross national product in the 1960s, today account for about 7 percent. Individual industries such as construction and aircraft equipment, sewing machinery, fertilizer, rice and pulp milling equipment have become highly dependent on overseas markets. Export markets are also very important for agricultural products such as wheat, hides, soybeans, cotton, sorghum, tobacco, rice, and corn where foreign markets account for one-fourth to over one-half of their total sales.

U.S. exports of merchandise have a significant impact on domestic wages and employment. Wages in U.S. export oriented industries are higher on the average than wages in U.S. industries that compete against imports or serve only the domestic market. This difference exists because U.S. export industries generally utilize more capital per worker and often require a more highly skilled labor force than our other industries. Both of those factors increase labor productivity. Consequently expansion of the export sector usually creates better and higher-paying jobs.

The Bureau of the Census has estimated that, in the manufacturing sector alone, 1.2 million jobs were directly dependent on exports in 1976.[2] For every job directly dependent upon production for export, perhaps one other job depends on producing the components or services utilized in making the exported product. Thus, it is likely that one out of every eight or nine jobs in the U.S. manufacturing sector was directly or indirectly dependent upon exports in 1976. Moreover, virtually every major domestic industry reported an increase in export-related employment between 1972 and 1976. The nonelectric machinery industry, the electric machinery industry, and the transportation equipment industry have the most workers involved in export-related production.

Just as the importance of exports to the United States has grown in recent years, imports have also become more important. Between 1963 and 1978, imports measured as a percentage of U.S. income have more than doubled. The United States has become heavily dependent on foreign sources for oil and increasingly dependent on rare, but strategic, mineral commodities and industrial raw materials.

Over two-thirds of U.S. imports consist of raw materials or agricultural products that could not be produced in the United States or could

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[2] U.S. Department of Commerce, Bureau of The Census, Origin of Exports by Manufacturing Establishments for 1976, Series M76(A9)–8.

be produced here only at higher cost. Imports also provide a larger range of products for consumers to choose from, and they offer price competition which helps restrain inflation.

The increase in the quantity of manufactured imports into the United States in recent years has become a sensitive political issue. Advocates of protection, at one extreme, often claim that imports of manufactures are destroying American jobs, wiping out U.S. industries, and undermining the U.S. industrial base. Opponents of protection, at the other extreme, often exaggerate the benefits of imports and problems of import dependence, and ignore the human problems created for employers and workers adversely affected by imports.

The issue needs to be seen in perspective. The adverse effects of increased imports on overall employment are small compard to other factors affecting employment at home. The following considerations show this.

> A hypothetical and phenomenal increase in U.S. imports totaling $20 billion (which is equivalent to 31 percent of total U.S. imports of manufactured goods in 1976) would have lead to approximately 720,000 job losses. This is less than 10 percent of the estimated 10,000,000 workers laid off for all reasons during the course of 1976.[3]
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> The likely U.S. tariff reductions in the Tokyo Round may induce a $2.3 billion increase in imports and result in a displacement of 90,000 workers.[4] The job losses would occur over a period of 8 years. They would be offset by an equal number of jobs created by expanded exports. The 90,000 job loss is to be considered in relation to a work force of 104 million and unemployment of 6 million in December 1978.

The net result is that imports play only a minor role in determining overall unemployment in the domestic economy. Even on an industry level, imports tend to affect employment more by restricting the future growth of jobs than by reducing current levels. For example, even in the import-sensitive textile and apparel industry, employment has declined slightly over the past decade (from 2.4 million workers in 1968 to 2.2 million in 1978), while imports in this category have grown by 69 percent.

On a different level, it is clear that net overall economic gains from new import liberalization are not dramatic either, and that everyone is not affected equally by increased trade. Some people will be better off and some will be worse off. Policies to minimize the duration of unemployment and the difficulty and frustration of finding a new job are necessary.

Trade Liberalization and Economic Growth

Postwar trade liberalization led to a steady expansion of world trade that, in turn, contributed to increased economic growth. Between 1953 and 1960, when tariffs and other import restrictions were reduced

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[3] Walter S. Salant, "The Effects of Increases in Imports on Domestic Employment: A Clarification of Concepts," Special Report of the National Commission for Manpower Policy. Special Report No. 18, January 1978, pp. 32–33.

[4] Estimated by William R. Cline in congressional testimony and reprinted in U.S. Congress, Senate, Committee on Banking, Housing and Urban Affairs, Subcommittee on International Finance, Export Policy; hearing, 95th Congress, 2d session, part 8, May 17, 1978, p. 25.

markedly, export volume of industrial countries increased at an average annual rate of 7 percent while their combined output grew at 3.6 percent.

The relationship between the growth of trade and the growth of output continued between 1960 and 1973. Exports of developed countries grew at an annual average rate of 8.8 percent, while their economies grew in real terms at 4.8 percent. During this period, the Dillon and Kennedy Rounds of trade negotiations were completed. The Kennedy Round reduced tariffs on industrial products by an average of one-third. At the same time, the growth of world trade was supported by the elimination of tariffs within the EEC. The most successful developing countries such as Taiwan and Korea, found that export-oriented growth policies and reduced import protection contributed to high rates of economic growth.[5] These postwar results created a widely held view that a liberal world trading system can contribute substantially to important societal goals; namely, rapid economic growth and higher real incomes and wages.

The past few years have witnessed a limited revival of national economic protection. GATT estimated that 3 to 5 percent of world trade has been adversely affected by various kinds of import restrictions introduced by industrial countries between 1974 and 1977.[6] Although the industrial countries, speaking through the Organization for Economic Cooperation and Development (OECD), have declared on several occasions their support of an open trading system, concern about a drift toward protectionism continues to be heard. So far, restrictive trade actions have tended to concentrate in certain industrial sectors such as textiles, clothing, footwear, steel, shipbuilding, and electrical consumer goods. A few nonindustrial products, such as meat and sugar, have also been recently affected.

A variety of pressures have pushed governments toward more protective policies. Higher unemployment, which followed the worldwide recession of 1974, has become one of the dominant factors. The persistence of above-average unemployment rates, in turn reflects conditions of depressed foreign and domestic demand which have contributed to weakness in a variety of markets, including steel, footwear, meat, and shipbuilding. In times of weak demand, competition among producers increases, along with charges, sometimes well founded, that imports are being dumped or subsidized to maintain output and employment abroad.

Further trade liberalization cannot, by itself, solve current economic problems. Nevertheless, a successful Tokyo Round, by widening markets for internationally traded goods, can facilitate further growth in the world economy.

Issues at the Tokyo Round

World trade policy has focused on the Tokyo Round since 1973. The negotiations, complex and comprehensive, have been mainly concerned with four kinds of issues: (1) Tariff reduction (and, for very low

[5] Bela Balassa, "The New Protectionism," Journal of World Trade Law, September: October 1978.

[6] "General Agreement on Tariffs and Trade, Trade Liberalization, Protectionism, and Interdependence," Geneva, November 1977, p. 74.

tariffs, their elimination); (2) creation of trade policy codes to facilitate the reduction of existing nontariff measures and the avoidance of new ones; (3) expansion and stabilization of trade in agricultural products; and (4) changes in GATT rules on such matters as the settlement of trade disputes and the definition of the rights and obligations of developing countries.

Previous rounds of trade negotiation have substantially reduced world tariffs, particularly for industrial products where the average tariff stands at 9 percent in the United States and the European Community, 14 percent in Canada, and 11 percent in Japan. Although the averages hide wide variations on individual products, the tariff reductions emerging from the Tokyo Round are not likely to alter abruptly or significantly the competitive positions of most producers. Even for the most protected sectors—the ones enjoying higher than average tariff levels—an average tariff reduction on industrial products of about 35 percent is slated to be phased in over an 8-year period. Annual reductions thereforce would range from 0.5 percentage points for tariff rates of 10 percent ad valorem to about 4.0 percentage points for rates of 50 percent. On this basis, even if the tariff reductions are fully reflected in price reductions, which is most unlikely, prices of imports will decline by very much less than 1 percent annually. Exchange rate fluctuations and inflation have much greater effects on the prices of exports and imports than those of the tariff cuts.

The attempt in the negotiations to eliminate, reduce, or control nontariff measures (NTM's) that impede trade could matter a great deal.[7] For the most part, the recent growth of NTM's reflects the increasing tendency of governments to intervene directly in the organization and direction of business activity for a wide range of social and political objectives. Governmental intervention includes such practices as export subsidies, product standards, buy-national programs, import quotas, and variable levies on agricultural trade. It is widely felt that current GATT rules are inadequate to regulate such intervention. Hence, the development of new codes of conduct or the strengthening of existing rules was a primary focus of negotiations in the NTM area. Agreement was reached on codes of conduct on subsidies, product standards, government procurement, customs valuation, import licensing and trade in civil aircraft. Negotiations on a safeguards and commercial counterfeiting code were not concluded, but it is hoped that agreement can be reached on these codes over the summer. A short summary of four of the more important codes follows:

Subsidies

Perhaps the most critical code negotiated deals with the use of government subsidies that distort trade patterns. Subsidization of domestic production has been particularly prevalent in agriculture; however, many manufacturing industries—shipbuilding and aerospace among the most prominent—are also affected. The U.S. aim was to obtain an improvement in the discipline or rules governing subsidies, while recognizing that it would be unrealistic to expect the abolition

[7] NTM's include measures, other than tariffs, that restrict imports or artificially increase exports; for example, import quotas; health, safety, environmental, and other product standards, and government procurement procedures that interfere with imports; and subsidies and other government aids to exports.

of such practices since many of them are designed to achieve politically sensitive national objectives.

The United States publicly insisted that present antisubsidy rules were inadequate because they deal almost exclusively with traditional export subsidies and, for the most part, neglect domestic subsidies, such as regional development incentive that affect foreign market sales. The United States, therefore, proposed a "two-track" subsidy code. It delineates procedures whereby countries could take alternative countermeasures to offset the impoct of foreign subsidies that affect domestic import-competing industries, on the one hand, and foreign market sales, on the other.

The first part allows, essentially, the use of the traditional countervailing duty remedy to deal with any kind of subsidized imports coming into a home market, after a finding of injury. Provisional countermeasures are allowed pending a determination of injury.

The "second-track" deals with a list of prohibited export subsidies that interfere with the normal competition of exports primarily in third-country markets or the market of the subsidizing country. Under this track, procedures for taking countermeasures against the prohibited subsidy are available to the affected party. This approach is a major departure from the traditional remedy; namely, the use of a countervailing duty by a country into which subsidized goods are entering. No injury determination would be required under this part.

Except for subsidies on duty-free goods, current U.S. law, contrary to most foreign law, does not require a finding of injury prior to the imposition of a countervailing duty. The administration will recommend to Congress that it accept the inclusion of an injury test in the U.S. countervailing duty law along with the two-track approach.

Product Standards

Product standards, which are established by governments for a variety of reasons unrelated to foreign trade—among them consumer protection, health, safety, and environmental protection—are a second area where in NTM code was negotiated. Though such standards generally are not designed to impede trade, they may do so either because they are more stringent than foreign standards or simply because they are different. The purpose of the code is to discourage discriminatory manipulation of product standards product testing, product certification systems. The code also encourages the adoption of international standards and provide a mechanism for finding solution to disputes. U.S. exporters, thus, will be able to lodge complaints and secure reviews of foreign standards practices that impair their export opportunities.

Government Procurement

A third important NTM code concerns government procurement. Virtually all countries have special government procurement or "buy-national" programs that favor domestic goods against imports. The United States is no exception. Under the "Buy American Act" of 1933 and various other laws, U.S. Government agencies are now required to show preference to U.S. producers. Many Federal, State, and local governments have enacted similar laws.

In other countries, there are few laws that directly require discrimination against foreign suppliers when governments purchase goods for their own use; the discrimination is covert, though nonetheless effective. Many foreign governments buy from domestic firms without the public tendering or advertisement that characterize U.S. practice. Since outside firms often do not know about such contracts, they cannot bid. U.S. industries that have experienced problems of this kind include producers of power generation equipment, scientific instruments, computers, chemicals, and aerospace equipment.

The government procurement code attempts to discourage discrimination at all stages of the procurement process. In particular, U.S. negotiators have emphasized making procurement programs more "transparent" or open to public scrutiny. The Code covers purchases of goods valued at $190,000 or more by a specified list of government entities. It is estimated that the Code will open up to U.S. exporters the opportunity to bid on anywhere between $12 and $20 billion of new business.

Safeguards

Negotiations on a safeguards code, which would provide a set of improved rules for countries taking "escape clause" actions to protect domestic industries from injurious import competition were not concluded. No further negotiations on this code are planned until this summer.

The basic "escape clause" (article XIX of the GATT permits unilateral withdrawal or modification of import concessions or other GATT obligations when they result in increased imports that cause or threaten serious injury to domestic producers. Article XIX provides for prior consultation and subsequent compensation. It also provides for arriving at an agreement between the importing and exporting countries on the nature of the remedial action and the nature of the compensation to the affected exporting country.

Over the years, however, great uncertainty has developed concerning the types of situations that warrant safeguard actions and, in turn, the types of protective or remedial measures that may legitimately be taken. Problems of this kind have proliferated as countries have disregarded the GATT safeguard procedures. Orderly marketing agreements (OMA's) and export restraint agreements (ERA's) are examples of safeguard measures increasingly used outside the GATT rules. In an effort to establish greater discipline in this area, negotiations in the MTN have focused on a new safeguard code that would contain many of the following elements: time limits on safeguard actions; rules governing selective application of safeguards against one or a few suppliers; nonbinding standards for determining the relationship between increased imports and serious injury; and GATT surveillance over the use of safeguards.

The main area of disagreement has been the provisions for selective applicaton of safeguards. The developing countries, who are the likely targets of selective actions, strongly oppose selective safeguards.

Agriculture

Liberalizing agricultural trade, the third broad area of the MTN, has always been exceedingly difficult. The Kennedy Round achieved only modest tariff cuts and an agreement to establish an international grains agreement. The principal problem of reconciling domestic price support programs with liberalized market access still exists. Trade liberalization in this sector would primarily help the United States (which exports approximately one-third of all production) as well as many developing countries. The Europeans, on the other hand, are chiefly interested in stablizing agricultural prices, while the Japanese are still concerned with protecting their domestic market. Negotiations in the agricultural area have therefore been difficult, as expected.

Much of the agricultural negotiation at the MTN has been bilateral (country-by-country). The primary U.S. objective has been to create greater access for U.S. agricultural exports in specific markets. In particular, the United States has sought some relaxation in the restrictive agricultural import policies of the EEC and Japan.

The agricultural agreements include concessions (mostly increased quotas and reduced tariffs) by U.S. trading partners which will affect approximately $4.0 billion of U.S. agricultural exports. It has been estimated that these concessions will increase U.S. agricultural exports (primarily tobacco, meat, soybeans, and citrus) by about $400 million annually. The U.S. made concessions covering about $2.6 billion of agricultural imports. These include tariff reductions on meats and increased quotas on cheese.

In addition, meat and dairy arrangements were successfully negotiated. The dairy arrangement established minimum prices for milk powders, butter, milk fat and cheese. Both arrangements provide for consultations and exchange of information.

Two of the NTM codes are also expected to improve the conduct of agricultural trade. For the first time, some discipline will be brought to bear on export subsidies in agricultural trade through the Subsidies Code. The Standards Code could also benefit U.S. agricultural exporters by discouraging manipulation of product standards as barriers to trade.

Framework Improvement

Negotiators at the MTN concluded a number of agreements which reform several aspects of the GATT framework of rights and obligations of signatory countries. Most important of the issues concerned the treatment of developing countries. An "enabling clause," which provides a legal basis for special and differential treatment for developing countries, was agreed to. At the same time, the agreement recognizes that as developing countries progress economically, their special benefits (such as the U.S. Generalized Scheme of Preferences) will be phased out.

The Framework package also included an agreement to strengthen the dispute settlement mechanism in the GATT. The right to review of a dispute by an impartial panel is an important feature of what is hoped will be a stronger dispute settlement procedure.

In summary, all the NTM codes have basically similar objectives: The establishment of new rules of international trade or better adherence to the existing rules. The purpose of the agreements in this area has been to develop a framework for cooperation which can facilitate the expansion of international trade.

Issue Outcomes and Consequences

Economic Benefits From the MTN

Trade liberalization, through the reduction of tariffs and the relaxation of NTM's, should provide long-term economic benefits for all countries. The mganitude of these benefits, which are difficult to quantify, will depend primarily on the NTM codes and how rigorously they are implemented over time. An assessment of the benefits, thus, can be attempted only after the various provisions of the codes have been applied in concrete circumstances. The more immediate benefits arising from tariff liberalization are likely to be positive but small. It is likely that the direct benefits arising from the actual tariff reductions will amount to an annual gain to the U.S. economy of something less than $1 billion.[9]

Also, for the United States, the growth of exports resulting from other countries' tariff reductions are estimated to exceed by a small amount the growth of imports resulting from U.S. tariff reductions.[10] The major export gains would be concentrated in machinery and electrical appliances, chemicals, paper, and precision instruments. The major import increases would be found in basic metals, plastics and rubber, miscellaneous manufactures, footwear, transport equipment, and leather goods.

The growth of U.S. exports creates new jobs while increases in U.S. imports contribute to job losses. Estimates of the net employment impact of changes in exports and imports are sensitive to the assumption made.[11]

Most studies conclude that the net employment effect from trade liberalization is nil.[12] The major impact of trade liberalization, thus, is not on employment but on real wages and income.

Although reasonable estimates can be made of the economic effects of tariff reductions on both world and individual country income, it is extremely difficult to calculate the trade importance of most nontariff measures likely to be negotiated in the MTN. Administrative and technical regulations on customs valuation, health, safety, and other product standards, Government subsidies and countervailing duties, and discrimination in Government procurement—all have basically similar effects on trade. A principal restrictive economic effect of most NTM's (with the exception of quotas and other quantitative restrictions) is uncertainty and consequent discouragement of trade.

The development of new trading rules in some cases and the tightening of existing rules in others are intended to increase the growth of world trade and real income with a minimum of costs and risks to

[9] Estimate based on study by William R. Cline, et al. "Trade Negotiations in the Tokyo Round: A Quantitative Assessment," Brookings Institution, Washington, D.C., 1978. P. 78.

[10] Estimates based on the study by William Cline, et al. "Trade Negotiations in the Tokyo Round: A Quantitative Assessment," op. cit. Estimates were summarized by the author and reprinted in pt. 8 of Senate Banking, Housing, and Urban Affairs Committee hearings on export policy, op. cit., pp. 26–27.

[11] The section of the Cline study on the gains from tariff liberalization (ibid.) estimated that jobs created through increased export activity (estimated at 120,000) would exceed the loss of jobs to imports (estimated at 90,000). See table 3–14, row 12, p. 125 of "Trade Negotiations in the Tokyo Round: A Quantitative Assessment."

[12] Note, for example, U.S. Tariff Policy: "Formation and Effects," Robert E. Baldwin, University of Wisconsin, for U.S. Department of Labor, Bureau of International Affairs, June 1976.

other national objectives. Further it is hoped that codes of conduct for NTM's and their proper enforcement would help prevent the establishment of new barriers to world trade. These achievements will not only increase the economic benefits derived by trading countries but will also, it is hoped, reduce potential sources of international friction.

Adjusting to Freer Trade

Despite moderate general economic benefits of trade liberalization, opposition can be expected from those who are most affected by increased import competition. Perhaps the single most important factor creating organized resistance to freer trade is concern about jobs. The impact of increased imports on overall employment in industrial countries, however, is normally not a problem. Imports supply a relatively small percentage of overall U.S. consumption. Furthermore, in manufacturing industries, job losses caused by imports are usually much less significant than job losses caused by changes in consumer demand or by technological improvements that increase worker productivity. One study in fact, estimated that, for every U.S. job lost because of increased imports, there are six to nine jobs lost due to changes in demand and technology.[13]

Trade liberalization presents a political problem: Its benefits are diffused over the entire economy while its costs are borne by firms and workers in specific industries. This is a sensitive point because overall import displacement data are meaningless to those most directly affected. A steel, television, or footwear worker, obviously does not view imports from the perspective of the whole economy. He is concerned about the fate of his own job, health benefits, and pension plan.

The problem is often made more difficult because typically (but not always) industries or product lines being undersold by imports are characterized by high labor-intensity, a low level of skills, and a higher share of older or relatively less mobile workers than industry as a whole. This problem is intensified when unskilled workers are concentrated in depressed regions where alternative employment opportunities are scarce.

These concerns and hardships have not been overlooked. The United States has trade adjustment assistance programs designed to assist workers and firms hurt by imports. Readjustment allowances, training, and relocation benefits are provided for workers, while technical and financial assistance is provided to affected firms. Unfortunately, these programs have not been particularly successful, especially in times of slow economic growth. Further legislative attempts to speed up and improve the delivery of assistance are under consideration in the 96th Congress.

Although most economists consider trade adjustment assistance preferable to trade restrictions from a trade policy standpoint, such assistance is often inadequate as a workable and humane remedy, especially if sudden surges of imports occur. Under these conditions, safeguard measures such as temporary import restrictions may be needed to limit the growth of imports. These restrictions are intended to provide an opportunity for firms to take measures to improve their

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[13] Charles R. Frank, Jr. Foreign Trade and Domestic Aid, Brookings Institution, Washington, D.C., 1977, p. 36.

competitive positions or to allow more time for orderly adjustment. As discussed above, a new safeguards code is still being negotiated in the Tokyo Round. The intent is to establish internationally agreed rules for the application of temporary safeguards.

Future of the World Trading System

After 5 years of difficult negotiations, the Carter administration expects to present the MTN agreements to Congress for approval probably sometime by early June. Obtaining congressional approval may not be easy, particularly if the U.S. trade deficit and problems with imports continue unabated.

A major reason that the agreements will face careful and perhaps hostile scrutiny stems from a widely held view that the United States has failed to adequately protect domestic industries from import competition and suspicion that U.S. concessions on imports will not be balanced by concessions for U.S. exports. Numerous Presidential decisions not to implement the import relief remedy recommended by the U.S. International Trade Commission (ITC) are often interpreted as refusals to offend foreign countries at the expense of American producers and workers. Similarly, there have been charges that the Treasury Department has been lax in enforcing the domestic statutes designed to protect U.S. industries from subsidized and dumped imports.

Objections to the liberal trading system also come from those who argue, in the words of Philip H. Trezise [14] "in the past we have been the victims of evasions and violations of the GATT on the part of our trading partners . . . But," Trezise, continues, "it is also true that we have bent and twisted our commitments to suit our circumstances."

Opposition to the MTN could be lessened if the trade deficit, as some predict, declines substantially. The administrations's actions to deal with the problems of some industries facing foreign competition could also blunt criticism. Establishment of a "trigger mechanism" for the steel industry has helped produce better profits, and more jobs at the cost of higher consumer prices. The administration has reached tentative agreement with the textile industry to review bilateral agreements covering textile imports and to promote textile exports. The Carter administration is also considering sending to Congress, along with the MTN implementing bill, proposals to promote U.S. exports as well as to expand the trade adjustment assistance program. These measures have helped in securing endorsements of the agreements from the U.S. Chamber of Commerce and the American Farm Bureau Federation. Some elements of organized labor are currently leaning toward opposition to the MTN agreements.

In promoting the MTN, the administration has emphasized the negative consequences that could result if the agreements collapse, almost as much as the projected overall economic benefits. The administration argues that failure of the MTN to be approved by Congress would be associated with the lost opportunity for expanded world trade and higher incomes, and with a retreat to a more protectionist trading system, a more nationalistic world with increased difficulties in

[14] Testimony before the Joint Economic Committee, January 25, 1979. Trezise was Assistant Secretary of State and U.S. Ambassador to the Organisation of Economic Cooperation and Development.

our relations with other countries. Failure to move ahead to reduce tariffs and other governmental restrictions on trade could, it is argued, easily see the current trading systems erode. This erosion might accelerate the trend toward a "managed trade" world of cartel-like arrangements, freezing existing patterns of production and trade, and inhibiting the efficient use of the world's resources. The economic aspirations of the developing countries would be set back. Their dependence on trade makes them especially vulnerable. On the other fit the United States, Western Europe, and Japan only marginally and hand, some believe that further reductions in trade barriers will bene- that the economic claims for the MTN are exaggerated. It could also be argued that the administration's dour prediction of results from nonagreement are exaggerated as well. Arguably, the strong world trading system could adjust incrementally without an agreement.

The MTN codes and agreements are designed to modernize and strengthen the world's trading rules. If our industry, both import-competing and exporting, is to benefit, the U.S. Government must use the new codes aggressively. Their adoption is only the first though necessary step to opening world markets further.

Whatever the outcome of the Tokyo Round, there is a growing view that it might be the last of its kind. Alonzo L. McDonald, the head of the U.S. trade delegation in Geneva, recently stated:

> We are now dealing with too high stakes and too many variables to gamble the whole trading system each time. . . . The big, comprehensive negotiation creates an automatic confrontation, a form of gunboat diplomacy that no longer meets our needs. From here on we must have continuing action toward liberalization, but in small, digestible steps that individually do not call the whole system into question.

Whether the Tokyo Round will be the last large attempt at trade liberalization remains to be seen, yet its outcome will help determine the nature of the world trading system of the future.

Summary: Issues for the 96th Congress

The Carter administration initialled, on April 12, a set of MTN agreements aimed at liberalizing trade. The 96th Congress will have approximately 4 months to consider a package of agreements which attempt to regulate the use of nontariff barriers to trade and to improve many of the trading rules under the GATT. Implementing and administrative practices. The MTN also concluded a series of tariff agreements that will reduce import duties worldwide by as much as 35 percent. Although the President has been delegated the authority to reduce and in some cases eliminate tariffs, as a practical matter, congressional approval of the entire agreement would be necessary for implementation of tariff as well as nontariff aspects of the package. In an effort to persuade Congress to approve the agreements, it is possible that the administration will include the trade package legislation to promote U.S. exports. Legislative efforts to provide U.S. workers and firms with better protection against unfair trade practices, to expand and improve the trade adjustment assistance program, and to create a Cabinet-level department of international trade and investment are expected.

Amendment and extension of the Export Administration Act of 1969, which terminates on September 30, 1979, and possible changes

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in the Jackson-Vanik amendment to permit trade agreements to be negotiated with the People's Republic of China and the Soviet Union will be considered in 1979.

The 96th Congress, thus, faces an unprecedented array of trade legislation and extensive congressional debate on trade matters can be anticipated.

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INTERNATIONAL TRANSFER OF TECHNOLOGY

(By George D. Holliday*)

Issue Definition

The ability of a nation to generate and apply new technologies is an important national asset: it influences a country's economic, political and military-strategic standing in the world. Consequently, the export of technology has policy implications in each of those realms. Various elements of U.S. policy either promote or restrict exports of technology. On the one hand, Government incentives promote transfers of technology in order to allow private firms to profit from export sales or to help the Government achieve certain foreign policy goals. On the other hand, U.S. policy has sought to restrict transfers of technology which adversely affect U.S. national security or foreign policy.

Both the restrictionist and promotional aspects of U.S. policy have been highly controversial. In the economic realm, the debate on transfer of technology has centered on questions about the impact of technology exports on the domestic economy, particularly with regard to the potential loss or creation of jobs and income in U.S. industry, and the consequences for the U.S. balance of payments. Important political questions have been raised about the potential influence of U.S. corporations (the primary proprietors and transferors of commercial technologies) on U.S. diplomatic relations with various foreign countries. In addition, serious consideration has been given to the question of whether exports of technology could be controlled by the Government to influence the policies of foreign countries. Finally, the national security implications of exporting certain kinds of technology, such as military, nuclear, and civilian technologies with potential military applications, have been an important issue.

Background and Policy Analysis

Technology is transferred across international boundaries by means of direct private investment, licensing agreements, sales of some kinds of products, and a variety of other private contractual arrangements. Such commercial transfers of technology are an integral part of many international business transactions. Technology, like other products, is bought and sold on the international marketplace. Technology is also transferred through noncommercial mechanisms, such as publications, foreign travel, and intergovernmental science and technology exchange agreements.

International transfer of technology is not a new phenomenon: it has always been an element of trade, investment flows, movement of people, and other forms of communication among nations. There is,

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however, considerable evidence that transfers of technology are becoming a more important element of international commerce. For example, it has been estimated that, since the mid-1950's, the international transfer of technology has been increasing at a rate of more than 10 percent a year.[1] Since World War II, Japan and a number of West European countries have demonstrated a remarkable capacity for using foreign technology to spur economic growth. Leaders of developing countries have been inspired to emulate the Western industrial countries by assigning to imports of technology a major role in their economic development strategies. The Soviet Union and other socialist countries, after a period of relative isolation from the industrial West, have also shown increasing interest in the benefits of foreign technology. The United States, while benefiting substantially from imports of technology, has emerged as the world leader in exports, reflecting the U.S. economy's large capacity for technological innovation. Thus, the issues which concern U.S. policymakers are primarily those of how, or whether, the Government should manage technology exports. U.S. technology transfer policy generates especially sharp controversy in three policy areas—general economic issues, North-South issues and East-West issues.

General Economic Issues

There is increasing concern that the export of U.S. technology to foreign countries, where it may be combined with low-cost labor, is contributing to a loss of jobs and income in U.S. domestic industry and is exacerbating U.S. foreign trade problems. Competition in the domestic market from good produced abroad with U.S. technology provide some evidence for this point of view. Likewise, the loss of foreign market shares in some manufacturing sectors formerly dominated by U.S. exporters is sometimes attributed to the export of U.S. industrial innovations to foreign countries.

Some observers maintain that U.S. balance of trade difficulties since the late 1960's have been caused largely by the rapid diffusion of U.S. technological know-how to other countries, particularly to industrial powers such as Japan and West Germany. They claim that U.S. high-technology products, which were a major element of the large trade surpluses in the past, are becoming less competitive. Only by slowing down the rapid international diffusion of technological know how can the competitive advantage of these firms be maintained.

Among the commonly advocated prescriptions are various measures to protect U.S. technology by discouraging U.S. foreign direct investment. In addition, some advocates of a more restrictive policy would end various government programs which, they maintain, provide extra incentives to export technology. Such programs include tax incentives for foreign investment, export credit assistance and investment guarantees. Finally, there have been proposals for tighter controls on exports of "naked" or unembodied technology.

Proposals for a more restrictive policy toward technology transfers run counter to the general U.S. commitment to an open international economic system. Underlying U.S. policy has been the assumption that most trade and investment flows are beneficial to all parties in-

[1] Organization for Economic Cooperation and Development, Gaps in Technology; analytical report, Paris, 1970.

volved.[2] Thus, the recipient of technology reaps the benefits of new products and processes developed abroad, while the transferor increases his sales and profits. Many businessmen maintain that exports of technology are particularly important to U.S. research and development-intensive industries. Increased earnings from foreign sales help such firms to expand their research and development activities and maintain the rapid pace of technological progress.

Proponents of current U.S. policies toward the transfer of technology also doubt the effectiveness of tighter export controls. They maintain Government would have great difficulty in regulating the multiplicity of mechanisms for transferring technology. They also point out that many advanced industrial technologies are available from alternative foreign sources. Finally, it is claimed that a restrictive technology transfer policy would invite retaliation from foreign governments denying U.S. firms access to technological developments abroad. Many observers suggest that the competitive position of U.S. producers could be maintained more effectively by increased U.S. Government funding and tax incentives for domestic industrial research and development.

Many observers on both sides of these issues would agree that exports of technology are beneficial to the U.S. economy if exporters earn a fair return. However, there are differences of opinion about what constitutes a fair price for technology. Should companies that export technology recoup the full cost of developing that technology? It is frequently maintained that developers of new technology must receive enough compensation to stimulate further investment in research and development. On the other hand, foreign buyers of technology sometimes point out that exporters usually have already recouped their costs from domestic sales and that the transfer of technology abroad involves little if any additional cost to the owner. Moreover, after selling technology to a foreign buyer, the exporter still owns the technology: he may sell it again or use it in his production process. The export of technologies that are developed partially or fully with U.S. Government funds raises a special pricing issue. Should the Government play a stronger role in regulating such exports to insure that public benefits are equal to public costs? If Government funding of industrial research and development allows an exporter to sell at a lower price, the foreign buyer receives a subsidy from U.S. taxpayers. Such subsidies may or may not be warranted, depending on the degree to which the country as a whole benefits from the transaction.

Foreign direct investment by U.S. corporations has been one of the most effective means of transferring technology. Consequently, U.S. tax and other regulations on foreign investment have been particularly controversial. Officially, U.S. Government policy has been one of neutrality toward foreign investment—a policy which neither promotes nor discourages investment flows into or out of the U.S. economy. Many observers believe that such neutrality—or at least balance—has been largely achieved in current U.S. tax law. On the one hand, the Domestic International Sales Corporation (DISC) (which reduces corporate income taxes on export sales), the investment tax credit (which does not apply to foreign investment), and the accelerated depreciation of certain classes of domestic investments are major

[2] Joseph S. Nye, Jr. "Technology Transfer Policies," Department of State Bulletin, March 1978, pp. 38–39.

provisions which tend to promote domestic rather than foreign investment. Other tax provisions, such as the foreign tax credit and tax deferral on unrepatriated foreign profits, tend to encourage foreign investment.

Nevertheless, certain nontax Government programs actively promote foreign investment and technology exports. The Overseas Private Investment Corporation (OPIC) stimulates U.S. foreign investment in developing countries (which may or may not entail technology transfers) by insuring private investments against the risks of expropriation, war damages, and inconvertibility of currencies. The Export-Import Bank of the United States, through its loan, insurance, and guarantee programs, facilitates over 20 percent of all U.S. exports of capital goods (which tend to be the most technology-intensive exports).

Concerns about the consequences of Eximbank and OPIC activities have prompted amendments to their charters which require administrators of the two agencies to consider the effects of their activities on the U.S. economy. More stringent controls on technology exports with adverse economic effects have been proposed, but have not been enacted. However, concerns about the economic consequences of the transfer of technology are reflected in two laws passed in 1977—the Export Administration Amendments of 1977 and the International Security Assistance Act of 1977—which requires reports from the executive branch to the Congress about the implications of technology exports.[3] The Export Administration amendments required a study of the domestic economic impact of exports of U.S. industrial technologies, while the International Security Assistance Act required a comprehensive report on the trends, benefits, and risks of such transfers. While both reports have been submitted, neither made any recommendations for more restrictive controls on technology exports.[4]

North-South Issues

Foreign direct investment, sales of capital equipment, licensing agreements, and other foreign activities of private corporations based in the industrial countries have been the major mechanisms for transferring technologies to developing countries. Consequently, the conditions and ground rules under which multinational corporations conduct their foreign commercial activities are important to governments in the Third World. The policies of the United States, which is the largest exporter of capital and technology, are of particular importance.

The U.S. Government has generally worked to eliminate barriers to the free flow of capital among countries. Under the Ford administra-

[3] See U.S. Congress, House, Committee on International Relations, Subcommittee on International Security and Scientific Affairs. "International Transfer of Technology. An Agenda of National Security Issues," 95th Congress, 2d sess., Washington, U.S. Government Printing Office. 1978.

[4] The report required by the Export Administration Amendments of 1977 is reproduced in U.S. Congress. Senate. Committee on Banking. Housing, and Urban Affairs, Subcommittee on International Finance, "Export Policy," hearings. 95th Cong., 2d sess., U.S. Government Printing Office. May 16. 1978. Part 7, pp. 317–364. The report required by the International Security Assistance Act is reproduced in U.S. Congress, House Committee on International Relations, Subcommittee on International Security and Scientific Affairs. "International Transfer of Technology," report of the President to the Congress together with assessment of the report by the Congressional Research Service. Library of Congress, 95th Cong., 2d sess., Washington, U.S. Government Printing Office, 1979.

tion, for example, the following principles were enunciated as the basis of U.S. policy on international investment:

(1) Restraints should not be imposed on the entry or exit of foreign investment; (2) foreign investors should be given national treatment; that is, they should be treated on an equal basis with domestic investors in like situations once they are operating in the host country; (3) foreign investors should not be subject to special restraints or inducements by governments; and (4) disputes which arise among governments with respect to particular cases should be settled in accordance with international law pursuant to agreed and fair procedures.[6]

U.S. policymakers have generally maintained that efforts to promote and facilitate private investment abroad serve the interests of both U.S. companies and the developing countries. Since most important industrial technologies are privately owned, it is maintained, private companies are best equipped to transfer such technologies effectively. However, many leaders in developing countries and other observers are becoming increasingly skeptical of the ability and willingness of multinational corporations to transfer technologies which are appropriate to the host countries' developmental needs. They also express concern about the possible loss of economic, and sometimes political, sovereignty to large foreign companies operating their economies.

Representatives of countries that are heavily reliant on technology imports also complain about the high prices and the special restrictions that are often imposed on the use of imported technology. They attribute these conditions to unfair, monopolistic controls—for example, protection of patent rights—that are safeguarded by local laws and international treaties. For some developing countries which are major purchasers of technology, the royalty payments for use of technologies developed in the industrial countries have become a significant balance-of-payments problem. Not surprisingly, representatives of firms which sell technology frequently maintain that the prices paid for technology on international markets are too low. Proprietors of new technologies, they say, are unable to recoup the cost of developing technology and consequently have insufficient incentives for technological innovation. Moreover, they sometimes complain that patent rights do not provide sufficient protection and in some cases are ignored.

Some developing countries have responded to these problems by establishing restrictions on foreign investment, licensing agreements, and other transactions involving transfer of technology. Some governments have intervened in negotiations on technology sales in attempts to improve the bargaining terms for their recipient-enterprises. They have also appealed to the United States and other industrial countries to grant freer access to industrial technologies and to impose mandatory codes of conduct for multinational corporations. The U.S. Government has made small concessions in this area, which have only partially satisfied the critics of its current policies. It has, for example, agreed to a voluntary code of conduct for multinational corporations, but has opposed mandatory guidelines. The United States has also proposed creation of regional centers to assist developing countries in selecting and absorbing appropriate technology. Planning has begun for a new Foundation for International Technological Cooperation, which is to be established in 1979. Most Foundation programs will involve public sector technologies, such as agriculture, health, and

[6] International Economic Report of the President, January 1977, p. 84.

population. Since most U.S. industrial technologies are owned by private firms, U.S. policymakers continue to urge reliance on normal market transactions for most technology transfers.

A special problem in U.S. policy toward technology transfer to developing countries is the regulation of technology with direct or potential military applications. The U.S. Government, particularly under the Carter administration, has pursued a more restrictive policy toward such transfers. In May 1977, President Carter announced new controls on exports of military hardware, including a prohibition on the United States being the first supplier to introduce into a region new weapons systems which would create a new or higher combat capability. Likewise, the Carter administration has made efforts to restrict the proliferation of nuclear materials and technologies which have potential military applications. Both kinds of restraints on technology transfers have had adverse effects on diplomatic relations between the United States and certain developing countries.

East-West Issues

The most restrictive aspect of U.S. policy on transfer of technology has been controls on exports to Communist countries. U.S. export control laws and regulations have been used most frequently to restrict U.S. exports which might have adverse national security effects. Since 1969, when the Export Administration Act was enacted, these controls have been relaxed significantly. The Export Administration Act extended the President's authority to control exports, but sought to encourage trade with all countries unless the President determined trade to be against the national interest. The subsequent relaxation of export controls has contributed to a rapid expansion of trade with the Soviet Union and other Communist countries.

The increase in the quantity and sophistication of transfers of technology to the East has stimulated considerable debate about the national security and foreign policy implications of such transactions. Trade with the Soviet Union has been particularly controversial. Although the Export Administration Act prohibits exports of goods or technologies which make a "significant contribution" to Soviet military potential, opponents of increased technology transfers maintain that the Soviet military sector might benefit indirectly from technologies sold for civilian purposes. Many technologies have both civilian and military applications. Although sold to Soviet civilian industry, such technologies might be diverted to the military sector. In addition, Soviet acquisition of some civilian technologies might release to the military sector domestic resources otherwise needed to develop those technologies independently. The Soviet military sector might also benefit indirectly through its interaction with a civilian sector that has raised its general technological level by importing Western technology.

These arguments are rejected by observers who favor continued expansion of technology exports to the Soviet Union. They maintain that, while diversion of dual-use technologies from the civilian to the military sector is possible, it is unlikely because it is usually difficult, and the risk of detection is high. They also point out that technology imports not only release domestic technology resources: They also require that complementary resources be invested so that the new technology can be effectively exploited. Thus, Western-assisted Soviet projects may even compete with the military sector for some domestic technological resources. Finally, proponents of expanding technological exchanges with the Soviet Union maintain that U.S. companies have a basic right to export, and that exports of non-strategic goods and technologies to the Soviet Union benefit U.S. exporters and the economy in general. For advocates of this point of view, the important question is one of price: Are U.S. companies adequately compensated for the technology which they sell to the Soviet Union?

The U.S. Government has also attempted to use U.S. technology exports as a tool of its overall foreign policy toward the Soviet Union. For example, the use of U.S. technology to influence Soviet behavior was an important element in the Nixon Administration's policy of détente. In the early 1970's, expansion of trade and scientific and technological cooperation was explicity linked by U.S. policymakers to an improvement in overall U.S.-Soviet relations. Capital and technology exports to the Soviet Union were actively promoted with credit assistance from the Export-Import Bank and the export stimulation programs of the Commerce Department. However, this policy was partially reversed by an amendment to the Trade Act of 1974 which conditioned Soviet eligibility for Eximbank credits and most-favored-nation tariff treatment on liberalization of Soviet emigration policies.

The use of technology exports (and trade benefits in general) to further U.S. foreign policy goals has been criticized by many, who argue that this policy is ineffective and harmful to U.S. economic interests. Much of the debate hinges on the question of leverage: to what extent does the Soviet economy need U.S. technology, and what kinds of concessions will Soviet leaders make to obtain it?[6] The answers to these questions are unclear. However, the Carter administration has occasionally acted on the assumption that U.S. technology is an effective lever in relations with the Soviet Union. While generally following the policy of previous administrations in promoting trade with the Soviet Union, the current administration has responded to some Soviet domestic and foreign policy initiatives by signaling a more restrictive policy toward the transfer of technology.

In July 1978, a U.S. firm was denied a license to sell a computer to the Soviet news agency TASS. Although the denial was issued ostensibly on national security grounds, the timing of the decision suggested to some observers that it was a response to the Soviet Government's suppression of dissidents and the arrest of two U.S. newsmen. In August 1978, the administration announced new procedures for licensing exports to the Soviet Union of items or technical data used for the exploration or production of petroleum or natural gas. The new procedures require specific approval for any such transaction in order to insure prior review by the administration. The announced purpose of this change was to assure that such exports "would be consistent with the foreign policy objectives of the United States." The new policy does not mean that any sales of oil and gas equipment will be barred automatically. (In fact, a major transaction, involving the sale to the Soviet Union of technology to build a plant for the

[6] For different points of view on the question of leverage, see "Foreign Policy," No. 32, Fall 1978, pp. 63–106.

production of drill bits, was subsequently approved by the administration.) It simply provides for the routine referral of such transactions to the National Security Council, so that policymakers have the opportunity to approve or disapprove them in pursuit of U.S. foreign policy goals.

The Role of Congress

Many issues bearing on the transfer of technology will be addressed early in the 96th Congress during consideration of an extension of the Export Administration Act of 1969. The act, which is the primary statutory authority for administering export controls, is due to expire on September 30, 1979. Other legislative matters, such as foreign aid appropriations, and oversight over nuclear export policy and Export-Import Bank operations, could also have significant impact on U.S. technology transfer policy.

In considering legislative measures related to the transfer of technology, Congress will not be dealing with a coherent, comprehensive U.S. Government policy. Rather, this policy is a loose composite of various elements, each gradually and separately developed through various laws and regulations to contribute to competing and sometimes contradictory economic, diplomatic and national security goals. Thus, U.S. policy is based on a general free market approach to foreign economic relations; private firms are encouraged to use or sell their technologies as they wish. However, the Government has alternately promoted or restricted technology exports for foreign policy, national security, or economic reasons. There is frequently a divergence between U.S. national interests and the interests of the owner of commercial technologies. For example, the profit-maximizing strategy of a multinational firm in a developing nation may come into conflict with Government efforts to improve political relations with that country. Likewise, the desire to make a profitable transfer of technology to the Soviet Union or another potential adversary may be in conflict with U.S. national security policy.

Efforts to formulate a comprehensive technology transfer policy have been thwarted by such conflicts. Congress has generally legislated only very general policy guidelines, leaving specific decisions on technology transfer to be made largely on an ad hoc basis, by the President and his subordinates. The Export Administration Act, for example, gives the President great discretionary power in administering export controls. Decisions on the export of goods and technology are made largely on the basis of the current administration's perception of U.S. national interest. Although there has been sentiment to provide a larger role for the Congress in decisionmaking in this area, the means for doing so have been elusive. This is likely to be a controversial issue in the 96th Congress.

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U.S. POLICY TOWARD DEVELOPING COUNTRIES

(By Kent Hughes*)

Issue Definition

In the course of a generation, the United States has shifted its attention from the reconstruction of the industrial economies of its wartime allies and adversaries to the more ambitious task of helping to develop much of the world. Because the shift in focus of U.S. development policy has occurred during a time of sharp changes in the world economy, this challenge has become all the more complex. At the end of World War II, the United States was the preeminent world political, economic, and military power. The spread of nuclear weapons, the recovery of the Soviet bloc economies, and the emergence of Germany and Japan as major economic powers have all brought new complexities to the role of the Untied States in the international political and economic system, and consequently, to the conduct of U.S. development policy.

The developing world itself has undergone a considerable transformation. The end of the colonial era left the world dotted with new nations, each with its own aspirations for the future. In the seventies, parts of the developing world emerged as major economic forces. First, there was the OPEC-mandated oil price increase of 1973, to which the industrial economies have not yet fully adapted. Second, as many as a dozen developing countries have become important importers and exporters of manufactured goods, in addition to traditional raw materials. And as the developing world has changed, so has U.S. development policy. Where once the emphasis was on direct bilateral development assistance, developing country concerns now range from trade and investment to the exploitation of the ocean's resources.

But, the transformation, of the world economy has only been partial. The problem of world development will confront this Congress and the next Congress and many Congresses to come. In a recent adress, Robert MacNamara, president of the World Bank, foresaw more than 600 million individuals living in poverty at the end of the century even if the world meets optimistic development targets. Poverty is a problem even in some of the OPEC countries.

In the wake of the OPEC success, the increasingly diverse nations of the developing world became much more assertive in pressing their claims for a larger share of world resources. For some time, the developing countries had argued that the international economy operated in a manner that frustrated rather than assisted their aspirations for economic growth. Over the years, a variety of specific proposals had been developed in the areas of trade, finance, technology, investment, and foreign assistance. Five years ago, the developing countries added one proposal to another and forged a proposal for what they termed

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a New International Economic Order (NIEO). The program was enthusiastically endorsed in May 1974, at the sixth special session of the United Nations General Assembly.

The proposed New International Economic Order was specifically designed to serve three goals at once: An increase in the transfer of resources from the developed to the developing world, greater economic independence for the developing world, and a larger voice for the developing world in international forums.

Various means have been proposed to achieve these goals. The developing world put considerable emphasis on both stabilizing and increasing the level of export earnings. For primary products, the developing world proposed a number of financing schemes, buffer stocks, and even a form of indexation (tying the price of certain raw materials to the export price of industrial goods). For its manufactured goods, the developing world stressed preferential access to developed country markets through lower tariffs, enlarged quotas, or actual export subsidies.

Industrialization continues to loom large in the thinking of developing countries. In their view, there should be a more rapid transfer of labor-intensive industries from developed to developing countries. More emphasis should also be placed on local processing of the developing countries' own raw materials. The developing world is still anxious to obtain industrial technology, but on concessional terms and without the strings of foreign ownership.

In general, the developing countries are seeking to secure a greater share of the world's production. If the world creates additional international liquidity (in terms of special drawing rights), the developing world contends that an increased portion should be allocated to them automatically. The developing countries also hope to obtain a share of the benefits from future deep-seabed mining without capital participation.

Finally, the developing world wants an increase in development assistance. The current focus is on raising the level of official development assistance (ODA) to seven-tenths of 1 percent of a donor's GNP, compared to an average of 0.3 percent today.

In addition, there have been proposals for specific help in dealing with the debt burden of various developing countries. Although the proposal did not remain a priority matter for the developing world, certain developed country actions granting both debt rescheduling and an actual moratorium on debt repayments may increase pressures for U.S. concessions.

Several issues related to the new international economic order are likely to require some form of legislative action in the 96th Congress. Among the leading issues are:

(*1*) *Preferential treatment for the manufactured exports of developing countries.*—At the Multilateral Trade Negotiations (MTN) in Geneva and elsewhere the developing countries have sought preferential access for their manufactured exports to the markets of the United States and other industrial countries. The United States and other developed countries have already adopted various forms of a generalized system of preferences which do grant some tariff concessions to a wide range of exports from the developing world. The

United States has been willing to agree to special treatment for the developing world in the context of the MTN as long as individual LDC's agree to eliminate trade barriers and special practices as they grow and prosper. Any final agreement on special treatment for LDC's as part of the MTN will have to be approved by the 96th Congress.

(2) *The establishment of a common fund to finance individual commodity agreements.*—The United States has recently agreed to help finance a common fund before individual commodity agreements are negotiated. Congress would have to authorize and appropriate funds before any firm financial commitments could be made.

The administration is also likely to submit individual international commodity agreements for congressional consideration. The International Sugar Agreement is still pending and negotiations are well along on an international rubber pact as well.

(3) *A code for the international transfer of technology.*—Still under discussion, it is unlikely that any mandatory code will actually be negotiated. The 96th Congress will have to renew the Export Administration Act which contains export controls on technology. These controls, however, have been used for strategic rather than economic considerations and have been applied principally to the Communist bloc countries.

(4) *Controls on direct foreign investment and the multinational Corporation.*—The United States supported the voluntary OECD code of conduct for multinational corporations. The United Nations is also working on a broad-based code of conduct. It is not yet clear whether any of the current negotiations will require congressional action.

(5) *Increases in U.S. bilateral and multilateral assistance.*—United States direct foreign assistance is still important to many of the poorest developing countries. And the U.S. contributions to the multilateral development banks have an impact throughout the developing world. The 96th Congress will be faced with a number of proposals for authorizing and appropriating development assistance funds.

Background

The American Interest in International Development

Any American strategy for international economic development is colored by a number of factors. First, America's current principal economic and strategic interests lie in Western Europe, Canada, and Japan. Together they account for almost two-thirds of U.S. foreign direct investment and over one-half of U.S. foreign trade. The developed countries also loom large in supplying the United States with raw materials.

Second, the problems of economic development are difficult and diverse. A handful of countries—Brazil, Mexico, Taiwan, South Korea—have succeeded in establishing internationally competitive industries. A few other countries rich in oil but with small populations have been able to create modern welfare states in the span of a few years. For most developing countries, however, the ability to increase the rate of growth in per capita income will depend crucially on their success in controlling population growth, increasing domestic investment, and mixing social change with some degree of political stability.

Despite the difficulty of fostering economic development and despite the concentration of national interests in the industrial West, the United States will almost surely continue to evolve a new policy for international development. Why? In part, the answer reflects immediate material interests. The economic and strategic lessons of OPEC have not been reserved for the developing countries alone. The United States, after all, imports a large amount of primary products from developing countries. And there are other economic ties. For instance, by the end of 1975 U.S.-based multinational firms had accumulated foreign investments of $34.9 billion (year-end book value) in developing countries, a substantial portion of which ($10.4 billion) was in manufacturing. The overall rate of return on U.S. direct investment in developing countries (23.6 percent in 1975) is double the rate in developed countries, primarily due to the very high rate of return in the LDC's petroleum industry (40.2 percent). The balance of payments income including dividends, interest earnings of unincorporated affiliates, and payment of royalties, fees, and other receipts associated with U.S. direct investment in developing countries amounted to $5.3 billion in 1975 (while an additional $2.9 billion of earnings was reinvested). In addition, the developing world is a growing source of low-cost manufactured goods and constitutes an important market for U.S. industrial exports. Future prospects for both trade and direct foreign investments may be heavily influenced by U.S. development policy.

The staggering dimensions of world poverty, the size of the gap between developed and developing worlds, and emergence of virtually instantaneous worldwide communications and the rapid spread of military goods and technology create an atmosphere ripe for hostilities and domestic instability. U.S. development policy is not likely to eliminate all or even any of these problems. But a good faith effort, a posture of sympathetic understanding, even a willingness to give a respectful hearing would go some distance toward keeping international tension in check.

An American economic presence in the form of aid, trade and investment during the formative national development years may also serve long-term U.S. interests. Many developing countries have already acquired considerable economic, political, or military influence. Others will do so sometime in the future. The United States would not be well served by the growth of historical or political enmity in the developing world. The United States has also sought to foster parliamentary democracy and other Western political values in much of the developing world.

But beyond seeking economic return or global influence, beyond the desire to spread Western concepts of democracy and free market ways or to substitute assistance for a high fence, there has been a moral dimension to U.S. development policy. Extending a hand to those in need. With two-thirds of the world " . . . ill-clad, ill-fed, and ill-housed," in the end, development assistance is important to America's opinion of itself.

The U.S. Response to the NIEO

The initial reaction of the United States to the proposed new order was hostile. Much of the NIEO program was dismissed as confused economics dressed in shopworn rhetoric.

In 1975, the U.S. position toward the demands of the developing world underwent a sharp change at the hands of Secretary Kissinger. In a speech (actually delivered by Ambassador Moynihan) before the Seventh Special Session of the U.S. General Assembly, Secretary Kissinger indicated an American willingness to talk about a broad range of issues and articulated an array of specific responses to the NIEO program. Over time, the United States has continued to modify its position with regard to the new international and economic order. The Carter administration has endorsed many of the Ford-Kissinger initiatives in this area. In addition, the Admnistration is committed to a substantial increase in official development assistance and the establishment of a common fund to support individual commodity agreements.

The Congressional Response to Development Issues

To date, the Congress has not been deeply involved in the ongoing dialog between the industrial North and the developing South. Congress did grant preferential access to the American market for a wide range of exports from the developing world as part of the Trade Act of 1974. The American commitment to grant such special treatment dated back to President Lyndon Johnson and was well on its way to being law before the NIEO became a major issue. The United States, as well as the European preference schemes, has been subject to LDC criticisms of being much too restrictive. The impact of preferences could be further reduced as a result of any tariff cuts that are made as part of the current round of multilateral trade negotiations in Geneva.

Congress has been much more active on the question of bilateral foreign assistance. As part of the Foreign Assistance Act of 1973, the Congress required that American foreign assistance should move in new directions.

> The primary focus of the New Directions has been on sectoral activities: Agriculture, health, nutrition, population and education, but underlying New Directions was an additional concern for growth and equity, increased production, and increased employment by and for the poor.[1]

The congressional concern that development assistance flow first and foremost to the poorest of the poor may also influence eventual consideration of various elements of the NIEO. The NIEO approach on increasing aggregate flows with considerable emphasis on raw material and industrial exports may only indirectly affect the poor majority.

Part of the new directions philosophy has been reflected in a congressional emphasis on the use of technology that is labor intensive or relies on locally available raw materials. In 1976, the Congress created a separate institute for "appropriate technology" and have subsequently encouraged the U.S. directors of the various development banks to support light capital industries. Congress also paved the way for American support for the International Fund for Agricultural Development (IFAD).

There have also been a number of congressional proposals to restrict the flow of U.S. development assistance to countries that violate

[1] The Development Coordination Committee, Development Issues: U.S. Actions Affecting the Development of Low-Income Countries. Agency for International Development, Washington, D.C., 1978, p. 23.

human rights. In addition, the Congress has moved to limit the use of U.S. funds to develop crops that could compete with American production. Thus far the debate has focused on a limited number of crops affected by imports (cane sugar and palm oil) as well as one export crop (citrus). With the United States heavily involved in exporting agricultural products, the debate could easily spread to other crops in the future.

The Major Issues

New Complexities in Development Policy

Following World War II, the United States stood confident and alone as the international economic power. International agreements and international development policy reflected American thinking and American optimism. The times and American thinking have both undergone considerable change.

The United States is no longer an unchallenged economic power. The problems of international economic development appear less tractable and more complex. The European colonies are now independent countries. No longer docile, the Third World has become aggressive about increasing its share of the economic pie.

The New U.S. Position: First Among Equals

The European Economic Community (EEC) and Japan have emerged as important economic partners (and sometimes rivals) of the United States. For instance, in 1955, 2 years before the formation of the EEC, the combined GNP's of current EEC members were slightly less than half that of the United States. By 1974, the EEC boasted a $1 trillion ($1,149 billion) economy that was slightly more than 82 percent of the U.S. total. Japan has shown an even more impressive rate of growth. Between 1960 and 1972, the Japanese real GNP grew at an annual average rate of over 10 percent. By 1972, only the United States and the Soviet Union had larger GNP's. Parelleling this growth, the share of Japan and the EEC in world trade also increased. The Soviet bloc (the Soviet Union and Eastern Europe) has experienced a considerable growth in GNP (62 percent inflation adjusted increase over 1965), but still accounts for a relatively small portion of world trade. For instance, in 1975, the United States alone had exports of over $100 billion while the aggregate exports of Soviet bloc countries amounted to under $80 billion, most of which (some 60 percent) represented intrabloc trade.

None of this is to say that the United States is not central to the formulation of international development policy. It does suggest, however, that Japan and the countries of the EEC are necessary partners in any global strategy for economic growth. An even larger array of countries takes part in formulating broad ecomonic policies.

Tariff preferences for the exports of developing countries required a waiver of trade rules established by the General Agreement on Tariffs and Trade (GATT). Individual commodity agreements require detailed negotiations between importing and exporting nations.

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An expanded role for the International Monetary Fund (IMF) depends upon concerted action by the industrial countries.

Some coordination of policies toward developing countries has traditionally been provided by the Development Assistance Committee (DAC) of the Organization for Economic Cooperations and Development (OECD), a group composed of mostly non-Communist, industrialized nations. Prospects for the future suggest even more international cooperation.

Development Policy as International Economic Policy

At one time, the U.S. role in fostering international economic development was largely limited to development assistance. In recent years, however, U.S. policies on international trade, investment and finance have come to include international development goals. In the future, U.S. development policy is likely to put more weight on private trade and investment and proportionately less on development assistance.

U.S. international development policy is set in a number of executive departments. At present, only a subcabinet, advisory body, the Development Coordinating Committee (DCC) provides a comprehensive overview of development policy. The congressional structure reflects the divisions in the executive branch and currently includes no committee with overall responsibility for the creation or review of U.S. development strategy.

As development policy involves more and more aspects of U.S. international (and domestic) economic policy, a good deal more attention to coordination is indicated.

Trade in Manufactures

Basically, the developing countries want greater access to the giant American market for their manufactured exports. They are seeking to eliminate existing barriers to their goods (notably, quotas on textile imports) and to increase the range of their manufactured goods that enters the United States free of duty.

Special Barriers

Special barriers to the industrial exports of the developing world have arisen from three rather distinct causes. Post-World War II reductions in industrial tariffs have largely come about through a series of reciprocal concessions among the developed countries. Although the reductions by item have been extended to most developing countries on an equal (most favored nation) basis, the reductions reflected the interests of the industrial rather than the developing countries. In simple terms, the result has been that the United States applies lower tariffs to industrial exports of the Common Market than it does to the exported manufactures of most developing countries.

The developing countries are also concerned that the tariffs of the industrial countries weigh more heavily on manufactures as opposed to raw material imports (a problem generally referred to as tariff escalation.) For instance, leather may be imported duty-free, while shoes are subjected to a high tariff. In addition, the duty on shoes is applied to the full value of the shoe not just to the value added to that of its raw material (leather) through manufacture abroad. As a result, the stated (or nominal) value of the tariff does not accurately state the actual (effective) rate of protection for domestic manufacturing. The low nominal tariff clouds the degree to which the existing tariff structure favors raw material rather than industrial imports.

In addition to tariffs, quotas, and various voluntary agreements constitute major barriers to the manufacturing exports of the developing countries. More specifically, in response to rising textile exports from several developing countries, the industrial world negotiated worldwide agreements regulating the expansion of international trade first in cotton, and later in wool and man-made textiles. This Multifiber Agreement has recently been renewed and will be in force through December 1981. The new MFA has put additional strictures on the permissible rate of growth of textile exports from the developing South.

Under the trade rules followed by the developed world, a sudden surge of imports (from whatever source) can be met with the imposition of trade restrictions. These restrictions, generally known as safeguards, are to be temporary—but still may persist for several years. In 1974, the U.S. standards for imposing safeguards were eased, making access to the huge American market more difficult. Since 1974, the International Trade Commission has considered a wide variety of requests for import relief that, if granted, would have a negative effect on imports from developing countries. In some cases, the Carter administration has chosen to negotiate bilateral, voluntary quota or orderly marketing agreements (OMA).

Special treatment.—In many instances, the export of industrial products from developing countries has been hampered by high costs of production. Small, internal markets, lack of skilled labor, limited infrastructure, quality control problems and other factors pushed up production costs. Rather than allowing foreign competition to prevent the development of domestic enterprise or drive entire firms out, many governments chose protection of domestic manufacturing.

To counter both special barriers to exports and high costs of production, the developing countries urged the industrial world to make a unilateral cut in tariffs on products imported from the developing world. For the most part, the industrial world has responded favorably. Europe, Japan, Australia, Canada, and the United States have all instituted some type of tariff preferences—usually zero duties—for manufactured imports from the LDC's. Although commonly known as a generalized system of preferences (GSP), in fact the various preferential schemes have all been replete with exceptions both as to the nature and quantity of goods covered and the countries to which the preferences apply.

Despite these limitations, the developing countries can use the preferences to increase exports, stimulate industrial activity, and increase holdings of foreign exchange.

Preference systems go part of the way to overcoming high production costs and the biases in the tariff structures of the industrial countries. Many developing countries, therefore, are fearful of the current round of multilateral tariff negotiations. They reason that further reductions in the level of industrial tariffs will undercut the value of their existing preferences. To meet this problem, the developing countries have suggested that their preference differentials be bound by law—much as are tariff reductions between industrial countries. As an alternative, developing countries are seeking an exception to the GATT rules against the use of export subsidies. Subsidies could maintain the competitive differential between industrial and developing country goods currently created by the use of a GSP.

The multilateral trade negotiations.—Under current world economic conditions, the developing countries are unlikely to wrest major trade concessions from the industrial world. The industrial countries have not indicated a willingness to limit the ambit of their own negotiations, create permanent preferences, or make major exceptions to the GATT rules limiting export subsidies.

Despite the apparent determination of the developed countries to resist these concessions, the multilateral trade negotiations (MTN) do contain considerable opportunities for the developing world. There is evidence that the tariff-cutting formula adopted at the current MTN in Geneva will have a positive and substantial affect on the exports of the developing countries. The admittedly unlikely elimination of industrial country restrictions on textile imports might actually double the impact.[2]

Developing countries have been accorded special consideration in the discussions on the treatment of tropical products. The bulk of the developed industrial countries focused their concessions on tropical products in terms of additions to their existing system of preferences for developing country goods. No developing country concessions were asked in return. The United States chose to offer permanent MFN reductions covering almost $1 billion (in 1974 terms) of imports, but expected some reciprocity on the part of the developing countries.

Trade in commodities.—The developing world wants to stabilize and increase its earnings from the export of raw materials. The specific proposals of the developing countries range from an increase in individual commodity agreements, to cartels, to a form of indexing (tying the price of their commodity exports to the cost of their industrial imports from the developed world).

Not all of the proposals would be easy to implement. Historically, cartels have been difficult to form and hard to hold together. The success of the OPEC cartel has been built on the importance of oil and the ability of Saudi Arabia to absorb cutbacks when world demand slackened. Commodities similarly situated are rare.[3]

The Secretary of the United Nations Conference on Trade and Development (UNCTAD) has proposed the creation of a $3 billion common financing facility to support buffer stocks for key commodities.[4] Much of the thinking behind a common facility rests on the

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[2] See William R. Cline. Noboru Kawanabe. T.O.M. Kronsjo, and Thomas Williams, "Trade Negotiations in the Tokyo Round: A Quantitative Assessment," Brookings Institution, Washington, D.C., 1978, p. 210.

[3] For a more optimistic view about the longrun prospects for developing countries to increase raw material prices through concerted action, see C. Fred Bergsten, Thomas Horst, Theodore H. Moran, "American Multinationals and the American Interest," The Brookings Institution, Washington, D.C., 1978, pp. 121–164.

[4] The commodities included are coffee, cocoa, tea, sugar, cotton, rubber, jute, hard fibers, copper, and tin. Eight other commodities will require a different international program: Bananas, beauxite, iron ore, manganese, meat, phosphates, tropical timber, and vegetable oils.

assumption that the prices of commodities do not all fall or rise at the same time. If that assumption holds, common financing for many different commodity stockpiles could reduce the overall costs of a stabilization process.

Although the United States has participated in the negotiation of individual commodity agreements, the Ford administration opposed the creation of a common fund. Early in his first term, President Carter reversed that decision and committed his administration to participation in a common fund. Only last year the administration accepted the developing country position that the common fund be established prior to the negotiation of individual commodity agreements.

At the most recent negotiating session between the North and South (March 1979) substantial agreement was reached over the general outline of a common fund. The Fund would have two separate windows. The first would have some $400 million in direct capital contributions that would facilitate the financing of individual commodity agreements (ICAs). The second window would draw on voluntary contributions to finance commodity development projects or provide financial assistance to improve the workings of commodity markets. In part because of arrearages in its contributions to other International Financial Institutions, the United States indicated it would not participate in financing the second window.

Some differences still remain between the U.S. position on the one hand, and the developing world on the other. The developing countries want to expand the activities of the second window to include actual production facilities or diversification schemes. The U.S. contends that the existing development banks meet these needs. The United States has also opposed the developing countries proposal for the splitting of voting rights in the common fund. These and any other issues are now before an interim committee that will resolve remaining differences and draft articles of agreement for the Fund.

In any case, the impact of the common fund will depend largely on how many individual commodity agreements are negotiated.

Under the Carter administration, the United States has participated in international negotiations over a number of commodities and has actually signed two—the International Tin Agreement and the International Sugar Agreement. In the 95th Congress, the administration sought permission to move up to 5,000 metric tons of tin from the U.S. strategic stockpile to an international buffer stock. The administration also submitted the International Sugar Agreement for Senate ratification. Neither administration initiative was approved by the Congress.

Technology Transfer

Government-funded technical assistance has always been a part of U.S. international development policy. Most technical assistance has focused on rural development and the creation of modern institutions (that may include graduate business schools, population control centers. and sophisticated capital markets).

The transfer of industrial technology, however, has largely been left to the private sector. The licensing and sale of industrial technology to nonaffiliated firms are important, but direct foreign investment by U.S.-based multinational firms has played the central role. The liberal U.S. policy toward direct foreign investment has implied a liberal policy toward the transfer of technology. Exports of technology generated in the United States are neither encouraged nor discouraged by the U.S. Government. The few restrictions that do exist on technology exports are imposed for security rather than economic reasons.

To economists, industrialists, and Government officials alike, technology has become a vital factor in economic development. Nor has the value of technology been lost on the developing countries. They have become increasingly concerned about the availability, appropriateness and cost of technology.

The more industrialized developing countries have become apprehensive about continuing technological dependence on the industrial world. Particularly in Latin America, there is a growing emphasis on developing domestic technological institutes and encouraging domestic industry to fund technological research. The same countries are anxious to acquire the very latest technology to improve their ability to compete in world markets. Its acquisition, however, may involve increased direct investment by foreign-based multinational firms and a growing dependence on developed country markets.

The cost of technology has also been of concern to developing countries. The price a developing country firm or government pays for new technology depends on several factors. Where the transferring company is large, experienced, and possesses unique technology, the cost may be quite high. For instance, "International Business Machines (IBM) maintains a straight 10 percent royalty for the use of technology despite the efforts of host countries to reduce it." [5] Smaller companies and those with standard technology, or a differentiated product based only a brand name, will usually exact a much lower price.

Prices for new technology can also reflect the relative bargaining power of governments or individual companies. Not surprisingly, small firms and some developing country governments have not fared particularly well in striking bargains with the large multinational firms. The high cost can show up directly in licensing fees, royalty charges and repatriated profits, or indirectly in terms of restricting the use of the technology. In some cases, weak bargaining position can also lead to the acquisition of dated technology, older machines, or products that are no longer demanded in the industrial world. As a number of countries have moved toward industrialization and become more sophisticated in negotiating with multinational companies, they have been able to strike much better bargains. For those countries just beginning the industrialization process, however, the cost and availability of technology remain real problems.

In the past, many countries have sought to limit the export of technology. For instance, the British sought to prevent the export of industrial techniques and discouraged the development of manufacturing in the colonies. The colonies were to be hewers and exporters of wood and consumers of British industrial products.

By contrast, the United States has fostered the export of wide ranges of technical information and the U.S. multinational corporation has

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[5] Bergsten, et al., op. cit., p. 380.

been free to determine the nature and cost of exports of industrial technology.

Past U.S. policy on technology exports was generally supported by a broad consensus that included most domestic political groups. By fostering growth in developing countries, technology was viewed as helping to alleviate world poverty, making friends, and creating new opportunities for U.S. exports and investment.

A number of economists suggested that the revenues from the foreign sale of U.S. technology helped justify further domestic expenditures on the generation of new technology. Recently, however, a major segment of organized labor has raised questions about the economic implications of exporting U.S. technology. The debate does not concern the broad dissemination of basic research or imply the impoundment of scholarly journals. Rather, the focus is on the distribution of advanced, often new, industrial technology to foreign subsidiaries or foreign firms. In the labor view, the ever more rapid export of technology changes the nature of U.S. imports, exacerbates the trade adjustment problems of U.S. industry, and may even threaten the industrial base of the United States.

Because of past experience, established patterns of technology transfer and the difficulty of devising and administering alternative systems, future U.S. development policy will almost surely continue to emphasize direct technical assistance and noninterference with the multinational corporation. In addition, the United States probably will pay more attention to helping the relatively advanced developing countries create their own technology. U.S. policy toward technology transfer will receive another test at the 1979 U.N. Conference on Science and Technology for Development.

Direct Foreign Investment

Throughout the post-World War II period, the United States has emphasized the private firm as a major engine of industrial develop in the Third World and elsewhere. Foreign assistance was focused on those sectors where private investment was unlikely to be inappropriate.

The tremendous increase in foreign direct investment througout the developing world has brought both benefits and problems. Although the majority of developing countries are still anxious to receive foreign direct investment, they have also chosen to impose restrictions on such investments. Recent proposals would carry that process even further.

Limits have been imposed on repatriated earnings and the size of royalty payments. Governments have sought to reduce imports and increase domestic production by requiring firms to increase the percentage of locally produced items contained in their products. Some governments encourage only export-oriented investments, and others have begun to encourage exports through subsidies and preferential treatment. There is also broad support in the developing world for mandatory codes of conduct to govern the behavior of the multinational firms in making investments and transferring technology.

As the home country for many of the world's multinational companies, the United States has been concerned about the whole gamut of actual and proposed restrictions on foreign investment. Although acknowledging the right of any country to nationalize its domestic industry, the United States has strongly resisted expropriation where compensation is either delayed, inadequate, or determined by local, rather than international law.

The United States has been receptive to the idea of an international code of conduct. The United States has supported the new OECD code of conduct for multinationals and, in the wake of the Lockheed foreign bribery scandals, actually pushed for standards at the current round of multilateral trade negotiations. In both instances, the United States backed voluntary, but opposed mandatory, codes of conduct.

The developing world sees itself as caught between the desire for economic independence and the need for economic growth. As long as growth remains the predominant goal, foreign direct investment will, in most cases, continue to play a role. As the U.S. based multinationals have moved into some areas of Eastern Europe, it appears that they can operate effectively in a wide variety of political environments. It seems reasonable to suppose that the conduct of the multinationals is another area where accommodation can be reached while preserving benefits for both sides.

Debt Relief

The combination of high prices for oil and foodstuffs and a major recession in the developed world has, since 1973, forced many developing countries to borrow heavily. This debt is currently held by government international institutions, and large, private banks.

The overall problem of the external debt burden points up the growing importance of the developing countries to the economic health of the industrial world. The rapid increase in the external debt of developing countries helped maintain important export markets for most industrial countries. Had the developing countries not increased the level of their borrowing, their collective GNP would have stagnated or fallen, imports from the industrial world would have been cut back, and the 1974 recession in the United States and the rest of the world would have been longer and deeper.

The entire question has been further complicated by the involvement of multinational banks, many of which are based in the United States. In the past, private bank loans had been more firm oriented or tied to a specific development project. During the 1973–74 crisis, however, many banks lent to developing countries to make up large trade and payments deficits. In effect, private banks took on the role that had earlier been assumed by the International Monetary Fund.

Initially, there was considerable apprehension that the outstanding bank loans of developing countries had grown sufficiently large so that any precipitous series of defaults could affect international money markets and even reach the giant American economy. The general apprehension subsided as it became clear that the large nominal deficits of the developing countries were not nearly so large by historical standards when stated in real (corrected for inflation) terms. In addition, the debt was concentrated in the more advanced developing countries that have begun to compete successfully in world markets for industrial, as well as raw material, products. There remains ample room for concern. The December decision by OPEC to raise the price of oil by an average of 10 percent for 1979, the prospect of slow growth in the

United States, and turmoil in Iran could leave developing countries caught between rising imports and debt on the one hand and falling export earnings on the other.

The developing world had included a call for a debt moratorium in their 1974 package of proposals. The United States resisted the call on the grounds that it would tend to reward countries that had failed to set their own economic house in order. Nor would a moratorium on official debt necessarily aid the neediest countries or appropriately share the burden of increased development assistance among the industrialized nations.

In addition, not all the developing countries were really committed to an across-the-board moratorium on all debt. A great deal of the debt was in the hands of the middle-income developing countries which have wanted to retain their access to international capital markets.

The question of debt relief remains a part of the on-going North-South dialogue, but the focus is now on loans between governments, particularly those to very low income countries. At a March 1978 ministerial meeting of UNCTAD, the industrial North did commit itself to seek out measures that would allow developing countries to adjust the terms of their loans.

Four industrial countries—Australia, theNetherlands, Sweden, and Switzerland—have agreed to convert, or consider converting, some of their loans to the developing countries into outright grants. The United States has not taken this step.

Development Assistance

Development assistance is the most flexible development tool available to the American Government. The size of the assistance can be rapidly increased or curtailed, shifted from one country to another, or shifted from one type of program to another.

Moreover, any increase in development assistance funded by general tax revenues does not place a special burden on any particular group as can trade or investment policy.

The United States has, however, steadily decreased its level of development assistance. Since the early days of the Marshall plan, U.S. official development assistance has declined from 2.79 percent of GNP to 0.53 percent in 1960, 0.31 percent in 1970 and a low of 0.25 percent in 1974. In the past 10 years alone, the real (adjusted for inflation) value of U.S. aid has dropped by 50 percent.

The explanations for the substantial decline in official aid are complex and not entirely clear. No doubt the high level of Marshall plan aid reflected a number of factors: Close cultural and historical ties to Western Europe; a perception common economic interests; the competitive pressures of the cold war; and the limited (4-year) duration of the plan. As the focus on development policy turned toward the developing world, foreign assistance continued to be justified on a mix of humanitarian, economic, and geopolitical grounds. The race against poverty, for future markets, and against the Russians was simply being run on a different track.

During the 1960's, however, official assistance came under attack from a number of quarters. The emergence of various bodies to represent the developing world was often coupled with a rhetorical anti-

Americanism. Some Americans read the rhetoric to mean simple ingratitude, while others stressed the inherent difficulties in buying influence and friends. The use of government-to-government assistance frequently suggested that political and strategic interests were being pursued under the sometimes false colors of development policy. Public attention was also focused on the beneficiaries of U.S. aid. Frequently, economic development seemed to enhance the economic well-being and the political position of the most prosperous elements in a society. Aid came to be viewed as taking money out of middle-class American pockets and placing it in those of the upper classes in the Third World.

The recent weeks of political turbulence in Iran are likely to stimulate an even broader debate on U.S. development policy. It would seem that rapid industrial development, a growing middle class and rising per capita income are no longer the "open sesame" to either social justice or political stability. The response of the country and, more particularly, the Congress has been to reduce the level of direct assistance and focus the assistance on programs designed to help the poorest people in the developing world. In amendments added to the Foreign Assistance Act of 1975, development assistance is to be focused on programs in agriculture and rural development, health and family planning and education. The specific aim is to improve the lot of the poorest within the poor countries by shifting the emphasis from investment in physical infrastructure or factories to "people." (In effect, investing in human, rather than physical, capital.)

Although well within the traditions that condition domestic welfare programs, the present emphasis on helping the poorest raises some questions. To what extent can the United States effectively divert a developing country's attention from ambitious growth plans to the problem of internal equity? Will an early emphasis on equity retard the prospects of growth? How does one evaluate the impact of investment in health and education in contrast to an investment in a specific plant? All of these problems and more await answers.

In the 95th Congress, there was considerable opposition to increasing American contributions to the multilateral development banks as opposed to concentrating on government-to-government foreign aid. In part, the opposition may have reflected the growing involvement of the Congress in foreign economic policy and the fact that the Agency for International Development is subject to congressional control while the development banks are not.

For the poorest nations and the poorest people, official assistance will be the critical part of future U.S. devolepment policy. After all, direct investment, technology and the benefits from increased trade flow largely to those developing countries that are already well on the road to industrialization. Despite the difficulties, popular support in the United States for development assistance currently places emphasis on helping the poor first.

Conclusion

In the past, U.S. direct investment and official aid made a major contribution to the economic well-being of the developing world. The more recent emphasis on trade as well as aid has helped to speed the industrial growth of several developing countries.

Formulating a future development policy will be more difficult because of a number of changed circumstances. The United States is no longer the unchallenged economic and political power of the non-Communist industrial world. The growing power of Western Europe, Japan, and now OPEC is increasingly reflected in the operation of international bodies, including those devoted to economic growth in the developing countries. The final liquidation of European colonialism has led to a proliferation of nation-states that are largely poor and restive. Developing countries have displayed a new aggressiveness in world economic matters and have presented a long list of demands in the form of a proposed new international economic order.

Domestically, foreign assistance has come under attack from a number of quarters. The congressionally mandated focus on the poorest of the poor and several restrictive amendments place additional limits on any administration. Major segments of organized labor have deserted the post-World War II alliance that supported a relatively free flow of goods, capital, and technology. Further trade concessions to developing countries are likely to be strongly opposed by much of labor and possibly by certain industry groups as well.

Despite the apparent difficulties, future U.S. development policy will contain many elements from the past. Trade, aid, and direct investment remain the three pillars of U.S. development policy.

Bilateral and multilateral assistance will continue to be important with a new focus on the poorest nations and the poorest people. Between the pressures of an impending recession, a rising import bill for oil and the widespread dissatisfaction with aid programs, expanded efforts in aid will require a rebuilding of domestic confidence in the purposes and application of aid funds.

The partially industrialized countries are principally interested in trade opportunities rather than development assistance. The adoption of a generalized system of preferences (GSP) by the United States has been a step in this direction. To make further concessions, the domestic pressures against trade liberalization would probably have to be ameliorated through satisfactory full employment and growth policies. The more generous use of adjustment assistance is not likely to satisfy labor. The developing countries, however, do stand to gain somewhat from any reduction of tariff and nontariff barriers that emerge from the current (Tokyo) round of trade negotiations in Geneva.

With regard to direct investment, the developing countries have begun to distinguish between manufacturing and raw material investments. They have been particularly adamant about controlling their natural resources—and control has often come to mean the exclusion of foreign capital. The United States is a major importer of raw materials and has shown a willingness to seek other forums—such as the World Bank's International Finance Corporation and the proposed International Resources Bank—to channel much needed investment funds to the developing world.

Direct foreign investments by U.S. multinationals in manufacturing have generally spurred, rather than retarded, the economic growth of developing countries. And for the most part the developing world is anxious for the flow of private capital to continue. The United States could be more attentive to the demand of the developing countries and more wary of the occasional excesses of the multinationals without killing the private sector goose that has laid so many golden eggs.

In formulating a future development policy, goals might wisely be drawn with reasonable modesty rather than ambition. Even a doubling or trebling of the current U.S. development effort would not greatly reduce world poverty. The internal policies of developing countries bear more immediately and importantly on the problem. The desperate need to control population, the hard decisions required to increase rates of investment, and the problems of domestic income distribution all demand strong action by developing country governments.

With all the difficulties of fostering economic development, the domestic pressures, past errors and present disillusionment, the moral, material and long term interests of the United States combine to argue for yet another effort at alleviating world poverty.

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ADJUSTMENT POLICIES AND TRADE RELATIONS WITH DEVELOPING COUNTRIES[1]

(By Helen B. Junz*)

INTRODUCTION

The 1970's, in contrast with the preceding 20 years, appear to be characterized by a growing pessimism about the ability of the world economy to achieve full employment, or at least sustain noninflationary economic growth. Inflation has posed a problem to many national authorities from time to time throughout the post-war period. But since the early 1960's it has seemed that each bout of inflationary pressure began with higher levels of inflation than the one that preceded it. This upward tendency of underlying inflationary trends over the past couple of decades points to growing rigidities in the industrial economies. And this loss in flexibility is one of the factors tending to impede the return to a satisfactory rate of economic growth. Of course, the adjustment problems associated with the inflationary boom of 1973–74, the subsequent period of recession and slow growth and in particular the sextupling of oil prices from the beginning of the decade, all have exacerbated earlier adjustment difficulties. Thus, the need for achieving an orderly change in output and employment patterns has become doubly urgent.

Before the turn of the decade, adjustment to economic change in part was less of a problem because the rapid expansion of world demand allowed resources in declining sectors to be drawn into expanding activities. But the general sense of growing overall prosperity that prevailed during most of the two postwar decades also allowed adjustment to be put off and symptoms of adjustment needs to be eased by increasing transfer payments among sectors of the economy. However, as world demand turned sluggish, in part as a consequence of the large income transfers to the oil producing countries, it no longer was possible for any individual country to alleviate internal strains in this way. Thus, the need to deal directly with adjustment problems became pressing. But, the actual process of adjustment is slow, both because growth rates appear to have fallen secularly and because of the inflexibilities built into the various national economies over two decades or more.

At the same time that sluggish demand and high unemployment are complicating correction of structural imbalances in the industrial economies, growing competition from fast industrializing developing countries is posing further adjustment problems. Of course, problems of adjustment to changes in world supply capabilities are not a new phenomenon. Over the past 30 years, the world economy has had to adjust to many such changes.

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*Deputy Assistant Secretary of the Treasury for Commodities and Natural Resources. Among my colleagues, I am particularly grateful to Bruce Hack and Keith Hunter for their help and to Ladislav Till and Nicholas Plez of the GATT and OECD Secretaries, respectfully, for providing hard-to-come-by data.

Most notable, among industrial countries, was the adjustment in the late 1940's and early 1950's, from a postwar supply shortage to a more normal demand and supply balance. Because of the postwar supply constraints, the increase in productive capacity that accompanied reconstruction, particularly in Germany, was accommodated relatively smoothly. But, the need to adjust to the emergence of Japan as a modern industrial nation in the 1960's posed different problems. In fact, many European countries, by effectively limiting the possibility for Japanese goods to penetrate their markets, have adjusted considerably less to that event than have some other countries. A major feature of the 1970's and in the longer run will be the nature of adjustment to the increase in productive capacity of a growing number of developing countries (LDC's).

The Basic Issue and U.S. Trade With Developing Countries

The rapid industrialization of a number of LDC's, particularly as it is concentrated in a relatively small number of industrial sectors such as textiles, shoes, electronics, steel, and more recently shipbuilding, is causing friction in a number of markets. Thus, it is not surprising that certain industries or segments of industry in developed countries have become increasingly concerned about import competition. This concern has risen to the extent that some have begun to doubt the positive relationship between international trade and domestic economic growth that was fundamental to policy formulation in the 1950's and 1960's. In the quarter century following World War II, policies largely aimed at reducing trade restrictions and increasing trade flows. During this period, the volume of world trade rose at an annual rate of about 7 percent, while world production increased at an annual rate of about 5 percent. This relatively fast expansion of world trade helped promote internal growth, and raised productivity and incomes. However, recently the notion that the current level of trade liberalization may be excessive and actually works to maintain or increase unemployment in the importing countries, thereby reducing the potential for internal growth, has been gaining currency.[3] This view clearly is not unrelated to the fact, noted above, that adjustment earlier appeared not to be a great problem, while more recently adjustments have become increasingly hard to make.

Accordingly, the pressure for trade restriction has been rising throughout the industrialized world. Although government has attempted to resist such pressures, the Secretariat of the General Agreement on Tariffs and Trade (GATT) has estimated that 3 to 5 percent of world trade has been affected by new nontariff measures since 1973–74. Given this climate, the question of how the world economy will deal with growing competition from LDC's in world markets becomes increasingly important.

Changing Trade Patterns

The structure of world trade has shifted significantly with the increase in oil prices in 1973–74. But there has been a longer run shift in other areas as well. The industrial countries, on average, increased

[3] In particular, note the arguments in favor of import restriction put forward by the Cambridge School.

their share in the nominal value of world exports, excluding fuel, between 1963 and 1977. Over the period, their share rose from 68 percent to 74 percent and has been about stable since 1972. But the recent stability in overall export shares of the industrial countries obscures a decline in the share of manufactured goods, which was offset by a jump in the value of food exports in the early 1970's.

Between 1972 and 1977, the share of industrial countries in world exports of manufactures declined from 82.9 to 80.5 percent, after reaching a peak of 83.3 percent in 1974. Over the same period, developing countries increased their share in world exports of manufactures from 5.9 to 7.8 percent. The longer term downward trend in the share of the Eastern bloc appears to have been halted in 1975–1977, when it stabilized around 9.8 percent.

Among the developing countries, export expansion was distributed very unequally. In fact, most of the increase in LDC's export shares in manufactures was concentrated in only eight countries (Brazil, Hong Kong, Malaysia, Mexico, Philippines, Singapore, South Korea, and Taiwan). In 1977, these eight advanced developing countries (ADC's) accounted for almost three-fourths of LDC's exports of manufactures. In 1963, their shares was only about 40 percent. The very rapid growth of the industrial exports of ADC's, as compared with other developing countries, is not of recent vintage. In fact, from 1963 to 1972, these countries increased their exports of manufactured goods at an annual rate of 23 percent as compared with a rate of growth of 16 percent for all developing countries. And this trend has continued through 1977, although the growth differentials are narrowing somewhat as the ADC's export volume expands.

Although attention has been focused primarily on the ADC's success in the markets of industrialized countries, the regional structure of ADC exports actually has changed very little between 1970 and 1976. In 1970, industrial markets accounted for 70 percent of ADC exports of manufactured goods. In 1976, their share was 69 percent. The share of non-OPEC LDC's also declined slightly, from 23 percent in 1970 to 21 percent in 1976. The major shift in the ADC's regional export structure reflects their success in OPEC markets which over the period rose in relative importance from 4 to 8 percent.

Although the ADC's dependence on particular regional export markets has not changed to a significant extent, their concentration on certain product markets has become more apparent over time. This is particularly true for textiles, clothing, and consumer electronics. However, there also has been a remarkable expansion in exports of engineering products other than consumer electronics. For example, while the ADC's share of TV and radio equipment in the imports of 15 OECD countries more than doubled between 1970 and 1977, rising from 7.5 to 18.7 percent, the growth in their share in imports of scientific instruments perhaps was even more remarkable as it rose from .9 to 6.9 percent over the period.

Although imports of manufactured goods from ADC's by the group of OECD countries grew at an annual rate of 29 percent between 1970–1977, reaching $26 billion in 1977, they still account for only 6.8 percent of their total imports of manufactured goods and for only a fraction of total consumption. The group of OECD countries still received 88 percent of their imports of manufactured goods from other developed economies. This high involvement of industrial countries in each other's market in part derives from their high relative level of productivity, from traditionally close financial, distribution and service ties and related factors, all of which (albeit to varying degrees), are likely to be maintained in the future.

But it also reflects an increasing degree of specialization, in which the developing countries are beginning to share. For example, the large expansion in trade in manufactures over the past decade reflects in part a growing shift in emphasis from changes in product to changes in process cycles. This means that competition no longer focuses exclusively on trade in finished or semi-finished products, but that in the production process certain locations for certain types of processing have become more competitive than others. Consequently, the import content of many finished goods increasingly contains a large processing element in addition to the traditional raw material inputs. This development has been reflected in a significant expansion of trade in parts and components.

With the growing dispersion of production processes, technological innovations in various sectors can shift trade patterns increasingly quickly. A prime example is the recent halt in the rise in the ADC's penetration of industrial countries' markets for office machines and computers. Between 1970 and 1975, the share of ADC exports to the industrial countries in this category rose from 1.8 percent to 5.8 percent. But, over the past 2 years, their share has trended down, largely as a consequence of the technological breakthrough in microcircuitry that shifted production of certain consumer electronics back to the developed countries.

The shifting pattern of world trade demonstrates that the assertion that developing countries tend to provide low-wage-based labor intensive products, while the developed countries continue to supply capital intensive products, is too simple. The ADC's, in particular, are supplying an increasingly broad range of manufactured products. Their rising exports of scientific instruments and their entry into the shipbuilding industry exemplify these trends. Furthermore, Brazilian and Korean steel plants probably are less labor intensive than are those in Europe and the United States, on average. As the ADC's industrial base continues to broaden, industrial countries must expect to meet their competition in world markets over a growing range of industrial products.

Industrial Growth in ADC's

In 1963, the ADC's exported only \$1½ billion worth of manufactured goods. By 1972, their exports had grown to \$9½ billion. And, between 1972 and 1977, their exports of manufactures expanded at an annual rate of 30 percent at a time when world exports of manufactures grew at two-thirds that rate.

This raises the question of how the ADC's could, in the face of intensified competition and during a period of relatively subdued world demand, continue to significantly expand their industrial base and increase their share in world trade. For many of them, this achievement reflects the results of a conscious shift in policy from import substitution to export promotion.[3] For some, like Hong Kong and Singapore,

[3] J. B. Donges, "A Comparative Survey of Industrialization Policies in Fifteen Semi-Industrial Countries," Weltwirtschaftliches Archiv, Heft 4, Kiel, 1976.

import substitution never was a viable road to economic growth and their patterns of industrialization always were export-oriented. For others, however, policies of import substitution dominated their industrial structure through most of the sixties. Although the policy transition from import substitution to outward oriented policies was pretty much an accomplished fact for all the ADC's by the second half of the sixties, the effects of earlier inward policies took time to erode.

In part, as a consequence of this policy orientation, most of these countries achieved considerably higher rates of growth than the industrial countries from the mid-1960's through 1973. And most were able to sustain growth during the recession and subsequent slow recovery. For example, industrial production in the industrialized countries exceeded its 1974 peak by only 5 percent in 1977, whereas in the LDC's, production exceeded its 1974 level by 17 percent. And the disparities in rates of growth were even greater in the heavy manufacturing sector, where output in industrial and developing countries rose by 3 percent and 21 percent, respectively, between 1974 and 1977.

The ability of the LDC's as a group to expand output at consistently higher rates than achieved by the developed countries reflects, in part, their savings and investment patterns. Whereas investment activity in the developed countries has remained subdued since 1974, that in many developing countries has been maintained. Of course, the large investment programs of oil exporting countries, that have been associated with their rise in revenues play a major role in the rise in the LDC's investment activity. But non-OPEC LDC's gross domestic investment also has continued to expand. Between 1972 and 1977, gross domestic investment, in current prices, rose at annual rates of 20 percent and 25 percent per annum in the non-OPEC LDC's and the ADC's, respectively. The comparable figures are 7 percent for the United States and 14 percent for other major industrialized countries. Although it is difficult to draw any conclusion from such aggregates, these data at least support the view that investment activity was better sustained in the ADC's than elsewhere.

In most of the ADC's, a cyclical investment peak was reached in 1974 in conjunction with the peak of the world economic cycle. But in contrast with developments in the industrialized countries, currently investment levels, as a percent of GNP, again exceeded their pre-1973–74 levels. For the ADC's as a group, gross domestic investment, and gross domestic investment and gross national savings in 1976 amounted to 23.2 and 26.7 percent of GNP, respectively. The ADC's have been able to generate this level of savings and to translate it into productive capacity despite the uncertainties that currently dominate world markets. Although the shift from import substitution policies to more outward-oriented policy has not reduced the level of Government intervention significantly, its character is such as to sustain growth orientations. Thus, in most of these countries, the business climate is as conducive to the decisionmaking process as it can be in an uncertain world. Continuation of these trends clearly will support a growing importance of the ADC's in world markets.

Broad Policy Options

(1) *Trade Restriction Versus Trade Creation*

The trends that are apparent in world trade of manufactured goods, have given rise to talk of "over competitiveness" of LDC's and tend to exacerbate protectionist pressures in the industrialized countries. However, as the developing countries become more highly industrialized, and are able to absorb a broader range of goods and services, they also become increasingly profitable markets for the products of the developed countries.

On this same basis, one must seriously question the assertion that foreign aid and private investment flows abroad are detrimental to the economic interests of the developed countries. In particular, arguments are made against the expansion of capacity abroad in sectors that, for one reason or another, are experiencing economic difficulties in the industrialized community. But, aid and investment flows to the developing countries assist in raising per capita incomes and foreign exchange availabilities in the recipient countries. As a consequence, these countries are better able to satisfy growing pressures for increased standards of living at home and in the process buy more goods and services from abroad.

As purchasing power rises, so will social and economic aspirations, and gaps between wage payments among developed and developing countries will begin to narrow. Some evidence of this process is already discernible. For example, although levels of wage compensation, on average, continue to be well below those of the industrialized countries, hourly compensation in manufacturing industries in a number of ADC's, such as Brazil and Korea, has tended to double over a 2- or 3-year span, while increases in developed countries tend to average around 6 to 9 percent per annum.

The consequences of industrialization and concomitant rises in per capita income are reflected in the substantial growth of the import markets of developing countries. Recently, of course, the limelight has been on the increased purchases of oil-exporting countries. But the markets of non-OPEC, developing countries also have expanded rapidly.

World exports (excluding fuel) to developing countries rose from \$73¾ billion in 1972 to \$252 billion in 1977, lending considerable support to economic activity during the recession. Although exports to OPEC rose from about \$14½ billion in 1972 to \$82 billion in 1977, those to non-OPEC LDC's rose to an even greater extent—from about \$59¼ billion to \$170 billion. Thus, it is often forgotten that the non-OPEC LDC's constitute a very dynamic market for the products of the world community and, in fact, currently are absorbing 15 percent of world exports.

Although the rate of growth of non-OPEC LDC's exports of manufactured goods has outpaced that of their imports—27 percent per annum between 1972 and 1977 for exports as compared with 21½ percent for imports—their trade deficit in this category has actually widened. This reflects the much lower base from which the growth of their exports is computed as compared with that of imports. Accordingly, their deficit on trade in manufactured goods has grown from

$22½ billion in 1972 to $49½ billion in 1977. Similarly, vis-a-vis a representative group of OECD countries, their deficit on trade in manufactured goods has doubled from $19½ billion in 1972 to $38¾ billion in 1976. Over the period, the OECD group's imports of manufactures from non-OPEC LDC's rose from $9½ billion to $26¼ billion, while exports to them grew from $29 billion to $65 billion.

Interestingly enough, even with the ADC's, the OECD countries are registering a rising surplus on trade in manufactured goods. A group of 15 OECD countries imported about $7 billion of manufactures from ADC's in 1972 and about $20 billion in 1976. Over the period, these OECD countries' exports to them rose from $11½ billion in 1972 to $26¾ billion in 1976. Thus, the OECD group's surplus on trade in manufactures with the ADC's rose from about $4¾ billion in 1972 to around $6¾ billion in 1976.

These developments clearly demonstrate that with growing industrialization, both imports and exports of manufactured goods expand as inter- and intra-industry trade intensifies. Of course, a large part of industrial countries, exports to the ADC's is concentrated in investment goods, which in turn provide a broader base for the industrialization of these countries. The fast growth of capital formation in these countries indicates that their competition not only manifests itself in terms of relative costs of labor, raw materials and transportation, but to an increasing extent in terms of competition of modern capital equipment against an aging capital structure in the more mature economies. The fact that private investment is continuing to lag in most of the industrial economies, while a number of the newer industrializing countries provide promising investment opportunities, strengthens this argument as does the determination of a number of OPEC countries to increase their industrial potential.

(2) *Difficulties of Adjustment in Today's Economic Situation*

Continuing pressures of competition not only from the ADC's, but from a number of other developing countries, will be a fact of life for the foreseeable future. Consequently, the question is not whether the world community can adjust to these realities, but rather how it will go about adjusting. But reactions in the area of trade policy cannot be seen in isolation from overall economic and foreign policies. To the extent that the economic situation in many countries continues to be characterized by slow growth, inflationary pressures, and high or even growing unemployment, adjustment to external pressures becomes more difficult. The causes underlying the economic situation vary from country to country, and their relative importance cannot be quantified easily. However, they clearly include: (*a*) The change in the relative price of energy; (*b*) distortions in resource allocation associated with high inflation rates; (*c*) changes in internal and world patterns of demand and supply capabilities; (*d*) lagging investment activity and aging capital stock; and (*e*) changing patterns of labor costs and reduced labor mobility.

Adjustment to the economic changes of the past several years is difficult under any circumstances. But, these difficulties have been exacerbated by relatively low capacity utilization and high unemployment. The latter, in turn, have led to increasing political pressure to insulate particular sectors of the economy from the need to adjust. As a consequence, the flexibility of the industrial economies to adapt to changes in the economic environment has become further circumscribed.

(3) *Protectionism or "Negative Adjustment"*

Policymakers in the industrialized countries are fully aware of the economic costs of defensive or "negative adjustment policies" that attempt to preserve the status quo. For this reason, they included a commitment to "positive adjustment" in the communique of the ministerial level meeting of the OECD countries in June 1978. However, it must also be recognized that politically, it is very difficult to phase out, or resist pressures for, short-term policies that spread the social costs associated with low rates of economic activity among the different sectors of the population.

Some examples of "negative adjustment policies" include: (*a*) Government rescue operations to save existing jobs and firms in declining industries and/or regions; (*b*) special subsidies to specific industries or firms which shield them from both foreign and domestic competition, and which impede adjustment to changing market conditions; (*c*) regulations and restrictions that tend to freeze existing market relationships by biasing economic decisions toward certain directions; and (*d*) a host of restrictive actions aimed at reducing foreign competition, some of which are currently being addressed in the MTN's such as Government procurement practices, Government subsidies, and safeguard actions.

(4) *"Positive Adjustment" Policies*

In contrast, "positive adjustment policies" are aimed at creating new jobs and facilitating the movement of labor and capital from aging industries to dynamic sectors of the economy. These include: (*a*) Economywide incentives for investment in new and productive capital equipment, in particular encouragement to turn over energy-inefficient capital stocks; (*b*) assurance of broadly based, efficiently functioning capital and labor markets that help foster a productive environment, in particular for activities that provide the basis for growth and technological change; (*c*) reduction of Government regulations and reporting requirements to the minimum level necessary, a that when special measures are necessary to help certain firms or level that does not hamper investment decisions; and (*d*) assurance industries to adjust, they will be temporary and be tied to a phasing out of overaged or redundant capacity.

The cumulation of "negative adjustment" measures over time results in a world economy that is less productive, less dynamic, and more vulnerable to economic dislocations than it need be. Economies that have moved along a path of increasing rigidities are left with an aging capital stock, an uncompetitive market structure, and, therefore, increased inflationary tendencies. Low productivity growth, under these circumstances, is rarely accompanied by lower real wage demands. On the contrary, because inflationary tendencies are increased, struggles for income shares are intensified, leading to further losses in output and mismatches in the labor market. Protection from competition from within or without thus tends to set up a vicious circle as it leads to increased pressures for further protection, results in further rigidities, necessitating further protection and so on.

Positive adjustment policies can most effectively be pursued in a climate of rising aggregate demand and adequate capacity utilization. But defensive policy action in the face of inadequate economic growth will tend to help perpetuate that condition. This conclusion applies equally to the area of trade policies.

Defensive actions against foreign competition would be largely counterproductive. And this is especially so vis-a-vis developing countries. Developing countries, already large importers, are likely to become even more so. Even the most optimistic forecasts of growth for the OECD area do not foresee growth rates much above those achieved during the last couple of years, and the explosive growth of OPEC markets has begun to stabilize. Consequently, the non-OPEC LDC's are likely to furnish the most dynamic markets for exports of industrial countries for some time to come. Import restraints vis-a-vis LDC's could, therefore, result in a considerable loss of high wage export jobs and income in the industrialized world. First, because income losses abroad would cut into foreign purchasing power, and second, because such restrictive actions could easily spread across borders.

(5) *Trade Policies of Developing Countries*

Positive adjustment must, however, be a two-way street. The success of a number of developing countries in world markets reflects the fact that they have invested in export-oriented industries and have channeled their savings largely into productive investment rather than consumption. However, past experience shows that at a certain point in the development process, adjustment measures need to be taken so as to avoid the emergence of chronic surpluses; which reduce the welfare of the domestic population and put strains on the international trading system. Some of the ADCs have recognized the desirability of guarding against such surpluses. In general, they have tended to reduce tariffs and liberalize imports rather than remove export subsidies or appreciate their exchange rates. It may be natural for them to believe their emerging surpluses only to be temporary and, therefore, to be cautious in liberalizing their trade relations. But for some, the time may have come when it is appropriate to begin to accept more fully the general rules and obligations applying to trading nations under the GATT and IMF.

The developing countries seek to establish a new set of trading rules in the current Multilateral Trade Negotiations (MTNs) that would recognize permanently preferential treatment for their products in industrialized countries' markets and would permit protection of their own markets for the benefit of their "infant industries." There are cases where such treatment may be warranted, but institutionalizing "special and differential treatment" for developing countries in a generalized way would seem imprudent for the international trading system. As the development process proceeds and countries emerge as important participants in the world economy, they will understandably be expected to undertake the full obligations of the trading system. This means not only gradual reduction in preferential status, but also an increasing degree of reciprocity for tariff reductions and other concessions extended by the industrialized countries. This would include a graduation from the benefits extended by generalized systems of preferences and reductions in subsidies to exports and in tariff barriers.

If satisfactory levels of economic growth are to be attained and, once attained, to be sustained, problems of economic change must be addressed positively whether they derive from internal or external sources. This applies now, even more than ever, to all countries, be they large or small, alike.

Role of Congress

U.S. choices between "positive" and "negative adjustment" will be made by the 96th Congress in many ways. On the most obvious level will be its treatment of the multilateral trade agreement the President will present early in 1979 with its reduction in tariffs and its set of codes designed to reduce and control non-tariff measures affecting international trade. Congress may have a number of chances to overturn a presidential refusal to impose import restrictions recommended by the International Trade Commission. Congress will also have an opportunity to strengthen or weaken the Economic Development Act, an act which gives the President options other than import restrictions to meet effective foreign competition. Finally, Congress will have before it a variety of measures in the trade adjustment assistance field.

Bibliography

See the Bibilography for the chapter, "U.S. Policy Toward Developing Countries," p. 70.

WORLD ENERGY AND THE U.S. ECONOMY

(By Alvin Kaufman*)

ISSUE DEFINITION

The United States has been self-sufficient in energy for a substantial part of its history. In recent years, however, we find ourselves somewhat dependent upon others, with the outlook for greater dependence over the years. This change is not due to a lack of domestic energy resources, but rather because of the relatively high cost of U.S. alternatives in both the environmental and economic sense.

The United States contains 37 percent of the fossil energy reserves in the world, and consumes 28 percent of the annual energy output. Approximately half of our energy is consumed as oil, whereas the bulk of our reserves are coal. Thus, while we have sufficient energy reserves to support our consumption, we are using it in our least plentiful form—petroleum.

Since the start of the 1970's, domestic production of petroleum has been declining while consumption has been increasing. As a result, our imports of oil have been steadily rising. This dependence on others, primarily the Middle Eastern nations, creates difficulties in our balance of payments,[1] raises questions about our national security, and places the pricing of a vital economic material in the hands of a cartel. The Congress is then faced with the task of adjusting our security and economic needs to the political realities.

This must be accomplished on both the national and international level. In the case of the latter, Congress will have to oversee the cooperative arrangements needed to assure security of supply for ourselves and our allies, as well as consider potential actions to provide bargaining power against the OPEC cartel. Of major importance is the impact of higher prices on the economies of the world and the actions needed to minimize these.

On the national level, further consideration of the means of assuring our security is required. In addition, the Congress will again have to consider the trade-off between conservation and increased domestic supply, as well as higher energy prices versus economic growth.

Energy policy, however, is complicated by the theory that we are facing an era of resource scarcity, particularly in terms of energy and specifically petroleum. If the world is indeed "running out", then we have a different set of issues from those outlined above. In this case, the question shifts from one of trade-offs within the current system to the kind of world energy economy we need in the future. The Congress would then need to consider the steps required to bring the new

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[1] See chapter, "The Balance of Payments and Domestic Policies," p. 40.

energy system into being, as well as the trade-offs needed to assure a relatively smooth transition within the available time.

Issues and Prospects

Resource Scarcity [2]

Resource scarcity can be viewed in two major ways. On the one hand is the "storehouse" view which says that there are a limited number of exploitable deposits of a given material. Once these have been discovered and exhausted the store will be empty. The "cost-price" people, on the other hand, maintain that "running out" is not the problem. The problem is the cost that will be incurred as we are forced, by depletion, to move to lower grade and substitute materials.

There is a resource constraint, but it may not be important over the long term. The question is one of our willingness to pay the social and economic price that may be exacted. For example, we can postulate that resource scarcity will not happen in the long-run because of this trade-off. We might have to accept slower economic growth or greater inflation in order to compensate for the resource constraint. The severity of the price exacted is dependent on the flexibility of the economy. If the economy has the ability to use capital, labor, and other materials as substitutes for energy, we will have no great problem. In the past, our economy has been remarkably resilient, and there is no reason to expect it to be less so in the future.

In any case, petroleum readily lends itself as a test of the scarcity theory. There has been a great deal of controversy over the ability of the world to provide itself with fossil energy, specifically petroleum, and over the consequences of our inability to do so.

The question of the final depletion of world petroleum resources revolves around the quantity of oil as yet undiscovered. This question, by definition, cannot be positively answered. Despite this, because of the importance of the answer, some people have attempted to provide estimates. M. King Hubbert has indicated that an orderly evolution of the petroleum industry would result in the peaking of world production in the mid-1990's.[3] He has noted, however, that if world production can be stabilized at the present rate of approximately 20 billion barrels per year, the peak would not occur until the year 2035. These projections are based on two implicit assumptions: first, that past discovery and production trends will continue into the future; second, that there are few large deposits left to find. In the latter case, statistics indicate that the bulk of the known reserves in a well-explored region occur in a few large fields and these are usually found first. Under the Hubbert thesis we have found most of the major fields, and there is little left to explore. The incidence of future major discoveries, therefore, is likely to be minor. What is true for a region, however, is not necessarily true on a global or continental basis.

There are also estimates by equally eminent geologists that indicate we have only just begun to look. Some of these indicate that while the

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[2] Much of the material in this section is taken from Kaufman, Alvin, "Are We Running Out—A Perspective on Resource Scarcity," Subcommittee on Energy and Power, Committee on Interstate and Foreign Commerce, U.S. House of Representatives, Committee Print 95–57, pp. 1–9.

[3] Hubbert, M. King, "World Oil and Natural Gas Reserves and Resources," Chapter in "Project Interdependence, U.S. and World Energy Outlook Through 1990," U.S. Congress, Committee Print 95–33, November 1977, pp. 632–641.

United States, the Middle East and the U.S.S.R. account for 72 percent of the cumulative oil production plus proven reserves, these areas only account for 28 percent of the global prospects for oil. These estimates indicate that Latin America, Africa, the Western Pacific, and Asia contain 47 percent of the prospects, but only account for 20 percent of the world's cumulative oil production plus proved reserves. All of these numbers are controversial and there are arguments on both sides proving the opposing points of view. We can conclude that the case for imminent petroleum depletion is not proven; there may be more oil there than anticipated.

Of greater moment, however, is the Hubbert assumption that past petroleum trends will continue. This runs counter to the shift that has occurred since 1973. Prior to that date, world prices were substantially below current levels. As a consequence, world oil demand is expected to grow at much lower rates than envisioned previously. Even if the Hubbert estimates of undiscovered oil are correct, a slower demand growth moves the production peak out to at least 2015.

If we were running out of oil and even if there were no cartel, prices would rise and thus dampen demand. The higher prices would also provide an incentive to explore in less promising areas, make marginal material producible, and make it economic to develop technology to enhance recovery from existing reservoirs. In addition, substitutes such as oil shale, synthetics, et cetera, could be expected to enter the market. The impact of economics and technology would thus offset the consequences of natural resource depletion on a worldwide basis.

If however, the resource depletion estimates turned out to be optimistic, these events would occur at an earlier date, and there would be several years of economic dislocation while the economic and political system attempted to sort things out. On the other hand, if the estimates of undiscovered oil turn out to be lower than the reality, prices of petroleum and other energy materials would decrease in real terms resulting in stimulated demand, and a weakening if not collapse of OPEC. The latter would occur due to the diversity and extent of new supply. In any case, it is unlikely that there would be a return to the pre-1973 energy economy. The earlier days of plentiful, very low-cost energy will probably not return because production will be coming from higher cost areas such as those which are more remote, or in deeper or rougher ocean water, or from somewhat smaller deposits and so forth.

In short, no one can predict with certainty the status of undiscovered oil, but it appears that the oil production peak is at least 35 to 40 years off, and probably even further. This should be enough time for the energy situation to clarify, and for market forces to work out new directions.

Rising Energy Costs

As noted above, demand for energy should grow at considerably lower rates in the future than in the past because of substantially higher prices. In 1976 compared with 1973, U.S. consumers paid 20 percent more (in real terms) for gasoline, 44 percent more for No. 2 fuel oil, 14 percent more for electricity, and 24 percent more for natural gas.[4] Energy demand growth rates have moved lower as the

[4] Russell, Milton, "Energy," chapter in "Setting National Priorities: The 1978 Budget," edited by J. A. Pechman, Brookings Institution, 1977, p. 331.

impact of prices have worked steadily through the economy. In 1976, U.S. demand grew at 7 percent, compared with the previous year; in 1977 at 5.5 percent, and in 1978 at an estimated 3 percent.

Although energy demand trends have moved to a lower level, the essential question is the impact of higher prices on our economy. The 1973 increase was imposed over a very short time period so that it was not possible for the economy to adjust easily. For example, Saudi Arabian crude oil rose from $3.95 per barrel in 1973 (1976$s) to $12.31 in 1974. Despite what can be considered as a severe shock to the economies of the Western World, Fried and Schultz indicate the problem may not be serious.[5] They estimated that by the time the world has adjusted to the higher prices in 1980, GNP losses will range from 1.3 percent for the United States up to almost 5 percent for Japan.

In the case of the United States the estimated loss of 1.3 percent of GNP in 1980 means that our GNP will increase 20 percent instead of 22 percent between 1973 and 1980. Generally then, the overall impact of the 1973–74 OPEC price hike appears to be relatively small, although some specific industries may be hurt.

Of perhaps greater moment is the transfer of wealth that is occurring as a result. It has been estimated that the price increases of 1973–74 are resulting in the transfer of 2 percent of the current GNP of the industrial countries to the oil exporters.[6] Reifman has noted that this is a very large sum, which is approached in modern times only by Marshall plan aid to Europe after World War II.[7]

It appears unlikely that the sharp price rise of the 1973–74 period will be repeated in the foreseeable future. There are those, however, who do foresee a moderate increase over the next few years, as well as those who foresee a moderate decrease and still others who anticipate stability in pricing. Once again oil prices would be the deciding factor in overall energy price levels in that other fuels, if not interfered with through Government regulation, would rise or fall to the oil level. Thus our discussion of prices will deal largely with oil.

An analysis of OPEC's best price indicated it was between $12.50 to $13 in 1977, somewhere below the then posted price. The best price was defined as the price that maximizes the equity value of oil reserves—that is, the flow of current and future profits discounted to the present. To maintain this best price would require an increase in real price by no more than 2 percent per year over the next 10 years. An increase in excess of this level would, it is estimated, cause a loss in sales that would not be offset by the increased revenues. A 2 percent real increase would not have a serious impact on the users since the gradual and certain changes would provide ample opportunity to adjust.[8]

The OPEC countries appear to have adopted this view. In December 1978, they promulgated a multistep increase for 1979 aggregating 14.5 percent by October 1. This will constitute an average increase of 10 percent over the year. Assuming an inflation rate of 8 percent for 1979, the real price increase would be approximately 2 percent. This

[5] Fried, Edward and Charles Schultz. "Higher Oil Prices and the World Economy." Brookings Institution, 1975, p. 47.

[6] Chenery, Hollis. "Restructuring World Economy." Foreign Affairs, January 1975, p. 254.

[7] Reifman, Alfred. "The Nature of the Energy Problem—Perception and Reality," Congressional Research Service, 78–101 S., pp. 9–11 and 23–26.

[8] Pindyck, Robert S. "The Economics of Oil Pricing," Wall Street Journal, December 20, 1977, p. 16, and "OPEC Threat to the West," Foreign Policy, Spring 1978, p. 36.

rise may be somewhat less due to the inflationary impetus of oil price increase. The OECD anticipates an additional 0.6 percent inflation in its 24 member countries as a result of the 14.5 percent price hike. The United States is expected to suffer an additional 0.3 percent.

Those who anticipate a decrease in price feel that the current oil surplus will continue into the foreseeable future, together with weak economic expansion on a worldwide basis. The anticipation of continued surplus supplies is based on the assumption of new discoveries and major output from such sources as Mexico, the North Sea, and Alaska, as well as continued development of South America as an oil producing area, and a quick resumption of Iranian production.

One of the more complete analyses of the future pricing situation is by Lichtblau and Frank.[9] That study reviews the overall situation and concludes that an oil shortage before the late 1980's is unlikely; it is a possibility, but not a probability. Before the end of the century a more likely occurrence is a gradual transition from oil to nonoil sources in order to meet incremental needs, accompanied by moderate real price increases over the next 25 to 35 years.

The Lichtblau-Frank study developed three cases involving various supply-demand scenarios. The annual average non-Communist world (NCW) energy demand growth rates are computed at 4.1 percent, 3.7 percent, and 3.3 percent during the 1976–90 period, respectively. Oil requirements in 1990 for the NCW, exclusive of the United States but including U.S. imports, are computed at 54, 61, and 70 million barrels per day for each case. The authors estimate that the real FOB price of foreign oil might rise 80 percent between 1977 and 1990 in the first case, 35 percent in the second, and marginally in the last case. Landed prices might rise somewhat more than the above because of the expected higher transportation costs. The last case appears to the authors' choice as the most likely scenario.

In an appendix to the referenced study it was noted that economic factors will remain the crucial determinant of the availability of oil through the end of this century. Political factors are less likely to have an effect, not because of the absence of political instability, struggle, complications and what have you, but rather because Rustow felt the political will to exploit economic opportunities is already there and a new infusion of politics will not transform the economic realities. The author felt that, although the Middle East will be as politically unstable as ever, the crucial determinants will be ethical and economic. Countries will continue to export to Western markets to earn hard currency and will seek to increase those earnings by raising prices or output if they have a large requirement for funds to take care of their populations.[10] This conclusion appears to be supported by recent events in Iran. Despite total disruption, production is back at approximately two-thirds of earlier levels. This reduction has resulted in a shortage in world supply with consequent rise in prices. As world demand adjusts to the new prices, and the producing countries feel a need to earn more foreign exchange for developmental needs, prices should stabilize over the long-term, and supplies return to "normal" levels.

[9] Lichtblau, John H. and Helmut J. Frank. "The Outlook for World Oil Into the 21st Century with Emphasis on the Period to 1990." Electric Power Research Institute. E. A. 745. SOA 76–328. May 1978, pp. 51–56.

[10] Rustow, Dankwart A., "A Political Factor Affecting the Price and Availability of Oil in the 1980's." Appendix to study cited in footnote 9, a short run disruption.

It would thus appear that the outlook is for stable real prices through the end of this century, or at worst, moderate increases of a few percentage points per year. This brings us to the question of the impact of higher price levels on the U.S. economy.

A recent study indicated that if energy prices remained constant in real terms to 1990, GNP would be $2,020 billion (B). On the other hand, if energy prices were to triple between 1976 and 1990, the real dollar impact on GNP would be relatively minor in that it would be 6 percentage points less than our base case. In other words, instead of GNP in 1990 being 48 percent greater than in 1976, a tripling in energy prices would limit the increase to 42 percent.[11] One reason for the relatively mild impact is the 14-year time period over which the price rise is phased in. This permits ample time for adjustment between the various elements of the economy, introduction of substitutes, and other measures to reduce the impact.

National Security

The relatively minor impact noted above might not hold in the event of a short run disruption. Rustow, in the study referenced earlier, noted that an effective extended oil embargo is a real but limited threat. He feels it is possible but not likely in the event of an Arab-Israeli war, and unlikely otherwise. The effectiveness of an embargo depends on the size and duration of the reduction. Rustow notes that while world dependence on Arab oil has increased since 1973, the Arab producers have accumulated substantially larger foreign exchange reserves. Thus they could endure reduced oil revenues for a longer period of time than in 1973.

In view of the potential threat, nations have banded together in an effort to protect themselves. The major international energy organization with the purpose of easing international energy supply and demand problems is the International Energy Agency [IEA] of the Organization for Economic Cooperation and Development [OECD]. The IEA was formed in 1974, as a reaction by the industrialized countries to the oil embargo and the increase in oil prices.[12] From the beginning, however, there was much dissension within this group of OECD nations as to its function and purpose. The U.S. advocated a consumer group response to the oil cartel. Other nations agreed or disagreed depending on their relative ability to weather rising prices with a strong stable currency or the availability of domestic fuel resources. In any event, a consumer-type cartel was not forthcoming. IEA now stands as an autonomous policy advisory group to OECD. The principal aims are:

(*i*) Development of a common level of emergency self-sufficiency in oil supplies;

(*ii*) Establishment of common demand restraint measures in an emergency;

(*iii*) Establishment and implementation of measures for the allocation of available oil in time of emergency;

(*iv*) Development of a system of information on the international oil market and a framework for consultation with international oil companies;

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[11] Kaufman, Alvin, Warren E. Farb, and Barbara M. Daly. "Energy and the Economy." Subcommittee on Energy and Power, Committee on Interstate and Foreign Commerce. U.S. House of Representatives. Committee Print 95–51. April 1978.

[12] deCarnoy, Guy. "Energy for Europe: Economic and Political Implications." American Enterprise Institute for Public Policy Research. Washington, D.C., 1977, pp. 107–113.

(*v*) Development and implementation of a long-term cooperation program to reduce dependence on imported oil, including conservation of energy, development of alternative sources of energy, energy research and development, and supply of natural and enriched uranium; and

(*vi*) Promotion of cooperative relations with oil producing countries and with other oil consuming countries, particularly those of the developing world.[13]

Within this framework, industrialized nations have put pressure on the United States to conserve energy. The OECD estimates that the United States and Canada have the greatest potential to increase supply (+3.8 mb oil equivalent per day (OE) by 1985) and conserve energy (1.8 mboe/d by 1985) within the OECD nations.[14]

Conservation

Many computations of the U.S. ability to conserve are based on the fact that energy consumption for other countries, whether computed in terms of population, per capita income, gross national product [GNP], or gross domestic product [GDP], fall substantially below that of the United States. These comparative energy ratios, however, should be used with great care. A recent study at Resources for the Future [RFF] indicate that such differences are substantially related to the geographic differences among countries as well as to differences in energy intensity.[15] This study estimated that approximately 40 percent of the difference between the U.S. energy–GDP ratio and ratios for foreign countries is due to the structural arrangement of the United States versus those of other countries. That is, the continental dimension of the United States and its dispersed population pattern result in long distances over which goods and people must move. This fact, coupled to the perference for large, single-family homes, together with other preferences, contribute to the higher energy use rates in this country.

There are also differences in the economic structure that result from the specialization of a country in certain activities. For example, Canada specializes in energy-intensive industries such as metallurgy, pulp and paper manufacture, and chemical production, largely because of historically low-cost hydropower and abundant natural resources. As a consequence, Canada has a greater energy use relative to income than the United States.

The RFF study indicated that some 60 percent of the energy GDP differences between the United States and West Europe arise from differences in energy intensity. That is, the fuel economy of American cars has historically been much poorer than in overseas areas, as has consumption per unit of output in various manufacturing enterprises. Foreign energy prices, moreover, have been traditionally much higher than those in the United States, thus leading to a different mix of processes. It should be noted that European prices were held above the market level for many years through taxation, whereas in the United States these have generally been held below through controls. Thus, social policy has intruded to help

[13] Organization for Economic Cooperation and Development, "World Energy Outlook," Paris, 1977.

[14] OECD, p. 18.

[15] Darmstadter, Joel, Joy Dunkerley, and Jack Alterman, "How Industrial Societies Use Energy: A Comparative Analysis." Johns Hopkins University Press for Resources for the Future, 1977, 282 p.

shape energy patterns. Our use of energy is not necessarily inefficient or wasteful but is set by the pricing policy that was followed by the governmental authorities. That is, various use patterns were encouraged by governmental policy and cannot be overturned in the short turn without drastic economic effect. Even over the intermediate term, change will not come easily. Energy use is largely determined by the existing stock of equipemnt, housing, buildings, and appliances, as well as by the structure of the economy. The energy quality of this stock will improve slowly as units are replaced, but housing will last 30 to 40 years, cars at least 10 years, and so forth. Thus, conservation measures introduced today may not have an impact for some time. Change can be forced at a faster pace, but generally at mounting cost in economic waste and disruption.

Energy enters into the production of every item, and into the maintenance of life itself. It is this fact of 20th century life that leads to a major disagreement over the impact of enery conservation on the economy. The energy-economy connection is a matter of critical concern. If energy use were restricted by as much as 18 percent from what would occur in a business-as-usual scenario, the result could be a minor adjustment with increased use of labor and capital compensating for decreased energy use. Or it could be a catastrophe with unemployment as high as 14 percent.[16] The particular result depends upon how tight the energy and economy connection turns out to be, and the time availability for adjustment.

It is maintained by many that the devaluation of the dollar on world markets results in large measure from our inability to solve our oil import problem, particularly through conservation. Such assertions are self-serving in the sense that a substantial cutback in U.S. imports of energy—that is, oil—would be of benefit to those who decry our profligacy by reducing the demand for oil, thus making it more difficult for OPEC to raise prices and making more oil available to the rest of the world from existing capacity. This is not to say that we should not conserve, but simply to note that those wearing the white hats may have a bit of mud on them.

Energy conservation is a major item on the international agenda. Some action by the United States seems useful in order to keep the good will of its allies, and to improve the international economic climate.

The Strategic Petroleum Reserve

Aside from efforts at reducing demand, the United States has attempted to protect itself through an oil storage program. The strategic petroleum reserve (SPR) was created by the Energy Policy and Conservation Act of 1975. The act authorized storage of 1 billion barrels with a 1985 target date for full implementation. The 1978 target was originally set at 250 million barrels by the administration. This has since been reduced to 70 million. As a result of technical problems, difficulty in obtaining clearances for brine removal, questions of worker safety, a fire at one site, and so forth, the program is now behind schedule. An estimated 60 million barrels are expected to be in storage by the end of 1978. There also

[16] Kaufman, A., and B. Daly, "Alternative Energy Conservation Strategies—An Economic Appraisal." Congressional Research Service for the Committee on Science and Technology, U.S. House of Representatives. Serial HH, June 1978, pp. 17–24.

appears to be some resistance on the part of the Office of Management and Budget to funding the full program within the time frame authorized by Congress.

The reserve, if completed, constitutes an estimated 6-month supply of imported oil, at the current rate of consumption. Considering that 16 percent of our energy is imported, together with the ubiquitous nature of energy in an industrialized society, the cost of disruption from an enforced short-term reduction in energy supply would presumably far outweigh the cost of the strategic reserve.

The reserve oil is purchased and stored in a few large installations. It can then be withdrawn for refining and distribution in the event of an emergency. The capital cost of the storage facilities is estimated at $1.50 per barrel, with the oil cost to the economy valued at the price of imported oil ($14.50 at 1977 prices). Total costs under these circumstances, for 1 billion barrels, would be $16 billion. In addition, maintenance is estimated at $10 to $20 million per year. The Carter administration requested an appropriation of $3.5 billion for fiscal year 1978, plus $0.5 billion allocated from naval petroleum reserve receipts.[17]

A recent amendment to the SPR plan sets the target at 1 billion barrels; with 750 million barrels to be stored underground. The storage of the remaining 250 million is left open. A target of 500 million barrels in storage by the end of 1980 is set by this document. A cost of $14 billion is estimated for the 750-million-barrel program.[18]

Conclusions: The Role of Congress

From the foregoing discussion, it appears that the Congress will have to deal with the issues of high prices and national security in relation to energy.

Mild price increases, if phased in gradually, do not pose serious economic problems for the oil importers. Rising world energy prices will intensify international pressure for the United States to institute a more stringent conservation program and allow domestic prices to rise to the world level. Such action by the United States would tend to make it difficult for OPEC to continue raising prices, because production capacity might well exceed consumption. For example, the consumption of petroleum increases an average of 1.1 percent per year for North America, but declines 1.5 percent in western Europe. Our increases tend to cancel out the European decreases. If the United States were able to reduce its growth in consumption, the result could be a net decline in world petroleum demand.

Reduced energy demand would also help the security problem in that we would be able to help ourselves and our allies in a crisis. Further, a surplus of oil makes an embargo, or a price hike, less likely.

The continued instability in the Middle East, however, makes resolution of the question of how much storage, and how fast it should be acquired, imperative. The size of our oil cushion represents a tradeoff between security and inflation. The current Iranian situa-

[17] Russell, M., previously cited, pp. 335–338.
[18] Strategic Petroleum Reserve Plan, Expansion of the Strategic Petroleum Reserve, Amendment No. 2, June 1978, Strategic Petroleum Reserve Office, U.S. Department of Energy.

tion illustrates the dilemma. If Iranian oil were to remain cut off for some period of time, the United States might find it hard to increase storage when its friends and allies were having difficulty obtaining sufficient oil. It might become necessary to divert oil destined for storage to a friendly nation in need.

If, on the other hand, Iranian exports resumed, the purchase of substantial quantities of oil for storage could increase inflationary pressures. As a result, the dollar could be under further attack on international money markets.

Offsetting these difficulties is the safety net provided by storage. In the 1973 embargo, oil imports were less significant than these are today. Imports from the Middle East were of even less importance. As a consequence, economic damage from the 1973 embargo was primarily inconvenience resulting from difficulty in reorienting the transportation network. Under current conditions, with such a large portion of our oil coming from abroad, damage could be catastrophic. Thus, storage assumes considerable importance, and delays in getting it underway could prove serious.

Aside from the above, the Congress will be faced, once again, with the question of deregulating energy prices. Higher prices will encourage exploration, conservation, and the substitution of other fuels for imported oil. Increased prices, however, take time to filter through the economy and affect the supply and demand for oil. In addition, higher prices raise problems of inflation, consumer discontent, and windfall profits for producers.

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THE ENVIRONMENT AND INTERNATIONAL ECONOMIC POLICY

(By Dr. Charles Pearson*)

Issue Definition

Environmental concerns and environmental control measures transcend national boundaries, and pose issues for international as well as domestic policy. The international issues are of two types. First, environmental controls affect the level and pattern of international trade and investment. For example: (1) The costs of environmental controls can reduce the international competitiveness of U.S. manufacturers; (2) U.S. environmental standards on products present additional costs and difficulties for foreign manufacturers exporting to the U.S. market; and (3) stringent U.S. environmental standards combined with minimal foreign standards may induce U.S. firms to invest in other countries.

Second, environmental stress can be transmitted directly to other countries, or to international common resources such as the oceans. The issue then involves controlling transnational pollution and managing global resources. Examples include ocean pollution, acid rain, Soviet and Iranian pollution of the Caspian Sea, and United States-Canadian pollution of the Great Lakes.

In the trade and investment area, major questions (examined below) are:

Do producers in countries with stringent environmental controls lose their competitive position? If so, should we impose import duties or negotiate internationally uniform standards to restore their competitive position?

Is it desirable to have international uniformity in financing the costs of environmental control?

Should environmental standards on products be made uniform, and are they being used as covert protectionist trade barriers?

Should environmental restrictions on U.S. exports be tightened or relaxed?

Should the United States seek to encourage or discourage foreign investment attempting to escape strict U.S. environmental regulations?

Should the United States control the foreign environmental behavior of its multinational corporations (MNC's)?

The second set of issues, concerning transnational pollution, includes local problems (for example, salinity of the Colorado River as it enters Mexico), managing the international commons (for example, conservation of ocean fish stocks, preventing ocean pollution), and global environmental threats. The unifying element is the need to find eco-

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nomically efficient measures that are also equitable, while recognizing that international environmental control measures are undertaken by independent states, and cannot be imposed by a supranational authority acting in defense of global welfare. The United States is both an agent and victim of transnational pollution.

Environmental concerns and control measures have an international as well as a domestic dimension. The United States is part of an interdependent economic system through international trade and investment, and is also part of an international interdependent ecological system through its shared use of global environmental resources. Clearly, in considering environmental problems international as well as domestic perspectives are important.

International environmental issues will not present themselves as a neat package for congressional consideration. They are too varied, ranging from trade in endangered species to Federal funding of municipal water treatment plants. Moreover, the international aspect is often incidental to domestic considerations, as is the case for auto emission standards. Nevertheless, increasing environmental stress and greater economic interdependence mean that the international dimension of environmental problems will become more important, and deserves congressional attention.

Review of policy issues is appropriate today, as we have now had 6 to 8 years of serious concern for the environment, major policies are in place, and some results are available. This review opens with a conceptual framework for analysing the issues, then investigates the trade and investment impacts, and, finally, considers transnational pollution and the management of international common property resources.

International Environmental Issues

To formulate rational international environmental policy, two basic concepts should be understood: trade distortions, and consumption versus production pollution.

Trade Distortions

The basic rationale for free international trade has always been efficient use of world resources. By allowing countries to specialize in the production of products and services to which their resources are most suited, and to import goods that would be more costly to produce at home, trade promotes efficiency and increases world welfare. International investment has much the same rationale. By permitting investment to be undertaken where it is most productive, international capital flows and the related technology flows increase the efficient use of world resources, and increase world welfare.

Trade and investment become distorted when tariffs and other barriers are raised, when export subsidies are granted, and when taxes and other regulations discriminate between foreign and domestic investment. In some cases the trade distorting effects of particular measures are the incidental result of trying to achieve domestic objectives, as for example, consumer safety or regional development subsidies that provide additional advantage to local suppliers. In many cases the trade distortive effects are purposeful and not incidental, and result from political power of those who benefit from the distortion. The thrust of United States trade and investment policy since 1934, however, has been to minimize distortions while recognizing legitimate domestic objectives.

Environmental abuse can also be usefully viewed as distortions in the economic system. A justification for environmental control policies is more efficient use of resources and increased welfare. Without environmental controls, producers and consumers impose costs on society from pollution, but they do not bear these costs. Consequently the costs of pollution are given little weight in business and consumer decisions, nor are they included in the costs of producing goods and services. As a result, environmental resources are used and abused for waste disposal, pollution abatement is not undertaken and, more generally, product prices do not reflect their full cost to society, and the general welfare suffers.

One need not impute pernicious motives to polluters—they respond to market prices, not social costs. But the situation suggests to many the remedy of Government-sponsored measures to limit the abuse of environmental resources and improve social welfare.

The critical policy questions are how much abatement, what types of control measures to use, and who pays. In principle, pollution abatement should be undertaken to the point where marginal benefits equal marginal costs. To correct the distortion in market prices, the costs of pollution abatement would be included as part of production costs.

When the domestic economy is distorted, because of environmental neglect, international trade and investment is also distorted. The prices of goods entering international trade do not reflect the full social costs of production, and these goods receive a subsidy equivalent to their "unpaid" use of environmental resources for waste disposal. The subsidy is "paid" by the victims of pollution in the producing country. Also, the location of industry, and thus the pattern of foreign investment, becomes distorted because no attention is given in private investment decisions to spatial differences in assimilative capacity—the capacity of the environment to absorb wastes and render them harmless—nor to environmental damages.

As countries proceed to correct distortions and treat environmental resources as economically scarce and valuable, changes in the level and pattern of international trade and investment will necessarily occur. This could well cause incrementally painful adjustments but it should not be the principal object of policy to hold existing patterns constant. This would frustrate the economic and environmental effect of reallocation of production through trade and investment. Put somewhat differently, environmental resources may usefully be viewed as another element determining comparative advantage, much the same as labor force, capital, and natural resources endowment. During their long period of neglect, environmental resources were treated as free goods for exploitation and waste disposal. If these resources become properly priced through environmental controls, changes in the level and pattern of international trade should be expected in correcting previous distortions.

Still, we should not be unconcerned with changes in trade and investment. Opportunities arise for nations to manipulate environmental standards and financing schemes to gain competitive advantages. Moreover, the removal of environmental distortions to trade can have transitional adjustment costs to firms and workers that merit consideration.

Production Versus Consumption Pollution

Pollution can occur during the production process—for example, sulfur dioxide emissions from powerplants or organic discharge into waterways from sugar beet mills—but can also occur during the consumption, use, or disposal of goods—for example, auto emissions, the disamenities of roadside litter, destruction of fragile terrain by off-road motor vehicles. The distinction between consumption and production pollution is important in understanding trade issues.

Environmental regulations directed toward production pollution generally have the effect of raising production costs and hence product prices because of the cost to the firm of pollution abatement. This is not generally true of regulations directed toward consumption, or product pollution. They generally involve design and operating standards—for example, radiation standards for microwave ovens—and product compliance standards—for example, maximum permissible levels of pesticides in fruits and vegetables—as well as restrictions on packaging, use, and disposal. Any resulting increase in the price of a product would reflect a changed or altered product, not a change in production costs.

For international trade, unregulated production pollution involves an implicit subsidy granted by the producing country. Controls on production pollution shift the costs to the producer, raise prices to the consumer, and may result in a loss of international competitive position for exporting and import-competing firms.

Product standards to control consumption pollution, however, raise quite different issues for international trade. The product standards may act as trade barriers to exporters who must comply with a variety of standards in different export markets. In fact, environmentally related product standards merge into the longstanding trade issues of health and sanitary standards, and can be analysed as one type of non-tariff trade barriers (NTB).

The distinction between production and consumption pollution is critical for international trade—the costs of production pollution are largely borne in the country of origin; the costs of consumption pollution are borne in the country of destination.

Trade and Investment Issues [1]

Loss of International Competitive Position

Environmental controls, if not subsidized by the Government, increase production costs and tend to increase prices. This can have an effect on the U.S. trade balance, and on individual export and import-competing industries. Even if the macro effect on the trade balance

[1] For theory see Ingo Walter, International Economics of Environment, London, MacMillan, 1975; Ingo Walter (ed.) Studies in International Environmental Economics. New York, Wiley Interscience, 1976; Stephen Magee and William Ford, Environmental Pollution, The Terms of Trade and Balance of Payments of the United States. Kyklos, v. 25, no. 1, 1972: 101; Anthony Koo. Environmental Repercussions and Trade Theory. Review of Economics and Statistics, v. 56, no. 2, May 1974: 235; and Richard Blackhurst. International Trade and Domestic Environmental Policies in a Growing World Economy, In Sijlhoff, International Relations in a Changing World.

proves small (because of, say, offsetting exchange rate changes), the effects on individual industries could be substantial. However, in considering the trade impact, it should be remembered that (*a*) expenditures on pollution abatement should be measured net of the value of resources recovered by abatement, (*b*) other countries are also instituting environmental control programs, and (*c*) control measures that protect the productivity of resources may limit future cost and price increases. These factors all work toward moderating any adverse impact on international competitive position.

What is the evidence? An analysis of the macroeconomic effects has been done by Chase Econometrics for the Council on Environmental Quality.[2] One conclusion is that the U.S. trade deficit in the period 1970–77 was somewhat larger than it would have been in the absence of federally mandated environmental controls. But the amounts are very modest, reaching a maximum of $0.6 million in 1976. In the period 1978–83, the trade balance is projected to become somewhat more positive with pollution control programs than without. This seemingly perverse result occurs because lower income growth due to the costs of environmental control, and hence lower import, more than offsets the impact of higher prices. The magnitudes are again modest, with the positive effect on the balance of trade reaching $1.4 billion in 1983. Incidentally, the model run shows an average annual increase in the Consumer Price Index of 0.4 percent and the GNP deflator of 0.3 percent over the period due to environmental control costs. GNP growth is slightly above the baseline estimate through 1976 as abatement expenditures stimulate aggregate demand.

One should be skeptical about the specific estimates and projections. There are serious problems with the data and methodology. In any event, the current managed floating exchange rate system reduces concern for the effect of environmental controls on the trade balance. To the extent that controls do worsen the U.S. international competitive position (and scanty evidence shows the effect is small), an exchange rate change could restore the initial position although not for individual industries. Such a change appears preferable to relaxing domestically desirable environmental standards. It would also have the advantage of discouraging industries with high abatement costs, while encouraging production in relatively clean industries.[3]

There have been a number of studies that have estimated the environmental control costs in specific industries, but most stop short of estimating trade impacts. The studies also suffer from serious methodological and data problems.[4] In a recent review Pearson and Pryor summarize these studies with the following conclusions.[5]

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[2] Chase Econometrics Associates, Inc., The Economic Impact of Pollution Control: Macroeconomic and Industry Reports, prepared for the CEQ, August 1976. See also OECD, Macro-Economic Evaluation of Environmental Programmes (IECD, Paris, 1978).

[3] Pearson, C. Environmental Control Costs and Border Adjustments. National Tax Journal, v. 27, no. 4, December 1974 : 599.

[4] Yezer, Anthony and Amy Philipson. Influence of Environmental Considerations on Agricultural and Industry Decisions to Locate Outside of the Continental United States, prepared by the Public Interest Economic Center for the CEQ, 1974 (mimeo) ; Ingo Walter, The Pollution Content of International Trade. Western Economic Journal, v. XI, no. 1, March 1973 ; Charles Pearson, Implications for the Trade and Investment of Developing Countries of United States Environmental Control UNCTAD TD/B/C.2, New York. United Nations, 1976 ; J. David Richardson and John Mutti, Industrial Displacement Through Environmental Controls : The International Competitive Aspects, in Walter, ed., Studies in International Environmental Economics ; Public Research Institute, The Effects of Effluent Discharge Limitations on Foreign Trade in Selected Industries Report to the U.S. National Commission on Water Quality, Arlington, Virginia, February 1976 ; U.S. Department of Commerce, The Effects of Pollution Abatement on International Trade III, Washington, U.S. Government Printing Office, July 1975.

[5] Pearson, Charles and Anthony Pryor. Environment : North and South. New York, Wiley Interscience, 1978.

First, environmental control costs are highest in the raw material processing industries—iron and steel, non-ferrous metal smelting and refining, pulp and paper, basic chemicals, petroleum refining and perhaps cement—and electric utilities. Second, inclusion of environmental control costs on purchased inputs is generally important to arrive at total control costs. But these indirect costs are difficult to quantify because of unknown cost/price passthrough. Third, the costs of environmental controls do not look especially large when viewed as a proportion of total costs. Most fall below 2 percent of total production costs, only occasionally reaching 5 percent. Thus, the impact on foreign trade may be correspondingly small. But the conclusion remains speculative, as all the studies exhibit major analytical and data weaknesses.

What if anything should be done if U.S. firms lose competitive position? Under such a policy some change in trade patterns would be expected and welcomed. Escape clause relief and adjustment assistance are available to facilitate adjustment in industries that compete with imports. But nothing is now available for firms whose exports would be adversely affected.

Two other policies have been suggested for consideration. The first would be to work toward internationally uniform environmental standards. In principle, standards should be set at the level where incremental benefits equal the incremental costs of abatement. The great diversity among countries with respect to climate, environmental geography, concentration of industry and people, and levels of income, suggest that U.S. standards would not be appropriate for other countries, say, Japan or Brazil. Moreover, the cost of complying with identical standards would not vary from country to country, and therefore identical standards would not prevent trade changes. Finally, uniform standards might pull down the level of protection in environmentally responsible countries, and would be opposed by environmentalists.

The second suggestion has been to offset international differences in the cost of environmental controls through border adjustments using import surcharges and export rebates. This idea lies behind section 6 of the 1972 Federal Water Pollution Control Legislation, and was explicitly endorsed in the Copper Environmental Equalization Act of 1977—legislation designed to limit copper imports.[6]

Border adjustments to equalize environmental control costs have serious limitations: First, they would frustrate an efficient reallocation of production internationally to accord with environment as an element of comparative advantage. Second, they could easily be used as covert trade barriers. Third, they would have to be applied on a country by country basis, entailing extra administrative costs and eroding the trade principle of nondiscrimination among countries (MFN). Finally, other countries might seize on the same logic and attempt to protect their industries against foreign competition based on non-environmental cost differences, say, wage differences.

The OECD has addressed the issue of border adjustments for environmental control costs in its Guiding Principles Concerning Trade

[6] H.R. 9695. The Copper Environmental Protection Act of 1977, 95th Congress, 1st sess., October 30, 1977.

and Environment (1972). This document, to which the United States subscribes, obliges member countries to renounce the use of border adjustments, presumably because of the disadvantages described above.

Countries that deliberately avoid environmental regulations to obtain a competitive advantage are in effect granting their producers an implicit subsidy. While implicit subsidies, environmental or other, are not prohibited in GATT or U.S. legislation, they may damage producers in other countries. A case could be made for countervailing such subsidies. But the policy could only be justified if foreign environmental standards fall short of their own environmental interests. Otherwise, cost differences are similar to differences in wage rates, natural resources, and so forth, and cost equalization would be inappropriate. As a practical matter, deliberate manipulation of standards would be difficult to identify, and border adjustments could lead to serious trade disputes.

Uniform Financing Rules

Even if countries do not deliberately set environmental standards to gain a competitive edge, trade can be distorted because of different methods of financing pollution abatement. If, for example, the United States requires private sector financing of abatement, and Sweden offered generous government subsidies to industry, certain United States producers would be disadvantaged and trade could be distorted.

The Polluter Pays Principle (PPP) was adopted by OECD members in 1972 to avoid this difficulty.[7] Under the PPP the private sector must pay for pollution abatement, either directly by firms or indirectly by customers through higher prices. This principle improves domestic efficiency, as market prices of products are brought into alignment with social costs of production. It also helps eliminate trade distortions arising from differences in financing schemes.

The PPP has not ended controversy over financing, however. All countries, including the United States, offer some form of assistance to industry for the costs of pollution abatement. In the United States the major method appears to be the use of industrial revenue development bonds for pollution abatement expenditures, which permits industry to borrow at subsidized interest rates. Other countries also tolerate substantial departures from the PPP.[8]

It is doubtful if, in aggregate, departures from the PPP have a significant impact on international trade. One reason is the relatively minor role played by pollution abatement costs; a second is the partial nature of the subsidies; and a third is that all countries are making exceptions. Moreover, some exceptions can be justified in that they encourage a desirable tightening of standards. Still, the impact may be significant in specific industries, and international monitoring of departures from the PPP is useful.

[7] The "polluter pays principle" is a somewhat misleading term as it is often the consumer who pays. For a full treatment of the government vs. privates financing issue see OECD, The Polluter Pays Principle—Definition, Analysis, Implementation. Paris, OECD, 1975.

[8] One rough estimate placed the subsidy value of industrial revenue bonds for pollution abatement at $373 million in 1975, growing to $933 million in 1985. Charles Pearson and Anthony Pryor, Environment: North and South. New York, Wiley Interscience, 1978, p. 169.

Production Standards

Environmental products standards in the United States and elsewhere can impair market access for exporters. Without question, countries have the right to establish health and sanitary standards for products, and through article 20 of the GATT this right extends to imported goods. However, such standards must meet two tests—first, their purpose is to contribute to a legitimate domestic objective such as conservation of natural resources or health, and second the product standards must be applied equally to domestically produced products and imports (national treatment).

Environmental standards on products can be grouped into six or seven types. These include auto emission standards, product noise standards, radiation emission standards, pesticide and heavy metal residues in agricultural products, packaging requirements, and controls on toxic substances. Although there is little evidence that environmentally related product standards have been used as covert trade barriers, countries (and especially LDC's) are concerned about market access. For example, an UNCTAD experts group has stated, "There was general agreement among the experts that access to markets, especially exports from developing countries, was being affected adversely by changes in environmental regulations, including public health and safety regulations."[9] UNCTAD is investigating the possibility of establishing an "early warning system" to alert exporters to impeding environmental standards. Their concern is legitimate because, even if not used as covert trade barriers, product standards can impair market access by fragmenting markets, increasing production costs by shortening production runs and by requiring expensive information, and by requiring testing and verification procedures that discourage imports. One example of inadvertent discrimination is spoilage that may occur in testing agricultural imports. Uncertainty surrounding product standards and the possible arbitrary action by customs officials can discourage exporters, especially small suppliers who are new entrants to the market.

The United States might usefully review all of its environmentally related product standards and procedures with a view toward (*a*) harmonizing these standards with other countries where possible, (*b*) insuring that advance notice and consultation procedures give foreign exporters adequate notice before new standards are adopted, and (*c*) making sure that inspection and verification procedures present the least possible obstacle to imports. At the same time, U.S. exports will become increasingly subject to foreign environmental standards, and a review of foreign practices may be in order to support U.S. exporters.

The U.S. Toxic Substances Act and similar legislation contemplated in other countries illustrate the serious potential of environmental product standards as non-tariff barriers (NTB's). U.S. legislation grants the Environmental Protection Agency broad authority to obtain production and use data for chemicals, to require testing of these chemicals, and to regulate the production and use of hazardous substances. The EPA is in the process of identifying priority chemicals and preparing regulations. Importers or foreign manufacturers may

[9] UNCTAD Report, "UNCTAD/UNEP Informal Meeting of Experts on Trade Aspects of Environmental Policies and Measures," UNCTAD/MD/92, GE.

be at a serious disadvantage in supplying required production and use data, and in complying with testing procedures. This is especially true for small importers and foreign manufacturers for whom the United States is a small market. Concern is also expressed about the extension of EPA regulations to chemicals contained in manufactured products such as dyes contained in clothing. It may be virtually impossible for importers to trace the chemical content and origin of materials in finished products. At the same time, concern has been expressed that stringent U.S. standards may discourage innovation by U.S. manufacturers.

The U.S. Toxic Substances Control Act has aroused considerable apprehension in foreign countries. It is too early to draw conclusions whether this specific act will seriously inhibit trade. But the legislation (and similar action proposed in other countries) does suggest that the trade aspects should be carefully considered when drafting domestic legislation and implementing regulations. At a broader level, there is international expectation that there be constant vigilance that environmental product standards meet a legitimate domestic need, that imports be given "national treatment," that the standard be harmonized internationally when appropriate, and that the administrative procedures not present an unwarranted obstacle to imports.

Environmental Restrictions on Exports

The converse of import product standards is environmentally motivated restraints by the U.S. Government on exports. The central issue is what responsibility the U.S. Government has in controlling the export of hazardous products that are banned or severely regulated here. Our current policy toward hazardous exports is complicated by several factors. A multiplicity of U.S. agencies are involved, with different statutory power to control hazardous exports, and spotty records in export control performance. Regulatory agencies include the Consumer Product Safety Commission, the Environmental Protection Agency, and the Food and Drug Administration. The Commerce Department is involved through the Export Administration Act, and the Export-Import Bank has become involved through its alleged failure to comply with the National Environmental Policy Act (NEPA). Legislation is fragmented and includes the Federal Insecticide, Fungicide, and Rodenticide Act, the Federal Hazardous Substances Act, the Consumer Product Safety Commission Act, the Flammable Fibers Act, and the Toxic Substances Control Act.

Additionally there is a conflict between the administration's desire to encourage U.S. exports and a recognition that the United States has responsibilities for its hazardous exports. The current massive U.S. trade deficit and declining dollar have sharpened the controversy.

On the other hand, foreign countries are sensitive to attempts by the United States to extend our health, sanitary, and environmental standards internationally. Yet they may lack resources and expertise for developing their own standard and may look to the U.S. standards for guidance.

The Natural Resources Defense Council has suggested elements of a national policy for hazardous exports.[10] It suggests U.S. Government

[10] See U.S. Congress. House. Committee on Government Operations. Report on Exports of Products Banned by U.S. Regulatory Agencies. Washington, U.S. Government Printing Office, 1978. (H. Rept. 95–1636.)

monitoring of production and export of hazardous substances, full notification and disclosure to importing countries, improved labeling, technical assistance to importing countries in evaluating products when necessary, and authority to ban exports in instances of extreme hazard.

An issue closely related to regulating exports is whether to extend the provisions of the National Environmental Policy Act (NEPA) to the international activities of U.S. agencies.[11] Some agencies, notably AID, have been pushed by lawsuits into an acceptable set of procedures and, to their surprise, have found the experience a positive one. The President has indicated that he would take action on NEPA extension to U.S. exports. The proposed Executive order would not require impact statements for export licenses, permits, and approvals. The only exceptions would be for nuclear reactors, toxic products, facilities creating serious public health risk, and activities having significant effects on the environment of Third World countries or natural resources of global importance. These exceptions would require "abbreviated environmental reviews." Although the order would help clarify the situation, it would still leave fundamental questions unresolved.

Foreign Investment[12]

Countries not only fear the trade consequences of environmental controls, but worry that polluting industries may relocate to avoid stringent controls. The host country is often ambivalent toward environmentally motivated foreign investment. No country wishes to be the dumping ground for the dirty industries of the world. But investment can mean jobs, technology, foreign exchange, and tax revenue.

Like trade, some reallocation of production for environmental reasons through investment is desirable. Specifically, differences among countries as to climate, environmental geography, river systems, soil types), concentration of industry and population densities, suggest that certain investment undertaken in part for environmental reasons may improve world welfare. But deliberate manipulation of environmental standards to create "pollution havens" is neither necessarily efficient nor equitable. Some observers have argued that developing countries, because of relatively low industrialization and income levels, are natural locations for dirty industries. LDC's remain cautious (and divided) on the question: an UNCTAD group noted, "Possibilities were discussed for redeployment of industries to developing countries, especially on the basis of the relative competitive advantage such countries might have as a result of higher pollution control costs in developed countries."[13]

One must be very careful about accepting the proposition that LDC's are natural locations for dirty industries. First, there is scattered evidence that endowments of assimilative capacity favor temperate

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[11] For opposing arguments, see statements by Senators Muskie and Stevenson concerning Export-Import Bank legislation. Remarks in the Senate. Congressional Record, Oct. 2, 1978: 16836.

[12] See Galdwin, Thomas and John Wells. Environmental Policy and Multinational Corporate Strategy in Walter, ed., Studies in International Environmental Economics, p. 177; Thomas Gladwin and Ingo Walter, Multinational Enterprise, Social Responsiveness, and Pollution Control, Journal of International Business Studies, vol. 7, No. 2, Fall 1976: 57; Thomas Gladwin, Environment, Planning, and the Multinational Corporation, Greenwich. Conn., JAI Press, 1977.

[13] UNCTAD Report of Experts, op. cit.

industrial, and not tropical developing countries. Second, industry in developing countries is already concentrated, and it is doubtful if further expansion will be dispersed. Therefore, pollution levels may already be high. Third, when pollution reduces the quality of productive resources (physical capital, labor productivity, soils) developing countries should also require rigorous environmental programs. Thus, developing countries may set equally stringent environmental regulations. Loss of productivity is most visible in the agricultural sector where soils are threatened, but may also be significant in industry when pollution reduces the quality of process water, damages metal surfaces, causes losses in labor productivity, and can inhibit the tourist industry.

The evidence on environmentally motivated investment is fragmentary and inconclusive. Because environmental factors are likely to be small relative to other locational determinants such as labor skills and wages, access to raw materials and markets, and tax policies, it is unlikely that surveys or analysis of aggregate investment data will disclose the amount of environmentally motivated investment flow. Firm surveys will also be of limited use because candid responses may offend host and home countries alike.

In the absence of a satisfactory analytical technique, most discussion has been anecdotal or speculative. The examples of industry relocation cited include copper smelting, petroleum refining, and asbestos plants. Perhaps the major environmental control factor forcing plants to locate abroad is not pollution abatement costs per se, but rather the delays and extra expenses in obtaining suitable plant sites in the United States. Even if firms are confident that they will ultimately obtain a U.S. site, the prospect of a protracted court battle with environmentalists may swing attention to foreign locations.

The effect of foregn investment will be most pronounced in two types of industries, raw material processing and "hazardous" industries. Basic processing of raw materials tends to have high abatement costs. In addition, developing countries are actively seeking processing industries. Industries with hazardous workplace conditions and subject to expensive OSHA controls are a second candidate for relocation. These include asbestos textiles, benzidine dye, vinyl chloride, and lead and zinc smelting industries. Castlemen has made the most extensive study of the export of hazardous factories.[14] Despite incomplete information, he concludes that flight to LDC's has already occurred in the asbestos textile industry, and that other movements are imminent.

What should U.S. policy be? The primary responsibility for regulating the environmental activity of MNC's operating outside the United States must rest with foreign governments. But home countries, including the United States, also have responsibilities. Our responsibilities include concern for the global environment, ethical considerations, and the larger foreign policy interest of avoiding conflict with host countries. These responsibilities are particularly pertinent in cases where the U.S. Government encourages investment through the Export-Import Bank or the Overseas Private Investment Corporation (OPIC).

One way in which industrial countries could meet their responsibilities would be to establish an environmental code for MNC's in their

[14] Castleman, Barry. "The Export of Hazardous Factories to Developing Countries," mimeo, March 1978. See also R. F. Settle, "Trade Effects of Occupational Safety and Health Standards," Weltwirtshaftliches Archiv 112 (No. 3), 1976, p. 584.

foreign operations.[15] The purpose of the code need not and arguably should not be to extend U.S. regulations and standards to foreign subsidiaries, for this would neglect legitimate differences among countries and be an extension of U.S. authority into other sovereignties. Rather, the code could require MNC's to make information available to foreign government authorities so that they could establish rational environmental protection measures.

Specific information could include a complete description of anticipated pollution (types, quantities, dilution, persistence, etc.) and other environmental damages, description of pollution abatement techniques that are available and the associated costs, and the environmental standards that the firm must comply with in other countries in which it operates. While this type of information could be required on a unilateral basis by host governments, an international code would improve the information flow and provide some useful cross-checking of abatement techniques, costs, and standards. A code could also give some protection to the United States in foreign policy disputes arising from environmentally irresponsible MNC operations.

Some elements of a code are already in place in OPIC's operations. OPIC does environmental analysis for larger projects in sensitive areas (e.g., mining, forestry. industrial plants), and has established environmental procedures to be followed for smaller projects. Investors must state to OPIC whether proposed measures are satisfactory to the host government. We do not know if these procedures are adequately followed, but they might well be studied as a possible basis for a more comprehensive code.

Transnational Pollution and International Common Resources

Problems in the shared use of global environmental resources are now commonplace, and will intensify as economic activity grows and international resources are subject to greater stress. Recent legislation and international activity illustrates the pervasiveness and diversity of the issues. The Fishery Conservation and Management Act of 1976 extends U.S. fishing rights to 200 miles, ostensibly to aid in conservation of fish stocks. An international ocean dumping convention was concluded and entered into force in 1975, complementing U.S. ocean dumping legislation. The OECD, United Nations Environmental Program (UNEP), and the World Meteorological Organization (WMO) are international organizations working on the fluorocarbon problem. The U.S. participates in the Convention on International Trade in Endangered Species of Wild Fauna and Flora, and has sought a moratorium on the commercial killing of whales through the International Whaling Commission.

The economic problem posed by transnational pollution differs fundamentally from trade and investment issues. Whereas trade and investment effects are an extension of traditional issues in international trade—market access, changes in international competitive positions, subsidies, etc.—and presumably can be dealt with within existing international institutions—transnational pollution and its control

[15] The 1976 OECD guidelines on MNC's makes the very general statement that transnational enterprises should give due consideration to the host country's aims and priorities including the protection of the environment.

may require major changes in the behavior of states and the superstructure of international organizations.

The basic dilemma is the absence of a supranational authority that can require pollution abatement within national units to improve world welfare. International environmental law remains undeveloped.[16] Society must rely on voluntary agreements undertaken by states to curb the environmental abuses of their nationals. But environmental protection always involves costs, and the states shouldering abatement costs might be quite different from the states receiving the benefits of the controls. If international agreements are undertaken voluntarily, each country must believe that there is an equitable distribution of the costs and benefits.

And therein lies the rub. There are no good mechanisms through which the beneficiary countries could compensate the states undertaking expensive environmental controls. Too often the result is that effective controls are not undertaken. For example, land-based sources such as dirty rivers are a major cause of ocean pollution, but because of concern for sovereignty, controls over this source have been effectively excluded from the United Nations Law of the Sea Conference. The problem is compounded because international enforcement is apt to be inadequate. Controlling ocean pollution is also made more difficult because the current negotiations are more concerned with assigning rights to exploitation of ocean resources than making efficient use of the resources. Finally, the extension of national jurisdiction up to 200 miles over ocean space moves the world further away from effective international supervision of ocean environmental resources. National governments have a pretty dismal record in protecting their environmental patrimony, and the extension of sovereignty of 200 miles without effective international control is disquieting. Improvements in technology such as tracking ocean oil spills, and increased willingness of port states to enforce environmental regulations are positive developments however.

A related international problem is the preservation of wildlife, wilderness areas, cultural artifacts, and the like. Only a portion of the value to the global community of protecting these treasures can be recouped through tourism by the countries in which they are located. But these countries must bear the full costs of preservation. The problem is clearest in the great game parks of East Africa, where the cost of preservation includes the agricultural land foregone by these low-income countries. Only part of the value to mankind of these game reserves is captured through international tourism, and the international mechanisms for fully compensating the East African countries for their preservation costs are arguably inadequate. A similar problem may be developing in the Amazon region. Environmentalists believe that the environmental costs to the global community of rapid exploitation of the tropical rain forests may be substantial, but the costs of conservation (i.e. development gains foregone) would be mainly borne by Brazil.

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[16] International law, building on the *Trail Smelter* case and the *Stockholm Declaration* (1972), does support the position that one state cannot use its territory in a fashion that will directly damage the territory of another state. The injunction against damaging international common property resources is somewhat weaker. For a theoretical explanation of policy failure see Charles Pearson, "International Externalities: The Ocean Environment" in Walter, ed., Studies in International Environmental Economics, p. 279.

The 1972 Ocean Dumping Convention and the 1973 Prevention of Pollution from Ships Convention illustrate the severe limits of international conventions to manage international resources.[17] In both cases the distribution of costs and benefits from a stringent pollution control program was not perceived to be equitable. Not all countries thought they would benefit from strong regulations. As a result, the Ocean Dumping Convention left broad discretionary power to national governments to control dumping. Thus the convention became something of an umbrella instrument for national dumping policies, with no guarantee that national measures would protect the international interest. But because the convention did not compel states to go much beyond what they might wish to do for purely domestic reasons, it was easily ratified and came quickly into force in 1975.

In contrast, the Prevention of Pollution from Ships Convention contains specific and expensive pollution abatement requirements. Regulations for oil tankers include a per mile oil discharge limit, designated areas where no discharge is permitted, and a requirement for segregated ballast tanks to separate oil cargo from sea water ballast for all new tankers over 70,000 dead-weight tons. Limits on tank size and tanker structural strength requirements for surviving accidents are also included. However, presumably because not all countries find these expensive controls in their own interest, the 1973 convention has been ratified by only three states (Jordan, Kenya, Tunisia) and has not yet come into force. The United States has not ratified the convention.

These two attempts to control ocean pollution are not futile. Rather, they illustrate the need for either granting an international agency authority to compel compliance, or developing a system wherein one country can compensate another for control costs undertaken in the global interest. Either of these innovations would require changes in the behavior of states and the role of international organizations.

The carbon dioxide and fluorocarbon problems are especially interesting global environmental problems because they illustrate the important role played by uncertainty, as well as the difficulties in achieving international action.[18] Briefly, the fluorocarbon issue arose in 1974 when Molina and Rowland published a paper arguing that fluorocarbon released in the lower atmosphere may diffuse slowly to the stratosphere where it may deplete the ozone layer and increase ultraviolet radiation at the Earth's surface. Ultraviolet radiation increases the incidence of skin cancer, may cause chromosome and plant mutations, and may affect global climate. Except for the relation between radiation levels and cancer incidence, all of the parts of the hypothesis are subject to considerable scientific uncertainty.

Increased atmospheric levels of carbon dioxide are the result of fossil fuel combustion and perhaps changes in the Earth's biomass, the carbon reservoir contained in the biosphere. Estimates are that the atmospheric concentration of carbon dioxide has risen from 293

[17] The Convention on the Prevention of Marine Pollution by Dumping of Wastes and Other Matter, 1972, and the International Convention for the Prevention of Pollution from Ships, 1973.

[13] For a review of the issues and sources of the following estimates see Charles Pearson and Anthony Pryor, Environment: North and South. The original paper was by M. J. Milina and F. S. Rowland, "Stratospheric Sink for Chlorofluoromethanes—Chlorine-Catalyzed Destruction of Ozone," Nature, 249 (1974), p. 810. See also K. Vandevelde, "International Regulation of Fluorocarbons," Harvard Environmental Law Review 2.

parts per million in the pre-industrial era to 331 parts per million in 1975. Carbon dioxide is important in regulating global temperature and climate, and a 10-percent increase in concentration may lead to a global average temperature increase of .32° C., with more pronounced effects at higher latitudes. Although reasonable estimates can be made of the amount of carbon released each year through fossil fuel combustion there remains great scientific uncertainty about its ultimate disposition in the three major carbon sinks—the oceans, the atmosphere, and the biomass. There is also considerable uncertainty surrounding the temperature and climate consequences of increased atmospheric concentrations.

The fluorocarbon and carbon dioxide problems are truly international in scope. The potential damages will not respect national boundaries. The origins of the problems are also international. Hence any abatement measures must be international to be effective. It has been estimated that developed countries emit 50 percent of global CO_2 emissions, centrally planned economies emit 30 percent, and developing countries 11 percent. The emission estimates for fluorocarbons are United States 47 percent, Western Europe 36 percent, Japan, Eastern Europe, and U.S.S.R. 13 percent, and developing countries 4 percent. While a single country such as the United States can have a significant impact on emissions, effective control would have to be international in nature.

Fluorocarbons and carbon dioxide problems are global, potentially catastropic, cumulative with delayed damages, and subject to great uncertainty. They differ in one significant respect, however. The costs of decreasing emissions of fluorocarbons, while not trival, are far less than the costs of reducing carbon dioxide emissions. The two major uses for fluorocarbons are as a propellent for aerosols and as a refrigerant. Although there will be transition costs for industry, and substitutes may be inferior in certain uses (for example, aerosol application of medicines), phasing out of fluorocarbons as a propellent appears economically feasible. In contrast, the costs of rapid reductions in fossil fuel use, and the substitution of nuclear and other sources of energy (for example, geothermal, solar) that have no carbon content, would be staggering and would raise profound political and social problems as well.

The response to the fluorocarbon problem has been moderately active but it is still too early to give a full assessment. Following the initial scientific paper warning of the danger, the United States reacted quickly and set up a study group (IMOS). The National Academy of Sciences completed a major report confirming the problem in 1976. In 1977 the EPA and the FDA jointly proposed a ban on fluorocarbons for aerosol propellents to take effect in 1979. The OECD's Environment Committee has developed global use data, and the United Nations environmental program has established a fluorocarbon program for research and monitoring. Canada, Sweden, and Norway have taken steps to limit fluorocarbon emissions. Despite this flurry of activity, no major country has completely banned the use of fluorocarbons, and it is simply too early to say whether effective international controls will (or should) result. We are not aware of any plans to curtail CO_2 emissions.

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Not all transnational pollution problems are a threat to the global environment. Many are local or regional in nature. Examples for the United States include pollution of the Great Lakes, the Garrison diversion project in North Dakota, salinity of the Colorado River as it enters Mexico, air quality problems with Canada arising from coal-fired plants at Atihokar and Poplar River, air and water quality problems in the San Diego-Tijuana area and many more. Although localized instances of transnational pollution such as these can create friction between the United States and its two neighbors, they may be easier to resolve. One reason is the existence of institutions within which agreements can be hammered out. These include the United States-Canadian International Joint Commission and the joint United States-Mexican International Boundary Waters Commission. A second reason is the recognition that any source of friction, if left unresolved, can undermine good relations in other policy areas. The costs of remedying environmental damages may be small in some cases compared to the larger political costs to both countries of inaction.

Summary and Legislative Implications

Controlling transnational pollution and protecting international common property resources are increasingly important. Transnational pollution is an international economic question in that unregulated pollution causes economic damages, and pollution abatement entails economic costs and benefits. But unlike the trade and investment dimensions of environmental regulations, the international mechanisms for control are either absent or in a rudimentary stage. Countries may submerge their parochial interests in local problem areas, and in some cases international mediation may play a role. But for other threats, voluntary agreements among states may not prove sufficient to protect the global interest, and fundamental changes in state behavior and the role of international organizations may be implied.

International environmental issues will not always present themselves as a neat and discrete package for Congressional consideration. Instead the international issues will often be aspects of diverse domestic legislation. Therefore Congress should not anticipate examining the international issues in isolation, but rather as a dimension of domestic legislation.

The preceding analysis suggests that the international aspects may arise in the following areas of legislative concern:

Trade impacts of environmental control costs;

Financing environmental control costs (compliance with the PPP);

Reviewing environmental standards to determine if they impair market access;

Policies toward the export of hazardous substances;

Regulating foreign activities of U.S. MNC's;

Conventions and treaties for management of international environmental resources; and

Support for international organizations in their environmental programs.

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II. THE INTERNATIONAL POLITICAL SYSTEM

OVERVIEW

(By William W. Whitson*)

International political and economic issues for the near term will reflect the international community's search for less costly and less violent procedures for resolving conflict, and for a stable world economy and for a more equitable distribution of the world's goods and services. In addition to these traditional goals, the community of states will be devoting increasing attention to environmental issues as leaders come to recognize that near-term postponement of decisions in that field must surely yield a long-term proliferation of problems in the other two fields.

For the 96th Congress and the Carter administration, the challenge of these foreign issues will be their growing impact on American employment, quality and style of life, and fundamental security. A growing interdependence between foreign and domestic issues is underscored in this collection of essays on priority international political and economic issues likely to confront the 96th Congress.

Just as these essays focus on key issues likely to demand congressional attention in 1979–80, so each essay outlines two crucial questions for debate among busy legislators:

(1) What distinctive policy perspectives are in contention among those responsible for defining and resolving the issue?

(2) What are the fundamentally conflicting premises about priority American values, goals, world-view, and world-role that support each of the foregoing policy perspectives?

Background

In the field of international political conflict resolution, three trends are discernible: The increasing diffusion of political power among new regional and national political entities, the increasing likelihood of military violence as a means of conflict resolution, and the diminishing utility of strategic weapons for influencing the outcome of major international political issues.

After the end of World War II, during a period of global confrontation with the USSR[1] the United States played a role in abetting the transfer of a measure of political power to a host of states, primarily to rising economic states but including more than eighty new national entities. As sovereign states proliferated after 1945, principally in the so-called Third and Fourth Worlds, programs initiated

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[1] For more detail, see chapter, "United States-Soviet Relations," p. 136.

or supported by American vision and resources had substantial impact on an international environment that gave these new states a fighting chance for economic and political survival.

From its position of near monopoly of power in the early postwar period, the United States so managed and deployed that power as to encourage three new phenomena in the international system: (*a*) The rise of major regional systems of cooperation and conflict resolution, either formalized in organizations such as the North Atlantic Treaty Organization [NATO][2] and the Association of South East Asian Nations [ASEAN],[3] or informally structured; (*b*) the growth of multilateral diplomatic institutions so numerous as to raise questions about their potential impact on actual American sovereignty in the management of American problems;[4] and (*c*) the spreading power of the multinational or transnational corporation.

All of these phenomena—the rise of new nation-states, the possibly countervailing development of new regional political and economic systems, the increasing prevalence of multilateral consultation, and the phenomenon of the transnational corporation—have reinforced the trend toward a global diffusion of political power.

That trend has been matched by a disturbing trend toward violence in the resolution of conflict. In part perhaps as a consequence of the first trend (diffusion of power) and the increasing reluctance of the superpowers to risk military confrontation with each other over local issues, antagonisms which were muted during the cold war have now reemerged to challenge the peacekeeping skills of major and minor powers in each regional system. The Greek-Turkish dispute over Cyprus exemplifies such ancient sources of bitter confrontation at the interstate level.[5] The next round of subnational disintegration and factional civil war may be more serious, particularly in Africa.[6] The rise of terrorism in the 1960's added another dimension to the growth industry of violence, on a par with global crime at least against the concept of state sovereignty and an international community of law.[7] A new generation of political leaders, owing no allegiance to the values of the pre-World War II international system and determined to obtain or protect their constituents' interpretation of human rights,[8] may be increasingly tempted to employ violence at all political levels against any state or state system which persistently frustrates their political, social, and economic aspirations.[9] Responding to this environment of frustration, a worldwide proliferation of conventional weapons has provided relatively cheap instruments for the violent removal of obstacles.[10] If post-World War II legal, political, and economic institutions prove incapable of quickly satisfying fundamental human needs, then the force of arms will continue to hold a special appeal.

While the past 25 years may lead to a proliferation of low-level, subnational, and intraregional violence, does this historical period

[2] See chapter, "NATO Modernization," p. 261.
[3] See chapter, "Southeast Asia; U.S. Policy Toward ASEAN," p. 471.
[4] See chapter, "International Institutions," p. 211.
[5] See chapter, "Security and Stability in the Eastern Mediterranean," p. 276.
[6] See chapters, "The Soviet and Cuban Role in Africa," p. 565; and "U.S. Policy Toward Southern Africa," p. 576.
[7] See chapter, "Terrorism," p. 225.
[8] See chapter, "U.S. Human Rights Policy," p. 192.
[9] See chapter, "U.S. Policy Toward Developing Countries," p. 70.
[10] See chapter, "Controlling Conventional Arms Proliferation," p. 162.

also reassure superpower policymakers about the utility of superweapons for deterring or overcoming such violence?[11] Regrettably, the answer would appear to be no. Superpower achievement of a balance of mutual terror, while possibly deterring a global nuclear war, may also have opened the door to many limited conventional wars in which advanced weapons may play no role and thus represent no power at all. In such a context, superpower military involvement—the tradition of the cold war era—may have to be replaced by more imaginative deployment of political and economic instruments of power or a philosophy of more selective superpower involvement in local issues. Leaders of major and minor powers alike will continue to assess the implications of nuclear and even conventional military power which could do nothing to avert the worldwide economic damage occasioned by the price hike resulting from the Arab oil embargo of 1973.

Given that damage, and the Third World assertiveness for a "new international economic order," policymakers may wonder if the wars of the final quarter of the 20th century might have primarily economic rather than ideological origins. Certainly trends in the international economy[12] do not encourage optimism over the probability of peaceful changes in the pattern of distribution of the world's goods and services.

America's Role: Two World Views

The significance of the foregoing trends is perceived quite differently by two broad world views, whose interpretations of historical data from 1945 to 1977 find little room for compromise. From uncompromising positions on first principles about the nature and uses of political and economic power, extremists among contending disputants derive profoundly different convictions about the proper role for American power and the most desirable outcome of critical issues.

At the risk of ascribing unintended perspectives to these two schools of thought by the use of political labels, one may be called international cooperative and the second, national interest. In their extreme form, the schools differ dramatically over key elements of emerging global and regional political-economic systems, over the broadest definition of American interests, and over the appropriate role for American power.

The International Cooperative School believes that American power since the end of World War II has deliberately contributed to the emergence of increasingly stable global and regional systems of diffused political power and increasingly integrated economic power. Those systems are perceived as a fundamentally healthy constraint on the misuse of power by super or major powers to resolve either local or global issues. The post-World War II transfer of power to many small and middle-sized states is believed to have enhanced chances for nonviolent resolution of conflict through the natural dynamics of the regional marketplace of power.

Believing in the principles of pluralism and competition, this school welcomes a perceived trend toward increased intraregional self-help, normally without benefit of superpower intervention in local political affairs. If the goal of U.S. power in the cold war, from their viewpoint,

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[11] See chapter, "Strategic Arms Limitation Talks (SALT)," p. 148.
[12] See "I. The International Economy Overview," p. 5.

was "superpower management," the goal of the new era would be "regionalism." Thus, for this school, the model of future conflict resolution is Zaire—1978, not Angola—1976. This school is inspired by an optimism that believes that local issues resolved by local interests, while often limiting or even rejecting American participation, will usually yield outcomes that accord with long-term American interests.

In a perceived context of diminishing superpower capability for directly influencing many local issues, this school welcomes an American role which buys time for the improvement of intraregional systems, institutions, and routines. In a similar manner, the American role in the cold war era bought time for the development of national institutions and routines among many new states. Advocates of regional balance-of-power systems argue that, if successful, such an American role would further reduce the need for direct American intervention in local affairs and would provide a deterrent against Soviet intervention. Furthermore, by transferring increasing responsibility for local conflict resolution to regional major powers, they feel that American power and influence could be applied more flexibly.

Indeed, flexibility and deliberate ambiguity are perceived as broad policy criteria for American support of the new regional self-sufficiency. Those criteria imply a broad American withdrawal from a strong leadership role in old alliances and obligations as regional systems provide evidence of reliability and stability.

Such a shift of American role from leadership to partnership, from direct to indirect American involvement, from control to greater permissiveness, accompanied by American political-military resources reallocation (as in Korea) or "rationalization" (as in Europe), must not occur abruptly, lest allies and adversaries alike misunderstand the process and feel abandoned. Instead, the international cooperative school in the American policy community would prefer both former allies and adversaries to assume greater responsibility as members of their respective regional systems.

From the viewpoint of this school, timing is a critical ingredient in the transition from the cold war system to the new era of regional balancing. Few issues are urgent because the focus of policy must be a process of greater responsibility among many local states—not a greater concentration of power among a few global states. To play a role in the 1980's as a balancer, on the margin of selected local, regional issues, the United States must escape from the position to which it had committed itself in the 1950's. For only then may American power be available for deployment to future emergency economic, political, and even military crises.

The National Interest School on the other hand, believes that American power since the end of World War II had been frittered away to the effect that American influence had reached dangerously limited levels by the late 1970's. The post-World War II erosion of American power benefited many states, including former as well as current adversaries. While that process might have provided certain benefits to the United States, on balance it deprived the United States of necessary credibility in the current international political power game. Furthermore, the process, by enhancing international organizational roles,[13]

[13] See chapter, "International Institutions," p. 211.

forced American policymakers into a mode of consultation and negotiation even on issues of great urgency and critical importance to the survival of American sovereignty.

Believing that "security" can be assured only through strength and an undoubted will to apply it, this school argues that continued diffusion of U.S. power can only work to the disadvantage of American long-term interests. Regionalism and gradualism in shifting to a so-called new era are thus perceived as formulas for disaster, a relinquishment of strength to incompetent or potentially hostile institutions, a program likely to destroy the gains not only of World War II but especially of the immediate postwar era, when American power stemmed the tide of Soviet Communist expansion.

From these philosophical premises, it is the moral obligation of the United States to reassert its leadership among allies and vigorously pursue a policy of reasonable confrontation with the Soviet Union when the U.S.S.R. makes a bid for advantage, politically, economically, or militarily which will result in a dramatic shift of power or credibility. This is a matter of the greatest urgency, since the Soviets have already surpassed the Americans in many fields of competitive endeavor. They see no balancing retreat in Soviet superpower goals, no dispersion of Soviet power, no Soviet consignment of vital conflict resolution to international bodies. They see no reasonable prospect that international organizations such as the United Nations can stop determined Soviet alliance thrusts.

The role of "balancer" is thus unacceptable to this school; that is not a leadership role appropriate to the only other superpower still engaged in a bilateral struggle, a "zero-sum" conflict in which neutrality must be fragile. For this school, the rational system which must emerge from the current transition period of "détent" is a continuing realistic confrontation with the U.S.S.R. differing from the cold war only in the membership of new coalitions and in the greater depth of economic struggle, until Communist expansionist goals and means are modified.

Just as the extreme forms of the International Cooperative School are characterized by fervent optimism, the extreme forms of the National Interest School are characterized by desperate pessimism. In less extreme forms, one school believes that competition and the marketplace of ideas and resources, necessarily requiring time and involving some waste, must yield the greatest benefits for the international community, including the United States. The other school sees such a time-consuming process as steadily erosive of Western interests and strength and sees the situation, globally and especially in key regions, as demanding of selective confrontation when national interests are threatened; concentration of power, inspired and led by American ideals; and an efficient, centralized planning of resource allocation. In sum, the management of a national interest policy is believed to promise greater security and stability for both the United States and the international community than would the diversity, ambiguity, confusion, and possible ineffectiveness of policies aiming at a world of international cooperation.

It is noteworthy that the Carter administration has reflected its unenviable status between these two paradigms of political power structure and process by trying to reconcile the extreme forms of the

International Cooperative and National Interest philosophies on many specific policy issues. If for no other reason, such a reconciliation is perceived as necessary in the name of domestic political unity. An example of reconciliation is in the field of arms sales. President Carter's initiatives in May 1977 to restrict American export of arms appeared to be guided by both sets of criteria.

One set draws on a National Interest point of view and the heritage of the cold war in the statement of policy. National Interest criteria accent the heritage and the fact of the global struggle with the Soviet Union by exempting from controls under the new arms sales policy those countries "with which we have major defense treaties—NATO, Japan, Australia, and New Zealand."

On the other hand, International Cooperative criteria were expressed by President Carter, less than a month after announcing a policy of restraint in arms sales, when he stated on June 10, 1977:

> My own inclination . . . is to aggressively challenge, in a peaceful way of course, the Soviet Union and others for influence in areas of the world that we feel are crucial to us now or potentially crucial 15 or 20 years from now.[14]

Thus, a different set of criteria, indicating a more ambitious American role, a more selective, regional view of the world, accenting peaceful techniques and power diffusion, found expression in the fact that, in the 4 months subsequent to the promulgation of the President's arms sales policy, the administration announced to Congress the sale of some $3.15 billion in arms to nonallied but friendly regional powers such as Thailand, Iran, Saudi Arabia, Jordan, Tunisia, Egypt, Pakistan, and Spain. Under one set of arms sales criteria, arms to Egypt would have been unthinkable, lest there be any doubt about American support for Israel. Under International Cooperative criteria, support to both Israel and Egypt could be rationalized.

Criteria for American Involvement

For the 96th Congress and the Carter administration, linkages between domestic and foreign affairs underscore the central policy question: "What should be the criteria for American involvement?" When, why, and how American power should be applied to foreign issues are old questions for which cold war answers will simply not suffice. During the 30 years after 1945, the threat of international communism often dictated American overseas deployment of political, financial and military power. In the early 1950's, American leaders were prepared for military confrontation with the Soviets, if necessary, and could seriously talk about "massive retaliation." In 1977, conflict avoidance between the superpowers had become a guiding principle for the emerging international political order.

In addition to that principle, four other criteria appear to be influencing American decisions about the degree of involvement in "critical issues":

(1) Could the issue result in a substantial increase in Soviet power, either in the region of interest or elsewhere?

(2) Could the issue result in a significant shift in the distribution of power within the region, whether or not Soviet power might be enhanced?

[14] Weekly Compilation of Presidential Documents, vol. 13, No. 25, June 20, 1977, p. 866.

(3) Could the issue result in an escalation of the crisis beyond the geographic boundaries of the region of interest? Could such a spread of consequences involve the first two principles?

(4) Could the issue have a significant impact on American values and goals? Will Americans feel moral outrage, economic damage or political insecurity if the American power is not applied to the issue?

The highly subjective and basically political process by which those questions are answered to define "national interest" must also involve an assessment of American capabilities. In that assessment, the increasing cost and the changing utility of weapons must encourage the 96th Congress to explore the cost-effectiveness of other instruments of power: Money; food; technology; diplomacy; and the policy apparatus itself. Finally, congressional attention will continue to focus on the intelligence-gathering process and the issue of more timely and accurate judgments about the above guiding principles applied to critical security policy issues.[15]

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[15] See chapters, "The Role of Congress," p. 599; "The Role of the Executive," p. 611; "Department of Defense Organization," p. 623; "Foreign Intelligence: Management and Organization Issues," p. 635; and "Reorganization of Foreign Economic Policy," p. 647.

UNITED STATES-SOVIET RELATIONS

(By William B. Inglee*)

Issue Definition

The emergence of the Soviet Union in the 1950's as a superpower of the first order significantly changed the direction and scope of postwar U.S. foreign policy. The United States was viewed by its allies, most of whom were recovering from the destruction of the Second World War, as the leader of the democratic, free market nations of the world. As a result, international relations through the late 1960's remained largely bipolar in nature. The United States represented the interests of the industrialized Western nations while the Soviet Union dominated the centrally planned communist regimes of Eastern Europe. Although the United States included its allies in this power relationship, it nevertheless was forced increasingly to shoulder final responbility alone. Therefore, by the late 1960's and early 1970's, U.S.-Soviet summitry dominated relations between East and West.

Today, U.S.-Soviet relations are being affected by profound changes in the international order, changes which may alter this relationship dramatically in the near future. The North-South dialogue, the emergence of individual Third World nations as forces to be reckoned with, the coalescence of commodity groupings such as OPEC, are just a few developments which have altered in a very important way the interplay of the great powers. However, despite these developments and the changes in the global system which they portend, the relationship between the United States and the Soviet Union remains of critical importance in world affairs.

At the core of the U.S. relationship with the Soviet Union is the strategic nuclear rivalry. In 1979, it appears clear that military and arms control issues, in particular SALT II, will dominate this relationship.[1] At the same time, economic relations will remain important.[2] One potentially explosive issue is Soviet involvement in the Third World and the effects of this involvement on U.S.-Soviet relations.[3]

The delicate equilbrium which exists between the Soviet Union and the United States on the nuclear level results in this relationship's being fraught with the potential for disaster. Because of this, the American people view this relationship with special interest. Whereas few issues in foreign affairs are of ongoing interest to the average American, U.S.-Soviet relations are at the forefront of public concern. For example, recent charges that the "military balance," both in strategic and conventional terms, is beginning to tilt in favor of the

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[1] See chapter, "Strategic Arms Limitation Talks (SALT)," p. 148.

[2] See chapter, "East-West Commercial Relations," p. 285.

[3] See chapter, "The Soviet and Cuban Role in Africa," p. 565.

Soviet Union have evoked a strong emotional reaction from most Americans. This clearly has had an important impact on U.S. foreign policy decisionmakers.

U.S.-Soviet relations are further complicated by the fact that they contain so many issues which are interrelated or intertwined with other issues outside of the immediate sphere of this relationship. For example, decisions to deny technology to the Soviet Union for national security reasons can have a major repercussion on U.S.-Soviet trade and, therefore, the U.S. balance of payments.[4] Likewise, human rights issues have resulted in trade restrictions which have had a direct impact on the level of trade with the Soviet Union. Finally, decisions regarding SALT or the defense budget will have domestic economic implications. The recent debate at the midterm Democratic Convention between Carter supporters and the more liberal wing of the Democratic party perhaps best illustrates this fact. During the course of this meeting, President Carter's proposal to cut budgetary outlays in the area of social programs while at the same time increasing defense spending was vehemently attacked by liberal Democrats who wish to cut defense spending and increase social expenditures.

In general, relations with the Soviet Union color the thinking of U.S. leaders on many other issues, whether they be domestic or foreign. Because both high-level Government officials and the average American give special attention to this issue, seemingly unrelated international or domestic developments are frequently viewed in light of this relationship.

For Congress, this vast array of questions surrounding U.S.-Soviet relations will continue to be one of the dominant foreign policy concerns over the next 2 years.

Background

In most respects, U.S.-Soviet relations represent a great power rivalry in the classic sense, two large powerful nations taking the measure of one another. This competition has its roots in the fundamental ideological differences which exist between our two respective systems but also extends to the economic, military, and general foreign policy spheres as well.

While the basic characteristics of this rivalry have remained largely unchanged over the decades, the role of both nations vis-a-vis one another appears to have changed significantly in recent years. Recent Soviet actions throughout the globe offer tangible evidence that the Soviet leadership is assuming a more active and some would say aggresive posture in world affairs. The extent of Soviet involvement in the underdeveloped world, particularly in areas well beyond its own borders, certainly represents a major deviation from past Soviet policy.[5] At the same time that Soviet activity is growing, the U.S. role in world affairs seems to be at a watershed. Presently, U.S. leaders seem engaged in a course of power maintenance which would allow more power sharing with our allies. Some observers have even argued that the U.S. is, in fact, relinquishing in part its position as a major actor

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[4] See chapter. "International Transfer of Technology," p. 61.

[5] For a detailed discussion of Soviet involvement in the Third World see, U.S. Congress. House. Committee on International Relations. The Soviet Union and the Third World: A Watershed in Great Power Policy? by Joseph G. Whelan and William B. Inglee. (Committee print). 95th Cong., 1st sess., May 8, 1977. Washington, U.S. Government Printing Office, 1977. 186 p.

in international relations, replacing it instead with a modified, less activist role. This, they argue, has led to numerous power vacuums throughout the globe, voids which the Soviet Union has attempted to fill.

The Soviet leadership, having achieved significant growth of Soviet military, political, and economic might and possesing a new awareness of the Soviet State's growing power, has embarked on a more activist role in world affairs. It appears that Soviet leaders now feel that the Soviet Union has attained a position which dictates that it be a participant in determining the final outcome of every crisis or major development in the international community.[6] The stepped-up activity of the Soviet Union in the Third World—its increased arms sales to the less developed nations, its expanded economic assistance program, and the growing presence of Soviet and Cuban advisers in the Third World—seems to substantiate this changing self-perception. This change has in large part been made possible by the expanding military power of the Soviet State which has given the Soviet leadership the power to act aggressively and deliberately. For example, the growth of the Soviet Navy has now given the Soviet Union an effective arm in influencing events far from its shores. Soviet-Cuban cooperation has also proved a convenient and effective partnership in exercising power in the Third World. And finally, the Soviet Union has also taken advantage of its increased economic strength to increase its contacts with the industrialized nations of the West and the developing economies of the Third World. In so doing, the Soviet leadership has largely abandoned its autarkic policies of the past and instead has entered into the world economic system as an active participant. U.S. trade with the Soviet Union offers a prime example of this change.

Just as the Soviet role in world affairs has been going through a period of change in the past two decades, so too has that of the United States. The United States has expressed increased interest in power sharing. The burden of responsibility in overall world affairs, long the unique prerogative of the United States, has taken its toll. The Vietnam experience has in particular blunted the willingness of the United States to become actively and directly involved in disputes in the lesser developed countries. Today, protecting global markets, insuring sealanes and serving as a protective umbrella for our friends and allies and serving as a protective umbrella for our friends and allies abroad constitute a serious burden, not only for U.S. military capabilities, but also for the U.S. economy as a whole. These developments have contributed to the present reassessment of the U.S. role in world affairs and the growing desire on the part of American leaders to share world responsibilities with major allies.[7]

Issue Components

The U.S.-Soviet relations include a number of different issues and subissues: Military, economic, and political. Although the mili-

[6] In his speech to the 25th CPSU Congress in February 1976, Soviet leader Leonid Brezhnev stated: "Comrades, the activity of our party in the international arena is extraordinarily widespread and varied. There is probably no spot on Earth where the state of affairs has not been taken into account in one way or another in the formulation of our foreign policy."

[7] See "II. The International Political System, Overview," p. 129.

tary area is the most important, crises in the other issues areas can suddenly command high level attention both in the Soviet Union and in the United States. In the past, professional diplomats were the chief actors in this relationship. Today, scientists, businessmen, military strategists, and politicians are all active participants in this complex realtionship.

Relations on the Political Level

Today, most observers agree that the word détente is no longer an accurate description of the state of U.S.-Soviet relations. In its place one finds a more pragmatic, realistic view of our relationship with the Soviet Union. The euphoria which characterized American reactions to détente in the early seventies has now given way to a realization that our relationship remains essentially competitive, and in some areas, even adversarial. But while the tone of this relationship has become less euphoric, it has also become more businesslike. Cooperation exists on many levels, and numerous scientific, technical, and cultural exchanges insure that this cooperation is likely to continue, at least in the near future.

Military Issues

The present SALT II negotiations represent perhaps the most important individual area of U.S. relations with the U.S.S.R. Some observers argue that failure to reach an agreement will force both nations to escalate their nuclear arms program; others, that a new agreement will undermine U.S. national security. Whichever is correct, if in fact either is, the success or failure of these negotiations will have a major impact on the future direction of United States-Soviet relations.

In the past, SALT represented a state of mind as well as a limit on strategic arms. Beyond its military implications, the agreement was valuable in terms of the attitude it created. SALT I established a sense of shared perceptions, a feeling among Americans that the leaders of both nations shared a strong desire to ease tensions and avoid nuclear war. Ongoing negotiations serve to foster this feeling. Yet, SALT II is different in that the proposed agreement will require reductions in the number of strategic weapon delivery systems, and will move into qualitative limitations which will be much more difficult to verify. Because of this, and because many Americans will be unwilling to accept an agreement which they feel compromises U.S. national security, this treaty will be even more carefully scrutinized than SALT I. Therefore the final terms of any new agreement will have to represent a compromise which serves to limit the growth of both Soviet and United States strategic nuclear weapons arsenals without tipping the strategic balances in favor of the Soviet Union, as well as an agreement in which the Congress and public can perceive these factors.

A new SALT agreement could be signed during the first half of 1979. The requirement that any new treatv receive ratification by two-third's of the Senate insures that it will be intensely debated on the floor of the Senate during the 96th Congress.

Another issue certain to arise in 1979 and one which will be affected at least in part by the success or failure of a new SALT agreement is the Department of Defense budget appropriations for fiscal year 1980. U.S. strategy, and consequently defense budget procurements, will in part be predicated upon the outcome of SALT II. A new SALT agreement, or the lack thereof, will unquestionably influence our strategy vis-a-vis the Soviet Union and therefore the makeup and size of the fiscal year 1980 defense budget. Past decisions concerning the B–1 bomber and an additional nuclear aircraft carrier were tied directly to U.S. strategic options. Expected debate over similar weapons systems during the 96th Congress will also be influenced by these events, with the fate of SALT perhaps serving as a major point of reference. Failure to sign a new SALT agreement may serve as a signal to go ahead with major new strategic weapons programs or speed up construction of those already in progress. And in the long run it might prompt reconsideration of canceled programs such as the B–1 bomber.

The mutual balanced force reduction (MBFR) negotiations currently being held in Vienna will also have an effect on the 1980 defense budget. As in the case of SALT II, agreement or lack of agreement at these talks can affect the configuration of U.S. defense budget outlays and weapons deployment. The continued inability of negotiators at these talks to reach agreement will have an opposite effect on the direction of conventional weapons procurement and technical deployment.

Growing concern over the proliferation of weapons in the developing countries is still another area which evokes strong concern among U.S. policymakers and affects relations with the Soviet Union.[8] Arms transfers by the world's major military powers to the underdeveloped world contributes to regional tension and instability, and has led to the birth of regional military powers, thus increasing the potential for the spill-over of regional conflicts into the international arena. In addition, the growth of regional military capabilities also inhibits our own ability to act in these areas. Since March 1977, Soviet and U.S. negotiators have met repeatedly in an attempt to control conventional arms transfers, without success to date.

Economic Relations

U.S.-Soviet trade has grown considerably in recent years as a result of the general relaxation of tensions begun in the early seventies. However, this trade soon became highly politicized and restrictions imposed by the United States have greatly inhibited its growth. To many people, trade between the U.S. and the U.S.S.R. entails much more than just economic relations. The political/military implications of this trade have a major impact on the development of our economic relationship with the nations of the Soviet and East European bloc. The politicization of U.S.-Soviet trade, in particular the linkage of human rights issues to the relaxation of trade restrictions, has unquestionably inhibited its growth.

Another constraint on the overall growth of this trade is the United States continued adherence to strict export controls. The 95th Congress passed major legislation in the area of export controls when it amended and extended the Export Administration Act of 1969.[9] The

[8] See chapter, "Comptrolling Conventional Arms Proliferation," p. 162.

[9] Public Law 95–52, Export Administration Act Amendments of 1977, signed into law by President Carter on June 22, 1977.

revamped export control process adopted by the 95th Congress, while still stringent, attempted to streamline the administration of export controls. Many complaints had come from business circles, stating that the old procedure was so inefficient that many potential deals were ultimately killed by the inordinate length of time required by the evaluation process.

Yet, even with this new legislation, interest in the technology transfer issue will remain high in 1979.[10] For example, some Members of Congress have already indicated that they intend to introduce legislation in the 96th Congress which would create a more stringent review process and introduce a significant congressional role. The Carter administration has already indicated that it wishes to take a closer look at this issue and accordingly it has carefully reviewed U.S. policy regarding computer and energy exploitation technology sales to the Soviet Union.[11]

At the present time, there appears to be some movement afoot in Congress or in the Carter administration to remove the Jackson-Vanik language from the Foreign Trade Act of 1974.[12] This measure places restriction on the availability of U.S. loans to finance Soviet-American trade. Enacted in an attempt to exert pressure on the U.S.S.R. to change its emigration policies, most observers agree it has met with limited success. The Soviet leadership denounces this measure as discriminatory, and American businessmen are quick to point out the substantial impediment it presents to the growth of Soviet-American trade.

Competition in the Third World

Developments in the Third World, particularly where superpower interests overlap, are the greatest potential source of tension between the United States and the Soviet Union. American public and governmental concern over developments in these potential areas of conflict increases directly in proportion to the threat they pose to our national security interests, as was indicated by the intense concern generated by reports in 1978 of Soviet aircraft in Cuba capable of delivering nuclear weapons to the U.S. mainland. While the outcome of this sequence of events fortunately proved anticlimactic, it did demonstrate once again the tenuous nature of U.S.-Soviet relations.

Although the Vietnam experience took an incredible toll on America's willingness to act or intervene in areas beyond its agreed areas of interest, it did not blind Americans to the fact that events beyond their borders invariably affect the United States. Rather, before making the decision to act or not to act, the U.S. leadership now makes a much more careful assessment of the liabilities of involvement in a potentially volatile situation. The Soviet leadership appears to be attempting to take advantage of this caution. Recent Soviet involvement in Angola and Ethiopia was unprecedented because of its size, impact, and distance from the Soviet State. If this type of active involvement in

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[10] See chapter, "International Transfer of Technology," p. 61.

[11] Simth, J. P., Business Irked by Curbs on Oil Technology Sales to Soviets, Washington Post, Nov. 20, 1978 : A29.

[12] It should be noted that Representative Charles Vanik, one of the original authors of the amendment and chairman of the House Trade Subcommittee, stated recently he was encouraged by the increase in Soviet emigration and that a waiver which would allow the Soviet Union Most-Favored-Nation status might be a possibility in the upcoming Congress. Leonard Surry, Vanik Sees Favored Nation Status Possible Soon for U.S.S.R. and China, the Washington Star, Jan. 16, 1979 : C5.

Third World affairs proves to be a new trend in Soviet foreign policy, U.S. foreign policy decisionmakers may be forced to rethink their response to these actions.

The Role of the United States

There exists today a well-established working relationship between the Soviet Union and the United States. In many instances, such as the UN and other international organizations, the mechanisms for resolving differences and managing crises have become institutionalized. If a formal organization does not exist on the multilateral level, then the two nations have arranged for the resolution of issues bilaterally, such as SALT and MBFR. And for dealing with unanticipated crises, the two nations have shown no hesitancy to call for immediate consultation at the highest level. Hot lines connect the Kremlin and the White House and the leaders of both nations can now speak personally in times of crisis. The mere existence of these diverse mechanisms for conflict resolution helps foster a greater sense of security than existed in the earlier, more unstable years of U.S.-Soviet relations.

But while the Soviet Union and the United States are still the principal actors in world affairs, their relative power and influence has been greatly circumscribed by the emergence of new power centers around the world. Bilateral solutions to problems in East-West relations are becoming more and more the exception. The loose coalition of underdeveloped nations in the OPEC oil cartel and revitalized West Germany and Japan are just a few of the new and powerful participants in international relations. Cooperation, consultation, compromise and sometimes conflict, these are the watchwords in this new constellation of power.

Of course, in the short term, resolution of some of the issues in international relations will certainly remain the sole preserve of the Soviet Union and the United States. But will SALT always be a bilateral negotiation? This seems unlikely. Nuclear proliferation is already a grave concern of both Soviet and American leaders, promoting the view that it is imperative that both nations continue to work together, with other nations, and through multilateral institutions, to resolve their differences.

The shifting balance of power in world affairs can also be seen in the area of conventional weaponry. The military balance is generally viewed in terms of the equilibrium between Soviet and American military might. But as already noted, the conventional capabilities of many Third World nations have grown dramatically in just the past decade. Many Third World nations now possess arsenals clearly disproportionate, in traditional terms, to their economic base. While still unable to challenge the United States and the U.S.S.R. many of these nations are regional powers in their own right. As a result, the latitude of Soviet and U.S. actions has clearly diminished in the past decade.

In economic terms, change is also obvious and seemingly equally inevitable. Interdependence is now a reality. The United States, although still an unmatched economic power, is no longer immune to the ill-effects of economic policies propagated by other nations.

The political scene has changed in much the same way. Today more than ever before, agreements reached by U.S. leaders, including the President, with their Soviet counterparts are dependent upon both internal and external support for their successful implementation. Domestically, Congress is now an active and by no means subservient participant in the formulation of U.S. foreign policy. Externally, the administration now consults frequently with our allies on policy questions before reaching a decision. More and more, the success of Presidential action is predicated upon the cooperation and support of friends in the international community and the U.S. Congress.

The Role of Congress

The role played by Congress in the U.S. foreign policy process has increased substantially in recent years. In no other foreign policy area is this better illustrated than United States-Soviet relations. During the 95th Congress, congressional actions had a direct effect on the outcome and direction of Soviet-American trade, the military balance, and U.S. policy in the Third World.

With the likelihood that the 96th Congress will be addressing many of these same issues, as well as new ones such as SALT II, this trend will probably continue. Once again, actions by Congress will have a major impact on the U.S. relations with the Soviet Union. Congressional decisions affecting United States-Soviet relations will in most instances be preceded by intense debate reflective of the deep concern of Congress and the American people for this relationship. No doubt, consideration of these questions will create divisions both within the Congress and between Congress and the administration.

There are a number of new variables which will help shape the actions taken by the 96th Congress, not the least important of which are the 77 new Members of the House of Representatives and the 20 new Members of the Senate, many of whom are felt to be more conservative than their predecessors.

The importance of this development is obvious. Even before the 1978 elections, many knowledgeable political observers felt that a vote on ratification of a new SALT Treaty would be very close. Therefore, if there has been even a slight change in the temperament of the new Senate over its predecessor, this might serve to undermine the slight margin the Carter administration felt it could muster during the 95th Congress.

In recent years Congress has also become more demanding of the executive branch. Relevant executive agencies are being called upon increasingly to supply both individual Members of Congress and committees with detailed information on a multitude of different issues falling within the realm of Soviet-American relations. Often legislation in this area contains annual or periodic reporting requirements of the administering agency. This has resulted in greater cooperation between the two branches. For despite the fact that congressional and administration views often differ significantly, there has emerged an understanding between the two branches that they must work together if the United States is to have a coordinated and effective policy toward the Soviet Union. Because of this, the 96th Congress can expect to be consulted more frequently by the Carter administration when issues in United States-Soviet relations are being considered. Hopefully, this will insure a consistency of action, and more importantly, avoid the two branches working at cross purposes.

From the Soviet perspective, Moscow has not forgotten the effect that Congress can have on treaties reached through summitry. The continued application of the Jackson-Vanik amendment to the Trade Act of 1974 serves as a concrete reminder of Congress integral role in the formulation and implementation of U.S. policy toward the Soviet Union. This amendment has proved so distasteful to the Soviet leadership that they have refused to implement the 1972 United States-Soviet Trade agreement. Furthermore, it has had a major, some would say sobering, impact on Soviet views of the role of Congress in the U.S. foreign policy process. Prior to the 1970's, the Soviet leadership largely ignored Congress. Moscow was content to pursue its foreign policy goals vis-a-vis the United States through summitry. However, congressional actions in the 1970's, particularly the Jackson-Vanik amendment, proved a rude awakening.

Today, Soviet academic institutes study every aspect of Congress role in foreign policy; Soviet diplomats openly court Congress; and Soviet leaders regularly meet with individual Members of Congress or congressional delegations. Such exchanges are very valuable for both Soviet and American participants. They offer an opportunity for a first hand exchange of views and serve to impress upon the Soviet participants the complexity of the U.S. foreign policy process. Soviet interest in Congress is on the upswing and will certainly continue into the 96th Congress.

This increased interest can be predicted with such certainty because of the large number of issues relevant to Soviet-American relations which are expected to be on the agenda of the 96th Congress. With the ratification of the SALT II agreement expected to be at the forefront of this list, the 96th Congress will be spending a considerable portion of its time studying legislative issues affecting this relationship.

Military Issues

Soviet and American negotiators have now concluded agreement on SALT II and President Carter is expected to deliver the final draft to the Senate in mid-June. Although the Senate alone is responsible for ratification, because of SALT's importance the House of Representatives will also spend a significant amount of time debating the relative merits of the new agreement.

As noted earlier, the fate of SALT can be expected to have a significant effect on congressional consideration of the Defense Department budget. A subissue in the Department of Defense budget debate will be President Carter's anticipated funding request for the upgrading of the U.S. civil defense program. Congressional debate on this issue will center around Soviet military/political intentions and the Soviet Union's own massive civil defense program.

Another secondary issue which will be dealt with by the 96th Congress in U.S. arms transfer policy. The steady increase in Soviet arms sales and involvement in the Third World may force Congress to review the administration's attempts to limit U.S. arms sales abroad. The rapid growth of the Soviet military assistance program in recent years, coupled with Soviet and Cuban involvement in Africa, has proved very disturbing to many Members of Congress. Some Senators have suggested that their vote on a new SALT II agreement will be predicated on their assessment of Soviet intentions in the Third World.[13] The 96th Congress may see fit to reassess U.S. arms sales policy in light of these developments.

United States-Soviet Trade

During 1978, both Congress and the Carter administration gave careful consideration to the issue of export controls and technology transfer to the Soviet Union. The result was a more restrictive application of these controls by the administration in specialized areas such as oil and computer technology. The 95th Congress passed legislation meant to streamline the current export control system so as to eliminate what were felt by the American business community to be needless bureaucratic inefficiencies. The 1977 Export Administration Act Amendments were viewed by many observers as a step toward improving the administration of the control process. Because the authorizing legislation for the U.S. export control system is due to terminate in September of 1979, the 96th Congress will begin focusing on this issue shortly after convening. The debate on this issue will once again center on national security considerations vis-a-vis the economic value of Soviet-American trade to the overall balance of trade.

To date there has been no formal announcement by administration officials or congressional leaders that there will be an effort to remove restrictions on Soviet-American trade such as the Jackson-Vanik amendment to the Trade Act of 1974, linking credits and MFN to Soviet emigration policy. But the increase of Soviet Jewish emigration to 30,000 in 1978 and U.S. normalization with China might provide the impetus for reevaluation. However, the core issue which gave birth to this legislative prohibition, namely the linkage of human rights issues to the growth of Soviet-American trade, will probably remain intact. The 95th Congress argued that the amendments were justified and could easily be avoided if the Soviet Union saw fit to comply with the human rights prerequisites embodied in them.

Congress must also view Soviet-American trade in light of its contribution to the United States overall balance of trade. If the U.S. balance of payments continues to deteriorate, the pressure upon Congress to remove restictions on this potentially profitable foreign trade sector will undoubtedly increase.

Political Issues: Concern for Human Rights

As Soviet-American relations cooled in 1978, the Carter administration began what has been interpreted as an unofficial but clearly noticeable deemphasis of its human rights policy toward the Soviet Union.[14] Many observers felt that President Carter's initial espousal of this policy contributed significantly to this downturn and that continued emphasis on his policy would result in further deterioration. However,

[13] Taken from discussions between Soviet and American delegates at the Soviet-American Parliamentarian Conference held in Washington in January of 1978 at which the author was present.

[14] See chapter, "U.S. Human Rights Policy," p. 192.

many Members of Congress, whose support for this principle predated that of the Carter administration, continued to support this principle unwaveringly during 1978.

The 96th Congress can expect to be asked to intervene on the behalf of individual Soviet citizens who are being persecuted by the Soviet state, to encourage the Soviet Union to adhere to international promises to guarantee the human rights of its citizenry, and to monitor such compliance either individually or through specially created commissions such as the CSCE Commission (Commission on Security and Cooperation in Europe).[15] When the Conference on Security and Cooperation in Europe review meeting is convened in Madrid in 1980, Members of Congress are expected to be official delegates. This will require individual preparation on the part of the members serving on the Commission and the continued involvement of Congress in the CSCE process.

Soviet Activity in the Third World

In 1977 and 1978, many Members of Congress exhibited a growing concern for Soviet activity in the Third World. The partnership of Soviet logistic support and Cuban manpower proved particularly disturbing. But despite this concern, because of congressional restrictions U.S. reaction to Soviet involvement in Angola and the Horn of Africa was generally limited to diplomatic protests. Obviously still feeling the effects of the Vietnam conflict, both Congress and the Executive have been hesitant to commit the U.S. militarily to foreign conflicts. However, during the second session of the 95th Congress there were indications that this attitude was changing. Some Members of Congress, while still unwilling to sanction material involvement, made it clear that continued belligerent actions by the Soviet Union in Africa would influence their decisions on other areas of Soviet-American relations such as SALT II and Soviet-American trade.

Soviet activity in the Third World will remain a volatile one in 1979 insofar as it is on the upswing. Africa, particularly southern Africa, appears to be the focus of this attention. The result may be a crisis situation in which U.S. assistance will be requested. In such an event the Administration and Congress will be forced once again to decide what is an acceptable level of U.S. involvement in the Third World.

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STRATEGIC ARMS LIMITATION TALKS (SALT)

(By Robert G. Bell*)

Issue Definition

There are two principal issues related to the on-going negotiations between the United States and the Soviet Union for a new strategic arms limitation agreement (SALT II) that will command the attention of the 96th Congress. First, in light of the failure of the two parties to conclude the negotiations in late 1978 and schedule a Carter/Brezhnev SALT II summit for January 1979, the 96th Congress will continue the effort by previous Congresses to influence the outcome of the negotiations themselves. This point encompasses both procedural and substantive aspects of SALT II, including the question of whether the timing of completing the agreement should be linked to the overall state of U.S./Soviet relations.

Since the administration has characterized SALT II as all but complete, the range of technical issues upon which the 96th Congress can attempt to bring its influence to bear will most likely be rather narrow. Nonetheless, because the most intractable issues are normally the last to be resolved by negotiations, the salience of congressional participation in the attempted resolution of these final SALT II disputes remains significant. In addition, as long as the agreement is not final, the 96th Congress can be expected to attempt strongly to influence executive branch decisionmaking on the question of the form in which the SALT II agreement(s) should be submitted, that is, treaty or executive agreement.

Second, assuming that a SALT II agreement is initialed by President Carter in 1979 and submitted for Senate ratification or affirmative legislative action by the House and the Senate, the 96th Congress will be called upon to vote on the proposed agreement itself. Thus, after more than 6 years of participation in the SALT II formulation process, Congress at the beginning of 1979 will be poised to begin a great debate on whether to accept, modify, or reject the product of the long SALT II negotiation.

Background

In a speech on the eve of the formal opening of SALT in November 1969, then-Secretary of State William P. Rogers declared that the United States was entering the talks with three objectives:[1]

To enhance international security by maintaining a stable U.S.-Soviet strategic relationship through limitations of the deployment of strategic armaments;

To halt the upward spiral of strategic arms and avoid the tensions, uncertainties, and costs of an unrestrained continuation of the strategic arms race;

To reduce the risk of an outbreak of nuclear war through a dialog about issues arising from the strategic situation.

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[1] Strategic Arms Limitation Talks: An Address by Secretary of State William P. Rogers before Diplomatic and Consular Offices Retired at the Department of State Wash., D.C. November 13, 1969. DOS Pub. 8504, General Foreign Policy Series 240, released December 1969, p. 7–8.

The Secretary characterized the U.S. approach to SALT as one of "great caution," stressing that "Talks need not necessarily call for an explicit agreement at any particular stage."[2] Secretary Rogers acknowledged public cynicism concerning the prospects for serious arms control results from the negotiations but nevertheless maintained that some basis for hope existed. In his estimation, SALT would succeed even were it to record no other accomplishment than "better understanding on both sides of the rationales behind strategic weapons decisions."[3]

Despite this tentative beginning, SALT produced two agreements within 2½ years of its initiation.[4] The ABM treaty, initialed on May 26, 1972, and entered into force on October 3, 1972, prohibited either party from deploying a nationwide ABM defense or a base for such a defense.[5] It permitted each side to deploy a limited ABM defense of two areas—the national capital of each country and one area containing ICBMs.[6] In each ABM defense area, each side was permitted up to 100 ABM launchers and interceptors and a limited radar base for these interceptors. The treaty is of unlimited duration.

Under the companion SALT I Interim Agreement, initialed May 26, 1972, and entered into force October 3, 1972, each side was permitted to keep any fixed land-based ICBM launchers and any SLBM launchers then operational or under construction. No new fixed land-based ICBM launchers could be built; however, each side was granted the option of substituting a certain number of new SLBM launchers for older ICBM launchers. The Soviets were permitted to complete the 308 modern large ballistic missile launchers then operational or under construction, but no more. Some restrictions on ICBM modernization—substitution of newer systems for older systems—were specified; however, the United States failed to attain the degree of explicitness on this point that it had originally sought. The duration of the interim agreement was 5 years. The interim agreement did not limit heavy bombers in any regard.[7] Both agreements provided for verification by national technical means.

Because the freeze on new construction of ballistic missile launchers imposed by the interim agreement effectively granted the Soviet Union a 2,350/1,710 numerical advantage in ICBM's and SLBM's (an asymmetry offset to a degree by the United States lead in heavy bombers), Congress, in authorizing the President to approve the agreement, urged that the President "seek a future treaty that, inter alia, would not limit the United States to levels of intercontinental strategic forces inferior to the limits provided for the Soviet Union."[8] This congres-

[2] Ibid., p. 7.
[3] Ibid.
[4] For a comprehensive account of the SALT I negotiations, see John Newhouse. Cold Dawn: The Story of SALT. New York: Holt, Rinehart and Winston, 1973, p. 302.
[5] Treaty Between the United States of America and the Union of the Soviet Socialist Republics on the Limitation of Anti-Ballistic Missile Systems. U.S. Arms Control and Disarmament Agency. Documents on Disarmament, 1972. Washington, U.S. Government Printing Office, 1974, pp. 197–201.
[6] A 1974 protocol to the treaty further limited each party to an ABM defense of only one of the two areas specified in the treaty. Protocol to the Treaty Between the United States of America and the Union of Soviet Socialists Republics on the Limitation of Anti-Ballistic Missile Systems. July 3, 1974. U.S. Arms Control and Disarmament Agency. Documents on Disarmament, 1974. Washington, U.S. Government Printing Office, 1976. pp. 229–31.
[7] Interim Agreement Between the United States of America and the Union of Soviet Socialist Republics on Certain Measures with Respect to the Limitation of Strategic Offensive Arms. U.S. Arms Control and Disarmament Agency. Documents on Disarmament, 1972, op. cit., pp. 202–204.
[8] Public Law 92–448; 86 Stat. 746 (H.J. Res. 1227), Sec. 3, Sept. 30, 1972.

sional mandate for a SALT II agreement that would meet the test of parity or strategic equality, then, set the framework for U.S. objectives in the SALT II negotiations. In addition, in a unilateral declaration issued by the U.S. SALT I delegation on May 9, 1972, the United States declared that "an objective of the follow-on negotiations should be to constrain and reduce on a long-term basis threats to the survivability" of each side's strategic retaliatory forces.[9]

The SALT II negotiations began in late 1972. At a November 1974 meeting between President Ford and Soviet President Brezhnev in Vladivostok, the two sides agreed that SALT II would be based upon the principle of equal overall ceilings—equal ceilings for total strategic nuclear delivery vehicles (2,400) and the total number of delivery vehicles armed with multiple independently targetable re-entry vehicles, or MIRV's (1,320). Soon after Vladivostok, however, it became apparent that very marked differences still existed on two key issues, the question of whether the Soviet Backfire bomber should be categorized as a heavy bomber (and thus be subject to the SALT II aggregate ceilings) and the status of cruise missiles under the proposed accord. In one form or another, disagreements on these two issues still remain today.

In the months prior to his inauguration, President-elect Carter spoke on several occasions of a two-step approach toward the SALT negotiations. First, the United States would quickly conclude an agreement with the Soviet Union on the basis of the November 1974 negotiating accord signed at Vladivostok; that is, a "freeze on present circumstances" within which the Soviet Backfire bomber and the U.S. cruise missile would be "an integral part." [10] Following the first-step freeze, Mr. Carter proposed successive rounds of negotiations aimed at achieving substantial reduction in the levels of strategic offensive weapons possessed by each side.

In a major foreign policy address directed toward the new American President, Soviet Secretary Brezhnev in January 1977 repeated his support of the step-by-step approach to SALT reductions and cautioned against any proposal from the new administration that digressed from the Vladivostok formula. Mr. Brezhnev stated that the first task was to "consolidate what has already been achieved and to implement the accord reached in Vladivostok" and warned, "By adding new questions to those already being discussed, we will only further complicate and delay the solution of the task in general." [11]

After 1 month in office, President Carter amended his position on SALT II in one significant respect. While reiterating his willingness to conclude an agreement quickly on the basis of Vladivostok, the President now proposed to "omit the Backfire bomber and the cruise missile from the negotiations at this stage." [12] The President also provided a clue that a radically different U.S. SALT II proposal could be in the making when he suggested that the United States might halt its development of the mobile M–X ICBM if the Soviets would cease de-

[9] Agreed Interpretations and Unilateral Statements Relating to the ABM Treaty and the Interim Agreement. Department of State Bulletin, Vol. LXVII, No. 1723, July 3, 1972, pp. 11–14.

[10] Transcript of President-elect Carter's Nov. 15, 1976 news conference, printed in the New York Times, Nov. 16, 1976, p. A33.

[11] Speech quoted in the Washington Post, Jan. 19, 1977, p. A13.

[12] Transcript of President Carter's Feb. 8, 1977 news conference, printed in the New York Times, Feb. 9, 1977, p. 16.

ploying their mobile SS-20 missile. In March 1977, the President confirmed publicly that the Soviet Union had not lessened its opposition to the idea of deferring consideration of the Backfire and cruise missile.[13]

President Carter's March 17, 1977 foreign policy address to the United Nations also hinted at a new U.S. SALT II offer. While the President reiterated his proposal to defer consideration of the Backfire and cruise missile and conclude an agreement on the basis of Vladivostok, he stated that his "preference would be for strict controls or even a freeze on new generations of weaponry, with a deep reduction in the strategic arms of both sides." [14] That the President's preference had in fact become the basis for a significantly revised U.S. SALT II proposal was revealed 1 week later. On the eve of Secretary of State Vance's departure for a SALT negotiating session in Moscow, the President announced that the U.S. "first proposal" would include "substantial reductions" in existing strategic inventories.[15]

Although President Carter advised that the U.S. "fallback position" would be the previously tendered offer to conclude SALT II on the basis of Vladivostok with Backfire and the cruise missile deferred, he took the unusual step of disparaging this option in advance. The President characterized the Vladivostok ceilings as "so high that they were, in effect, just ground rules for intensified competition and a continued massive arms growth in nuclear arms." [16] By his sharp criticism of Vladivostok, the President sought to strengthen his proposal to bypass a first step freeze and move directly to actual inventory reductions—an objective previously slated for consideration under SALT III.

On March 30, 1977, Secretary Vance formally presented the two U.S. SALT II proposals to the Soviet Union. Branding both offers "inequitable," the Soviets rejected them unequivocally. Although the administration continued to insist for a number of weeks after the breakup of the Moscow meeting that the "arms reduction" proposal could still be the basis for negotiations, by the time of the next high-level negotiating session in Geneva in May, it was apparent that the Soviet rejection of the U.S. preferred offer was irrevocable.

At the Geneva meeting in May, the United States and the Soviet Union reached basic agreement on a specific framework for SALT II. President Carter announced that the agreed framework included three elements:

(1) An agreement, to remain in effect through 1985, consolidating the Vladivostok accord and perhaps providing for reductions below the Vladivostok levels;

(2) A 2- or 4-year protocol which would include some constraints on Backfire and the cruise missile; and

(3) A mutual commitment to pursue more substantial reductions in SALT III.[17]

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[13] Transcript of President Carter's Mar. 9, 1977 news conference, printed in the New York Times, Mar. 10, 1977, p. 26.

[14] Prepared text of President Carter's address at the U.N., printed in the Washington Post, Mar. 18, 1977, p. A12.

[15] Transcript of President Carter's Mar. 24, 1977 news conference, printed in the Washington Post, Mar. 25, 1977, p. A12. For an elaboration of the preferred "arms reduction" offer, see the transcript of the press briefing provided by Zbigniew Brzezinski, Assistant to the President for National Security, printed in Aviation Week & Space Technology, Apr. 18, 1977, pp. 34–39.

[16] The Washington Post, ibid.

[17] Weekly Compilation of Presidential Documents, vol. 13, No. 22, p. 816.

Throughout the summer and fall of 1977, the United States and Soviet SALT teams endeavored to fill out the Geneva agreement on the structure of SALT II with specific provisions on individual weapons systems. When it became apparent, however, that final agreement could not be reached by October 3, 1977—the date on which the SALT I interim agreement on strategic offensive forces was scheduled to expire—both sides had to confront the question of whether SALT I should be permitted to lapse while negotiations continued, or whether an extension of SALT I was needed to maintain continuity during the negotiating process.

The solution to this problem agreed to by the United States and the Soviet Union was that rather than formally extending the term of the interim agreement—an option that raised the question of whether congressional authorization was required—each side would issue parallel, but unilateral, declarations of their intent not to take any actions inconsistent with the provisions of the interim agreement while the SALT II negotiations continued. Both sides issued virtually identical statements to this effect on September 23, 1977.[18]

On October 10, 1977, the administration revealed that the United States and the Soviet Union had achieved a major advance in the negotiations.[19] The tentative agreement incorporated the three-tiered framework adopted at Geneva and included specific limitations on the aggregate number of strategic nuclear delivery vehicles, the total number of MIRV'ed weapons systems, a sublimit on MIRV'ed SLBM's and ICBM's, a separate sublimit on MIRV'ed ICBM's, as well as provisions dealing with cruise missiles, mobile missiles, and new types of ICBM's. In the last months of 1977 and the early months of 1978, the negotiators endeavored to fill in the last remaining details of the tentative accord; however, repeated predictions of any early completion of SALT II proved overly optimistic.

In the late summer and early fall of 1978, progress was attained on a number of key issues, and by the end of the year Secretary of State Vance and Soviet Foreign Minister Gromyko were engaged in what was hoped would be the last phase of the SALT II negotiations. Going into a series of meetings in Geneva, December 21-23, 1978, the disputed issues had reportedly been narrowed to only three: the form and substance of Soviet pledges restricting the Backfire bomber, various provisions related to the deployment of air-launched cruise missiles (ALCM's) on heavy bombers, and prohibitions against Soviet interference with United States monitoring of missile flight tests.[20] Had the December sessions completed the negotiations, it had been anticipated that the SALT II agreement might be initialed by President Carter and Soviet Brezhnev at a summit meeting held in the United States in January or February 1979. In the wake of the December setback, however, the short-term prospects for concluding SALT II remain uncertain.

Issue, Outcome and Consequences

In general, there are only two plausible outcomes of congressional action on a proposed SALT II agreement: rejection or acceptance.

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[18] Department of State Bulletin, vol. LXXVII, No. 2002, p. 652.
[19] The New York Times, Oct. 11, 1977, p. A1.
[20] For a detailed discussion of the provisions of the nearly complete accord, as well as issues associated with these provisions, see: Robert G. Bell and Mark M. Lowenthal, SALT II: Major Issues, CRS Report 78-249F, Dec. 15, 1978, 137 p.

Within each of these two outcomes, however, a number of variations can be envisioned. Depending upon which variation in fact transpires, congressional rejection or acceptance of SALT II could entail profoundly different consequences for the global economy and global political stability.

Consider possible scenarios associated with a congressional rejection of SALT II. If such congressional action were predicated upon Congress determination that a single provision (or a relatively few provisions) of the proposed agreement was (were) fundamentally inequitable, then it is plausible that the administration might elect to attempt to resume the negotiations with the Soviet Union. Under this scenario, it is conceivable that the basic SALT process itself, including the ABM treaty and the extension of the interim agreement, could be preserved. In this case, then, the structure of SALT, as constructed over the past 10 years, need not necessarily collapse—assuming the resumed SALT II negotiations rather expeditiously led to an agreement that would win congressional approval. Under this outcome, both the political process of détente and the future course of strategic weapons developments and deployments would remain tied to, and in some cases channeled by, each side's commitment to an arms control approach to strategic stability.

Were a congressional rejection of SALT II to reflect a much more extensive and fundamental dissatisfaction with the result of the long SALT II negotiation, then no "quick-fix" resumption of the talks would likely be entertained. Rather, each side would stand at the threshold of an entirely new, radically transformed era in strategic and political relations between the two superpowers. Were such a resounding rejection of SALT II to occasion an abrogation of the ABM treaty and a declaration by each party that it no longer felt bound to abide by the terms of the expired interim agreement, the United States and the Soviet Union would regain absolute control over strategic weapons inventory decisionmaking.

There is no consensus within defense and political circles as to what the outcome of such a situation would be. According to one school of thought, the sudden unfettering of each side's strategic weapons programs would promptly result in an explosive and dangerously destabilizing strategic arms race, with each side deploying new systems (perhaps including ABM systems) in response to "worst-case" projections of what the other side might deploy. According to this view, each side would spend tens of billions of dollars yet in the end secure a less stable balance that would have been evident under SALT II. Moreover, this view holds that a concomitant deterioration in United States/Soviet relations generally would greatly enhance the danger that nuclear war could occur as the result of a peripheral crisis or conflict.

An opposing view maintains that a strategic arms race need not at all be the consequence of a rejection of SALT II. Rather, this view suggests that SALT itself has created incentives for new weapons system deployment (e.g., the development of weapons for "bargaining chip" purposes and the deployment of militarily irrelevant systems for the sake of perceptual equivalence) and that were each side to be freed from the pressures of SALT, force deployment decisions could again be made unilaterally on the basis of military requirements instead of what "is needed for SALT." Moreover, this view contends that United States/Soviet relations defined more broadly might prosper were they not constantly subjected to the test of whether or not there was progress on SALT. In brief, this school of thought would argue that even without the institutional mechanism of SALT, arms restraint is possible between the two superpowers through a tacit, and dramatically less formal, process.

Possible scenarios associated with congressional acceptance of SALT II also vary in fundamental ways, depending upon one's assumptions regarding the "price" of winning Congress' approval of the agreement. Essentially, the scenarios vary in direct relation to the extent of one's sense of security under SALT II. There are those who believe that SALT II, while not itself detrimental to national security, falls so short of defining a comprehensive strategic balance that a number of unilateral weapons development not proscribed by SALT II must go forward. These programs include a new-generation mobile-based ICBM, a "Backfire-equivalent" manned penetrating bomber, expanded strategic air defenses, vastly upgraded civil defenses, the Trident I and II SLBM's, various cruise missile programs and a theater ballistic missile comparable to the Soviet SS–20 IRBM. To the degree, then, that Congress, either directly through reservations attached to the agreement or indirectly through the authorization/appropriations cycle, conditions its acceptance of the proposed SALT II agreement on such new strategic or tactical nuclear weapons initiatives, SALT II could have enormously varying consequences for defense spending or, conceivably, the degree of political understanding intended to result from the SALT process.

Precisely because they believe that such programs could undermine the broader political objectives of SALT, one faction within the Congress is expected to argue that congressional approval of SALT II must not be explicitly linked to the initiation of such programs. Rather, this group will likely maintain that such actions outside SALT can only be expected to complicate further the task confronting each side as it moves into SALT III. To the degree that this view prevails, the budgetary savings accruing from SALT II will be higher. Whether or not such a deliberate policy of unilateral forebearance on new weapons initiatives would contribute to an improved international political climate remains an extremely contentious issue.

The Role of the United States in Issue Resolution

To use a gaming analogy, the role of the United States in SALT could be compared to that of a player in a contest who is trying to convince the only other player not only that his own interpretation of the rules of the game is correct, but also that he knows best why the game is being played at all. Simply stated, U.S. participation in SALT constitutes a fundamental effort to persuade the Soviet Union that given the enormously destructive inventories of nuclear weapons possessed by each side, prudence, commonsense, and enlightened self-interest demand that the two superpowers cooperate in the joint management of strategic stability.

This American vision of SALT's raison d'étre reflects a number of key premises. First, the United States assumes that both powers recognize that neither side can achieve strategic stability in any meaningful sense through unilateral efforts if the other side is dedicated to frustrating such attempts. Second, in the American view, the Soviet Union fears the U.S. capability—in terms both of technology and industrial might—to vastly increase its strategic power and does not doubt U.S. willingness to undertake such an effort if so compelled. Third, the United States believes that the Soviets understand that while it is improbable that the basic causes of superpower rivalry can be eradicated, if this competition is to be moderated by elements of cooperation, then arms control must be the keystone of détente.

While these premises underpin America's commitment to "playing" SALT in the first place, they do not address the parallel question of what the United States believes the rules of this game of SALT should be. The U.S. view of what constitutes an appropriate arms control structure for jointly managing strategic stability reflects three inviolable and three subsidiary objectives. The three core U.S. conditions for an acceptable SALT agreement are:

The agreement must be equal and balanced. While certain asymmetries in force posture and deployment are unavoidable, SALT must provide for aggregated strategic parity and not afford one side or the other significant unilateral advantages.

The agreement must not compromise strategic stability; that is, it must provide on a long-term basis for the essential survivability of each side's strategic retaliatory forces.

The agreement must be verifiable. It must not create opportunities for cheating or evasion that could undermine the achievement of the two goals detailed above.

The United States has also hoped, but not insisted, that SALT could promote three other objectives:

That parity and stability could be structured at lower levels of strategic weaponry, thus lessening the financial burden of each side's current inventories.

That SALT would provoke a dialog on matters related to each side's force planning process, thus reducing the potential for weapons programs set in motion due to miscalculation or misinterpretation.

That SALT would create a spirit of mutual accommodation in arms control at the strategic level that would facilitate efforts to conclude successfully other arms control negotiations.

Both of these broad areas related to SALT—that is, both its scope and substance—have been sources of major controversy among American policymakers. First, there has been substantial disagreement as to whether the Soviet Union shares America's vision that each side's stake in SALT as an instrument for avoiding nuclear war transcends its interest in attempting to gain strategic advantages through arms competition. The SALT II negotiations have intensified the debate in the United States regarding the nature and potential of the Soviet threat and the intentions and objectives of the Soviet Union in SALT II. In brief, there is profound disagreement within the American political and defense community as to whether the Soviet Union regards SALT as an instrument for genuine arms control or as a means of gaining strategic superiority over the United States.

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A Congressional Research Service report issued in May 1978 analyzed three separate American schools of thought regarding the nature of current Soviet strategic objectives and the challenges which they may pose for the United States:[21]

The continuity school sees no fundamental change in Soviet goals or tactics since the Stalinist period. The Soviets are seen as seeking continued superiority in the world, and its power and influence are perceived as on the ascendancy. To this group, Soviet military writings and statements prove that the country does not accept the doctrine of mutual assured destruction and that the Soviets are pursuing a war-winning strategic capability. In sum, the continuity school believes that the Soviet Union is using SALT as just one more instrument for achieving its goal of strategic superiority.

The qualified continuity school believes that there have been significant changes in the world environment to which Soviet leaders have had to adapt even if fundamental Soviet goals have not changed. To this group the evidence shows that while the Soviet Union has not yet fully reconciled itself to the fact that it cannot achieve meaningful military superiority in a nuclear age because it so fundamentally contradicts Soviet ideology, the leadership knows that the present reality is that nuclear war would bring mutual destruction. Soviet weapons programs are seen as illustrating both the continued Soviet desire to outpace the United States and its lingering fear of being left behind. Finally, the Soviet approach to SALT is seen as reflecting the same Soviet strategic dilemma. Where Soviet negotiators seek unilateral advantages where possible, their main concern is to avoid unilateral disadvantages.

The transformation school believes that there has been a considerable modernization within the Soviet Union, that the Soviets are seeking to play a responsible role in the international community, and that Soviet military policies are aimed at preserving a balance with the United States. This view holds that the Soviet Union, if it felt more secure, would curb military spending because it is causing such a serious drain on its economic resources. According to this group, the Soviet objective at SALT is to strengthen mutual security and achieve arms control. Moreover, the Soviets are seen as no more guilty than the United States of pushing for unilateral advantages at SALT wherever possible.

The American debate on SALT II is also expected to be characterized by fundamental disagreements as to whether the proposed agreement meets the inviolable criteria of equality, security, and verifiability. Among the probable lines of argument that are expected in the course of debate are the criticism that the agreement permits the Soviet Union a significant force of heavy ICBM's that the United States is denied, the contention that the Soviet Backfire bomber should count against the agreement's ceilings, and the charge that the practical effect of proposed interim restructions on the cruise missile will be the scrapping of this weapons system. In addition, opponents of the SALT II accord will likely express deep misgivings regarding the possibility of Soviet evasion of the provisions of the agreement. Lastly, there will most likely be intense debate on the

[21] Francis T. Miko, "Soviet Strategic Objectives and SALT II: American Perceptions," Library of Congress, CRS report 78-119F, May 25, 1978, 64 p.

question of whether SALT II should have been expected to preserve the essential survivability of U.S. silo-based ICBM's through the 1980's.

Proponents of the agreement are expected to argue that SALT II does not sacrifice vital U.S. national security interests and that it represents a necessary step toward a more stable and secure strategic nuclear balance between the United States and the Soviet Union. This line of argument will strongly emphasize what it perceives to be the stark alternatives to SALT II: An unrestricted arms race, a less stable nuclear balance, greater tensions throughout the entire range of U.S./Soviet relations—tensions now moderated somewhat, according to this view, by both parties' fundamental commitment to détente—and, at the worst extreme, a much higher likelihood of nuclear war.

Supporters of the agreement will most probably counter the specific criticisms cited above by contending that current asymmetries in U.S./Soviet ICBM throw-weight capabilities are the result of unilateral force posture decisions taken by the United States on technical grounds in the 1960's and not a "failure" of SALT, that the Backfire's exclusion from SALT II is matched by the exemption of U.S. forward-based systems from the accord, and that the 3-year SALT II protocol will not delay the development and eventual deployment of the cruise missile. Lastly, supporters of the agreement are expected to argue that the possible "gains" from cheating by the Soviets under SALT II would not be justified by the inherent risks should the cheating be detected; in brief, they will contend that while SALT II is not "absolutely" verifiable, it is "adequately" verifiable.[22]

The Role of Congress

Title III, section 33 of the Arms Control and Disarmament Act provides that:

> No action shall be taken under this or any other law that will obligate the United States to disarm or to reduce or to limit the Armed Forces or armaments of the United States, except pursuant to the treaty-making power of the President under the Constitution or unless authorized by further affirmative legislation by the Congress of the United States.[23]

In the course of the 1972 debate on the question of ratifying and approving the SALT I ABM treaty and interim agreement, Congress cited this provision in substantiation of its claim that, as an executive agreement limiting U.S. armaments, the interim agreement required "affirmative legislation by the Congress of the United States."

Section 2 of the H.J. Res. 1227, the legislative vehicle chosen to effect the affirmative action, states, "The President is hereby *authorized to approve* on behalf of the United States the interim agreement . . ." [24] During the floor debate, Representative Clement Zablocki declared:

> Section 33 of the Arms Control and Disarmament Act requires that arms limitation actions must be approved by Congress, either through use of the treaty power or "by further affirmative legislation by the Congress of the United States." Thus it would appear that the act gives the President a choice of submitting an agreement on arms control either to the Senate as a treaty, or to both houses for approval.[25]

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[22] For a more detailed discussion of the verification issue see: Mark M. Lowenthal. SALT Verification Library of Congress, CRS Report 78-142F. July 10, 1978. 84 p.
[23] Public Law 87-297 [H.R. 9118], Stat. 631, September 26, 1961, as amended.
[24] Public Law 92-448. 86 Stat. 746, September 30, 1972 [emphasis added].
[25] Congressional Record, September 25, 1972, p. H8717.

In a colloquy with Secretary of Defense Melvin Laird during hearings on the SALT I accords, Senator Henry Jackson also made specific reference to Congress' intent under Arms Control and Disarmament Act to require that such executive agreements be submitted to the Congress.[26]

Despite Congress' unaminity on this point, the executive branch was divided within itself as to whether congressional approval was required for the interim agreement. President Nixon's letter of transmittal accompanying the SALT I documents forwarded to the Senate asked the Senate's advice and consent to ratification of the Treaty, but it requested only "an expression of support from both Houses of the Congress" for the interim agreement.[27] Although the recommendation that the interim agreement "be transmitted to both Houses of Congress for approval by a joint resolution" originated with Secretary of State Rogers,[28] the Secretary later testified to the Congress that it was because of the "significance" of the agreement, and not due to any legal obligation, that "we felt it was desirable to have full consideration by Congress." [29] Secretary Rogers added:

> I suppose we could have proceeded on the basis that it was only necessary to get ratification of the Treaty and the agreement could be signed by the President without any congressional authority, but we decided that was not the wise course to follow for the reasons I mentioned.[30]

Contrary to Secretary Roger's contention, Secretary Laird cited "a recognition that executive agreements would be submitted under the terms of the Arms Control Act.[31]

Since Congress did not disapprove the interim agreement (and since the so-called Jackson amendment included in H.J. Res. 1227 was not regarded, even by its author, as "a restriction in any legal sense, shape, or form"), the inconsistency in the administration's views was not formally reconciled, nor was Congress' assertion of a right to veto arms control executive agreements put to the test. Nonetheless, due to Congress' intent under the Arms Control and Disarmament Act, as reinforced by the precedent established in 1972, it can be expected that Congress would insist that should SALT II be concluded as an executive agreement between the United States and the Soviet Union—rather than as a treaty—it would have to be submitted for majority approval by both Houses under section 33 of the Arms Control and Disarmament Act. Should SALT II be submitted as a treaty, it would require Senate approval by a two-thirds vote, as provided by the Constitution.

The Carter Administration has steadfastly maintained that it is preserving the option of taking either approach. The Administration has held to this position despite stern warnings from the Senate leadership and numerous Senators that were the President to submit SALT II as an executive agreement, it could jeopardize chances of Senate passage on procedural grounds alone.

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[26] U.S. Congress. Senate: Committee on Armed Services. Military Implications of the Treaty on the Limitations of Anti-Ballistic Missile Systems and the Interim Agreement on Limitation of Strategic Offensive Arms. Hearing. 92d Cong., 2d sess., U.S. Government Printing Office, Washington, D.C., 1972, p. 189.

[27] Ibid., p. v.

[28] Ibid., p. 78.

[29] U.S. Congress. House of Representatives: Committee on Foreign Affairs. Agreement on Limitation of Strategic Offensive Weapons, Hearings; 92d Cong., 2d sess.; Washington, D.C.. U.S. Government Printing Office, 1972, p. 18.

[30] Ibid.

[31] Senate Armed Services Committee "Military Implications" hearings, op. cit., p. 1689.

Should Congress in 1979 authorize the President to approve SALT II, either as a result of Senate ratification or approval by both Houses of a joint resolution, Congress would then return to the task of ensuring congressional participation and influence in the formulation of the next round of SALT, the SALT III negotiations. In addition, through the appropriation and authorization process, Congress would play a direct role in the determination of what strategic or theater nuclear weapons systems permitted by SALT II should in fact be developed and deployed (e.g., the M-X ICBM, Trident II SLBM, a Backfire-equivalent medium-range bomber, or the Pershing II extended-range theater ballistic missile).

Should Congress reject the proposed SALT II agreement, or should it so modify the proposed amendment that the Soviet Union would refuse to bring it into force, congressional involvement in the formulation of national security policy would likely be dominated by an intense debate over the most appropriate course of action in the wake of either an interruption or fundamental breakdown in SALT. Such a debate would encompass not only the question of specific weapons systems needed to preserve the Nation's deterrent strength, but also the much broader issue of basic U.S. strategy for dealing with the Soviet Union across the entire spectrum of relations (military, political, economic, scientific, and cultural) in the radically transformed environment of, at least in the short-term, a strategic weapons competition no longer confined by SALT.

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CONTROLLING CONVENTIONAL ARMS PROLIFERATION

(By Robert G. Bell*)

Issue Definition

In a publication released July 1978, the U.S. Arms Control and Disarmament Agency (ACDA) reported that in 1976—the most recent year for which aggregated unclassified data is available—the nations of the world spent the equivalent of about $400 billion for military purposes.[1] The report noted that, in real terms, world military expenditures increased nearly 20 percent between 1967 and 1976. Perhaps most significant, ACDA found that 53 countries—almost one-third of the world's nations—spent more, in real terms, for military purposes in 1976 than in any of the preceding 9 years.

Consistent with this spiraling trend, the world's trade in conventional arms continued to rise. ACDA estimates that the value of arms exports in 1976 (actual deliveries) was $13 billion—a figure 60 percent higher than 10 years earlier. Among the world's arms suppliers, ADCA ranked the United States first in 1976, accounting for 39 percent of total arms exports, followed by the Soviet Union (28 percent), France (6 percent), West Germany (5 percent), and the United Kingdom (5 percent).

Recent projections suggest that the arms sales activities of the major suppliers are continuing to expand. For fiscal year 1977, the Department of Defense (DOD) recorded $11.19 billion in government-to-government foreign military sales (FMS) contracts.[2] The FMS total for fiscal year 1978 is estimated at $13.4 billion, while the equivalent figure for fiscal year 1979 is expected to rise to $14.4 billion.[3] The British Ministry of Defence forecasts incomes from arms sales in the 1977–78 period of £790 million, up from £600 million in 1976–77, and expects the comparable figure will be £901 million in 1978–79.[4] Arms export orders for France increased substantially in 1977; orders for French tactical missiles alone jumped 100 percent from 1976 to 1977.[5]

Statistics alone, of course, do not provide an adequate basis for assessing any major policy issue. It is not axiomatic that all arms sales are ipso facto wrong. Rather, supplying military equipment and services to friends and allies through sales or grants has been an im-

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[1] U.S. ACDA. World Military Expenditures and Arms Transfers, 1967–1976. Washington, July 1978.

[2] "Foreign Military Sales and Military Assistance Facts," Defense Security Assistance Agency, December 1977, p. 1.

[3] Testimony of Lucy Wilson Benson, Under Secretary of State for Security Assistance, Science, and Technology, before the Subcommittee on Europe and the Middle East, House International Relations Committee, October 4, 1978" (prepared statement), p. 3; and Wall Street Journal, Oct. 19, 1978, p. 1.

[4] Lawrence Freedman, "Britain and the Arms Trade,'" International Affairs, vol. 54, No. 1 (July 1978), p. 378.

[5] Aviation Week & Space Technology, Jan. 30, 1978, p. 34.

portant and flexible instrument of American foreign policy over a long period of time. As expressed in the Arms Export Control Act, "Congress recognizes * * * that the United States and other free and independent countries continue to have valid requirements for effective and mutually beneficial relationships."[6] Nonetheless, the statistics do suggest that a vast distance lies between the current level of the global arms trade and the level envisioned in the introductory section of the Arms Control and Disarmament Act: "An ultimate goal of the United States is a world which is free from the scourge of war and the dangers and burdens of armaments."[7]

The task confronting U.S. policymakers is to devise an effective and judicious strategy for dealing with the problem of conventional arms proliferation, a strategy that preserves the U.S. interest in utilizing arms sales to respond to the legitimate self-defense needs of friends and allies yet still succeeds in advancing the world toward the declared arms control and disarmament goals. Through legislative action on specific arms sale proposals, as well as oversight of the use of arms sales as an instrument of U.S. foreign policy, the 96th Congress will address the major issue of whether the current Carter administration policy on conventional arms transfers represents such a balanced strategy.

Background

On May 19, 1977, President Carter announced a new U.S. policy governing the transfer of conventional armaments to foreign states.[8] "Henceforth," the President said, the United States would regard arms transfers as "an exceptional foreign policy implement, to be used in instances where it can be clearly demonstrated that the transfer contributes to our national security interests." Contending that the "spiraling arms traffic" threatens world peace, the statement committed the United States to take the "first step" toward actual reductions in the global arms trade.

To implement a policy of arms restraint, President Carter established a number of controls and prohibitions, including a dollar volume ceiling on new commitments for weapons and weapons-related equipment sold to certain nonexempted countries in fiscal year 1978, and a stipulation that the United States would "not be the first supplier to introduce into a region newly developed, advanced weapons systems which could create a new or significantly higher combat capability."[9] In addition, the President declared that he had changed the "climate" under which decisionmaking would proceed: "In the future, the burden of persuasion will be on those who favor a particular arms sale, rather than those who oppose it."

A central tenet of President Carter's conventional arms transfer policy is that controlling the global traffic in arms will require multilateral cooperation. As President Carter stated in his October 4, 1977,

[6] Public Law 90–629 (H.R. 1568), as amended, sec. 1.
[7] Public Law 87–297 (H.R. 9118), as amended, sec. 2.
[8] A full text of the statement is provided in app. 1.
[9] On Feb. 1, 1978, President Carter announced that for fiscal year 1978, new commitments under the foreign military sales (FMS) and military assistance (MAP) programs for weapons and weapons-related items to all countries except NATO, Japan, Australia, and New Zealand will not exceed $8.6 billion—a reduction of 8 percent from fiscal year 1977. (See app. 2.) On Nov. 29, 1978, the President announced that the ceiling for fiscal year 1979 would be reduced another 8 percent (when corrected for inflation), to a level of $8.434 billion.

address to the United Nations, "We have already taken the first steps, but we cannot go very far alone." [10] To add force to its appeal for a multilateral approach to arms restraint, the administration has repeatedly cautioned that the United States cannot be expected to wait indefinitely for reciprocal restraint to be forthcoming. In the interim, however, the administration contends that a policy of unilateral restraint is appropriate—not only because of America's "special responsibilities" as the world's leading arms seller, but also because the administration concluded that it would have little credibility in calling for international restraint unless the United States itself demonstrated restraint.

Lucy Benson Wilson, Under Secretary of State for Security Assistance, Science, and Technology, has stated that if the United States receives no cooperation from the other major arms suppliers, "then certainly the dollar ceiling part of the President's policy would have to be reconsidered." [11] In announcing the arms transfer ceiling for fiscal year 1979, the President emphasized that his decision on the ceiling for fiscal year 1980 "will depend on the degree of cooperation we receive in the coming year from other nations, particularly in the area of specific achievements and evidence of concrete progress on arms transfer restraint." [12]

The principle that U.S. arms sale restraint cannot be exercised independent of the actions of other arms suppliers has also been endorsed by the Congress. The report of the committee of conference on the International Security Assistance Act of 1978 expresses the sense of the Congress that "the results of multilateral efforts to restrain arms exports should be taken into account in periodic evaluations of U.S. arms export policy." Furthermore, the 1978 act directs the President to prepare and transmit to the Congress not later than December 31, 1979, a report "(1) assessing the results of the multilateral approach of the United States to arms export controls; and (2) commenting on the implications of these results for U.S. arms export policy." [13]

To the extent, then, that continuation of the declared arms restraint policy is contingent on the future actions of other states, this unilateral U.S. policy initiative is admittedly experimental. Administration officials, as well as other supporters of the policy initiative, concede that the obstacles in persuading suppliers and recipients of the benefits of arms restraint are formidable; nonetheless, they have consistently expressed cautious optimism that diplomatic efforts to achieve a multilateral approach can succeed. As Barry M. Blechman, Assistant Director of the Arms Control and Disarmament Agency, put it, the administration contends that, "our leadership can make a difference." [14]

Others do not share the administration's optimism. U.S. defense industries staunchly believe that it is axiomatic that other suppliers

[10] Weekly Compilation of Presidential Documents, vol. 13, No. 41 (Oct. 10, 1977), p. 1473.

[11] U.S. Congress. House: Subcommittee on International Security and Scientific Affairs, Committee on International Relations. "Review of the President's Conventional Arms Transfer Policy"; hearings, 95th Cong., 2d sess., Washington, D.C., U.S. Government Printing Office, 1978, p. 24. (Hereafter cited as "HIRC Policy Review Hearings, February 1978.")

[12] Weekly Compilation of Presidential Documents, vol. 14, No. 48 (Dec. 4, 1978), p. 2095.

[13] U.S. Congress. House: International Security Assistance Act of 1978. Conference report; (to accompany S. 3075); 95th Cong., 2d sess., Washington, D.C., U.S. Government Printing Office, 1978. H. Rept. 95–1546; Public Law 95–384.

[14] HIRC policy review hearings, Feb. 1978, op. cit., p. 23.

will move with alacrity to fill any "voids" created by U.S. restraint. While these critics concede that U.S. diplomatic efforts to achieve reciprocal restraint may result in various bilateral or multilateral statements of principles, they remain convinced that these general and abstract agreements will be undercut in practice by actual sales, in many cases involving weapons that are more sophisticated or expensive than those which otherwise could have been provided by American firms. In brief, they doubt that U.S. unilateral restraint will produce any significant arms control dividends and believe that the Carter policy on arms sales is already being exploited by allies and adversaries alike.[15]

On the other hand, critics of the Carter administration's policy have no doubt that the economic impact to the United States (measured in terms of employment and export earnings) of "sitting out" arms sale competitions will be adverse. In sum, proponents of this view maintain that since the outcome of the administration's arms restraint experiment is, in their opinion, entirely predictable, American industry should not be asked to bear an economic burden while the administration learns the lesson that "if we don't sell, others will." [16]

Because of the degree to which the administration has predicated the success of its arms restraint initiative upon reciprocal restraint being exercised by potential recipients and other major suppliers, it is appropriate to pose a number of pertinent questions, including: How has the United States defined the "restraint" that it expects the other suppliers to exercise? Does restraint mean reducing the volume of arms sold by a particular supplier or simply not filling any vacuums created by U.S. restraint? What limits would the United States prefer to see placed on the sophistication of weaponry sold to different regions? What is U.S. policy on the proliferation of indigenous arms production capabilities throughout the world?

Declared Objectives for Multilateral Cooperation

The May 19 policy statement does not in itself provide a clear elaboration of the criteria established for multilateral restraint. The statement notes only that the United States will initiate "discussions of possible measures for multilateral action" with suppliers and encourage import limitations among purchasers. Explicit in the statement, however, is the goal of achieving actual reductions in the worldwide traffic in arms.

In his February 1, 1978 announcement of the U.S. arms sale ceiling for fiscal year 1979, President Carter reiterated this objective, but also stressed that there were two other goals of equal priority:

> I want to emphasize that the restraint policy I announced on May 19, 1977, was not aimed exclusively at the volume of arms transfers. Equally important is restraint in the sophistication of arms being transferred and on the spreading capability to produce armaments.[17]

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[15] See, for example: Bernard A. Schriever: "Jimmy Carter's Arms Transfer Policy: It Won't Work," AEI Defense Review, vol. 2, No. 5, pp. 16–28; Robert Hotz: "Export Problems Fester," Aviation Week & Space Technology, Dec. 11, 1978, p. 9; and Felix Kessler: "Filling the Gap: European Firms Scramble to Sell Weapons Abroad," Wall Street Journal, July 1, 1977, p. 1.

[16] Ibid.

[17] Weekly Compilation of Presidential Documents, Feb. 6, 1978, op. cit.

A speech by Ms. Benson in June 1977 offers some insight into other concerns underlying the administration's arms transfer policy:

> We will aim, with both suppliers and buyers, for a code of behavior—perhaps by regions, perhaps globally—that will be adopted because of mutual interest. Our initial emphasis might well be on such obvious and troublesome problems as:
>
> Arms sales to unstable regions;
>
> Sales of sensitive weapons and technology, such as long-range, surface-to-surface missiles;
>
> Sales of equipment particularly attractive to terrorists, such as hand carried anti-aircraft missiles; and
>
> Sales of highly and indiscriminately lethal weapons.[18]

In sum, the objectives of the U.S. arms restraint policy, defined globally, encompass both quantitative and qualitative criteria. Foremost among these criteria are actual reductions in the volume and limits on the sophistication of weaponry being transferred (especially to trouble spots and regions where the level of weapons technology is relatively low), checks on the spread of arms production centers, and sensitivity to the possible end-use of particular types of weaponry.

The following section will examine the principal question raised by this set of policy objectives, that is, what strategy has the United States devised for attaining multilateral cooperation in achieving these goals; specifically, what role does the United States expect the Soviet Union, Europe, and recipient states to play?

U.S. Strategy for Achieving Multilateral Cooperation

DIRECT NEGOTIATIONS WITH SOVIET UNION

U.S. strategy for achieving multilateral cooperation consists of three elements; the first involves direct negotiations with the Soviet Union. Since the policy was announced, the United States has held three rounds of discussions with the Soviet Union in Helsinki having the objective of agreement on a set of principles for controlling transfers of conventional armaments to the third world. Following the most recent round of talks in July, the State Department expressed considerable optimism that the next round of discussions scheduled to be held in Mexico City December 5 to 15, 1978, would produce "concrete results." [19] However, recent press accounts suggest that the Mexico City talks were the occasion for a serious internal disagreement within the administration regarding basic strategy for responding to Soviet positions and, as a result, no significant success was achieved.[20]

CONTACTS WITH EUROPEAN ARMS SUPPLIERS

In addition to the bilateral talks with the Soviet Union, the United States has been engaged in informal discussions with other major arms suppliers, including France, Britain, and West Germany. In these contacts, the United States has stressed the importance it attaches to achieving multilateral cooperation. At the same time, the administration has qualified its arms restraint appeal to the West European suppliers with three basic caveats—the effect of which has been to mini-

[18] Department of State Bulletin, vol. LXXVII, No. 1988, Aug. 1, 1977, p. 158.
[19] The New York Times, Aug. 2, 1978, p. 3.
[20] Washington Post, Dec. 19, 1978, p. A1; New York Times, Dec. 20, 1978, p. A12.

mize significantly the scale and scope of arms sales restraint expected from these countries.

Caveat 1: Soviet restraint a precondition.—The United States has tacitly acknowledged that it cannot expect the Europeans to respond formally to the U.S. initiative unless it first succeeds in its negotiations with the Soviet Union. In testimony to the House International Relations Committee in February 1978, Leslie H. Gelb, Director, Bureau of Politico-Military Affairs, Department of State, noted that the other Western arms suppliers "are concerned about any unilateral steps by Western nations unless the Soviet Union wants to cooperate as well." [21]

Furthermore, Mr. Gelb stated:

> We ourselves are not unilaterally to disadvantage our allies and friends by cutbacks that would jeopardize their security in view of continuing Soviet sales of arms.[22]

Implied also in this statement is a basic rule of reciprocity: If the United States does not intend to disapprove valid requests for arms sales from "allies and friends" in the face of unrestrained Soviet arms sales, then neither can it legitimately expect the European suppliers to adopt such a course.

Caveat 2: Traditional relationships may continue.—The administration has declared that it does not expect the European arms suppliers to discontinue existing supplier-recipient relationships. Responding to congressional questioning, Mr. Gelb advised the House International Relations Committee:

> . . . in many cases a nation like France or Britain has traditional countries to whom it sells arms. We have no interest in stopping that relationship. What we are interested in is promoting a policy of restraint. We are talking to other suppliers to get them to understand that as we show restraint, as we apply our guidelines particularly on sophisticated weapons, we would hope and expect over time that they would come to share this view.[23]

Left uncertain, however, is the definition of what constitutes a "traditional" arms sales relationship.

Caveat 3: NATO standardization given priority.[24]—The administration has assured its European allies that it does not intend that the goals of its arms restraint policy be achieved at the expense of improved NATO standardization. The United States has repeatedly pledged that it does not expect improved NATO standardization to be achieved solely on the basis of American weaponry. Rather, the administration and the Congress have publicly declared their intention to establish a genuine "two-way street" in interallied arms procurements.

Despite America's commitment in principle to purchase more European weapons systems, Congress has insisted that achieving more reciprocity on the "two-way street" should not be pursued at the expense of prudent considerations of cost and performance in the procurement process. In short, in individual weapons procurement cases, the Congress has tended to insist that European weapons not be procured if they cost more or performed less capably than their American-produced counterparts.

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[21] HIRC Policy Review Hearings, February 1978, op. cit., p. 9.
[23] Ibid., p. 36.
[22] Ibid.
[24] See chapter, "NATO Modernization," p. 261.

The dilemma for the Administration has been that any arms restraint policy which called upon the NATO allies to reduce significantly their foreign military sales would exacerbate already disadvantageous European economies of scale, drive European weapons costs even higher, and thus further lessen the prospects for substantial U.S. purchases of European weapons. The Administration has resolved this dilemma by downplaying the degree of arms restraint it expects from the major NATO weapons suppliers.

In testimony before the Senate Armed Services Committee in 1977, Secretary of Defense Brown stated, "We should recognize that to eliminate or overly restraing Allied sales would preclude much of the collaboration necessary to achieve NATO standardization goals."[25] Expanding on this theme, Mr. Gelb has declared:

> . . . we realize that in the case of certain suppliers, the viability of their defense industry is in the U.S. interest. This is a fundamental tenet of our NATO standardization and rationalization policies. Reduction in their arms exports could have proportionately greater consequences for their domestic economies and technological base than the same reduction would have for the U.S.[26]

It should be noted that America's interest in procuring European weapons systems for the use of U.S. forces deployed in Europe applies to weapons that are, due to the intensity and sophistication of the Soviet threat, at the leading edge of technology. No U.S. official has suggested that the United States have a monopoly on the high technology traffic on the "two-way street," leaving the Europeans to supply shovels and uniforms. Accordingly, if the goals of NATO standardization are to be advanced via the "two-way street," it is precisely the European exports of highest military sophistication that must not be "overly restrained."

CONSULTATIONS WITH RECIPIENT STATES

The third element of the U.S. strategy for achieving global arms restraint focuses on potential recipients. In his May 19, 1977 policy statement, President Carter declared, "* * * we will do whatever we can to encourage regional arrangements among purchasers to limit arms imports." Mr. Gelb has stated that the objectives of the U.S. appeal to recipient countries are (1) to establish the general acceptibility of limitations on arms transfers, (2) to develop supplier-recipient groups to explore regional restraint, and (3) to introduce restraint into dangerous subregional conflicts, e.g., the Horn of Africa.[27]

ISSUES OUTCOMES AND CONSEQUENCES

As previously discussed, both Congress and the administration are agreed that continuation of the current U.S. policy of unilateral restraint is predicated upon whether or not reciprocity is forthcoming from the other major arms suppliers. Although neither branch of Government has suggested a specific deadline by which there must be tangible evidence of reciprocal restraint, there is a general consensus that the

[25] U.S. Congress. Senate: Subcommittee on Manpower and Personnel, Committee on Armed Services. NATO Posture and Initiatives; Hearings, 95th Cong., 1st sess., Washington, D.C., U.S. Government Printing Office, 1977, pp. 9–10.
[26] HIRC Policy Review Hearings, February 1978, op. cit.
[27] HIRC Policy Review Hearings, February 1978, op. cit., p. 11.

current policy could not long survive in the face of blatant instances of the other suppliers exploiting cases in which the United States denied arms sales for arms-control reasons. The International Security Assistance Act of 1978 establishes a requirement for the administration to report no later than December 31, 1979, on progress toward attaining multilateral cooperation in arms restraint, a requirement that implies that should the President report that no progress has been achieved, Congress might consider a fundamental reorientation of current policy.

Within this context, there would appear to be two likely alternative outcomes to the current U.S. arms sale policy initiative: (1) Diplomatic efforts to join other suppliers and the principal arms recipients in a new regime of arms restraint will bear fruit, enabling the President to hold to his restrictive policy on U.S. arms exports; (2) the diplomatic initiative will fail, due to parochial exploitation of U.S. forebearance by the other arms suppliers, and the United States will have to consider shifting to a less restrictive arms export policy. In this latter case, the United States might consider dropping its self-imposed ceiling on the level of arms sales agreements with nonexempted countries permitted each fiscal year.

The line separating these two alternative outcomes might not necessarily be sharp. It is possible that the President may contend that agreement with individual arms supplier states or perhaps a group of supplier states on a set of principles for global arms restraint or specific cases of foreign restraint constitute "progress" sufficient to justify maintaining current restrictions on U.S. arms exports, while critics of the policy point to specific cases of foreign arms sales as evidence that the multilateral effort has failed. In short, there could very likely be debate over the administration's interpretation of related events and its characterization of the prospects for future restraint.

Assuming, however, that such a process of debate leads to a political consensus that one or the other issue outcome has in fact transpired, what might be the consequences for global political stability and the global economy? Taking the case first of success for the current U.S. policy of arms sale restraint, what would be the costs, in economic and political terms, associated with a continuation of this initiative?

U.S. Balance of Payments

According to the recent ACDA report, total U.S. exports in 1976 were valued—in current dollars—at $115 billion, of which $5.2 billion—or 4.5 percent—were categorized as arms exports. At first blush, then, it might appear that a policy of arms sales restraint would entail significant balance-of-payments penalties for the United States. There are several reasons, however, why this is not necessarily the case.

First, a number of states are either exempted from the principles listed in the May 19 policy statement or, in the case of Israel, would receive special consideration. From 1967–76, these 18 states (Israel, Australia, New Zealand, Japan, and 14 NATO allies) accounted for over 40 percent of U.S. arms exports. Future sales of defense equipment to these countries would continue to provide the United States with export earnings, and, as illustrated by the U.S. FMS figures for fiscal year 1978, increases in sales to nonexempt countries may be greater than decreases in sales to countries under the sales ceiling. Thus, even with the currently established ceiling, total U.S. arms exports may rise.

Second, even in cases where the United States denies the sale of arms to a particular state, it is not certain that those export earnings will be entirely forfeited. A study prepared by the Treasury Department in 1977 on the economic effects of a policy of arms sale restraint estimated that 30 percent of the funds not spent on U.S. arms by certain countries due to U.S. disapproval of their requests would nonetheless flow into the U.S. economy in the form of long-term investment.[28]

Finally, "restraint" does not necessarily mean "no sale." Rather than prohibiting any arms transfer, the Carter administration's policy in many cases permits the substitution of less advanced weaponry to meet the requester's legitimate defense needs. Such sales would again earn export revenues for the United States.

U.S. Employment

All three economic considerations cited above would also alleviate the effect of an arms sale restraint policy on domestic employment. Sales to nonexempt states would continue to create jobs, perhaps offsetting jobs lost due to decreased sales to countries under the ceiling. Foreign capital invested in civilian sectors of the U.S. economy due to arms sale disapprovals would also create jobs. Admittedly, though, to the extent that sales which otherwise would have gone forward are curtailed, a loss in employment will in some cases be involved.

The Treasury Department study cited above concluded that were the level of U.S. arms exports to be cut 10 percent in each of 4 successive years, 75,000 workers would be displaced, with ordnance, aircraft, and communications industries suffering the heaviest impact. Among occupational categories, the study determined that the most severely effected categories would be "professional and technical jobs" accounting for 17.5 percent of all workers displaced. In Treasury's opinion, though, the aggregate effect of such a program of arms restraint would be moderate and could be readily countered by slightly more expansionary monetary and fiscal policies.

In summary, it is the contention of the administration that while the current U.S. policy of arms sale restraint will entail an adverse economic impact, the impact will be "manageable." Under Secretary Benson, has stated, "Some jobs will be lost, some industries will suffer; but it is our judgment that the aggregate effect will be modest." [29]

Economic Effects for Other Major Arms Suppliers

Assuming U.S. arms sale restraint is matched reciprocally by the other major arms suppliers, would the economic costs of restricting arms exports be greater for France, the United Kingdom, Germany, and the Soviet Union than for the United States? In short, would a true multilateral approach to controlling conventional arms proliferation impose a disproportionate economic burden on these countries?

This point can be argued either way. First, it can be demonstrated

[28] U.S. Congress. Senate. Committee on Foreign Relations. Report to Congress on Arms Transfer Policy pursuant to secs. 202(b) and 218 of the International Security Assistance and Arms Export Control Act of 1976. Print; 95th Cong., 1st sess.. Washington, U.S. Government Printing Office. 1977. Annex 2. (Hereinafter cited as the "NSC 202 report.")

[29] State Department Bulletin Aug. 1 1977 op. cit.

that military exports play a lesser role in the overall economies of the Western European arms suppliers than that played by arms exports in the U.S. economy. This lesser role can be measured with references either to gross national product (GNP) or total exports (see tables 1 and 2). This data does not of course suggest that France, the United Kingdom, and Germany do not have substantial economic interests in expanding arms sales; rather, it illustrates the point that relative to the United States, the adverse economic effects of cooperative arms restraint policies would not be disproportionate.

On the other hand, unlike the United States, these Western European states do not maintain armed forces sufficiently large to support a viable domestic defense production base. For reasons of state sovereignty, however, there is a political imperative that these countries procure most of their weapons from national sources. Where the long production runs by U.S. defense industry for U.S. procurement allow for reasonable economies of scale, Western European defense production, if confined solely to national procurement, is relatively much less economical. Even in cases in which two or three European states form consortia to produce weapons systems, the economic success of the ventures is largely dependent on export sales.

TABLE 1.—VALUE OF ARMS EXPORTS AS PERCENT OF GNP[1]

	United States	France	United Kingdom	Federal Republic of Germany
Year:				
1972	0.35	0.25	0.20	0.10
1973	.38	.24	.19	.04
1974	.29	.21	.24	.05
1975	.32	.18	.18	.09
1976	.31	.23	.26	.14

[1] Figures for GNP and value of arms transfers taken from ACDA report.

TABLE 2.—ARMS EXPORTS AS PERCENT OF TOTAL EXPORTS[1]

	United States	France	United Kingdom	Federal Republic of Germany
Year:				
1972	8	3	2	1
1973	7	2	2	(2)
1974	4	2	1	(2)
1975	4	1	1	(2)
1976	5	1	1	1

[1] Data for arms exports and total exports taken from ACDA report.
[2] Total arms exports were less than 1 percent of total exports.

With respect to the arms sales activities of the Soviet Union, a report prepared for Congress by the National Security Council notes that "arms sales are important to the political purposes and hard currency needs of the Soviet Union." [30] A 1977 study by the Central Intelligence Agency estimates that arms sales account for approximately 10 percent of the Soviet Union's sources of hard currency.[31] These studies suggest, then, that substantial cuts in Soviet arms exports

[30] NSC 202 report, op. cit.
[31] U.S.S.R.: Hard Currency Trade and Payments 1977–78. CIA Research Aid (ER 77-10034 U); Washington, March 1977, p. 7.

would entail economic costs that the Soviets would have to attempt to offset by other means, e.g., boosting exports of nonmilitary products to meet their hard currency needs.

Implications for Global Political Stability

Whether or not achieving a new regime of international arms restraint cooperation would have positive consequences for global and regional political stability would depend principally on whether such agreement was based on mutual supplier/recipient accord, or alternately, whether recipient states, mostly in the Third World, regarded a sales restraint agreement between the principal suppliers as a hostile and paternalistic condominium imposed on these developing states. In the former case, multilateral restraint in both supply and demand could prevent situations in which supplier states arm adversaries in regional crises and thereby fuel the conflict by introducing quantitatively or qualitatively destabilizing armaments. Genuine supplier/recipient arms restraint could also permit scarce national resources in the Third World to be devoted to social or economic—rather than military—development and promote broader political harmony on other North/South issues. Lastly, East/West accord on arms export restraint could not only minimize the opportunities for superpower conflict stemming from regional strife but also enhance detente more generally.

Conversely, if multilateral restraint in arms sales is perceived by the Third World in a hostile light, it is possible that agreement between the world's major arms exporters might have the unintended effect, in the short run, of boosting the arms export activities of arms suppliers not currently regarded as major sources of arms and, in the longer term, of stimulating indigenous arms production efforts throughout the world. In brief, without the cooperation of the recipient states, accord between the major arms suppliers could easily be circumvented. Another negative effect could be a reinforcement of Third World suspicions regarding the developed world's motives in various North/South issues. Should such distrust lead to provocative Third World actions compromising the developed world's access to vital resources, particularly oil, global stability could be endangered.

Economic and Political Consequences of U.S. Policy Failure

Whether a collapse of the current U.S. policy of unilateral arms sale restraint would automatically lead to vastly increased levels of U.S. weapons exports is not certain. It is possible that even were the United States to resolve to become more competitive and less discriminating in arms sales, distrust of the reliability of U.S. arms supply caused by the current policy could still carry over, and sales would go to other arms suppliers. It is also possible that the indigenous arms production efforts stimulated, in many cases, by the U.S. policy of restraint will significantly dampen the demand among various recipient states for foreign sources of arms. Last, the level of the world's arms trade is as much a function of demand as supply. Demand is in turn significantly influenced by the absorptive capacity of the recipient states. In this regard, a 1977 report by the Central

Intelligence Agency projects that worldwide orders for new arms may level off at $10–$15 billion annually by 1980 (a drop of 50 percent from 1974) due to the difficulty of absorbing the vast amounts of arms ordered during the early to mid-seventies.[32] In selected cases, however, sales could be won by U.S. firms where competition is currently prohibited.

The political consequences of a failure of the current U.S. policy initiative would, at least in the short term, be more severe. In the first place, President Carter has committed a considerable amount of his personal prestige to this particular arms control effort and thus failure could diminish his reputation as a strong leader. A breakdown in the ongoing negotiations with the Soviet Union on conventional arms restraint could have repercussions for détente; likewise a noncooperative attitude on the part of the major Western European suppliers could strain the fabric of the Atlantic Alliance and make more difficult progress on other trans-Atlantic economic issues. Lastly, to the degree that an emergent competitiveness in U.S. arms sales efforts followed on the heels of a failure of the current effort to restrict sales, there would be an attendant exacerbation of the destabilizing effects of arms sale competition generally.

The Role of the United States in Issue Resolution [33]

The United States would appear to have three basic policy options, in addition to holding to the current arms transfer policy, to deal with the problems of conventional arms proliferation. First, the United States could adopt a different negotiating strategy with respect to multilateral restraint on arms transfers. Instead of attempting to achieve agreement with all major suppliers regarding across-the-board arms sales restraint for all regions of the world, the United States could seek to achieve an agreement on multilateral restraint on a region-by-region basis. In pursuing this option the United States would place the greatest emphasis on reaching agreement on restraint with the major arms suppliers who account for the greatest proportion of the arms sales in each specific region.[34]

A second option the United States could follow would be to conclude and openly proclaim that the President cannot expect to achieve multilateral restraint in the area of conventional arms transfers, and that maintaining all current restrictions on arms transfer would unduly and unnecessarily penalize U.S. defense industries. Under this approach the United States would liberalize present restrictions on transfers of sophisticated weapons systems and coproduction arrangements, as well as its human rights criteria, in order to enable U.S. defense firms to become more competitive in the global arms market. This action might permit these defense companies to re-establish and enhance—to the greatest extent possible—supplier-purchaser relationships that may have existed prior to the time that the current U.S. arms transfer policy went into effect.

Since most countries have shown that they will generally purchase

[32] NSC 202 report op. cit.

[33] The author appreciates the contributions of Richard F. Grimmett, Analyst in National Defense, CRS, to this section.

[34] The December talks in Mexico City were originally envisioned as the first stage in exploring the possibility of such a regional approach. However, Soviet insistence on discussing U.S. arms sales to allies in the Persian Gulf region and to South Korea precipitated a sharp dispute within the administration and contributed to the failure of the meeting at Mexico City. The prospects for resuming this approach remain uncertain.

American weaponry if given the opportunity to do so, by permitting American defense industries to fill orders for U.S. equipment, it may be possible for the United States to exercise greater control within a particular sale than it could by essentially observing from the sidelines a transaction by another arms supplier. In cases where it determines that a particular sale is needed to preserve the legitimate self-defense needs of a given state, the United States must still be sensitive to the possibility that the offensive capability of a weapons system might tempt the recipient to take aggressive action. In these cases, the United States could insist on modifications that effectively limit the offensive capability of the system. Examples of the recent application of such modifications include the denial of mobile HAWK missiles to Jordan, assurances limiting the offensive use of the AWACS by Iran, the deletion of air-to-ground missiles from the F-15 aircraft sold to Saudi Arabia, and the removal of the air refueling and air-to-ground attack capabilities from the F-5 aircraft sold to Egypt.

This approach would undoubtedly involve some losses for arms control, inasmuch as some countries would likely expect concrete assurances that they would be able to get the right to coproduce locally certain systems that they purchase from the United States. Nonetheless, given the greater concern for arms control exhibited by the United States—as compared with other supplier nations—it would seem possible that American defense industries, in concert with the U.S. Government and the recipient countries, could find methods of accommodating the desires of recipient nations for advanced weapons systems without creating the stimulus for a regional arms race. Even though this approach would inevitably lead to sales of more weapons of greater sophistication to more states in the long run, it could conceivably give the United States a greater degree of influence over the shape of the arms trade than the present policy by giving the United States, as a more active weapons supplier, more control over the arms marketplace, and thereby more control over the timing of the introduction of certain advanced weapons systems.

As a third option, the United States could openly proclaim that there is no realistic prospect that the President will succeed in obtaining multilateral restraint on conventional arms transfers, but nonetheless maintain the U.S. policy of unilateral restraint on the grounds that it is consistent with American ideals regarding arms control to do so. Even though this approach would create problems for the U.S. arms industry in terms of their ability to compete effectively with foreign industries, it would have the virtue of upholding stated American ideals in this policy area. At some point, it could be argued, the high moral example inherent in such an approach might serve to inspire other nations to reconsider their own policies and adjust them at least to some extent to make them more compatible with that of the United States.

The Role of the Congress

The major provisions of law which provide Congress with approval or disapproval authority over specific sales under the FMS program are contained in section 36(b) of the Arms Export and Control Act.[35]

[35] Description of congressional authority from: U.S. Congress. House: Subcommittee on Europe and the Middle East. Committee on International Relations. U.S. Arms Transfer and Security Assistance Programs: print prepared by CRS, 95th Congress, 2d sess., Washington, U.S. Government Printing Office, 1977, pp. 59–60.

This section requires that any letter of offer to sell defense articles or services in the amount of $25 million or more or any major defense equipment in the amount of $7 million or more shall be submitted to the Congress prior to being issued, and shall not be issued if the Congress, within 30 calendar days after receiving such statement, adopts a concurrent resolution stating that it objects to the proposed sale. This provision is waived, however, if the President certifies at the time the notification is submitted that an emergency exists which requires the sale in the national security interests of the United States. In order to allow the Congress additional time to review proposed arms sales, the Defense Security Assistance Agency has agreed to provide the Congress with 20 days advance notification prior to the formal notification required by section 36(b).

Well over 100 resolutions to disapprove sales have been introduced since the enactment of this authority. Although hearings have been held in both Houses of Congress on many of those resolutions, no sales have been disapproved by the Congress to date. However, informal consultations between the Congress and the administration have resulted in many cases in significant modifications to specific weapons configurations.

In addition to acting on specific arms sales proposals, Congress contributes to the formulation of basic policies governing U.S. arms transfers. For example, the International Security Assistance Act of 1978 added language to section 1 of the Arms Export Control Act stating:

> It is the sense of the Congress that the President maintain adherence to a policy of restraint in conventional arms transfers and that, in implementing this policy worldwide, a balanced approach should be taken and full regard given to the security interests of the United States in all regions of the world and that particular attention should be paid to controlling the flow of conventional arms to the nations of the world. To this end, the President is encouraged to continue discussions with other arms suppliers in order to restrain the flow of conventional arms to less developed countries.[38]

Through the exercise of its statutory authority, principally the section 36(b) approval/disapproval provision, and its monitoring of U.S. arms sales policy generally, the 96th Congress will decide whether the administration's arms transfer policy—in both articulation and implementation—complies with the letter and spirit of the law.

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Appendix 1

Arms Transfer Policy

Issued by President Carter on May 19, 1977

The virtually unrestrained spread of conventional weaponry threatens stability in every region of the world. Total arms sales in recent years have risen to over $20 billion, and the United States accounts for more than one-half of this amount. Each year, the weapons transferred are not only more numerous, but also more sophisticated and deadly. Because of the threat to world peace embodied in this spiralling arms traffic, and because of the special responsibilities we bear as the largest arms seller, I believe that the United States must take steps to restrain its arms transfers.

Therefore, shortly after my Inauguration, I directed a comprehensive review of U.S. conventional arms transfer policy, including all military, political, and economic factors. After reviewing the results of this study, and discussing those results with members of Congress and foreign leaders, I have concluded that the United States will henceforth view arms transfers as an exceptional foreign policy implement, to be used only in instances where it can be clearly demonstrated that the transfer contributes to our national security interests. We will continue to utilize arms transfers to promote our security and the security of our close friends. But, in the future, the burden of persuasion will be on those who favor a particular arms sale, rather than those who oppose it.

To implement a policy of arms restraint, I am establishing the following set of controls, applicable to all transfers except those to countries with which we have major defense treaties (NATO, Japan, Australia, and New Zealand). We will remain faithful to our treaty obligations, and will honor our historic responsibilities to assure the security of the State of Israel. These controls will be binding unless extraordinary circumstances necessitate a Presidential exception, or where I determine that countries friendly to the United States must depend on advanced weaponry to offset quantitative and other disadvantages in order to maintain a regional balance.

1. The dollar volume (in constant fiscal year 1976 dollars) of new commitments under the Foreign Military Sales and Military Assistance Programs from weapons and weapons-related items in fiscal year 1978 will be reduced from the fiscal year 1977 total. Transfers which can clearly be classified as services are not covered, nor are commercial sales, which the U.S. Government monitors through the issuance of export licenses. Commercial sales are already significantly restrained by existing legislation and Executive Branch policy.

2. The United States will not be the first supplier to introduce into a region newly-developed, advanced weapons systems which could create a new or significantly higher combat capability. Also, any commitment for sale or coproduc-

tion of such weapons is prohibited until they are operationally deployed with U.S. forces, thus removing the incentive to promote foreign sales in an effort to lower unit costs for Defense Department procurement.

3. Development of significant modification of advanced weapons systems solely for export will not be permitted.

4. Coproduction agreements for significant weapons, equipment, and major components (beyond assembly of subcomponents and the fabrication of high-turnover spare parts) are prohibited. A limited class of items will be considered for coproduction arrangements, but with restrictions on third-country exports, since these arrangements are intended primarily for the coproducer's requirements.

5. In addition to existing requirements of the law, the United States, as a condition of sale for certain weapons, equipment, or major components, may stipulate that we will not entertain any requests for retransfers. By establishing at the outset that the United States will not entertain such request, we can avoid unnecessary bilateral friction caused by later denials.

6. An amendment to the International Traffic Arms Regulations will be issued, requiring policy level authorization by the Department of State for actions by agents of the United States or private manufacturers, which might promote the sale of arms abroad. In addition, embassies and military representatives abroad will not promote the sale of arms and the Secretary of Defense will continue his review of government procedures, particularly procurement regulations which may provide incentives for foreign sales.

In formulating security assistance programs consistent with these controls, we will continue our efforts to promote and advance respect for human rights in recipient countries. Also, we will assess the economic impact of arms transfers to those less-developed countries receiving U.S. economic assistance.

I am initiating this policy of restraint in the full understanding that actual reductions in the worldwide traffic in arms will require multilateral cooperation. Because we dominate the world market to such a degree, I believe that the United States can, and should, take the first step. However, in the immediate future, the United States will meet with other arms suppliers, including the Soviet Union, to begin discussions of possible measures for multilateral action. In addition, we will do whatever we can to encourage regional agreements among purchasers to limit arms imports.

Appendix 2

The White House

Office of the Press Secretary, February 1, 1978

STATEMENT BY THE PRESIDENT

The United States Government, the Executive Branch and the Congress, are pledged to bring about a reduction in the trade in conventional arms. Last year, I promised to begin reducing U.S. arms sales as a necessary first step. I will continue that policy this year.

In the last fiscal year, the previous Administration and my Administration made sales commitments totaling many billions of dollars. While high, however, the total was considerably less than it would have been in the absence of new restraints we introduced, particularly in sales commitments to the developing countries of the world. Between January 20 and the close of the fiscal year, I approved and sent to Congress arms sales totaling $5.7 billion, which is less than half the total approved during the same period in 1976.

Today, I am announcing that arms transfer agreements covered by the ceiling which I have established will be reduced by $740 million in fiscal year 1978. This means that for the fiscal year which began on October 1, 1977, and which will end on September 30, 1978, new commitments under the Foreign Military Sales and Military Assistant programs for weapons and weapons-related items to all countries except NATO, Japan, Australia and New Zealand will not exceed $8.6 billion. The comparable figure for fiscal year 1977 was $9.3 billion. This is a reduction of 8 percent, figured on constant fiscal year 1976 dollars.

A larger cut in the ceiling would violate commitments already made, including our historic interest in the security of the Middle East, and would ignore the continuing realities of world politics and risk the confidence and security of those nations with whom the United States has vital and shared foreign policy and security interests. A smaller reduction would neglect our responsibility to set an example of restraint that others might follow.

I intend to make further reductions in the next fiscal year. The extent of next year's reduction will depend upon the world political situation and upon the degree of cooperation and understanding of other nations.

I want to emphasize that the restraint policy I announced on May 19, 1977, was not aimed exclusively at the volume of arms transfers. Equally important is restraint in the sophistication of arms being transferred and on the spreading capability to produce armaments. Therefore, in addition to the ceiling, I established five specific controls applicable to all transfers except those to our NATO allies, Japan, Australia, and New Zealand. These controls included: (1) a control on the first introduction of certain advanced systems in to an area; (2) a prohibition on advanced systems for export only; (3) a prohibition on various types of coproduction arrangements; (4) tighter controls on retransfer; and (5) special controls on sales promotions.

These guidelines are at the heart of my decisions to approve or disapprove an arms transfer.

As I stated in my October 4 speech to the United Nations, genuine progress in this area will require multilateral efforts. But, we are committed to taking the first steps alone to stop the spiral of increasing arms transfers. I call upon suppliers and recipients alike to join us in a determined effort to make the world a safer place in which to live.

NUCLEAR WEAPONS PROLIFERATION

(By Harry Wrenn*)

Issue Definition

Five states—the United States, the Soviet Union, Great Britain, France, and China—comprise the membership of the strategically and politically privileged club of nuclear weapon states. A sixth state, India, exploded a nuclear device in 1974, but so far as is known has not yet moved to apply that experience to the acquisition of a deployed weapons capability. There is concern that any proliferation of nuclear weapons beyond this current group of five would create serious new instabilities in the world community, and greatly increase the likelihood of nuclear violence.

In recent years, fears have mounted that the growth of civil nuclear power industries in nonnuclear weapon states, and of a competitive international commerce in nuclear technology, materials, and facilities, are laying the technical foundations for just such an unwanted development. As a state acquires the wherewithal of a civil nuclear power program, it also acquires—as a sort of bonus—much of the materials and technical means needed to design, test, and manufacture nuclear weapons. Thus, while the number of full-fledged nuclear weapon states has remained constant at five since the early 1960's, the number of states gaining the technical capability to quickly join that club once they have made the political decision to do so has increased steadily, and will continue to grow as civil nuclear power proliferates to a number of rapidly industrializing nations in the Third World.[1]

The driving force behind this steady expansion of the nuclear power industry is the uncertain economics of energy. Uranium-based nuclear fission processes were once considered to offer the only major alternative to dwindling fossil fuels as a source of abundant and relatively inexpensive energy supplies. This hopeful assessment has been sustained by expectations of the early development of a "plutonium economy" based on the reprocessing of spent fuel elements from conventional reactors and early commercialization of the breeder reactor, which could multiply 50 to 60 fold the total energy recoverable from uranium reserves. Prognostications in this area are beset with many uncertainties, however, and within the last few years influential voices have been raised in the United States to cast doubts on these earlier forecasts concerning the economic advantages of nuclear energy compared with other energy sources, and on the desirability of proceeding

*Analyst in International Relations, Congressional Research Service, Library of Congress.

[1] For a U.S. Government assessment of the technical capability of various states to acquire nuclear weapons as of April 1977, see U.S. Congress, House, Committee on International Relations. Subcommittee on International Economic Policy and Trade. "Nuclear Proliferation Factbook." (Prepared by the Environment and Natural Resources Policy Division of the Congressional Research Service) Committee print, 95th Cong., 1st sess., Washington, D.C., U.S. Government Printing Office, 1977, p. 334.

rapidly with reprocessing and commercialization of the breeder, which are thought to carry with them greatly increased weapons proliferation risks in the circulation of large quantities of bomb-fissionable plutonium.[2] This critique has had a profound impact on the thinking of the current administration and Congress, and provoked a debate with international dimensions over the future of nuclear power. The outcome—particularly as regards reprocessing and development of the breeder—constitutes one of the critical subissues in the evolution of U.S. nonproliferation policy.

Whatever that outcome, however, it is clear that civil nuclear power in some form is here to stay and certain to grow, if at a pace less rapid that once hoped, and in a direction yet to be determined. Nor can it be forgotten that civil nuclear power is not the only path open to a state that chooses to acquire a nuclear arsenal. A state that wants these weapons badly enough, and has sufficient financial resources, may follow the same direct technical route to acquisition taken by each of the current nuclear weapon states.

U.S. nonproliferation policy must address itself, then, to a world in which it is quite likely that the technical capability to make nuclear weapons will be widely proliferated. The problem this presents is twofold: First, to establish and enforce an acceptable system of national and international controls and safeguards over the technology itself, such that diversions to military use—but not peaceful development of the technology itself—will be inhibited; and second, to create a structure of political incentives and disincentives that will discourage particular states with the technical capability to produce a nuclear weapon from making the political decision to do so. Devising such a set of interlocking nonproliferation policy elements is the key to creating and sustaining a successful nonproliferation regime.

BACKGROUND

U.S. nonproliferation policy has gone through several phases, beginning in the immediate post-World War II period with an attempt at comprehensive international control that soon foundered on the political animosities of the Cold War.[3] The policy of "technology denial" that followed in 1946 was pursued doggedly until late 1953, when it too succumbed, this time to the manifest failure of U.S. restrictions to halt the march of nuclear science and technology abroad. With President Eisenhower's "Atoms for Peace" proposals of December 1953, and the passage of the Atomic Energy Act of 1954, containment was abandoned in favor of a policy of promoting peaceful applications of nuclear technology at home and abroad within a system of export controls and safeguards designed to prevent the diversion of peaceful materials and facilities to military purposes. This tactic of combining promotion with control has governed U.S. nonproliferation policy ever since and was reconfirmed—with a significant shift in emphasis, however—in the Nuclear Nonproliferation Act of 1978 (Public Law 95-242).

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[2] One recent influential reassessment is that contained in the "Ford/Mitre Study," published in 1977 under the title "Nuclear Power: Issues and Choices." See Bibliography.

[3] Spelled out in the Acheson-Lilienthal report and the Baruch plan. For the texts of these important historical documents, see U.S. Congress. Senate. Committee on Government Operations. Peaceful Nuclear Exports and Weapons Proliferation: A Compendium. Committee Print. 94th Congress, 1st sess. Washington, D.C., U.S. Government Printing Office, 1975. pp. 127-213.

The most significant international expression of this "promote and control" formula is the Nonproliferation Treaty signed in 1968.[4] The treaty was constructed by means of a set of tradeoffs between the nuclear and non-nuclear weapon states that was meant to reduce and ultimately eliminate the fundamental political inequity—the distinction between a nuclear and non-nuclear weapon state—that lies at the heart of the treaty. By the terms of the treaty, an adhering non-nuclear weapon state agrees not to manufacture or receive by transfer "nuclear weapons or other nuclear explosive devices." In exchange, the weapon states committed themselves to "facilitate * * * the fullest possible exchange of equipment, materials and scientific and technological information for the peaceful use of nuclear energy," and to "insure that * * * potential benefits from any peaceful applications of nuclear explosions will be made available to non-nuclear weapons States Party to the Treaty on a nondiscriminatory basis * * *." Equally important, the weapons states also agree "to pursue negotiations in good faith on effective measures relating to cessation of the nuclear arms race at an early date and to nuclear disarmament, and on a treaty on general and complete disarmament under strict and effective international control," thus making nuclear disarmament an integral part of the nonproliferation regime established by the treaty.

To date the treaty has been ratified by more than 100 states and signed but not ratified by 10 others. Nevertheless, the treaty regime contains serious flaws. Several of the most likely proliferators—judged by their technical capabilities and political circumstances—are nonsigners or nonratifiers.[5] A number of critics have suggested that there are serious inadequacies in the international system of safeguards that are depended upon to detect violations of the treaty terms.[6] The standing of the treaty regime among the non-nuclear weapon states, especially in the developing world, has been weakened by concern that the nuclear weapon states have not made a good faith effort to promote peaceful application of nuclear energy outside their own borders.

But perhaps the major weakness in the treaty regime derives from failure to carry out its political terms. The nuclear weapon states, in particular, have been faulted for failing to make significant progress toward nuclear disarmament, and some nonsigners have cited this circumstance as justifying their decision to remain outside the treaty regime. Though in some cases this may be a less than candid description of their real motivations, it remains true that the political terms of the treaty are a dead letter. Progress in strategic nuclear and conventional arms limitations, in dealing with the more immediate security concerns of the non-weapon states, or in improving the international political and security climate generally, have been far too slight to have had any impact on the political and security perceptions that will govern the decisions of most states whether to "go nuclear." Nuclear and conventional weapons continue to proliferate, either vertically or horizontally; deadly confrontations continue unabated; "going nuclear"

[4] For the text, see the Nuclear Proliferation Factbook cited above.

[5] The most significant non-adherents to the treaty are the two nuclear weapon states, France and the People's Republic of China, and the non-nuclear weapon states, Argentina, Israel, South Africa, Spain, Brazil, India, Pakistan, Egypt, and Turkey.

[6] For instance, see General Accounting Office, Assessment of U.S. and International Controls over the Peaceful Uses of Nuclear Energy, ID-76-60, Washington, D.C., U.S. Government Printing Office, 1976, pp. 19-45.

may become an increasingly attractive option to states with the means to do so.

In the early 1970's, a number of discrete events—of which India's explosion of a "peaceful" nuclear device in 1974, and French and West German deals with Pakistan and Brazil for the supply of enrichment and reprocessing equipment and technology, stand out—brought about a revival of interest in the nonproliferation problem by calling some of these deficiencies to the attention of policymakers. Rising public concern with the environmental, health, and safety impact of the widespread application of nuclear energy to power generation, and reassessments of the economic competitiveness of this energy source, also contributed to a critical attitude toward the "peaceful atom." The result has been a significant shift in U.S. thinking about how to limit proliferation, and a new sensitivity to the relationship between nuclear power technology and nuclear weapons capability. Embodied in shifts in policy by the Ford and Carter administrations, and above all by Congress in the Nuclear Nonproliferation Act of 1978, the new approach retains, and indeed seeks to strengthen, the 1954 policy combining participation in the international nuclear economy with a system of controls and safeguards, but the old promotional attitude has been toned down in favor of a more cautious and presumptively more balanced approach to energy problems, both at home and abroad.[7] Implementation of this new agenda, particularly as set out in the 1978 act, is likely to form the focus of U.S. nonproliferation policy over the next several years.

Issue Outcomes and Consequences

Occasionally it has been argued that the further spread of nuclear weapons might be unexpectedly beneficial in actually reducing the frequency and scope of conventional warfare through the operation in regional contexts of the same sort of balance of terror that has controlled conflict between the superpowers for three decades. By far the more common view, however, is that not only would a large increase in the number of nuclear weapons states vastly multiply the available means of destruction, but it would also introduce an all but uncontrollable new source of political instability, making use of these weapons likely in regional disputes, and even increasing the probability of touching off a devastating nuclear exchange between the superpowers. When considering the prospect of a breakdown in the nonproliferation regime, however, one should not envision a world suddenly occupied by 15 to 20 nuclear powers without giving some thought to the intermediate steps that would have to be traversed in order to reach that unwanted situation. It can be argued that the actual test likely to confront the policymaker in the event of some sort of breakdown will be that of dealing with specific cases of proliferation one at a time. It is important, then, to keep in mind that there is a difference worth preserving between relative and absolute failure. If further proliferation cannot be prevented altogether, it may still be possible to slow its pace, control its direction, and deal constructively with its consequences. This is but to stress the need to think through

[7] For a summary of the provisions of the Nuclear Nonproliferation Act of below, p. 18.

in advance the sort of diplomacy that will be needed to deal with the next case of nuclear proliferation as an integral part of a nonproliferation strategy; that is, of dealing with the next case in such a way as to render a next case plus one less likely, a matter to which it would seem all too little thought has been given.

India and Israel are interesting in this regard. India exploded a nuclear device in 1974, but insisted at the time that the test was for "peaceful purposes" only. It has been reported but never officially confirmed, that Israel has manufactured but not fully assembled a small number of nuclear warheads, which it holds in readiness for final assembly in case of need.[8] The two cases taken together suggest that nuclear weapons proliferation may not be as clear cut a concept as much current analysis assumes. But the Indian case disturbs some authorities for another reason. Though India now seems to be having second thoughts about its one test,[9] and as far as is known has not followed up with further testing, development, or production work, this appears to be more the result of India's recent change of government than of any pressure from abroad, which was mild and rather ambivalent, to say the least, leaving an impression in some quarters that a new proliferator can expect to escape largely unscathed by international sanctions.

Meanwhile, of course, nuclear power technology will continue to develop and spread, and to carry with it some degree of proliferation risk. Thus, though the greatest danger facing the United States and the world community is posed by the possibility of tears in the fabric of the nonproliferation regime with the occurrence of actual cases of weapons acquisition, the more likely source of immediate difficulties for policymakers will be in trying to reconcile differences among states over how to deal with the problem of burgeoning weapons-making capabilities based on the civil nuclear power industry. The future of that industry is beset by many uncertainties. The technology itself and its commercial viability are the most important variables, but the outcome will not be decided on narrow technical and economic grounds alone. It is not merely a question of whether nuclear power is commercially viable in itself, but whether in comparison with alternatives, its demonstrable advantages—including some noneconomic ones—outweigh any drawbacks in the form of possible catastrophic nuclear reactor accidents, the escape of radioactive nuclear wastes, and, above all, nuclear weapons proliferation.

It is becoming clear that these various factors are being weighed differently in the calculations of different nations, which must act in terms of their own unique political circumstances and economic needs. For many of the developing countries, the main appeal of nuclear power may be less economic need—though this certainly cannot be discounted in every case—than the prestige and enhanced self-esteem that is expected from achieving command over an advanced technology. In the high-consumption, resource-deficient states of Europe and Japan, attitudes are shaped by the relative and, in many cases, near-absolute dearth of short-term alternative domestic energy sources. This concern introduces a new element into the nuclear power equation, since the desire of these states to exploit the full potential of

[8] See Donna Kramer, "Is Israel A Nuclear Power? Selected Bibliography, 1961 to the Present." Congressional Research Service, report 78–133 ENR, June 15, 1978.
[9] "India Won't Rule Out Use of A-Blasts for Mining," New York Times, July 28, 1978.

the atom rests as much on a national security argument—the need for greater energy independence as a way of reducing vulnerability to foreign, politically motivated pressures on fuel supplies—as on pure economic calculation. It is this consideration that gives poignancy to differences between the United States and Western Europe and Japan over such questions as whether to proceed with reprocessing and early commercialization of the breeder, and the appropriate place of these technologies in foreign trade.[10]

A common sense of the weapons proliferation danger, as well as a common concern to see that shared interests in other areas—economic, political, and military—are not disrupted by disputes over nuclear power, should serve to dampen controversy and stimulate efforts to reconcile conflicting viewpoints and tactics among supplier states. Certain recent developments—including the common decisions of the nuclear supplier's group, the creation of an international fuel cycle evaluation, and the commitment of France and Germany not to contract for further transfers of enrichment and reprocessing facilities to non-nuclear-weapon states—suggest that these forces are already at work. But adjusting differences between suppliers and recipients, especially in the Third World, may be more difficult; and, among all the parties, any true reconciliation of viewpoints and the establishment of consistent and coordinate nonproliferation policies, will require much delicacy of proceeding and nicety of judgment.

In considering the future, it can be argued that the international community is confronted with two types of proliferation—the proliferation of nuclear weapons, and the proliferation of the means to acquire these weapons, once the political decision is made to do so. The future may bring no further nuclear weapons proliferation; it may bring widespread, disruptive proliferation; it may bring something in between. But, in every case the decision whether to acquire a nuclear weapon is a political decision, and therefore discouraging such decisions by single nations, and containing the effects of a single nation's decision on other potential nuclear powers, is a matter of diplomacy, involving such diverse instrumentalities as the application of sanctions against proliferators; arms control measures, including especially strategic arms limitations between the superpowers; the resolution of regional conflicts; and measures to meet the particular security needs of the non-nuclear-weapon states.

The containment of weaponsmaking capabilities will require diplomacy, too, albeit of another sort. Here one may say that the problem is to devise an international regime among recipient and supplier states, who often have conflicting interests, in order to promote and control international commerce in nuclear technology in such a way that the weapons proliferation danger will be minimized rather than increased through commercial rivalry, acrimony, and distrust. The future of nuclear power is shaped by its comparative costs, changing perceptions of energy resource needs, and the pace of technological developments. The task of diplomacy is to see that the challenges raised are met cooperatively rather than otherwise; and that the technological future is kept compatible with an effective nonproliferation regime.

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[10] Rockefeller Foundation. "International Cooperation in Breeder Reactors." New York, Rockefeller Foundation, 1978, pp. 408; U.S. Library of Congress. Congressional Research Service. "European Reactions to the U.S. Nonproliferation Policy." Prepared under contract by Geoffrey Greenhalgh. Rept. 78-112 ENR, Jan. 16, 1978.

Role of the United States

U.S. policy regarding nuclear weapons proliferation is likely to continue along the parallel lines of seeking to develop a "political" structure of incentives and disincentives to reduce the likelihood that particular states will choose to make or otherwise acquire nuclear weapons, and of maintaining and strengthening a system of export controls, safeguards, and other national and international arrangements to inhibit weaponsmaking capabilities more directly. If the past is any guide, however, emphasis will be on the latter, while the "politics" of nonproliferation will continue to be subordinated to other concerns. For this reason, the most important clue to the role the United States will be playing in regard to proliferation over the next few years is contained in the Nuclear Nonproliferation Act of 1978.

This is not to say that the political dimension of the problem can or will be overlooked altogether. U.S. alliance systems, backed by strategic nuclear power, will continue to try and provide a number of states with security designed to make the acquisition of nuclear weapons unnecessary. The continued health and credibility of these systems, therefore, is an important bulwark against proliferation. For nonproliferation purposes, however, these systems have direct utility only in Western Europe and for a few states in the Far East. Elsewhere, to the extent that U.S. power is used to prevent, dampen, or contain local or regional conflicts, nonproliferation objectives are also served, but the longstanding demands of some countries in the Third World for more formal security guarantees are not likely to be met, stymied as in the past by great power caution, the rigid logic of the nonalinement ideology, and the general political complexity of such undertakings. As a result, many countries in the Third World are likely to retain at minimum a theoretical interest in the nuclear option.

Nor is much to be expected from strategic arms limitations. The NPT formalized the demand of the non-nuclear-weapon states that, as a condition of their acceptance of permanent non-nuclear-weapon status, the nuclear-weapon states make a good faith effort to eliminate their own nuclear arsenals. In the strategic arms limitation talks (SALT), however, the proliferation dimension has taken a backseat to more immediate concern with the impact of agreement on the relationship between the two superpowers themselves. Whatever the merits of the final version of the SALT II accord measured by its impact on the stability of the central strategic balance and the general health of East-West détente, its nonproliferation value is certain to be minimal, since it will do relatively little to rectify the existing imbalance in strategic power between nuclear-weapon and non-nuclear-weapon states. Furthermore, should the United States and the Soviet Union fail to reach an accord, or should any accord reached be rejected in the Senate, or should the ratification of an accord lead not to any real reduction in strategic nuclear power but rather to further qualitative advances, the proliferation of other weapons types, and large increases in defense expenditures, the cause of nonproliferation could receive a substantial psychological setback, since any result along these lines would reinforce the perception of some non-nuclear-weapon states that the superpowers are not making a good faith effort at nuclear divestiture.

In the negotiations for a comprehensive test ban treaty, the nonproliferation rationale has been much more explicit. One major argument made in support of a comprehensive ban is that the cessation of all nuclear explosions testing would impose constraints on the development of nuclear weapons by non-nuclear-weapon states. Clearly, any state signing the treaty would be directly and formally precluded thereby from taking the crucial last step in the demonstration of a nuclear weapons capability, which is testing. But beyond this, proponents urge, a comprehensive ban would also have an important psychological impact in reducing the inequity of the NPT and in undermining the perceived legitimacy or value of nuclear explosions tests. A comprehensive ban that encompassed peaceful nuclear explosions (PNE) tests would be especially valuable, the proponents argue, in that it would confirm the judgment that nuclear explosions have little real engineering potential, and thus would undercut the PNE rationale for testing devices that, by whatever name they are called, are technically and politically indistinguishable from nuclear weapons.

Critics, however, argue that there is no reliable evidence indicating that the potential nuclear weapon states that have kept their nuclear weapon option open by refusing to sign the NPT would be likely to close it by signing a comprehensive test ban. They suggest further that protests concerning the superpower arms race and the inequities of the NPT notwithstanding, the decision by a potential proliferator whether to go nuclear most likely will be based on a calculation of its own security needs or considerations of prestige, and only marginally, if at all, on the larger dynamic of the superpowers arms competition. If this is the case, the nonproliferation rationale for a comprehensive test ban loses credibility.

The main U.S. political contribution to nonproliferation should follow from whatever success it has in maintaining a stable international environment generally, and in resolving particular regional disputes that threaten open violence. Meanwhile, there is continuing need to maintain and strengthen the regime of direct national and international controls over the technology of nuclear power. The most recent significant statement of overall U.S. policy in this area is the Nuclear Nonproliferation Act of 1978.

The act, of course, is not without political significance. It is noteworthy that the legislation is self-described as an "Act to provide for more efficient and effective control over the proliferation of nuclear explosive *capability*." [11] As noted in the Senate Foreign Relations Committee report on its version of the original bill, a nuclear weapons capability is not to be confused with the actual acquisition of a nuclear weapon.[12] The act, then, addresses itself to the acquisition of means by non-nuclear-weapon states, and not directly to the political decision whether or not to make a weapon. But there are several exceptions to this. For one thing, the act calls for negotiations to agree on international sanctions, and requires the imposition of several of its own in specified circumstances. The threat to use sanctions, or their actual imposition, is a political act, aimed at influencing the acquisition decision. The act also seeks to encourage adherence to the NPT, and this,

[11] Emphasis added.

[12] U.S. Congress. Senate. Committee on Foreign Relations. Nuclear Nonproliferation Act of 1977. Report, with additional views, to accompany S. 897. Report No. 95–467. 95th Cong., 1st sess. Washington, D.C. U.S. Government Printing Office, 1977. p. 3.

too, involves a political decision. Furthermore, insofar as the act as a whole must impress itself upon other nations as signifying a strong U.S. concern with the proliferation problem, it may be expected to have a general political impact on the motivational structure of other states, most especially those dependent upon the United States for nuclear technology, materials, and facilities, security guarantees in one form or another, or for good economic and political relations generally.

Beyond these considerations, the most important observation to be made in assessing the U.S. role under the act is to note the reduced place of the United States in the technology and international commerce of nuclear power.[13] Several advanced countries have now developed nuclear technologies of their own, and have begun to participate vigorously in the international commerce in materials and facilities. This not only reduces U.S. leverage generally, but adds a troublesome new element—commercial rivalry—to the control problem. For this reason, a major consideration in drafting the 1978 act, and a major source of controversy along the road to its passage, was a concern to regain for the United States some of this lost leverage over the international movement of nuclear power technology, materials, and facilities.

Thus, Title I of the Act makes it a matter of national policy that the United States shall take the steps necessary and feasible to serve as a reliable supplier of nuclear fuels. The Secretary of Energy is directed to begin expansion of uranium enrichment capacity, but only as elsewhere provided for by law, and the President is to initiate a study of future enrichment needs with a view to making legislative recommendations to Congress. The President is also directed to begin international discussions on measures to meet future international nuclear fuel needs (including agreements to establish an international nuclear fuel authority), and on such other matters as international approaches to the provision of nuclear fuel services, the establishment of repositories for spent fuel, and sanctions for the abrogation or violation of agreements. This title also directs the President to initiate an international fuel cycle evaluation, which is now underway, with a report expected some time in 1980.

Title II of the Act commits the United States to join with other nations in strengthening the safeguards system of the International Atomic Energy Agency, and directs the Department of Energy to establish safeguards and physical security training programs for foreign nations. More significant from a political perspective, the title commits the United States to negotiations aimed at adopting "general principles and procedures, including common international sanctions, to be followed in the event that a nation violates any material obligation with respect to the peaceful use of nuclear materials and equipment or nuclear technology, or in the event that a nation violates the principles of the (NPT) Treaty, including the detonation by a nonnuclear weapon state of a nuclear explosive device * * *."

Title III, by far the longest in the Act, deals with export controls. It mandates new administrative procedures, codifies existing export criteria, and adds new criteria to take effect in September 1979. After that time, export licenses may not be approved for nonnuclear weapon

[13] Paul L. Joskow, "The International Nuclear Industry Today: The End of the American Monopoly." Foreign Affairs, vol. 54, No. 4 (July 1976), pp. 788, 803.

states unless they have committed themselves to put all their nuclear activities under IAEA safeguards. This already has become a point of contention with India, and may become so with the other states as well.

Title IV spells out more stringent nonproliferation conditions to be included in new agreements for cooperation, and directs the President to initiate a program to renegotiate existing agreements for cooperation in order to incorporate these new conditions. This provision already has caused some friction with Euratom, though it now appears that major differences have been ironed out. The President is also instructed to seek agreement with foreign nations to commit themselves to certain export policies specified in the Act.

Title V states that the United States will endeavor to cooperate with other nations in providing assistance to the developing countries for the purpose of finding alternatives to nuclear power in meeting their growing energy needs, and, in general, to encourage a more balanced approach to their energy problems.

Title VI deals with executive reporting.

Taken as a whole, the act is as comprehensive a statement of U.S. nonproliferation policy as has been attempted to date. It records and codifies a significant shift in emphasis in U.S. policy relating to nuclear power and the weapons proliferation danger, a movement away from what some have considered a rather uncritical touting of the virtues of nuclear energy and toward what is meant to be a more balanced approach to energy needs, reflecting a sharper awareness that the proliferation of nuclear weapons capabilities at the technical level is a proliferation problem in its own right that must be treated in its own terms, especially in light of the lack of progress made in dealing with the problem on the political level.

At the same time, because so many aspects of the proliferation problem lie beyond the reach of unilateral U.S. action and direct legislative authority, the act—with the partial exception of the administration provisions—is in many respects more a call to action than a finished piece of work. Much will depend on how officials of the executive branch and the Nuclear Regulatory Commission interpret and apply the legislative language, and on how vigorously they pursue the various international initiatives mandated by the act. Consideration should be given to having the new procedures and criteria so interpreted and applied as to produce the effective control and containment of the proliferation danger that the authors of the legislation intended.

At the same time, should the new rules be so onerous, inequitable, or unpredictable as to undermine the credibility of the United States as a reliable supplier, that could cause potential customers to look elsewhere to meet their nuclear energy needs, or to seek nuclear independence though the construction of their own enrichment and reprocessing facilities. In either case, the result would be a serious decline in U.S. nonproliferation leverage. There is a need, then, that the new procedures and criteria be interpreted and applied expeditiously, and in such a way that foreign applicants can expect a quick, consistent, and equitable response to their requests for cooperation.

Precedent in this early stage will be especially important for the future of the Act and U.S. policy. This was brought out clearly by recent action on a Japanese request for U.S. approval of the shipment of spent fuel of U.S. origin to Great Britain for storage and ultimate reprocessing at its Windscale facility. In laying down conditions for the approval of subsequent arrangements for reprocessing, the act imposes more stringent conditions for requests to reprocess at new facilities that it does at those that have already engaged in some reprocessing. Fuel elements have been reprocessed before at Windscale, but the Japanese fuel elements would be handled in an expansion of the existing facility. The question raised by the Japanese request was whether the expansion should be "grandfathered," that is, treated as part of the existing facility, in which case the less stringent conditions would apply, or should it be treated as a new facility. The Department of Energy first attempted to take the former course, but then as a result of vigorous expressions of congressional concern that should the terms of the act be so interpreted, the greater part of the reprocessing done in the next several decades would escape the more stringent conditions, the Department reversed itself and determined to treat the expansion as a new facility. At the same time, however, the Department postponed consideration of what criteria would apply to the retransfer of the reprocessed plutonium back to Japan until such time as that question comes up a decade or more in the future.

The Role of Congress

Atomic energy has been an object of intense congressional interest ever since the atomic age dawned over Hiroshima. The Atomic Energy Act of 1946 stands as a monument to that early concern, and whatever else critics may say about the way Congress has handled atomic energy matters, on the general issue of nuclear power it cannot be faulted for neglect. If it is true that in the wake of the Atomic Energy Act of 1954, Congress began to pursue what some critics now consider to have been an overly favorable and strongly promotional approach to nuclear power, in this it was only acting in light of what had become the conventional wisdom of the time, a set of attitudes broadly shared with both the executive branch and influential opinion makers outside the Government. If congressional concern with the more specific question of nuclear weapons proliferation has passed through several cyles of rising and declining interest, this too was the result of a broader movement of opinion on the issue.

As noted, U.S. interest in the proliferation danger has intensified once more, and this new mood has been reflected in the recent actions of Congress. Indeed, in this case, Congress has played a leading role in raising the proliferation issue to a higher level of national concern. To strong advocates of nuclear power—both here and abroad—it might even seem that the pendulum has swung too far, that Congress has passed from an advocate of nuclear power to its adversary, but to read the 1978 act in this fashion—as a sort of Luddite directive to smash the nuclear power industry—risks misinterpreting congressional intentions. The difficulty President Carter has had in convincing Congress to go slow on commercial development of the breeder reactor alone should belie this contention. Rather, the act suggests that, at least so far as the export trade is concerned, Congress has adopted a constructively critical attitude that will require domestic nuclear exporters of materials and technology and their potential foreign customers to make a case for their exports on grounds more solid than a generalized faith in the beneficence of nuclear energy, and to do so in full consciousness of the weapons proliferation danger.

Meanwhile, two partial test ban treaties—the Threshold Test Ban Treaty and the Peaceful Nuclear Explosions Treaty—are now pending before the Senate, and negotiations continue to produce a comprehensive ban, which could be presented for Senate consideration sometime in 1980. A U.S. treaty with the IAEA, which would open up peaceful nuclear facilities in the United States to inspection by the agency, is also before the Senate. The arguments favoring each of these agreements rests in good part on the nonproliferation rationale.

Meanwhile, however, the major focus of attention in Congress is likely to be on the 1978 act. The act probably carries general nonproliferation legislation as far as would be prudent to go at this point in time, though there well may be loose ends to tie up through amendments to the act itself or other related legislation. Time is needed to see how the provisions of the act will work out in practice as executive branch and Nuclear Regulatory Commission officials go about implementing its varied and complex terms. As noted above, Congress should be in a good position to shape this process in vital ways.

For one thing, the act contains a number of reporting requirements, which should assist Congress with the oversight function. These requirements include reports by the President on the need for additional U.S. enrichment capacity; progress in the international fuel cycle evaluation; implementation of new export policies and nonproliferation conditions in agreements for cooperation, with an eye to recommending any changes that might be desirable; and the feasibility of increased cooperation with the developing countries on questions of energy supply. He is also to submit reports on each existing agreement for cooperation, and on the results of annual reviews of all activities of the departments and agencies relating to proliferation. The act also reserves an important place for Congress in the decisionmaking through exercise of the legislative "veto". The vigor with which Congress pursues its self-imposed responsibilities for oversight and decisionmaking could have important consequences for the future of the act and for overall U.S. nonproliferation policy in the year ahead.

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U.S. HUMAN RIGHTS POLICY

(By Vita Bite*)

Issue Definition

The question of what role concern for the basic human rights of citizens of other countries should play in U.S. foreign policy formulation and practice is the central issue here, around which are clustered a vast number of important subsidiary issues including:

How are human rights to be defined? Indeed, in espousing international human rights is there not the danger of attempting to impose peculiarly American values on other cultures to the denigration of foreign national sovereignties? Is there a universally accepted definition of human rights? Is there any sense of priority among the rights which are included in such an all-encompassing definition as the Universal Declaration of Human Rights?

What human rights standards are applicable to U.S. foreign activity? By what standards are we to judge another government's treatment of its own people? Should we attempt to promote the same rights abroad as we protect at home? Indeed, is it possible for the United States to apply a single human rights standard to all nations—primitive and advanced, big and small, friend or foe, neutral or vital national security partner?

Is it practical or appropriate for the United States to be the moral judge for a world in which United States and Western concepts of human rights differ markedly from the human rights priorities of other nations and cultures?

How can human rights considerations be brought into the balance of decisionmaking? Is it possible to establish and apply a consistent and equitable human rights policy? Where should human rights stand in the hierarchy of U.S. foreign policy interests? If human rights concerns are found to be irreconciliable with national political and economic interests can a balance be struck?

What measures are appropriate for promotion of human rights in specific countries? What is the best method to bring about changes in the domestic policies of other governments: unilateral steps such as breaking diplomatic relations? Public expressions of protest? Human rights impact statements for bilateral and multilateral aid, arms transfers, trade? Restrictions or termination of economic and military aid? Multilateral actions such as international sanctions? Investigations by international organizations? Are public or private actions more effective? What are the foreign and U.S. impacts of various measures?

The application of the human rights policy by the Carter administration has underscored these questions. Moreover, as human rights is

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an area in which Congress has also acted on its own initiative, it will continue to be an important policy issue during 1979–80.

Background

During the past 5 years the topic of human rights has become a very conspicuous and controversial issue in the U.S. Government. Congress has, through hearings,[1] drawn attention to the violation of human rights in other countries and has instituted legislative mechanisms aimed at assuring that U.S. foreign policy actions include consideration of the status of human rights in other countries. Congress acted to cut off or limit military assistance to countries such as Chile, Uruguay, Argentina, Ethiopia, and the Philippines. It established within the Department of State a position of Assistant Secretary of State for Human Rights and Humanitarian Affairs to be appointed with the advice and consent of the Senate. Congress also mandated [2] an annual reporting by the Department of State on the status of human rights in countries proposed as recipients of U.S. assistance.

In his inaugural address President Carter gave significant attention to the importance of a U.S. commitment to and respect for human rights. The outspoken quality of the President and his administration in subsequent statements on the status of human rights in certain countries stirred further controversy as to the role that the human rights of foreign citizens should play in U.S. foreign policy. Official U.S. expressions of concern about violations of human rights in particular countries have been viewed by some as threatening U.S. national security, economic, political, or other interests. While the promotion of human rights is accepted as a serious moral concern, there is considerable disagreement as to whether it is realistically feasible to give substantial weight to these concerns in a U.S. foreign policy which deals with sovereign nations and whose purpose is to safeguard the power and international position of the United States.

Thus, human rights issues compete with various other considerations during the formulation and execution of U.S. foreign policy. The most fundamental consideration is that of the national interest and what actions policymakers perceive to be the most advantageous for U.S. national interests. The linking of some human rights issues with other international problems sometimes makes resolution more difficult. The impact of intervention of any form—a public statement might be viewed by some nations as intervention—is measured against national interest perceptions. There is also some concern over the nature and mechanisms of counter actions by countries in attacking the human rights performance of U.S. society.

The Problem of Definition

In implementing human rights policy an extremely difficult problem has been to determine on what bases human rights policies are to be applied and to what extent they can be applied consistently. The most fundamental question here is what is to be included in the definition of human rights. The broader the definition, the more difficult the

[1] For list of human rights hearings and enacted legislation see "Human Rights and U.S. Foreign Policy" [by Vita Bite]. Issue Brief No. IB 77056 [Periodically updated].
[2] Foreign Relations Authorization Act, 1978, Public Law 95–105, Aug. 17, 1977.

problem of consistency because likelihood increases that regimes that perform poorly with respect to some humanitarian values can and will counter with superiority to their counterparts in other countries in performance in other humanitarian goals. In a speech on April 30, 1977 Secretary of State Vance enunciated a tripartite definition of human rights as follows:

First, there is the right to be free from governmental violation of the integrity of the person. Such violations include torture; cruel, inhumane or degrading treatment or punishment; and arbitrary arrest or imprisonment. And they include denial of fair public trial, and invasion of the home.

Second, there is the right to the fulfillment of such vital needs as food, shelter, health care and education. We recognize that the fulfillment of this right will, depend in part, upon, the state of a nation's economic development. But we also know that this right can be violated by a government's action or inaction—for example, through corrupt official processes which divert resources to an elite at the expense of the needy, or through indifference to the plight of the poor.

Third, there is the right to enjoy civil and political liberties—freedom of thought; or religion; of assembly; freedom of speech; freedom of the press; freedom of movement both within and outside one's own country; freedom to take part in government.[3]

One problem with an all-encompassing definition of human rights is that it includes both rights which require positive state action and rights which are threatened by the growth of state power. Two entirely different classes of rights requiring different kinds of actions for implementation are meshed together in a very tenuous union which requires an extremely sophisticated balancing so that in professing to be fulfilling one group of rights another group is not sacrificed.

Most active recent concern in international forums has been directed toward torture, arbitrary imprisonment, and murder of political opponents which form a core of issues on the integrity of the person on which broad international agreement can be reached. Probably few governments would argue that they have a right systematically to abuse their citizens in the above ways. Rather, governments plead special, temporary circumstances which necessitate certain human rights restrictions. Among the circumstances often cited are: that the rights of the individuals are subordinate to the duties of the individual as part of the community, that the country is threatened by internal or external aggression, or that the needs of economic and social development supersede all other considerations.

U.S. Obligations

The United States has treaty obligations to promote the protection of human rights. Articles 55 and 56 of the U.N. Charter require U.N. member states to promote human rights and to take joint affirmative action on human rights issues. Thus, in section 502B(a)(1) of the Foreign Assistance Act (as amended by the International Security Assistance Act of 1978)[4] Congress set forth the following overall directive for conduct of U.S. foreign policy:

The United States shall, in accordance with its international obligations as set forth in the Charter of the United Nations and in keeping with the constitutional heritage and traditions of the United States, promote and encourage increased respect for human rights and fundamental freedoms throughout the world without distinction as to race, sex, language, or religion. Accordingly, a principal goal

[3] Printed in Congressional Record [daily edition], v. 123, May 2, 1977 : S6854.
[4] Section 6, Public Law 95–384, Sept. 26, 1978.

of the foreign policy of the United States shall be to promote the increased observance of internationally recognized human rights by all countries.

The section clearly affirms U.S. obligations under the U.N. Charter to promote and encourage respect for human rights and fundamental freedoms.[5] It also ties U.S. human rights activity to the standards and criteria established by the international community, that is to "internationally recognized human rights."

The Universal Declaration of Human Rights, which was adopted unanimously by a resolution of the U.N. General Assembly on December 10, 1948, is perhaps the most widely accepted statement identifying human rights. Since it is neither a treaty nor an international agreement, the declaration does not place binding obligations on states. Rather, it was proclaimed by the General Assembly:

> * * * as a common standard of achievement for all peoples and all nations, to the end that every individual and every organ of society, keeping this declaration constantly in mind, shall strive by teaching and education to promote respect for these rights and freedoms and by progressive measures, national and international, to secure their universal and effective recognition and observance, both among the people of member states themselves and among the peoples of territories under their jurisdiction.

The declaration is of special significance both because of its general international recognition and because Congress and the Executive have emphasized the obligations of the United States to protect and promote human rights as identified in international documents. The declaration was conceived as the initial part of an international bill of rights in which the human rights covenants or treaties would form the binding portion. Two covenants—one on civil and political rights and the other on economic, social, and cultural rights—were adopted in 1966 and came into force in 1976. The United States, however, is not a party to either one of these major human rights treaties.

The role of the international community in the protection of human rights is a relatively recent phenomenon and, inded, is far from universally recognized. Moreover, while the Charter obligates U.N. members to promote respect for human rights and states as a primary purpose of the organization the promotion of human rights and fundamental freedoms for all, it also recognizes the doctrine of nonintervention. Thus, article 2, paragraph 7, of the U.N. Charter states that nothing in the charter authorizes the "United Nations to interfere in matters which are essentially within the domestic jurisdiction of any state." States accused of human rights violations often cite this provision in response to criticisms by other states (or international organizations) relating to human rights conditions within their borders.

At the same time there is substantial justification for state responsibility for the protection of the human rights of individuals and for some level of "interference" by the international community on behalf of those whose rights have been infringed. Activity for the protection of human rights has been constantly subjected to tension between state sovereignty as protected by the doctrine of nonintervention and state obligations to protect individual human rights and fundamental freedoms.

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[5] In fact, the words "promoting and encouraging respect for human rights and fundamental freedoms for all without distinction as to race, sex, language, or religion" are found in article 1 (purposes and principles) of the U.N. Charter.

President Carter in a speech at the United Nations on March 17, 1977, unequivocally stated that the U.S. Government considers human rights to be a matter of international concern:

> All signatories of the U.N. Charter have pledged themselves to observe and respect basic human rights. Thus no member of the United Nations can claim that mistreatment of its citizens is solely its own business. Equally, no member can avoid its responsibilities to review and to speak when torture or unwarranted deprivation of freedom occurs in any part of the world.

Congressional Actions

In addition to international obligations to promote human rights, Congress during the past 5 years has enacted legislation to assure that the U.S. Government pay greater attention to human rights violations in other countries and to the role of human rights in U.S. foreign policy considerations. Congressional initiatives originated in an adversary situation with the executive during the last days of the Nixon administration. During the Nixon and Ford administrations, the foreign policymakers viewed human rights as essentially an internal matter for foreign governments, and one in which the United States had no business meddling publicly, though progress might be achieved through quiet diplomacy and indirect pressure. Congressional power over economic and military assistance budgets and programs was one of the few areas in which the legislative branch could demonstrate its position on such policies.

Current congressional legislative initiatives on international human rights began in 1973. Since the enactment of the initial 1973 measures, provisions relating to human rights have been incorporated into almost every major piece of legislation relating to foreign relations.[6] The Foreign Assistance Act of 1973 [7] contained some very limited and noncoercive provisions relating to individual civil and political rights. In 1974 Congress added a new section 502B to the Foreign Assistance Act. This section, which has undergone many subsequent changes and additions, in its 1974 appearance expressed the:

> . . . sense of Congress that, except in extraordinary circumstances, the President shall substantially reduce or terminate security assistance to any government which engages in a consistent pattern of gross violations of internationally recognized human rights, including torture or cruel, inhuman or degrading treatment or punishment; prolonged detention without charges; or other flagant denials of the right to life, liberty, and the security of the person.

The International Development and Food Assistance Act of 1975 [8] added section 116 to the Foreign Assistance Act. This provision, known as the Harkin amendment (for its principal House sponsor, Representative Tom Harkin) no longer expressed simply the "sense of Congress" but specifically prohibited U.S. development assistance:

> . . . to the government of any country which engages in a consistent pattern of gross violations of internationally recognized human rights, including torture or cruel, inhuman, or degrading treatment of punishment, prolonged detention without charges, or other flagrant denial of the right to life, liberty, and the security of person, unless such assistance will directly benefit the needy people in such country.

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[6] For a more detailed description of enacted legislation see Human Rights and U.S. Foreign Policy [by Vita Bite], Issue Brief No. IB77056 (periodically updated).
[7] Public Law 93-189, Dec. 17, 1973.
[8] Public Law 94-161, Dec. 20, 1975.

The provision further stipulated that:

(a) In determining whether this standard was being met, either the House International Relations Committee or the Senate Foreign Relations Committee could require a written report demonstrating that such assistance would directly benefit the needy people;

(b) If either committee or House of Congress disagreed with the justification, action to terminate assistance might be initiated; and

(c) The President was annually to transmit to Congress a report on compliance with these provisions.

During the spring of 1976 Congress added human rights provisions to the funding authorizations for the Inter-American Development Bank and the African Development Fund.[9] Also during 1976 the most detailed and directive human rights provisions enacted to that time was passed by Congress. As finally enacted, the human rights provisions of the International Security and Arms Export Control Act:[10]

(a) Established within the Department of State a Coordinator for Human Rights and Humanitarian Affairs to be appointed by the President with the advice and consent of the Senate;

(b) Required the Secretary of State to submit reports each fiscal year on human rights practices in each country proposed as a recipient of security assistance;

(c) Required the Secretary of State upon request of Congress to submit a statement on a designated country's human rights practices including information on the steps the United States has taken to promote human rights in that country;

(d) Established that, if such a statement is not transmitted within 30 days, security assistance to that country would cease until the statement was transmitted; and

(e) Provided that after the requested statement was transmitted, Congress might reduce or cut off security assistance to the designated country by adoption of a joint resolution.

The inauguration of President Carter brought a new dimension to U.S. human rights activities. However, even while pursuing a strong human rights policy, the Carter administration soon found itself differing over some human rights measures proposed by the 95th Congress. Congress, for its part, during 1977 and 1978 continued to press for a stronger U.S. position by enacting new human rights provisions and expanding existing ones.

The International Development and Food Assistance Act of 1977[11] mandated that the Secretary of State transmit by January 31 of each year a full report on the status of basic human rights in countries receiving U.S. development assistance. The legislation also added a new section 112 to title I of the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480), prohibiting entry into an agreement to finance the sale of agricultural commodities to the government of any country which engaged in a consistent pattern of human rights violations, unless such agreement would directly benefit the needy people in that country.

The best U.S. approach for encouraging multilateral banks to limit lending to countries with poor human rights records was a topic of major congressional debate during consideration of funding authorizations for international financial institutions. The House agreed to an amendment that directed U.S. representatives at all the banks to op-

[9] Public Law 94–302, May 31, 1976.
[10] Public Law 94–329, June 30, 1976.
[11] Public Law 95–88, Aug. 3, 1977.

pose loans to human rights violators unless the credit was directed specifically to programs which served the basic needs of the citizens of the recipient country. The Senate, however, accepted a milder provision that directed U.S. representatives merely to use their voice and vote to seek to channel assistance to countries other than those that show a consistent pattern of human rights violations. This approach was also favored by the President. As finally enacted the legislation authorized and instructed U.S. executive directors to oppose loans, financial assistance, or technical assistance to countries violating human rights unless such assistance would serve basic human needs.[12]

A similar divergence in congressional and executive views arose over provisions in the Foreign Assistance and Related Programs Appropriations Act, 1978.[13] During consideration of this measure disagreements arose over limiting the use of U.S. funds for multilateral aid to countries such as Cuba, Uganda, Vietnam, Cambodia, Laos, Angola, and Mozambique. The House voted to prohibit international financial institutions from using U.S. funds to assist these countries, because of their poor human rights records, among other considerations. After World Bank President McNamara stated that the institution would not accept U.S. funds under such restrictions, the Senate deleted these provisions. When a House-Senate conference was unable to resolve the issue, President Carter promised to instruct U.S. representatives to the international financial institutions to oppose and vote against any loans to the seven named countries during fiscal year 1978. The legislation as finally enacted prohibited direct aid to the seven countries, but did not prohibit international financial institutions from using U.S. funds to assist these countries.

The Foreign Relations Authorization Act, 1978 (Public Law 95–105) elevated the State Department Coordinator for Human Rights and Humanitarian Affairs to Assistant Secretary status. Also during 1977 Congress amended the Export-Import Bank Act of 1945 (Public Law 95–143) to include human rights provisions. In 1978 Congress enacted legislation adding human rights provisions to the Overseas Private Investment Corporation (OPIC) Amendments Act of 1978.[14] Under its provisions OPIC was to take into account observance and respect for human rights and the effect OPIC's program would have on human rights in any country.

Other human rights measures enacted during 1978 authorized and encouraged the President to use not less than $1.5 million of development assistance funds in fiscal year 1979 for programs and activities to encourage or promote increase adherence to civil and political rights.[15]

The Foreign Relations Authorization Act[16] expressed the sense of Congress that news dissemination and the free flow of information abroad be encouraged. The legislation also expressed the congressional finding (based on "reliable reports") that the brutality of governmental practices in Uganda and Cambodia had reached such levels that they required special notice and condemnation. An arms embargo was called for against Uganda.

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[12] Public Law 94–118, Oct. 3, 1977.
[13] Public Law 95–148, Oct. 31, 1977.
[14] Public Law 95–268, Apr. 24, 1978.
[15] International Development and Food Assistance Act of 1978, Public Law 95–424, Oct. 6, 1978.
[16] Public Law 95–426, Oct. 7, 1978.

The International Security Assistance Act of 1978 [17] amended the wording of the first three paragraphs of section 502B of the Foreign Assistance Act, deleting what had been merely a statement of policy on human rights and substituting a legal requirement to deny security assistance to any government which engaged in a consistent pattern of gross violations of internationally recognized human rights. Also added was a provision that security assistance could not be provided to the police, domestic intelligence, or similar law enforcement forces of a country—and that licenses could not be issued under the Export Administration Act of 1969 for the export of crime control and detection instruments and equipment to a country—if that country engaged in human rights violations. The Act also stipulated that assistance should not be provided for international military education and training for a country engaging in a consistent pattern of gross violation of internationally recognized human rights.

As finally enacted, legislation on the International Monetary Fund Supplementary Financing Facility [18] required annual submission to Congress of a report on the observance of internationally recognized human rights in countries using the facility. It also charged the Ugandan Government with genocide and instituted a trade embargo against Uganda.

The Foreign Assistance and Related Programs Appropriations Act, 1979 [19] repeated the provisions adopted by Congress in 1977 (Public Law 95–148) prohibiting direct assistance to Uganda, Cambodia, Laos, Vietnam, Angola, Mozambique, and Cuba. It also required the President to direct U.S. representatives to the international banks to propose and seek adoption of amendments to the Articles of Agreement of such institutions to establish human rights standards to be considered in connection with loan application.

The Export-Import Bank Amendments of 1978 [20] deleted the human rights provision added by the 1977 legislation (Public Law 95–143) and provided instead that "only in cases where the President determines that such action would clearly and importantly advance U.S. policy" in areas such as human rights, should the Export–Import Bank deny applications for credit for nonfinancial or noncommercial considerations. The measure also included provisions which prevented the Export-Import Bank from extending credit for any export that would contribute to the South African Government's maintaining or enforcing apartheid unless the President determined that significant progress toward the elimination of apartheid has been made. The act also prohibited Eximbank credits for any export to other purchasers in South Africa unless the Secretary of State certified that the purchaser has endorsed and proceeded to adopt specific employment principles.

Issue Outcomes and Consequences

Views of U.S. decisionmakers on human rights policy cover a wide spectrum, ranging from advocacy of complete nonintervention in the

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[17] Public Law 95–384, Sept. 26, 1978.
[18] Public Law 95–435, Oct. 10, 1978.
[19] Public Law 95–481, Oct. 18, 1978.
[20] Public Law 95–630, Nov. 10, 1978.

internal affairs of other countries to the other extreme of belief in the strictest sanctions against governments which violate the rights of their citizens. Those advocating the latter position give top priority to human rights in U.S. foreign policy considerations. In their view betterment of the human condition is the fundamental concern of governments and the basis for U.S. international activity. Even our great differences with the totalitarian states are at their roots, differences over human rights concepts. They support the use of all possible means to implement human rights policy including withholding of diplomatic relations, economic and military assistance, trade, and all forms of international cooperation with the offending government.

At the other extreme are those who place promotion of foreign human rights near the bottom of the list of U.S foreign policy concerns. In this view the primary, feasible and proper concern of U.S. foreign policy is the security, freedom, and well-being of the United States. Supporters of this position feel that the United States should not concern itself with how a government treats its own people except as it threatens this Nation, but rather with that government's conduct toward the United States and U.S. international interests. In this view the United States has no business interfering in the internal concerns of another government and could well be guilty of "new imperialism" in its human rights ventures.

Most views seem, however, to lie between these two extremes—acknowledging the importance of human rights considerations, but also acknowledging important security and economic interests. The problem with this option as a general approach is that while many Members of Congress and the executive branch agree that this generally may be the most balanced policy to pursue, there is serious disagreement when it comes to the specific implementation of such a policy. Some feel that U.S. human rights advocacy since 1977 has been too selective; that rightist governments often friendly to the United States have received a disproportionate share of criticism, while human rights violations in Communist countries have hardly been mentioned. In this view U.S. human rights policy has been preoccupied with relatively minor abridgements of certain rights in authoritarian states while overlooking massive violations in totalitarian states.

Others are concerned that U.S. concern for human rights in particular countries has been expressed in inverse proportion to the closeness of U.S. relationship to that country. Thus, in this view, it is easy to express concern for the human rights of Jewish and other minorities in such a traditional "enemy" state as the Soviet Union, while little public concern is expressed about human rights situations in friendly, client, or allied states.

Congress has differed as well on how much leeway the executive branch should be allowed in implementing human rights policy legislated by Congress. Some Members feel that Congress should give the Executive no option, in implementing its intentions by requiring, for example, a mandatory "no" vote in the international financial institutions on loans to countries deemed human rights violators. Others, satisfied with President Carter's expressions of commitment to human rights abroad, feel that the executive branch should be given some discretion in implementing the human rights policy set down by Congress.

In any evaluation of the implementation of human rights legislation, it must be kept in mind that the congressional coalition that enacted ever stronger and more encompassing human rights provisions is a very disparate group made up of Members with conflicting perceptions and goals. Some have been interested in cutting back on what they see as an excessive and unproductive foreign aid program. Others, as mentioned earlier, have been concerned primarily about the condition of human rights in leftwing or Communist countries. Still others have been concerned to bring an end to U.S. association with and aid for rightwing, repressive regimes. These various and somewhat contradictory goals may indeed exert increasingly centripetal forces as the legislation is implemented and begins to have important impacts on U.S. relations with specific countries, and on certain segments of the U.S. economy.

During 1978, human rights advocates in Congress introduced several measures intended to impose sanctions on foreign human rights violators. These included a resolution (H. Con. Res. 612) urging the President to embargo all U.S. trade with Uganda, move to cut military aid (H.R. 12931) to the Philippines by $5 million, and provisions in the Eximbank legislation (H.R. 12157) to eliminate loans to South Africa until the President determined progress was being made toward majority rule there and to bar all Eximbank loans to nations that violated human rights.

The sense of Congress resolution on Uganda was intended to halt that country's sale of nearly one-third of its annual coffee crop to U.S. coffee processors. In that case, the House Congressional Black Caucus worked with Members favoring the principle of free trade in objecting to a move that would single out a black-ruled African state while ignoring other accused human rights violators such as white-majority-ruled South Africa. Conservatives suggested that Communist states like Cuba and the People's Republic of China also be condemned.

The proposal in the House to cut by $5 million the proposed military assistance to the Philippines for fiscal year 1979, was opposed by International Relations Committee Chairman Clement J. Zablocki and others. They argued that U.S. national security interests would be endangered if the cut were approved, citing the importance of U.S. military bases there.[21] Ultimately, a compromise cut of $2.5 million was voted, in recognition of the strategic importance of the U.S. bases, but also "sending President Marcos a message."

Similarly, a provision that would have ended all Eximbank loans to South Africa was softened because of opposition by a majority of House Members; a similar amendment had been defeated by the Senate Banking Committee. There was overwhelming sentiment in both chambers that such a proposal could harm U.S. exports and deprive South African blacks job opportunities.

When Representative Tom Harkin, one of the principal human rights advocates in the House, proposed the requirement that the Eximbank be barred from advancing loans to human rights violators, the House overwhelmingly refused to go along with him. Opponents of this measure advanced the argument that it would reduce U.S. exports and exacerbate U.S. balance-of-payments deficits. They also feared it would cost American jobs, and saw such an outcome as dia-

[21] Congressional Record [daily edition], v. 124, Aug 3, 1978, 7802–7810.

metrically conflicting with the original rationale for the Eximbank, assisting the U.S. economy.

Developments such as these would seem to indicate limits on the kinds of human rights provisions Congress would continue to support. The administration also strongly campaigned against stringent human rights provisions in the extention of the Export-Import Bank and reversed its earlier decision to deny Eximbank credits for projects in Argentina on human rights grounds.

The shaky state of the domestic and international economy may have influenced many to have a second look at the broader implications of U.S. efforts to use economic power to affect what many consider as the internal affairs of another state. In the final analysis, it is likely that domestic economic considerations, especially the fear of loss of American business and jobs, provided substantial impetus in turning back the efforts of some human rights advocates to include U.S. trade along with foreign aid as part of the same continuum of tools to be used to influence human rights conditions in other countries.

A widely perceived problem with the recently legislated human rights policy is that while it clearly made sure that human rights would be considered in foreign policy formulation and practice, the policy was not designed directly to further specific U.S. interests, but rather to pressure other governments to make changes in their domestic policies. This means that the measure of the success of this human rights policy is in the improvement of human right conditions in other countries. Such a result might at times be achieved at cost to specific U.S. interests.

Implementation of the legislation by withdrawing all assistance to avoid identification of the United States with, and expenditure of U.S. resources on a repressive regime may conflict with hopes of using continued assistance as a lever to promote human rights or other U.S. interests such as needed oil supplies or strategic bases in that country.

Reduction or elimination of economic assistance in order to pressure a government to change human rights policies may in fact be detrimental to improvement in the economic and social conditions of the citizens of that country.

Moreover, the promotion of economic and social needs would often seem to entail increased spending on foreign aid programs. Many in the public and in Congress associate human rights with traditional U.S. civil and political liberties and not with the wide-ranging scope of rights outlined by the Carter administration. Many U.S. citizens may favor public statements supporting international human rights, but if such a policy would require increased taxes few would favor such a policy.

Restrictions on arms sales to human rights violators may clash with U.S. interests in an improved balance of trade, may affect domestic employment, may force governments to buy elsewhere from U.S. competitors. Simply because the U.S. refuses to sell certain items does not mean that the country will not be able to buy the same or comparable goods elsewhere.

Many question whether the recent active human rights policy has actually had a positive effect on human rights conditions in other countries. Some would argue that U.S. pressures on international violators may have had the opposite effect of what was intended. They point to recent developments in Nicaragua and Iran as evidence of the destabilizing role that U.S. human rights policy may have played in allegedly encouraging dissidents to challenge the regime and create domestic chaos. They point to the possible change of orientation of friendly governments to foes of the United States and possibly allies of the Soviet Union as a foreign policy disaster.

Others feel that public U.S. human rights activities have exacerbated relations with other countries. In this view publicly speaking out on behalf of a handful of Soviet dissidents, not only did nothing to advance the rights of the dissidents, but may have endangered détente and SALT II negotiations. Governments subjected to public U.S. pressures may view such actions as public blackmail to change domestic policies and are unlikely to be willing, and possibly be politically unable to comply. The more public pressure the more indignantly they may feel they have to reject such pressure.

On the other side those who support an active U.S. human rights policy stress the importance of the protection of human rights as a foundation for a peaceful and stable international system. In this view it is imprudent to ignore extreme violations of human rights in other countries, both for the effect in that country and as a means of safeguarding the entire international system against excesses which may reach beyond the state in question. In an age of mass communication the United States must be concerned about the rights of people everywhere. The rights of U.S. citizens may ultimately depend on concern for the rights of other peoples.

Those who advocate a firm human rights policy question whether U.S. interests are really served by support for human rights violators. Military aid adds to the power and stature of recipient governments, but seldom improves the lives of the people of that state. The system of support for internally oppressive regimes friendly to the United States has in the long run not served U.S. interests. Such regimes have often not been durable, but through its support the United States has been identified with those regimes and their abuses. This has resulted in loss of respect for the United States among democratic forces abroad and disillusionment of the American public.

An active international human rights policy makes the United States credible and consistent with its own traditions and practices. Defense of human rights adds extra dimensions of leadership distinguishing the United States from other superpowers. Actions like repeal of the Rhodesian chrome amendment (Public Law 95–12) also helps the U.S. image in Third World countries.

Too often past policies and practices to oppress the poor and crush dissent have been rewarded with international aid, rationalized in the name of assisting the disadvantaged. Such policies waste limited foreign aid money. Since the United States has limited amounts of aid to dispense, it should make certain that U.S. funds do not contribute to deprivation of human rights elsewhere that economic assistance is used for constructive development purposes. Cutting off assistance or trade to human rights violators could be accompanied by increased trade or aid to countries with good human rights records. Thus the U.S. economy would not be hurt. Having an active human rights policy, moreover, does not necessarily involve telling other countries how to run their affairs or intervention, but involves telling the world that the

United States insists on certain standards if it is to assist these countries or do business there.

Supporters of recent U.S. human rights policies point out that such activity has raised world consciousness on human rights which has become a topic of concern and discussion in other countries: some governments have begun to assess the costs of repression, some Western democracies have also given human rights greater priority, and the U.S. image has improved. In addition there have been improvements in conditions in some countries including: release of political prisoners, lifting of states of siege, agreements to international inspections of various kinds, and more open political trials. Clearly some of these changes are merely cosmetic, perhaps done to lessen external pressures or to retain foreign assistance funding, but they may also be the beginning of positive change, and they certainly are marked improvements in the condition of the individuals who may have been released from prison, for example.

The Role of the United States in Issue Resolution

International Agreements

Even before 1945, many American officials and nongovernmental organizations stressed the relevance of human rights to international peace and to other common international purposes and insisted that international law and institutions protect such rights. U.S. efforts secured a place for human rights in the U.N. Charter and led to the establishment of the U.N. Human Rights Commission. Eleanor Roosevelt led U.S. efforts in the creation of the basic document on human rights, the Universal Declaration of Human Rights, and in the late 1940's the United States was among the most active proponents of U.N. human rights activities.

In the late 1940's and 1950's, however, a strong constitutional opposition developed in the U.S. Congress to human rights treaties or similar international law obligations for the United States. In 1953 Secretary of State John Foster Dulles gave assurances to Congress and publicly notified the United Nations that the United States did not intend to become a party to the proposed U.N. Covenants on human rights or other international human rights instruments.

Indeed many critics feel that the United States during the 1950's and 1960's completely lost its leadership in shaping international human rights programs and policies. While some parts of the U.S. Government and many citizens saw the need for improvement in human rights situations in the United States, neither the U.S. Government, nor most citizens though U.S. human rights problems would benefit from international standards or international interventions. The domestic civil rights movement and U.S. foreign policy on human rights remained largely discreet and unrelated. Even those considering themselves victims of human rights violations in the United States have rarely sought international protection, nor have they urged U.S. participation in international programs out of sympathy for victims elsewhere.

Thus, while the United States deserves much of the credit for bringing about the inclusion of human rights provisions in the U.N. Charter and adoption of the Universal Declaration of Human Rights, and while there may not be many nations whose domestic systems for the protection of human rights are as well developed as are those of the United States, nevertheless the United States has ratified only a small number of the international human rights instruments: five U.N. human rights treaties and five OAS treaties. There are at least 30 human rights treaties the United States has not ratified. Moreover, none of those which the United States has ratified is considered among the major international human rights instruments.

U.S. Policy Apparatus

Since 1974 Congress has been recommending and legislating institutional changes in the State Department to insure that serious attention be given to human rights as a factor in foreign policy considerations. In the spring of 1974 the Subcommittee on International Organizations and Movements of the House International Relations Committee issued a committee print presenting policy recommendations which included the following measures to strengthen the State Department's organization in the human rights field:

Creation of an Office for Human Rights within the Bureau of International Organization Affairs, with an appropriate increase of staff for these functions;

Assignment of an Officer for Human Rights Affairs in each regional bureau of the Department with responsibility for making policy recommendations and comments based on observation and analysis of human rights practices in the countries of the region and their significance in U.S. foreign policy relations with these countries; and

Appointment of an Assistant Legal Adviser on Human Rights in the Legal Adviser's Office.[22]

By the end of 1974 the Department of State had appointed an Assistant Legal Adviser on Human Rights and had designated human rights officers in all State Department geographic bureaus.

A further recommendation to insure the consideration of human rights factors at the policymaking level was implemented in mid-1975 by creation of an Office of Humanitarian Affairs under a new special assistant on human rights within the Office of the Deputy Secretary of State.[23]

Subsequently Congress went further. The International Security Assistance and Arms Export Control Act of 1976 established in the Department of State a Coordinator for Human Rights and Humanitarian Affairs, to be appointed by the President with the advice and consent of the Senate.[24] Among other tasks the Coordinator was to maintain continuous observation and review of all matters relating to human rights including: gathering detailed information on observance of and respect for internationally recognized human rights in countries receiving economic and security assistance, preparing required

[21] U.S. Congress. House. Committee on Foreign Affairs. Subcommittee on International Organizations and Movements. Human rights in the world community: a call for U.S. leadership: a report. Washington, U.S. Government Printing Office, 1974. 54 p. (93d Cong., 2d sess., committee), p. 3.

[22] The creation of such an office had been strongly urged by a group of Members of Congress, including Senator Cranston and Congressman Fraser, Bingham, and Fascell, at three meetings with Secretary Kissinger. At those sessions the Secretary had reportedly been told that the Department of State had no one with whom Congress could discuss human rights and that someone should be put in charge of this problem immediately.

[24] On Nov. 17, 1976, President Ford announced the appointment in recess of James M. Wilson, Jr. (previously head of the Office of Humanitarian Affairs) as the first coordinator. He was, however, never confirmed by the Senate.

statements and reports to Congress, and making recommendations to the Secretary of State and Administrator of AID about compliance with the human rights provisions of the Foreign Assistance Act.

During 1977 Congress upgraded the rank of Coordinator for Human Rights and Humanitarian Affairs to that of Assistant Secretary of State for Human Rights and Humanitarian Affairs.[25] At the beginning of his administration, President Carter nominated Patricia M. Derian to the post of Coordinator of Human Rights and Humanitarian Affairs, and after a brief hearing before the Senate Foreign Relations Committee Ms. Derian was confirmed by the Senate.

Consistent with the upgrading of the status of the human rights coordinator and with the encouragement of Congress, an independent Bureau of Human Rights and Humanitarian Affairs was established, with three component elements: the Office of Human Rights, the Office of Refugees and Migration Affairs, and a smaller unit responsible for prisoners of war and missing in action matters. The Bureau coordinates human rights policy for the Department and makes recommendations to the Secretary designed to ensure that human rights are a central element of U.S. foreign policy.

An executive branch Inter-Agency Group on Human Rights and Foreign Assistance, popularly termed the Christopher Group (for its chairman, Deputy Secretary of State Warren Christopher) was established to examine the human rights aspects of all AID budgetary program decisions, Public Law 480 programs, and the U.S. positions on loans awaiting action in the international financial institutions.

Reporting Requirements

Congress has also been continually expanding the informational requirements in human rights legislation so that by now a wide array of reports is required annually, and still other reports are required on a one-time basis or on request of Congress. Sections 116 and 502B of the Foreign Assistance Act now require annual reports on the status of human rights in all countries proposed as aid recipients.

Past human rights reports by the executive branch have in general been poorly received in Congress. The 1976 report submitted by the Ford administration was a bland, superficial report which did not mention any country by name. As a result, a statutory requirement was enacted requiring annual reports on countries receiving security assistance.

The 1977 report [26] on 82 countries proposed as recipients of security assistance was transmitted by the Carter administration but was largely compiled by the previous administration. Human rights activists criticized these reports as too cautious and bland.[27]

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[25] Sec. 109, Foreign Relations Authorization Act, Public Law 95–105, Aug. 17, 1977.

[26] U.S. Congress. Senate. Committee on Foreign Relations. Subcommittee on Foreign Assistance. Human rights reported prepared by the Department of State in accordance with section 502B of the Foreign Assistance Act, as amended. March 1977. Washington, U.S. Government Printing Office, 197. 143 p. (95th Cong., 1st sess., Committee print.)

[27] Nevertheless, in response to these reports, a number of Latin American countries—Argentina, Brazil, Guatemala, Uruguay, and El Salvador (the last acting also in response to the House International Organizations Subcommittee's hearings on human rights in El Salvador)—renounced U.S. military aid.

The 1978 report[28] included 105 countries proposed as recipients of economic and development assistance. The descriptions in this report were somewhat more detailed, but varied widely from country to country and region to region. Overall congressional reaction was not favorable. Some wanted reports on all countries including the Soviet Union, the People's Republic of China, and Cuba. Others wanted inclusion of countries like Brazil and Chile (which had not been proposed as 1978 aid recipients under the section 116 and 502B reporting requirements). Those favoring strong public U.S. human rights action found the State Department report too cautious; those favoring less public U.S. human rights actions were appalled that the State Department should be writing "report cards" on countries with which that same department was trying to maintain good relations. Most observers question whether, under these circumstances, objective, forthright public reports could be expected. Some have proposed that such reports be prepared by a nongovernmental organization.

However, one effect of the reporting requirement has been to insure that the State Department review its human rights policy on a country by country basis, requiring embassy participation in this process.

The Application of Penalties

The enforcement provisions enacted by Congress over the past few years have never been applied directly to cut off U.S. assistance. While sections 116 and 502B of the Foreign Assistance Act require termination of aid to countries because of human rights conditions, the provisions hardly made denial of assistance mandatory; much discretion is left to the executive branch. The provisions only come into play automatically if a country demonstrates a consistent pattern of gross violations of internationally recognized human rights. The reports prepared by the State Department on the status of human rights in countries receiving U.S. assistance and submitted to Congress in 1977 and 1978, did not demonstrate or cite any countries as engaging in a "consistent pattern of gross violations of internationally recognized human rights." Congress in turn has only described one country—Uganda—in those terms, although it came close to doing so in the case of Cambodia. In these cases, however, no automatic terminations of bilateral aid would follow since none has been authorized.

In any case the executive branch has some latitude in supplying economic aid to a country despite a consistent pattern of gross violations of human rights by demonstrating that the aid will directly benefit the needy people. In the case of security assistance, notwithstanding a country's human rights practices. assistance may be supplied if either extraordinary circumstances or U.S. national interests require continuation of such assistance.

Congress for its part has never followed the cumbersome aid termination procedures in sections 116 and 502B of the Foreign Assistance Act. Instead, Congress has short circuited these provisions by tacking country specific legislation onto aid authorization and appro-

[28] U.S. Congress. House. Committee on International Relations. Senate. Committee on Foreign Relations. Country reports on human rights practices; joint report submitted by the U.S. Department of State in accordance with secs. 116(d) and 502B of the Foreign Assistance Act of 1961, as amended. Washington. U.S. Government Printing Office, 1978. 425 p. (95th Cong., 2d sess., Joint Committee on Printing).

priations measures. This has meant that rather than a careful, across-the-board follow-through to carry out the broad human rights provisions, Congress has mandated a patchwork of specific aid limitations.

A further difficulty for Congress and the administration has been and continues to be, finding a mechanism to control or influence foreign assistance through multilateral channels to countries violating human rights. U.S. attempts to force international banks to take human rights considerations into account in making loan decisions runs counter to longstanding U.S. policy to keep international banks and various U.N. specialized agencies free from politics. The United States withdrew from the International Labor Organization in November 1977 precisely because it believed that that Organization had yielded to political pressures. Moreover, some feel that in complying with legislation requiring the United States to vote against loans to countries deemed by the United States to be human rights violators, the United States may have needlessly antagonized such nations by casting a negative vote, without, however, being able to gain the voting support necessary to block the loan.

Aid prohibitions and limitations may be the most dramatic and immediately visible ways in which the United States can express serious concern for major human rights violations in aid recipient countries. However, aid termination in the long run, may be counterproductive. Many have argued that reducing and cutting off aid—or even threatening to do so—has a more negative impact on U.S. relations and perhaps also on respect for human rights in other countries than formulation of positive programs to promote human rights. General provisions calling for aid-restructuring or a reappraisal of U.S. aid programs and their impact on advancement of international human rights are included in a number of human rights measures. Thus, section 502B(a)(3) of the Foreign Assistance Act orders the President to structure security assistance programs so as to further human rights:

> . . . the President is directed to formulate and conduct international security assistance programs of the United States in a manner which will promote and advance human rights and avoid identification of the United States, through such programs with governments which deny to their people internationally recognized human rights and fundamental freedoms, in violation of international law or in contravention of the policy of the United States as expressed in this section or otherwise.

While section 116 does not contain a similar provision regarding formulation of economic assistance programs, the required annual reports on countries receiving economic assistance are to describe "the steps the Administrator [AID] has taken to alter U.S. programs under this part in any country because of human rights considerations." [29]

Section 116(e) authorizes and encourages the President to use certain foreign assistance funds for studies to identify and openly carry out programs and activities to promote civil and political rights set forth in the Universal Declaration of Human Rights.

The legislation on international financial institutions directs the U.S. representatives to these institutions to seek to channel assistance toward countries other than those whose governments engage in consistent human rights violations. It also directs the Secretaries of State

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[29] Section 116(d)(2) of the Foreign Assistance Act.

and Treasury to begin a wide consultation in order to develop a viable standard for the meeting of basic human needs and protection of human rights, and a mechanism for acting together to insure that the rewards of international economic cooperation are especially available to those countries subscribing to such standards.

Recent legislation seems to acknowledge that foreign assistance programs themselves may have important human rights impacts, that economic aid may result in greater economic inequality and political repression, and that U.S. military training and weapons may be used in political repression. Congress has thus required OPIC to consider the effects the operation of its programs will have on human rights and fundamental freedoms in recipient countries.

Congress has also recently placed supplying of weapons and training to the police, domestic intelligence or similar law enforcement forces under particular scrutiny. The International Security Assistance Act of 1978 prohibited the provision of security assistance to such law enforcement forces or issuance of licenses for the export of crime control and detection instruments and equipment to a country violating human rights. The legislation prohibits assistance for international military education and training programs for such countries. In addition, one of the purposes of international military education and training should be "to increase the awareness of nationals of foreign countries participating in such activities of basic issues involving internationally recognized human rights." Thus, Congress appears to be attempting to assure not only that torture, for example, is not being aided, but also that positive human rights education is being provided by U.S. security assistance programs.

THE ROLE OF CONGRESS

The summary of human rights legislation enacted during the past 5 years give a sense of the considerable record of congressional activity in this area. Much of the congressional involvement in human rights matters has been tied to the legislative leverage of Congress over such programs as bilateral and multilateral economic assistance, Public Law 480 food aid, security assistance, and arms sales. These programs have subsequently become important instruments in Carter administration human rights initiatives, and their use for this purpose is an ongoing congressional concern. In addition, during the past 5 years the holding of hearings to gather information on human rights situations in various countries and to scrutinize U.S. assistance and other policies toward such countries has been an often used investigatory mechanism of congressional committees—most notably of the Subcommittee on International Organizations of the House Foreign Affairs Committee. The wide-ranging hearings on human rights over the past few years have afforded an opportunity for wide dissemination of evidence concerning human rights abuses and for discussion of U.S. policy.

During 1979 human rights will probably continue to be an issue of major congressional concern. Scrutiny and discussions of the President's human rights policies is likely to be as persistent in congressional forums as during the past 2 years. Human rights will also probably continue to be an area of serious disagreement within Congress and between Congress and the Executive. Careful monitoring of executive branch compliance with congressional human rights directives and implementation of recently enacted human rights provisions as well as scrutiny of various required human rights reports can be expected. Human rights issues and policies will again be major themes in congressional foreign assistance debates. Based on its assessments as to the human rights situations in certain countries, Congress may have to make difficult decisions on whether to grant, deny, or limit assistance to specific countries. The Senate may begin consideration of whether to approve ratification of the U.N. and OAS human rights treaties which President Carter has submitted (as well as the Genocide Convention, which still awaits Senate action since its submission to that body in 1949).

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INTERNATIONAL INSTITUTIONS

(By Ellen C. Collier*)

Issue Definition

One of the clearest results of increased communication and transactions among nations has been the proliferation of international institutions. The United States was a leader in developing the existing system, but in recent years has often found it cannot influence decisions of international organizations to the extent it did in the immediate post-World War II years. The majorities have sometimes voted to take actions which ran counter to U.S. policy on important issues. In response the United States has attempted new methods of conducting multilateral diplomacy. It has withdrawn from the International Labor Organization and, upon action by Congress, went into arrearages in its dues to UNESCO for a period.

At heart of the issue is whether international institutions are in the interest of the United States and, if so, the role they are to be given in U.S. foreign and international economic policy.

Many believe that increased interdependence among nations requires greater reliance on and development of international institutions. In their view the building of international institutions is the most orderly and efficient way to deal with multidisciplinary issues such as food, population, energy, and economic development. They favor a maximum role for international organizations in U.S. policy and are willing to increase the resources flowing through international organizations as a means of maintaining U.S. leadership.

On the other hand are those who believe traditional bilateral diplomacy is the best method of achieving U.S. objectives and protecting U.S. interests. Some are concerned at transferring to international organizations functions previously entirely within the scope of national sovereignty. Others simply portray a minimum role for international organizations in U.S. policy because they feel such organizations are ineffective. They are joined by a larger number who are reluctant to increase the amount of resources channeled through international organizations because the United States does not have full control over the use of the funds.

Closely related to these basic issues is the growth of power of small states in multilateral organizations. Much of the ultimate outcome may hinge on whether a system of international institutions can be devised which protects the interests of both the small and poor states and the large and powerful ones. In the U.N. General Assembly and other organizations based on an equal vote for every nation, the large increase in the number of independent small nations has resulted in a rapidly diminishing share of U.S. voting power even though the United States continues to carry a large share of the financial respon-

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sibility. In other international organizations such as the World Bank where voting is weighted, the small nations clamor for a larger voice. An issue in the next few years may be whether U.S. interests can be advanced within the present system or whether additional organizations of like-minded states or with new voting arrangements will become necessary.

Managing U.S. participation in international organizations has become more difficult because of the growing subject coverage and the blurring of domestic and international problems. The executive branch faces the question of whether U.S. participation in each international institution should be the responsibility of the Department of State or the Department concerned with the subject matter involved. For example, there is debate over whether responsibility for participation in the international financial institutions should remain with the Department of Treasury or be transferred to the Department of State. This is also a problem within Congress for the committees having jurisdiction over foreign policy and those over banking.

An important issue for Congress is how to preserve its role in making policy when programs are carried out through international institutions. The conduct of multilateral diplomacy increases the difficulties for Congress in several ways. For example, by going along with a resolution in the Security Council, or by supporting a financial resolution in the General Assembly, the executive branch can commit the United States to a course of action in which Congress may have had no voice. Even the executive branch cannot control the assessments and budgetary expenditures of international organizations since the levels are determined by international, not national, action. Finally, international agencies do not respond to congressional directives in the same way as domestic agencies, and they are not required to submit to General Accounting Office audits.

Background

Since the end of the Second World War international organizations and institutions have become an established fixture on the global scene. They have expanded in number and scope to encompass many subjects which were for centuries considered domestic problems. The 1977 Yearbook of International Organizations gave information on 6,400 governmental and nongovernmental organizations representing virtually the whole range of human activity, and more than 250 governmental organizations were listed. The United States currently participates in the United Nations and its specialized agencies, 5 multilateral financial institutions, the Organization of American States and the North Atlantic Treaty Organization and approximately 10 other regional organizations, more than 20 miscellaneous international organizations, and innumerable organs, programs, committees, and conferences of these organizations, not to mention bilateral commissions and arrangements.

One observer has commented that the world is now in its third postwar wave of international institution building.[1] The first wave began

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[1] Bergsten, C. Fred. Interdependence and the Reform of International Institutions. International Organization, vol. 30, spring 1976 : 361.

with the creation of the United Nations system immediately after the Second World War; the second wave developed in 1960 with the Common Market and the Organization for Economic Cooperation and Development; and the third and current wave began about 1973. While additional surges in the past might be noted, such as the development of regional security organizations beginning with the North Atlantic Treaty Organization in 1949, it seems clear that the process of institution building at the international level has received a fresh impetus in recent years.

Much of this impetus has come from increased awareness of the transnational scope of many modern problems. World or regional conferences have become an institution in themselves for coping with economic and social problems by sharing knowledge and experience and setting agendas for international cooperation and national and international action. Often these conferences have given birth to new international organizations or new programs or organs for existing institutions.

Such agenda-setting conferences are by no means new. However, they seemed to take on a new role beginning with the U.N. Conference on the Human Environment at Stockholm in 1972, which established the United Nations Environment Program. This was followed by the World Food Conference in Rome in 1974, the World Population Conference in Bucharest in 1974, the U.N. Human Settlements Conference (Habitat) in Vancouver in 1976, and the U.N. Water Conference at Mar del Plata in 1977. Preparations are now being made for the U.N. Conference on Science and Technology for Development to be held in Vienna in 1979. At a different level, summit economic conferences of the heads of government of the European Community, Japan, and the United States have been regularized.

Another institution which has been developed for coping with global problems has been the International Year or Decade. The World Conference of the International Women's Year in 1975 recommended the United Nations Decade for Women from 1975 to 1985. 1978 had been specified as the International Year of the Child, and 1980 to 1990 as the International Decade of Drinking Water and Sanitation. Like world conferences, international "years" or "decades" are not a new phenomenon. For example, there was an International Geophysical Year in the 1950's and an International Decade of Ocean Exploration. However, they have now become a regular method of obtaining international cooperation and a force leading to the creation of additional international institutions.

A third impetus to the increase in international organizations, and an institution in themselves, has been the multilateral law or treaty making conference. Perhaps the best example of this is the Law of the Sea Conference which is now in its third phase. It is not only developing new law but is working toward the establishment of a new international institution to regulate some ocean activities.

Finally, the existing international organizations themselves are perhaps the chief source of new international programs and institutions. In focusing attention on old and new programs, they are the generators of the conferences and resolutions by which new institutions are created.

Diminishing U.S. Influence

For almost two decades there was little doubt that the strengthening of the United Nations system was an objective of the United States and could be helpful in obtaining other objectives of U.S. foreign policy. The United States could generally count on the majority in the United Nations and other international organizations having similar aims and following its leadership. Since the decolonization of the sixties and the formation of large numbers of new small states, however, the picture has greatly changed.

As a primary factor, the vote of the United States has been diluted. When the United Nations was founded, the United States had 1 vote out of a total of 51. Now, with the admission of the Commonwealth of Dominica on December 18, 1978, the United States has one vote out of 151. Nor is the end of the ministate problem in sight. It has been estimated that there are 50 to 100 more islands and other territories which could gain independence and become eligible for United Nations membership, not to mention states which might result from the fragmentation of existing nations.

International organizations have created a new element of power in international relations: Voting power. The principle of sovereign equality of nations in the one-state one-vote formula in most international organizations has given the small and less developed countries power they would not otherwise have. Nations which in total pay less than one-sixteenth the share of the United States can form a majority, and with a few others can control the two-thirds majority necessary for important questions including those affecting costs. The former colonial states have used their voting power effectively to control the direction of the United Nations and the General Assembly, and they have often felt their objectives to be at odds with those of the United States and other Western industrialized nations. One writer has called the central question whether peoples, "irrespective of their size and ability to fulfill their responsibilities, * * * should also be entitled to sovereign equality in the affairs of the community of nations." [2]

There is no doubt that there are other factors in the decline in the ability of the United States to lead the majorities in international organizations. One of these is the growing power and independence of middle states such as Japan and the nations of Western Europe. Nevertheless it is the voting unity of the vast number of developing countries which has led to the politicization of the international organizations in directions sometimes contrary to the policies of the United States. U.S. public alarm at this trend may have peaked on November 10, 1975, when by a vote of 72 to 35 the U.N. General Assembly approved a resolution vigorously opposed by the United States, classifying Zionism as a form of racism.

Different methods have been attempted to restore American leadership. The United States has increased its efforts to win more support for its positions through bilateral diplomacy. When he was U.S. Representative to the United Nations, Senator Daniel Moynihan spoke vigorously to point out the applications of double standards against

[2] Plischke, Elmer. Microstates in World Affairs, Policy Problems and Options. Washington, American Enterprise Institute for Public Policy Research, 1977, p. 9–10.

the United States. Current U.S. representative Ambassador Andrew Young developed a new rapport with the Third World majority. Nevertheless, the underlying situation has not changed. At any time public alarm like that after the Zionism vote could be rekindled by a majority vote against the United States on an issue striking the emotions of many Americans.

The continual existence of potential issues of this nature was demonstrated in the fall of 1978. On September 12, the U.N. Special Committee on Decolonization adopted a resolution introduced by Cuba criticizing U.S. treatment of Puerto Ricans. On November 22, the UNESCO General Conference adopted a resolution on a free flow of world news, which, although finally revised to the satisfaction of the United States, had originally raised serious concern about its effects on freedom of the press.

On at least two occasions events in U.N. specialized agencies have resulted in what some considered drastic action by the United States. After providing the 2-year notice required, the United States withdrew from the International Labor Organization in 1977 pending a reversal of certain trends. Dues to UNESCO were suspended in 1975 and 1976 and only restored after the President certified that the actions of a "primarily political character" that had been taken by the UNESCO General Conference had been corrected.

Even in international institutions in which there is weighted voting, or in which only like-minded states participate, the United States has found that it cannot control the actions of the group on all occasions. The World Bank, for example, has continued to loan money to India even though the U.S. executive director has been required since 1974 to vote against loans to any country which failed to sign the nuclear nonproliferation treaty after exploding a nuclear device.

The problem of effective leadership has also been complicated by increased difficulty in managing participation in international organizations. The expanding subject coverage has led to more overlapping between domestic and international problems and greater involvement of domestic agencies as well as the Department of State in multilateral organizations. The Senate Committee on Government Operations studying the situation found that there were 36 different Federal agencies involved in interagency committees coordinating U.S. participation in 26 international organizations, and that there were informal interagency coordinating committees existing for at least 18 of the other 39 international organizations studied.[3]

Despite these problems, most agree that international organizations have proved a convenient way to communicate simultaneously with the growing number of countries about the growing number of problems requiring international cooperation of one sort or another. Many important international services, such as the development of common sea and air traffic regulations, are carried out under the auspices of the specialized agencies, and discussion of problems can take place on a regular and prompt basis. Even in the most difficult field of international security the United Nations has been helpful in organizing

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[3] U.S. Congress. Senate. Committee on Government Operations. U.S. Participation in International Organizations. Washington. U.S. Government Printing Office. 1977, p. xiii. (95th Cong., 1st sess., Committee on Printing, also published as S. Doc. 95–50.)

peacekeeping actions such as the Disengagement Observer Force in the Middle East and the United Nations Force in Lebanon, although it has not played the major role in the maintenance of world peace envisioned by the drafters of the United Nations Charter.

Issue Outcomes and Consequences

The basic issues are whether existing international institutions are in the interest of the United States and, if so, how the United States can strengthen them to be an effective channel for carrying out its foreign policy. Which organizations should it work through and try to strengthen?

At one end of the spectrum of possible outcomes would be a turning away from the development of international institutions and reliance on national solutions and traditional bilateral diplomacy. There have always been some who feared that the establishment and strengthening of international organizations endangered the sovereignty of the United States. One observer with this view criticized the "Declaration of Interdependence," a statement of the Philadelphia World Affairs Council urging more international cooperation, arguing that it:

> . . . is a part of the continuing drive to dilute, then dissolve, the sovereignty of the United States of America. The goal, we are repeatedly told, is a New World Order, a new international economic order, or any one of a half-dozen euphemisms. In any case, it would mean the end of the United States as we know it, and her submission first to regional and then world government.[4]

At the other end of the spectrum are others who believe that the security and welfare of the United States will ultimately be promoted by U.S. participation in international organizations. A recent study portraying a "vision of an appropriate security system" describes a system in which:

> A world security organization functions with the power to enforce the rules against the possession of weapons for the misuse of fissionable materials. It presides over enforcement activities of a transnational police force and administers the arms-reducing process in its final stages. Officials acting on its behalf have the authority to prevent weapons violations anywhere in the world. The organization, operating within a system of checks and balances to insure accountability, is responsible to a global assembly.[5]

Most contemporary thought on international institutions, however, is seeking outcomes somewhere between these two ends of the spectrum. Many supporters of international institution building look toward a stronger and more effective United Nations system, supplemented as necessary by regional organizations and organizations of like-minded states for specific purposes, as the best outcome. Writes one:

> It is my own view that the judgment so often stated by Dwight Eisenhower. Dag Hammarskjold, Adlai Stevenson, and others—that if the U.N. did not exist it would have to be invented—is even more valid in our day than in theirs. The world is steadily becoming more and more interdependent, while nations are at the same time becoming more numerous, power more fragmented, and violence more pervasive and dangerous. A global organization embracing all or most nations, even though inevitably imperfect and often ineffective, is therefore more indispensable than it ever was.
>
> Its imperfections derive, moreover, not primarily from the organization itself, but from the world it reflects—a world of nation-states jealous of their sover-

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[4] Hoar, William P. The New World Order. American Opinion, v. 20, April 1977: 15.

[5] Johansen, Robert C. Toward a Dependable Peace. A Proposal for an Appropriate Security System. New York, Institute for World Order, 1978. p. 25–26.

eignty and fearful of their neighbors; a world threatened by nuclear weapons, exploding populations, deepening poverty, and deteriorating environments. Only the boldest international cooperation and the strongest possible family of international institutions can control and avert these threats.

These are the objectives of the United Nations. It would seem to be clearly in the interest of the United States and the other Atlantic nations to strengthen and reshape it better to meet these objectives, which are certainly ours as well.[6]

If realignement or reorganization of both the worldwide and regional organizations do not eventually occur, another possible outcome is replacing the United Nations and the current system with a new system of international organizations based more on the realities of power. Elmer Plischke cites this alternative:

A more sweeping approach involves reorganizing much if not all of the present system, perhaps by downgrading the United Nations and some regional agencies, and paralleling or overlaying them with new international machinery planned, established, and controlled by a limited group of states to exercise some of the more important political functions of the international community. New institutions could be restricted solely to specified states, or could consist of a combination of both individual and representative states, the latter coalescing regional or bloc interests. Or, serving much the same purpose, the United States and other major powers could withdraw from existing organizations like the United Nations, or reduce their institutions. Assuming that this step were taken by the principal financial contributors to the United Nations and other major agencies, the viability and influence of the organizations would be curtailed.[7]

Plischke concludes that because such action would remold the fundamental system of international institutions which has been evolving for decades, it appears to be an unlikely prospect. Nevertheless, it does portray one direction in which U.S. policy could move.

Role of United States in Issue Resolution

The United States alone cannot control the course of an individual institution, and international institutions as a whole are almost certain to proliferate and expand whatever the preferences of the United States. Nevertheless, within limits, the direction taken by the system of international organizations depends very much on the action of the United States. If the United States chooses to support a peacekeeping activity or development program of the United Nations, for example, the U.N. is likely to gain influence and its machinery is likely to be strengthened. If it takes action through a regional organization, the regional organization would be strengthened.

Working through the United Nations has become very difficult for the United States, however, because the voting power in the General Assembly is in the hands of the less developed, small countries, that have often opposed the influence of the United States. If the United States reduces its efforts in the United Nations, there is the possibility that the organization will move further away not only from solutions acceptable to the United States but from solutions which are realistic in terms of the ability of the organization to carry them out. Ultimately this would weaken the system of international organizations, but it would be a method of countering the disproportionate power of the small states.

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[6] Yost, Charles W. Chairman of the Working Group. In Atlantic Council of the United States. The Future of the UN: A Strategy for Like-Minded Nations. Boulder, Colo., Westview Press, [1977]. p. xiv.

[7] Plischke, op. cit., p. 124.

On the other hand, if the United States accords a high priority to strengthening the United Nations and other components of the system, there is the possibility that these institutions might increase their effectiveness in dealing with world problems and move in a direction that reconciles the interests of the United States and other nations.

There are limits on the ability of the United States to control the actions of an international organization. This is shown by the course of events in the International Labor Organization (ILO). The United States had participated in the ILO, which became a specialized agency of the United Nations, since 1934, and had paid an assessment of 25 percent of the ILO budget. In 1977, after having given 2 years' notice, the United States withdrew from the organization. The incident triggering the withdrawal notice was the granting of limited observer status to the Palestine Liberation Organization, but four more long-standing concerns were cited in the notice of withdrawal:

(1) Erosion of tripartite representation (representation by employer and employee groups as well as governments) with the increasing number of members such as the Soviet Union in which, the U.S. argued, the employee and employer groups constituted additional government delegates.

(2) Selective concern for human rights. Violations of the ILO conventions on Freedom of Association and Abolition of Forced Labor by some members were cited but by others were overlooked.

(3) Disregard of due process. Established procedures for dealing with allegations of violations of human rights had been ignored in some instances in favor of resolutions condemning states.

(4) Politicization. The organization had taken stands on issues outside the concern of the organization.

After the U.S. withdrawal the ILO Director General announced a budget cut to make up for the loss of the U.S. contribution and some of the reforms sought by the United States appeared to take place. The tripartite principle that employers, employees, and governments each be represented was strengthened when the industrialized countries began to take a larger leadership role. Politicization in a direction opposed by the United States was curbed when a resolution censuring Israel was not adopted in the 1978 International Labor Conference. Proceedings were begun to investigate alleged violations by Czechoslovakia of an ILO convention on human rights.

The new issue became whether the United States should return to membership in the ILO. On the one hand, while withdrawal appeared to have been an effective tactic for bringing about the changes desired in the organization, many believe that if the United States is to have a continuing influence on the course of events it must not only be a member but must participate vigorously. On the other hand, it may be too early to know whether the changes in the organization will be permanent. Moreover, one of the basic problems is a fundamental structural one. The organization continues to be based on the principle of tripartite representation, which was developed by the industrialized democracies, but the majority of the membership is now comprised of member states in which there is little differentiation between employer, employee, and government representation.

U.N. Reform Proposals

For several years an effort has been underway to find ways to make the United Nations more effective. In 1975 the United Nations established a special committee on the charter of the United Nations and on strengthening the role of the organization. In the Foreign Relations Authorization Act for fiscal year 1978, Congress stated that "The United States should make a major effort toward reforming and restructuring the United Nations system so that it might become more effective in resolving global problems."[8] The act required the President to consider the following proposals and to submit his recommendations for reform:

(1) Adjust decisionmaking processes in the United Nations by providing voting in the General Assembly weighted according to population and contributions and by modifying veto powers on certain categories of questions, such as membership recommendations, in the Security Council;

(2) Foster greater use of the International Court of Justice by the United States and other members of the United Nations;

(3) Supplement United Nations finances through contributions from commerce, services, and resources regulated by the United Nations;

(4) Improve coordination of and expand United Nations activities on behalf of human rights;

(5) Establish more effective United Nations machinery for the peaceful settlement of disputes, including means for the submission of differences to mediation or arbitration;

(6) Adjust assessment scale calculations to reflect more accurately the actual ability of member nations to contribute to the United Nations and its specialized agencies; and

(7) Provide greater coordination of United Nations technical assistance activities by the United Nations Development program.[9]

The report which was submitted in 1978 by the President expressed little hope for change in two areas important to Congress—decisionmaking and financing. It said there was no prospect for the adoption of a weighted-voting system in the General Assembly and that the tradeoffs proposed for such a system involved a curtailment of the veto power, which would not be in the U.S. interest. Similarly, it took the position that:

. . . if the U.N. scale of assessments were to reflect more accurately the current ability of member states to contribute, a principal result would be to increase the assessment for this country significantly above the present 25-percent ceiling. Because the United States is largely responsible for a major deviation from the capacity-to-pay principle, we believe it would be unwise to seek immediate adherence to that principle without congressional authorization for the higher appropriation that would be required.[10]

However, in other areas the President's report proposed a series of mild incremental reforms. It said the United States would support a procedure to permit private parties to have indirect access to the International Court of Justice, with national appellate courts having recourse to the court for an advisory "preliminary opinion." In addition, existing international disputes would be examined to identify those which could be submitted to the court. The President also said that at an appropriate time he would request the Senate to reexamine the Connally Reservation which excludes from U.S. acceptance of compulsory jurisdiction of the court matters within the domestic jurisdiction of the United States "as determined by the United States."

[8] Public Law 95–105, sec. 503a.

[9] U.S. President, 1977– (Carter). Proposals for United Nations Reform: report pursuant to section 503 of the Foreign Relations Authorization Act, fiscal year 1978. Washington, U.S. Government Printing Office, 1978. 52 pp. (U.S. Congress. Senate. Committee on Foreign Relations. 95th Cong., 2d sess. Committee print.)

[10] Ibid., p. 9.

In the area of peaceful settlement, the President said he would examine opportunities for strengthening the role of the Security Council, including holding annual meetings at the foreign ministers' level and greater use of informal meetings or subcommittees to follow up council resolutions. He was willing to consider a formal joint voluntary statement with other permanent members saying the establishment of factfinding missions would be treated as a procedural matter not subject to veto, as long as mandates were clear and nonprejudicial. In addition, the President announced it would be U.S. policy to share pertinent information available to the United States from aircraft reconnaissance with the Security Council when the parties to a dispute agree.

In the area of peacekeeping, the President made suggestions for creation of a Peacekeeping Reserve composed of national contingents trained in peacekeeping functions. He also proposed training earmarked contingents, upgrading technical equipment available to observer and peacekeeping forces to enhance their observation and communications capabilities, and establishing a special peacekeeping fund to help cover initial costs.

In regard to improving the coordination of U.N. technical assistance activities, the President stated it would be U.S. policy (a) to sustain the United Nations development program as the major channel for U.S. voluntary contributions for technical assistance programs; (b) to seek better information from secretariats responsible for technical assistance activities; (c) to work toward long-term voluntary pledges by donors; and (d) to work with other donors toward a common approach to technical assistance in assessed budgets of the specialized agencies.

Some see the issue of strengthening international institutions as much broader than reforming the United Nations. One group of United Nations experts was called together by the Atlantic Council, an organization which suggests courses of action on problems shared by North America, Western Europe, Japan, Australia, and New Zealand. This group, headed by Charles Yost, a former U.S. representative to the United Nations, and Lincoln Bloomfield, called for the United States to follow a pluralistic and pragmatic strategy without undue concern over working within any particular framework.[11] This calls for improving the whole range of international organizations in which the United States now participates plus developing new ones if necessary. Proposals include:

(1) Strengthen regional agencies when feasible.

(2) Consult allies and friends before considering unilateral intervention.

(3) Plan and develop the necessary international structures and frameworks for the international steering and management of common problems in the realms of trade, commodity pricing and stocks, nonrenewable resources, monetary management, development, population control, energy sources, food, pollution, conventional arms trade, conflict prevention, peacekeeping, the oceans, and outer space.

(4) Form temporary and shifting "coalitions of the willing" or like-minded to act when a given body of the United Nations becomes ineffective.

(5) Develop more effective arrangements in the United Nations to capitalize on the potential of its relationship with nongovernmental organizations.

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[11] Atlantic Council of the United States, op. cit., p. xxi.

These proposals suggest that there are many different options for strengthening international institutions if that is considered one of the objectives of U.S. foreign policy.

THE ROLE OF CONGRESS

Congress plays an important role in determining the extent of U.S. participation in international organizations. Membership usually entails Senate approval of a treaty or congressional approval of an international agreement or participation legislation. Congress has occasionally used its power over appropriations to determine whether the U.S. participates. For example, in 1978 it again refused, as it has for several years, to make contributions to the United Nations University.

The use of the appropriations power for influencing policy is more difficult in the case of international organizations than in the case of domestic agencies or most foreign policy expenditures. Not only is U.S. representation in the hands of the executive branch, but even the executive branch cannot always control the decisions of multilateral institutions.

Once a country joins an international organization, financial assessments or dues are considered an international legal obligation. Under ceilings set by Congress, the United States has been fairly successful in keeping its assessments at what it considered an acceptable level. The assessment to the United Nations has been steadily reduced from 39.89 percent in the 1946–49 period to 33⅓ percent in 1954 and then, since 1973, to 25 percent. Recently Congress has worked for a reduction of the U.S. assessment for the Organization of American States. This was reduced from 66 percent to 62 percent for 1979. The Conference Report on the State Department appropriation bill for 1979 called for a continuing reduction within the next few years so that the U.S. assessment would be no more than 50 percent of the budget.

Even with the reduction in percentage of assessments, the total dues of the United States have been steadily rising because of the expanding budgets of existing international organizations and the formation of new ones. In 1978 Congress appropriated $327.67 million for assessed contributions to international organizations for the next year. However, it reduced the amount for assessments for the United Nations and Specialized Agencies by $27.716 million, adding language that no U.S. funds for budget assessments could be used by the organizations for technical assistance (Public Law 95–431).

This action demonstrated in part a general concern for the rising cost of international organizations. However, Congress has also been concerned for some time with the inclusion of technical assistance costs in the assessed budgets. The U.S. position is that multilateral assistance activities should be funded on a voluntary basis, separate and apart from membership assessments. If assistance were included in the assessments, the less developed countries would be able to decide the level of assistance activities but not have to pay their cost.

On October 10, 1978, President Carter, in signing the bill, opposed this provision which he said would cause the United States to violate its treaty obligation. Assigning conditions to U.S. contributions to assessed budgets, he said, would make it virtually impossible for the organizations to accept such contributions and would seriously impair their financial and political viability. Accordingly, he said, he intended to recommend promptly to Congress the restoration of funds and the elimination of the language placing the conditions.[12] The issue became a central focus of debate in the State Department authorization and appropriation legislation during 1979.

Congress has also encountered problems in controlling the use of funds by the international financial institutions. One of the main concerns has been the assistance given by the multilateral banks to countries which the Congress does not wish to assist, such as Vietnam or Cuba, for example. Since 1965 Congress has frequently written various types of restrictions into legislation relating to the institutions. For example, restrictions have called for the U.S. representative to oppose loans to countries where the United States has suspended its bilateral aid program following an uncompensated expropriation of U.S. foreign investments; to countries that fail to take adequate steps to suppress the illegal drug traffic; to countries that fail to sign the nuclear nonproliferation treaty after exploding a nuclear device; to countries that engage in gross violations of human rights unless the loan would explicity benefit poor people; and to countries that give refuge to international aircraft hijackers.

On other occasions the legislation his directed that the United States advocate certain actions in the financial institutions, such as the establishment of autonomous evaluation units, the improvement of the professional status of women within the banks, or the development of new criteria in the banks' evaluation of countries in terms of their relative emphasis on aid. Legislation has also called for efforts to promote the integration of women in national economies and to give high priority to intermediate technology.

There are many issues involved. At heart is whether it is in the U.S. interest to promote economic development of the less developed countries, and if so, whether this can be done most effectively through bilateral assistance or through multilateral institutions. Some have felt that the internaional financial institutions have been more effective because they were able to apply stringent economic criteria without political considerations. Others have felt that the multilateral aid also reflects political considerations and the United States can assure the effective use of its assistance and promote its own political interests better through bilateral aid.

Congress plays a major role in deciding the broad question of the extent of utilization of international institutions as the channel for foreign assistance. Although the amounts are recommended by the executive branch, the final decision is made by Congress each year in the foreign assistance authorization and appropriation legislation. In the Foreign Assistance Appropriations Act of 1979 Congress appropriated $3.8 billion for foreign economic assistance, of which $260 million was for voluntary contributions to the assistance programs of international organizations, plus $2.5 billion for contributions to international financial institutons.

Referring to the $260 million for voluntary contributions, Assistant Secretary of State for International Organization Affairs Charles

[12] Weekly Compilation of Presidential Documents, Oct. 16, 1978, p. 1735–1736.

William Maynes has expressed the belief that the proportion contributed by the United States to international programs financed by voluntary contributions (such as the United Nations development program) has become too low. In hearings on the authorizations he said:[13]

We believe that our share of total voluntary contributions has become too low. A further decline could influence negatively other major donor nations which in turn could undercut the programs themselves, especially as they face continued high inflation.

When the United States obtained the agreement of the General Assembly for a reduction in our U.N. assessment level from about 31 percent to the present 25 percent, there was a general understanding that the United States would sustain its voluntary contributions to United Nations programs. In subsequent years, however, our share has steadily declined. Unless we halt, if not reverse, this trend our assurances of support for the developing countries and our commitment to multilateral cooperation will lose credibility.

The issue of the amounts for voluntary contributions has become intertwined with the issue of technical assistance in the assessed budgets. Both the executive branch and Congress have been in favor of providing funds for technical assistance programs of international organizations on a voluntary basis, rather than have them included as part of the assessed budgets which form legal obligations. Not only is there the question of obligation to pay, but many have taken the position that the technical assistance programs of the United Nations system would be more effective if they were coordinated by the United Nations development program which is financed through voluntary contributions.

There are other ways in which Congress plays a role in shaping U.S. policies in international organizations and the effectiveness of international institutions. Each year two Members of Congress are part of the U.S. delegation to the U.N. General Assembly and frequently delegations to other international conferences and meetings have congressional advisers or observers. The Senate is often called upon to approve U.S. ratification of treaties negotiated under the auspices of international organizations. Studies of international institutions made by congressional committees may have considerable impact. A study by the Senate Governmental Affairs Committee in 1977, for example, drew attention to the salary levels in international organizations, the absence of effective coordination both in the United Nations system and the U.S. system for participation in international organizations, and other problems.

The main way Congress helps determine the major issue, however, continues to be through setting the levels of appropriations. If a taxpayers' revolt in the United States leads to reductions in Government expenditures, contributions to international organizations, particularly voluntary contributions, could be an important issue for the 96th Congress.

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[13] Maynes, Charles William. Assistant Secretary. Bureau of International Organization Affairs, Department of State. March 7, 1978. U.S. Congress, House, Committee on International Relations. Subcommittee on International Organizations. Hearings, Foreign Assistance Legislation for fiscal year 1979, part 4. Washington, U.S. Government Printing Office, 1978. p. 304–5.

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TERRORISM

(By Marjorie Ann Browne*)

Issue Definition

The 95th Congress devoted considerable time to an examination of various legislative proposals which might bring new focus within the U.S. Government to the problems of combating terrorism and preventing such acts from occurring either in the United States or abroad. While no bills were passed, committee action provided a forum for discussion and investigation which could serve as the basis for possible enactment of legislation by the 96th Congress. A central issue facing the new Congress will be whether this country should take steps, beyond what is already law or possible under executive branch powers, to deal with terrorism.

A long list of subsidiary but vital questions emerges as one considers this basic issue. One group of questions would seek to identify the problem of terrorism:

In purely quantitative terms, is terrorism increasing or on the wane?

Is the level of sophistication of terrorist acts—such as use of more advanced weaponry or engaging in terrorist acts such as kidnaping which require more complex infrastructure—increasing or decreasing?

Is terrorism in the United States increasing or likely to increase?

The answers to these questions might help develop a response to whether the United States can risk taking no action to prepare for the possibility of increased terrorist activity.

A second set of questions would address the nature of steps which might be taken to strengthen the governmental response to terrorism:

If terrorism is judged to be a threat domestically, how can a proper balance be maintained between prevention and control of terrorism and preservation of fundamental freedoms? How much security or safety is too much?

What governmental structures are most efficient and effective in dealing with terrorism? Is a coordination mechanism sufficient? What kind of operational structures may be required?

Should special procedures be developed to assist in the acquisition of intelligence to help prevent as well as respond to terrorism, both domestic and foreign?

Should the Federal Government acquire control of all levels of governmental actions to deal with terrorism? Should general policy on terrorism be mandated at the Federal Government level?

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Or, alternatively, should each jurisdiction—State and/or local—set policy and devise responses to deal with terrorism?

A significant aspect of appropriate governmental responses in the United States is the role of Congress.

What role should Congress take in developing legislation to combat terrorism? Should mandatory constraints be placed on the executive branch or general authorizations which will be left to the executive to implement as he deems appropriate?

Finally, attention should be drawn to the foreign policy aspects of combating terrorism:

What steps should be taken to reduce international terrorist acts in other countries? What level of actions should the United States take toward the reduction of terrorism abroad?

What diplomatic forum should U.S. policymakers utilize in foreign policy efforts to control and combat terrorism—bilateral, regional, or international?

What role should U.S. concern over curbing terrorism have in relation to other U.S. foreign policy/national security/foreign economic policy interests?

Background

Definition

A first step in any discussion of terrorism is definition of the term. Simply put, terrorism may be defined as the use of violence or the threat of its use for political purposes.

President Carter's Executive order of January 24, 1978, on U.S. Intelligence Activities provides a useful and more detailed definition of international terrorist activities as those which:

(a) involves killing, causing serious bodily harm, kidnapping, or violent destruction of property, or an attempt or credible threat to commit such acts; *and*

(b) appears intended to endanger a protectee of the Secret Service or the Department of State or to further political, social or economic goals by intimidating or coercing a civilian population or any segment thereof, influencing the policy of a government or international organization by intimidation or coercion, or obtaining widespread publicity for a group or its cause; *and*

(c) transcends national boundaries in terms of the means by which it is accomplished, the civilian population, government, or international organization it appears intended to coerce or intimidate, or the locale in which its perpetrators operate or seek asylum.[1]

Finally, the key legislative proposals under discussion during the 95th Congress have sought to define terrorism. As originally introduced, S. 2236 [2] provided a straightforward definition:

(a) "terrorism" includes but is not limited to the calculated use of violence or the threat of violence to obtain political goals through instilling fear, intimidation, or coercion. It usually involves a criminal act, often symbolic in nature and intended to influence an audience beyond the immediate victims; and

(b) "international terrorism" transcends national boundaries in the carrying out of the act, the purpose of the act, the nationalities of the victims or the resolution of the incident. These acts are usually designed to attract wide publicity to focus attention on the existence, cause or demands of the terrorists.[3]

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[1] Executive Order 12036. 43 F.R. 3674, 3691, Jan. 26. 1978, sec. 4–209. The definition used in sec. 101(c) of the Foreign Intelligence Surveillance Act of 1978 (Public Law 95–511, approved Oct. 25. 1978) was patterned on the definition in the Executive order.

[2] As introduced, S. 2236 was titled the "Omnibus Antiterrorism Act of 1977".

[3] S. 2236, introduced Oct. 25, 1977, by Senator Ribicoff, et al., sec. 5.

As reported from the Senate Governmental Affairs Committee, S. 2236 contained a lengthy definition of international terrorism which included acts designated in three specific treaties and the following: [4]

(4) any other unlawful act which results in the death, bodily harm, or forcible deprivation of liberty to any person, or in the violent destruction of property, or an attempt or credible threat to commit any such act, if the act, threat, or attempt is committed or takes effect—

(A) outside the territory of a state of which the alleged offender is a national; or

(B) outside the territory of the state against which the act is directed; or

(C) within the territory of the state against which the act is directed and the alleged offender knows or has reason to know that a person against whom the act is directed is not a national of that state, or

(D) within the territory of any state when found to have been supported by a foreign state as defined in section 3(b), irrespective of the nationality of the alleged offender:

Provided, That the act of international terrorism is:

(i) intended to damage or threaten the interests of or obtain concessions from a state or an international organization; and

(ii) not committed in the course of military or paramilitary operations directed essentially against military forces or military targets of a state or an organized armed group.

This definition, in essentially the same language, survived review by three additional Senate committees and one House committee.[5]

While it appears that, in the United States, agreement on a definition of terrorism may be easily achieved, this is not the case for the international community. Protracted debate in the United Nations General Assembly has occurred over the question of definition of terrorism. The phrase—one man's terrorist is another man's freedom fighter—is vividly illustrated as countries express concern over terrorist activities and at the same time reaffirm:

the inalienable right to self-determination and independence of all peoples under colonial and racist regimes and other forms of alien domination, and upholds the legitimacy of their struggle, in particular the struggle of national liberation movements, in accordance with the purposes and principles of the Charter and the relevant resolutions of the organs of the United Nations. * * * [6]

Terrorism—Facts and Figures

According to CIA statistics, a total of 2,690 international terrorist incidents have taken place in the decade between 1968 and 1977, inclusive.[7] The types of actions undertaken by terrorists include:

kidnapping (4)
barricade-hostage
letter bombing
incendiary bombing (2)
explosive bombing (1)

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[4] S. 2236, as reported in Senate Report 95–908, sec. 3; the title of the legislation was changed to An Act to Combat International Terrorism. The treaties were the 1970 Hague antihijacking convention, the 1971 Montreal convention against civil aviation sabotage, and the 1973 U.N. convention protecting diplomatic pesronnel. See below, p. 24 for formal titles.

[5] The Senate committees were Foreign Relations, Commerce, Science and Transportation, and Intelligence. The House committee was Public Works and Transportation.

[6] Operative para. 3 of United Nations General Assembly Resolution 32/147, adopted Dec. 16, 1977, on "Measures to prevent international terrorism * * *"

[7] These statistics do not include terrorist attacks on United States and allied personnel and installations during the Indochina conflict, noninternational related assassinations and cross-border operations associated with the Arab-Israeli conflict, or bombings, shellings, and incursions by conventional forces. Also excluded, by definition, are any acts which do not transcend national borders.

armed attack (5)
hijacking
assassination (3)
theft, break-in
sniping
other actions which include occupation of facilities without hostage seizure, shootouts with police, and sabotage.[8]

The numbers in parentheses indicate the top five ranking by times of occurrence for 1976 and 1977; there was no change in ranking for the top five as between 1976 and 1977.

A comparison of deaths due to homicide in the United States for 1977 with the number of deaths in 1977 or in a decade resulting from international terrorist acts draws attention to the special nature of international terrorism:

Homicides in the United States, 1977: 19,120
Deaths from International Terrorism, 1977: 215
Deaths from International Terrorism, 1968–1977: 1,652[9]

The juxtaposition of this statistical data reveals the success of the terrorist in achieving his tactical goals. The unexpected use or threat of the use of violence against a civilian population teamed with media coverage, which brings major terrorist events to world attention, raises the international terrorist act to a significance which bears little relationship to the number of either its perpetrators or its victims.

Is terrorism on the increase? At times, it appears that the answer is an emphatic yes! However, CIA statistics on international terrorist acts in 1977 indicate that "for the year as a whole, there was a decline in the number of international incidents and their attendant casualties."[10] This same source concludes, however, that "oscillations and uncertainties in the pattern and level of terrorist activity render predictions hazardous, although it is clear that the threat will persist."[11] This conclusion is shared by Brian Jenkins who writes:

> The past record of terrorism provides no basis for forecasting the future course of terrorism. The fact that international terrorism has increased fitfully during the last decade does not mean that it will continue to increase, or that it will not decline, however we assess the phenomenon. One can say simply that terrorism is likely to persist.[12]

One source has broken out into three broad categories the motivations of terrorist groups which commit international terrorist acts:

1. Ethnic separatist and refugee groups dedicated to achieving greater autonomy or total independence, or recovering a lost homeland.
2. Revolutionary groups dedicated to bringing about political, social, and economic changes in their own country.
3. Revolutionary groups whose political concepts transcend national borders.[13]

Specific goals, which often involve destruction of the existing order, are frequently cited by a terrorist group in statements made at the time of an incident. The tactical goals of terrorist groups may be identified as widespread media coverage and publicity for their political goals; release of jailed colleagues; and money to finance itself and

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[8] U.S. Central Intelligence Agency. National Foreign Assessment Center. International Terrorism in 1977; a Research Paper. Washington, 1978. p. 10, Table 3. (Report 78-10255U. Aug. 1978).
[9] Ibid., p. ii and phone call to FBI Press Office.
[10] International Terrorism in 1977, p. 1.
[11] Ibid., p. 5.
[12] Jenkins, Brian M. International Terrorism: Trends and Potentialities. Journal of International Affairs, v. 32. No. 1, spring/summer 1978: 119–120.
[13] Senate report 95–908, p. 11.

future operations.[14] Technological advances, including satellite communication and aircraft which may bring nearly 300 persons together in a single vehicle in flight, make terrorism more attractive to those with the above-named goals.

Issue Outcomes and Consequences

Since most authorities believe that terrorism will persist, the questions which U.S. policymakers and Congress may have to answer include whether the level of violence associated with terrorism will increase and whether the United States will continue to remain relatively immune to terrorism. If the level of violence—that is, the numbers of people killed or wounded—increases substantially, Congress and the executive branch will be confronted with the problem of finding an appropriate U.S. response. Congress may decide that no additional legislative action is necessary. Or, it may decide to enact legislation along any number of alternative proposals (see section below: Role of Congress).

If the level of terrorist acts increases—that is, if a larger number of people are killed, the number of international terrorist acts increases substantially, or terrorists acquire and use or threaten to use biological or chemical weapons, a nuclear device, or surface-to-air missiles—the consequences of no action now could result in faulty, inappropriate, or miscalculated responses in the future. Further, legislative and executive branch action now might possibly prevent an increase in the level of terrorist acts. On the other hand, the financial costs of action now, with the likelihood of no increased danger to the United States in the near future from either terrorism at home or international terrorism, may be viewed by many as too high.

However, the consequences of terrorism or even the threat of terrorism at either the relatively low level of today or at an increased intensity can be expensive even for the private sector. A company which finds itself the target of terrorist acts may ultimately have to (1) close down, (2) leave its country of operation, or (3) incur increasing expenses to upgrade the security of its property—plants, offices, resource base—and of its employees, especially its managerial staff. The consequences of both the first and second alternatives are similar—a reduction in jobs, a loss to the host government of taxable income, both from the employees and from the company, and a possible loss of technology transfer to the country or region. These consequences may increase since the country or region where the company is located may become a high risk area which other potential investors will shun. If the company is engaged in retrieval or processing of a valuable natural resource, then any terrorist act which impedes the commercial recovery of that resource may severely affect the world supply and price of that commodity. The third alternative listed above may also result in increased prices of the product being processed or manufactured. In addition, the degree of susceptibility of a country to acts of terrorism becomes, then, a risk to be factored when considering operations in that country.

Often the terrorist seeks to achieve his tactical goals by attacking international civil aviation. While many countermeasures have been

[14] Senate report 95-908, p. 12.

instituted to reduce such attacks, international aviation is not safe. Airport security measures such as passenger and baggage screening have not been applied universally. Furthermore, some nations still maintain a policy of accepting and freeing aircraft hijackers. While a universal policy of no safe haven for hijackers along with universally applied airport security measures might serve as the best deterrent against aircraft hijacking, is it realistic to expect that this goal may be achieved? Further, if hijackings continue but no country allows the planes to land, either for refueling or for the conditional release of hostages, what effect will this have on the treatment of the hostages? Will this serve as a deterrent to hijackings or merely provoke harsher treatment of hostages, increasing the possibility that hijackers would carry out their threats, for example, to blow up the plane, including all its passengers?

The reaction of governments to terrorism is important. A target government may choose from a number of options when confronted with increasing terrorist activities. An appropriate response may fall somewhere between capitulation to terrorist demands and overreaction, both of which may actually achieve the goals of the terrorist. Combating and controlling terrorism requires governmental reallocation of financial, technological, and human resources and priorities, assuring at the same time that basic constitutional freedoms are not being infringed. Many different elements of a society and its government may need to respond in developing a strategy for dealing with terrorism:

- The Federal executive.
- The intelligence community.
- Law enforcement agencies of all jurisdictions.
- State and local executive offices.
- Medical facilities.
- Foreign policy community.
- Legislative branch.
- Judicial system.
- Communications media.

The failure of government to effectively curb terrorism may provoke a series of actions. The actual and/or perceived credibility of the government will be diminished. Day-to-day stability of the society may diminish; the economy of the country may be affected from such events as the loss of tourist trade or decline of the country's currency on the world markets. The inability of the government to cope with terrorism may bring about a serious confidence crisis, most evidenced by the disaffectation of the populace which may react against its role as victim. Various segments of society—public service, transportation workers, factory employees—may strike or engage in other acts which, combined with the acts of terrorism, wrack chaos on the society.

What factors make it difficult to devise an appropriate response to terrorism? When compared to other forms of violence, the relatively small number of persons involved in terrorism—either as victims or as perpetrators—may produce the perception that terrorism is not an urgent and important global conflict issue. In general, it has been more difficult for the Western democratic governments to combat terrorism than for Communist and other governments which generally place constraints on the civil liberties of their populace. Efforts to control terrorism should remain within acceptable constitutional constraints or they may promote support for the terrorists. One author has compared the steps taken or possible within the British system for control of terrorism in Northern Ireland with what might be possible under the U.S. constitutional framework. The article clearly illustrates that approaches which are acceptable in one society may not be feasible in another.[15] In addition, removing the causes of terrorism may be equally difficult and some analysts have suggested that the anarchist philosophy of some terrorists may lead to terrorism for the sake of terrorism.[16]

The Role of the United States in Issue Resolution

Governmental responses to terrorism might include any of the following counter-terrorist measures:

Creation of efficient government structures to deal with terrorism, with resolution of jurisdictional and decisionmaking problems.

Use of contingency planning, as an aid in crisis management.

Development of negotiation capabilities, with special training for law enforcement personnel.

Creation of special military or police units to use in capturing terrorists and freeing hostages.

Development of sophisticated intelligence gathering and retrieval systems.

Upgrading of protection provided for foreign diplomats within country and for own diplomats in other countries.

Upgrading of security for operations most vulnerable to terrorist attack, such as airports and aircraft, nuclear facilities and other power/energy sources.

Enactment of legal tools necessary for prosecution of those who commit terrorist acts.

Development of foreign policy approaches which would deter other countries from aiding terrorist operations.

The 1972 attack on Olympic facilities at Munich served as a catalyst for increasing U.S. Government activity for curbing terrorism, per se. Before that time most U.S. efforts were aimed primarily at curbing one form of terrorism: actions taken against civil aviation, both domestic and international. They included ratification of the Tokyo, Hague, and Montreal treaties adopted by ICAO to protect civil aviation.[17] In October 1970, an armed sky marshal program was initiated and airport screening procedures were started by some airlines at selected airports.

Up to 1972, most terrorist incidents involving U.S. citizens abroad occurred in Latin America. The United Sates supported signature on February 2, 1971, of an OAS Convention to Prevent and Punish the Acts of Terrorism Taking the Form of Crimes Against Persons and Related Extortion That Are of International Significance.[18]

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[15] Bishop, Joseph W., Jr. Can Democracy Defend Itself Against Terrorism? Commentary, May 1978: 55, 60-62.

[16] Jenkins, p. 122.

[17] See below, p. 24 for full names.

[18] Drafted within the Organization of American States, this Convention is open to ratification or accession by any member of the United Nations or U.N. system. The United States ratified the Convention on Oct. 20, 1976, when it also entered into force for this country (TIAS 8413).

In 1972, after Munich, U.S. domestic and foreign policy efforts to combat terrorism were intensified. Federal Aviation Administration regulations were strengthened to improve screening of passengers and baggage and to extend them to foreign airlines operating at U.S. airports.[19] A Cabinet Committee to Combat Terrorism was established by the President in September 1972.[20] Protection of foreign diplomats and property of foreign governments in the United States was increased and legislation to give the Federal Government jurisdiction concurrent with that of the States to prosecute and investigate acts against foreign officials and official visitors was enacted by Congress.[21]

The Secretary of State urged the United Nations during the September 1972 General Assembly debate to take prompt action to combat international terrorism. The United States submitted for Assembly consideration a draft treaty on terrorism as an international crime.

After 1972—Safety of Civil Aviation

Since 1972, U.S. actions have substantially reduced aerial hijacking within the United States and on flights originating in the United States. An anti-hijacking agreement with Cuba, signed in February 1973, contributed to this reduction.[22] Airport safety and screening provisions were upgraded. Much of the impetus for strengthened FAA regulations in this area originated with Congress which in 1974 amended the Federal Aviation Act.[23] According to an FAA official:

> no U.S. hijacking since 1973 has involved real firearms or explosives passing undetected through passenger screening points. FAA regulations governing the security of air transportation currently cover 36 U.S. and 73 foreign airlines operating some 15,000 scheduled passenger flights each day to and from 620 U.S. and foreign airports and boarding some 585,000 passengers and 800,000 pieces of carry-on baggage daily.[24]

Further evidence of the effectiveness of the U.S. passenger screening program is found in the fact that there has been only one successful hijacking of a U.S. air carrier since November 10, 1972, while during the same time period there have been 44 successful hijackings of foreign air carriers throughout the world.[25]

The United States has also established a program, pursuant to the Antihijacking Act, of inspection and assistance in upgrading security at foreign airports. FAA teams have conducted security inspections of U.S. flag carrier and certain foreign carrier facilities outside

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[19] 14 CFR § 107 ; 14 CFR § 121.538.

[20] Statement by Secretary of State William P. Rogers on Oct. 2, 1972 ; Department of State Bulletin, Oct. 23, 1972 : 476.

[21] Public Law 92–539, 86 Stat. 1071 : 22 CFR § 2.

[22] 24 UST 737, TIAS 7579 ; entered into force upon signature. Since the treaty was terminated, on Apr. 15, 1977, at the initiative of Cuba, such hijackings have not been resumed.

[23] Air Transportation Security Act, title II, Public Law 93–366, approved Aug. 5, 1974 ; 14 CFR § 107, § 121.538, and § 538a, and § 129. This legislation also required the Administrator of the FAA to transmit to Congress on a semiannual basis a report which would identify the progress made in securing the safety of civil aviation. The eighth report, covering January through July 1978 was transmitted to Congress on Oct. 12, 1978, pursuant to sec. 315(a) of the Federal Aviation Act as amended by Public Law 93–366.

[24] Richard F. Lally, Director, Civil Aviation Security Service, Federal Aviation Administration, on Sept. 12, 1978, before the Subcommittee on International Security and Scientific Affairs, House Committee on International Relations.

[25] U.S. Department of Transportation, Federal Aviation Administration, Semiannual Report to Congress on the Effectiveness of the Civil Aviation Security Program, January 1–June 30, 1978, pp. 3, 12.

the United States.[26] Foreign officials and technicians have attended U.S. aviation security training courses or have received indepth briefings on aviation security.[27]

The most recent significant step to reduce hijacking was taken on July 17, 1978, when the heads of state and government of seven nations, meeting in Bonn, West Germany, on economic issues, declared that:

> in cases where a country refuses extradition or prosecution of those who have hijacked an aircraft and/or do not return such aircraft, the heads of state and government are jointly resolved that their governments should take immediate action to cease all flights to that country.
>
> At the same time, their governments will initiate action to halt all incoming flights from that country or from any country by the airlines of the country concerned.[28]

Since July, officials from the seven countries—Canada, Federal Republic of Germany, France, Italy, Japan, United Kingdom, and the United States—have met to devise the means of implementing this declaration.[29]

Safety of Diplomats

In 1973, the United States supported United Nations adoption of the Convention on the Prevention and Punishment of Crimes Against Internationally Protected Persons, Including Diplomatic Agents.[30] In addition to creating a special unit to protect foreign diplomatic facilities in the United States—the Uniformed Division of the U.S. Secret Service—the executive branch has promulgated regulations for the protection of foreign diplomatic personnel.[31]

The U.S. Department of State has upgraded protection of its own diplomats in other countries. This has included regular classes on security against terrorism. The Departments of State and Commerce have developed an active program to advise private companies operating in other countries on measures to protect themselves.[32]

Terrorism as a Factor in Foreign Policy

Terrorism, especially international terrorism, can be regarded as a problem for foreign policy decisionmakers. Congress has authorized the executive branch to take a number of actions against countries which aid or abet international terrorism.[33] However, until 1978, there was no indication that steps of this sort had ever been taken. In early 1978, Secretary of State Vance stated that the:

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[26] Title I, Public Law 93–366, approved Aug. 5, 1974. If any weaknesses or deficiencies identified during these visits are not remedied within an appropriate time, the Secretary of Transportation is authorized by the Antihijacking Act to withhold, revoke, or impose conditions on the operating authority of the airline of that nation.

[27] Lally.

[28] Weekly Compilation of Presidential Documents, vol. 14, No. 29, July 24, 1978: 1308–1309.

[29] Kozicharow, Eugene, Antihijack Parley Studies Sanctions. Aviation Week and Space Technology, Aug. 7, 1978: 39, 41.

[30] Ratified by the United States, Oct. 27, 1976, and entered into force Feb. 20, 1977; TIAS 8532.

[31] 22 CFR § 2 and 31 CFR § 13. The former name of this special unit was the Executive Protective Service.

[32] Senate report 95–908, pp. 28–29.

[33] This includes the cutoff of foreign aid, the possibility that export controls will be imposed, the cutoff of sales, credits, and guaranties for the purchase of military equipment, and the denial of duty-free treatment under the U.S. system of generalized trade preferences.

administration had refused requested sales of commercial equipment having a potential military use, licenses for the export of commercial aircraft, requests for expert help in specific areas and third country transfers of U.S. origin military equipment and technology.[34]

Steps by the U.S. Government to implement any one or all of these sanctions might have serious economic consequences for the United States. Will the sanctions have the desired effect or will the target government in many instances be able to acquire its aid, trade, or military equipment from other sources? At the same time, U.S. companies may suffer economic losses, particularly if the target government is a regular trading client. The company may have to cut back production, lay off workers, or shut down for a period of time. This might impact negatively on the local or State economy or on the other vertical components in the economic infrastructure of that industry.

Some in Congress have pressed for mandatory sanctions against countries which aid or abet international terrorists. Executive branch spokesmen have generally opposed this option. They have argued that the "executive branch needs flexibility; it should not be bound too rigidly."[35] Secretary of State Vance observed in January 1978 that application of mandatory sanction "could have far-reaching effects on the relationships of the United States with that particular country, and indeed with the situation in a given region."[36]

One might also draw a parallel between impact on U.S. foreign policy of the current stress on human rights considerations and the possible impact on U.S. foreign policy of a similar stress on combatting terrorism.

It has also been suggested that taking action, such as reducing or cutting off economic and/or military aid against countries which have not ratified the three ICAO conventions might have a beneficial effect in getting more universal adherence to these treaties. On the other hand, such action might adversely affect U.S. relations with these nations, including eliminating whatever existing leverage for influencing the steps the government might take.[37]

Foreign policy activities also include the actions the United States may choose to take in international fora. Issues of terrorism have been brought up primarily in the United Nations—in its Security Council and in the General Assembly—and in the International Civil Aviation Organization (ICAO). Since 1972 the United States has supported efforts in the Assembly and in ICAO to develop a means for reducing international terrorism and acts against the safety of civil aviation. Numerous recent initiatives have, on the whole, however, resulted in more debate and discussion, not in the adoption of concerted international cooperative efforts or in treaties. For example, the U.N. General Assembly, in response to a West German

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[34] Senate. report 95–908. p. 23; also in U.S. Congress. Senate. Committee on Governmental Affairs. An Act to Combat International Terrorism. Hearings, 95th Cong., 2d sess. on S. 2236. January, February, and March 1978. Washington. U.S. Government Printing Office, 1978. p. 11. Hereinafter cited as Senate Governmental Affairs Committee, hearings. On June 24, 1978, State Department sources indicated that about $400 million in sales to Libya of trucks, aircraft, and spare parts was being held up because of Libya's role in aiding terrorists.

[35] Robert H. Kupperman. Chief Scientist, U.S. Arms Control and Disarmament Agency, Sept. 12, 1978, before the Subcommittee on International Security and Scientific Affairs, House Committee on International Relations.

[36] Senate Governmental Affairs Committee, hearings, pp. 27, 32.

[37] See Vance and Isham in Senate Governmental Affairs Committee, hearings, p. 23.

initiative in 1976, created a committee to draft and adopt a convention against the taking of hostages. Earlier, in 1972, the United Nations created an Ad Hoc Committee on International Terrorism which was reactivated in 1976. Neither committee has, as of the end of 1978, produced any concrete results.

Problems for U.S. Internal Security

Prevention is one of the surest ways of combating crime, including criminal acts committed by terrorists. For the law enforcement official, this is best achieved through access to information about terrorists, their activities and proposed actions. The sharing of information among various agencies has also been necessary. It has been observed by some analysts that present U.S. procedures and regulations may hamper effective collection and dissemination of intelligence data among law enforcement agencies. Most of the limiting factors were developed in response to misuse. Thus, surveillance and infiltration or use of informers have been sharply curtailed by the Levi guidelines for domestic security investigations, the President's Executive order on intelligence agencies, and the possibility that data acquired in this way might be obtained by the person surveyed through application of the Freedom of Information Act and the Right to Privacy procedures.[38]

U.S. Governmental Structures

The Cabinet Committee created in September 1972 was eliminated 5 years later after meeting only once. Its working group had become the actual central coordinating mechanism by which those in executive agencies kept up with governmental agency activities to combat terrorism. Neither entity was necessarily monitored by the White House nor did either have operational responsibilities or command authority in the event of a terrorist incident.

In September 1977, President Carter, acting through Presidential Review Memorandum No. 30, refocused U.S. Government coordinating apparatus. He placed supervision of Federal interagency cooperation to combat terrorism under the Special Coordination Committee of the National Security Council—chaired by the President's Assistant for National Security Affairs. Under the SCC a senior-level interagency executive committee, chaired by the State Department, deals on a regular basis with counter-terrorist policy and contingency planning. Executive committee members include representatives from the Departments of State, Defense, Justice, Treasury, Transportation, and Energy, and the Central Intelligence Agency, and NSC staff. A working group, with representatives from these plus an additional 20 agencies and departments, functions in support of the executive committee.

The U.S. Government response to terrorist incidents—whether in the United States or abroad—was and remains ad hoc. The agencies having jurisdiction over an incident—as determined by its location and type—are to work together in responding to that incident. It has been observed, however, that "there still are overlapping jurisdictions

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[38] The Levi guidelines were established by Attorney General Edward H. Levi in 1976. For text, see U.S. Congress, Senate, Committee on the Judiciary. FBI Statutory Charter, hearings, 95th Cong., 2d sess., pt. 1, Apr. 20 and 25, 1978. Washington, U.S. Government Printing Office, p. 13f.

and no clear-cut lines of authority."[39] If a terrorist incident occurs in the United States but not on Federal property, at what point and under what conditions would Federal authorities be brought in? There are still reports that "antiterrorism policy has not been given a high enough priority within the administration." It was the view of the Senate Governmental Affairs Committee that two elements "must exist in any U.S. organizational structure to combat and manage responses to terrorism":

(1) the coordinating mechanism must be a relatively small centralized group with adequate resources of its own, and a strong mandate to develop and direct policy and planning, and to conduct incident management, and (2) it must have the authority to command and utilize the full resources of the Federal Government.[40]

The Department of Defense has also considerd the use of a military option capability during a terrorist incident.[41] The Assistant Secretary of Defense for International Security Affairs has indicated "such a capability does exist" and in September 1978 a Department of the Army spokesman indicated that elements of that unit were being trained at Fort Bragg, N.C. The experiences of other countries, such as Israel at Entebbe, Holland relative to the Moluccan incidents, West Germany at Mogadishu, and Egypt at Larnarca, Cyprus can highlight both the positive and negative aspects of the military option. Questions which may require thorough executive branch and congressional examination include identification of the circumstances under which such a military option may be used, contingency planning for different operations, diplomatic procedures for seeking permission to enter the territory of other nations, identification of circumstances under which U.S. forces might enter without the permission of the nation and the foreign policy and legal ramifications of such action, as well as the use of such a force in relation to the War Powers Resolution of 1974.

In addition, the chief scientist for the Arms Control and Disarmament Agency, Robert Kupperman, has suggested that:

A well-conceived, highly trained, and versatile international paramilitary force that is available to all is an idea whose time will come. The risks of tactical failure should be spread equitably among many nations. If acts of international terrorism are to be faced squarely, they must be viewed as international peacekeeping problems, not merely domestic law enforcement challenges. Individual nations should not be expected to bear the military and political burdens alone.[42]

This is an option that might warrant further investigation.

The Role of Congress

Congress has responded to the increasing threat of terriorism in the United States and abroad in a number of ways. Its committees have held hearings to examine the nature, scope, and resolution of the

[39] Senate report No. 95-908, p. 27.

[40] Ibid.

[41] The Department of Defense might be viewed as having special responsibilities in managing terrorist activity. In addition to protecting Department personnel, facilities, and equipment at home and abroad, it must support antiterrorist efforts by other levels of government. On this second point, however, the Department and the armed services are limited in the extent to which U.S. military forces may be used in the United States. See Senate report No. 95-908, pp. 30-31.

[42] Kupperman, Robert H. Facing Tomorrow's Terrorist Incident Today. Washington, U.S. Government Printing Office, 1977. p. 22. (Prepared for the Law Enforcement Assistance Administration.)

problem. The House and Senate have passed resolutions expressing their views on specific acts of terrorism. The Senate has considered and approved U.S. ratification of five treaties dealing with various aspects of terrorism. Congress has adopted legislation to implement these international conventions. And, finally, Congress has enacted legislation aimed at influencing U.S. foreign policy efforts to combat terrorism. This has included actions aimed at countries which aid or abet international terrorism.

Action on Treaties

The Senate has acted to approve the following treaties on terrorism:

Convention to Prevent and Punish Acts of Terrorism Taking the Form of Crimes Against Persons and Related Extortion That are of International Significance, adopted by the Organization of American States, February 2, 1971; entered into force for the United States, October 20, 1976.

Convention on the Prevention and Punishment of Crimes Against Internationally Protected Persons, Including Diplomatic Agents, adopted by the United Nations General Assembly, December 14, 1973; entered into force February 20, 1977.

Convention on Offenses and Certain Other Acts Committed on Board Aircraft, done at Tokyo, September 14, 1963; entered into force December 4, 1969.

Convention for the Suppression of Unlawful Seizure of Aircraft, done at The Hague, December 16, 1970; entered into force October 14, 1971.

Convention for the Suppression of Unlawful Acts Against the Safety of Civil Aviation, done at Montreal September 23, 1971; entered into force January 26, 1973.

Legislation to implement the two treaties on the protection of diplomatic personnel was passed by Congress in 1976, before the President ratified the treaties.[43] On this same issue—the protection of foreign officials in the United States—the Congress in 1972 provided for the punishment of those who would commit murder, kidnaping, assault, or other forms of violence on a foreign official or official guest in the United States from another country.[44] In 1975, Congress extended the protection of the Executive Protective Service to foreign diplomatic missions in U.S. cities other than Washington, D.C. This would apply to cities where 20 or more such missions existed.[45]

A major congressional action took place in 1974 when Congress amended the Federal Aviation Act, by passing the Antihijacking Act and the Air Transportation Security Act. The first act implemented the 1970 Hague Anti-Hijacking Convention and established a death penalty or life imprisonment sentence for cases where death results from a hijacking incident.[46] This same Antihijacking Act authorizes

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[43] Act for the Prevention and Punishment of Crimes Against Internationally Protected Persons, Public Law 94–467, Oct. 8, 1976.

[44] Act for the Protection of Foreign Officials and Official Guests of the United States, Public Law 92–539, Oct. 24, 1972.

[45] Executive Protective Service, Public Law 94–196, Dec. 31, 1975. The name of EPS was changed to the Uniformed Division of the U.S. Secret Service.

[46] Antihijacking Act of 1974; title I, Federal Aviation Act of 1958, amendments, Public Law 93–366, Aug. 5, 1974.

the President to suspend air services to nations which aid and abet any terrorist organization engaged in aircraft hijacking—and this includes the provision of safe haven. The President is also authorized to suspend air service to any nation which maintains air services with nations which aid and abet. These provisions of the law have not been invoked by the President although administration spokesmen maintain it will be used, should the occasion arise.[47]

The Antihijacking Act also initiates a procedure for the imposition of sanctions against countries which have not met airport security standards. If minimum standards established by ICAO—the International Civil Aviation Organization—for airport security have not been met and are not met after the nation has been notified as to the steps to be taken, the Secretary of Transportation, with the approval of the Secretary of State, may withhold, revoke, or impose conditions on the operating authority of the airlines of that nation. This provision has not been invoked by the Secretary of Transportation. The Air Transportation Security Act, also passed by Congress in 1974, upgraded security procedures used at U.S. airports.[48]

Influencing Other Countries

In addition to authorizing the President to suspend civil air transportation to nations which aid and abet terrorist organizations engaged in aircraft hijacking, Congress has enacted other legislation aimed at influencing countries that aid or abet international terrorism. This includes:

A cutoff of U.S. foreign aid, including funds under the Export-Import Bank, to any such government unless the U.S. national security requires such aid; [49]

The possibility that export controls will be imposed to encourage nations to stop providing assistance to international terrorists; [50]

The cutoff of sales, credits and guarantees to such countries for the purchase of military equipment, unless the U.S. national security requires such assistance;[51]

The denial of duty-free treatment under the U.S. system of generalized trade preferences to any such developing nation unless such treatment is determined to be in the U.S. national economic interest.[52]

In addition, in 1977, Congress stipulated that the United States, in connection with its voice and vote in six international financial institutions, seek to channel the assistance of these organizations to countries other than those whose governments provide a refuge to terrorists who hijack aircraft.[53]

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[47] Secretary of State Vance in Senate Governmental Affairs Committee, hearings, p. 27, and Secretary of Transportation Brock Adams in Senate Governmental Affairs Committee, hearings, p. 49.

[48] Air Transportation Security Act of 1974; title II, Federal Aviation Act of 1958, amendments, Public Law 93-366, Aug. 5, 1974.

[49] Foreign Assistance Act of 1961, sec. 620A; added by sec. 303 of the International Security Assistance and Arms Export Control Act of 1976, Public Law 94-329, June 30, 1976; Foreign Assistance and Related Programs Appropriations Act, 1978, sec. 509, Public Law 95-148, Oct. 31, 1977, and same act, 1979, sec. 607, Public Law 95-418, Oct. 18, 1978.

[50] Export Administration Act of 1969, sec. 3(8); added by sec. 115, Export Administration Amendments of 1977, Public Law 95-52, June 22, 1977.

[51] Arms Export Control Act, sec. 3(f)(1); added by sec. 18 of the International Security Assistance Act of 1977, Public Law 95-92, Aug. 4, 1977.

[52] Trade Act of 1974, sec. 502(b)(7); added by sec. 1802, the Tax Reform Act of 1976, Public Law 94-455, Oct. 4, 1976.

[53] U.S. Participation in International Financial Institutions, sec. 701, Public Law 95-118, Oct. 3, 1977. The six international financial institutions are the International Bank for Reconstruction and Development, International Finance Corporation, International Development Association, Asian Development Bank, Inter-American Development Bank, and African Development Fund.

Congressional Activities in 1978

In 1978, following up on action in previous years, Congress added a provision to the legislation approving U.S. participation in the International Monetary Fund Supplementary Financing Facility, directing that the U.S. Executive Director to the IMF work in opposition to any extension of financial technical assistance by the SFF to any government which supported international terrorism.[54]

In addition, Congress amended the Export-Import Bank Act, stipulating that denial by the Bank of applications for credit for nonfinancial or noncommercial considerations should only be given when the President determined that such denial would clearly and importantly advance U.S. policy in such areas as international terrorism.[55]

Several committees in Congress examined various aspects of terrorism during 1978.[56] Most efforts were focused on legislation introduced in October 1977 by Senator Abraham Ribicoff. As reported from the Senate Governmental Affairs Committee, the Senate bill—S. 2236—had a number of significant elements aimed at strengthening U.S. Government mechanisms for addressing terrorism, at reducing the danger of U.S. citizens using international civil aviation, and at reducing State support of terrorism. The tools used in the legislation included mandatory aid and trade sanctions, reporting requirements to Congress, publication of dangerous foreign airports, expansion of an identification and detection taggant system for explosives, implementation of the 1971 Montreal Convention, and strengthening protection of nuclear facilities. S. 2236 was considered and reported with amendments from the Senate Foreign Relations and Commerce, Science, and Transportation Committees as well as from the Senate Select Committee on Intelligence. During this process some sections were changed or dropped. S. 2236 was not considered on the Senate floor.

Similar legislation was also considered in House committees. The Public Works and Transportation Committee reported H.R. 13387, with amendments, while the House International Relations and Judiciary Committees each considered legislation approved at the subcommittee level. The full House did not consider the bill. In addition, the House Select Committee on Intelligence held extensive hearings which will be continued in 1979 on various aspects of terrorism.[57]

Choices for the 96th Congress

Among the options open to the next Congress are the following:

Do nothing but continue to respond to terrorism on an ad hoc basis with sense of Congress resolutions deploring certain acts and hearings;

Implement the Montreal Convention on aircraft sabotage;

Enact any part or all of the legislation considered during the 95th Congress which might include resolution of any or all of the following areas of controversy:

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[54] Bretton Woods Agreements Act, amendments, sec. 6. Public Law 95–435, Oct. 10, 1978.

[55] Export-Import Bank Act Amendments of 1978, sec. 4, Public Law 95–630, Nov. 10, 1978.

[56] A detailed discussion of the various versions of S. 2236 and the differences with H.R. 13387 may be found in the CRS Issue Brief on International Terrorism (IB 74042).

[57] House report No. 95–1795, p. 20.

Taggants for black and smokeless powder propellants,
Sanctions: mandatory or not,
Use of the legislative veto provision,
Inclusion of nuclear materials security provision,
Reporting requirements to be semi-annual or annual, submitted as classified, or unclassified, or both.

Enact special provisions on terrorism in FBI charter legislation and/or in legislation regulating intelligence community;

Authorize and appropriate special funding for combatting terrorism at home and/or abroad.

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III. REGIONAL ISSUES

WESTERN EUROPE

WEST EUROPEAN PERCEPTIONS OF ATLANTIC ECONOMIC RELATIONS

(By Charlotte A. Phillips *)

ISSUE DEFINITION

Until the last decade, Euopean monetary officials likened their relationship with the United States to being in a rowboat with an elephant: As long as the elephant did not get restless, everything was fine; but when the elephant got restless, everybody got wet. In the last decade, the rowboat has grown and its occupants number more than one heavy beast. The problem of coordinating their movements has grown considerably more complex.

In the past 2 years, the United States has experienced huge trade and balance of payments deficits, the value of the dollar has plunged to record low levels, and fears of inflation and trade protectionism have grown. The sliding value of the dollar has been linked, rightly or wrongly, by the Europeans to the failure of the United States to curb inflation and to agree to a comprehensive energy plan which includes cuts in oil imports. Another major economic issue between the United States and its European Community partners is the multilateral trade agreements currently being negotiated in Geneva.

Although the Congress does not have a direct role in deciding what the U.S. economic role in Western Europe should be, it does have the power to legislate on several of the issues at hand such as trade measures—approval of the results of the GATT negotiations on the Tokyo Round, government subsidies, and countervailing duties—energy measures—specifically the ability to act on the President's program to cut the level of oil imports—and domestic fiscal policies—raising or lowering taxes and determining the level of Government spending. The Congress also plays an oversight role in monetary and international trade policy by calling for investigations and hearings. All of these decisions made by the new Congress will have an impact not only on the U.S. economy, but also on the economies of West European countries.[1]

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*Analyst in European Affairs, Congressional Research Service, Library of Congress.

[1] See chapters, "The Balance of Payments and Domestic Policies," p. 40; and "Multilateral Trade Negotiations," p. 48.

Coordinated Reflation—A Solution to Growth, Inflation, Unemployment and Balance of Payments Problems

Before the oil shock of 1973–74, double digit inflation and the deepest recession since the 1930's, governments in the United States and some Western European countries tended to overestimate their future growth rates. This led to more optimistic projections, averaging about 5 percent per year, for the 1970's and beyond. The oil shock and internal economic problems caused the growth rates in the mid-1970's to be distinctly lower than predicted. At the same time, inflation and unemployment have been driven up by slow growth. This phenomenon has resulted in what has been termed "stagflation"—prices are rising while output is stable or declining.

Since 1973, inflation and slow growth in most of the West European countries was aggravated by the need to cope with external trade deficits caused by oil price hikes. A few Western nations tended to respond to this imbalance through financial rescue operations—Britain negotiated a $3.9 billion credit with the IMF—and by stopgap measures—such as wage and price controls and austerity programs. The variety of policies that nations chose to respond to their economic plights resulted in large disparities in rates of inflation and growth and in balance of payments among the Western economies. The West Germans and the Swiss accumulated huge trade surpluses—while Great Britain, France, Italy, and more recently, the United States experienced large payments deficits.

From August 1977 to mid-August 1978, the dollar depreciated 17 percent in terms of the deutsche mark, 32 percent against the yen and 34 percent against the Swiss franc.[2] The trade-weighted average foreign exchange value of the dollar against 16 industrial nations' currencies depreciated about 9 percent. This slippage in the value of the dollar has been reflected in the instability in the foreign exchange market.

The U.S. dollar affects the competitiveness of European exports, and the Europeans hold much of their financial reserves in dollars. For these reasons they are concerned about the dollar and have attempted to work with the Americans and the Japanese to devise a coordinated economic approach to deal with balance-of-payments problems, world inflation, unemployment and growth rates.

As part of the coordinated approach, and in response to President Carter's demands for more economic stimulus abroad to relieve some of the problems associated with imbalances in payments and the weakness of the dollar, some Western European nations, led by West Germany, promised at the London Economic Summit in May 1977 to expand "within reasonable inflation limits." The Germans in 1978, however, claimed that "reasonable" meant 4.5-percent growth per year, although the United States believed that it had exacted a 5-percent promise from Chancellor Helmut Schmidt. For a variety of reasons, actual growth turned out to be only half of that projection, or 2.4 percent.

The reason Schmidt has been unwilling to stimulate the economy as much as President Carter would like is that he fears Germany will

[2] The Atlantic Council of the United States. The Floating Exchange Rate System: The Search for Balance and Stability. The Atlantic Council's Working Group on International Monetary Affairs, Washington, D.C., September 1978, p. 7.

fall into the same inflationary spiral that has befallen the United States. However, German fear of inflation, stemming from the experience of the 1920's, is still a powerful force in Germany. Today West Germany's inflation rate hovers around 3 percent per year, while elsewhere in many European countries and the United States, inflation rates were stuck around 10 percent by the end of 1978. Although there is some disagreement among economists as to how much high inflation accounts for low business investment and slow growth, fears of inflation have generally prevented the adoption of stronger expansionary programs.

Nonetheless, West Germany made further concessionary gestures at the July 1978 Bonn summit to restimulate its economy. Although it appears that Germany has succeeded in controlling inflation for the most part, Chancellor Schmidt is concerned that the sharply rising value of its currency will tend to make German exports less competitive. Schmidt also fears that the United States will increase its use of protectionist measures. Thus Germany insisted at the Bonn summit that in return for reflationary action to reduce its trade surplus, it wanted the United States to take steps to limit the increase of its oil imports, reduce inflationary pressures, and preserve the movement toward free trade.

The OECD Secretariat has calculated that if efforts to reflate were adopted, and Germany, Japan, Canada, Italy, and Britain increased their total demand by between 0.25 and 0.5 percent in 1978, the effect a year later, would raise their combined rates of economic growth between 1 and 1.25 percent. This would transform a 3-percent growth rate into a 4-plus-percent rate of growth and stop any further increases in unemployment.[3]

The Energy Link and the Dollar Stabilization

While Germany is fulfilling, at least in part, its summit pledge to stimulate growth, President Carter's goal to reduce its current rate of oil imports by 6 million barrels a day by 1985 has found less support in the United States, being termed "unrealistic" even by U.S. Secretary of Energy James Schlesinger. On the second part of President Carter's pledge—to raise the domestic price of oil to the world price level by the end of 1980—the Senate removed this language from the 1978 House bill. The President's recent action has fulfilled this pledge. This perceived inability of the U.S. administration to win congressional approval for its energy package has not only undermined the confidence of European leaders in American leadership and sincerity in the coordinated approach, but also confidence in the U.S. dollar and its ability to continue to function as the major world reserve currency.

Because the Europeans link the dollar's depreciation in part to the failure of the United States to cut back oil imports, they expressed annoyance that the United States is using the weakness of the dollar to usurp the competitiveness of their exports. Belgian Foreign Minister Henri Simonet called the do-nothing U.S. policy "aggressive neglect" as opposed to the "benign neglect" of the early 1970's when John Connally was Secretary of Treasury.[4]

[3] Ibid., p. 5.
[4] Paul Kemezis: The Declining Dollar, European Community, September–October 1977, p. 16.

Since November 1978, when President Carter supplemented his October inflation package, the United States intervened in exchange markets to try to stabilize the dollar. He has given price stability priority over higher employment, and the dollar has strengthened.

A European Response to the Sliding Dollar—The European Monetary Union

When the value of the dollar dropped precipitously in 1978, the Europeans gained an impetus for a long-sought-after goal of the European Community—a European monetary union. They, like the OPEC nations had begun to look seriously at reducing their dependence on the dollar in favor of designing a new "basket" type currency.

The movement for a European currency began in the early 1960's with an idea to keep EEC currency exchange rates more closely together. The concept of the "snake", whereby EEC currencies were kept within 2.5 percent of a central rate between each pair, and a 2.5-percent central rate against the dollar as well—"the snake in the tunnel"—began in the early 1970's.[5] The snake was soon skinned as France, Britain, and Italy were forced out due to economic crises. The snake essentially became a German mark zone with only West Germany, Belgium, the Netherlands, Luxembourg, Denmark, and Norway as participants.

The current impetus to enlarge the snake into a European Monetary Union—EMU—was provided by West German Chancellor Helmut Schmidt, French President Valery Giscard d'Estaing, and EC Commission President Roy Jenkins. As previously stated, Chancellor Schmidt does not want the value of the mark to appreciate any further. Rather than believing the deutschmark is suffering from overwhelming strength, the Germans believe the international system is ailing from undue dollar weakness. By locking other European currencies to the mark in a common European Currency Unit—ECU—Schmidt believes upward pressure against the mark will be relieved. Giscard d'Estaing thinks France has basically as strong and as stable an economy as Germany. Following the resounding defeat of the French left in the March 1978 elections, Giscard d'Estaing has had more freedom to initiate new economic programs. He prefers that the economic future be planned on fixed rather than floating exchange rates and sees the credit proposals of the EMU as helpful to France which currently has one of the weakest balance of payments in Western Europe. Finally, EC Commission President Roy Jenkins likes the EMU because it means new momentum for Europe to consolidate individual nations' economic interests into the sphere of a unified European Economic Community.

The EMU creates a new European monetary fund in which countries would put one-fifth of their reserves into a common pool. This pool will be used, among other things, to grant credits to members much like the IMF grants credits. The value of each unit of European currency will be calculated daily on the basis of a "basket" of fixed amounts of all the EEC currencies. The EEC already denominates some of its international loans in EUA's—European Units of Account.

Like the policy of coordinated reflation, the establishment of the EMU has not gone without its share of problems. Britain and Italy

[5] Norman Macrae: Toward Monetary Stability, European Community, September–October, 1978, p. 3.

feared their unemployment might soar even higher if their comparatively weaker currencies were forced upward with the mark. They also feared the economic management that is inherent in the monetary union. However, many considered tough conditions, like those set for Britain and Italy by the IMF, to be a good way to influence weak economies.

By March 12, 1979, when the EMS went into effect, all EEC members had decided to join except Britain. Community currencies will be allowed a maximum permissible fluctuation margin of 2.25 percent against one another, with the exception of the lira, for which the margin will be 6 percent.

Trade Protectionism

In times of plenty, when growth is assumed and prosperity almost assured, it is easier for market economies to lower trade barriers and absorb whatever costs are required by free market conditions. Competition is viewed as natural, beneficial and healthy. When things go wrong, however, and nations are faced with recession, demands by both domestic labor and business for protection against foreign competition, be it "fair" or "unfair," become increasingly insistent.

The current round of MTN negotiations is important to the Western industrialized nations. It is designed to improve economic efficiency, reduce inflationary pressure, and could remove a number of irritants in United States-European relations. At the Bonn summit, the heads of state agreed to conclude the Tokyo Round of trade liberalizing negotiations as quickly as possible after nearly 5 years of slow negotiations The Germans were especially interested in reducing subtle forms of protectionism such as government subsidies to inefficient industries and grants to create jobs that would otherwise not be economic.

Governments on both side of the Atlantic are accusing each other of employing unfair trade practices. For the United States, the most efficient agricultural producer in the world, the extreme protection of the Common Agricultural Policy of the EEC stands as a barrier which exchange rate adjustments cannot overcome. The Europeans, on the other hand, are particularly sensitive to measures the United States applies to industrial commodities, and have charged us with having adopted unfair duties, especially on steel imports.

Trade laws on both sides of the Atlantic are designed to protect domestic industries against injurious competition from foreign producers. Such laws are normally justified as responses to unfair trading practices or as temporary adjustment measures. Yet they are often used by both European and U.S. domestic manufacturers who cannot stand up to competition because they have failed either to modernize or to recognize new trade patterns. Hence, both sides claim that outside producers are selling by unfair methods—"dumping" goods on what they feel is their market. Currently, there is a flurry of demands for protection in both the United States and Western Europe that surpasses any time since the Great Depression of the thirties.

The Europeans fear a growing reliance on protectionist measures by both will perpetuate current lagging growth by restricting the expansion of trade. For example, steel and textiles are covered by cartel-like arrangements designed to protect inefficient producers in both the United States and Western Europe against more efficient competitors. The United States and Western Europe are pressing Japan and some developing countries to limit deliveries of manufacturers to United States and European markets on a "voluntary" basis, or face "something worse."

The political statements in favor of trade liberalization made at Bonn will be without effect unless they are accompanied by the willingness to deal with structural problems in such industries as steel, textiles, and special agricultural products—a list that will continue to grow as developing nations become more competitive. The GATT has offered a forum for considering free world trade problems. Unfortunately, trade problems continue to be seen mainly as problems of national concern. They are being increasingly dealt with through antidumping measures, safeguard clauses and countervailing duties, and thus are likely to continue to exacerbate United States-West European trade relations during a time when cooperation would bring greater economic gains to the partnership as a whole. The current round of GATT negotiations is specifically intended to halt or reverse the contagion of protectionist measures.[6]

Issue Outcomes: The U.S. Role and the Role of Congress

The latest EEC economic summit meeting at Bremen in July 1978, was followed 10 days later in Bonn by the fourth economic summit by the Western industrialized nations. Between the two sessions, negotiators completed a phase of the Tokya Round of the GATT—General Agreement on Trade and Tariffs—in Geneva. Some common threads ran through what occurred or failed to occur along the banks of the Weser, the Rhone, and the Rhine rivers.

All three events took place against a backdrop of the halting and insufficient recovery of many Western economies from the recession that had first hit many of them in 1974. The three principal issues since that time—inflation, unemployment, and low growth rates—have remained the world's major economic problems. To these can now be added fears of growing trade protectionism, doubts about future energy supplies, and persisting imbalances in world trade and payments.

Notably, people on both sides of the Atlantic seem to be getting used to at least some aspects of the situation. At the beginning of the recession in 1974, EEC joblessness totaled about 5 million, which was considered intolerable at the time. Four years later, the figure was closer to 6 million, yet there has been no great social or economic upheaval. Instead there appears to be widespread resignation that in the next 12 to 18 months there will be no drastic improvement. It is agreed by both Atlantic partners that it is becoming increasingly difficult to agree on a coordinated program that meshes United States and West European approaches to dealing with the recession.

Tensions between the United States and Western European nations have been apparent in trying to implement the decisions of the economic summits which both sides view as important, with independent national policies required by their constituents. Although there is a general willingness on both sides to compromise, the success or failure of the coordinated approach is difficult to predict because

[6] The GATT agreements were signed by all participant nations on April 12, 1979 in Geneva. They now await approval by member states' legislatures.

it remains to be seen how far the intentions voiced and pledged in international fora will be implemented and honored. In addition, much of what is now being attempted through coordinated effort is genuinely experimental, and no one can be certain of the results. Finally, in most cases, the commitments made at Bonn will require approval by national legislatures, which means backing from domestic constituencies.

A persistent theme in the West European attitude is that their economic needs and interests are being neglected by American policymakers. The Euorpeans believe that the United States is unable to provide as much international economic support as it has in the past because of indecisive leadership, insufficient energy programs and a lack of concern over the fate of its balance of payments and the dollar.

Th United States is in a poor position to help in coordinated ventures to solve Western economic problems while its own economy is limping and hesitant. So long as domestic inflation and balance of payments deficits continue to soar, Congress may, as it has in the last year, continue to put more emphasis on economic restraint rather than stimulus. President Carter has found himself facing a divided and somewhat antagonistic Congress that has embarrassed him in front of the Europeans—foremost over the passage of an energy bill which limits oil imports.

The Europeans are looking to the United States for leadership and direction in economic affairs. They feel that the United States had followed a balance of payments policy of "aggressive neglect." The Europeans also maintained that they are more concerned about the dollar than the United States. One statesman quipped that "in a nation where only 6 percent of the GNP comes from foreign trade, people just don't get worked up about the international effects of the dollar. To them, the weakness of the dollar doesn't matter unless it affects the price of a hamburger." [7]

This attitude has been reinforced by some U.S. officials such as United States Treasury Secretary Michael Blumenthal who at one time stated that the United States should do little if anything about the dollar. In May 1978, he asserted that as the dollar sinks, U.S. goods abroad will become cheaper, and the trade deficit will begin to right itself. This policy, in effect, would impel the EEC and Japan to import more—something that they have thus far resisted.

In the fall of 1978, the President took measures to limit inflation and strengthen the dollar, giving these objectives priority over economic expansion. The Europeans have welcomed this shift and have cooperated in intervening to maintain and increase the value of the dollar in exchange markets.

Among the measures suggested for the Congress to act on were trade restictions, Government spending limitations, subsidies and No. 1 on almost everyone's list—a comprehensive energy program.

The 95th Congress addressed one of the problems in the President's energy package through passage of the gas price deregulation bill. Other programs have cut the increase in U.S. energy consumption below recent trends, but by less than many here and in Europe would have preferred.

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[7] Ibid.

The Europeans attach particular importance to the waiver as duties on their exports to the United States would be imposed, at least until the new Congress acts. The failure to extend the waiver had significant implications for the United States in the December round of the MTN negotiations—where the Europeans and Japanese made it clear that the waiver extension was a critical feature for a successful resolution of the MTN.

The 96th Congress will deal with these same issues of energy, public spending and trade. The measures they choose to cope with these tasks will affect not only Americans efforts to revive its economic strength, but also European efforts to restore stability needed to control inflation, reduce unemployment, and raise growth rates. At the same time, balance-of-payments problems and the U.S. deficit will continue to be a matter of joint concern that requires treatment for the forseeable future.

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POLITICAL CHANGE AND THE ATLANTIC ALLIANCE

(By Stanley R. Sloan*)

Issue Definition

The internal political situations of our European allies have a major impact on the West's collective ability to manage its interdependent economic and security systems. The 1970's have been a period of considerable political turmoil in Western Europe. Authoritarian right-wing regimes have been replaced with democracies in Portugal, Greece, and Spain. Two major countries, France and Italy, have come face-to-face with the possibility of Communist participation in their national governments. The existence and significance of Eurocommunism has become the source of a debate in policy as well as academic circles. All of these factors have been regarded as important to U.S. interests by successive U.S. administrations and by the Congress.

Political change in Europe is not an issue, by itself, likely to confront the Congress with discrete, identifiable decisions. It is rather part of a framework which Congress may want to consult in making decisions on related issues and in pursuing an oversight role in its relations with the administration.

The general question to be examined, then, is to what extent political change in Europe may affect American interests. What is the overall direction, and are developments positive or negative for U.S. interests? Finally, are particular actions required either to advance American desires or to protect specific American interests?

Background

In recent years, many commentators in the United States have conveyed the impression that West European countries are beset by political conflict, run by weak and unstable governments, led by uninspiring personalities, and generally unreliable as sources of strength for the Western World. While such a characterization has some value in temporary application to a few nations, or as a provocative assertion for the purposes of discussion, its value as a guide for policy-makers is limited.

The view characterized in the paragraph above may well find its roots in a degree of wishful thinking and a certain tendency to judge European politics by American standards. First, the wishful thinking seems to reflect the American desire to share with the European allies responsibilities for some of the problems we confront as the leader of the free world. In a desire to unburden ourselves, we may expect the European nations to be stronger than they can realistically be. We therefore are disappointed when they fall short of the mark and do not pick up what we regard as a just share of responsibilities.

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Second, if Americans judge European stability or lack of stability by American standards, we usually end up seeing our allies in greater political trouble that they actually are. For example, to what extent do we perceive European parliamentary systems to be unstable because they can produce and dispense with governments in rather rapid succession, rather than at orderly 4-year intervals as in the United States?

This said, it must be acknowledged that there has been considerable political change in Western Europe in recent years. Political analysts, as is their wont, have tried to identify series of events in recent West European political developments that could be characterized as trends. A trend, however, can be very much in the eye of the beholder—what is a trend to one analyst may be a series of coincidental exceptions to another.

For the purposes of this discussion, four clusters of developments may serve to illustrate both the events that have characterized European politics in recent years and the possibilities for seeing these events in different lights. They are:

One: Democratization.—Portugal, Greece, and Spain have replaced rightwing authoritarian regimes with democratic systems;

Two: Eurocommunism.—Once-illegal Communist parties in Portugal and Spain now play important roles in Iberian politics; the French Communist Party has lost, apparently for some time, its opportunity to share power in the French Government; and the Italian Communist Party has moved into a position of power and responsibility in the Italian political system but not formally into the government;

Three: The non-Communist left.—Socialist and Social Democratic parties, rather than Communist parties, appear to have been the principal beneficiaries of democratization in Spain and Portugal and are playing important governing or opposition roles virtually everywhere in Europe with the notable exception of Italy; and

Four: Southern versus northern Europe.—While southern Europe has witnessed considerable political turmoil, northern Europe has experienced notable political stability.

Expansion of Democratic Area

Certainly one of the most, if not the most, important clusters of developments in Western Europe in recent years has been the transformation of authoritarian regimes in Portugal, Greece, and Spain into democratic systems on the Western model.

In Portugal, the change came suddenly in a virtually bloodless coup in April 1974 which overthrew the regime which had ruled Portugal for over 30 years. While the new system was shaken in the struggle between leftwing and rightwing forces in the first 2 years after the revolution, it has so far avoided the extremes. The will of the Portuguese people certainly appears to be for democracy with Western-style rights and responsibilities.

In Greece, the Cyprus crisis of 1974 provided the spark for the overthrow of the military regime there. Return to civilian rule under the leadership of Constantine Karamanlis was welcomed in Greece and throughout the Western World.

In Spain, the 30-year rule of Generalissimo Francisco Franco came to an end with his death in November 1975. There was considerable uncertainty concerning whether and how fast Franco's successor—King Juan Carlos—would reform the Francoist system. But by the end of 1978 the country had legalized most political parties, elected a new parliament as the basis for a new government, granted greater autonomy to Spain's restless regions, and approved a democratic constitution. These political strides were accomplished in spite of considerable tension resulting from the rapid transition and disruptive terrorist acts by political and regional extremists.

In sum, while the continuation of democracy in these countries may be somewhat less certain than in other West European nations, the people of all three countries have demonstrated through active support for the new democracies their desire to remain within the Western liberal political tradition.

Eurocommunism

One of the most hotly debated topics of recent years has concerned the changing nature and strength of Communist parties in Western Europe. Two questions have been at issue. One is whether parties that have adopted a line more critical of Moscow and have said that Western democratic practices would guide their behavior in government are changing or merely taking this position for tactical advantage. The second question is whether communism is growing in Western Europe, and if so how.

Most politically conservative observers in the West argue that the professions of the so-called Eurocommunist parties of support for democratic practices and freedom from the control of the Soviet Union are tactical ploys. These observers generally believe that, once in government, the Communists would attempt to use the same tactics employed in Czechoslovakia in 1948 with the ultimate objective being total control of the state. Former Secretary of State Kissinger has observed that even if these parties are not controlled by Moscow, they still are Communist, and their participation in an allied government would be antithetical to the purposes of the Atlantic Alliance.

Some other, more liberal, observers take a different view. They tend to accept that real changes have taken place in the objectives and political purposes of some West European Communist parties. They do not necessarily believe that the conversion of these parties is complete, but they argue that the trend is definitely in this direction. They contend that the Eurocommunist movement in Western Europe will have a positive effect on the Communist regimes in Eastern Europe, eventually leading to more liberal regimes in the East while not threatening the basis for Western security.

This debate may continue for some time to come. At the end of 1978, however, the record should note a few entries of importance:

There is no Communist party in Western Europe showing dramatic growth in party membership or in voter appeal.

The Italian Communist Party, in 1978, was all but a formal member of the government by way of its participation in the parliamentary majority which sustained the minority Christian Democratic government. The Christian Democrats, in the current political circumstances, cannot run the country without some form of cooperation from the Communists. But while the Communists are in a position of considerable influence over Italian policy, the party, in 1978, suffered losses in membership and in local elections.

The French Communist Party apparently decided that it would be better to be in the opposition with a claim to leadership of the French left than in a government dominated by the Socialist. Positions taken by the Communists in negotiations over the left's common program disrupted the leftist front and led to its sound defeat in the March 1978, parliamentary elections. This apparently removed the threat of Communist participation in the French Government for at least 5 years.

The Spanish Communist Party has found itself playing second fiddle on the left in Spain to the Spanish Socialists. In the first parliamentary elections in the post-Franco era in May 1976, the Communists won only some 9 percent of the vote. The Communists increased their strength in the March 1979 parliamentary elections, but remained in the opposition with the Socialists. Both leftist parties did well in the local elections of April 1979, gaining control of the city halls of most major cities.

The Portuguese Communist Party has yet to convince any of the other political parties that it can be trusted in government. In spite of the continuous political crisis of 1978, no party was willing to join with the Communists to provide the parliamentary basis for a solid governmental majority. The party captured around 15 percent of the vote in parliamentary elections in April 1976.

The Icelandic Communist Party attempted and failed to form a new government in August–September 1978. It finally was included in a coalition government with two moderate parties under the condition that neither the country's participation in NATO nor the U.S. base facilities at Keflavik would be an issue within the government.

In sum, Communist parties continue to exercise considerable influence in some countries of Western Europe, and could pose serious difficulties in the future. But, early in 1979, none of them seemed to pose an imminent threat to U.S. interests.

The Role of the Non-Communist Left

In the mid-1970's, a central political factor has been the role played by Socialist and Social Democratic Parties in many West European countries. At the end of 1978, parties of the domocratic left were in charge of the governments of West Germany and the United Kingdom, and had staged a remarkable recovery in France to become the principal opposition party. In the emergent democracies in Portugal and Spain, Socialist Parties have played a major role. In Portgual, the Portuguese Socialist Party led by Mario Soares guided the government from the elections of 1976 until the summer of 1978 and remains the principal political force in the country. In Spain, the Spanish Socialist Workers' Party led by Felipe Gonzales emerged from the June 1976 elections with almost 29 percent of the vote, just 6 percentage points behind the Union of the Democratic Center led by Prime Minister Suarez. The Socialists, in March 1979, lost ground to the Prime Minister's party, but remained the principal opposition party.

The main point to be made is that in no country where there has been a Socialist Party competing seriously on the left and structuring its philosophy and program to attract the center-left has a Communist Party realized much success. Italy is a good example of what can happen when the Socialist Party is unable to play the role of a mass party on the left. Since World War II, the Italian Socialists have been deeply divided by feuds over ideology and party leadership. Their inability to provide a center-left umbrella allowed the Communists to expand their natural constituency from the left to the center-left, thereby strengthening the Communist Party's position as the principal opposition.

Southern Instability Versus Northern Stability

Of all the political turmoil in Southern Europe in recent years few have portended direct threats to vital American interests comparable to the set of problems arising out of the Greece-Turkey-Cyprus nexus.[1] Suffice it to say that the political situation on Cyprus, between the Greek and Turkish communities, has been a gordian knot for the international community for many years. The inability of the parties involved to agree to a formula for the two communities to live together peacefully on the island has been a constant source of conflict between the parent nations—Greece and Turkey. The Cyprus question, now including the consequences of the Turkish landing and occupation of part of the island in 1974, is the most important of a number of issues dividing the two NATO allies.

The consequences of this conflict for NATO and the United States are well known: Turkey shut down vital U.S. installations in reaction to the U.S. embargo of arms shipments to Turkey; Greece withdrew from the NATO military command in protest of the Turkish action on Cyprus; and U.S. bilateral relations with both countries remain strained because of the unresolved issues. The lifting of the embargo against arms sales to Turkey in September 1978, it is hoped, will ameliorate some of these consequences and possibly open the way to a Cyprus settlement. Until such a settlement is reached and other bilateral problems between Greece and Turkey are resolved, this situation will remain one of the greatest sources of political instability in the alliance.

While Europe admittedly has been rather ragged around its southern edges, there has been considerable stability in northern and central Europe. In particular, the measured and constructive leadership role of West Germany has not only helped to hold Western Europe together at the center but has also lent strength to the flanks. West German leadership has been crucial in guiding the European Community slowly but steadily toward further consolidation. West Germany's economic strength has permitted Bonn to play a major role in underwriting the financial difficulties of some EC members (Italy in particular) and some of prospective EC members (Portugal in particular). West German political parties have also played a considerable role in giving financial support and political advice to their counterparts in the fledgling Portuguese and Spanish democracies.

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[1] See chapter, "Security and Stability in the Eastern Mediterranean," p. 276.

The United Kingdom has experienced serious economic problems which some years ago many observers were prepared to judge would lead to the severe disruption of the British political system. In the last few years, however, the United Kingdom has turned the corner on many of the economic difficulties and has avoided serious political turmoil. The United Kingdom continues to face long-term economic problems, but if the dividends of North Sea oil are applied not only to short-term economic survival but also to important restructuring and modernization of British plant and equipment, the United Kingdom might well be able to continue to wend the way out of its forest of economic difficulties. Meanwhile, the United Kingdom has played a responsible, if sometimes recalcitrant, role in the European Community and has remained a firm supporter of the NATO Alliance. The fact that London has gone along with NATO's long-term defense program and committed itself to the 3-percent increase in defense expenditures along with other allies is all the more significant because the step was taken by a Labour government in spite of pressure to the contrary from the party's left wing. The new Conservative Party government led by by Prime Minister Margaret Thatcher seems likely to reinforce Britain's role in the European Community and its contribution to NATO.

France, under the leadership of President Giscard d'Estaing, has also pursued a steady and, most would judge, constructive course in its relations with its EC partners and with the United States as well. Of particular importance is the close rapport that Giscard has developed with West German Chancellor Schmidt. The cooperative nature of this relationship has been a particularly positive factor for political stability in Europe. And, while there is no chance in the foreseeable future of France returning to NATO's integrated military structure, France remains a loyal member of the NATO Alliance. Cooperation between France and the alliance has improved steadily through the mid-1970's. France faces some long-term political and social problems, but with Giscard emerging from the 1978 elections backed by a solid majority, this European power must also be regarded, on balance, as contributing to stability rather than to instability.

Elsewhere, the minor countries of Northern and Central Europe must also be credited with a contribution to this overall impression of political stability. Scandinavian nations remain bastions of democracy, even though each has its internal problems including debates over the extent and cost of their welfare systems. Belgium, the Netherlands, and Luxembourg continue to make positive contributions both to the European Community and to NATO.

The West European neutrals also play an important part. The fact that Finland manages to maintain the balance that is required by its difficult geographic and political situation contributes to European stability. Sweden's armed neutrality defends both Swedish national interests and Western democratic precepts. The steady Western democratic courses of Austria and Switzerland also are factors of stability.

Finally, it is important to note that the members of the European Community, essentially northern and central European states, have decided to open the doors of the EC once again, this time to include

Greece, Portugal, Spain, and, as soon as economically feasible, Turkey. While these steps will obviously include certain costs for the present EC members, particularly West Germany and France, the EC members have made the political decision that entry of these southern European countries will enhance the chances for survival of democracy there.

The European Community has not fulfilled the dreams of those who envisioned a federal Europe, but the community-building process in Europe continues to play a constructive role in preserving internal West European political stability and in providing a sounder economic and political basis for Europe's future security. It has done so by eliminating many economic frictions among the members, providing a mechanism for peaceful resolution of others, affording strong economic incentives to moderate traditional political differences, and establishing a strong cooperative framework for future political, economic, and possibly defense cooperation.

In conclusion, whether one focuses on the positive or the negative factors may be as much dependent on one's own political and personal inclinations as one the facts. This assessment concludes that on balance, current trends in Western Europe are favorable to American interests.

Issue Outcomes and Consequences: The Role of the United States and the Congress

In the next few years, there probably will be events that will affect political conditions in Europe which are impossible to foresee. There are some events, however, whose consequences may be unknown but whose occurrence can at least be anticipated. In outline form below, this issue paper lists some events that fall into the latter category and attempts to suggest whether U.S. interests will be vitally affected and if so, whether action by the United States might involve a congressional role.

Regional Events

(*a*) Expansion of the European Community.—Greece has already negotiated terms for entry into the EC and Portugal and Spain will likely follow suit in the next 2 years. This process will affect U.S. interests in a variety of ways, but presumably neither the administration nor the Congress will be required to do more than to follow the process closely to watch over U.S. trade interests that might become involved.

(*b*) Progress of the EC toward political, economic, and monetary union.—Agreement on a European monetary system late in 1978 could be a major step forward for European unity as well as providing help to the U.S. dollar in supporting the international monetary system. In addition, another major step toward greater political unity will come with direct elections of the European parliament in 1979. The United States has traditionally supported the deepening of European unity in the interest of European political stability, U.S. economic and financial interests will certainly come into play as well, and the Congress may want to keep a close watch on this matter as it develops.

(*c*) *Progress toward European cooperation in arms production.*—Since President Carter's address to the NATO summit meeting in London in May 1977, the United States has actively promoted NATO arms cooperation. The success or failure of efforts to coordinate arms production and procurement on an Atlantic scale will depend in large part on the ability of the European Allies to develop and produce efficiently weapons systems that can be sold to the United States. If they are able to develop such cooperation, it could represent another significant step toward European unity. This question, then, has political, economic, and military implications for U.S. interests. The United States will be called on continuously to act in support of arms cooperation if there is to be progress. And the Congress will play a crucial role both in establishing the general framework for U.S. policy in this area and in making decisions on specific weapons systems that could determine whether events in this area contribute to or detract from Atlantic and European political solidarity.[2]

Country Events

(*a*) *Spain.*—In the next few years Spain will confront a number of important decisions concerning the development of its democratic system and its future foreign and defense policy orientation. All of these decisions have implications for U.S. interests. The democratic constitution that was approved late in 1978 by overwhelming majorities in the parliament and in a national referendum provided the context for the parliamentary elections of March 1979.

The political evolution in Spain could affect both renegotiation of U.S. rights to use Spanish bases and the Spanish decision on whether or not to join NATO. The Congress may want to consider whether it should take specific action, such as sense of the Congress resolutions, in support of democracy in Spain. It may also want to ask whether there are specific actions that could encourage Spain to apply for membership in NATO. It will also have a formal role in monitoring and scrutinizing whatever is required to extend the Treaty of Friendship and Cooperation between Spain and the United States which expires in 1981. The Congress may also wish to monitor the process of Spanish entry into the European Community to measure the effect on U.S. interests.

(*b*) *Portugal.*—In the term of the 96th Congress, Portugal will hold national elections at least once—late in 1980, as required by the Constitution—and possibly also in 1979 if an interim governing formula does not hold up until the scheduled elections. During this period of time, Portugal will continue to require considerable economic assistance in order to remain in business. The Congress will have to address a number of questions relating to U.S. interests, including: What financial assistance is Portugal likely to require from outside sources in the next few years and what may the United States be called on to contribute? Are there specific actions—other than financial assistance—that the Congress could take to encourage democracy in Portugal? Under what terms will the United States retain access to military facilities in the Azores? And, what U.S. interests are involved in the Portuguese application for membership in the European Community?

(*c*) Greece.—Parliamentary elections are scheduled for the fall of

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[2] See chapter, "NATO Modernization," p. 261.

1981. The big question is who will succeed Constantine Karamanlis as leader of the majority new democracy party and whether the party under new leadership can stem the growth of the panhellenic Socialist movement led by the radical anti-American Prof. Andreas Papandreou. U.S. interests certainly are at stake in this situation as neither a return to a military authoritarian regime nor a victory for Papandreou's party would appear to favor U.S. interests. There is, however, little that the United States can do to exercise direct influence on the situation. (Direct U.S. intervention, judging from past history, could well be counterproductive for U.S. interests.) Nevertheless, whatever can be done to assist in the resolution of the Cyprus problem presumably would accrue to the benefit of U.S. interests as well as to those of political centrists in Greece. The short-term role of the Congress in this situation relates mainly to whatever action it might take with regard to Cyprus and to the new defense agreements to be negotiated by the United States with Greece and Turkey.

(*d*) Turkey.—Parliamentary elections are not constitutionally required in Turkey until 1981. But Premier Bulent Ecevit does not enjoy a large majority in the national assembly and political reverses, for example growing out of the recent domestic turmoil, could conceivably lead to earlier elections. It would appear that chances for resolution of the Cyprus situation are better under Ecevit's current government than they have been for some time, and so challenges to that government could affect U.S. interests in its bilateral relations with Turkey and regarding the complex of Greek-Turkey-Cyprus issues. The Congress will continue to have considerable influence over U.S. bilateral military relations with Turkey, particularly once a new defense accord is negotiated.

(*e*) Italy.—Early in 1979 the Italian government led by Christian Democrat Givlio Andreotti fell when the Communist Party withdrew its support. Elections scheduled for June 1979 may result in some losses for the Communists, but the Christian Democrats still will not be able to rule without some measure of cooperation from the Communists. U.S. national interests clearly are involved in Italian political developments. While there may be very little that the Congress can do to influence the course of events in Italy, it seems likely that it will want to follow the situation closely and maintain at least an oversight function with regard to U.S. policy toward Italy.

(*f*) France.—Presidential elections are scheduled for 1981. Unless the French left is able to repair the serious ruptures that it experienced in 1977 and 1978, it probably will not be able to mount a serious challenge to Giscard d'Estaing, presuming that Giscard will run for reelection. American interests might be affected by the outcome of this election, but the current prospect is for no dramatic political change; even if such change were in prospect, it seems unlikely that either the U.S. administration or the Congress could have a direct positive impact on the outcome.

(*g*) West Germany.—Parliamentary elections are scheduled for the fall of 1980. The outcome, whether the Social Democrats remain in power or the Christian Democrats regain control, seems unlikely to have a direct impact on vital American interests. There would appear to be no action indicated for the U.S. administration or the Congress.

(*h*) United Kingdom.—Parliamentary elections in May 1979 brought the Conservative Party led by Margaret Thatcher to power with a substantial parliamentary majority, apparently ensuring government stability in the U.K. for the immediate future. There would appear to be no action indicated for the U.S. administration or the Congress.

In sum, political change in Europe always contains the potential for considerable impact on U.S. interests. The United States is more involved with the nations of Western Europe in a political, economic, and security sense than with any other region of the world. But while U.S. policies can have an impact on political change in Europe, in very few instances can they exercise a controlling influence. Internal influences first, and increasingly intra-European influences, are likely to play a more important role. U.S. interests in the region, however, are sufficiently important to warrant close and continuing United States and congressional interest in political change in Europe, always alert to whatever potential might exist for the United States to exercise a positive influence.

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NATO MODERNIZATION

(By Ronald F. Lehman*)

Issue Definition

At the 1977 and 1978 NATO summits, alliance members developed a long-term defense program (LTDP) designed to coordinate national defense plans for the overall enhancement of NATO. The LTDP stressed improvements in combat readiness, reserve mobilization, rapid reinforcement, naval forces, air defenses, command and communications, electronic warfare, armaments, collaboration, logistics, and tactical nuclear weapons. Most members of NATO also agreed to increase their own defense expenditures by 3 percent in real terms.[1] Alliance-wide economic difficulties involving widespread inflation, however, have forced the NATO countries to approach modernization with special attention to the economic consequences of each step.

The 95th Congress, reflecting the priorities of the new administration as well as preexisting concerns within the Defense Department, placed great emphasis on NATO modernization. In the authorization and appropriation process, however, disagreement over the necessary magnitude and urgency of proposed NATO-related defense programs emerged which will probably be debated in more detail in the 96th Congress.

Issues before the 96th Congress will involve U.S. participation in the NATO long-term defense program. Basic questions to be resolved include:

Should the United States increase its overall defense expenditures for NATO-related general purposes forces?

What specific NATO-related defense programs should receive increased emphasis and funding?

How shall the United States and its allies divide the burdens and benefits of the new defense efforts?

What steps toward increased standardization and rationalization of the defense effort can reduce costs and increase military efficiency?

How important are strategic and tactical nuclear weapons to deterrence and the defense of NATO and what modernization measures are desirable?

To what degree can arms control agreements such as those sought at the mutual and balanced force reduction talks increase security and/or reduce defense expenditures?

The answers to these questions will depend largely on basic assumptions about the value of the NATO alliance, the seriousness of the Warsaw Pact buildup, and the nature of the battlefield of the future. Meas-

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[1] U.S. Department of State, Bureau of Public Affairs. NATO: U.S. Policy. GIST, September 1978. U.S. Government Printing Office, September 1978.

ures taken to modernize NATO's forces will have significant political, military, and economic impact on the global posture of the United States and its allies.

BACKGROUND

The importance of Western Europe to the United States has been underlined by the presence of American troops in central Europe for the past 34 years. The North Atlantic Treaty Organization remains the centerpiece of American foreign policy for the same reason it was founded; namely, to provide military security for the Western industrialized democracies whose cultures and economies are so closely linked.

Today, NATO's 15 nations, including France, have a combined population of 555 million people and a combined gross national product—GNP—of $3.4 trillion, far larger than the Warsaw Pact's total of 336 million people with a GNP of $1.2 trillion. Nevertheless, the Warsaw Pact maintains a total defense budget about equal to that of NATO and keeps about 5.2 million men under arms as opposed to 4.8 million for NATO.

Over the past 10 years, the Soviet Union has steadily increased its defense expenditures while the United States and its European allies have experienced reduced defense budgets in real terms. In the vital central front of NATO, the West is outnumbered in manpower, antitank weapons, air defense weapons, and tactical aircraft, and is heavily outnumbered by 3 to 1 in tanks, by nearly 3 to 1 in armored personnel carriers, and by 2 to 1 in artillery.

Much of this equipment is of equal or superior quality to that deployed by NATO, and modern Soviet tactical aircraft, artillery, air defenses, and logistics are now more capable of rapid movement forward in conjunction with an offensive strategy. Examination of Soviet tactical doctrine and mechanized equipment has led some military experts to suggest that the Soviet Union has deployed a substantial offensive chemical warfare capability against which NATO has inadequate defenses.[2] Also, many Western Europeans are disturbed by the targeting of modern Soviet weapons such as the Backfire-B bomber and the SS-20 mobile intermediate range ballistic missile against Western Europe.

Many observers now publicly state that NATO is vulnerable to a surprise attack by Soviet forces deployed forward in East Germany.[3] This military threat, and resulting political leverage, is seen as more salient in the next few years as the strategic nuclear balance begins to reflect ongoing Soviet missile modernization.

In their Senate Armed Services Committee Report "NATO and the New Soviet Threat,"[4] issued in the earliest days of the 95th Congress, Senators Sam Nunn and Dewey F. Bartlett expressed the view that NATO is threatened with the danger of defeat in a short war

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[2] Brown, George S., U.S. Military Posture for fiscal year 1979 in U.S. Congress, Senate, Committee on Armed Services, hearings on Department of Defense Authorization for Appropriations. 95th Cong., 2d sess. Feb. 7, 1978, Washington, U.S. Government Printing Office, 1978 : 89–91.

[3] See comments by Lt. Gen. James F. Hollingsworth in F. Clifton Berry, Jr. NATO Readiness—Frank Talk at Last. Armed Forces Journal International, March 1977 : 24.

[4] U.S. Congress. Senate. Committee on Armed Services. NATO and the New Soviet Threat. Report of Senator Sam Nunn and Senator Dewey F. Bartlett. 95th Cong. Washington, U.S. Government Printing Office, January 1977.

on the central front following a surprise attack by Soviet forces already in place. According to this view, 10 years of neglect in NATO during the Vietnam war resulted in low levels of readiness and increasingly obsolescent equipment in the West. During the same period a steady, decade-long growth in Soviet defense expenditures produced extensive Warsaw Pact modernization even as nuclear parity between the superpowers raised doubts in Europe about the deterrent and defense capability of American nuclear weapons.

Congressman Les Aspin and others have challenged this view. They believe it exaggerates Soviet capabilities while neglecting to emphasize NATO modernization which has already taken place. In particular, these Members stress that diversion of Soviet forces to the Sino-Soviet border, weak logistics, low levels of readiness, and the unreliability of Warsaw Pact eastern European forces greatly reduce the offensive capability of the Soviet Union against the West.

Still other Members find the short war scenario itself unlikely and would prefer greater investment in long war-related endeavors such as naval shipbuilding, industrial and military reserves, and global theaters including Asia and the Pacific. Clearly, significant disagreement exists as to the nature of the Soviet threat and the necessary American response.

Movement toward modernizing NATO's forces was given great impetus by analyses of the military developments revealed in the October 1973 Middle East war. The speed and intensity of that war called into question NATO's assumptions about the probability of a lengthy race to mobilize forces. Attention was galvanized on the possibility that the battlefield of the future would be dominated by forces-in-being all inflicting and receiving horrible losses through the use of new weapons technologies.

Not everyone agrees on the implications of these new weapons technologies. Some see a new dominance for the defense; others see advantage going to surprise attack. New radars, sensors, data links, and satellite photography offer greater ease of target acquisition, and new weapons such as "smart bombs", precision guided munitions (PGM), and cluster bombers bring greater destructiveness against both point and area targets. Potential mobility has been greatly enhanced by the deployment of modern armored vehicles and combat helicopters, but the ability to exploit that mobiltiy on a battlefield bristling with large numbers of inexpensive guided weapons is being questioned.

NATO's commitment to improved readiness of combat units reflects an interest in future technologies, but also an awareness that more immediate steps could be taken. Because an attack might occur with little or no warning, expenditures on more modern equipment are of less value if the new weapons systems are delayed or are not available due to maintenance problems. Several Members of Congress have suggested that the United States, in particular, could get more out of its defense dollars by reforming its existing maintenance organization to insure that equipment already deployed is at a higher state of readiness.[5]

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[5] Following a study by Senator Culver, the Congress established, in section 812 of the fiscal year 1978 Defense Authorization Act, a requirement for an initial survey of the material readiness of the Armed Services to be followed in each year's budget request with "data projecting the effect of the appropriations requested for material readiness requirements."

The suddenness with which war could occur in Central Europe has placed a new premium on the ability of West Germany's NATO allies to reinforce the central front. For the United States this involves a conscious decision on whether to preposition more equipment in Europe and provide additional air- and sea-life capacity. Prepositioned equipment provides for the most rapid reinforcement, but involves additional expenditures to make sure that prepositioned supplies are ready to use. Prepositioned equipment may be vulnerable to attack and at present is taken from active duty and reserve units in the United States. Upgrading strategic and tactical airlift is also expensive, and such overseas reinforcement is subject to interdiction.

Reserve forces capable of rapid mobilization provide NATO a relatively inexpensive counter to Warsaw Pact numbers. In the past, reserve and territorial forces have been organized and equipped for long-war mobilization. More recently there has been recognition that reserve forces, especially those on the Continent, could be equipped and organized for rapid deployment as part of a forward defense. In particular, this view has stressed the possibility of creating large numbers of specialized antitank units equipped with lightweight precision guided antitank missiles. In the United States, emphasis has been on the rapid transfer of Air Reserve, Air National Guard, and a few selected reserve ground units to Europe.

The rapid growth of the Soviet Navy, with its "blue water" capability, vast submarine force, and inherent antiship cruise missile force has caused alarm in Europe where the Atlantic sea lanes and control of the Mediterranean are seen as threatened. New naval technologies involving cruise missiles, V/STOL aircraft, electronics, and ship hull design, have burst on the scene, and the kind of navy suitable to the European region is now the subject of extensive debate in several NATO maritime states.

Western views of air defense have been changed by the success of the Soviet SAM–6 air defense missiles and the ZSU–23/24 radar-controlled automatic cannons in the 1973 Middle East war. Major new air defense systems for NATO are under development and will involve extensive international cooperative efforts both in development and in operational deployment. The European-developed Roland and the American Patriot missiles will play a prominent role in these new air defenses designed to counter modern Soviet aircraft such as the swing-wing Mig-23 fighter-bomber.

(C^3)—Command, Control, and Communications—remains one of the major functions requiring modernization in NATO. New families of lightweight, secure communications equipment are now possible. These would permit multinational, multilingual nations to communicate with each other and with the large number of remote sensors, weapons, and data processors proliferating on the modern battlefield. Exploitation of these new C^3 technologies will not be immediate, however, because of the high cost of the individual devices and the large number required.

The vulnerability of current Western communications to electronic countermeasures such as jamming has permitted the Warsaw Pact to develop an electronic warfare capability which could greatly hinder or prevent a coherent defense of West Germany. Technologies which will provide reliable and secure communications have proven expensive.

The United States retains its superiority in defensive electronic countermeasures for aircraft, but this advantage is sensitive to accurate intelligence about Warsaw Pact air defenses. Until very recently, neither the United States nor its European allies had begun to develop an effective electronic warfare capability for use against Warsaw Pact ground forces.

Given that each member of NATO is faced with similar modernization tasks over the same period of time, increased cooperation and a more rational division of labor is being sought. The theoretical advantages of standardization of equipment, doctrine, and procedures and a less duplicative division of responsibilities are immense. In practice, thus far, however, these advantages have proven difficult to obtain. Short-term progress in standardization of consumables such as fuel, ammunition, and information—so-called interoperability—is underway, but greater standardization faces difficult problems related to benefit and burden sharing and streamlining the political and bureaucratic interface between nations.

The complexity of NATO logistics symbolizes the difficulties facing NATO. Fifteen nations, each with several different military services, maintain a complex, duplicative, inefficient, and expensive series of national and service logistical systems which are seldom able to assist each other. Each is based upon different assumptions about the intensity and duration of battle and the availability of transport. Modernization of NATO's logistical systems may prove to be the most intractable of all major efforts.

Modernization of the tactical nuclear forces of NATO's nuclear nations remains one of the most controversial issues in the alliance. European defense leaders have become outspoken about the dangers posed by new Soviet systems such as the SS–20 mobile intermediate range ballistic missile, the Backfire–B bomber, and new tactical missiles such as the SS–21 and SS–22. However, there is of yet no European consensus on how the West should respond to those Soviet programs. While the Europeans believe that the current asymmetry in theater nuclear capabilities is too great, they also fear that a U.S. emphasis on theater nuclear capabilities could lead to a decoupling of NATO's deterrent from the American strategic umbrella. Nonetheless, there is widespread agreement that those tactical nuclear weapons maintained in Europe should be more secure, survivable, and effective.

At the same time, reliance upon a nuclear defense of Europe on West German soil is inherently controversial. While Europeans want tactical nuclear "linkage" for the sake of deterrence, they do not want tactical nuclear warfighting. Efforts to reduce the collateral damage associated with nuclear weapons, as intended with the enhanced radiation/reduced blast warheads for the Lance missile and the 8-inch howitzer—the so-called neutron bombs—have met with highly polarized views. Likewise, development of new tactical weapons such as theater cruise missiles are closely tied to the Strategic Arms Limitation Talks—SALT—and the further development of tactical nuclear warheads is linked to the negotiations on a comprehensive test ban—CTB.

In short, a major modernization of NATO forces will be controversial and expensive. The United States and the American Congress will play a major role in determining the direction NATO modernization takes and how that NATO modernization interacts with other international and domestic activities.

Issue Outcomes and Consequences

At the NATO Summit Conference of 1978, 3 percent real growth per year in national defense budgets was established as a benchmark for each NATO member. This goal was not mandatory, nor was a clear definition of the 3-percent growth presented. Because Defense Secretary Harold Brown put forth this symbol of commitment at the NATO Defense Ministers' Conference in June 1977, NATO members have looked to the United States to set an example.

Several definitions of 3 percent real growth per year in defense budgets by the administration have appeared and are invoked during discussions of defense budget planning. First, an increase could be defined as the real increase between the administration's request for budget authority in one fiscal year and the next fiscal year's request. Second, the rate of real growth could be measured by comparing the President's new request with the actual budget authority authorized by Congress in the previous year. Because Congress usually authorizes less than the President requests, this definition would permit the administration to reach 3 percent real growth with a smaller defense budget request. Third, because planned outlays in a given fiscal year are generally less than budget authority granted for that year, 3 percent real growth measured in outlays would likely be less in absolute terms than would a similar rate of increase in budget authority. Fourth, within the American defense budget, the 3 percent goal could be applied only to NATO-related conventional forces in recognition of the global military commitments maintained by the United States with little help from its European allies. It should be remembered, however, that the actual rate of real growth in the defense budget, no matter which definition is adopted in setting the 3-percent goal, will be known only at the end of the fiscal year when the full effects of inflation are finally determined.

The conventional wisdom holds that NATO has suffered from a decade of neglect and that a moderate increase in defense spending should maintain the European military balance. Real increases on the order of the 3 percent advocated at the 1978 NATO summit are perhaps consistent with this view. Some observers, however, argue that the Soviet buildup in Eastern Europe with its increased offensive capability is designed to obtain a significant political leverage and military advantage in an age where American strategic nuclear forces may be neutralized. This school attaches greater urgency to NATO modernization and supports larger short-term defense expenditures. The opposite school suggests that the improvement and real growth of Warsaw Pact forces reflects both routine generational modernization and an overall defensive buildup against a perceived threat from the People's Republic of China. Proponents of this view believe that increased defense spending is not urgent and would interfere with economic recovery of the industrialized nations.

Debate over the appropriateness of the 3-percent goal is matched by doubts as to whether it should be applied to all nations equally across the board. Several NATO nations continue participation in the alliance at very low rates of defense spending and, even with 3 percent real growth, will still be investing a significantly smaller percentage of their gross national product in defense than do other members of the alliance already. The United States, for example, has spent a larger part of its GNP on defense since NATO was formed than has its allies, and in 1975, the United States once again began giving NATO higher priority in its defense budget.[6] Establishing a common goal for all members tends to ignore such past contributions. It also fails to take into account nations like Turkey and Portugal which, for economic reasons, may have extreme difficulty in achieving a significant increase in their defense budgets.

Reorganization of NATO's military, political, and industrial resources to optimize the cost-effectiveness of the ongoing NATO modernization will be among the most difficult tasks facing the alliance. The long-term defense program calls for increased standardization, rationalization and interoperability of NATO forces. Standardization involves the adoption of common equipment and doctrine in order to reduce military inefficiencies and economic duplication. Because not all members of the alliance are equally capable of contributing modern military equipment to the alliance, equitable sharing of the benefits of standardization has proven difficult in the past. Therefore, individual nations have preferred to protect the independence of those established defense industries which now duplicate each other. Major improvements in standardization seem linked more to overall industrial progress and reorganization in Europe than to a specific plan for increased standardization. Nevertheless, individual steps toward increased commonality will be debated on their political, military, and economic merits.

Rationalization involves reducing the number of duplicated functions within the alliance by allocating missions to those forces best suited. For example, NATO's smaller maritime nations have been moving away from the maintenance of open-ocean navies and toward deploying those small combatants and missile patrol boats best suited for chokepoint defense. In a similar manner, some military experts have suggested that the United States should continue to concentrate on high technology items such as aviation and leave the performance of ground combat missions largely to the Europeans themselves.

Interoperability involves standardization of consumables such as fuel and ammunition in order to permit mutual support of weapons systems such as ships, tanks, and fighter-bombers. In the long run, interoperability may be limited in what it can offer, but initial steps, many of which are underway, clearly are essential to improving the efficiency of the alliance. However, the degree to which interoperability can substitute for greater standardization is subject to debate. Standardization, rationalization, and interoperability projects are all subject to intense competition in the market place of products, ideas, and national pride.

Establishing a coherent picture of the battlefield of the future will greatly improve the efficiency of NATO modernization. If no con-

[6] Between 1975 and 1978, real procurement costs for U.S. NATO forces rose at an average annual rate of 22.8 percent. See Congressional Budget Office. U.S. Air and Ground Conventional Forces for NATO: Overview. Washington. U.S. Government Printing Office, January 1978.

sensus emerges, preparation for a range of contingencies may be necessary.

Estimates of the warning time which NATO would receive of a pending Warsaw Pact attack vary from a few minutes to 30 days, with U.S. forces assuming 2 or 3 weeks' warning. This wide variety reflects different views on the effectiveness of NATO's intelligence organizations and surveillance technologies, the degree of Soviet mobilization of forces prior to an attack, and the likelihood of preemptive nuclear, chemical, or conventional strikes prior to significant Warsaw Pact troop movements. Achievement of surprise is considered the determining factor in the length of any war in Europe.

Today, NATO has turned its attention toward countering the surprise attack/short war possibility. Increased emphasis is being placed on active duty military units positioned well forward, readily deployable reserves, massed firepower, tactical intelligence, and prepositioned stocks. Proponents of this approach argue that complete mobilization of NATO for a long war will not be possible if the short war in Europe is lost. Critics, however, have begun to fear that any war in Europe will not be resolved quickly and that the West could lose if it is unprepared to sustain combat and campaign to retake lost territory. Advocates of long-war preparation stress large and diverse reserve forces, the standby draft, industrial mobilization, and protection of the sea lanes.

Recognition that, for the time being, the Warsaw Pact has numerical superiority over NATO, has focused attention on whether to invest more in quantity than quality. In the past, the highly technological Western powers have often limited deployment of new weapons systems such as missiles, aircraft, and tanks in anticipation of even more advanced models. The result has been that technologically superior NATO forces may not now exist in large enough numbers to survive a war of attrition with Warsaw Pact armies. To remedy this quantitative disadvantage, many military analysts have advocated a "high/low mix" approach to weapons deployment. For example, the United States Air Force will deploy both the "lightweight" F–16 and the "sophisticated" F–15 fighters in order to balance quantity and quality while also providing some specialization. Critics argue that the western industrial nations should compete with their strong suit, technology, and suggest that the "high/low mix" is more often a cost cutting or benefit sharing mechanism than a means to optimize force balance. Still, high/low force structures are expected in vehicles, tanks, aircraft, and ships.

Anticipation of a quantum change in the nature of modern warfare with "breakthrough" technologies has greatly influenced much thinking about NATO modernization. For example, the appearance of the lightweight antitank guided missile is said by many to foreshadow the demise of the main battle tank and thus signal the ascendancy of the defense in ground combat. However, the need for protection of the missile and its operator from nuclear weapons effects, chemical attack, and improved area munitions and the need for increased mobility has caused others to see the emergence of light tanks armed with missiles as the dominant battlefield vehicle. Still others expect new "special armors" such as that on the American XM–1 tank to reestablish the dominance of the main battle tank. Numerous examples of this measure-countermeasure syndrome exist.

Since October 1973, members of NATO and the Warsaw Pact have been involved in Mutual and Balanced Force Reductions—MBFR—talks in Vienna designed to codify the military balance in Europe at lower levels of manpower and to enhance the military stability of Central Europe. Strong disagreement exists over the ability of MBFR to reduce the dangers of surprise attack, and, therefore, it is doubtful that MBFR will greatly affect NATO modernization programs. Still, the effort to reduce tensions through negotiations continues. In 1975, the Conference on Security and Cooperation in Europe—CSCE—agreed to some "confidence-building" measures designed to reduce military provocations between NATO and the Warsaw Pact.

The Role of the United States in Issue Resolution

The United States will play the dominant role in NATO modernization. Politically, the United States is the superpower central to the North Atlantic alliance. Economically, the United States represents about half of the combined gross national products of the alliance. Militarily, the United States provides almost the entire strategic and tactical nuclear deterrence of the alliance and provides 10 percent of the ground forces, one-fifth of the naval forces, and a quarter of the tactical air forces. In a short war, American airpower will be the major source of reinforcement; in a long war it will be American manpower and industry. In either case, American satellites and sensors will play a major role in detecting and describing Warsaw Pact aggression. The United States remains the major source of innovative military technology and the dominant voice in strategic and tactical thinking. To a large extent, upgrading of American military forces constitutes a major modernization of NATO itself.

The United States is the key to NATO modernization, and also the source of many problems. The inability of the United States to form a coherent picture of the Warsaw Pact threat and the battlefield of the future delays modernization of forces in the United States and Europe. American preoccupation with regions outside Europe often diverts attention and resources away from NATO. American geopolitical and international economic goals and interests do not always coincide with those of its NATO allies, and domestic politics frequently introduce complexities into intraalliance relations which might otherwise not exist. For example, the arms embargo against Turkey clearly hindered the modernization of NATO's major military force on the southern flank and was instituted by Congress over the objections of the Executive.[7] Bilateral diplomatic initiatives and arms control negotiations between the superpowers frequently cause concern among NATO allies. Recent negotiations at SALT concerning cruise missile restrictions produced a surprisingly public debate in Europe over the implications for NATO, and U.S. initiatives to limit conventional arms transfers have caused some tensions.

The long-term defense program—LTDP—introduced at the May 1977 NATO summit in London and endorsed at the NATO summit

[7] See chapter, "Security and Stability in the Eastern Mediterranean," p. 276.

in Washington 1 year later was an American initiative reflecting the high priority given NATO by the new administration. American leadership and cooperation will be essential to success in each of the 10 areas of improvement being sought in the long-term program.

The United States has begun a major program to improve the readiness of its forces in Europe. In January 1978, President Carter announced that an additional 8,000 U.S. Army troops would be deployed to Europe in 1979 and that equipment for three additional ground divisions would be prepositioned in Europe by 1982. American combat units have been moved into the vulnerable Northern German Plain and war reserve and ammunitions stocks are being dispersed and relocated forward. Large numbers of modern antitank weapons are being added to existing supplies and the United States is introducing new aircraft such as the F–15, the F–16, and the A–10 and plans to introduce a new main battle tank, the XM–1.

The administration's proposals for improving the combat readiness of its forces in Europe have not gone without criticism. Large scale prepositioning of stocks in Europe could interfere with unit readiness and training in the United States. Many critics have suggested that more emphasis be placed upon strategic reinforcement and tactical airlift. Investment in additionnal ground attack and fighter aircraft has also come under criticism. For example, there has been concern that antitank aircraft such as the A–10 with its 300 mm cannon might not be able to survive in the heavy air defense environment of Central Europe. Disagreement also exists concerning the proper armored vehicles for NATO. Both the XM–1 main battle tank and the XM–2 infantry fighting vehicle—IFV—remain controversial.

Emphasis on the short war scenario for NATO has changed much thinking about reinforcement and reserve mobilization. Strategic airlift programs to repair, modify, and improve existing C–5A and C–141 military transports and civilian reserve air fleet—CRAF—commercial wide-body jets are underway and procurement of advanced tanker/cargo aircraft—ATCA—has been authorized. The ultimate size and structure of the CRAF and ATCA programs remain to be determined. Unlike strategic airlift, tactical airlift is less a total responsibility of the United States and, despite the age of existing U.S. tactical transports, the Carter administration has made clear its opposition to production of either the YC–14 or YC–15 AMST aircraft. Support for this program, however, remains strong in the Congress.

Recognition of the potential cost effectiveness of reserve forces has resulted in greater emphasis on their use in Europe. The United States has begun programs to enhance the readiness of selected reserve units in the United States. Critics, however, have suggested that maritime and reserve forces intended for use during a long war are being neglected.

Modernization of the U.S. Navy for the NATO mission continues to focus on countering the two major Soviet naval threats; namely submarines and antiship cruise missiles. Some military experts have suggested that Navy and Marine Corps forces would be of limited value in a short war in Central Europe. Some critics would have these forces enhanced to provide a force projection capability on the flanks of NATO. Other critics believe that neither the sea control nor the force projection missions are vital in a short war and that resources now being invested in those missions should be diverted to other uses. Suggestions for changes include smaller surface combatants, V/STOL—vertical/short take-off and landing—aircraft capable ships, improved mine warfare capability, and greater reliance on land-based naval aviation.

The United States is proceeding with development of the sophisticated Patriot air defense missile and is adopting a modified Franco-German Roland missile for its short range surface-to-air missile. Extensive cost growth and delay have been associated with both of these controversial programs. European designs are now the primary candidates for a division air defense gun system—DIVADS—to replace the existing Vulcan cannon, and other cooperative efforts are expected. Concern over the cost of modernization with its emphasis on sophistication has been heightened by doubts that NATO's forces can successfully coordinate national air defense with the magnitude of different tactical air forces. Debate over the capabilities of airborne warning and control systems—AWACS—such as the American E–2C and E–3A and the British Nimrod continue to surround the question of the coordination of air defenses in NATO.

The United States has pressed hard for greater standardization and interoperability in command, control, and communications, but the proliferation of new sensors, data processors, automated weapons systems, and communications devices along with increased mobility and an intense electronic warfare environment will make the NATO goal of completely interoperable communications by 1995 very difficult to achieve. So complex and so vulnerable are many of these extremely expensive communications links that some critics have called into question the ability of NATO to rely on an "automated battlefield" and have argued that greater emphasis should be placed on tactics, and technologies which are less dependent on precise communications and centralized control.

The Carter administration has strongly emphasized its commitment to rationalization, standardization, and interoperability—RSI—in NATO and has established special offices to further these goals. Some advocates of increased RSI believe that progress would be accelerated if weapons requirements and acquisition coordination were further centralized in NATO. Other advocate "standardization impact statements" or dollar goals for the "two way street." Stricter use of standardization agreements is also frequently recommended. Nevertheless, much cynicism about RSI exists. Some critics fear that such cooperation will result in the adoption of inferior weapons systems, often with great delay and higher costs. Others fear the transfer of technology to economic competitors.

The Defense Department has recently expanded its planning guidelines to take into account the intense consumption and attrition on the modern battlefield. Some critics have expressed doubts about the rate at which shortages in war reserve stocks are being filled and about the ability of the logistical system to handle spare parts and maintenance. In particular, reduced duplication of logistics functions in NATO and more common planning assumptions among our allies are sought.

Modernization of the American tactical nuclear forces by the Carter administration has involved deployment of upgraded B–61 gravity bombs, transfer of one more FB–111 wing to Great Britain, and assignment of additional Poseidon submarine-launched ballistic missile warheads to NATO missions. In addition, the F–16 fighter-bomber will be provided with a nuclear capability, an improved Pershing missile is being developed, and research is continuing on a ground-launched cruise missile—GLCM. Much criticism has been directed at American reliance on older theater nuclear warheads which are considered too large for effective use and upon aircraft delivery of these weapons. Likewise, the Carter administration has been strongly criticized for delaying the production of enhanced radiation warhead for the Lance missile and the 8-inch howitzer. Limitations on ground-launched cruise missiles under consideration at SALT have come under attack, while at the same time, development of a new theater ballistic missile has been proposed. Opposition has also been expressed to a comprehensive test ban treaty on the grounds that it will interfere with possible improvements in tactical nuclear weapons. Nevertheless, possible adverse arms control implications of many new tactical nuclear weapons programs has resulted in many Members of Congress favoring a much slower pace in the development and deployment of new systems.

The Role of Congress

The 95th Congress placed a significant mark on NATO modernization and the 96th Congress can be expected to have an even greater impact.[8] In recent years, through the authorization and appropriations process and through its oversight and treaty powers, the Congress has taken a more active role in national security policy. Acting through diverse committees such as Armed Services, Appropriations, Budget, Government Affairs, and Foreign Relations, and taking advantage of the rapid growth in congressional staff, Members of Congress have increasingly begun to question the assumptions inherent in many defense programs and are investigating the intricacies of program management. Frequently, Members or committees find themselves in disagreement with one another. Interaction between our diplomatic policies and our overseas defense posture, especially in arms control negotiations and foreign arms transfers, have increasingly attracted the attention of the Congress, and constituent interest in national security policy and projects is often very intense. Generally, Congress defers to the Executive on defense matters less now than in the past.

Through the statements of its Members and through the legislation it enacted, the 95th Congress showed itself acutely interested in the problems of NATO modernization. Indeed, the repeal of the Turkish arms embargo was, in part, a measure of congressional anxiety about NATO's cohesiveness.

Procurement programs directly related to NATO have received strong support. The 95th Congress sought to maintain more optimal

[8] In addition to legislation providing supplemental assistance to Portugal and lifting the arms embargo on Turkey, the 95th Congress supported the administration in new NATO-related procurement programs for aircraft and the XM–1 tank. The Congress went beyond the administration's request to initiate production of the XM–2 infantry fighting vehicle, components for the enhanced radiation warhead, the nonnuclear Lance missile, and the 75mm antitank gun with test vehicles. Congress also expressed its concern over inadequate burdensharing by our NATO allies by limiting funds for NATO AWACS, NATO military construction, and common NATO munitions. Several congressional committees held hearings on NATO rationalization standardization and interoperability—RSI.

production rates for tactical aircraft such as the F–14 and F–15, and it added funds for the production of the XM–2 infantry fighting vehicle on the grounds that the further study recommended by the administration would delay deployment to Europe of a needed, if less than perfect, weapons system. This decision reflected a trend within the Congress toward the deployment of available systems now rather than waiting for higher technology items whose introduction could only be much later. In this vein, Congress established the requirement for a quantitative report on the readiness of individual weapons systems already existing in the inventory and placed statutory restrictions on the use of some prepositioned military equipment for foreign military sales. Congress also directed that greater attention be given to defensive measures against chemical, biological, or radiological attack.

Most conspicuous was action taken by the Congress toward modernizing American theater nuclear forces beyond the immediate plans of the administration. Having authorized the procurement of nonnuclear Lance missiles over the objections of the Defense Department so that Lance missile battalions could contribute to a conventional defense of Europe, the Congress then reacted to the President's decision not to produce enhanced radiation warheads for the Lance missile by authorizing production of enhanced radiation components anyway. Components for an enhanced radiation 8-inch howitzer round were also authorized. While expressing some concern over a possible duplication of roles, the Congress has supported both the Pershing II ballistic missile and the ground-launched cruise missile, and has authorized funds to initiate an unrequested study of a long-range theater ballistic missile.

Congress has also called into question the present "high-low mix" in military forces, although it has generally provided funding to keep options open. For example, in tactical aircraft the Congress supported the F–16 as a complement to the Air Force F–15 and, thus far, continues to support the F–18 for a future mixed force with Navy F–14's. With respect to tanks, Congress has supported the high technology XM–1 while reflecting different views as to how much of our tank force should be so equipped. At the same time, the Congress has accelerated development of light-tank designs equipped with an experimental high-velocity 75-millimeter gun. While supporting the Navy's SSN–688 nuclear attack submarine program, the Congress has funded a study aimed at the possibility of an additional, lower cost submarine. Although Congress upheld the President's veto of a fourth nuclear carrier, it has been sympathetic toward an additional large carrier. At the same time, it has supported funding of small carrier options, V/STOL vessels, helicopter destroyers, and experimental small combatants using revolutionary hull designs. While the Congress has not yet fully expressed itself on V/STOL fighter aircraft for the near-term Navy, it has accelerated the advanced Harrier V/STOL for the Marine Corps.

Support for modernization of America's NATO forces has not meant complete support for all NATO programs. In particular, the Congress has been skeptical of the willingness of our European allies to shoulder their fair share of the burden. In response to the NATO summit goal of 3-percent real increases in individual NATO defense budgets, Congress has requested a report on the progress of NATO nations toward achieving that goal. Congress has cut authorizations and appropriations for important NATO military construction projects on the grounds that NATO should be jointly funding these projects and that NATO has been negligent in approving such funding in the past. Similarly, the Congress has been hesitant to fund research on a NATO version of the E-3A AWACS because of NATO's continued delay in deciding whether or not to purchase the aircraft.

The House Armed Services Committee has established a special Subcommittee on Standardization, the House Government Affairs Committee has been studying standardization for some time, and the Senate has initiated legislation designed to support standardization. Nevertheless, the advantages of standardization were sharply questioned with the Roland program, the XM-1 Leopard II tank competition, and in the decision to adopt the 120-mm gun. Although some "Buy American" provisions have been softened at the request of the administration, the Congress has not yet acted on legislation designed to reduce the institutional obstacles to greater standardization, rationalization, and interoperability.

Congressional commitment to NATO modernization will be influenced by political developments. For example, the rise of "Eurocommunism" and with it possible Communist Party participation in individual governments of NATO nations such as Portugal, Italy, and France could reopen debate over America's interests in the North Atlantic Alliance.[9] Also, the continued confrontation between Greece and Turkey over Cyprus and similar issues remains a source of congressional tension with NATO modernization plans. European export of nuclear power reactors, and its enthusiasm with breeder reactors, conflicts with some American efforts to limit nuclear proliferation, and foreign military sales by European arms industries have complicated American efforts to limit conventional arms transfers—CAT.[10] European arms sales to the People's Republic of China may prove particularly controversial.

Diplomatic interaction with the Soviet Union has also been a source of tension within NATO which will find expression in the Congress. For example, although European leaders have strongly supported strategic arms limitations, they are sensitive to any diminution of the American "nuclear umbrella", and some have been critical of cruise missile limitations being proposed at the SALT II negotiations. Numerous members of Congress have suggested that Soviet-American "détente" has been harmful to the NATO alliance. Likewise, the Congress will be sensitive to European "openings to the East." Congress has shown an interest in European reactions to Soviet military activity in the Third World and the Middle East and to multinational negotiations such as mutual and balanced force reduction—MBFR—talks.

Specific NATO issues before the 96th Congress are likely to involve theater nuclear force modernization, burden sharing within the alliance, offensive and defensive chemical warfare, missions of the Navy and Marine Corps, reserve reorganization, arms control negotiations, and the "high-low mix" in aircraft, ships, and armored vehicles. The high priority given short-war scenarios during the last few years will probably result in a NATO-related surge in the defense budget which

[9] See chapter, "Political Change and the Atlantic Alliance," p. 25.
[10] See chapter, "Nuclear Weapons Proliferation," p. 179.

may conflict with modernization of strategic forces and non-European-oriented general purpose forces. Competition for scarce defense dollars during the 96th Congress may force a comprehensive reevaluation of America's national security priorities.

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SECURITY AND STABILITY IN THE EASTERN MEDITERRANEAN

(By Richard F. Grimmett*)

Issue Definition

The major issue confronting the 96th Congress involving the Eastern Mediterranean will be how best to aid in ameliorating the instability of NATO's Southeastern flank and thereby improve the status of U.S. and NATO security interests in this region. Related to this issue is an underlying need to improve the relationship between Greece and Turkey and to resolve the long-standing Cyprus dispute.

Background

The current instability of NATO's Southeastern flank stems from historic differences between Turkey and Greece over the Cyprus issue—with each country supporting the general position of its respective ethnic counterpart in the Cypriot population. (Greek Cypriots constitute about 79 percent of the population of Cyprus while the Turks account for about 18 percent.) Differences regarding the political status of the island led to the establishment of a constitutional framework for Cyprus in 1960 that was to be guaranteed by Greece, Turkey, and the Cyprus Government itself. As events developed this constitutional formula did not fully resolve the bitterness and mistrust that had developed between Greek and Turkish Cypriots over the years. Finally, in July of 1974, Greek-officered units of the Cyprus National Guard who favored the political union of Cyprus with Greece (*enosis*) led a coup that temporarily overthrew the legally constituted government of Archbishop Makarios, the President of Cyprus.

In response, the Turkish Government sent its military forces into Cyprus and eventually gained effective control over the northern third of the island—a position that it has maintained to the present time. Turkey justified its intervention in Cyprus by pointing to its obligations under articles 2 and 3 of the 1960 Treaty of Guarantee to maintain the independence, territorial integrity, and security of Cyprus and, under article 4, its right to take action to maintain arrangements that had been established for an independent Cyprus; and its right and obligation under article 2 of the 1960 Treaty of Alliance between Cyprus, Greece, and Turkey to resist any attack or aggression, direct or indirect, against the independence or territorial integrity of Cyprus. Turkey also cited its concern for the ethnic Turkish-Cypriot minority on the island in the context of the emergence of a Greek-Cypriot Government—through the coup—that appeared to threaten the rights of these Turkish citizens of the island.

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In the wake of the Turkish action on Cyprus, Greece withdrew from the military wing of NATO in August of 1974—citing the alliance's failure to prevent the successful Turkish military action on Cyprus—and the U.S. Congress imposed an embargo on arms transfers to Turkey on the grounds that the use of American military equipment by the Turks during its intervention on Cyprus was a violation of U.S. law regarding the use of U.S. military equipment transferred to foreign countries. Although then President Gerald Ford and Secretary of State Henry Kissinger tried to prevent the congressionally imposed ban on military sales to Turkey from taking effect—initially through vetoes of legislation by President Ford—the Congress insisted on its approach and the Turkish arms embargo was enacted into law on December 30, 1974 [Public Law 93-559], with an effective date of February 5, 1975.

The ultimate response of Turkey to the imposition of the arms embargo against it was to announce in late July 1975 that the July 3, 1969 Defense Cooperation Agreement—DCA—and all other related agreements between the United States and Turkey had lost their legal validity, and to suspend operating rights at key American military installations throughout Turkey. At the same time, Turkey pressed for the negotiation of a new Defense Cooperation Agreement to redefine the Turkish-United States defense relationship. After long negotiations, a new DCA was signed by the Turkish and United States Governments on March 26, 1976, but legislation to implement it was never voted on by Congress. Passage of this Defense Cooperation Agreement would have committed that the United States to provide $1 billion in defense support to Turkey consisting of grants, credits, and loan guarantees over a 4-year period. During the period from July 1975, through the fall of 1978, meanwhile, Turkey continued its suspension of U.S. military operations at all bases within Turkey's borders except for those used exclusively for NATO purposes.

As a result of the suspension of operating rights at four key U.S. military installations in Turkey, the United States lost data which was of noted value to the overall U.S. intelligence collection effort aimed at the Soviet Union. This intelligence data—collected by certain of the bases which were shut down because of the arms embargo—was used to augment American knowledge of Soviet compliance with ABM and SALT agreements, Soviet military activities in the eastern Mediterranean, Black Sea, and southern U.S.S.R. areas, their testing of missiles, satellites, and their explosions of nuclear devices. It has been estimated that approximately 25 percent of the hard information that the United States obtained in the past regarding Soviet missile launches has come from intelligence facilities in Turkey. Senior U.S. policymakers have indicated that some important data provided by Turkish intelligence bases could not be totally replaced by relocation or through other means. To the extent that it could be replaced by resorting to other approaches, these officials have stated, the costs involved would be very high. The subsequent loss of U.S. sites in Iran gave increased importance to the Turkish sites, although Administration officials agreed that the Turkish sites were not full replacements for those in Iran.

In the fall of 1975, Congress, in response to administration requests, did modify the original embargo's provisions, making Turkey eligible, among other things, to make commercial purchases of U.S. military equipment, and to permit some sales credits for purchases within a specified ceiling amount. But Turkey considered the embargo, in any form, to be a humiliating symbol, and the Turkish Government made it clear that only after its repeal would United States bases in Turkey be permitted to resume normal operations. Furthermore, Turkey also made it known that it would not be in a position to work toward a Cyprus solution so long as it appeared that any concessions it might make on that question were made as a result of the pressure of the U.S. arms embargo.

The perspective of the Carter administration on the Turkish arms embargo and the March 26, 1976 Defense Cooperation Agreement, until early in 1978, was somewhat ambiguous. As a result, the Turkish Government expressed increasing impatience—with Turkish Prime Minister Bulent Ecevit suggesting rather forcefully that he might be compelled by events, that is, continuation of the U.S. arms embargo and failure of the Carter administration to press for passage of the DCA—to initiate retaliatory steps in the foreseeable future.

On April 6, 1978, the Turkish embargo controversy reached a significant turning point when Secretary of State Cyrus Vance, Secretary of Defense Harold Brown, and Gen. David Jones, Chairman-designate of the Joint Chiefs of Staff, testified before the House International Relations Committee that the Carter administration had concluded it was in the national interest of the United States to repeal, unconditionally, the arms embargo against Turkey contained in section 620(x) of the Foreign Assistance Act. Secretary Vance told the committee that the administration was supporting repeal of the embargo because as Cyprus negotiations entered a critical phase the United States could play a more useful role if it were perceived to be evenhanded in its approach to the issues. By maintaining an embargo against one side [Turkey], it was difficult for the United States to play such a role. Secretaries Vance and Brown also made the following arguments in favor of the embargo's repeal:

(1) To continue the embargo against Turkey would harm NATO and further weaken the Alliance's Southeastern flank.

(2) Maintenance of the embargo would only enhance the "debilitating effects" that it had already had on the military capabilities of Turkey, forcing it to seek needed equipment elsewhere, without in any way changing the Turkish Government's willingness to make concessions on the Cyprus issue.

(3) The Congress had made a dramatic and effective point by the original enactment of the embargo in 1974, by illustrating that serious penalties would result from unauthorized use of U.S. military equipment provided to another country. That point would not be made any more clear by continuance of the embargo.

During the April 6 hearing before the House International Relations Committee, Secretary Vance noted that in addition to asking Congress to repeal the Turkish arms embargo, the administration was going to renegotiate the matters covered by the March 26, 1976 Defense Cooperation Agreement between the United States and Turkey. He could not predict when this new DCA would be concluded, but stated that the United States and Turkish Governments had agreed to give this effort prompt attention and to act promptly to implement the new agreement after it is concluded. The administration, Mr. Vance noted, would consult closely with the Congress concerning such negotiations.

After due consideration in both the House and the Senate, Congress passed an amendment to the 1978 International Security Assistance Act that gave the President the authority to nullify the legal force of the Turkish arms embargo. Versions of this amendment passed the Senate on July 25 by a vote of 57–42, and the House on August 1, by a vote of 208–205. The final compromise amendment, apart from giving the President authority to lift the embargo, also expressed the sense of the Congress regarding U.S. policy in the eastern Mediterranean, including the desire that a just settlement on Cyprus be achieved and the view of the Congress regarding what it believed constituted a just settlement. The amendment also stated the policy view that the United States would only supply security assistance for Greece and Turkey for defensive purposes, including when necessary to enable the recipient country to fulfill its responsibilities as a member of NATO. Finally, the amendment stated that the President and the Congress shall continually review the progress toward a Cyprus settlement and determine U.S. policy in the eastern Mediterranean region accordingly. To facilitate such a review, the amendment requires the President to make a report to Congress every 60 days on progress made toward the conclusion of a negotiated solution of the Cyprus problem.

On September 26, 1978, President Carter signed into law the International Security Assistance Act of 1978 [Public Law 95–384] and made the certification and determination required by the new statute necessary to nullify the legal force of the Turkish arms embargo. Subsequently, the Turkish Government announced that for 1 calendar year, commencing on October 9, 1978, it would permit the United States to resume operations once again at the military installations in Turkey where activities had been been suspended by the Turks since the summer of 1975. In the near future, it was also announced, negotiations on a new Turkish-U.S. Defense Cooperation Agreement would commence. As a consequence, the United States once again is able to utilize the intelligence installations it has in Turkey, thus facilitating its monitoring of any new SALT agreements that may be reached as well as existing agreements.

Issue Outcomes

The lifting by the Congress of the Turkish arms embargo has by no means resolved the conflicts that have led to instability in the eastern Mediterranean and weakened NATO's southeastern flanks. Greece still remains outside of the military wing of NATO, Turkey's military forces are still well below par, and the economy of Turkey is in serious condition. Furthermore, the Cyprus problem—the central cause of the poor relations between Greece and Turkey—has not been settled. Additionally, another source of tension between Greece and Turkey exists in a standing dispute over control of air and sea rights in the Aegean Sea. This dispute has become more important lately since the apparent discovery of valuable mineral resources—especially oil—in the Aegean continental shelf.

The current dispute over rights in the Aegean actually began in 1973–74, before the Turkish intervention on Cyprus. The Arab oil boycott of 1973 increased pressure on both nations to find alternate energy sources, and Greece made some explorations around Thasos in the northern Aegean. In February 1974 the Greek Government announced oil and natural gas discoveries in the area, and went on to claim all mineral rights on Greece's continental shelf.

The Geneva Convention of 1958 gives nations the right to explore for minerals on their continental shelf. However, Turkey was not a signatory to this convention, and in the case of the Aegean Sea, with the proximity of Greek islands to the Turkish mainland, delineation of rights was difficult.

In November 1973, the Turkish Government had granted state-owned petroleum exploration rights for the area between the Turkish island of Imroz and Greece's Lemnos. Turkey responded to the Greek claims of February 1974 by proposing negotiations over their respective rights. There was no reply to this offer, and in May 1974, Turkey sent a naval survey ship to explore for oil in areas not within mutually agreed Greek areas.

The Cyprus crisis, resulting in the Turkish intervention on that island and a change of government in Greece, broke in July 1974. This crisis brought the two powers to the brink of war, and Greece closed the Aegean to international air traffic. It remains closed to this date; air travel between Greece and Turkey is now made via Bulgaria.

Greece's Position

Greece's right to control air traffic over the Aegean is based on the 1952 international civil aviation arrangements. Greece has rejected Turkish requests to extend its own flight information region—FIR—midway into the Aegean Sea.

The Greek Government has admitted that it has fortified some of the eastern Aegean islands. However, they point out that these fortifications are only defensive in nature, and that they have an inherent right to defend their own territory.

Greek claims on mineral rights are based on the 1958 Geneva Convention, under which they claim that each island has a continental shelf of its own. Greece currently claims a territorial water boundary of 6 miles. It has also said it has the right to extend this to 12 miles, although it has not actually tried to so extend its territorial waters. Based on these factors Greece argues that the Turkish mineral explorations have violated the territorial waters of some Greek islands, and that these Turkish operations are therefore an infringement on Greek sovereignity.

Turkey's Position

Turkey claims that Greece has abused the responsibility for airspace granted to it in 1952 by closing down this airspace. The Turkish Government says that transformation of international airspace into a controlled zone contravenes international regulations. The Turkish desire to revise their FIR stems from their claim that the current arrangement gives Greece control virtually up to the Turkish coast, thus giving Greece access to all information regarding civilian and military air traffic over the Aegean while depriving Turkey of this same information. Turkey therefore wishes to revise the FIR arrangements by extending its own region midway into the Aegean Sea.

Turkish protests over the militarization of the eastern Aegean islands are based on the treaties of Lausanne and Paris, to which Greece was a signatory and which specifically state that the islands are to be kept demilitarized. Turkey argues that the extreme proximity of these islands to the Turkish coast makes such fortifications a security threat to Turkey.

Turkey is not a signatory of the 1958 Geneva Convention, and therefore does not feel bound by it. The Turkish claim is that the Continental Shelf is the natural extension of the mainland, thus overlapping many of the eastern islands, which can than thus be viewed as mere promontories on the Continental Shelf. Turkey would prefer to use a natural fault line in the middle of the Aegean as the boundary line between the respective spheres. Furthermore, Turkey is extremely sensitive to any extension of Greek territorial waters, which would reduce the number of coastal points from which Turkey has access to the open sea by effectively closing off a number of channels within exclusively Greek waters.

While the suspension of air traffic was a result of the Cyprus crisis, the issue of sea and air rights have been kept separate from political problems on Cyprus. The question of sea rights was provoked anew when Turkey sent the oceanographic survey ship *Sismik I* into the Aegean in the summer of 1976. This again aroused Greek protests, with some threats of blocking or even sinking the ship. The nationalist press in both nations exerted pressure for forthright action, which both governments resisted. Greece did put military and naval units on alert and moved them to forward positions, but also appealed to the United Nations for an emergency meeting of the Security Council.

In view of the Geneva Convention, Greece wanted the entire matter referred to the International Court of Justice at The Hague. Turkey said it would not be bound by an international court ruling as it had not signed the 1958 convention, and preferred bilateral negotiations, both out of distrust for the court, and out of an appreciation that it would have greater leverage in direct talks. On August 25, 1976, the Security Council urged a resumption of negotiations. On September 11, 1976, the court denied Greece's request for a temporary injunction against further missions by the *Sismik*, which effectively threw the dispute back into bilateral channels.

Low-level bilateral talks began in Berne, Switzerland—on sea rights—and in Paris—on air rights—and these talks produced a procedural agreement in November 1976 to serve as a guide to future negotiations. Under this agreement both sides agreed to freeze the current situation by refraining from further exploration or exploitation activities which might endanger future negotiations. In November 1976, Greece and Turkey did agree to reopen the tactical air telephone line between them. Negotiations, in London, were held again from January 31 to February 6, 1977, but no further agreements were reached. In March 1978, Prime Minister Bulent Ecevit of Turkey and Prime Minister Konstantine Karamanlis of Greece met and discussed the Aegean issues. These talks led to further discussions by representatives of the two governments in the fall of 1978, although no new breakthroughs have yet occurred regarding these matters.

The United States is, of course, anxious to resolve the Cyprus matter as soon as possible because such a resolution would likely make progress on other issues at dispute between Greece and Turkey, and between Greece and NATO easier to achieve. A complicating variable is the strong nationalistic fervor tied up in the Cyprus question and the relative instability of the Turkish Government of Prime Minister Ecevit. Should the Ecevit administration appear to concede too much over Cyprus it could rapidly lose power to its opposition. The Greek Government, under Karamanlis, while much more stable, has to face a very vocal Socialist minority in parliament that has the ability to stimulate strong anti-American and anti-NATO sentiments throughout Greece. Should it appear that the Greek Government is being a party to undue concessions to the Turkish point of view on Cyprus, it is likely that the extreme nationalist elements in Greece could stir up passions in that country in such a way as to adversely affect United States and European efforts to regain full Greek participation in NATO's military structure, even though the Karamanlis government is pro-American and pro-NATO. Furthermore, if Karamanlis is forced into making unpopular choices, the prospects for his being able to turn the Greek Government over to a moderate successor would be undermined. Given his age, it would not be in American interests to risk such an occurrence. The possible outcomes in the future, then, are either a resolution of the Cyprus dispute and a lessening of tension in the region—thus permitting moves toward a stronger NATO position and better ties between Greece and Turkey—or continued political conflict with a further deterioration of the political and military position of the United States and NATO in the region.

Role of the United States in the Issues Resolution

The primary role of the United States is likely to be that of an honest broker between the disputing parties on Cyprus, and as a force behind international efforts—through the United Nations—to bring about a final solution to the Cyprus problem. At the same time, the United States is likely to attempt, in concert with its NATO allies, both to restore the military capability of Turkey to perform its specified NATO role and to aid the Turks through various means to deal with their balance of payments and other economic problems. In addition, it seems likely that both the United States and NATO will continue to seek to effect greater political and military cooperation between Greece and Turkey as the Cyprus issue proceeds toward settlement.

The Role of Congress

As in the past, the role that Congress will likely play in resolving this issue is to continue to monitor developments on Cyprus—facilitated by the statutory reporting requirement that the President inform Congress every 60 days regarding developments toward a settlement there. Congress will also evaluate closely any economic, military assistance or arms transfers proposals to Greece and Turkey, to ascertain whether or not they will serve American objectives of insuring peace and stability in the region, making such changes in these proposals as circumstances appear to warrant at the time. In light of the ongoing negotiations over the Cyprus issue by the parties to the dispute, and the fact that the United States and Turkey are currently negotiating a new Defense Cooperation Agreement—two questions upon which Congress will have a direct input and impact through the legislative process—it seems clear that the 96th Congress will be deeply involved in the issue of security and stability in the eastern Mediterranean.

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Soviet Union and Eastern Europe

EAST-WEST COMMERCIAL RELATIONS

(By Ronda A. Bresnick*)

Issue Definition

U.S. trade and commercial relations with the Soviet Union and the countries of Eastern Europe has taken on increasing importance throughout the 1970's due both to the prospects for future growth and the linkage of commercial ties with East-West political relations.[1]

In the United States, interest in East-West commercial relations has been promoted in part as a way of encouraging a relaxation of international tensions, while in the East the promotion of East-West trade has been related more to economic need. Congressional interest in East-West commercial relations has centered primarily upon the regulation and finance of trade, the control of U.S. technology to the East, and the linkage of commerce with various aspects of Soviet foreign and domestic policies.

U.S. exports to the East have been dominated by two broad categories of goods—agricultural products and high technology machinery and equipment. Concern over the costs and benefits of selling U.S. high technology products to the Communist countries has been expressed in the Congress throughout the 1970's.

In the United States, the overall trend has been toward the normalization of commercial relations with the Soviet Union and Eastern Europe. This trend is likely to continue in the future. Selective restrictive measures through the administration of export controls, and the selective extension of trade privileges, including Most Favored Nation (MFN) status and government credits, is likely also to characterize the U.S. commercial relationship with the Soviet Union and Eastern Europe.

The commercial relationship between the countries of Western Europe and the East has also moved toward economic and political normalization, but at a more rapid pace and within a longer period of time. As a result, the level of interrelatedness had been higher and the volume of trade has been greater than between the United States and the East. Prospects for increased overall interrelatedness and a higher level of trade appear likely. Cooperation in such areas as automotive, energy, and agribusiness technology that have characterized past trade are likely to continue to be of interest to both East and West in the future.

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[1] See chapter, "United States-Soviet Relations," p. 136.

The pace of economic normalization between East and West is likely to be influenced by several factors which may affect Congress agenda during 1978–80. The most important of these include:

One: The signing of a SALT treaty. Likely to be considered by the 96th Congress, a SALT agreement would be a strong influence toward improving the overall atmosphere of cooperation and good will between East and West and create an environment favorable to trade expansion. The demand for Western goods, services, and technology appears to be high in the Soviet Union and Eastern Europe. This demand does not appear to be one the East will pay any cost to satisfy, however, as perhaps illustrated by the Soviet nonacceptance of the 1974 Trade Agreement. A SALT treaty in combination with substantial Eastern demands for Western products would likely improve significantly the prospects for increased commercial relations.

Two: An active concern on the part of the Soviet Union with maintaining a stable political environment through the exercise of restraint in areas that are potentially in the national interest of the United States. Continued economic normalization and the expansion of trade between the United States and the East will depend in part on the willingness of the Soviet to maintain a sensitivity to U.S. interests in areas such as the Third World. Also important to the pace of economic relations will be the Soviet treatment of the human rights issue, particularly with respect to emigration. A selective interrelatedness of these issues with commercial relations has been the practice of U.S. policy, although the specifics of this policy remain somewhat vague.

Three: Substantive changes in the Export Administration Act of 1969 as amended. Because this law expires in September 1979 it is a topic for the 96th Congress to consider. A more liberalized export control policy would improve the prospects for increased commercial relations.

Four: The availability of official credits for the financing of trade. The availability of Export-Import Bank credits and Commodity Credit Corporation credits would also be likely to have a positive impact on the level of East-West trade. Legislation permitting the extension of such credits to all nonmarket economy countries has been introduced in the 96th Congress and is described below.

Five: Maintaining an evenhanded policy with respect to the Soviet Union and China. As the U.S. and China move toward economic normalization, interest intensifies in extending commercial privileges—such as MFN and government credits—to the PRC [1a]. In maintaining an evenhanded policy with respect to both the U.S.S.R. and China, extending such privileges to the Soviet Union has also become a relevant issue.

A re-evaluation of other East-West trade issues—such as the use of export controls to limit the sale of U.S. equipment and technology to China and the Soviet Union—is also likely to take place if the U.S. and China increase trade and an ovenhanded policy is maintained.

In addition, Congress will want to consider questions of technology transfer, U.S. policy coordination, balance of payments, and the effect of East-West trade on the domestic economy.[2]

[1a] A Trade Agreement between the U.S. and China was initialed by Commerce Secretary Juanita Kreps on May 14, 1979. Interest has been expressed by the administration in extending MFN and government credits to China within the framework of the Trade Agreement and Subsequently providing the same benefits to the U.S.S.R.

[2] See chapters, "U.S. Human Rights Policy," p. 192; "The Balance of Payments and Domestic Policies," p. 40; "International Transfer of Technology," p. 61.

Issues in East-West Commercial Relations Facing the U.S. Congress: Financing, Licensing, and Export Controls

Various U.S. legal restrictions have contributed to the low level of U.S. trade with Communist countries. Three of the most important restrictions—denial of most-favored-nation tariff treatment, restrictions on U.S. Government credits, and export controls—have been at the center of congressional interest in recent years. The denial of MFN and the restrictions on government credits—from the Export-Import Bank and the Commodity Credit Corporation [3]—have affected those nonmarket economy countries unwilling to adhere to the provision of the Trade Act of 1974 which ties such privileges to certain standards of free emigration. This provision has been waived by the President for Romania and Hungary.

The Financing of Trade

During the 96th Congress, it appears likely that there will be a closer examination of the issue of extending official U.S. credits and other trade privileges to Communist countries. There seems to be some sentiment for modifying (but not repealing) the Jackson-Vanik amendment to the Trade Act of 1974, and the Stevenson and Church amendments to the Export-Import Bank Act of 1974.[3a]

These efforts have in part been motivated by an interest in maintaining an evenhanded policy to the U.S.S.R. and China. By amending the law to extend credits and other trade privileges to all nonmarket economy countries, preferential treatment is avoided.

Other modifications to the Trade Act and Export-Import Bank Act, relevant to non-market economy countries, seem to be motivated by an interest in adding flexibility to the President's waiver authority with respect to emigration while at the same time maintaining adequate congressional oversight and consultation.

While facilitating the extension of credits and most-favored-nation tariff treatment to Communist countries is likely to be under active consideration in the 96th Congress, the resolution of these issues will take place within the larger context of the SALT agreements and continued normalization with the PRC.

The issue of extending official U.S. Government credits from the Commodity Credit Corporation to the U.S.S.R. and the countries in Eastern Europe may also arise in the 96th Congress. A topic of active discussion in the 95th Congress, the financing of East-West

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[3] The Commodity Credit Corporation (CCC), an agency which provides short-term financing for U.S. agricultural exports, has provided significant credit assistance in East-West trade. It played an important role in the 1973–1974 grain sales to the USSR, providing a total of $550 million in credits for the purchase of U.S. grains. Poland, the PRC, Romania, Hungary and Yugoslavia may receive export credits from the Commodity Credit Corporation. Under the Jackson-Vanik Amendment to the Trade Act the Soviet Union is denied access to the CCC.

[3a] The proposed Stevenson amendments (S. 339) to the Export-Import Bank Act and the Trade Act would: (1) delete provisions in the Export-Import Bank Act and the Trade Act which single out the U.S.S.R. for discriminatory treatment with respect to credits, (2) establish a new limitation on Bank support for U.S. exports to any single Communist country, and (3) revise the "waiver" provisions concerning emigration practices and eligibility for MFN treatment and Eximbank credits.

The proposed AuCoin amendments (H.R. 1835), similar to the Stevenson amendments, would: (1) empower the President to make a determination that the granting of a waiver to Section 402 of the 1974 Trade Act would "lead substantially to the achievement of free emigration objectives", (2) extend the duration of a Presidential waiver to five years, after the first extension, (3) establish a new limitation on Eximbank support for U.S. exports to all non-market nations of $2 billion.

trade was taken up both in the House—with a proposed amendment to the Agricultural Trade Expansion Act to extend CCC credits to all nonmarket economy countries—and in the Senate—with a proposed amendment to the Export-Import Act of 1945, specifically excluding the US.S.R. from a list of countries which would be eligible for official credits. Neither amendment passed, although CCC credits were extended to the People's Republic of China in the Agricultural Trade Expansion Act (Public Law 95–501).

The availability of CCC credits to the People's Republic of China set a precedent for the extension of official agricultural credits to a nonmarket economy country not complying with the provisions of the Trade Act of 1974. The extension of CCC credits to other nonmarket economy countries not complying with the Trade Act may, therefore, be a subject for consideration by the 96th Congress, particularly in light of the interest in maintaining, developing, and increasing U.S. agricultural export markets.

Licensing and Export Controls

The administration of controls—to prevent the export of goods and technology which are considered to have military implications—on U.S. exports to Communist countries has been of considerable interest to the Congress in the late 1960's and throughout the 1970's. Legislation in this area has been characterized by steady liberalization, beginning with the Export Administration Act of 1969 and then continuing with amendments in 1974 and 1977. Interest in export controls during the 95th Congress focused primarily upon extending and amending the Export Administration Act of 1969.

While there were several laws passed which touched upon the issue of East-West commercial relations, the Export Administration Amendments of 1977, which amended and extended the Export Administration Act of 1969, was the most far-reaching and may have the most significant impact upon future trade between East and West. The 1977 amendments represent a significant effort by the Congress to strengthen the framework for East-West trade by facilitating the export of U.S. goods and technology while clarifying and simplifying the export licensing process. Changes in the law include a requirement to expedite the export licensing process and the modification of language to shift the emphasis of national security export controls from exports to "Communist countries" to exports to any country which poses a threat to the United States.[4]

U.S. export policy is likely to undergo thorough review in the 96th Congress. Both the expiration of the Export Administration Act in September 1979 and the active concern expressed by many U.S. policymakers over the transfer of advanced technology indicate the coming of a serious examination of the export control issue.

Some policymakers have questioned the advisability of exporting a wide range of civilian technology to the Soviet Union. While the Export Administration Act places controls on exports which "make a significant contribution to the military potential of the recipient

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[4] For a more detailed discussion of the Export Administration Amendments of 1977 see Ronda Bresnick, "The Setting: The Congress and East-West Commercial Relations" *Issues in East-West Commercial Relations*. Joint Economic Committee, U.S. Congress, January 1979.

country," it has been suggested by some that controls be placed on a wider range of commodities as the Soviet military might indirectly derive benefits from technologies sold for civilian purposes.

In addition to controlling U.S. exports of high technology to U.S.S.R. for national security purposes, some have encouraged the use of controls for foreign policy reasons. President Carter's decision to place exports of U.S. energy technology under review by the National Security Council, it has been suggested, was a move dominated by foreign policy rather than national security considerations.

Those who favor the continued expansion of technology transfers to the Soviet Union, under the structure of the Export Administration Act of 1969 as amended, maintain that the diversion of technology from the civilian to the military sector is usually difficult and carries a high risk of detection. They also note that should the United States control exports of a wide range of civilian technologies to the Soviet Union, for foreign policy purposes, Soviet importers could purchase equivalent technologies from other Western industrialized countries.

Important problems remain in the administration and control of U.S. exports to nonmarket economy countries. It is likely that discussions on this issue will continue through the 96th Congress on an active and fairly sophisticated level.

The Soviet and East European Role in the United States and World Economy

Directly related to the issue of controlling U.S. technology and equipment exports to the East is the size and nature of the import requirements of the Eastern countries. Currently, the Soviet Union follows a selective long term import policy stressing purchases of high technology Western products and processes. High priority has been given by the leadership to these types of imports in an effort to effectively stimulate modernization of the Soviet economy. However, Western inflation—which affected the prices of those industrial products critical to import plans and reduced Western demand for many Soviet exports—tended to retard efforts to carry out this import policy. The level of indebtedness as well as the size of the Soviet trade deficit rose substantially, while less attractive export and credit terms resulted in some delays and restrictions on domestic projects.

Aware of problems in financing Western imports and the disadvantages of importing advanced equipment and plants on a one-time-only basis, the Soviet leadership is now experimenting with more flexible arrangements for importing Western technology. Such arrangements, called industrial cooperation agreements, have the following characteristics: One: They typically involve projects which have a major impact on the Soviet economy. Two: Costs are normally substantial. Three: Agreements cover a long period (10–15 years). Four: Equipment requirements for projects are normally purchased on long term credit; credits are reimbursed at least in part by the delivery or output from the project. Five: Export sales of the products continue after repayment of the original investment.[5]

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[5] For a more detailed discussion of industrial cooperation see, Mauren Smith, "Industrial Cooperation agreements: Soviet Experience and Practice." *Soviet Economy in a New Perspective*, Joint Economic Committee, U.S. Congress. Washington, D.C., U.S. Government Printing Office, 1976.

These agreements, while used on a selective basis by U.S. firms, are not looked upon as ideal methods to increase trade. As a result, while continued Eastern demand for U.S. technology and equipment is likely to be of long-term, selective nature, financing problems will continue to be a restrictive element in trade.

The impact of Western high technology sales to the East—while perhaps significant in the United States for foreign policy reasons—is only modest on U.S. balance of payments, domestic income, and employment. It is worthwhile noting, however, that during a period in which the United States has had recurrent balance of payments problems, it has consistently had trade surpluses with the East. In addition, some sectors of the U.S. economy such as producers of heavy or extractive equipment, computers, agricultural goods, automotive machinery, and tourist services are likely to receive considerable benefit from trade.

Due to the Soviet long-term commitment to modernize their economy—efforts which include involvements in several complex, high technology consuming projects related to the energy, computer, automotive and agribusiness industries—it is likely that a greater reliance on Western credits, technology and equipment will become necessary.

While there is a potential for the volume of trade between the United States and the Soviet Union in these areas to increase substantially, such sales are likely to be limited due both to U.S. export controls on high technology and the availability of acceptable credit or pay back arrangements.

The demand for credits has grown rapidly throughout the 1970's as modernization efforts—which necessitated substantial imports of Western technology—have intensified. The Soviet hard currency debt to the West has mounted quickly to finance these imports, causing concern among some Westerners over Soviet creditworthiness. The continued supply of Western credits to the Soviet Union in the future will depend on their ability to convince Western lenders of their capability to expand hard currency export earnings to finance their debts. In the United States, while the supply of commercial credits is likely to be available, interest rates may be higher than acceptable to the Soviets. Government credits, with lower interest rates, while preferred by the Soviets, are not available in the United States.

The countries of Eastern Europe, like the Soviet Union have been increasingly concerned with economic modernization. This interest has, in part, been translated into an increased desire for Western equipment and technology, with the belief that such imports would stimulate the modernization process. Like the Soviet Union, the countries of Eastern Europe have received more liberalized trade treatment from the West which has facilitated the import of Western goods and services. In contrast to the Soviet Union, the move toward freer trade between Eastern Europe and the West has taken place on a more rapid and extensive scale.

Trade facilitating efforts between most of the Eastern countries and Western Europe including the extension of MFN, the availability of official credits and a reduction of some quantitative restrictions on CMEA (Council of Mutual Economic Assistance) imports have moved more quickly than efforts between the United States and Eastern Europe.[6] Consequently, the volume of trade between East and West Europe has been larger throughout the 1960's and 1970's than the volume between the United States and East Europe.[7] The removal of trade restrictions on a selective basis has occurred between the United States and the countries of Eastern Europe, with the countries of Poland, Romania, Hungary and Yugoslavia the major recipients of such liberalization.

The impact, on the U.S. economy, of trading with Eastern Europe has been modest but positive. In addition to the benefits of an overall trade surplus on U.S. balance of payments, employment and income, increased trade between the United States and Eastern Europe has encouraged a measure of economic interdependence between countries and therefore a more stable overall environment.

While expanded trade relations—due in part to Eastern demands for U.S. manufactured products and grain—appear to be desired mutually, restrictions on the volume of trade with the West are likely to continue due in part to the problems the Eastern countries have in financing trade. Financing problems include hard currency shortages and an inability to substantially expand exports to the West to earn hard currency due to domestic economic limitations and prior commitments to CMEA.

Foreign trade reforms have taken place in some of the East European countries which encourage trade with the West—such as permitting arrangements approximating joint venture-joint equity—and have been successful in attracting Western technology and equipment in an affordable manner. In addition, compensation and payback agreements have allowed for increased Western imports with a minimum of hard currency transactions.

CMEA and East-West Commercial Relations

While the countries of Eastern Europe, like the Soviet Union, are concerned with their technology lag and stimulating economic modernization, they have neither the Soviet degree of constraint against reducing security programs nor the Soviet ability to meet the needs of economic modernization from their own resources. An increase in economic interdependence with the West therefore may encourage a diversion of previously committed CMEA resources away from the Soviet economy and toward export-oriented projects, as well as increased diversity in adhering to Soviet political leadership.

The needs of small-scale Eastern European economies for Western trade in high technology products may be greater than the larger Soviet economy's requirement for Western technology. The Eastern European need combines the domestic requirements for modernization and consumer welfare with the commercial requirements of raising their potential exports to an acceptable quality level for entering the world market.

This pressing Eastern European need for Western technology has been illustrated by their willingness to entertain comparatively greater

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[6] The members of CMEA are: USSR, Bulgaria, Czechoslovakia, German Democratic Republic, Hungary, Poland, Romania, Cuba, Mongolia, and Vietnam.

[7] For reasons of geographical proximity and historical precedent, trade between Eastern Europe and Western Europe has been and is likely to continue to be greater than trade between Eastern Europe and the United States.

institutional flexibility and institute superior techniques to absorb imported technology and skills.

Pre-1972 Soviet policy, however, inhibited the ability of the East Europeans to finance needed imports from the West. Emulation of the Yugoslav formula for financing a commercial-technology bridge with the West through tourism, foreign worker remittances, credits, and industrial cooperation were all restricted by the example of Soviet policy, and even by direct Soviet intervention.

Soviet policy since 1972 has relaxed its constraints in each of these areas and thus materially improved the Eastern European prospects for exploring new ways of financing increased trade with the West. There were some signs of relaxation prior to this time, but there is no doubt that the super power detente, initiated in 1972, encouraged policy changes.

Against the background of less concern about defense priorities and greater need for high technology Western imports, the Eastern European nations may be more inclined to develop high priority export industries. Aided by Western credits and cooperation, a larger volume of industrial exports to the West may well become possible. The assessment of the Romanians that MFN tariff status in the United States would be important to them, is an indication of the desire to develop just such export industries. In the wake of the oil embargo, however, a new constraint on Eastern European economic relations with the West has emerged. The limited quantities of East European industrial and agricultural output of world market quality has gone increasingly to the Soviet Union and to the Middle East to finance necessary oil and gas imports. The Soviet Union has been willing, however, to continue to meet the East European needs at lower than OPEC energy prices. In the current 5-year plans for the East European countries, however, the required increases in petroleum products may have to come from the Middle East, and the Soviet prices for their current level of deliveries will approximate world market prices. Although this grim picture may be modified or negotiated, Eastern European balance of payments problems are likely to be even more difficult in the future than they are now.

THE ROLE OF THE UNITED STATES IN EAST-WEST RELATIONS

The Carter Administration Policy

While there has been no comprehensive policy set forth by the Carter administration on East-West commercial relations, efforts appear to be moving in the direction of increased normalization with the countries of the East. Characterized by selective extension of trade privileges to some and a less restrictive export control policy overall, administration actions with respect to commercial relations have moved in the trade liberalizing direction relative to past policies. Thus, the President recommended an extension of the waiver authority enabling Romania to maintain its MFN status and eligibility for Government credits. In addition, the administration signed a trade agreement with Hungary which among other things extends MFN and eligibility for Government credits to Hungary.

In June 1977, the President signed the Export Administration Amendments of 1977, which appear to call for a less restrictive policy on export controls toward Communist countries. At the same time, the Carter administration has taken some restrictive measures in trade with the Soviet Union. On two occasions, in June 1977 and July 1978, it denied export licenses to U.S. firms seeking to export sophisticated computers to the Soviet Union. The latter action was apparently taken in response to Soviet domestic and foreign policy initiatives of which the administration disapproved. The announced purpose of the policy change was to assure that such exports "would be consistent with the foreign policy objectives of the United States."

Coordination between the United States and Western Europe on controlling exports of Western technology for foreign policy purposes to the Eastern countries is likely to continue to be on a limited scale. The West European members of CoCom—the coordinating committee (including the United States, Japan, and NATO, except Iceland) which sets guidelines for controls on exports to the Communist countries—are unlikely to agree to impose restrictions on exports to the Communist countries for foreign policy reasons. Therefore, U.S. export controls on products for which the United States does not have an exclusive technological leadership, are likely to be either of limited effectiveness or completely ineffective. In contrast, coordination on limiting technology transfers for national security reasons, is likely to continue.

Efforts of the 95th Congress

During the 95th Congress, legislation concerning East-West commercial relations centered primarily upon the more technical aspects of trade—export controls, finance—and less on modifying other existing legislation. Topics such as the regulation of rate cutting practices of state controlled carriers engaged in the foreign commerce of the United States (as prescribed by the Ocean Shipping Act of 1977) the extension of MFN status for Romania and Hungary, the availability of U.S. Government credits from the Export-Import Bank and the stimulation of U.S. agricultural exports to the East by extending Commodity Credit Corporation credits to all nonmarket economy countries were of particular interest.

Throughout the 95th Congress, there was little indication that any legislation passed during earlier Congresses concerning the linkage of human rights to trade would be significantly revised. Legislation extending official CCC credits to all nonmarket economy countries—which would have overriden legislation limiting credits to all countries not adhering to the standards of free emigration spelled out in the Trade Act of 1974—was drafted, but later amended to include only the People's Republic of China.

A Potential Agenda for the 96th Congress

It appears likely that congressional interest in East-West trade will continue to center more on the administration of export controls and less on modifying other existing legislation. Because the Export Administration Act expires in September 1979, export controls must be addressed by the 96th Congress. Indeed, as legislatively mandated studies on export administration are completed, as the CoCom list is reviewed and the Department of Defense moves toward implementing the Bucy report recommendations,[8] it is likely that an increasing amount of attention will be paid to export control policy in the Congress, the Executive, and the private sector.

Studies on simplifying, clarifying, and expediting the export administration procedure have begun, and it appears likely that the speed at which export license applications are processed will continue to be of great interest to the Congress as well as the business community. A status quo in the export license application process could frustrate the expediting intentions of the Congress, and limit the potential trade promoting effects of the Export Administration Amendments of 1977.

Also of particular interest will be the economic and national security implications of transferring high technology goods and services to the Soviet Union. The export of energy technology stands out as an issue of considerable concern.

In addition to issues in export administration, legislation in the next few years concerning East-West relations will most likely center upon the financing of trade, particularly as it concerns the use of U.S. official credits.

It is likely that as East-West trade grows, debates will continue on such topics as financing, linkage, technology transfer and export controls. The following policy questions may be relevant to these debates:

One: Is there a useful and practical method for measuring the direct and indirect effects of international technology transfer upon U.S. national security?

Two: What safeguards on high or critical technology exports, such as computers, would provide adequate protection against the possible misuses of U.S. technology for purposes that conflict with U.S. interest?

Three: Should the U.S. Government be more concerned with active technology transfer mechanisms involving transfers of know-how and less restrictive of product exports as suggested by the Bucy report? How would that policy be implemented?

Four: What effective legal and administrative options are open to the Congress and the executive branch to develop coordinated policy on private commercial transfer of technology?

Five: The countries of Eastern Europe have achieved varying degrees of independence from the Soviet Union. How can we determine whether leakage of Western technology from country to country is likely? Are East European countries automatic conduits of imported Western technology to the U.S.S.R.?

Six: Has the linkage of economic cooperation to humanitarian issues been a successful and productive policy? How can the Congress best evaluate the impact of linkage policy upon the United States and Soviet economies?

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[8] A task force of the Defense Science Board, chaired by Fred Bucy of Texas Instruments, recommended: (1) Licences be withheld only for "revolutionary" not for "evolutionary" technology. (2) Restrictions be placed more on "active" mechanisms of transfer featuring training, on going contact, etc. (3) Restrictions of exports to Communist countries be extended to all nations. The purpose of the Defense Science Board proposals is to simplify and expedite the licensing process and to change the criteria for restricting high-technology exports. See U.S. Department of Defense. Office of the Director of Defense Research and Engineering. An Analysis of Export Control of U.S. Technology. A DOD Perspective. Report of the Defense Science Board Task Force on Export of U.S. Technology. Washington, Feb. 4, 1976. 39 p.

Seven: How should the country eligibility for Eximbank facilities be determined?

Eight: Would it be economically beneficial and consistent with our foreign policy interests to permit the U.S.S.R. and East Europe countries access to CCC credits for the purchase of U.S. agricultural exports? Can access to the CCC to these countries be arranged without amending the Trade Act of 1974—that is, by creating some overriding legislation or negotiating a bilateral treaty?

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THE SOVIET AND YUGOSLAV SUCCESSIONS

(By Francis T. Miko*)

Issue Definition

During the 96th Congress there could be succession crises in the Soviet Union or Yugoslavia, due to the aging leaderships in both countries. The chances that the succession in either country will not be smooth is increased by the fact that no mechanism for an orderly transition—at least in the American constitutional sense—has been developed in the Soviet Union and, although a system exists formally in Yugoslavia, it has not been tested. Even without an actual transition, there might be a struggle for position in anticipation of a leadership change. Indeed, many observers of the Soviet scene believe a struggle for power is already in progress.

Events in both countries will be of major importance to the United States. The U.S. interest in the future course taken by the Soviet Union is obvious. Ideally the United States would like to see a new leadership that is more cooperative and less adventurous in its foreign policy, one that is willing to shift its resource allocations from the military to the civilian sector of the economy and one that is more liberal and open in its domestic policies. At the least, the United States hopes for a new Soviet leadership that remains committed to détente or peaceful coexistence.

Most analysts believe that the U.S. ability to influence the Soviet succession will be sharply limited, though some observers feel that U.S. policies can affect the balance of political power within the Soviet Union by strengthening or weakening the hand of moderate or pro-détente forces there. Most likely the outcome of the struggle for leadership will be determined almost exclusively by the internal dynamics of the Soviet system.

While developments in the Soviet Union may ultimately be of greater significance to the West than those in Yugoslavia, it is the Yugoslav succession that seems to carry the greater potential for involving other countries. The basic U.S. interest is in Yugoslavia's continued nonalined status between East and West and in insuring that the country not become a source of instability in Europe.

The United States could conceivably play a more significant role in the unfolding of the Yugoslav succession, although in that country too, domestic forces are likely primarily to shape the outcome. Among outside powers, the Soviet Union may be most eager to influence the evolution of post-Tito Yugoslavia. Soviet leaders may seek to bring to power a more pro-Soviet leadership in Belgrade in the hope of returning the country to the Soviet orbit. While direct U.S. intervention in the event of a Yugoslav succession crisis seems unlikely, the United States may be asked to provide weapons or economic assistance to a

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Yugoslav Government seeking to withstand outside pressure and maintain the country's integrity. Any U.S. decision to provide major military aid to Yugoslavia would require congressional approval.

Background: The Soviet Succession

Leonid Brezhnev, the General Secretary of the Soviet Communist Party and President of the Soviet Union, is 72 years old and reputedly in failing health. The ruling Politburo, as a whole, average 67 years of age, making the leadership of the Soviet Union one of the oldest among major powers. There has been no effort to bring younger people into the top ranks. The only Politburo members who are below their sixties are Grigoriy Romanov, 55 and candidate member Geydar Aliyev, 55. Thus while the immediate question concerns who will replace Brezhnev as Party General Secretary, the longer term and possibly more crucial question concerns the character of the next generation of leaders.

As in all Communist dominated countries, it is the Communist Party and its leading organs, the Politburo, Secretariat, and Central Committee that run the country, despite the existence of a formal parliamentary government structure. Although Leonid Brezhnev is both the leader of the Party and the President of the Soviet Union, it is unlikely that one man will replace him in both positions. His replacement in the Party role will be his actual successor and he will probably be selected by the 21 member Politburo from its own ranks.

Despite the attention that the subject has received in the West, the Soviet leadership succession remains shrouded in mystery. This is due primarily to two factors. First, there is no formal succession mechanism in the Soviet Union and surprise appointments have been the rule rather than the exception. Second, there are no adequate precedents to use as a basis for predicting leadership changes. The Soviet Union has been led by only four men since the Communist revolution in 1917, excluding the transitional leaderships of Malenkov and Bulganin. In each case the circumstances of the succession have been quite different. Significantly, major upheavals have been avoided despite extended power struggles.

A major reform since the Stalinist period is that the process of change at the top has been debrutalized. The losers in the struggle for power are no longer executed or imprisoned, as they routinely were in the Stalin era. Also, the country now feels less threatened and despite serious problems enjoys greater political and economic stability than ever before.

The past offers no guide to a leadership candidate's nationality. Russian domination of the Soviet Union has not prevented Stalin, a Georgian, and Nikita Khrushchev, a Ukrainian, from assuming the highest office. At the same time, it is probable that a new leader must be totally Russified as both Stalin and Khrushchev were. Nor can generalizations be made concerning the educational background and job experiences necessary for a Soviet leader, beyond the fact that he will probably have to be better educated than his predecessors and should have had a broad range of past experiences, including a heavy dose of Party work. While it would seem logical that the Soviet Union would select a younger man for the job, there is no certainty that there will be consensus on one of the younger people in the party leadership.

Leonid Brezhnev remains the undisputed leader but his visibility has declined in recent years. His extended absences from public view recently have supported the belief that the Soviet Union is entering a period of transition. It is almost certain that his departure will bring change. Although his personal impact on the Soviet scene may not have been as great as that of Tito in Yugoslavia, Brezhnev's imprint on the Soviet Union is undeniable. Despite this fact, most assessments of change compare only the system under Stalin to the post-Stalin era, too often ignoring the changes from the Khrushchev to the Brezhnev periods. There has been a diffusion of power under Brezhnev, as he has sought, to a far greater extent than did his predecessors, to create consensus on his policies in the Politburo and among the various policy elites.[1] In Soviet terms, Brezhnev has taken a moderate course in domestic and foreign policy. He has cracked down ruthlessly against dissidents but has generally relaxed controls on the population.

Brezhnev has also brought a stability and consistency to Soviet foreign policy that was absent under Khrushchev. This is evident in United States-Soviet relations and elsewhere. On the other hand, Brezhnev has not hesitated to exploit opportunities such as in Africa to gain unilateral advantages for the Soviet Union although the results in Egypt and some other countries have been disadvantageous from the Soviet perspective. Nor has he disclaimed the "right" and "obligation" under the tenets of Marxism-Leninism to actively support the so-called "national liberation movements" in the Third World, a strategy laid out concretely and vigorously pursued by his predecessor. His China policy has failed to mend relations with Mao's successors. Finally, Brezhnev is leaving to his successors unprecedented military might but serious long-term economic problems. The Soviet military buildup has continued steadily under Brezhnev and there is concern in the West about the danger of that power falling into more adventurous or reckless hands. At the same time this emphasis on the military buildup has been very costly in economic terms and the successors will have to weigh the costs versus benefits. Economic growth has been declining and the chronic agricultural problems have not been solved. Some experts predict a possible Soviet energy crisis and a growing shortage of manpower in the 1980's. It may be difficult to continue to allocate resources so heavily toward weapons, while sacrificing the civilian economy.

Issue Resolution and Consequences

Western experts are now generally speaking of the Soviet succession in the present tense, as a process already underway, even though there is no doubt that Brezhnev is still in control. This process may already be affecting Soviet policies and relations with the United States. While the Soviet system is far from democratic, it should be stressed that the next Soviet leader must be chosen by his colleagues, and that no man

[1] Hough, Jerry F. The Apparatus of Power. Appears in The U.S.S.R. and the Sources of Soviet Policy. p. 113–114. (Kennan Institute for Advanced Russian Studies Occasional Paper no. 34).

in the Soviet Union today would appear to have the power to take away the job of Brezhnev.

If Brezhnev dies or becomes incapacitated it is generally believed that Andrei Kirilenko will assume the Party leadership on an interim basis. As a member of both the Politburo and the Party Secretariat he currently fills in as leader during Brezhnev's absences. But his is believed to be exclusively a transitional role. Kirilenko is 72 years old so there is no assurance in any case that he will outlast Brezhnev. Beyond the transition period, it is difficult to see a clear contender. This is due in part to the fact that Brezhnev has not groomed anyone for the position and has acted to prevent any of his colleagues from gaining excessive power. The leading members of the Politburo are of Brezhnev's own generation. Yuri Andropov, the 73-year-old chairman of the KGB; Alexei Kosygin, the 74-year-old premier; as well as the 76-year-old party ideologist Mikhael Suslov and 73-year-old Boris Ponomarov seem unlikely candidates because of their age. Of the 20 full and candidate members of the Politburo, 8 are in their seventies, 10 are in their sixties, and only 2 are in their fifties. Among the younger members, Grigoriy Romanov, the 55-year-old head of the Leningrad Party organization, and Vladimir Shcherbitsky, the 60-year-old head of the Ukrainian Party, are often mentioned as leadership candidates. Both have been closely identified with Brezhnev's domestic and foreign policies and are seen as supporters of détente and expanding East-West relations. Another leading figure, closely associated with Brezhnev, the 67-year-old Konstantin Chernenko, has been elevated to full membership in the Politburo. If the past is a guide, there is no certainty that new men will adhere to the same positions once at the top. Neither Khrushchev nor Brezhnev acted as leaders in a way that could have been predicted, given their loyal support for Stalin during his reign. Both Romanov and Shcherbitsky lack the broad range of Party and Government positions that would ideally suit them for the position of General Secretary of the CPSU.

Until his death in 1978, Fyodor Kulakov was considered another likely candidate. Some other Politburo members who seemed to have the right qualifications for leadership have been demoted from that body. Although none of the current and candidate members of the Politburo seem perfectly suited, they will nevertheless probably choose a successor from their own ranks.

Looking several years beyond the immediate leadership transition it seems that there will have to be a wholesale generational change in the Politburo membership as the current leaders have refused to undertake a rejuvenation process at the top. While it is impossible to predict what this new generation will bring, the inevitable transition could lead to profound changes within the Soviet system. According to one school of thought in the West, such change should not be expected because the younger generation will have been carefully molded by the older one and will share its beliefs and values. But another school of thought stresses the important differences between the two generations. Analysts point out that the new generation's experiences have been in the unprecedented postwar period of Soviet stability and prosperity, as opposed to the revolution, purges, war, and other traumas that have shaped the Brezhnev generation.[2]

[2] Billington, James H. Soviet Attitudes and Values: Prospects for the future. Appears in the U.S.S.R. and the Sources of Soviet Policy, op. cit., pp. 103–112.

In addition the new generation is better educated and informed than its predecessors. It is probably more confident and less likely to see threats everywhere to the regime. Along with this confidence, there may be less ideological rigidity among the new leaders.

On the basis of these characteristics, it would be possible to project and rationalize diametrically opposite behavior from this generation. On the one hand, a new generation might support domestic political and economic liberalization and may be committed to pragmatic modernization, with a significant moderating effect on Soviet foreign policy. Modernization and reform in the political and economic system could require, first, that the country shift resources from the military to the civilian sector, and second, that it redouble its efforts to expand economic relations with the West. Both these policies would imply a rejection of adverturism in foreign policy and a stronger commitment to international stability and détente.

On the other hand, a new generation could bring changes that would be far more ominous to the West. As the inheritors of the enormous Soviet military machine, unrestrained by the fears or war memories of the Brezhnev generation, they could be tempted to embark on a more aggressive and adventurous global policy than their predecessors. The combination of a commitment to ideological internationalism and a more traditional Russian nationalism could encourage such a trend with the serious consequences of increasing international instability and possibly spelling disaster for the Soviet economy.

Both the individual and generational succession could lead to shifts in Soviet policy, in such areas as Soviet relations with Eastern and Western Europe and the Third World, but it is impossible to predict the trends. Some analysts have raised the possibility that a new leadership might also be in a better position to normalize Soviet relations with China with dramatic consequences for the international scene.

One of the most serious problems that any new Soviet leadership must face is that of the rising nationalism of the non-Russian population of the Soviet Union. Non-Russians will soon comprise more than 50 percent of the Soviet population and already make up more than half of the armed forces. How a new leadership tackles this sensitive long term problem will be one of its most important tests.

Notwithstanding the uncertainties and the absence of a formally constituted succession mechanism, there appears to be little likelihood of violent upheaval. The Soviet Union has been able to avoid that during past successions and it would appear that all the competing factions have sufficient stake in preserving the present stability of the system and its inner balances to keep any struggle within narrow political bounds. Needless to say, if the succession were to become a violent struggle, this could have major domestic and international repercussions.

The United States and the Soviet Succession

The United States has to be deeply concerned with leaderships changes in the other superpower but its ability to understand them, let alone influence them, is limited. That the United States cannot directly influence the Soviet succession seems clear. How U.S. policies might indirectly influence the Soviet transition process is less apparent. According to advocates of the view that the United States can influence the makeup of the new Soviet leadership, U.S. policies can tilt the balance of power between the moderate and hard-line factions within the Soviet Union. They see U.S. policies of restraint, accommodation, and economic cooperation as strengthening the hand of prodétente groups. They oppose using issues such as human rights as weapons for embarrassing Soviet leaders, especially in a time of transition, stressing both that such policy is counterproductive and that it ignores the improvements that have been made. They also urge unilateral restraint in the arms race to strengthen the proponents of arms control in the Soviet Union. They support greater U.S. efforts to cooperate with the Soviet Union on regional problems such as the Middle East and Africa, and warn against actions by the United States that might be interpreted in Moscow as a challenge to the Soviet position in Eastern Europe.

Other Soviet experts are skeptical about the U.S. ability to influence the Soviet political equation, though they readily concede that U.S. actions do influence Soviet policies. The basic dilemma is what blend of accommodation and firmness is likely to give the right signal to a new leadership in Moscow. According to opponents of the moderate approach the Soviet Union has historically understood and respected only U.S. strength and firmness in meeting Soviet challenges. Though such a policy may not help to decide who assumes the reins of power in the Soviet Union, it will, according to this view, serve to discourage Soviet adventurism.

The succession process itself will have an impact on United States-Soviet relations. The more protracted and less smooth the transition the greater is its impact on bilateral relations likely to be. It would not be surprising to see a period of policy paralysis and inconsistency in the transition period. Some analysts already claim to discern such tendencies in Soviet policy. This paralysis would affect ongoing negotiations and the possibility of reaching any new agreements with the Soviet Union. Major decisions would probably have to be deferred by the Soviet leadership. This could delay agreements on SALT III, mutual and balanced force reductions in central Europe, and other issues. If such delays continue they could affect U.S. weapons procurement and other important decisions.

In the initial period, a new Soviet leadership is likely to be inward looking at least until it has consolidated its power. This may mean that it will be less likely to intervene in conflicts abroad or challenge U.S. interests for a period. If the new generation of leaders proves to be reform minded and opts for expanded cooperation with the West as an alternative to its enormous emphasis on the military buildup, this policy change will have a fundamental impact on U.S. security interests. On the other hand, if the new leaders embark on reckless and adventurous policies abroad, this is bound to lead to confrontation with the United States just as Khrushchev's adventurism culiminated in the Cuban missile crisis.

United States-Soviet economic relations will be influenced by the attitudes of a new Soviet leadership. In addition, a leadership whose emphasis is on modernization and economic cooperation with the United States might be willing to relax emigration policies in order to receive most-favored-nation status and credits, currently barred by the Jackson-Vanik amendment to the Trade Act of 1974. The elimination of the emigration-trade impasse could in turn substantially boost trade levels.

The Role of Congress

Congressional interest in the Soviet succession has been evident in hearings, statements, and speeches of Members. Although Congress has no direct impact on this issue, it has recently had a growing influence on bilateral relations with the Soviet Union generally. Congressional decisions on such issues a Senate ratification or rejection of the SALT II accord may influence a new leadership's attitudes on arms control and military allocations.

Similarly, legislation affecting bilateral trade may affect Soviet economic decisions and plans. Currently, the Jackson-Vanik amendment to the Trade Act of 1974 bars most-favored-nation treatment and credits for the Soviet Union. Other legislation prohibits the shipment of certain types of strategic goods to that country. Congressional action on trade may influence a new leadership's views on whether to rely on cooperation with the West as a long-term solution to its economic problems. Although the Soviet Union has been successful in finding alternative West European and Japanese suppliers for much of its Western technology needs, the new leaders may share the prevailing Soviet view that in the long run only the United States will be able to provide economic and technical assistance on the scale needed to solve the Soviet Union's economic problems.

The new Soviet leadership will benefit from a much clearer understanding of congressional influence on United States-Soviet relations than did its predecessors initially. Passage of the Jackson-Vanik amendment linking bilateral trade to Soviet emigration policy seems to have come as a revelation to the Soviets on Congress' significance. Since that time, the Soviet Union has given a much higher priority to its parliamentary exchanges with Congress. It has appointed high level delegations to these meetings led by politiburo candidate member Boris Ponomarev. Through the United States of America and Canada Institute the Soviet Union is devoting increasing attention to the workings of Congress. A new leadership may be able to profit from this more sophisticated understanding of the American system.

Background: The Yugoslav Succession

Josip Broz Tito, Yugoslavia's only leader in the post-war period, is 86. There is some concern in the West that his departure from the leadership of this multinational state could bring about a period of turmoil, even civil war, among hostile ethnic groups within the country, and that the Soviet Union might be tempted to intervene to bring Yugoslavia back into the Soviet orbit.

Yugoslavia, established after World War I as a federation of south Slavs living in territories of the former Turkish and Austro-Hungarian empires, came under Communist domination at the end of World War II. Yugoslavia remained a loyal satellite of the Soviet Union until Tito's dramatic break with Stalin in 1948. There followed a Soviet campaign to undermine Tito's government and replace it with a pro-Soviet leadership. The United States gave massive military and economic aid to Yugoslavia in the 1950's to help the country maintain its independence in the face of Soviet pressure. Since the late 1950's and normalization with the Soviet Union, Yugoslavia has sought to maintain a nonalined position, though its relations with the Eastern and Western blocs have fluctuated over the years.

The character of today's Yugoslavia is identified very much with the charismatic personality of its leader Tito. He has maintained an otherwise tenuous national unity by balancing the interests of competing Yugoslav nationalities.

Since this break with Moscow, Tito has introduced reforms in the political, social, and economic spheres. The federal system in the country has been strengthened as the six republics and two autonomous regions comprising Yugoslavia have gained expanded decisionmaking authority. Political controls on the population have been loosened although there are definite limits to the personal freedom tolerated. Authorities continue to crack down on dissidents and nationalists who are seen as a threat to the regime. Yugoslavia has undertaken economic reforms. Decisionmaking has been decentralized and market forces have been allowed to operate. A system of worker self-management has been initiated to give employees greater say in the running of factories through workers' councils. Yugoslavs have been allowed to travel relatively freely. An estimated 1 million Yugoslavs now work in the West.

In the international sphere, Tito's Yugoslavia has occupied an important position between East and West as a key advocate of détente, seeing in it the best guarantee of Yugoslavia's future independence. Tito is also one of the founders of the nonalined movement. His attitude toward the Third World is influenced by his belief that Yugoslavia shares common interests as a developing country. His moves to institutionalize the nonalined movement can also be seen as an effort to strengthen Yugoslav independence from the Soviet Union by enhancing its international prestige. Tito has established a special position for Yugoslavia within the international Communist movement as a spokesman for the doctrine of separate roads to socialism, which rejects Soviet supremacy.

To defend Yugoslavia's unique internal and international position after Tito's departure, Yugoslavia has taken elaborate formal steps to aid a smooth transition. A collective state presidency has been established as the formal successor to Tito. It consists of the head of the Communist Party [currently Tito] and one representative from each of the six republics and two autonomous regions. Since Tito does not seem, in fact, to have delegated much power to this institution, thus far, many Western observers doubt that it will function as more than a titular leadership. The federal assembly [Yugoslavia's parliament] is nominally responsible for choosing members but in reality merely ratifies leadership decisions.

Changes in the position of the Communist Party [League of Communists of Yugoslavia] introduced in 1974 seem to indicate that the real power in the post-Tito era will rest in key party bodies, reversing years of movement toward less party control. The LCY central committee was recreated and an executive committee was established in 1974 to function as the equivalent of a politburo. Tito has increasingly delegated decisionmaking responsibility to this body, made up of a younger generation of Yugoslav leaders. More recently Tito has named Branko Mikulic as his deputy [temporary chairman] in the party presidium, setting him up as a potential rival to the demoted Stane Dolanc.[3]

The other major actor in the succession may be the Yugoslav military establishment which is also one of the main forces for cohesion in the country. The Yugoslav People's Army—YPA—is a highly centralized organization whose officer corps is dominated by Serbs, although top echelon positions are apportioned among the nationalities. There are close links between the military, the party, and the government. Generals have been appointed to the LCY central committee presidium and executive committee. Military men presently hold 23 of 165 seats on the central committee.[4] Underscoring the role the military is expected to play in safeguarding Yugoslavia's internal cohesion, Col. Gen. Franjo Herljevic has been appointed federal secretary for internal affairs, giving him control of the police. In the event of a major succession crisis the possibility of a military takeover has been raised by Western analysts. Yugoslav military leaders, themselves, have given assurances that they do not intend to interfere in Yugoslav political affairs. At the same time, their spokesmen have warned that they will not remain sitting in their barracks if the country's existence is threatened.

Issue Resolution

A number of names have been suggested as possible successors to Tito. Most prominent among these was Edward Kardelj until his death in 1979. There has been speculation over the prospects of Vladimir Bakaric, the 66-year-old Croat leader who is also a Tito loyalist of long standing. Stane Dolanc was the apparent No. 2 man behind Tito in the Communist Party structure until his demotion in May 1979 following the elevation of Branko Mikulic.

If the military were to assume a major role in the succession, the 62-year-old defense minister, Gen. Nikola Ljubicic, and the army's representative on the LCY presidium, Gen. Dzemail Sarac, could play a major part.

Speculation concerning the identity of future Yugoslav leaders is hazardous. In any case, Yugoslav developments will probably be shaped more by circumstances than by personalities. Nationalist rivalries remain the most divisive and potentially explosive problem in Yugoslavia, casting a shadow over the succession picture. Prominent Yugoslav leaders have readily admitted that regionalism is one of the greatest enemies of Yugoslavia's successful development.[5] At present, economic disparities appear to be the main factor fueling resentment among the nationalities. The Government's attempts to redis-

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[3] FBIS Wire Service, Oct. 25, 1978.

[4] Horhager, Axel. Yugoslavia's Defense: The Logic of Politics. International Defense Review, No. 5, 1976: 734–735.

[5] Interview with Todor Kurtovic, TANJUG, Apr. 14, 1976. (FBIS: Eastern Europe, Apr. 19, 1976: 129).

tribute the wealth have sharpened resentment in the richer republics without satisfying the poorer ones.

Underlying the economic differences are a number of historical cultural, religious, and linguistic factors. The Serbs are the largest nationality with 40 percent of the population. Their main rivals are the Croats, who, together with other nationalities, fear Serb domination. While the number of active separatists among the nationalities is thought to be small, the authorities are taking no chances. As the succession approaches, the Government appears to be cracking down on dissidents to insure that they will not be in a position to stir hostilities.

The succession picture is also influenced by uncertainties surrounding Soviet intentions. A succession crisis could provide an opening for Warsaw Pact intervention. Despite formal acceptance of Yugoslav independence, Soviet leaders may entertain hopes of returning the country to the Soviet orbit, given their strategic, ideological, and to a lesser extent, economic interest in Yugoslavia.

Soviet strategic interest stems from Yugoslavia's location, controlling major land routes between Western Europe and NATO members Greece and Turkey, and lying within easy naval reach of the Mediterranean, Turkish Straits, and the Middle East. It borders on maverick Communist countries, Romania and Albania. A Moscow-oriented Yugoslavia could create pressure to curb Romanian autonomy and pressure Yugoslavia's NATO neighbors. While Yugoslav leaders have allowed their territory to be used as an interim point for Soviet operations in the Middle East, during both the 1967 and 1973 wars, a loyal Yugoslavia would presumably provide a more assured base. Yugoslav ports are now open to Soviet and all other foreign warships on a very limited basis. But the Soviet Union would clearly like to gain a naval base in the area.

Soviet ideological interest in Yugoslavia may be almost as strong as the strategic interest. Since the 1948 Stalin-Tito rift, Yugoslavia has led international moves to repudiate Moscow's claim to leadership of the Communist movement.

The Soviet economic interest in bringing Yugoslavia back into the Soviet bloc seems less apparent. Economic relationships between Yugoslavia and the Soviet bloc are substantial under present arrangements. The Soviet Union is already Yugoslavia's leading single trading partner, with considerable economic leverage. It would be difficult for the Soviet Union to improve on its favorable economic relationship significantly.

Thus far Tito's presence is seen as having been the major deterrent to Soviet interference in Yugoslav affairs. Tito's departure may increase Yugoslav vulnerability to outside pressure. The Soviet Union is expected by many Western observers to provide either covert or open assistance and encouragement to pro-Soviet factions within Yugoslavia. They could use pro-Soviet Yugoslav exiles based in the Soviet Union, Czechoslovakia, and elsewhere to influence the outcome. But according to most estimates, the group on whose loyalty Moscow could count is very small, perhaps 20,000, according to one estimate.[6] Many members of this faction have already been arrested.

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[6] Horbager, op. cit., p. 738.

The Soviet Union could use economic pressure to influence Yugoslavia's post-Tito course, since it is Yugoslavia's leading trade partner, supplying two-thirds of its coal and one-third of its oil needs, if Yugoslavia were unable to find alternate sources for its vital supplies.[7]

Direct Soviet military intervention to bring Yugoslavia back into its orbit is considered unlikely by most experts. The costs and risks of such action seem high when measured against possible benefits, whether such intervention were alone or together with its Warsaw Pact allies. One obvious deterrent to Soviet military action would be Yugoslavia's avowed readiness to resist. According to some estimates, the Warsaw Pact could together muster as many as 55 divisions to support an invasion of Yugoslavia.[8] While it seems clear that Yugoslavia's Armed Forces would have little chance of repulsing an offensive of such magnitude in the northern plains or to prevent the rapid capture of major northern cities, they could carry on a protracted struggle in the more rugged terrain in the other two-thirds of the country. The mere possibility of a protracted fight could offer major deterrents to Soviet intervention. A lengthy conflict could have a seriously destabilizing effect elsewhere in Eastern Europe, with possible repercussions even within the Soviet Union. Moreover, other powers could be drawn into the conflict.

The circumstances under which the Soviet Union might consider direct military action in Yugoslavia would include:

(1) Invitation by a post-Tito government for Soviet intervention to prevent dismemberment of the country;

(2) If a new Yugoslav Government seemed headed toward abandonment of its Communist system or nonalined position in favor of closer ties with the West; and

(3) If Yugoslavia were paralyzed by an all-out civil war, or if other countries intervened directly.

According to the most likely succession scenario, the transfer of power to a party leadership may be accompanied by a tightening of political controls utilizing the extensive police machinery that has never been dismantled despite Yugoslavia's internal liberalization. If separatist groups which the Government presently seems to be able to control, were to mount a serious challenge, then the armed forces could conceivably step in to defend the country's unity.

The short-term foreign policy emphasis of a new Yugoslav leadership may initially be tilted toward relations with the Soviet Union, as a moderating gesture. But in the long run there is no reason to expect the new leaders to put Yugoslavia on a sharply different course. Yugoslavia will probably continue to seek wider cooperation with the West particularly in the economic sphere without jeopardizing relations with the Socialist bloc. Yugoslavia is also likely to continue its role in the nonalined movement though there might be some changes in emphasis.

A majority of Western experts seem to express qualified optimism that while the new leader of the country may not share Tito's stature, the country will not be too different from what it has been under Tito.

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[7] See Gavilevsky, V. Benefits of Cooperation, New Times (Moscow), No. 12, Mar. 1976: 12.
[8] Horhager, op. cit., p. 737.

The United States and the Yugoslav Succession

Since the Soviet-Yugoslav rift in 1948, successive presidents from Truman to Carter have emphasized the American interest in maintaining Yugoslav independence and neutrality between East and West. U.S. objectives in Yugoslavia have been limited essentially to denying the Soviet Union hegemony over the country or a base for Soviet operations which could threaten the regional balance in Europe, the Mediterranean, or the Middle East. The United States has acted on many occasions to bolster Yugoslavia's position.[9] While the massive military and economic aid programs of earlier years have been terminated, Yugoslavia continues to receive preferential trade treatment and other advantages over other Communist countries.

Despite the record of cooperation between the United States and Yugoslavia, relations have fluctuated considerably over the years. Both countries have continued to regard one another with a high degree of suspicion. Yugoslavia has suspected the United States of a readiness to bargain with the Soviet Union over Yugoslavia's future—misgivings voiced by Yugoslav leaders on a number of occasions. The United States in turn has been troubled by a perception that Yugoslav neutrality and nonalinement is too often tilted against the United States.

Foreign policy differences between the two countries have been frequent, most often arising over development in the Third World. While criticizing the role of both superpowers in the Third World, Yugoslavia supported the Communist side in the Vietnam war. During the Middle East wars of 1967 and 1973, Yugoslavia not only supported the Arab side but actually prodded the Soviet Union to come more decisively to the aid of the Arabs. The United States and Yugoslavia have supported opposite sides in Angola and southern Africa. Recently, however, even Yugoslavia has become concerned with the extent of Soviet and Cuban involvement in Africa. Tito spoke out against this intervention at the 1978 meeting of nonalined nations in Belgrade and even questioned Cuba's presence in the nonalined movement, given its close ties to Moscow.

Yugoslav foreign policy positions are often closer to those of the Soviet Union than those of the United States because of very real differences in world outlooks, as well as divergent perceptions of national interest. However, Yugoslav policies that coincide with those of the Soviet Union may to some extent represent Yugoslavia's balancing act between East and West. Yugoslav officials admit that their policies must and do take Soviet attitudes into account. Many observers argue that Yugoslav anti-American propaganda should not be taken at face value.

In the last few years a number of incidents have soured relations. The Yugoslav arrest of an American businessman in 1976 and the subsequent polemics between Yugoslav authorities and former U.S. Ambassador Lawrence H. Silberman were followed by sharp Yugoslav criticism of the United States after the hijacking of a U.S. plane by anti-Tito Croatian extremists. The Yugoslave media not only attacked

[9] At the time of the Soviet invasion of Czechoslovakia, in August 1968, there was fear in the West that the Soviet Union might follow up with an attack on Yugoslavia. President Lyndon Johnson warned the Soviet Union in the strongest terms not to "unleash the dogs of war" by undertaking such action.

the United States for tolerating anti-Yugoslav activities but even hinted at U.S. Government complicity.

Most recently, relations between Yugoslavia and the Carter administration have improved substantially. In the aftermath of President Tito's visit to the United States in 1978, the two nations cooperated in a number of areas, including efforts to curb the Cuban and Soviet involvements in Africa. The administration decided once again to increase arms shipments to Yugoslavia as a means of making the country less dependent on the Soviet Union for the arms that Yugoslavia does not produce itself. Since 1961 when the United States cut off major arms supplies to Yugoslavia, U.S. shipments have been under $1 million annually. The fiscal 1978 level was approximately $1.4 million and it is expected to rise to some $5 to $10 million over the next 2 years following Secretary of Defense Harold Brown's visit to Yugoslavia in 1977 and Yugoslav Defense Minister Ljubicic's visit to the United States in September 1978.[10]

After some confusion brought on by the campaign rhetoric of the 1976 Presidential elections, President Carter has clarified his own administration's policy toward Yugoslavia. He has said that a Soviet military intervention was unlikely but stressed that such a move would be a very serious breach of world peace and would poison Soviet-American relations. While not ruling out the use of U.S. troops under any circumstances, he did not envision a situation in which they would be used.[11]

Under most circumstances, the U.S. role would be limited to expressions of interest in maintaining a rough status quo. If outside pressure were applied against Yugoslavia, the United States could probably count on most countries to strongly support Yugoslav independence and condemn any aggressor. Many Third World countries, including some in which the Soviet Union has invested heavily, have especially close ties with Yugoslavia and would look on any violation of its sovereignty with concern.

Since Yugoslavia is vulnerable to economic pressure from the East, such pressure might lead to Yugoslav requests for U.S. economic and military assistance on a much larger scale than the United States is already providing, in order to decrease Yugoslav dependence on the Warsaw Pact.

A problem concerning American transfer of more sophisticated weapons to Yugoslavia is the absence of assurances that the technology will not fall into Soviet hands. One of the paradoxes of the Yugoslav situation is that because the Soviet Union is presently the major foreign supplier of Yugoslavia's weapons, the armed forces of the two countries maintain close links. The Soviet Union may have gained access to U.S. weapons technology through Yugoslavia in the past. This may be a deterrent to supplying certain kinds of weapons in the future.

One U.S. expert has advocated the negotiation of an agreement between the United States and the Soviet Union for a mutual hands off policy in Yugoslavia.[12] Such a course may be considered by the

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[10] Major Expansion of Arms Sales to Yugoslavia Planned by U.S. Aerospace Daily, No. 29, Sept. 28, 1978: 130.
[11] Why Yugoslavia matters. Los Angeles Times, Nov. 9, 1976, pt. 2, p. 4.
[12] Neal, Fred Warner. Yugoslav Foreign Policy: International Balancing on a High Wire. American Universities Field Staff Report No. 24, 1978, p. 11.

administration, although the Yugoslavs themselves would probably oppose it as another example of the superpowers seeking to negotiate Yugoslavia's future over its own head.

The Role of Congress

Congress has historically played an active role in United States-Yugoslav relations. In the 1950's American assistance to Tito enjoyed bipartisan support in Congress. But in 1961, in reponse to Tito's one-sided attacks on the United States for resuming atmospheric nuclear tests—without criticizing the Soviet Union for similar action—Congress overruled the President and enacted discriminatory trade legislation against Yugoslavia. In 1966 the Food For Peace Act was passed barring U.S. credits for Yugoslav purchase of agricultural goods because it was giving assistance to North Vietnam.[13]

In the case of a succession crisis in Yugoslavia involving Soviet or other outside intervention, the administration could not act to provide direct or indirect aid to Yugoslavia without congressional approval. Under Public Law 94–329, the International Assistance and Arms Export Act of 1976, executive authority to grant military aid without the approval of Congress is terminated. According to the act, sales to foreign countries of defense articles or services valued at more than $25 million cannot become effective until Congress has had 30 days to reject the transaction. The same 30-day freeze applies to the transfer of major defense equipment valued at more than $7 million.[14]

To have any impact, U.S. military aid to Yugoslavia in a crisis would probably have to be far above these ceilings. In order to be able to reach a decision on this issue quickly, if necessary, Congress may need to address the question of Yugoslavia's place among U.S. security interests before a crisis arises.

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[13] Johnson, A. Ross. The U.S. stake in Yugoslavia, 1948–1968. 1972 p. 10.

[14] The Arms Export Control Act, P.L. 94–329, Aug. 25, 1976. U.S. Government Printing Office, 1976, p. 14–15.

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Latin America

UNITED STATES-LATIN AMERICAN ECONOMIC TIES

(By Sidney Weintraub*)

Issue Definition

Economic issues—trade, debt, investment, concessional aid where this is provided—are a major concern in overall U.S. relations with Latin American countries. Because of the disparities in economic strength between the United States and any Latin American country, the relationships inevitably have been unequal. Latin American countries are affected more by developments and actions in the United States than the reverse. The inherent inequality has at times been exacerbated by U.S. manipulations in the internal affairs of many of the countries.

While the asymmetry has not disappeared, events of the last 25 years have altered its extent. There are many reasons for this change. Economic growth in Latin America has been substantial; it has varied among the countries but has been so large overall as to quadruple the region's real product over the last quarter century.[1] Exports were always the largest source of foreign exchange for Latin American countries, but this was augmented in the 1960's by substantial flows of concessional aid by the United States. The concessional aid flows have dropped to a relative trickle while trade earnings have grown impressively. There has been steady diversification in Latin America's exports. While raw materials still predominate in total exports, manufactured exports are now significant for the region and especially for the more populous countries. While the United States is still the most important external market for Latin America, its relative position has diminished.

There is great diversity in economic strength among the Latin American countries, and in the importance of the different countries for United States policy. Some countries are able to compete effectively in world markets for industrial goods, and are themselves significant markets for U.S. goods. Others are still prototypes of the classic single-commodity country. Some countries still receive concessional aid while others are now major borrowers from private sources. It is thus an oversimplification to talk of a "Latin American" policy as opposed to U.S. policies in different countries.

However, some generalizations, properly qualified to take account of country differences, can form the basis for analysis of policy. Cur-

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[1] Speech by Enrique Iglesias, Executive Secretary, Economic Commission for Latin America (ECLA), in Washington, D.C., September 22, 1978.

rent U.S. economic policy formulation towards Latin American countries must take account of the following elements:

(1) The issues of economic interaction are primarily and increasingly commercial—trade in goods, purchase and sale of technology, capital flows at market terms—rather than concessional.

(2) Since U.S. trade and financial policies are made in a global context, it is these general decisions rather than "special" Latin American interests that dominate the decisionmaking framework.

(3) There are relatively few low-income countries in Latin America, measuring this by international standards, and for these countries the concessional aid relationship remains significant.

This chapter looks first at the areas of economic interaction with Latin American countries, differentiating where appropriate among groups of countries, in order to set the context for issue outcomes. It then examines key specific issues for which U.S. policy action, including action by the Congress, can influence the outcome. A concluding note touches on the theme stressed in this introductory section of why a Latin American policy framework must inevitably be broad given the great differences in the economic interests of countries of the region.

AREAS OF INTERACTION

The Latin American Economy

The following table shows the growth of the real product of Latin America since the early 1960's. It has been substantial. Growth has not been slower in the last 3 to 4 years than it was in the previous 8 to 9, but the recovery from the 1974–1975 worldwide recession was reasonably rapid.

TABLE 1.—LATIN AMERICA AND THE CARIBBEAN: REAL GROWTH RATES

[Percentages]

	1961–65	1966–73	1974	1975	1976	1977 (estimate)
Total GNP	5.3	6.7	7.7	3.3	5.0	5.3
Per capital GNP	2.3	3.8	4.8	.5	2.0	2.5

Source: Various World Bank reports.

As evidence of this real economic growth, it should be noted that a person born today in Latin America can expect to live 62½ years whereas the life expectancy at birth in 1960 was less than 56. Such a person is likely to consume 105.5 percent of his caloric requirements today compared with 97.6 percent in 1960. Infant mortality is now estimated at 56.2 per 1,000 births compared with 77.4 per 1,000 in 1960. If an adult, the chances are 3 to 1 that he or she will be literate; the odds were only 3 to 2 in 1960.[2] If the definition of a poor country is one with an annual per-capita income of up to $250,[3] then in 1976 only Haiti in Latin America was poor. If the poverty ceiling is pushed up to $500, then Bolivia, Honduras, Grenada, and El Salvador should be added to the list.[4] In the current international usage for categorization

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[2] Data are from World Economic and Social Indicators of the World Bank.
[3] This figure used in the World Bank's World Development Report 1978.
[4] World Bank Atlas 1977.

of developing countries, practically all those in Latin America fall in the middle-income group, particularly the largest and most advanced countries—Argentina, Brazil, and Mexico.

This generally favorable picture can be contradicted by a number of other indicators. One of the most telling is that while growth of income generally has been high in Latin America, the distribution of the benefits to the poorest fifth of the population has been lower, relatively, than for developing countries in any other geographic area.

TABLE 2.—PERCENT OF INCOME RECEIVED IN DEVELOPING COUNTRIES BY REGION

	Highest 5 percent		Lowest 20 percent	
	1960	Most recent	1960	Most recent
North Africa and the Middle East	24.0	21.0	4.4	5.2
Africa South of the Sahara	28.2	25.7	5.2	5.7
South Asia	24.6	18.6	4.6	7.8
East Asia and the Pacific	22.7	19.8	5.5	6.6
European developing countries	21.8	25.0	5.4	3.9
Latin America and the Caribbean	37.1	31.7	3.9	2.0

Source: World Bank, World Economic and Social Indicators, July 1978. The most recent figures are estimated between 1973 and 1976.

There often has been a "hegemonic" approach by the United States in its dealings with Latin America. At times this has involved interference in political affairs and direct military intervention. A bilateral America, and elsewhere, entails a superior-subordinate relationship under which the richer country sets conditions for what it gives. This conditionality has to do with domestic economic policy of the receiver, how it treats U.S. investment, and more recently, how it respects the human rights of its own citizens. None of this is necessarily inappropriate, but it inevitably involves inequality between the parties. Economic growth in Latin America is altering this structure. U.S. dominance, while it still exists, is much diluted from what it once was as a result of these changes.

The asymmetry of the relationship between the United States and individual Latin American countries has stimulated many Latin American efforts to achieve some form of unity solely for negotiating purposes. These efforts can be distinguished from attempts for Latin American economic integration. The latter involved an exchange of rights and obligations among the Latin American member countries and the motivations were not primarily for confrontation and negotiation with the United States but rather to achieve some economies of scale in production, trading, and financing. Most of these integration efforts have foundered in the process of negotiating the quid pro quos.[5] There are many reasons for these failures involving sovereignty, animosities among nations, different ideological contracts as to the nature of the integrated area, different levels of development and hence different benefits and costs from trade freedom or industrial complementation, and certainly an inability to think in pan-Latin (or even subregional) rather than national terms when the outcome involved

[5] Some examples of this are the Latin America Free Trade Association, the Central American Common Market, the Andean Group. All these had some initial successes, but were unable to surmount the trials of significant differences among countries which affected the progress of integration, e.g., between El Salvador and Honduras in Central America.

some sacrifice (even if short term) for influential groups within a particular country.

These failures to unite substantively weakened the credibility of efforts to unite for essentially negotiating or confrontational purposes. To draw a contrast, when the United States negotiates on trade matters with the European Community, it clearly does so with a group which has a common policy and is able to make concessions as well as to demand them. When the Latin Americans sought confrontational unity in, say, the Consensus of Vina del Mar (1969), this was essentially a mechanism designed to demand concessions rather than to negotiate agreements on some symmetrical basis. Some concessions have resulted from this process (e.g., the U.S. general system of preferences is largely a result of pressure from Latin America), but they have been limited. Even more germane, the very process of seeking unrequited benefits highlights the inequality of the Latin American-United States relationship. The granting by the United States of nonreciprocal tariff preferences to the non-OPEC developing countries, including those in Latin America, illustrates these points. The preferences are of some benefit to many Latin American exporters, but they may have been obtained at the opportunity cost of not seeking straightforward across-the-board lowering of tariffs and the elimination of nontariff restrictions imposed by the United States which limit imports of such Latin American products as textiles, clothing, and shoes. Preferences are also subject to limitations which the United States can and does impose unilaterally since they were granted without reciprocity.

Most of the Latin American countries are partners with the other countries of the South in the Group of 77, but the relationship is an uneasy one.[6] The Group of 77 is a self-proclaimed union of the less-developed countries for negotiation with the more developed countries. Some of the key objectives of the Group of 77 as a whole, such as greater volume of official concessional development assistance, forgiveness of past official debts, even the drive for a common fund and the building up of a variety of buffer stocks of primary commodities, are of secondary interest to much of Latin America. Conversely, such key Latin American interests as reduced trade restrictions and better access to nonofficial capital are of less moment to most others of the Group of 77, particularly the countries of sub-Saharan Africa.

The purpose of this brief digression on negotiating unity of Latin America, or of the "South" as a whole, is intended to highlight the general irrelevancy of these mechanisms to most of the substantive issues which must be confronted in United States-Latin American economic relations.

How, then, have the major economic ties between the United States and Latin America developed?

The most important relate to trade. In the 1930's and the immediate post-World War II period, the pattern of industrialization in Latin America was through import substitution. Industries were created, often with the financial help of the government, and then were protected against outside competition, generally including that from other Latin American countries. A fairly significant industrial base was created in many of the countries, but for the most part it was inefficient

[6] See chapter, "U.S. Policy Toward Developing Countries," p. 70.

by world standards. Exports from the area continued to be predominantly primary commodities. One of the expressed motivations of economic integration efforts was to expand the scope for import substitution while still not opening the industries to competition from developed countries. The result tended to be lower growth in exports from Latin America than from middle-income countries elsewhere, particularly in Asia, but also in southern Europe. Exports were further impeded by generally overvalued exchange rates. The home industries could be protected from the results of overvaluation by high tariff and nontariff barriers. In general, primary commodity exports were not unduly impeded since they were priced in dollars. Manufactured exports thus had to overcome both high tariffs and other restrictions on the imported inputs and an overvalued currency. Some of the worst effects of excessive import protection could be mitigated by drawbacks of import duties paid when goods were exported and by exempting capital goods imports from tariffs, but this introduced its own distortion on factor mix in production.[7]

The shift in policy emphasis from import substitution to export promotion began in the early to mid-1960's when several Latin American countries began to concern themselves with the competitiveness of their manufactured exports. Incentives, including in some cases subsidies, were given to encourage such exports. In addition, Brazil, Chile, and Colombia introduced systems of periodic currency devaluations to overcome the effects of internal inflation.

The attention devoted to export promotion rather than import substitution has been important. During the 1950's, about 97 percent of the region's exports consisted of primary products. Now industrial exports, at a value of $10 billion, comprise some 20 percent of total exports.[8] Between 1965 and 1975, the real average annual growth in manufactured exports was 25 percent for Brazil, 21 percent for Mexico, 17 percent for Argentina, 20 percent for Venezuela, and 17 percent for Colombia. For the most part, those exports consist of consumer goods, but Brazil, to cite the outstanding case, exports substantial amounts of capital goods.

Because of earlier import substitution policies, Latin America is a "johnny-come-lately" to the export impulse to development. Between 1965 and 1976, the region's total exports grew at an annual rate of 4.7 percent, which is higher than the low-income areas of sub-Saharan Africa and Asia, but significantly lower than the middle-income countries of Asia and the Pacific at 12.2 percent.[9] Obviously, not all the countries of the region have developed a significant export capacity in manufactured goods, but the most populous and most economically advanced of the countries have. The future economic growth of these countries is now heavily dependent on the continuing increase of exports, particularly of manufactured goods where the dynamism and the potential are greatest.

[7] I. M. D. Little, "Import Controls and Exports in Developing Countries," Finance and Development, vol. 15, No. 3, September 1978: pp. 20–23, is a recent review article on this subject. It contains a selected reading list on the import substitution/export promotion theme.

[8] Op. cit., speech by Executive Secretary of ECLA.

[9] Data in this and the previous paragraph come from Chenery, Hollis B. and Donald B. Keesing, "The Changing Composition of Developing Country Exports," September 1978 (processed).

Latin America: The Need To Export

This, then, in broad terms, is the backdrop for many of the current concerns about what seems to be the growing pressure for protectionism in the United States and in other developed countries. For Latin America, it is the United States which matters most, even though dependency on the U.S. market has diminished. The United States took almost 50 percent of Latin America's exports in 1950; in 1975, the United States still took about 35 percent. The fear that the United States will be protectionist has been greater than actual protectionism, but the actual protectionism has been significant. And what protectionism there is tends to hit hardest on the consumer goods that developing countries, including those in Latin America, are manufacturing. Protection is heaviest for textiles, clothing, and shoes. It is not too much to venture that the United States (and others) extracted reciprocity for the preferential tariffs they have granted by limiting the imports of other products in which developing countries are most competitive.

The export growth of many Latin American countries has become essential for their overall growth in another way; namely, to permit them to earn the wherewithal to meet the interest cost of their external debt. Much of the growth of the Latin American countries was made possible by the growth in their external debt, which added to domestic savings. As evidence of this, Latin America's external debt grew six times in current dollars in the 10 years between 1965 and 1975 to an estimated $67 billion. During this 10-year period, two-thirds of external financing came from private rather than official sources,[10] and much of that from official sources, such as loans from the World Bank and the ordinary capital window of the Inter-American Development Bank—IDB—has been at commercial rates. The availability of foreign exchange to meet the interest on this debt depends on the productive use to which loan proceeds are put and the continuing growth of exports. The ability to refinance loans depends on export growth and on total growth. Latin America contains countries, such as Brazil and Mexico, with the highest total debt and the highest ratios of annual debt service to export earnings among all the developing countries.[11] The viability of Latin America's debt structure, which is interlocked with the money markets of the developed countries and particularly of the United States, rests on the bedrock of expanded exports.

As crucial as the exports of manufactures are for the economic dynamism of many of the Latin American countries, including the most populous (particularly Brazil, Mexico, and Argentina), for most countries, and for the region as a whole, non-manufactured exports still predominate. Table 3 shows this:

[10] Op. cit., speech by Executive Secretary of ECLA.
[11] Debt data from World Bank World Debt Tables.

TABLE 3.—COMPOSITION OF LATIN AMERICAN EXPORTS

[Percentages]

	Annual averages 1960–65	Annual averages 1970–75	1973	1974	1975
Food	43	35	37	29	32
Raw materials	20	14	15	12	12
Energy	27	33	26	40	39
Manufactures	10	18	21	19	16

Source: Economic and Social Progress in Latin America, 1977, IDB.

Of Latin America's total estimated exports of $49.3 billion in 1977, only 13 primary products accounted for almost half ($23.9 billion) and all other products together, primary, intermediate, and manufactured, for the other half ($25.4 billion.) If petroleum is excluded from the 13, the remaining 12 primary products accounted for $16.7 billion (34 percent) of all exports.[12] Table 4 gives more detail on particular country dependency on primary product exports. As can be seen, the majority of Latin America countries earn most of their export earnings from one to three primary products. The United States is an important market for most of these exports; and in the case of some industrial raw materials, the United States is highly dependent on Latin American sources (such as for bauxite, columbium, fluospar, for which the United States depends more than 80 percent on imports and for which Latin America provides more than 50 percent of these imports).[13]

Table 4 lists only countries for which one to three primary products accounted for more than 50 percent of the volume of exports in 1976. Panama is listed despite the fact that refined petroleum is not a raw material. Argentina, Brazil, and Mexico are all exporters of primary products, but the fact that they are not listed is indicative of their diversification into nonprimary product exportation. Paraguay, Peru, and Uruguay are not listed mainly because of the greater diversity of their primary product exports rather than large percentages of manufactured exports.

[12] Economic and Social Progress in Latin America. 1977 (Washington, D.C.: Inter-American Development Bank). The 13 products and their percentages of total regional exports in 1970–74 are: oil (19.4 percent); coffee (9.9 percent); sugar (5.6 percent); copper (4.8 percent); beef (3.3 percent); cotton (2.5 percent); iron ore (2.5 percent); soybeans (2.1 percent); corn (1.9 percent); bananas (1.8 percent); bauxite (1.7 percent); cacao (1.1 percent); and fish meal (1.1 percent).

[13] Fishlow, Albert. The Mature Neighbor Policy: A New United States Economic Policy for Latin America (University of California, Berkeley: Institute of International Studies, 1977), p. 13.

TABLE 4.—DEPENDENCY OF 50 PERCENT OR MORE ON RAW MATERIALS EXPORTS BY NUMBER OF PRIMARY COMMODITIES: 1976

[Percent of total exports]

Country	Number of commodities: 1	2	3
Bolivia		Tin 44, petroleum 22	
Chile	Copper 60		
Colombia	Coffee 52		
Costa Rica		Coffee 28, bananas 26	
Dominican Republic		Sugar 38, coffee 14	
Ecuador		Petroleum 49, coffee 18 (bananas 15)	
El Salvador	Coffee 52		
Guatemala			Coffee 31, sugar 14, cotton 11.
Honduras		Bananas 27, coffee 26	
Jamaica		Alumina plus bauxite 64	
Nicaragua			Coffee 24, coffee 22, sugar 10.
Panama		Refined petroleum 29, bananas 26	
Trinidad and Tobago	Petroleum 91		
Venezuela	Petroleum 94		

Source: Business Latin America, Mar. 15, 1978, based on IMF International Financial Statistics.

United States-Latin American Trade Issues

This combination of issues, namely, a continuing dependence on raw material exports for some countries plus a growing capacity of a few major countries to competitively produce manufactured goods, sets the key points of the Latin American agenda for trade relations with the United States. The issues raised by this set of facts are familiar, but it is important to emphasize that the repetitiveness with which they arise stems from their essentiality to Latin America's development. In the primary commodity field, the central issues revolve around the instability typical in the markets for these products and hence the variability in earnings for the exporters. The search for techniques to stabilize these earnings (commodity agreements and compensatory finance to avoid disruption of development plans due to a shortfall in earnings are the main suggested solutions) is inevitably an important issue for the exporters of these products.

For manufactured goods, the central issue is access to the United States and other markets. On a more precise level, the outcome of the current multilateral trade negotiations (MTN), as they relate to reductions in tariff and nontariff barriers, are the major issues on the United States-Latin America agenda.

Compared to these trade matters, the aid issues, particularly those involving concessionary aid, pale in significance. Aid, however, remains important for the poorer countries, particularly those in Central America and the Caribbean. In U.S. fiscal year 1978, the United States obligated $214.5 million in concessional development aid to Latin America (including $9.5 million of security supporting assistance). In addition, $55 million was obligated under title I of Public Law 480.[14] The multilateral agencies provided much more. In its fiscal year 1978 (which ended June 30, 1978), the World Bank committed $2.1 billion to the region (of which $55.6 million was from the International Development Association, that is, on concessional terms; the IDA loans went to Bolivia, Guyana, Haiti, and Honduras). In 1977,

[14] Data from the Agency for International Development.

the IDB approved loans amounting to $1.8 billion, of which 61 percent were on market-related terms.[15]

Despite the importance of concessional aid to some countries, if one looks at the hierarchy of long-term capital flows to all of Latin America, ordered by quantity, it is private first, multilateral-official lending at market terms next, multilateral concessional third (because of the lending from the IDB), and U.S. concessional a poor fourth. Caution should be exercised in assessing this array, however, since the lending figures are aggregated for a region, whereas the borrowing is done by countries and individually these countries have their own hierarchies of borrowing sources.

Four other areas of significant economic interaction should be cited even though they will not be dealt with in any detail in this paper, but they are related to the other issues that are discussed. The first of these deals with illegal immigration from Latin American and Caribbean countries into the United States. The major sending countries, based on apprehension data from the Immigration and Naturalization Service, are Mexico, the Dominican Republic, Haiti, Jamaica, and Guatemala, in that order. The number of illegal immigrants entering the United States each year must number in the millions since there were more than 1 million apprehensions in U.S. fiscal year 1977. It is not known how many stay, but the number must be substantial. For many of the sending countries, this ability to export unemployment and underemployment may be as, or more, significant in an economic sense than other areas of economic interaction, including trade. In addition, the remittances sent by migrants help the balance of payments of the sending countries. Illegal immigration is arguably related to trade issues under the thesis that U.S. import restrictions, by affecting employment in sending countries, heighten the pressures for people to migrate illegally into the United States. For the most part, however, other conditions pushing people to emigrate (unemployment, low wages, low economic opportunity) are more important than current U.S. trade restrictions.

In a second area, there has been much conflict between the United States and Latin American countries stemming from philosophical and actual disputes affecting U.S. direct investment. Many countries in Latin America have enacted legislation limiting the freedom that foreign investors once enjoyed; these limitations deal with sectors for permitted investment, percentage of ownership, profit remittances, use of imported inputs into the production process, the training of domestic nationals, and in the case of the Andean Pact countries, the divestment of investments. U.S. legislation still contains provisions threatening cessation of bilateral and multilateral aid, and the removal of tariff preferences, for countries that expropriate U.S. property without taking steps toward just compensation. U.S. legislation still encourages direct investment in developing countries, such as through the insurance and financing activities of the Overseas Private Investment Corp. Even more than illegal immigration, trade is related to investment. However, the heat surrounding foreign direct investment in Latin America has subsided in recent years. Rules of the game do exist in most Latin American countries and the countries have become more confident in dealing with multinational corporations, and U.S. corpora-

[15] The data came from the annual reports of these institutions.

tions have become more sophisticated in their dealings with Latin American countries. For all these reasons, this would seem generally to be an area best left to the private investors themselves. In this sense, it is not like the trade area, where an MTN is in progress, or where there is pressure for governmental action either to liberalize or restrict imports or to reach agreements on particular commodities.

The current debates on international investment have taken on more sophistication than those surrounding expropriation (although these latter-type disputes may arise again) in that they now tend to deal primarily with technology development in the developing countries, a third area of concern. For many Latin American countries (Brazil, Mexico, and Argentina are the best, but not the only examples) their future growth will depend heavily not only on their production of labor-intensive consumer goods but on the progression from these into consumer durables and then into capital goods industries. Brazil has progressed along this path. Argentina is moving in this direction. So is Mexico. It is reasonably safe to predict that future United States-Latin American trade disputes will deal not only with textiles, clothing, and shoes, but also with steel, machinery, automobiles, and basic petrochemicals. This, in its ultimate sense, is what is implied by the phrase "middle-income country," that is, a country developing more complex economic structures.

Finally, the question of trade in energy with Latin America is apt to take on increased significance.[16] It already has done so in connection with nuclear energy development in Brazil. Mexico is now the fifth largest trading partner of the United States and this ranking is almost certain to increase as Mexico develops its oil and natural gas potential. Many of our current trade conflicts with Mexico, such as U.S. restrictions on the import of Mexican fruits and vegetables, may continue but are likely to be of less economic moment if and when commerce in oil and gas, and in petrochemicals, flourishes.[17] However, there will be U.S. producers who will be affected by the trade actions in this field, and they will want to protect their positions.

The Context for Issue Outcomes

It is clear that United States-Latin American economic relations are dominated by essentially commercial issues, such as trade, private capital flows, and transfers of technology, and that this pattern of economic interaction is likely over time to take on even more significance. The implications of these developments would seem to be threefold:

(1) The "special" relationships that have existed in the past with particular countries, or with the region as a whole, have lost most of their meaning. It was the special relationship that stimulated the form of the Alliance for Progress, that is which determined that "doing something for Latin America" was translated into a large foreign aid program for the region. The willingness of the United States to institute a general system of preferences grew largely out of this special relationship, since the growth of the preferential rela-

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[16] See chapter, "World Energy and the U.S. Economy," p. 98.
[17] See chapter, "United States-Mexican Relations," p. 347.

tionships that the European Community had with many developing countries left Latin America without a comparable patron. If economic interaction is increasingly commercial, the special patron-client relationship loses some of its prior meaning. There is no simple way to significantly "prefer" Latin American countries in a trading policy that stresses the most-favored-nation principle and in which U.S. self-interest is global rather than hemispheric. Private creditors may prefer particular borrowing countries or institutions, but they do so out of past relationships plus future prospects for gain and not because the country is from a particular region.

There may be scope for some particular special relationships based on proximity, but they will not be pan-American in scope. The issue of illegal immigration is evidently an outgrowth of geographic propinquity plus income and opportunity differences between the United States and the sending countries, and addressing this problem will require dealing with the particular sending countries. There is a natural advantage for Mexico to stress the United States in its energy exports, particularly of natural gas, in order to economize on transportation (although this economic logic could be frustrated by the emotional distrust built up in Mexico on the energy issue, a distrust exacerbated by the recent rejection by the U.S. Government of a private arrangement to buy Mexican natural gas), and this may lead to some special commercial relationships. The North American region (the United States, Canada, and Mexico) may over time develop some special trading relationships. These potential special areas are cited not to stress them but rather to emphasize that they will be exceptions to the general rule that economic interaction in the future is likely to be dominated by global rather than inter-American interests.

(2) This growing predominance of the commercial, coupled with the economic transformation taking place in the more economically developed Latin American countries, also implies that future relations are likely to be more equal (and more competitive) and less hegemonic.[18] This is already evident. Brazil will determine its own nuclear power future. The United States is likely to be the supplicant in the development of oil and gas trade with Mexico. The cutting edge of our human rights policy in Latin America has been the withholding or the threat to withhold foreign aid but this becomes increasingly meaningless in a more mutual commercial relationship. An old relationship is disappearing, although pockets of it still remain; and while we have intellectually grasped the essence of the newer relationship, neither we nor the Latin Americans have been able to fully accept this emotionally. Even the advanced Latin American countries still seek preferential trade treatment. The concept of "special and differential" treatment for developing countries in the General Agreement on Tariffs and Trade was originally proposed by Brazil. These advanced countries seek to maintain their unity with the less developed countries of the Third World even as their objective development conditions diverge.

(3) Finally, it is useful to stress, even if self-evident, that the increasingly commercial nature of the United States-Latin America

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[18] A colleague, at Brookings, William R. Cline, has referred to the evolution from clientelism to competition.

relationship means that the state of our economic relations with most of the countries will depend substantially on the health of the U.S. economy. The level of U.S. imports from Latin America and elsewhere is a function primarily of U.S. economic growth. The extent of protectionism in the United States is heavily influenced by the level of U.S. business activity and the rate of domestic unemployment. Continued "stagflation" in the American economy coincides with rising sentiment for incremental protection. Domestic American producers argue that temporary protectionist statutes provide a longer time period for the market mechanism to adjust to altering capital/labor ratios. Capital/labor ratio changes may be caused by the realinement in the terms of trade between trading partners. Additionally, the availability of loans to Latin American and other developing countries and their price (interest rate and terms) from financial institutions in the United States and other capital centers is related to the competing demand from other areas, particularly in developed countries.

Role of the United States in Issue Resolution

Within this context, the specific issues that require resolution include the following:

(1) *The outcome of the MTN as this affects Latin America.*[19]—This has several strands. One of the major complaints of developing countries has centered on the tariff structure of the industrial countries. Tariffs tend to be lowest or nil on raw materials, higher on semimanufactures, and highest on finished goods. This structure, which raises the effective level of the tariff as the degree of processing escalates, grew as a way of protecting the manufacturing and processing industries in the industrial countries. The deeper the across-the-border tariff cuts in the MTN, the less the developing countries will have to complain of.

A second strand has to do with nontariff barriers and the codes being discussed in the MTN to deal with such issues as export subsidies and countervailing duties, government procurement, and international standards. The most germane of these currently for Latin America relates to subsidies. Many Latin American countries have promoted exports through fiscal subsidies and in recent years many disputes have arisen with the United States regarding countervailing duties against these, regardless of injury in the United States—the U.S. law, unlike those in other industrial countries, contains no injury provision in order to countervail against dutiable imports that receive export subsidies—the code in the MTN will attempt to deal with this issue, plus the related question of subsidized competition in third country markts; it will also seek to provide some temporary leeway for developing countries to subsidize. The outcome of these negotiations in uncertain, but the issue is significant. The legislation waiving the mandatory imposition of countervailing duties when exports to the United States are subsidized lapsed early in January 1979. It is unclear whether some of the trade, disputes which erupted earlier with various Latin American countries and the European Community will be renewed. The issue is a potentially serious one.

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[19] See chapter, "Multilateral Trade Negotiations," p. 48.

(2) *Tariff preferences.*—Several Latin American countries have asked that the product list for which U.S. preferences are granted be expanded. Some have suggested that the U.S. legislation be liberalized in the sense of easing the competitive need provision—under which the level or percentage of imports from a given country for a specified tariff item is limited or lowering the percentage of value added that must occur in the exporting country for that item to be eligible for preferences. Tariff preferences are prohibited for OPEC countries, including Venezuela and Ecuador, and Latin American countries have asked that this provision as it applies to sister republics be lifted. Finally, as the time approaches for the expiration of these preferences, 1985, there will be increasing pressure to extend them, or to make them permanent. Some Latin American countries have benefitted from these preferences. However, to the extent that the MTN is successful in cutting the level of U.S. tariffs, margins of preference will diminish.

(3) *Import quotas or voluntary export restraints.*—It already has been noted that the United States granted tariff preferences without requesting reciprocity. By the same token, the United States has restricted the import of goods without giving compensation. It is this area of trade restriction that undoubtedly is the most important, and perhaps most deeply resented in the developing countries, including those in Latin America, since it directly affects those products for which these countries have some comparative advantage.

(4) *Reciprocity.*—The ground rules under which the MTN are being negotiated are that "the developed countries do not expect reciprocity for commitments made by them * * *", but this is conditioned by the phrase that they "do not expect the developing countries * * * to make contributions which are inconsistent with their individual development, financial, and trade needs." Beyond this, the current negotiations in Geneva are seeking to deal with a general request by developing countries for "special and differential" treatment in the GATT framework. The extent of reciprocity that the United States requests from individual Latin American countries will be at issue.

(5) *Standstill.*—From time to time industrial countries have imposed temporary restrictions or tariff surcharges on imports, either on particular products or as a general balance-of-payments measure. The United States did this in August 1971, when a 10-percent surcharge was imposed for several months on dutiable imports. The Latin American countries, and the developing countries generally, have asked repeatedly that there be a standstill on such measures, that when such additional restrictions are imposed, they be exempted from them, or at least be consulted in advance.

(6) *Commodities.*—Like other primary commodity exporters, Latin American exporting countries seek techniques to stabilize prices, stabilize earnings, and when they believe the conditions would permit, to raise prices. They have supported the other developing countries in favor of a common fund to finance buffer stocks. However, Latin American general support for buffer stocks does not always carry over into support for a particular buffer stock, such as for coffee. The sugar agreement, which requires Senate ratification, has much significance for many Latin American exporters.

(7) *Debt.*—This is another area in which the Latin American position differs from that of the Group of 77 generally. Since they are heavy borrowers from private capital markets, the major Latin American countries are interested in maintaining access to those markets. The effort of the Group of 77 for forgiveness of official debts was of no real interest to such countries as Brazil, Mexico, and Argentina. The fact that most Latin American countries are middle-income by international standards obviously has influenced the Latin American position on this issue because the official debts forgiven or relaxed by various industrial countries have been in favor of the poorest countries.

(8) *Aid.*—Finally, the nature of the position of any given Latin American country on aid depends on its status. The middle-income countries are interested primarily in augmenting the capital of the World Bank and the IDB in order to have continued access to loans from these institutions at market rates. The poorest Latin American countries are interested primarily in the concessional windows of these institutions, particularly the IDB, and in the bilateral programs.

While specific trade, aid, and financial issues have been dealt with briefly, their resolution, particularly those relating to trade, will be significant. Most of these issues are being negotiated primarily in a global framework. For the United States, they are not Latin American issues, although Latin America will be affected by the outcome. However, there are direct bilateral aspects even to global issues. In the MTN, as in past GATT negotiations, concessions given are generalized to all countries to which the United States grants most-favored-nation tariff treatment, but the concession might not be included at all, unless there is some explicit reciprocity. This may require some bilateral negotiation, particularly with relatively advanced Latin American countries such as Argentina, Brazil, and Mexico.

The United States also imposes trade restrictions that affect one or a few countries. The seasonal restrictions on Mexican fruits and vegetables are of this nature. Individual countries have a particular interest in specific items that might be included by the United States for preferential tariff treatment. Therefore, there is scope for the bilateralism.

The issues confronting us in our economic interaction with Latin America thus cover the gamut from global policy and action to very precise country-related measures. Some are regional in nature, such as the size of the capital increase for the IDB, but not many. In most instances, the U.S. Government has a policy role, but the most significant resulting consequences will be played out by the private community.

The Role of the Congress

Should the MTN result in the successful negotiation of codes on nontariff barriers, consideration of them could be the most important trade business before the next Congress, certainly with respect to United States-Latin American relations. In the interim, before the conclusion of the negotiations, the Congress will face considering whether to extend the waiver on the application of countervailing duties. Failing this, it is almost inevitable that there will be specific, perhaps vitriolic, conflicts with particular Latin American—and other—countries regarding their subsidization of exports. Congressional actions also will be needed for ratification or rejection of the sugar agreement. Finally, there will be foreign aid legislation, covering both the bilateral and multilateral programs. The foregoing is by no means a complete list, but it does cover the major areas in which congressional action is most critical.

A few concluding comments on congressional options may be useful. If Congress accepts that the major areas of United States-Latin American interaction are commercial, then Congress may opt simply to let the market work. Import restrictions are usually a form of action in restraint of trade designed to deflect the outcome of comparative advantage. At times this may be understandable, as when a foreign government is intervening to subsidize exports and this damages some U.S. business and its workers. It is understandable also that countries wish to moderate the speed with which the workings of the marketplace operate in order to give domestic producers and workers time for adaptation. These are, in fact, the central arguments made for the protection of U.S. manufacturers affected by increasing Latin American imports. But extensive resort to protectionism would generate much opposition and entail major costs and risks.

Import substitution made Latin American countries noncompetitive in the early post-World War II period and this would be the likely outcome for the United States if it engaged in widespread protectionism. In addition, there would almost certainly be retaliation, so that even those industries able to compete in export markets would be penalized.

Concluding Note

There really has been no unifying theme characterizing U.S. policy toward Latin America since the Alliance for Progress. The lack of some all-encompassing theme has been a source of disquiet to many. The phrase "mature relationship" came to be used, which tried to imply that the United States would seek to treat Latin American countries as equals rather than as clients, and would foreswear intervention, but it lacked the appeal of earlier slogans. Our relationship is not mature, in the sense of equal, with all Latin American countries.

There can be unifying slogans but not a unified policy toward all Latin American countries. ("What is good for the South is good for the North" and vice versa, that is; interdependence or what has been called converging benefits, is one such slogan with much inherent truth.) Brazil's main interest is in developing its international trade in consumer and capital goods, in upgrading its technological capacity, in maintaining its access to world capital markets. Haiti, to take the other extreme, will not be a capital goods exporter in the foreseeable future, nor is it equipped to exploit sophisticated technology, nor can it borrow huge sums in private markets. Other Latin American countries fall in a continuum between these two poles, some, like Argentina, close to Brazil, and others, like Honduras, similar to Haiti.

This analysis leads back to the theme stressed at the outset of this chapter, that while there can be some regional themes in U.S. policy toward Latin America (such as nonintervention, the peaceful settlement of disputes, growth with equity), these will be broad. For the particulars, the negotiating action will almost always be either global (as in trade policy), or bilateral (for particular issues and for particular items within the global policy). There has been no satisfying unity in recent United States-Latin American policy because the underlying substance leads to diversity.

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POLITICAL AND REGIONAL STABILITY IN LATIN AMERICA

(By Robert D. Bond*)

Issue Definition

During the 20th century Latin America has been one of the most peaceful regions in the world in terms of interstate conflict. The last instance of sustained conflict was the Chaco War of 1932–35 between Paraguay and Bolivia. Occasional border disputes have flared in the region during the last four decades, but the only serious conflicts were those between Peru and Ecuador in 1941 and between Honduras and El Salvador in 1969. This is a remarkable record, especially when compared to the violent conflicts which have erupted on the Asian and African continents. The absence of credible external threats to the nations of Latin America is reflected in their low levels of expenditures on military equipment: the major regional States spend an average of less than 2 percent of GNP on military hardware, compared to an average of 3 and 4 percent for the major countries of Asia and Africa, respectively.[1]

Latin America, however, has by no means been tranquil. Military rivalries and revanchist claims are prevalent, and certain border and territorial disputes have involved armed clashes.[2] Moreover, domestic violence has been so frequent over the past two decades as to constitute a common theme of Latin American political life. One does not have to search for examples: the civil war in Colombia, commonly called *la violencia*, which claimed 200,000 lives from 1948 to 1960; the Cuban revolution; rural guerrillas in Venezuela, Bolivia, and elsewhere; urban terrorism from the right and left in Argentina, Uruguay, and Brazil; the bloodshed and political repression which accompanied the overthrow in 1973 of Salvador Allende in Chile; and the current civil war in Nicaragua. Indeed, military coups, urban and rural guerrilla operations, terrorist acts, student demonstrations and labor strikes are durable forms of political violence in the region.

An assessment of the prospects for political and regional stability in Latin America is a hazardous undertaking. Even a cursory reading of the literature of the 1960's on the future of Latin America, which generally portrayed the region as poised on the precipice of violent

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[1] U.S. Arms Control and Disarmament Agency, World Military Expenditures and Arms Transfers, 1966–75, Washington, D.C. Since 1975, Peru and Chile have sharply increased their arms expenditures, reflecting heightened border tensions between the two. In 1975, Chile and Peru spent 4.3 percent and 4.8 percent of GNP, respectively, on military equipment.

[2] Jorge Dominguez calculates the total number of border disputes in Latin America since 1960 as 41, 27 of them in South America, 7 in Central America, and 7 between American States and a European power. See Dominguez, "Ghosts from the Past: War, Territorial and Boundary Disputes in Mainland Central and South American Since 1960," unpublished paper, May 1977, Harvard University.

revolution if fundamental social and economic reforms were not carried out, suggests the perilous nature of the enterprise. At least three factors contribute to the difficulty of making accurate predictions about the prospects for domestic and interstate peace in Latin America. First, social scientists know very little about the exact nature of the relationship between the modernization process and the prospects for political stability.[3] In the case of Latin America, many specialists predicted that the accelerated pace of social and economic transformation in the region—specifically, rapid population growth, massive migration from the countryside to the cities, the breakdown of traditional values, "rising expectations," and the classic problems of maldistribution of income and poverty—would produce social unrest and revolution. Such predictions, however, profoundly underestimated both the durability of traditional values (rural, religious, and parochial) in urban settings and the institutional capabilities of governments for controlling conflict and responding to demands, as well as overestimating the potential for rural insurgencies to spark revolution on a national scale. Instead of Castroite revolutions, the 1960's saw the rise of assertive military-dominated authoritarian governments throughout Latin America.

A second difficulty in making predictions about the region as a whole concerns the vast differences among the 26 Latin American States. It is a cliche to say that the term "Latin America" conceals more meaning than it conveys, but it is nevertheless true. David Ronfeldt and Luigi Einaudi have aptly stated the problem:

> The great natural diversity of Latin America is particularly obvious with the rise of several English-speaking countries in the Caribbean. But the areas traditionally labelled "Latin America" were always diverse. The nearly 100 million Portuguese-speaking people of Brazil, inhabiting a continental region geographically if not spiritually closer to Africa than to North America, have very little in common with the million Spanish-speaking former Colombians who straddle the Panama Canal. Argentina has far closer historical ties to Europe than to most of its Latin American "sister states." [4]

Equally significant is the fact that great diversity exists within the nations of the hemisphere. For example, the modern dynamic, industrialized Sao Paulo region of southern Brazil contrasts starkly with that nation's impoverished northeast. In 1970 the Brazilian northeast accounted for 30.3 percent of the national population, but for only 12.2 percent of national income and only 5.6 percent of industrial production. In contrast, the figures for the southeast in 1970 were 42.7 percent of population, 64.5 percent of the national income, and 80.6 percent of the industrial output.[5] This but one example of a common phenomenon in Latin America: modern, industrialized sectors centered around the large cities coexisting with backward, underdeveloped rural hinterlands. As a result of these great inequities of wealth, "indices of social and economic development based on 'national averages'

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[3] The seminal work in the field in Samuel P. Huntington's, Political Order in Changing Societies (New Haven: Yale University Press, 1968). 488 p.

[4] David F. Rondeldt and Luigi R. Einaudi, "Conflict and Cooperation Among Latin American States," in Luigi R. Einaudi, ed., Beyond Cuba: Latin America Takes Charge of Its Future (New York: Crane, Russack, 1974). 250 p.

[5] The data are from Werner Baer, "The Brazilian Growth and Development Experience: 1964–75," in Riordan Roett, ed., Brazil in the Seventies (Washington, D.C.: American Enterprise Institute, 1976), p. 59.

depict a way of life typical of very few people."[6] Regional predictions, therefore, are often wide of the mark for individual countries and for wide segments of the population of each country.

A third factor which confounds regional forecasts is the rapidly changing international context. Fundamental changes in the global environment, including the decline of political-military bipolarity, the waning of U.S. economic hegemony in the hemisphere, and increased interaction among the Latin American States have created new opportunities for political and economic relations for the countries of the region. But at the same time, these global changes have introduced new uncertainties. In the security field, for example, Ronfeldt and Einaudi suggest that the two factors which have provided the basis for regional peace—the hegemony of the United States and the low level of interaction among Latin American States—have changed to such an extent that one can no longer dismiss out-of-hand the possibility of local conflicts.[7] The saber-rattling of Argentina and Chile in recent months over the Beagle Channel and the significant increases in military spending by several countries in the past 3 years (especially Chile and Peru as they approach the 100th anniversary of the War of the Pacific) provide evidence of a resurgence of concern with external defense among Latin American militaries.

This chapter attempts to assess the prospects for political and regional stability in Latin American through 1980 as they might affect U.S. policy and require executive and congressional action. The focus is on stability broadly defined, conceived to include both the possibility of severe domestic violence and the possibility of the outbreak of war between States. Indeed, it is often difficult to isolate the two: the recent civil war in Nicaragua, for instance, resulted in an attack in August 1978 by General Somoza's forces on guerrilla bases in neighboring Costa Rica, which in turn provoked the Venezuelan Government to send military equipment and personnel to its fellow democracy. Repeated incursions by Nicaraguan troops into Costa Rican territory eventually caused the latter to sever relations with Nicaragua in November 1978. The issue of nuclear proliferation in Latin American is only briefly discussed as an aspect of the Argentine-Brazilian rivalry, not because this is not a significant issue, but rather that neither State is likely to have the capacity to detonate a nuclear device until the mid-to-late 1980's.

Three broad issues are discussed. First, an attempt is made to assess the prospects for social peace in Latin America, focusing on the abilities of the countries in the region to manage pressures for social change, maintain rapid rates of economic growth, and insure political stability. Two countries have been selected for close examination because of their importance to the United States: Brazil because of its size and economic and military potential; Venezuela because of its oil. Mexico occupies a position of similar importance because of its proximity, oil, and economic interaction with the United States, but is treated in a separate chapter.[8] The second issue concerns the most serious threats

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[6] David P. Werlich, "Latin American in the 1980's: Some Speculations and Their Implications for United States Military Policy," unpublished paper, presented at the Joint Regional Conference of the Inter-University Seminar on Armed Forces and Society and the U.S. Army Command and General Staff College, Fort Leavenworth, Kansas, March 30–April 1, 1978.

[7] Ronfeldt and Einaudi, op. cit., pp. 190–192.

[8] See chapter, "United States-Mexican Relations," p. 347.

of interstate conflict; the rivalry between Argentina and Brazil for dominance in the Southern Cone; the dispute between Argentina and Chile over the Beagle Channel; and the tripartite conflict among Chile, Peru, and Bolivia over the Bolivian claim to an outlet to the Pacific Ocean. The final issue is that of U.S. policy options in promoting regional stability in Latin America, focusing on the interaction between the executive and legislative branches.

A continuation of small-scale, internal political violence in Latin America as the social modernization process accelerates in one theme that runs throughout this chapter. But, with the notable exception of Nicaragua, there is little likelihood of the type of political crisis occurring which provoked the United States to intervene in Cuba, the Dominican Republic, or Chile; this is particularly true for the major States in the region—Brazil, Mexico, and Venezuela. A second theme is that the probability of interstate conflict in the region is low but increasing. The territorial dispute between Argentina and Chile, and among Chile, Peru, and Bolivia, could produce the first instances of serious hostilities on the South American Continent in almost four decades. Finally, possible actions by the 96th Congress in the trade and immigration fields may have significant effects on the prospects for regional economic growth and political stability in the 1980's.

Economic and Political Trends [9]

Latin America is considerably more advanced economically than other developing country regions. Average per capita income in Latin America stood at $1,040 in 1977, a figure that is twice as great for any other regional group. The "middle class" location of Latin America between the poorer regions of the South and the industrialized North is also apparent in a comparison of other socioeconomic indicators: Latin America is 60 percent urban, has a literacy rate of 70 percent, and employs less than 40 percent of its labor force in agriculture, while the respective figures for Africa are 20 percent urban, 17 percent literate, and 76 percent of the work force in agriculture.[10]

Latin American economies are generally characterized by a relatively advanced degree of industrialization, coupled with a stagnant agricultural sector. This imbalance, and the concomitant disparity between the urban centers and the countryside, contribute to high inequality in Latin America. The exodus from the rural areas to the cities increases demands on government for employment, education, housing, transportation, and health services.

Economic growth was good until the oil price increases in 1973, leading to a reversal of these positive trends in 1975. Future trends remain uncertain. As a region, Latin America is highly integrated into the international economy and very vulnerable to trends in the international marketplace. A substantial increase in oil prices, continued recession in the industrialized nations which consume most of Latin America's exports, or a reduction of capital flows to the region would delay Latin America's return to the economic growth rates prevailing before 1974. Given the pressing needs to provide employment opportunities and social services (housing, electricity, health care,

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[9] For greater details on the Latin American economy, see chapter, "United States-Latin American Economic Ties," p. 311.

[10] The data are from U.S. Agency for International Development, Selected Economic Data for the Less Developed Countries, May 1976.

education) for a burgeoning urban population, continued slow growth in Latin America could produce heightened social unrest, political violence, and governmental crises.

There is no one-to-one correspondence between economic stagnation and political disorder in Latin America.[11] But given the preponderant role of the state in most Latin American economies, it is likely that relatively slow rates of growth will make it more difficult for governments to govern. The military-authoritarian governments now the rule in Latin America derive their internal legitimacy from their purported ability to manage the economy and produce rapid socioeconomic development. Continuing economic stagnation would belie the technocratic competence of these governments, and popular support for military rule might erode.

The most significant political development in Latin America in the past 15 years has been the coming to power of a new style of military-dominated authoritarian regimes capable of maintaining internal order and fostering economic growth. Variously labeled (bureaucratic authoritarian, corporatist, patrimonial) and of differing ideological hues, these governments have in common a ruling coalition of military officers, civilian technocrats, and the industrial elite supported by important segments of the middle class, and a demonstrated ability to control the demands of interest groups. Gregory Treverton has remarked on the dynamic nature of this new style of institutional rule which has replaced the old-style, highly personalistic, and autocratic military dictatorships:

> Nor are the regimes static. All restrict effective political participation, but several have permitted limited expression of popular will through elections. While none of the regimes is a stranger to repression, even harsh, most have not been purely repressive. Instead, they have sustained themselves in power by repressing some demands yet responding to a range of other demands, thereby preventing the formation of an opposing coalition which might threaten the government's survival.[12]

These authoritarian governments have proven to be relatively stable and durable. The military has ruled for 14 years in Brazil, a decade in Peru, and for more than 5 years in both Bolivia and Chile. The most enduring government institution in the region has been the Mexican Government party, the PRI (Partido Revolucionario Institucional), which is authoritarian but not military-dominated: it has been in power over 40 years.

There are contradictory signs on the Latin American political horizon about the prospects for authoritarian rule. Some observers, citing the blossoming of elections in the region in 1978, are optimistic about the future of democracy.[13] These analysts argue that economic crises, splits within the ruling circles, a preference to return to barracks life among important segments of the armed forces, and pressure from Washington are all factors contributing to the return of democratic government in Latin America. In support of their analyses, they note that in 1978 meaningful elections occurred in Ecuador, Bra-

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[11] The pioneering work in this area is Guillermo O'Donnell, Modernization and Bureaucratic Authoritarianism: Studies in South American Politics (Berkeley: University of California, 1973), 219 p.

[12] Gregory F. Treverton, Latin America in World Politics: The Next Decade (London: International Institute for Strategic Studies, 1977), p. 3.

[13] See Warlich, op. cit., pp. 9–10, and James D. Theberge and Roger W. Fontaine, Latin America: Struggle for Progress (Lexington, Mass.: Lexington Books, 1977), p. 34.

zil, Peru, and the Dominican Republic, in addition to those held in democratic Colombia, Costa Rica, and Venezuela. Others take a more pessimistic view, arguing that managing the transition from authoritarian rule to some form of democratic government is a difficult task, especially in those countries in which political movements have been banned for considerable periods and in which there is little trust between the military and civilian politicians.[14] Moreover, the transition will be all the more problematic given the clouded prospects for economic recovery. To buttress their arguments, these observers note that the Bolivian military is divided over whether to hold free elections, that President Pinochet of Chile foresees a return to civilian rule only at the end of 1980's, that in Uruguay the military regime will begin a long drawn-out transfer of power to civilian rule only in 1981, that the Argentine military is still at the discussion stage of a possible return to some form of constitutional rule, and that the presidential election in Brazil was an indirect contest between two generals.

On balance, it appears that what we are witnessing in Latin America is not the resurgence of truly democratic government, but an attempt by the military to leave office without relinquishing control. The Argentine, Brazilian, Chilean, Uruguayan, and perhaps Peruvian militaries are seeking a formula by which they can turn over the onus of governing directly to civilians but without losing their control of the political process. Some form of "organic" or "tutelary" democracy would permit the armed forces to return to the barracks and regain their unity as a military organization which has been undermined by the task of governing. Whether the military in these countries can install limited systems of representative government which also legitimize their continued dominance is an open question. But what seems certain is that they are not prepared to risk a return to open political systems that might usher in a new era of political violance, subversion, communist agitation, social unrest, or economic chaos. The armed forces in these nations are still guided by a national security doctrine which emphasizes rapid economic development, national destiny, anticommunism, and social peace, and it is unlikely that they will permit civilian governments to jeopardize their accomplishments in these areas.

Before turning to the countries selected for close scrutiny, it is necessary to survey the prospects for political order on the South American continent. In general, the possibility of a sweeping social revolution occurring (as in Cuba) in any of the countries is remote, although substantial political violence will continue. In Argentina the government of General Jorge Videla, which took power in a military coup in March 1976, has largely eradicated the two principal guerrilla movements (the Montoneros and the People's Revolutionary Army) and is beginning to come to grips with political assassinations and violence from the right-wing death squads. Substantially fewer killings are occurring, and there has also been a modest decline in the number of people reported as "disappeared." It is difficult to foretell whether social peace has returned to one of the wealthiest and most highly politicized countries of Latin America; much will depend on whether the country can break out of its recent history of economic

[14] Treverton, op. cit., suggests that authoritarian rule is likely to endure in Latin America.

stagnation.[15] If not, strikes by the highly organized trade union movement might provoke violence and governmental repression. In Chile, President Pinochet appears firmly in control of the political situation. Political parties are banned and the machinery of repression remains in place, although it has not had to be employed nearly to the extent it was following the overthrow of Salvador Allende in 1973. The main cloud on the political horizon is whether the ongoing investigation into the assassination of Orlando Letelier, former Foreign Minister in the Allende government, at the instigation of the Chilean secret police on the streets of Washington, D.C., will implicate President Pinochet. If so, he might be forced to resign. It is doubtful, however, that such an event would result in an opening in the political system. In late 1977 Pinochet successfully removed the Air Force member of the junta who was calling for a return to democratic government, and those remaining share his political views. In Paraguay and Uruguay, the armed forces appear solidly entrenched and capable of quelling political disturbances.[16]

The prospects for social peace in Colombia, Ecuador, Peru, and Bolivia are more problematic. In Colombia, newly elected President Julio Cesar Turbay had to resort to a form of martial law in September 1978, to counter the kidnaping, violence, and terrorism endemic to life in that country. Given the social inequities of Colombian society and the violence that lies just beneath the surface, one cannot be sanguine about the prospects for political order. Ecuador will hold congressional and presidential elections in mid-1979, and, given the military government's opposition to the likely winning candidate, Jaime Roldos, it remains to be seen whether there will be a peaceful transition to representative government. Peru faces a similar but more challenging situation. A popularly elected constituent assembly is drafting a new constitution to provide for a return to civilian rule, and elections may be held within 6 months. But regardless of the type of government that assumes power, it will inherit an economy that is in serious trouble. Peru has had to implement an austerity program insisted upon by the International Monetary Fund as a condition for receiving loans to finance its huge foreign debt, and riots have broken out in several parts of the country to protest the resulting price increases and wage constraints. It will be difficult for any government to maintain order under the prevailing economic circumstances. In November 1978 in Bolivia, a faction of the military overthrew the nascent regime of General Pereda Asbun, who himself had come to power via a military coup earlier in the year. At issue is the return to electoral democracy, and the military appears to be deeply divided over this question.

Brazil and Venezuela

Brazil is the giant of Latin America, occupying a land mass exceeding that of the continental United States and boasting the world's 6th

[15] Argentina is a puzzle to Latin American specialists. With a population of 25 million people and a per capita income of $1,720, it is the most advanced nation in the region culturally and educationally, and the most industrialized. Yet it has not been able to break out of a cycle of economic stagnation and political disorder characteristic of the last 25 years.

[16] There is some question, however, as to what might happen in Paraguay if General Stroessner, who has ruled the country in a highly personal and autocratic fashion since 1954, were to pass from the scene.

largest population and its 10th largest economy. From 1968 to 1974 Brazil experienced an economic boom, with an average annual real growth of GDP of 10.1 percent. By 1974, Brazil ranked first in exports among non-oil exporting less developed countries, and first among importers, surpassing even the oil-rich countries. Since 1964 the military has governed the country, working within a set of minimally representative institutions designed to guarantee internal security and political order.

As in most of the rest of Latin America, the oil crisis of 1973–74 brought sad economic tidings to Brazil. In 1975 Brazil's growth rate declined sharply to about 4 percent, and this was accompanied by a balance-of-payments crisis as the rapid growth of imports was not offset by export increases.[17] Brazil imports 80 percent of the oil it consumes, and increased petroleum prices raised its imported oil bill from $710 million in 1973 to $2.8 billion in 1974. Overall, Brazil's import bill skyrocketed in 1974, rising from $6.2 to $12.6 billion. The increase in Brazil's current account deficit necessitated massive borrowing abroad, and the country's foreign debt increased from $10 billion in 1972 to $22 billion in 1975, and now stands at over $30 billion. Associated with these economic difficulties was the demise of President Geisel's short-lived experiment with *distensão* (decompression), an attempt to open the political system to greater popular participation, and by 1976 the Government was again resorting to *cassations* (the removal of political rights for a period of 10 years) to deny a voice to opposition members of Congress.

Critics of the Brazilian variant of authoritarian rule saw the above economic difficulties as seriously undermining the legitimacy of the military government. In addition to denying the Government support conferred by good economic management, the slowing down of economic growth would cause social unrest as inflation and unemployment ate into the living standards of the working and middle classes. According to this view, economic stagnation would finally reveal the inherent flaws in the Brazilian economic model, which depends on a highly unequal distribution of income, high imports, and continuously expanding exports.

In spite of continuing economic difficulties (the failure to discover new reserves of petroleum and the slow growth of export markets because of sluggishness in the industrialized economies), Brazil's military and technocratic elites proved themselves capable of maintaining political order and of warding off economic disaster. Many critics of the regime have consistently underestimated the strengths of Brazilian authoritarianism.[18] Two of its greatest assets are its demonstrated expertise in macroeconomic management and its substantial resource base (agricultural products, iron ore, bauxite, hydroelectric power). Also, the rapid economic growth of recent years has created great prosperity for the middle and upper classes, with a corresponding increase in support for the Government. Finally, Brazil's military rulers have proven themselves remarkably adept at manipulating the civilian political elite. It can be argued that, as a result of these factors, Brazil has been able to weather the recent period of slow economic growth with-

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[17] The data are from Werner Baer, op. cit., p. 61.

[18] Thomas Skidmore, "Brazil's Changing Role in the International System: Implications for U.S. Policy," in Roett, ed., Brazil in the Seventies, pp. 9–40, makes this point.

out any marked increase in political unrest. Thomas Skidmore's prognosis of 1976 supports this argument: "Any prudent observer would have to conclude that the political initiative will continue to be with the Government over the next 5 years." [19]

In October 1978, outgoing President Geisel's hand-picked successor, General Joao Batista Figueredo, was elected to a 5-year term. It is a widely held belief in Brazil that General Figueredo will preside over a transition to some form of civilian rule by the end of his tenure in office (1986). Whether this will indeed occur will depend in part on the actions of the civilian politicians, in part on the continuation of social peace, and in part on a return to higher rates of economic growth. In this last regard, it is important that Brazil have continued access to world capital markets to finance its external debt and increased access to the markets of industrialized countries for its manufactured products. The 96th Congress will play a major role on the bilateral trade issues. Brazil's controversial export incentives program, which has been a major engine of its growth, is in conflict with key provisions of the 1974 U.S. Trade Act, which authorizes countervailing duties on subsidized exports. The 96th Congress will be debating a code of subsidies, negotiated in Geneva in December 1978, and its action will affect a broad range of Brazilian manufactured exports.[20]

Oil-rich Venezuela is one of the few countries in Latin America that possesses a truly representative and participatory political system.[21] It is a freewheeling and open society in which civil and political rights are genuinely respected. Since the overthrow of the military dictatorship of Marcos Perez Jimenez in 1958, a relatively stable multi-party system has emerged. The democratic regime has surmounted Cuban-inspired guerrilla efforts to overthrow it in the early 1960's and has experienced five presidential elections, three in which the governing party gave way to the opposition.

The consolidation of democracy in Venezuela has been facilitated by the constant flow of fiscal resources to the national treasury from the petroleum industry. A founding member of OPEC and one of the world's largest exporters of petroleum products, Venezuela's exports of 2 million barrels daily (mbd) generated over $9 billion in income in 1977. With a population of 13 million, its per capita income of $2,083 is the highest in Latin America. With proven conventional reserves of 18 billion barrels, Venezuela can expect a continuing flow of petrodollars to the year 2000, at present production rates of 2.2 mbd.

For all its oil wealth, however, Venezuela remains a country with huge disparities in the standards of living of its population. The population is increasing by about 3.2 percent annually, and this results in rising demands for education, housing, jobs, and other basic social services. Accordingly, social tensions are widespread in Venezuela. Foremost among the country's problems is the necessity of developing a diversified economy less dependent on oil earnings, one capable of more equitably distributing the benefits growth creates. Venezuela's leaders are very much aware of this pressing need, and indeed this was the motivation for the 5-year program initiated in 1973 to invest $25 billion in industrial development projects. If successful, this pub-

[19] Ibid., p. 22.
[20] Business Latin America, Nov. 1, 1978, pp. 345–346.
[21] This discussion is drawn from Robert D. Bond, ed., Contemporary Venezuela and Its Role in International Affairs (New York: New York University Press, 1977). 267 p.

lic investment will lay the basis for a new pattern of diversified and more equitable economic growth.

No survey of the prospects for political stability in Latin America would be complete without some mention of Central America, especially the situation in Nicaragua. Central America, with the notable exception of democratic Costa Rica, is a very backward region. Economically, El Salvador, Guatemala, Honduras, and Nicaragua are models of underdeveloped capitalism, with wealth and land ownership concentrated in a very few hands. Perhaps as much as 50 percent of the population in these four countries live in extreme poverty. Politically, they have been governed by a succession of dictators and military governments, and this trend continues today. Political violence is widespread in the region: massacres have occurred frequently in El Salvador the past 4 years; Amnesty International estimates that 20,000 people were killed in Guatemala from 1966 to 1974; and Nicaragua is plunged into a virtual civil war. Three of the five countries—El Salvador, Guatemala, and Nicaragua—are confronted by strong guerrilla movements, and the increasing political polarization as the governments resort to repression to combat them raises doubts about the prospects for regional stability. But of the three countries, it is in Nicaragua that the political situation is most critical.

The 45-year-old Somoza dynasty in Nicaragua is in serious jeopardy of being toppled. Political opposition to the Somoza regime is not a new phenomenon. The allegedly Marxist-oriented Sandinista National Liberation Front has been fighting a guerrilla war against the government since the early 1960's. And the governmental corruption associated with the reconstruction of Managua following the earthquake in 1972 alienated many of Somoza's supporters in the business sector. But it was a series of events following President Anastasio Somoza's hospitalization for a heart attack in late July 1977 that brought about the current conflict:

In October, the Sandinistas attacked two national guard barracks.

At the same time, a group of 12 prominent non-Marxist Nicaraguans (Los Doce) called for a popular insurrection to overthrow Somozá.

The major bloc of the Sandinistas decided to foreswear the short-term objective of establishing socialism in Nicaragua in favor of joining other sectors opposed to Somozá.

On January 10, 1978, Pedro Joaquin Chamorro, editor of the opposition newspaper *La Prensa* and one of the main opposition leaders, was murdered. Two days of riots followed, and the private sector organized an unsuccessful national strike to bring down the government.

In mid-February a popular insurrection was mounted in the town of Masaya, which the National Guard put down, killing 30 to 40 people.

In July, "Los Doce" returned from exile and drew huge crowds wherever they spoke.

On August 22, the Sandinista guerrillas stormed the National Palace in Managua, capturing 1,500 hostages, including many prominent political figures. Before being flown to Panama, the guerrillas obtained the release of 59 political prisoners and a ransom of $500,000.

On August 25, a new nationwide strike began, soon to be followed by the outbreak of civil war. Young rebels, led by Sandinista guerrillas, seized six towns. Somoza's national guard troops attacked the towns with airplanes, rockets, tanks, and howitzers, eventually regaining control. There is no reliable estimate of the lives lost.

At this writing, President Somoza has regained control of the country, although sporadic fighting continues. No one, however, believes that the conflict has run its course. Thus far the efforts of an international mediation team (with representatives from the United States, the Dominican Republic, and Guatemala) have come to nought. Somoza is apparently determined to stay in power until presidential elections are held in 1981, and the opposition, led by a Board Opposition Front, refuses to consider any compromise government that will leave Somoza in control. The Sandinista guerrillas, who were not seriously injured in the September civil war, may well be planning a new offensive. The prospects for political stability in Nicaragua are bleak indeed.

The Nicaraguan situation also raises questions about the posibility of a war in Central America. The Venezuelan Government is actively supporting Costa Rican sovereignty, and covertly supporting groups in opposition to the Somoza regime. Venezuela is joined in this initiative by the Government of Panama. On the opposite side are El Salvador and Guatamala, which are supporting the Somoza Government. Consequently, there is a real possibility that escalating domestic conflict in Nicaragua might result in an interstate war in this subregion.

Prospects for Interstate Conflict

In the 1960's, discussions of the possibility of interstate conflict in Latin America. Cuba's dispatch of troops in Angola in 1975 and to struggle in the hemisphere. And indeed, during that decade Cuba was actively supporting guerrilla movements in Venezuela and Bolivia.[22] But with the death of the Che Guevara in Bolivia in 1967, Cuba began to reassess the prospects for armed struggle in Latin America.

The presence today of approximately 40,000 Cuban troops in Africa has raised anew the question of Cuba's policy on armed movements in Latin America. Cuba's dispatch of troops in Angola in 1975 and to Ethiopia in 1977 seemed to end a period in which Havana's support for armed insurrection was little more than rhetoric.[23] Yet Cuba's involvement in Africa notwithstanding, it seems unlikely that Fidel Castro will try to export revolution to Latin America or to intervene militarily in the affairs of its neighbors. Cuban foreign policy is pragmatic and the prospects for successfully promoting armed conflict in the Western Hemisphere are far less promising now than in the 1960's. As Jorge Dominquez points out:

> Today, as in the past, Cuba has preferred success to failure, overt to covert involvement, more influence and activity rather than less. The shift in theater of operations—from Latin America to Africa—seems to be explained best by failure in one and success in the other.[24]

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[22] Jorge Dominquez, "Cuban Foreign Policy," Foreign Affairs, Fall 1978, pp. 83–108.
[23] See chapter, "The Soviet and Cuban Role in Africa," p. 565.
[24] Ibid., p. 93.

In addition, Cuba stands to lose considerably from a policy of intervention in Latin America. Its efforts over the last decade to reintegrate itself into the community of Latin American nations would be wiped out and any prospects for a normalization of relations with the United States would vanish. Cuba's very limited support of the Sandinista guerrillas in Nicaragua tends to support the view that Cuba will not actively promote revolutionary movements in the Americas.

Today, analyses of potential armed conflict in Latin America tend to focus on the re-emergence of a traditional concern with external defense on the part of Latin American militaries, the persistence of military rivalries in the area, and the recent fanning of several long-smoldering territorial disputes. The increased political and economic interaction among Latin American states, often aggravating old disputes, and the waning military role of the United States in the region are often cited as reasons for an enhanced possibility of local conflict. The recent acquisition of large quantities of sophistitcated weapons (such as Mirage and F–5E jets, surface-to-air missiles, and frigates) by several countries is also seen as an ominous development.

These and other trends are often cited as portending interstate conflict in Latin America. The title of a recent book is illustrative of this genre of geopolitical forecasting: "Mars Moves South: The Future Wars of South America."[25] However, there are countervailing forces at work in the region. There has been a strengthening of efforts at regional cooperation in the past 3 years, with two new regional organizations being formed. One, the Latin American Economic System (SE LA) includes all 26 Latin American countries and was formed for the purposes of promoting regional economic cooperation and for improving Latin America's bargaining position on economic issues vis-a-vis third countries.[26] The second, the Amazon Pact, is a treaty of cooperation among all the countries bordering on the Amazon basin for the coordinated development of their respective Amazon areas.[27] There is also a recognition among certain countries that an arms build-up in Latin America increases the risk of war, and there have been attempts to limit arms expenditures. Finally, Latin American militaries do not yet possess the equipment, armed forces, training, or logistical capacities to engage in large-scale combat for any protracted period.[28]

It is difficult to predict which of the many territorial disputes in Latin America might produce serious conflict. Nevertheless, three rivalries bear close watching: the Argentina-Chile dispute over the Beagle Channel because it resulted in troop mobilizations in late 1978; the tripartite dispute over Bolivia's outlet to the sea because of the arms build up in Chile and Peru; and the Argentine-Brazil rivalry because of the importance of these two countries for stability in the Southern Cone of South America.

[25] The book is by Norman D. Arbaiza. Exposition Press. Jericho. New York, 1974. 87 pp.

[26] For an analysis of SELA. see Robert D. Bond. "Regionalism in Latin America: Prospects for the Latin American Economic System" International Organization, vol. 32, no. 2. Spring. 1978, pp. 401–423.

[27] See Robert D. Bond. "Venezuela, Brazil and the Amazon Basin," Orbis, Fall, 1978, pp. 635–650.

[28] Thomas Skidmore. op. cit., makes these points with regard to the low probability of Brazil's engaging in conflict on its borders. pp. 25–28.

ARMED FORCES OF THE MAJOR SOUTH AMERICAN STATES, 1976 [1]

	Total forces	Army	Navy	Air Force
Brazil	257,200	170,000	45,800	41,000
Argentina	132,800	83,500	32,300	17,000
Chile	79,600	45,000	23,800	10,800
Peru	63,000	46,000	8,000	9,000
Colombia	54,300	40,000	8,000	6,300
Venezuela	42,000	28,000	8,000	6,000

[1] Figures from Military Balance, 1976–77, International Institute for Strategic Studies, London, England, 1976.

The precise location of the southern boundary between Argentina and Chile has long been the subject of controversy. An 1881 treaty divided Tierra del Fuego between the two states, giving Argentina sovereignty over Patagonia and Chile possession of the Strait of Magellan. The settlement was vague, however, and disputes arose over the exact demarcation of the boundary. Among other differences over parts of the border was the issue of who held sovereignty over two small islands in the Beagle Channel.

In 1971 Chile and Argentina agreed to submit their respective claims to the disputed islands to arbitration by the International Court at The Hague. Some observers speculated that the tribunal would reach a political decision, awarding one island to each appellant. However, in May 1977 the court decided in Chile's favor, recognizing its sovereignty over the controversial islands. The Chileans were jubiliant, tho Argentinians furious.

The decision created more controversies than it settled. The Argentine Government was loathe to accept the outcome, noting that what was a stake was not the possession of two rocky islands of use only to penguins, but rather offshore oil exploration rights and rival claims to parts of Antarctica. Chile immediately began behaving as if the award was final, publishing new official maps indicating the arbitration line and protesting Argentine incursions into Chilean waters and airspace, while Argentina pointed out that both parties had 9 months to study and comment on the court's decision.

In February 1978, Presidents Pinochet of Chile and Videla of Argentina met to establish a special commission to resolve their outstanding differences. Progress was made on several issues, but, as discussion turned to the Beagle Channel dispute, no agreement was possible. The negotiators met in August, for a bilateral resolution of the dispute expired. But their efforts were hampered by an escalating climate of hostility. In October, for example, Argentina took several bellicose steps, including a callup of its 500,000 reservists, troop and training maneuvers all along the Chilean border, and anti-aircraft blackout exercises in the larger towns and cities. Chile, however, refused to respond in kind to these provocative gestures, limiting itself to verbal denunciations of Argentina.

The November 2 deadline passed with no bilateral agreement in sight. The Argentine position is that the two countries should agree to freeze the dispute for 10 years. Chile naturally rejects this because it is irreconcilable with the arbitration award and would nullify its sovereignty over the islands. The likely next step is that Chile will refer the case to the international court at The Hague, a step it can take unilaterally. This would have the practical effect of freezing the dispute to a mutually agreed arbitrator. Nevertheless, the issue remains explosive and the potential for conflict high. It is not inconceivable that one of the protagonists might attempt to occupy the disputed islands, and this would almost surely provoke conflict. At present, the balance of military forces is roughly equal, but both countries are stepping up arms purchases, with potentially destabilizing consequences.

In the War of the Pacific, fought from 1879 to 1883, Chile defeated the combined forces of Peru and Bolivia. As a result of the peace settlements, Peru had to cede its two southernmost maritime Provinces to Chile, while Bolivia lost its only coastal Province. Since then, Bolivians have desired an outlet to the sea, and Peruvians have repeatedly vowed to reclaim the lost national territory by the centennial of the outbreak of hostilities (1979). In late 1975, Chile proposed to fulfill Bolivia's desires by granting that country a narrow corridor to the Pacific through territory which it had conquered from Peru. As compensation, Chile demanded territory in southern Bolivia, and in late 1976 Bolivia tentatively accepted the Chilean proposal. However, under a 1929 treaty between Chile and Peru, the latter country has to agree to any transfers involving its former Provinces. Fearing acquiescence to the transfer would inflame nationalistic passions, the Peruvian Government countered with its own proposal: creation of a boundary zone to the sea under tripartite control.

The issue remains unresolved, and potentially explosive as the centennial year of the 1879 war approaches. Tensions between Chile and Peru have been rising since 1973 when the latter nation began to purchase large quantities of weapons from the Soviet Union. Chile responded in kind and an arms race of sorts ensued, with the two countries spending over 4 percent of GNP on arms in 1975. Tensions have abated in recent months because the Peruvian Government has been preoccupied by its serious balance-of-payments crisis and because the Chilean junta's attention has been drawn to its dispute with Argentina. But Bolivia is still demanding an outlet to the Pacific, and its actions in support of its claims could provoke a crisis.

Brazil and Argentina are traditional rivals for influence in the southern cone of South America. The main focus of their competition has been the "buffer states"—Uruguay, Paraguay, and Bolivia. The most serious conflicts between the two in recent years has been over the giant Itaipu hydroelectric project on the Parana River. Brazil and Paraguay initiated this project without consultation with Argentina, the country through which the Parana eventually flows. Argentina claims that the Itaipu hydroelectric project significantly affects its plans to construct dams on the river to help meet its own energy requirements. Consultations between Argentina and Brazil have been held, but the dispute simmers while Brazil's influence in Paraguay grows. In the other two countries, Brazil also enjoys an advantage over Argentina, in large measure as a result of its overall economic strength and political stability. Rivalry for influence among the buffer states could conceivably lead to conflict, but the possibility is remote. More likely is a future scenario in which Argentina slowly accommodates itself to a predominant Brazilian role in the area.

Militarily, the two states are approximately equal. Brazil enjoys a quantitative advantage, while Argentina probably retains a qualitative edge. In any event, a war would be a disaster for both countries. It should also be pointed out that these two countries have the most advanced nuclear energy programs in the region, and both could probably develop a nuclear weapons capacity by the end of the 1980's. Neither country is a full signatory to the 1967 Treaty of Tlatelolco which bans nuclear weapons from Latin America, though each denies any intention of "going nuclear." A decision by one to develop nuclear weapons would probably cause the other to do likewise.

Regional Stability and U.S. Interests in Latin America

Since the turn of the century, the United States has pursued the goal of maintaining political stability in Latin America. Whether calling its approach the "Big Stick," the "Good Neighbor Policy," an "Alliance for Progress," or a "Mature Partnership," successive U.S. Governments have viewed a stable, peaceful Latin America as necessary to U.S. security and well-being. In many respects, the maintenance of political stability in the region was the fundamental objective of U.S. actions because it was presumed to be a prerequisite for the achievement of two other policy objectives: the exclusion of foreign influence in the hemisphere and the protection and promotion of U.S. economic interests. In pursuit of this objective, the U.S. employed both overt and covert means to assist in the prevention of leftwing governments in Guatemala (1954), Guyana (early 1960's), Brazil (1964), the Dominican Republic (1965), and Chile (1973). Regional stability was also a principal objective of the enlightened self-interest policies of the Alliance for Progress. President Kennedy and his advisers believed that economic assistance for social reforms and economic growth would create the conditions for democratic governments rather than Communist successes in the region.

The Carter administration, which has lavished considerable attention on the Western Hemisphere during its first 2 years in office, is attempting to implement a new policy toward Latin America.[29] Eschewing the rhetoric of "Pan Americanism" and the "special relationship," the administration is seeking to engage the cooperation of Latin American countries in resolving key global problems—human rights, trade, technology transfer, nuclear proliferation, a law of the seas, et cetera. This pragmatic policy, which tries to combine regional, subregional, and bilateral approaches, is grounded in three basic principles: respect for the sovereignty of each Latin American country; promotion of human rights, a principle which sometimes conflicts with the previous one; and an effort to find solutions to the economic problems of developing nations. The Carter approach is based on four underlying assumptions: that U.S. economic and political hegemony in the region has waned with the rise of assertive governments in the region which have diversified their economic relations; that Latin America is now less important to the United States, economically and

[29] Key reading for understanding the Carter administration's policy toward Latin America are: The Commission on United States-Latin American Relations, "The United States and Latin America: Next Steps." (New York: Center for Inter-American Relations, 1977); Abraham F. Lowenthal, "The United States and Latin American Ending the Hegemonic Presumption," Foreign Affairs, (October 1976); and Lowenthal, "Latin America: Not So Special," Foreign Policy, Fall, 1978.

strategically; that the fundamental economic problems of United States-Latin American relations are global rather than regional in nature; and that there exists no threat to U.S. national security in the hemisphere. In the view of the administration, the major accomplishments of this new policy have been the ratification of two treaties with Panama governing the operation of the canal, the instigation of a process of normalization of relations with Cuba, and a growing respect for human rights in the hemisphere. The key economic issues in inter-American relations remain to be addressed. The Carter administration has not yet had to resolve any situation that it felt directly involved U.S. national security interests, and it is therefore difficult to assess the importance of regional stability as a foreign policy objective.

Several issues divide policy makers active in U.S.-Latin American relations, not the least of which is the wisdom of the Carter administration's global approach to Latin America. Some argue that it is a mistake to abandon a "special relationship" policy which takes account of the historical, geographical, political, economic, and cultural ties that bind the Americas. They point out that although Latin America is of declining relative importance to the United States in terms of trade, investment, and security, it is still significant as a major market for U.S. products and as a major supplier of strategic raw materials.[30] In this view, there is nothing intrinsic to a special relationship policy that necessarily results in specal obligations being placed on Latin American countries without their receiving correspondng special benefits, nor does a special relationship imply that the United States would control the destinies of the countries of the region. Proponents of the special relationship also suggest that there is a trend in international relations toward the formation of regional blocs, and that the United States is missing out on an opportunity to cement its links with the most advanced segment of the Third World. Accordingly, they suggest that the United States should become more actively involved with Latin America and develop a special package of economic policies which will spur regional development.

A second school of thought advocates a middle position between the two extremes of the "global" and "special relationship" policies. Individuals in favor of a middle position argue that although a global approach to Latin America corresponds both to a new realities and to the economic needs of South American states, it is inappropriate for the countries of Central America and the Caribbean. Proponents of this view argue that the United States has a very special relationship with Mexico, Central America, and the Caribbean, and that global policies ignore the close political, economic, and security interests that inextricably link the United States with its closest southern neighbors. The countries of the circum-Caribbean are very dependent economically on the United States, they supply the United States with strategic raw materials (oil, bauxite), they are the source countries of the United States' illegal immigration problem, and historically they have been the countries with which the United States has been most intensively involved (for example, most U.S. military interventions in the 20th century have been in this subregion). Thus, the United States needs to supplement its global approach toward South America with a more

[30] See Joseph Grunwald, "Reflections on Latin America in the World Economy," in Grunwald, ed., Latin America and World Economy (Beverly Hills: Sage Publications, 1978). 323 p.

active involvement with the small and dependent states of the circum-Caribbean. If not, events in the subregion could get out of control and undermine the administration's overall approach to the region.

Significant controversies also swirl around specific aspects of U.S. policy toward Latin America. The wisdom of a policy of rapprochement with Cuba remains in contention. Some argue that the United States should maintain its policy of economic denial and should continue to try to limit Cuban influence in the hemisphere. They tend to view Cuba as a proxy for the Soviet Union in Africa, and doubt that improved United States-Cuban relations would afford the United States much leverage over Cuba's adventuristic foreign policy. In addition, they question the sincerity of a human rights policy which features a normalization of relations with the repressive, dictatorial regime of Fidel Castro. Others argue that a normalization of relations with Cuba would entail economic benefits for the United States, might lessen Soviet influence on the island and thus in the hemisphere, and might increase marginally U.S. leverage over Cuban foreign policy. Advocates of a normalization of relations with Cuba applaud the Carter administration's decision to exchange diplomatic interest sections with Cuba, and point to Castro's freeing of political prisoners as one positive result of U.S. initiatives toward Cuba. But regardless of the position one takes on normalizing relations with Cuba, there is general agreement that tough bargaining on the outstanding issues in United States-Cuban relations (that is, compensation for expropriated U.S. properties, the status of Guantanamo) will occur before the United States lifts its economic embargo of Cuba.

A second issue which has related a storm of controversy is the implementation of President Carter's human rights policy.[31] Promotion of a respect for fundamental human rights in the hemisphere has been a central element of the administration's Latin American policy. Indeed, Latin America has been singled out for vigorous attention on this score because the United States has considerable influence in the region, because several governments in the hemisphere are ripe targets for improving respect for human rights, and because the administration believes that an activist human rights policy does not conflict with U.S. security interests in the hemisphere. Critics of the human rights campaign in the Americas argue that the policy is paternalistic, inconsistent, counterproductive, and poisons our relations with key countries in the region. In support of this opinion, they point out that as a result of the Carter administration's human rights policy, Brazil renounced a longstanding military treaty with the United States, that President Pinochet of Chile used the heavyhandedness of U.S. initiatives to rally domestic support for his regime, and that the current violence in Nicaragua is in part a result of excessive expectations that were aroused among opponents of General Somoza by statements and actions emanating from Washington. Supporters of the policy, on the other hand, contend that there has been a notable improvement of respect for human rights in several countries, that the policy enables the U.S. Government to communicate with those in opposition to authoritarian regimes, and that it has served to rally domestic support in the United States for foreign policy generally. At issue is not only whether the policy accords with Latin American political and economic reali-

[31] See chapter, "U.S. Human Rights Policy," p. 192.

ties, but also whether the means employed (public statements and reports, voting "no" on loans to repressive regimes in international financial institutions), are best suited to achieve the desired results.

The Role of Congress

Congressional attention to Latin America has been low and sporadic, but its actions have frequently had major consequences for U.S. policy, and its influence is growing.[32] The Senate's ratification of the two Panama Canal Treaties in 1978 was the most dramatic recent example of Congress role, but there are others. In the human rights field, the Congress has mandated that U.S. representatives to international financial institutions must vote against loan authorizations to countries whose governments systematically violate the civil rights of their citizens. In arms transfers, Congress voted in the mid-1960's to restrict U.S. sales of advanced military equipment to countries in the region, causing them to turn to Europe for their perceived needs. In the economic realm, Congress voted to withhold economic assistance to Latin American countries who nationalize U.S. property without providing prompt and adequate compensation (the Hickenlooper and Gonzalez amendments), and its decision to exclude OPEC members from the GSP (generalized system of preferences) provisions of the 1974 U.S. Trade Act resulted in a collective protest from Latin America because it discriminated against Venezuela and Ecuador, two countries that did not participate in the embargo. All of these congressional actions had a significant impact on United States-Latin American relations.

The main item on the agenda of the 96th Congress that will affect United States-Latin American relations is consideration of a new trade agreement, concluded in December in Geneva. As the most advanced part of the Third World, Latin America stands to benefit substantially from a liberalization of international trade. Greater access to the U.S. market for Latin America's manufactured products is a key to regional economic growth and political stability. As well, agreement on a new code of subsidies for exports is also essential because of the export-led growth strategies being pursued by the major countries of the region. Thus, congressional action on a new trade agreement could have a major impact on the economic prospects of Latin America.

Immigration is a second important item on the legislative agenda. The Carter administration has submitted its proposals to Congress, and they may be taken up during the next 2 years. The main points in the administration's proposed legislation—an increase in the size and technical capability of the border patrol, civil penalties for employers of illegal aliens, amnesty for those resident in the country for a substantial period—suggest an effort to tighten up our borders. Most of the flow of illegal aliens to the United States is from Mexico and the Caribbean. Consequently, legislative action on immigration will definitely influence our relations with these countries.

Finally, the U.S. Congress will continue its oversight role in the human rights field. This will definitely influence the conduct of U.S.

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[32] On Congress and Latin America, see Robert Pastor, "Congress' Impact on Latin America: Is There a Madness in the Method?" Commission on the Organization of the Government for the Conduct of Foreign Policy, June 1975, vol. 3, pp. 259–272.

policy toward Latin America, especially in the case of Nicaragua. In September 1978, the Senate voted to end all but humanitarian assistance to Nicaragua until the conflict there is resolved, and in October Representatives Fraser and Harkins introduced in the House a similar measure that died at the end of the 95th Congress.

Summary

The 96th Congress will have an indirect but important influence on the prospects for political and regional stability in Latin America in the 1980's. As in the past, congressional actions in areas not traditionally deemed exclusively "Latin American"—arms transfers, trade, immigration, human rights, foreign assistance—will have a major impact on the countries of the region. In addition, congressional supervision of executive actions to mediate interstate disputes could be significant. Nevertheless, a major unanswered question is whether, and to what extent, should regional stability be an objective of U.S. policy toward Latin America.

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UNITED STATES–MEXICAN RELATIONS

(By Rosemary P. Jackson*)

ISSUE DEFINITION

The basic issues in United States–Mexican relations derive not only from the fact that we share a 2,000-mile border, but also from a number of longstanding trade, environmental, cultural, and population problems. To this existing equation has been added a new factor—the announced discovery of significant oil and natural gas reserves in Mexico which may well make it one of the leading future oil exporters. Thus, the subject of United States–Mexican relations will undoubtedly generate additional interest and concern in the coming years and several key problems are likely to assume a special urgency for Members of the 96th Congress.

The specific issues to be considered include: Illegal immigration; trade and tariff policies (including tourism); drug trafficking; environmental, ocean and boundary questions; and Mexican oil and natural gas export policy. The orientation of the administration of President Lopez Portillo is also likely to prove of interest, not only because its pragmatism contrasts with the previous ideological approach of the presidency of Echeverria, but also because of the implications for the United States of Portillo's efforts to resolve these issues to mutual advantage. Underlying any approach must be an appreciation for the fundamental contrasts in U.S. economic development as compared to Mexico. An improved understanding of this fact may assist U.S. policymakers in formulating solutions which avoid the pitfalls, confrontations, and standoffs of the past.

Exactly what these new policies will be, and how they will define the new "relationship" is already the subject of debate, not only in Washington, but also in Mexico City. While both countries publicly eschew the notion of the old, so-called "special relationship", the concept of interdependence seems to be gaining support in leadership circles in both countries. For the United States, the process of redefining its relations with an old neighbor is fraught with uncertainty, including the demands of competing domestic interests, and the overriding necessity of assuring reliable sources of petroleum. Seeking to reconcile these sometimes divergent interests, while redefining this relationship, implies a need for the frequent adaptation of policymakers and, in turn, a cultivation of the American public. Notwithstanding the economic, political and military power of the United States, one analyst has suggested that:

> As other nations must, the United States has to negotiate for what it gets on any issues * * *. The American people have not been conditioned by history to that kind of foreign policy. In anticipation of tomorrow's realities, a wise

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investment of political leadership * * * would be to prepare the American public for the necessities of a negotiating life.[1]

With reference to Mexico, tomorrow is already here. Moreover, the challenge assumes an added demension because many of the issues at hand have profound domestic as well as foreign policy implications.[2] The domestic aspects of undocumented workers, trade and tarriff issues, and drug trafficking are obvious, inescapable, and exacerbated by geography. Meanwhile, U.S. foreign policy considerations most likely include a new appreciation for Mexico's growing importance as an international actor plus a heightened interest in the continued stability of Mexican society—a stability which may be enhanced by both oil exports and a concommitant committment to fundamental economic development. Cooperating with Mexico, particularly in development efforts, is an area in which the United States may have to prove increasingly responsible, sensitive, and creative since Mexico's response to U.S. energy needs may well be predicated upon such U.S. actions. This assistance is further warranted since all of these mentioned issues are primarily economic in nature and stem, in large measure, from the different stages of economic developments which characterize the two countries. Finally, the need for development is indicated because of the strong economic ties, including a large U.S. foreign investment, which already bind the two countries, and because of the potential market for U.S. products which Mexico represents.

BACKGROUND

Undocumented Workers

The evolution of the major problem of illegal or undocumented Mexican workers in the United States has taken many years.[3] Its resolution is inconceivable in the short run. With a population of some 63 million and a growth rate of 3.3 percent per year, the Mexican population is predicted to double by the year 2000. Although the birth rate was higher, at 3.5 percent per year, in the early 1970's before President Echeverria instituted a national family planning program in 1974,[4] population growth is unlikely to be significantly affected for 20 years since fully one-half the population is under 15 years of age and the females will be entering their childbearing years. Cultural biases further complicate the issue. According to one observer: "Just as important is the macho (best defined as ostentatious virility) pride in being father of a large family—and more generalized macho that

[1] Manning, Bayless. The Congress, the Executive and Intermestic Affairs: Three Proposals. Foreign Affairs, vol. 55, No. 2, January 1977, p. 308.

[2] As a partial measure of the domestic as well as foreign policy aspects of United States-Mexican relations, it is interesting to note the range of U.S. Government agencies which are already actively involved which include Departments of State; Treasury (Immigration and Naturalization, Bureau of Tobacco and Firearms, and Narcotics); Interior; Energy; Commerce; Health, Education, and Welfare; Labor; and Agriculture. In addition, there are the numerous corresponding committees of both the House and Senate as well as Joint Committee interests. Other areas of joint consultation include forms as diverse as the Law of the Sea Conference, the International Boundary Commission and the Mexico-United States Interparliamentary Group.

[3] "The Immigration and Nationality Act Amendments of 1965 and subsequent amendments adopted in 1976 greatly revised the basis for regulating the number and type of persons eligible for admission into the United States as immigrants. * * * How many persons may immigrate is largely determined by hemispheric and per-country ceilings; 120,000 persons may immigrate from the Western Hemisphere. * * *" House. Select Commitee on Population. Legal and Illegal Immigration to the United States. Report. 95th Congress. 2d sess., December 1978, p. 10.

[4] Wall Street Journal. Aug. 30, 1978. p. 1 and 26.

national greatness is in the number of Mexicans."[5] The pressure created by this population push requires an additional 800,000 new jobs per year to accommodate those entering the work force. According to the 1970 Mexican census, 72 percent of all repondents claiming an income, declared only $80 per month. Another 40 percent declared less than half that amount.[6] Current estimates suggest that probably one-half of the total work force is unemployed or underemployed. Mexican society, straining under the crush of over population and economic underdevelopment, is further pressured by the following factors: First, a large rural population living at subsistence levels, without access to health and educational opportunities; second, a steady flow of such persons to Mexican urban areas (with current projection that Mexico City will be the world's largest city in the year 2000); and third, an apparently unending and unstoppable flow of migrants to the United States in search of seasonal or permanent employment.

Estimates of the magnitude of the illegal alien problem in the United States range from 3.4 to 8 million persons. Of this number, some 60 percent are believed to be Mexican nationals. The fact that some 90 percent of all border aprehensions are Mexican reflects the seasonal nature of work performed and repeated attempts to cross the border.

The whole alien issue is an extremely complex and sensitive matter. From the Mexican perspective, it represents a safety valve, permitting the society to disgorge workers for whom employment does not exist. Thus Mexican incentives for helping to stem the flow may be limited. Although most U.S. observers agree that this problem is serious, they disagree as to its effects on the U.S. economy. On the one hand, critics complain that illegals depress wage and working conditions, contribute to higher levels of U.S. unemployment and draw educational and welfare benefits which exceed their contribution in taxes to the United States. Moreover, it is widely believed that illegals remit some $3 billion a year to their relatives in Mexico, thus contributing to U.S. balance of payments problems. At the same time, other observers point out that many of the aliens perform work which Americans do not appear to want anyway—harvesting crops, performing menial labor, working in canneries and packing houses—and that without this pool of willing labor, certain of these industries would close down for lack of affordable help.

Trade Issues

The trade and tariff issue, which includes the tourism industry (a major source of Mexico's dollar exchange) is very important. Mexico is already our major trading partner in Latin America—our fifth largest export market and our seventh largest supplier of imports. For fiscal year 1977, total bilateral trade equaled almost $10 billion. In recent years, the United States has supplied 63 percent of Mexico's imports and purchased 70 percent of its exports.[7] Principal U.S. exports include machinery, transportation equipment, chemicals, metal products and paper goods while U.S. imports from Mexico include

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[5] Mexico: A Survey. The Economist. Apr. 22, 1978, p. 3.
[6] Sanders, Thomas G. Mexico in 1978. American Universities Field Staff Reports, 1978, No. 31, North America. Hanover, N.H. p. 8.
[7] Foreign Economic Trends, Mexico, June 1978, p. 9. U.S. Department of Commerce.

petroleum, electronic equipment, coffee, fresh fruits and vegetables, fish products, textiles, and crude minerals. About $500 million of U.S. exports and $1 billion in imports consist of U.S. components assembled in Mexico.[8] While for many years the United States has enjoyed a positive balance of trade with Mexico, this pattern is changing and the U.S. surplus has declined. According to experts, 1978 may be the year in which the U.S. balance of trade with Mexico becomes negative because of increasing imports of Mexican petroleum.

Other trade questions concerning Mexico's licensing procedures and regulation of U.S. investment will become increasingly important if the United States is to preserve its trade balance. In addition, U.S. agricultural interests have expressed concern that Mexican exports of certain fresh fruits and vegetables damage the livelihood of U.S. farmers. Nevertheless, Mexico promises to become an even more important purchaser of other U.S. agricultural products including grain (mainly corn) oilseed, sorghum, and soybeans for the indefinite future, as Mexico's population continues to grow and the prospects of maintaining an equal level of agricultural development appear dim.

Another area of U.S. Mexican trade and tariff relations concerns the border town in-bond facilities, and the setting of tariffs and other barriers. According to one U.S. agricultural spokesman, if the U.S. relaxes trade barriers "during periods when we're flush and can be competitive, that would be OK. By reducing tariffs in the winter, they would simply be giving our livelihood away." [9] The Mexican attitude has been that the United States shuts out Mexican exports, if not through tariffs per se, through other discriminatory measures such as deliberate restrictions on the size and color of tomatoes and strawberries.[10] The whole area of trade and tariff regulation, and Mexican policies of licensing to enforce import substitution, are areas where new legislation may be considered.

One salient question is whether the United States should ease restrictions on Mexico at precisely the time when we are beginning to experience a negative balance of trade with that country? The answer is not simple, and is further complicated by its relation to the alien problem and to the previously mentioned economic development hopes of the Mexican Government. Clearly, there are tradeoffs which may be considered.

The issue of tourism is an important one to both countries. For Mexico, U.S. tourism represents a principal source of their dollar earnings each year. For the United States, Mexican visitors have spent more in the United States in recent years than all Europeans and rank only behind Canadians as a source of tourism-related income.

Other factors which underscore the importance of this industry to Mexico include the 1975 devaluation of the peso, which encouraged U.S. tourism, the decline in tourism experienced after Mexico voted to sponsor the United Nations resolution defining Zionism as racism, and the efforts by the Mexican Government to insure that U.S. tourists may travel without being subject to the actions of terrorists.

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[8] Ibid. Foreign Economic Trends, p. 10.
[9] Washington Post. Dec. 18, 1978, p. A–2. Les Hubbard of the Western Growers Association.
[10] New York Times. Jan. 20, 1978, A–2.

Drug Trafficking

While the issue of drug trafficking has been an area of cooperation between the two countries, serious problems remain. It is estimated that despite joint drug enforcement programs, between 50 to 85 percent of heroin in the United States comes from Mexico.[11] In addition, Mexico remains a major source of marijuana and a principal transit point for cocaine coming from Colombia, Peru, and Bolivia. The issue is complicated by the perceptions of the Mexican Government that the United States is "soft" on drug criminals and does not really discourage consumption of drugs. In addition, the Mexican Government believes generally that this is really a U.S., not a Mexican, problem. At the same time, the issue is delicate from the Mexican standpoint since it raises serious questions regarding corruption of Mexican officials and the fact that the illicit trade generates substantial sources of dollar income for Mexican individuals.

Environmental, Boundary, and Fishing Issues

Under the category of environmental, boundary, and fishing, issues are numerous. At least some of these have been resolved in recent years, for example, the Rio Grande was finally established as the legitimate border between the two countries in 1970 [12] following years of dispute. Other questions regarding the 200-mile territorial water limit have compelled the negotiation of fishing rights. With reference to environmental concerns, questions regarding United States and Mexican pollution of shared rivers and/or U.S. depletion of water supplies persist. Mexican pollution of the New River continues to be an irritant.

Energy Issues

Until 1975, Mexico was an oil importer despite resources of her own which were discovered around 1900. New strikes in the Reforma Fields of Chiapas and Tabasco states and the latest strikes in the gulf coast city of Tampico [13] suggest that Mexico will become a major oil exporter in the near future. Oil production is now at 1.2 million barrels/day with a 1982 goal of 2.25 million barrels/day. According to figures released by the state-controlled oil company PEMEX on January 2, 1979, Mexico possesses proven reserves of 29 billion barrels of oil and potential reserves of approximately 133 billion barrels of oil.[14] PEMEX director, Jorge Diaz Serano, has stated that the latest strike may contain up to 100 billion barrels of oil which would be half as much as Saudi Arabia's proven reserves and would represent the biggest single accumulation of oil in the Western Hemisphere.[15]

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[11] Washington Post, May 15, 1978.

[12] The Mexican Boundary Treaty was signed at Mexico City, Nov. 23, 1970. The Senate gave its advice and consent to ratification Nov. 29, 1971. The Treaty entered into force Apr. 18, 1972.

[13] Time, vol. 112, Nov. 27, 1978, p. 92.

[14] Complete PEMEX estimates released Jan. 2, 1979, which include both oil and natural gas components, are as follows: proven reserves of 40.1 billion barrels oil equivalent; probable reserves of 44.6 barrels oil equivalent and potential reserves of 200 billion barrels equivalent.

[15] Time, vol. 112, Nov. 27, 1978, p. 92. A recent Congressional Research Service study notes that the PEMEX estimates doubled during the last 4 months of 1978, though the Mexican drilling program is a relatively modest one, which suggests either exceptional resource concentrations, a less vigorous definition of proven reserves than used by the rest of the world, or delayed disclosure of reserves known before Sept. 1, 1978.

Regardless of the total estimates, the picture is not necessarily optimistic. First, the extraction of the petroleum will require considerable Mexican investment in capital goods and machinery for an industry which is not labor intensive. Thus, the unemployment problem will be far from solved. In the meantime, gaining access to necessary financing is crucial. At the moment, Mexico enjoys the backing of the United States in a number of multilateral lending institutions for her petroleum development projects. Because of the unstable state of the Mexican economy in 1975, when foreign debt reached a new high, the peso was devalued by 50 percent, and inflation rose, the International Monetary Fund imposed strict fiscal guidelines and set an upper limit on the amount of additional foreign debt Mexico could assume.[16]

According to one observer, writing on Mexican oil:

> Any significant cutback in outside financing could seriously jeopardize Mexico's ambitions as a major oil and gas producer and exporter.[17]

The question of private financing is a delicate one because of the uniquely symbolic nature of petroleum in Mexico. In 1938, in recognizing the provision of the Mexican Constitution of 1917 which declared all subsoil wealth as belonging to the people, President Lazora Cardenas nationalized the foreign-owned petroleum industry. The March 18 date is still celebrated as a national holiday. Mexico remains sensitive to any moves which appear to encroach on her national rights to these resources. The information only became widely known when Mexico required financial credit and after the numerous oil strikes which have recently occurred. The fact that Mexico is jealous of these resources, suspicious of outsiders (especially North American oil interests), and faced with the severe financial constraints to develop as rapidly as possible petroleum resources which require sophisticated technologies, has led to yet another area of negotiations between the two countries. One observer characterized the current situation as follows:

> Mexico has jealously guarded the PEMEX monopoly from foreign intrusion. The current lack of skilled personnel, technology, especially for offshore drilling, at a time when production must increase, has brought Americans into the picture. For the most part, Mexico is dealing with the matter by reiterating the role of PEMEX, while quietly signing contracts with American personnel to do drilling for PEMEX.[18]

To date, the situation between Mexico and the United States regarding oil and natural gas is, in the opinion of some, deteriorating on both the oil and natural gas questions. Mexico currently exports some 240,000 barrels of oil per day to the United States and could be exporting nearly 400,000 by early 1979, and 1 million barrel per day by 1980. Mexico also offered to supply the United States with natural gas during the severely cold winter of 1976–77 and provided the Pentagon with 6.4 million barrels of oil for the strategic reserves. However,

[16] The U.S. Government moved swiftly though quietly in mid-1976 to support the peso when the devaluation and crisis of confidence was brewing. As early as April, Mexico received $300 million under its short-term lending swap agreement with the U.S. Federal Reserve, and support from the Federal Reserve and U.S. Treasury followed. These funds backstopped the announcement, in September 1976, that Mexico had arranged a $1.2 billion package of financial support with the International Monetary Fund (IMF), a package strongly supported by the U.S. Government and private interests. Fagen, Richard R., "The Realities of United States-Mexican Relations," Foreign Affairs, July 1977, p. 695.

[17] Williams, Edward J., "Oil in Mexican-United States Relations: Analysis and Bargaining Scenario," Orbis, Spring 1978, p. 202.

[18] Op. cit., "American Universities Field Staff Report on Mexico," p. 12.

while Mexico is sending about 75 percent of oil exports to the United States, she has expressed independence on other matters.

While declining to join OPEC, a move which would have automatically excluded Mexico from the generalized system of preferences, sales contracts have also been concluded with other countries, including Canada, Israel, Spain, the Soviet Union (for use by Cuba), Brazil, Bulgaria, Greece, Turkey, Yugoslavia, Romania, Japan, and France. Just as many U.S. observers feel that the United States should not become overly dependent on Mexico as a source of oil, Mexico is equally determined not to commit her exports exclusively to serve U.S. needs. Exactly how the United States and Mexico can accommodate each other or the oil issue remains to be seen. In the meantime, serious questions concerning the price of natural gas continue.

From the standpoint of both the United States and the global economy the importance of Mexico's newly discovered resources are significant. For the United States, they provide a realistic alternative to great reliance on Middle Eastern oil (an advantage underscored by recent events in Iran). Moreover, while Mexico does charge the OPEC price, the United States enjoys the advantage of reduced transportation costs.

In addition, the discovery of oil lends Mexico a new importance in the international arena. President Portillo has said, "You can divide the countries of the world into two types; the ones who have oil and the ones that do not. We have oil." [19] However, Mexico is determined that the proceeds not be squandered. Instead of using oil revenues to cover the costs of imports and create an even more consumer-oriented society, Mexico has pledged a percentage of all revenues toward the creation of a national job program. The success of such efforts would do much to establish Mexico's position as a world leader and make its relationship to the United States a more balanced one.

Coming after the Presidency of Luis Echeverria, this opportunity poses global as well as bilateral consequences. While Echeverria assumed a strong Third-World orientation—championed causes which were often at variance with U.S. policy, such as supporting the United Nations, vote condemning Zionism as racism, and moved to fulfill the promise of the Mexican Revolution by the expropriation of property—President Portillo appears to be pursuing a new policy. With respect to the Third World, Mexico has assumed a slightly lower profile. With respect to the United States, President Portillo has displayed an inclination to work with, rather than against, the United States in an effort to solve mutual problems. Relations between the two countries have warmed considerably since President Portillo and Carter assumed office. It should also be pointed out, that it is has been typical in recent years for United States-Mexican relations to warm and cool on 6-year cycles which coincide with the Mexican Presidential term.

Issue Outcomes and Consequences

Undocumented Workers

With reference to the undocumented worker problem. the possible outcomes will not necessarily be entirely favorable to U.S. interests.

[19] Grayson, George W., "The Oil Boom," Foreign Policy, No. 29, Winter 1977–78, p. 65.

Even if Mexico proceeds with its national family planning program with a full financial commitment, the benefits will be minimal for years to come. If the best-case situation prevails—that is, if the birthrate were to decline to 1 percent per year between now and the year 2000—the total Mexican population would still grow to over 100 million. More realistic estimates suggest that the population is more likely to reach at least 120 million in that period. Meanwhile, again looking at the best case first, if economic growth were to return to 6 to 7 percent growth rate per year, which is the official goal, industry could probably generate a maximum of 150,000 new jobs each year While it is conceivable that another 150,000 jobs might be provided in other sectors, this would still provide jobs for only 50 percent of all new entrants into the work force.[20] Consequently, the push of population is certain to continue in the years to come, and the almost assured high levels of unemployment are likely to result in the following: First, the continued migration of the unemployed to the United States, with the attendant possibility that bilateral relations will worsen accordingly; and second, that the growing numbers of unemployed are likely to put great stress on the domestic institutions of Mexico with the real possibility that instability could ensue. Neither of these outcomes is attractive from a social or humanitarian perspective, and these outcomes are potentially as repugnant to the United States as they would be to Mexico.

Despite Mexico's occasional disavowal of responsibility for the U.S. alien problem, it seems clear that the failure of the revolution to provide the population with reasonable work prospects is regarded as serious. From the U.S. perspective, if the Mexican population began serious questioning of the goals of the revolution and of the pursuit of these goals by the Government which succeeded it, the United States would have a more than casual interest. The prospect, as one observer has written, of a new Mexican Revolution is disturbing at best and alarming if one foresees guerrilla activity play along the border. The reaction of the Hispanic and especially Chicano community is also difficult to predict, but again, might prove disagreeable to U.S. policymakers. In addition, private investment and bank lending would surely suffer; and according to one scholar:

> Sooner or later U.S. citizens would almost certainly be killed if violence were at all widespread or long lasting. The political dynamics unleashed in the United States as families, interests, ond established relationships were broken would be unpredictable but surely grave. Additionally, the blow to democratic futures in Latin America would be immense, for the Mexican experience, with all its shortcomings, still suggests that there are alternatives to brutal dictatorships and massive military intervention in politics.[21]

An ill-conceived sealing of the border might increase the probability of such a situation.

Trade

If such scenarios are to be avoided, the solution, at least in part, is likely to derive from actions taken by both the United States and Mexico in the areas of trade and tariff reforms. In the long run, Mexico must experience fundamental economic progress if her stability to to

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[20] "Mexico: A Survey." The Economist, Apr. 22, 1978, p. 5.
[21] Fagen, Richard R., "The Realities of United States-Mexican Relations," Foreign Affairs, op. cit., July 1977, p. 699.

be assured. Such progress depends on diversifying her products and increasing her exports. Since the United States has a stake in the well-being of the Mexican economy, and since the two nations are already major trading partners, it is natural that both countries would seek revisions of trade and tariffs policies. Already negotiations have been undertaken to grant Mexico extended benefits from the generalized system of preferences.[22] In addition, Mexico has taken some steps to liberalize their licensing and tariff binding provisions which impede the importation of U.S. products. Mexico is also considering the U.S. suggestion that they join the GATT and the MTN in an effort to streamline the trade problems.

Should new agreements between the two countries not be forthcoming on the crucial trade and tariff issues, the consequences would be serious in much the same way as the alien problem. Indeed, as already mentioned, the two issues, trade and immigration, are inextricably linked. Failure in this area would impede Mexican development and therefore exacerbate the alien outflow. At the same time, such failures would almost surely lead to a situation in which economic and political stability would come under increasing stress.

In response to the tariff and trade issues, Mexico and the United States are already members of the International Coffee and Sugar Agreements. Mexico will also participate in the UNCTAD talks in 1979 concerning the pricing of cotton.

Drug Trafficking

With reference to the problem of drug trafficking, continued cooperation appears to be the only viable solution. As with the alien problem, it can be argued that a genuine sealing of the border would be futile insofar as it would most likely insult Mexico. Moreover, it is believed that much of this drug trafficking involves the use of low-flying small aircraft which either land in the United States or dump their cargo on U.S. beaches for retrieval.

As previously mentioned, Mexico is a major source of all heroin used in the United States. However, programs which have been undertaken by the United States, under the section 481 of the Foreign Assistance Act and the International Narcotics Program, provide Mexico with assistance to stem the flow of illicit substances into the United States. In addition, the United States is a party to the Single Convention on Narcotic Drugs of 1961 as amended, and therefore has international obligations to cooperate on drug control efforts. With respect to Mexico, U.S. efforts have been aimed primarily at stemming the cultivation of opium poppies which yield heroin and contribute to serious forms of drug abuse. While the initiative to curtail this production has come from the United States, the Mexican Government has offered great cooperation, with the result that supplies of heroin in this country have declined dramatically, leading to a lowered rate of addiction, higher prices, and a 40-percent decline in heroin overdose deaths in 1977. Were such cooperation lacking, it would certainly increase drug-related problems in the United States, create an increased strain on bilateral relations, inhibit the implementation of similar programs

[22] The generalized system of preferences, approved in 1974, grants concessional treatment to a number of products imported by the United States from developing countries. It is currently estimated that Mexico avails itself of only 30 percent of all applicable benefits.

with other countries that are major drug suppliers, and possibly encourage corruption in Mexican Government, of the sort which is already visible in Colombia where law enforcement mechanisms are increasingly breaking down under the weight of the extremely lucrative trade in cocaine and other drugs.[23]

Tourism

With regard to the issue of tourism, the issue outcomes and consequences are important, as previously mentioned, because of the financial value of industry to both countries. Less tangible, though nevertheless important, are the benefits often described in travel brochures and on state visits; that is, the increased mutual understanding which can result from foreign travel. Such travel sometimes leads to greater interest or perhaps a desire to study in the neighboring country. To facilitate such studies, the Lincoln-Juarez scholarships were established by the two countries in 1966. In addition, extensive cooperation between the Library of Congress in Washington and the National Library of Mexico and National University Autonoma in Mexico City is improving access to books and documents for scholars in both countries.

Environment and Boundary

Concerning ocean, environmental, and boundary issues, the United States and Mexico have had close cooperation on most of these matters. In particular, two agreements were reached, in 1976 and 1977, to regulate fishing rights. The second agreement was concluded under the terms of the Inter-American Tropical Tuna Commission. Because of the value of these fishing rights to U.S. fishermen, especially those involved in the shrimp industry along the gulf coast, agreements have dealt wtih fishing on a species-by-species basis. The shrimp agreement of 1976 remains somewhat controversial since it provides for a phaseout of U.S. shrimp activities after 1979. If a future arrangement cannot be negotiated, these U.S. industries will undoubtedly suffer.

The issue of water pollution continues to be an area in need of additional investigation and cooperation. The pollution of the Rio Grande River is currently being studied by the International Boundary and Water Commission. The continuing problems of the salinity of the Colorado River is still under study. The problem stemming from the contamination of the New River, from untreated water from Mexicali is still a significant irritant, especially to regional interests. Air pollution problems are an area of similar mutual concern and regular consultations on the subject between the two countries commenced in 1978. Pollution of the Gulf of Mexico and the Gulf of California is of mutual concern because of health of citizens and the fishing interests of both countries. In addition, as Mexico undertakes extensive offshore oil drilling projects, the coordinating mechanism which now exists between the two countries for notification in the event of an oil spill, is likely to take on added significance. Failure of the two countries to discover mutually acceptable means of handling the environmental problems which arise along the border, would contribute little to bilateral relations.

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[23] Time, Jan. 22, 1978.

Energy

The outcome of the growing exports of Mexican oil and natural gas have significant effects in both the bilateral and global contexts. As previously mentioned, Mexico's decision not to join OPEC accords it the unusual opportunity of becoming a major and independent energy exporter to the world. At the same time, proximity, resulting in lower transportation costs, suggests that the United States could benefit from a new source of petroleum less vulnerable to the kind and extent of disruption that the United States is vulnerable to in the Middle East. With reference to the purchase of oil, the bilateral problems to date primarily concern Mexico's decision not to overcommit her resources to the U.S. markets, so as to preserve her own independence from her northern neighbor, and to pursue a rate of development of her own choosing. Notwithstanding predictions that Mexico could be supplying some 30 percent of all U.S. oil needed by 1985, U.S. observers warn of the perils of overreliance of Mexico as an energy supplier.[24] According to one observer:

> This country should not exchange dependence on the Saudis for dependence on Mexico. Such a step could hamper an assertive border policy that will soon be necessary lest the flood of illegal immigrants becomes a tidal wave. Increased purchases of oil and gas from our southern neighbor should be coordinated with a determined effort on its part to create jobs.[25]

Mexico has also hinted that Washington's support of its efforts to generate jobs may be a factor in the speed with which it pursues the extraction of oil. Other observers have suggested that even if Mexico achieves its current goal of rapidly developing the petroleum industry, it would be with some peril to the stability of its own economy. Because the absorptive capacity of the Mexican economy is limited, "a great surge in oil revenues could also trigger sharp price increases [inflation] in the early 1980's just before the next presidential election." [26] President Portillo addressed this problem in his September 1978 state of the nation message saying: "Oil strategy must avoid deforming our total productive structure." [27] Two things are clear. First, Mexican leaders are disturbed by the prospects of an oil boom which could result in high levels of inflation, a continuing high unemployment rate, that would not be resolved by oil development alone, and the prospect that these factors could prove destabilizing to the PRI Government. Second, from the U.S. perspective, these outcomes are equally distasteful as high inflation at the time of the next Mexican election might well result in the election of a new Mexican President more preoccupied with domestic concerns and less amendable to pursuing the cooperative policies now being followed by President Portillo. Recent events in Iran have heightened the sensitivities of the United States and Mexico to the gravity of such a scenario.

Other scenarios have suggested a stronger linking of Mexico with the United States, Japan, China and perhaps Canada. Such an arrangement, this school of thought holds, would benefit the United States and Japan, which have high oil requirements, and benefit China and Mexico in gaining access to needed technologies. Writing on this possibility one observer noted:

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[24] Washington Post, Jan. 19, 1979, p. K2.
[25] Washington Post. Oct. 27, 1978, p. A17.
[26] Washington Post. Ibid.
[27] Mexico's Reluctant Oil Boom. Business Week. Jan. 15, 1979. p. 64.

The intricate interweaving of interests across the Pacific amounts to great-power political influence in a region which many observers now believe will outstrip the Atlantic region in economic and political clout in the 21st century.[28]

In keeping with such predictions, President Portillo has visited Japan and China. It was in Tokyo that he reiterated that Mexico would neither join OPEC nor participate in any future embargoes against the industrialized countries. In turn, Japan announced that a new credit line of some $600 million had been made available to Mexico. In addition, a Japanese proposal to construct a superport on Mexico's Pacific coast is under consideration. While in China President Portillo referred to Mexico's continued commitment to establish a "new international economic order"—a goal for which China could offer support. According to one report, "Both Premier Hua Kuo-feng and Lopez Portillo reiterated that the time has passed when the industrial nations can unilaterally exploit the markets and resources of the poor nations." [29] Such actions by the Mexican Government may tend to enhance its bargaining position with the United States vis-a-vis receiving asked for prices for oil and gas, and for economic development concessions as a precondition to future petroleum contracts.

The issue of the sale of natural gas to the United States has proved much more intractable than that of petroleum. Negotiations over the price broke down in 1977 with several outcomes. First, there was an apparent standoff in which Secretary Schlesinger reportedly stated that sooner or later Mexico would lower the price while the Mexican response was that sooner or later the United States would pay the price. The breakdown in negotiations at that time was acrimonious. In a recent press interview, a high Mexican official, referring to what he described as the "unbelievable arrogance and insults from Schlesinger" during his meeting with PEMEX director Jorge Diaz Serrano, noted that:

Schlesinger was very important in raising our conciousness about not trusting the United States and carrying out our own plan. He [Secretary Schlesinger] did not realize it but he did us a favor in the end.[30]

In testimony before the Joint Economic Committee on January 23, 1979, Schlesinger offered his account of the natural gas meeting and responded to criticism in several ways. First, he stated, in reference to press accounts of that meeting that: "I would say that the articles written in the Washington Post bear very little resemblance to reality." He went on to note in the questioning that:

The negotiations were suspended pending the completion of the congressional debate on natural gas, and since the conclusion of that congressional debate there has been an effort on the part of both countries, I believe, to renew those negotiations.

The Secretary stressed that the major factors in the administration's decision to reject the Mexican asking price rejected the pricing structure already negotiated with Canada, which would increase if a new agreement at a higher price were negotiated with Canada, and the fact that: "At residual price, the market [for Mexican gas] is essentially limitless. At a distillate price, the market is exceedingly limited." Therefore, he concluded, that "It is no favor to Mexico to insist that

[28] Guardian. Vol. 31. Dec. 6, 1978. p. 18.
[29] Guardian. Ibid.
[30] Washington Post. Jan. 14, 1979. p. K2.

they be given a price that is so high that they cannot compete in the American market."

In addition, the Secretary stressed that the United States had taken a "very flexible position" with regard to the natural gas issue. He went on to explain that the U.S. position:

> * * * is not arbitrary. It has been carefully expressed to Mexican officials since January of 1977. It should have been no surprise to them. Indeed, under the Natural Gas Act, we are obligated to hold public hearings on these prices.

The Secretary added that the price asked for by the Mexicans could prove damaging to American consumers—especially when Canadian prices were increased to keep pace. He submitted that when these additional costs were stretched out over the economy, that the "net cost of that additional gas from Mexico would be approximately $5.25/million cubic feet."

The Secretary concluded that such price increases were "on way to protect the American consumer." Summing up the U.S. position, he stated that: "In the long run, we should be eager to have Mexican gas that is reasonably priced and when it is available as a reliable source of supply." However, he added that the Federal Energy Regulatory Commission, or Board, cannot approve any sale unless the "price and volumes are justified * * * and those decisions cannot be based upon such concepts as illegal aliens." [31]

Mexico resolved, after the initial breakdown, to construct a 650-mile natural gas pipeline, which is scheduled for inauguration on March 18, 1979—the anniversary of the nationalization of the Mexican oil industry.[32] The line could, if a price is agreed upon, tie in with existing pipelines in Texas.

Subsequent discussions between Secretary Vance and Foreign Minister Roel have not altered Mexico's determination that the price not be lowered from $2.60/1,000 cubic feet to the U.S. asking price of $2.30/1,000 cubic feet (the price of $2.16/1,000 cubic feet was negotiated with Canada in 1977 and would increase if we negotiated a higher price with Mexico) has afforded Mexico yet another area in which to demonstrate its independence in energy matters. Therefore, from both the U.S. and the global perspectives, the resolution of the natural gas issue may prove to be a bellwether of things to come. In addition to strengthening Mexico's bargaining position, it is important to recall that Mexican oil is extremely high in natural gas accompaniment. At present, Mexico continues to flare off much of this gas—a policy they have indicated they would prefer to lowering their prices. Meanwhile, as the pipeline is completed, President Portillo stated in a recent interview that "I know what I will do with my [natural] gas. I'll use it at home and sell it at a price that suits me. If they [the Americans] don't want to discuss it, that's it. We just won't deal with the matter." [33] While some of these comments may be regarded as postur-

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[31] According to Secretary Schlesinger, characterized the asking price for Mexican gas as: "a price on the Mexican border 35 percent higher than is the price on the Canadian border; almost 50 percent higher than the new gas price * * * in the natural gas bill; more than double the average price of gas in the United States; four times the price of gas flowing in interstate commerce; 10 to 12 times the price of gas * * * that is charged in Mexico; and infinitely greater than the price of the 400-to-500 million cubic feet of gas that is being flared each day down in Mexico." All of the above comments will soon appear in the 1979 Economic Report of the President, pt. I. U.S. Congress, Joint Economic Committee. 96th Cong., 1st sess., Washington, U.S. Government Printing Office, 1979.

[32] New York Times. Jan. 10. 1979. D 3.

[33] Washington Post. Jan. 14. 1978, p. K2.

ing, the issue was part of the agenda for the February 1979 meeting between President Carter and Portillo in Mexico City. For both countries, the matter was important since the price was then up to $2.90/1,000 cubic feet (which reflects the fact that the price is indexed to that of heating oil)—and the sale of the natural gas may have a bearing on the speed with which Mexico pursues the extrication of petroleum.[34] Negotiations on the matter resumed after this meeting.

The Role of the United States

Framework, Energy Issues

U.S. relations with Mexico have followed a somewhat atomistic approach, varying from issue to issue. However, many U.S. policymakers are now examining the broader alternative of redefining our overall relationship with Mexico, in order to form a more comprehensive and integrated policy. Most of the policy options have been outlined in Presidential Memorandum No. 41 (PRM–41), a still secret document prepared by the National Security Council for the President.

As leaked to the press, PRM–41 proposes two basic options: First, the United States could view Mexico as a world-scale trading partner; or second, the United States could maintain its traditional policy of treating Mexico as an "emerging power." Either option, according to the study, would entail certain responsibilities on the part of the United States with slightly different benefits accruing to each country as a consequence of the policy chosen. If the United States resolved to treat Mexico as a world-scale partner, it would oblige the United States to grant Mexico significant concessions on the export of winter vegetables and to establish new quotas for the immigration of Mexicans to the United States. Such an approach, the PRM–41 contends, would insure that the United States and Mexico would share equally in the benefits of oil exploration and suggests that a North American community, including Canada, would evolve. According to the memorandum, this policy "would imply increased Mexican energy production, without any loss of Mexico's national sovereignty." [35] By defining United States–Mexican relations in terms of U.S. strategic interests, the overall approach to problems would be one in which tradeoffs on issues would be inevitable and progress in each area would be linked to progess in others. According to this approach:

As for the long term, the draft PRM–41 says that "tradeoffs" such as border agreements or explicit concessions in other areas would be very difficult to negotiate and implement. So far, however, this has been the path Mexico has followed with other nations.[36]

On the other hand, if the United States were to move in the direction of treating Mexico as an "emerging power"—that is, following the traditional policy approach—the memorandum states that U.S. interest in Mexican oil and natural gas would be seen "in global rather than U.S. security terms.[37] This is the position Secretary Schlesinger is reported to favor. In a recent speech in New York, Secretary Schlesinger

[34] Washington Post, Jan. 10, 1979, p. A 12.
[35] Washington Post, Dec. 15, 1978, p. 1, 26.
[36] Ibid, Washington Post, p. 26.
[37] Ibid, Washington Post.

emphasized the importance of developing domestic sources of natural gas before considering purchases of Mexican or Canadian natural gas or liquefied natural gas from abroad. The Secretary went on to note that: "Alternate supplies of gas should neither endanger nor discourage base production from the lower 48 States" and that "a high priority should be placed" on completing the $12 billion Alaskan natural gas pipeline.[38]

In his press conference of January 17, 1979, President Carter emphasized that the United States has both short- and long-run energy needs, and that because of a current domestic surplus, "In the immediate future, the next few months, there is no urgency about acquiring Mexican natural gas." [39] The President added that he was not going to Mexico in February 1979 to negotiate a natural gas price deal, but rather to talk with President Portillo "more in long-range strategic approaches on how we might best provide a good market for the Mexican oil and gas that they want to sell to us." [40]

At this time, it appears that top administration officials are opting for the treatment of Mexico as an emerging power. The current surplus of domestic natural gas, coupled with the belief that purchase of Mexican natural gas might undercut the completion of the Alaskan pipeline appear to be the principal arguments being advanced to support this position.[41] Nevertheless, it appears that the debate over redefining our relationship will continue. As PRM–41 noted, the goal of United States-Mexican relations should be one in which the United States should press for a "stable, humane and cooperative Mexico," and went on to note that "influence, leverage, and bargaining potential—once overwhelmingly in favor of the United States—are shifting somewhat in Mexico's direction." [42]

Meanwhile, PRM–41 represents the most significant move by the United States, to date, to redefine the old relationship. U.S. Ambassador to Mexico Patrick Lucey has underscored the importance of this process, stating: "The issue is crucial because, for the first time, the United States faces the prospect of having a major country on its southern border." [43] Thus the direction of U.S. policy is still under considerable debate, according to press reports, with the National Security Council, backed by State Department officials, urging the United States to make concessions to Mexico on the natural gas pricing question in exchange for greater cooperation on the illegal immigration and border problems and greater access to Mexican oil reserves.[44]

In May 1979, President Carter appointed former Governor Reuben Askew to head a new commission to study the immigration problem.

The attempt to link the various problems is a key feature of PRM–41 as is its explicit advocacy of establishing a new relationship with Mexico. The memorandum reads in part:

> * * * while there is little danger that—unless we attempt to seal the border—Mexico will become overtly hostile, the cumulative impact of unmanaged tension could end the conditions that have enabled the United States to discount Mexico's 'nearness' in favor of some other parts of the world community.[45]

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[38] Washington Post, Jan. 10, 1979, p. A1, 12.
[39] New York Times, Jan. 18, 1979, p. A18.
[40] Ibid., New York Times.
[41] New York Times, Jan. 18, 1978, p. D1, 11.
[42] Washington Post, Dec. 15, 1978, p. 26.
[43] Business Week, Mexico's Reluctant Oil Boom, Jan. 15, 1979, p. 65.
[44] New York Times, Jan. 1, 1979, p. D1, 11.
[45] Washington Post, Dec. 15, 1978, p. A26.

The supporters of the world power option argue that a reshaping of U.S. policy toward Mexico could result in the following: An alternative to increased dependence on Arab oil; a sanctioned program for Mexican aliens now immigrating illegally into the United States; a possible lowering of tariff and other barriers to Mexican exports such as vegetables and textiles, and finally, the possible creation of a special negotiator for Mexican affairs reporting directly to the President or to the Secretary of State. However such a reorientation would rule out the possibility of following general U.S. foreign policy "without according Mexico special or preferential status"—and this move might touch off regional jealousies.[46]

However, the accordance of special status is not without precedent. In 1976 the United States indicated that Brazil, the largest Latin American country, would receive special treatment. In February 1977, following the first meeting between the newly elected President Carter and Portillo, it was agreed that Secretary Vance and Foreign Minister Roel should maintain close and frequent "personal contacts to assure high-level coordination on actions that might affect both countries.[47] Thus Mexico already enjoys a special status, vis-a-vis the United States—the new Mexican status was welcomed by Brazil, but was resented by other Latin American countries according to some observers. However, evidence of the special Brazilian status remains to be seen.

The drafting of PRM–41 was itself a significant move—regardless of what policies are finally adopted. According to a recent RAND study, "Mexico has preferred to deal mainly with the White House and secondarily, with the Department of State * * *." [48] This same report suggested that because of the Mexican tradition of "closet diplomacy," the best prospect for success in managing bilateral issues is to settle the various issues, and enure that U.S. presidential attention and authority be forthcoming and sustained, "backed by an NSC directive or cabinet resolution." [49] The reported added that the "public nature of the dialog must be minimized." [50]

From the U.S. perspective, the requirement of high level attention is now a reality however a consensus between the two countries on various issues is lacking. Moreover, minimizing the "public nature" of the debate may prove an impossible task, not only because it belies much of the U.S. tradition and the "open" diplomatic style of the Carter administration, but also because the U.S. Congress is more likely than ever to become intimately involved in efforts to resolve the issues of illegal immigration, trade, tariff and tourism questions, drug trafficking, border and environmental questions, and oil and natural gas policy.

Undocumented Workers

With reference to the issue of illegal immigration, there are several prevailing attitudes as to what the U.S. role should be. According to one school of thought, the Mexicans are undergoing the experience of a

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[46] Washington Post, Ibid., p. 26.
[47] Washington Star, Feb. 18, 1977, p. D10.
[48] The Management of United States-Mexico Interdependence: Drift Toward Failure? A Working Note. Ronfeldt, David F. and Sereseres, Caesar. RAND. Santa Monica, California, Jan. 1978. p. 47.
[49] Ibid, RAND. p. 52.
[50] Ibid, RAND. p. 52.

country moving from a basically rural to a basically industrial society. One professor has commented on the situation noting:

> It's the same way the Irish and the English and the Germans and the Italians all solved their problems in the late 19th and early 20th centuries, when their economies were transforming from agrarian to industrial. Between 1890 and 1920, they sent 25 million immigrants to the United States.[51]

However, while this outflow of people may be understandable given the high level of unemployment in Mexico and the availability of employment in the United States, the magnitude of the flow of illegals is unacceptable to many segments of the population. Questions regarding the impact of aliens on U.S. wages, working conditions and on the futures of certain industries remain to be answered—and perhaps never can be until the U.S. estimate of the problem is more precise.

One answer to the problem has been President Carter's program for undocumented workers which was announced on August 4, 1977. Key features of the program include an amnesty for workers who have lived continuously in the United States since 1970, new procedures for registering seasonal workers, a 5-year period during which aliens may be permitted to live in the United States on a temporary alien status, and fines for firms or individuals that have a consistent pattern of hiring illegals. The prospect of finally having an accurate census is appealing, but detractors of the proposal are many. The sensitivities of the large and growing hispanic community living legally in this country must be taken into account. Members of the community, which numbers about 18 million persons, fear that penalizing employers might prejudice their own legitimate work prospects. At the same time Mexico, aside from the unspoken fear of losing this safety valve, has expressed concern that the program might result in the mass deportation of Mexicans and the violation of their human rights.

President Carter has stated that this fear is unfounded, but has resisted Mexican initiatives to reestablish something along the lines of the old bracero program.[52] Other critics of the program suggest that few Mexicans who entered between 1970–76 would take the risk of registering with the U.S. Immigration and Naturalization Service for temporary resident alien status since at the end of 5 years they could still be forced to leave.[53] Other Immigration officials maintain that short of a border-long fence, there is no realistic prospect of preventing this migration. The fundamental discrepancies in the development of the two countries create an ongoing pull on the Mexicans. As an observer phrased it, "When it comes to bridging the gulf between rich and poor, the Mexicans speak in the north-south dialogue with their feet."[54] It will be a challenge to the United States and to the Congress to find a means of mediating the competing labor, business and foreign relations aspects of this problem.

Trade, Tariff, and Tourism

The issue of trade and tariffs is one in which the role the United States is more clearly definable. However, because of the undeniable

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[51] Wall Street Journal, Aug. 30, 1978, p. 26.

[52] The bracero program encouraged workers to come to the United States as a matter of U.S. policy to assist in the American war effort. The program was inaugurated in 1942 and not abolished until 1964. Forbes, vol. 119, Apr. 15, 1977, p. 46.

[53] The proposal program states only that their situation would be evaluated at the end of 5 years.

[54] Mexico: A Survey. The Economist, Apr. 22, 1978, p. 28.

links between these issues and the illegal immigration problem, important differences still exist between the two countries and among different parts of the U.S. public. However the United States-Mexico Trade Agreement of December 1977 was a significant step.

Under the terms of the agreement, the United States reduced tariffs on Mexican products such as fresh fruits, vegetables, and other agricultural products and handicraft items for a combined value of approximately $63 million. The agreement makes it possible for Mexico to increase exports of petroleum, sulfur, automotive engines and transmissions to the United States. Mexican concessions to the United States include liberalized import licenses, and tariff bindings, which may not be increased without compensatory reduction in trade barriers. The total value of U.S. products is estimated to be some $36 million. Cereal and processed foods, including soya, oilseed and meals, pure vegetable protein, powered and evaporated milk, lard, canned fruit cocktail, and electric motors are the principal U.S. products affected by the Commercial Agreement.[55] The conclusion of this agreement is the first such agreement reached between an industrialized country and a developing one under the tropical products negotiations which began in Geneva in 1975. The reciprocity of the agreement displayed a willingness on the part of both countries to accommodate the needs of the other and has resulted in a climate of improved commercial relations.

Another aspect of the trade and tariff issues concerns the improvements which have been made with respect to the flow of goods across the border, which has been facilitated by an increased number of U.S. customs inspectors since 1977, and the economies of the U.S. border towns which are closely tied to the Mexican economy. Both countries have moved to streamline the procedure for goods crossing the border with the result that U.S. sales to Mexico have increased.[56] With reference to the economies of the border towns, the ties have long been apparent and were adversely affected by the devaluation of the peso when Mexicans could no longer afford to shop on the U.S. side. Trade has now revived—in some cases to new record levels in towns such as Laredo, Tex. However, there is believed to be a great amount of smuggling as well. According to a recent estimate, the total value of U.S. goods smuggled into Mexico may equal $1 billion per year. While such traffic does not violate U.S. laws, it does violate Mexican law.[57] Mexico has responded with crackdowns and requests for U.S. cooperation. Meanwhile, U.S. firms are continuing to open low-wage factories in Mexico to produce goods for export back to the United States. U.S. ports such as Galveston and Brownsville, Tex., and San Diego, Calif., greatly benefit from this bilateral trade.

Mexico also derives benefits from the duty-free entry of its products to the United States from the generalized system of preferences. During 1977, the value of Mexican products affected was some $368 million. However, it is believed that Mexico avails itself of only 30 percent of all products eligible for special treatment. U.S. manufacturers have urged Mexico to further liberalize its licensing procedures (which form a part of its import substitution program) and to modify its tariff binding procedures along the lines of the commercial agreements. In addition, U.S. interests have encouraged Mexico to become a

[55] Foreign Economic Trends, June 1978, p. 10, U.S. Department of Commerce.
[56] Journal of Commerce, Aug. 24, 1977, p. 1, and Aug. 30, 1977, p. 9.
[57] Time, vol. 113, No. 2, Jan. 8, 1979, p. 46.

member of the General Agreement on Trade and Tariffs to simplify trade problems for both nations. However U.S. labor, agricultural, and business leaders all have a clear stake in this important trade and any further changes must take into account their interests.

A tourism agreement to improve bilateral cooperation was advanced during Vice President Mondale's visit to Mexico City in January 1978. On May 4, 1978, the agreement was signed by both countries. From the U.S. side, the agreement provides improved bilateral cooperation in the industry; coordinates interested U.S. agencies and maintains a consultative mechanism between the two countries on this industry. For Mexico, the agreement represents a step toward increasing tourism revenues which represent 46 percent [58] of all Mexico's dollar earnings. Other actions which have improved the tourism trade have included a new Mexico-United States Civil Aviation Agreement which provides for a greater number of flights between the two countries and lower fares. In all, the tourism agreement has effected greater cooperation between the two countries, and led to reduced fees and other barriers confronted by tourists, to the establishment of joint tourism promotional programs in third countries, and to the creation of a joint technical committee to coordinate the collection of statistical information on tourism for both countries. Consideration of the early establishment of parallel programs of tourism and cultural activities in the border areas was also a feature of the agreement.

Also in relationship to tourism, the U. S. Congress approved the long studied proposal to increase the duty-free exemption for American tourists returning from abroad. As of November 1978, the exemption was raised to $300. Mexico welcomed the move noting that it would probably encourage tourists to purchase various Mexican goods which would not compete with U.S. ones.[59] A final area which remains unresolved is the 1976 tax reform which limited the deductions allowable for foreign business conventions. Mexico has maintained that the law has reduced tourist receipts. Some changes in the law have already been made and other revisions are still under study by the Congress. Meanwhile, Mexico has promised to take all necessary steps to insure the safety of visiting Americans. While cooperation in the tourism field has been notable, there are still differences of opinion as to how much the United States should encourage travel abroad at a time when our trade deficit is high. On the other hand, the great importance of the tourism industry to the Mexican economy is undeniable, and any real decline in its health would further exacerbate the unemployment and underemployment figures.

Drug Trafficking

With reference to the drug trafficking issue, progress has occurred with significant cooperation on the part of Mexican authorities to permit U.S. agents to carry out programs for the control of the growing of poppies and other narcotics. For fiscal year 1978, the U.S. program for narcotics control provided for an investment of $16,792 in programs for Mexico. A high point in United States-Mexican drug related concerns was the signing of the Treaty for the Execution of Penal Sentences, signed in November 1976, which permitted the first

[58] Washington Post, Feb. 19, 1977, p. 11.

exchange of prisoners in October 1978. Under the terms of the treaty, nationals from either country have the prerogative of completing their prison sentences in their home country.[59]

Since many of these Americans were incarcerated on drug-related charges and the issue of Mexican prison conditions had become prominent, the treaty has done much to remove an irritant in bilateral relations. The Senate Foreign Relations Committee held hearings in May 1978 to investigate the use of herbicide paraquat for eradicating marihuana in Mexico because of what are believed to be its dangerous effects on drug-users.[60]

From Mexican perspective, the role of the United States in drug trafficking is something of a puzzle. From their standpoint, the United States presses for Mexican cooperation, which has been forthcoming, but is "soft" on American consumers of the illicit substances. From time to time there is the Mexican sentiment that after all it's a United States—not a Mexican—problem anyway. Certainly the issue is somewhat sensitive as it occasionally brings up charges of corruption among Mexican law enforcement agents. During the June 1978 meeting of the Mexico-United States Interparliamentary Group, the issue of drug trafficking was discussed again. Speaking before the Group, Attorney General Bell stated that cooperation between Mexican and United States Federal law enforcement officials could only be described as "excellent." [61]

Boundary, Ocean, and Environmental Issues

With regard to boundary, ocean, and environmental issues, the role of the United States is to seek out solutions to these problems which are inevitable, given the fact that we share a 2,000-mile boundary, rivers, and ocean areas. During Secretary Vance's meeting with Foreign Minister Roel in May 1978, new agreements were reached which redefined the maritime boundaries and replaced the extradition treaty of 1939 with a new one. In 1977, a new agreement was concluded which clarified rules for managing fishing resources. Both countries participate in the Law of the Sea Conference, and while a final agreement on the regulation of seabed mining has not been reached, Mexico has proved to be more moderate in negotiations than have other members of the group of 77. Both the United States and Mexico have considerable economic interests in their respective 200-mile sea zones. As previously discussed, issues concerning air and water pollution remain.

The role of the United States has sometimes been well served by outside commissions, such as the International Boundary and Water Commission success is settling the boundary dispute in 1970, but other Commissions and joint-consultative mechanisms have proved less successful. The United States-Mexico Trade Commission, established in 1965, fell into disuse by 1973; and the U.S. Commission on Border Development and Friendship faded with little notice in the early 1970's. While some of the consultative mechanisms, specifically

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[59] Ibid., p. 11.

[60] Senate, Committee on Foreign Relations, Subcommittee on International Operations. Hearings on Oversight of the International Narcotics Control Programs, May 9, 1978, U.S. Government Printing Office, 1978.

[61] U.S. Congress, House, Committee on International Relations. Committee Print. Eighteenth Mexico-United States Interparliamentary Group Conference. Report of the United States House of Representatives Delegation, November 1978, U.S. Government Printing Office, 1978, p. 7.

those dealing with tourism, appear to be functioning well and serving the interests of both countries, the same cannot be said for the major U.S. initiative undertaken by Presidents Carter and Portillo in 1976. Thus, after President Carter's announcement in August 1977 of the new program to deal with undocumented workers, President Portillo's principal adviser on emigration, Dr. Jorge Bustamente, commented as follows:

> The measures constitute an unfriendly gesture to Mexico because they imply a total lack of sensitivity to the economic situation of Mexico today. These are unilateral measures. The so-called mechanism of consultation between the two governments was nothing more than a mechanism of information. Mexico was simply told what was going to happen.[62]

In attempting to reconcile the various outstanding issues between the United States and Mexico, the role of the United States must include not only an informed understanding of the problems at hand, but also an apppreciation of the criticism leveled at the United States by Dr. Bustamente. Whether the United States seeks to define its new relationship with Mexico in terms of an world-scale trading partner or as an emerging world leader, these words of caution may prove valuable.

Role of the Congress

Given the preceding comments, the nature of the issues confronting Mexico and the United States, the urgency of the trade, immigration, and energy problems, and the drafting of PRM-41 and the publication of a committee print on Mexican oil and natural gas policy, cosponsored by the Joint Economic Committee and the Senate Foreign Relations Committee, it seems that the 96th Congress will become even more attentive to United States-Mexican issues than previous Congresses. Congressional oversight and budgetary responsibilities are clear. However, because of the diversity of the issues already outlined, it seems likely that a large number of committees, including some not generally regarded as having jurisdiction over foreign relations, will become involved in formulating policy.[63]

If new trade agreements are reached, a new immigration policy adopted, or a bracero-type program reinstituted, congressional interest can be expected to be high, as these matters have explicit domestic effects especially in certain agricultural areas and in those parts of the Southwest where the legal Hispanic population is large and growing.

With regard to concluding new agreements with Mexico for the purchase of oil and/or natural gas, debate is likely to be heated. Chairman of the Senate Foreign Relations Committee Senator Frank Church said, in a recent press interview, that relations with Mexico would receive priority consideration by the committee this year.[64]

In addition to hearings by the committees, the United States will continue to send delegates to the annual meetings of the Mexico-United States interparliamentary meetings. While critics of the meetings (which began in 1960) have cited the relatively limited contribution the group has made to solving complex issues, it should be

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[62] Schroder, Richard C., "Mexico and United States Relations." Editorial Research Reports. Congressional Quarterly. Washington, D.C., 1977. Sept. 23, 1977. Vol. II, No. 11, p. 710.

[63] Please see bibliography—as a partial measure of the number of committees already involved in United States-Mexican relations.

[64] For a recent discussion of congressional views on the United States-Mexico issues of oil and natural gas, please see Washington Post, Jan. 28, 1979, p. A2.

noted that the meetings did contribute to resolution of certain boundary disputes. In addition, the meetings have afforded Mexican delegates an opportunity to meet with U.S. members who have a special interest in Mexico-United States issues.

As the United States becomes increasingly concerned with energy-related problems, the emphasis on redefining our relationship with Mexico is likely to increase. For this reason, the role of the 96th Congress will be crucial in determining which tradeoffs are to be studied and perhaps implemented. In pursuing this goal, the role of the Congress will also include the responsibility of helping to prepare the U.S. public so as to increase awareness of the complex issues at hand and to build a consensus which will support the implementation of new policies for dealing with an old and changing neighbor.

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EAST ASIA

U.S. ECONOMIC ROLE IN EAST ASIA

(By W. Robert Warne*)

Issue Definition

East Asia offers immense potential and diversity which present unique opportunities and challenges for the United States. Countries within the region, such as Korea, Singapore, the Republic of China, and Japan, are among the world's fastest growing economies. Key raw material imports such as natural rubber, tin, wool, meat, and some petroleum come from the region. East Asia's rapid growth and dynamism makes it a leading force in international trade. This dynamism offers U.S. business increased commercial opportunities as well as sharpened competition.

East Asia's strategic location is critical to maintaining access to transportation arteries in the Pacific Basin. The region encompasses nearly one-third or 1.2 billion of the world's population. Intense and growing population pressures in some countries create severe problems of food shortages and unemployment. Two of the world's leading economies, Japan and China, are within Asia. Several others are of first-class importance: Indonesia, the fifth most populous nation in the world; and Australia, a raw material source and market for U.S. exports. These factors make East Asia central to U.S. global economic and commercial policies.

The United States has an instrumental role in maintaining the strategic balance in Asia. Our objective is to cooperate with the East Asian countries in maintaining peace, stability, and economic progress.[1] In the past 35 years, the United States has fought three wars in Asia which cost over 200,000 American dead and untold national treasures. The United States hopes to cooperate with the Asian countries in creating a stable order and fulfilling our mutual economic aspirations. Such cooperation will hopefully create an environment in which future conflicts can be resolved peacefully.

Since the fall of Saigon in 1975, the region's non-Communist countries have worked together to strengthen regional economic integration. On the other hand, the Communist countries have become increasingly bitterly divided, and some have suffered severe economic debilitation. The strategic balance between the four most powerful countries in the region—China, Japan, the Soviet Union, and the United States—has kept potential conflicts within check except in

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[1] See chapter, "Stability in the Pacific Basin," p. 453.

Southeast Asia. The U.S. policy has been to maintain this balance, focusing on economic growth and cooperation.

U.S. economic interests in the region concern trade, investments, access to critical raw materials, and sustained economic growth and development. U.S. two-way trade with the region amounts to $60 billion a year, exceeding that of any other region. Trade with East Asia amounted to 23 percent of our total in 1977, for example, compared to 18 percent with the nine European Community countries. U.S. agricultural exports to the region totaled nearly $5 billion, and are growing rapidly. On the other hand, our trade imbalance with Asia, especially with Japan, accounts for over 60 percent of our projected $28 to $30 billion global trade deficit; the imbalance with Japan may reach $12 to $13 billion, nearly half of the total deficit.[2] U.S. investors have placed over $15 billion in East Asia, and repatriation of profits and other remunerations amounts to $720 million annually. U.S. businessmen assign the region high priority because it offers the greatest commercial opportunities in the world.

In short, the major East Asia economic issues facing the 96th Congress will be: (1) Trade—The Multilateral Trade Negotiations (MTN) package and related issues such as increased imports from Asia and other countries; (2) normalization of relations with China and possibly with Vietnam; (3) Japanese trade relations; (4) ASEAN and international commodity agreements; (5) bilateral foreign assistance; (6) contributions to the multilateral development banks; and (7) amendments to the Philippine bases agreement.

Background and Role of the United States

Trade Competition

East Asia is entering a new era of favorable economic growth prospects for many countries, combined with severe development problems for the poorest countries.

Its newly industrialized countries—Korea, Taiwan, and Singapore, for example—are intensifying competition in labor-intensive and medium-technology products. Japan has rapidly transformed its exports from limited variety and relatively poor quality to a scope, quality, and technology that are competitive worldwide. In fact, U.S. exporters are having increasing difficulty in competing in Asian markets; many factors contribute to this situation, including financial terms, nontariff barriers, shorter supply routes, and aggressive marketing. But, despite a 60-percent depreciation of the dollar vis-a-vis the yen, U.S. exporters are still frequently not price competitive in the region with Asian suppliers.

Encouraged by Japan's success and U.S. influence, many East Asian countries have adopted an export-oriented development strategy. For example, between 1970–76, Korean exports grew 32 percent annually; Taiwan, 16 percent; Singapore, 12 percent; and Hong Kong, 9 percent. The United States supplied the market for much of East Asia's expanded exports. Taiwan, Korea, the Philippines, and Hong Kong shipped over 30 percent of their exports here in 1977. The American consumer has enjoyed, as a result, access to low-cost, quality imports. This competition has helped to keep down domestic inflation. Under-

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[2] See chapter, "The Political Impact of Economic Relations With Japan," p. 386.

standably, the call for protectionism is rising in the United States and other developed countries. Continued import restrictions in Japan are particularly troubling. Temporary, selective protectionism can sometimes aid difficult internal adjustment, but broad protective programs jeopardize the trading system that has contributed so much to the growth and the prosperity of the past 30 years. Voluntary restraint agreements against imports are proliferating and show signs of becoming permanent. Such restrictions, though arguably preferable to statutory barriers, often aggravate tensions and can slow economic development, especially in the developing countries. "Beggar-thy-neighbor" trade policies could undercut international cooperation and the existing trade system.

Thus, the United States must adjust to an era in which our economic role in the region is being keenly challenged. If current trends persist, others will gain the bulk of this dynamic, growing market; U.S. economic influence, in turn, will progressively decline and the serious trade imbalance will persist and continue to aggravate international monetary stability.

Chronic Poverty

While several countries have reached self-sustained economic growth, others face immense developmental problems, including over population, food shortages and inadequate financial resources. Half of Indonesia's population is under 15 years of age; despite an effective family planning program, its population grows about 2 percent annually. Indonesia, consequently, needs to find jobs for 1.5 million people a year and expand an inefficient and over-populated agricultural sector. Already the world's largest importer of rice, Indonesia faces a growing food deficit. Similarly, China, Vietnam, the Philippines and others face population pressures which strain available food resources and land. Population, of course, represents a valuable asset in developing labor intensive industries, but market opportunities must exist for manufactured products. The Philippines has effectively mobilized its highly trained, cheap labor to begin producing light manufactures. These nations call for increased development aid, the transfer of technology, and an open, expanding international trading system. Such a system will enable these countries to create productive activities for their people and to continue to develop.

Japan

The second largest economy in the non-Communist world, offers immense opportunities as well as points of economic stress. Japan's current account surplus in 1978 is expected to amount to about \$18–\$20 billion; its bilateral export surplus with the United States will be about \$14 billion compared to \$11 billion and \$8 billion respectively in 1977 and 1976. This immense imbalance must be corrected. Yen appreciation should reduce its trade surplus substantially in 1979. Japan is also taking some steps to open its markets to imports of products, although nontariff barriers and quotas remain for key products, such as citrus and meat imports. The United States has undertaken intensive discussions with Japan to deal with these problems and to coordinate economic policies and negotiations recently resulted in raised quotas.

Japan has agreed for example, to import additional U.S. agricultural products and to expand purchases of U.S. high technological products.

A joint Trade Facilitation Committee helps resolve market access problems encountered by U.S. firms. Favorable agreements on the Tokyo Trade Round (or MTN)[3] will afford added market access and trade expansion opportunities. Japan is also stimulating domestic demand to absorb production and reduce pressure to export, but many observers would like to see a more rapid expansion in domestic consumption than current projections. Current expansion of imports of manufactured goods has not benefitted the United States to a great extent.

ASEAN[4]

Five countries—Indonesia, Malaysia, the Philippines, Singapore, and Thailand—formed the Association of Southeast Asian Nations (ASEAN) 10 years ago to promote economic cooperation and integration. These countries have a combined population of a quarter billion and offer new opportunities for regional cooperation and stability. The five have achieved between 6 and 11 percent annual growth in gross national product over the past 6 years. Each has demonstrated stability which gives hope and confidence for the future. As they prosper and mature, ASEAN has looked to U.S. markets for sophisticated products and is becoming a major center for U.S. trade, amounting to $10 billion last year. However, Japan is the major trading partner and source of investment for ASEAN countries.

The United States has shared a long history with one of its members, the Philippines. The other four also have had strong and valued ties with us. The stability and favorable economic prospects of ASEAN have renewed commercial interests in these countries. For example, the President of the Export-Import Bank, John Moore, recently assessed the needs for financing new exports to each of the countries. The Overseas Private Investment Corp. has just completed exploring investment opportunities in ASEAN; OPIC has led an investment mission of businessmen to look into these prospects. Similarly, the United States Chamber of Commerce plans to establish an ASEAN–U.S. Business Council. The council brings together U.S. business leaders and representatives of the ASEAN Chambers of Commerce and Industry to discuss areas of mutual cooperation.

ASEAN and the U.S. Government undertook in September 1977 a dialogue on economic issues which set up consultative mechanisms on a range of economic issues of mutual interests: Development assistance, energy, science and technology, educational and cultural exchanges, drug information and business cooperation. Fourteen ASEAN Ministers led by General Romulo, the Philippine Foreign Minister, attended the first ASEAN–U.S. Ministerial meeting of the dialogue in Washington in August, 1978. The Ministers met with Members of Congress. Several Members working on East Asian Affairs were also on the U.S. delegation to the meeting and have subsequently reciprocated by visiting the region. ASEAN indicated pleasure with top level U.S. participation, including President Carter, Vice President Mondale, and six Cabinet members.

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[3] See chapter, "Multilateral Trade Negotiations," p. 48.
[4] See chapter, "Southeast Asia: U.S. Policy Toward ASEAN," p. 471.

The meeting further strengthened ASEAN–US. ties and underlined the growing U.S. partnership with the countries of the region. The United States is keeping ASEAN fully informed of our policies and talks with other countries in the region, such as Vietnam. Bilateral U.S. development assistance, however, is relatively small to individual ASEAN members or as a group. The United States is exploring other areas of cooperation, particularly in energy and science and technology. It plans to proceed to ASEAN's pace and to respond to the extent possible to ASEAN's program for cooperation. ASEAN has placed priority in commodity arrangements to help stabilize prices and on maintaining access to markets In several cases, such as establishing a regional system for stabilizing export earnings and granting the Generalized System of Preferences (GSP) to Indonesia, the United States has not been able to respond favorably.

ASEAN members consult on all major economic issues. For example, they hold monthly Ministerial meetings to approve proposals developed in numerous joint technical discussions.

ASEAN is eliminating or reducing trade duties among its members. Economic integration, however, has not moved ahead rapidly because of keen competition among each other.

INDONESIA

Indonesia is the largest and most populous Southeast Asian nation, with 135 million people. The United States gives priority to continued friendly relations with Indonesia; a sound relationship is essential to U.S. strategic interests. Indonesia, in addition, is influential throughout the Third World. It also controls vital maritime passages connecting Europe and the Middle East to Asia. The United States enjoys access to major Indonesia raw material supplies such as petroleum, liquefied natural gas, rubber, tin, and other metals. The U.S. capital stake there amounts to $4 billion. Indonesia offers a major market for U.S. exports. It looks to the United States to assist in meeting its growing food shortage and providing financial assistance to help overcome its immense developmental problems.

THE PHILIPPINES

The Philippines and the United States are allied under the Mutual Defense Treaty. U.S. bases in the Philippines, particularly Clark Air Base and Subic Naval Base, maintain a U.S. presence in Southeast Asia. The bases contribute to maintaining a strategic balance in the region. The Philippines sought to amend the military bases agreement which is valid until 1991, wanting to increase Filipino sovereignty over the bases and thereby bring it into line with present times and with U.S. military arrangements elsewhere. After several years of negotiations, agreement was recently reached on arrangements. Each base would be officially under the control of a Filipino and the Philippines would be in charge of overall security. The United States, in turn, is assured of unhampered military operations on them. The administration indicated it would seek to obtain congressional approval of $450 to $500 million of aid over the next 5 years for the Philippines. This amount would be broken down as follows: $50 million in grant military aid, $250 million in military credits, and $150 to $200 million in economic support.

The United States has sought an improvement of the human rights situation there. U.S. officials—including Vice President Mondale during his visit in May 1978—have made known U.S. concerns. There have been positive developments in certain areas during recent months, including the release of detainees and the beginning of a dialog between the Government and the opposition. But, problems remain and the United States will continue to press for improvement.

The United States has substantial economic relations with the Philippines, with U.S. investments exceeding $1 billion and annual two-way trade amounting to $2 billion. The business climate remains particularly favorable for U.S. business in part because of the Filipino sense of a special relationship with the United States developed during the colonial past. As a result, Philippine-United States relations are at a sensitive juncture at this time.

China [5]

The United States decided to normalize relations with China because a new relationship with China is deemed by the administration to be in our strategic and economic interests. Normalization is seen as insuring that the current strategic balance in the region remains intact and facilitates China's expanding commercial relations with us. China plans to increase purchases of U.S. goods, especially agricultural products, and to obtain U.S. technology to develop petroleum production and other resources and possibly to promote joint ventures in selected manufacturing areas.

China has moved rapidly this past year to carry out an ambitious modernization program and to expand contacts with the West. Chinese leaders have travelled abroad and concluded agreements with major western countries such as Japan and the European Community. Relations with the United States also expanded over the past 6 months, the United States agreed to joint projects in energy, space, medicine, agriculture; over 50 Chinese students and research scholars are expected to come here. Six American oil firms are negotiating exploration of China's off-shore oil reserves. U.S. trade, as a result, tripled last year over 1977 to exceed $1 billion. U.S. grain sales will surpass $500 million; the potential for such large future sales is great.

China offers substantial import opportunities because of the Government's commitment to modernization, rapid economic growth and industrialization. These industrial imports will likely concentrate on oil exploration equipment, steel, power, coal, and rail transport. United States-China trade will likely continue to grow in 1979, although this expanded trade does pose problems such as China's request for military sales and transfers of sensitive technology. China's import capabilities, however, will be limited by the availability of finance and the ability to absorb new technologies. China's foreign exchange reserves are high, exceeding $5 billion, the equivalent of 1 year's imports. China consequently continues to enjoy a favorable credit rating in international markets.

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[5] See chapters. "Relations With the People's Republic of China and Taiwan," p. 424; and "Economic and Political Stability of the People's Republic of China," p. 438.

Taiwan

The Carter administration has said it will continue to take into account the well-being of the Taiwanese. The concept is to maintain a framework of cooperation which will safeguard substantial commercial relationships amounting to more than $550 million in investments and more than $7 billion annually in trade. The United States currently is running a large trade deficit with Taiwan, which will likely reach $2.8 billion in 1978. The United States seeks to insure the well-being of the Taiwanese people and to continue beneficial ties with the people of Taiwan.

Taiwan enjoys a sound, rapidly growing economy; it has the third highest per capita GNP in Asia of over $1,000 a year. U.S. economic ties should continue to grow despite normalization. It is notable that Japan's trade with Taiwan grew over 233 percent since it normalized relations with China; Australia's grew 370 percent; and Canada's, 540 percent.

The State Department expects to continue in force all treaties and agreements with Taiwan, except for the defense treaty. This treaty will be terminated at the beginning of 1980. On an unofficial basis many relations will continue as before. Similar to the arrangements established by Japan and others, the administration plans to establish a corporation organization having field offices in Taiwan. The United States is pursuing arrangements with authorities on Taiwan to provide services such as visas, passports, protection and other forms of assistance. Congress will be asked to approve legislation and appropriate funds for this continuing relationship with Taiwan.

Korea [6]

United States-Korean relations are entering a new phase which is expected to be marked by even closer cooperation and mutual economic rewards. "Koreagate," i.e., influence peddling, and misunderstandings over troop withdrawal policy have in large part been resolved, although adequate security for South Korea remains a central concern of both parties.

In the meantime, Korea's steady and high rate of real economic growth over the past 15 years of nearly 10 percent per annum has moved it into the ranks of the newly industrialized countries. In less than 25 years, Korea has developed from a wretchedly poor country to a nation with an annual per capita income of over 1,000. Exports have stimulated this rapid growth. Korea's international trade, including a wide range of manufactured exports, has made it a keen competitor in international markets. As a result, Korea will increasingly take on the responsibilities of a first class trading nation. This will call for adjustments in its responsibilities in the General Agreement on Trade and Tariffs; in its relations with other developing countries; in its role in international financial institutions; and in its current trading practices. Of greatest economic interest to the United States is Korea's growth as a major market for American products; as its imports are expanding even faster than exports.

Already it is the 5th largest market for U.S. agricultural exports and 13th largest export market overall. If the U.S. share of Korea's

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[6] See chapter. "U.S. Troop Withdrawal From South Korea," p. 403.

imports merely remains the same, Korea will become America's seventh most important overseas market by 1981. Not only are Korea's import needs rapidly expanding, but the Korean Government is liberalizing the import structure, and offering easier access to its markets. Increased export promotion efforts aimed at Korea promise substantial benefits to American suppliers.

Vietnam

The United States seeks to move toward a new relationship with Vietnam. The Socialist Republic of Vietnam has expressed a desire to normalize relations with the United States. The United States is also interested in normalizing relations provided there are no conditions attached, such as a commitment to give aid to Vietnam. The United States has talked with Vietnam and will talk again. These sessions have not been negotiations, and no agreements or understandings have been reached. In these sessions, the Vietnamese appeared to be prepared to drop the precondition of American aid. The United States expressed concerns over ramifications of their treaty with the Soviet Union, over the need for the orderly departure of refugees, and over their relationship with Cambodia. The United States also has raised with Vietnam the issue of the exodus of part of its middle class in the south. Our diplomats do not consider those concerns as preconditions, but they do represent issues that must be taken into account in deciding how and when to proceed with normalization.

The administration has made no decision concerning possible normalization. The United States has made it clear that it will avoid taking sides in the current quarrels among Communist states in the region. It will continue to look for ways to check the conflict in Indochina and to encourage humane treatment of its people. The administration is prepared to lift the trade embargo with Vietnam should diplomatic relations be established.

Kampuchea

The United States is extremely concerned over the conflict between Vietnam and Kampuchea (Cambodia). While the United States took great exception to the human rights environment of the Pol Pot regime, we maintained unilateral intervention against that regime by any third power is not justified. This conflict threatens regional peace and stability in Southeast Asia. The United States is committed to a stable system of independent nation-states throughout the region. Concern over the human rights environment in Kampuchea has been voiced in all appropriate fora and channels including the last General Assembly meeting of the United Nations. The United States and other governments have used the U.N. Human Rights Commission to bring Kampuchea's abuse of human rights to the attention of the world. The full session of the Commission will discuss Kampuchea on a priority basis in its next session. The United States is also urging the U.N. Secretary General or his special representative to examine personally the human rights situation there. So long as the Kampuchean Government massively abuses human rights, the United States will not establish diplomatic relations or lift the current embargo on trade. The effects of the recent conquest by Vietnam remain to be seen.

Australia and New Zealand

Both countries have stable, democratic governments and literate, middle-class populations, providing an excellent foundation for future growth. But, as is the case with the United States and other industrialized countries, inflation and unemployment are serious problems. Because of its dependence on agricultural exports, New Zealand faces particularly severe problems and is in the process of restructuring its domestic economy to make it more competitive in international markets. New Zealand is shifting from its traditional markets for dairy products and sheepmeat in Europe, and is endeavoring to reduce petroleum imports. It is exploring natural gas reserves and other energy sources to cut the costs of oil imports.

Australia is correcting current dislocations by diversifying its export markets and improving its competitive position in international markets. Bountiful mineral resources such as coal and uranium enable Australia to maintain its exports. Australia is the sixth largest recipient of U.S. investment, amounting to $5.5 billion by 1976.

Common historical origins, language, and political forms link the two closely to the United States. These ties are further cemented by the mutual defense agreement of the ANZUS Treaty. The United States also shares with them a common interest in the stability and continued economic progress of East Asian and the Pacific Islands.

Both countries are important trading partners. The United States shipped about $2.5 billion worth of goods to Australia such as aircraft, motor vehicle parts, tractors, and chemicals in 1977. U.S. exports to New Zealand amounted to over $400 million last year, despite its depressed economy.

The South Pacific

A region in rapid transition, self-government has become the rule rather than the exception. Since 1962, seven independent nations have emerged: Western Samoa, Nauru, Tonga, Fiji, Papua New Guinea, Tuvalu, and the Solomons. The Cooks and Niue have gained a large measure of autonomy. Guam, American Samoa, the Northern Marianas, and the French territories have also become self-governing. Micronesia is expected to be self-governing within a few years. The British and French are prepared to grant the New Hebrides independence within the next few years. But, French Polynesia and New Caledonia will likely remain self-governing French territories for some time.

These countries and territories vary greatly in size and culture. For example, Papua Guinea has 3 million inhabitants and rich resources, while Tuvalu has only 8,000 inhabitants. Considering their remote, island status, limited resources, and relatively small populations, many of these new nations and territories face serious economic development problems. Some have questionable economic viability.

The United States has a very real interest in the region. As part of the Pacific community, we are tied to the area by geography, history, and growing economic interests. We consequently are seeking a stable, economically healthy South Pacific which develops strong, cooperative, regional institutions. The United States, however, does not contemplate massive aid programs for the South Pacific. This would be contrary to the islands' and our own interests. Our objective is to support and strengthen their sovereignty and independence, and to promote regional cooperation. We will continue to look toward Australia and New Zealand to exercise a leadership role in the region.

Our policy supports South Pacific regional cooperation. The South Pacific Commission (SPC), for example, represents the islands' interests; each has an equal voice in its deliberations, and its Secretary General is now normally selected from among island members. The United States currently contributes 17 percent of the SPC budget, down from the previous 20 percent because of increased contributions from island members. In 1972, the independent states founded the South Pacific Forum which has become a central force in orderly development in the region. The United States participates in the SPC; and while not a member of the Forum, supports its commitment to regionalism, and is adapting existing programs and devising new ones to support them and to meet development needs.

The United States is also working with international organizations such as the U.N. development program and the Asian Development Bank to increase multilateral assistance and strengthen regional programs. A regional AID representative has been assigned to our Embassy in Suva to help coordinate development activities through AID grants to private voluntary organizations.

Despite these efforts, many of these island nations face nearly insurmountable problems in achieving rapid economic growth. Their small populations, isolation, and limited resources restrict development opportunities. They are making strides to cooperate and expand their resources, especially to develop skilled manpower, but these long-term efforts will not likely raise some of the economies above a subsistence standard for the foreseeable future.

Economic Development Aid

Despite its major importance and immense needs, U.S. financial contributions to East Asia are rather modest. The region is currently receiving about 13 percent of worldwide U.S. bilateral economic development assistance. Estimated bilateral aid programs to the region in fiscal year 1978 total $134 million: Indonesia, $74 million; Thailand, $8 million; and the Philippines, $53 million. (Differences are due to rounding.) The United States is also providing the region in fiscal year 1978 about $230 million of food aid: Indonesia, $140 million; the Philippines, $30 million; and South Korea, $60 million.

Multilateral development banks (MDB's)—the World Bank Group and the Asian Development Bank—provide the bulk of official financial flows to East Asia. The United States is a major contributor to these banks, but our share is diminishing, largely because of the growing economic capability of other donors. The World Bank Group provided about $1.6 billion of ordinary capital (hard loans) and about $140 million of International Development Association credits (soft loans) to the region in the Bank's fiscal year ending June 1978. Major recipients in millions of dollars are: Indonesia, $505; Korea, $439; the Philippines, $438; Thailand, $232; Malaysia, $86; and Fiji, $15. These loans cover the range of development needs, but focus on agricultural, integrated rural development, and other activities meeting basic human needs such as health, education, and housing.

To expand international cooperation and focus on regional development activities, the United States played a major role in establishing the Asian Development Bank (ADB) in Manila in 1966. The ADB serves U.S. foreign policy objectives because it promotes Asian development and cooperation, and encourages a sharing of development efforts. The bulk of its capital is contributed by 28 regional members, particularly Japan. It has 14 nonregional members, including the United States, Canada and 12 West European countries. Approved loans to 25 Asian developing countries reached $4.2 billion at the end of 1977; leading in 1978 should reach about $1.2 billion this year. The Bank is soundly managed, maintaining quality, high impact loans. It is uniquely an Asian institution. Its board operates in a collegial fashion, and most decisions are made unanimously.

Recent U.S. actions have not indicated full support of the Bank. U.S. unfunded postpledges to the Bank's ordinary capital amount to $45 million. The United States is the only member seriously behind in the agreed upon replenishment schedule, and several members have criticized the United States for this. The House and Senate Appropriations Committees have taken a consistent position that those replenishment schedules are funding targets, not binding commitments, and the United States is free to slow its contributions if it finds that its own economic conditions warrant such reductions.

The ADB has generally been responsive to our policy objectives. It has kept salary levels down and controlled staff expansion. It has also pursued a circumspect policy toward lending to Indochina and has tried to avoid agricultural projects which would cause injury to U.S. producers. The Bank has emphasized projects which would meet basic human needs. In addition, it has responded to our desire to encourage burden sharing. We are currently providing about 16 percent of soft loan funds. Japan is by far the major contributor, providing over 30 percent of total funds. With less than 9 percent of the total voting power the United States, however, is not in a position to dictate policy. Indeed U.S. attempts to impose its will could undermine the Bank's multilateral character and destroy its effectiveness.

THE ROLE OF CONGRESS

All of the major congressional committees concerned with finance, foreign affairs, trade, and arms will have a direct and vital impact on U.S. relations in East Asia. These committees have exercised close oversight and have asked for regular, thorough testimony by executive branch officials. They have also conducted hearings and inspection trips to the region.

The 96th Congress will likely intensify its oversight responsibilities because of its concern over issues cutting across the whole range of East Asian economic issues.

Trade.—The administration notified Congress on January 3 that the United States had reached substantial agreement on the multilateral trade negotiations (MTN). The Conrgess is expected to vote on the necessary implementing legislation in August or September. As part of this package, Congress will be asked to approve the nontariff barrier codes and to extend the waiver on countervailing duties. Congressional action on this legislation will bear on U.S. leadership in maintaining an open and growing international trade system. Such leadership is deemed central to U.S. policy objectives in East Asia because so many countries in the region look to trade expansion as the key factor in their economic growth. In turn, growth is a driving force in achieving national objectives and promoting regional cohesion and stability.

Normalizing of relations.—The Congress will be asked to act on various pieces of legislation to carry out the normalization of relations with China and to adapt to the new situation in Taiwan. Congress will play a key role in determining the nature of U.S. programs and relations with Taiwan. For example, it will be asked to consider legislation to confirm Taiwan's continued eligibility for programs offered by U.S. governmental agencies such as the Eximbank Bank, the Overseas Private Investment Corporation, nuclear supply, and arms sales.

The possibility exists of also normalizing relations with Vietnam. Informal talks continue. There is no deadline to complete these talks, but it is possible that in the foreseeable future the Congress will be asked to approve such arrangements. Once and if embassies are established in the two countries, the United States would expectably lift its trade embargo on Vietnam. The Congress, of course, will expect to be consulted prior to and during any such normalization.

The administration has no plans to provide any direct bilateral aid to Vietnam. The multilateral development banks have made loans to Vietnam and Laos. The United States has opposed such loans to Vietnam in the past several years. The administration, however, is weighing carefully the merits of each of the Banks' project proposals. It considers each loan's developmental impact, the human rights environment in the country concerned and the impact on the basic human needs of the people. For humanitarian reasons the United States has provided modest amounts of food aid to Laos in order to relieve suffering created by floods and other disasters. The multilateral development banks and the United States are not considering aid to Kampuchea (Cambodia).

Japan.—The House Ways and Means Subcommittee on Trade monitors economic relations with Japan. This and other committees will follow closely Japanese efforts to remove nontariff barriers, to reduce its current account surplus and to stimulate domestic demand so as to absorb increased amounts of local production. Attention will be given to Japanese measures to increase imports, both of manufactured goods and agricultural products. A major part of this effort will be Japanese trade offers and agreements on various codes of the Generalized Agreement on Trade and Tariffs (GATT) which are part of the Multilateral Trade Negotiations (MTN).

ASEAN.—The Senate Foreign Relations and House International Committees met with the ASEAN ministers during the August joint meeting here. At that time, the ASEAN representatives raised their continuing concern over the need to stabilize international commodity prices and to maintain adequate access to markets. Several pieces of legislation under consideration by the 95th Congress which affect ASEAN commodities will be reintroduced. These included the International Sugar Agreement, tin disposals from U.S. strategic stocks and contributions of tin to the International Tin Agreement. In addition, the administration is currently negotiating an agreement to establish a

Common Fund to help finance international commodity agreements and other commodity measures. ASEAN places high priority on this fund. Its implementation would require relatively modest U.S. contributions. If negotiations are successfully completed, the administration will submit the Common Fund agreement along with an appropriation requirement. ASEAN countries produce the bulk of the world natural rubber. The United States is just undertaking negotiations of an international rubber agreement. This agreement, if completed, would, of course, also require congressional approval. Thus, congressional action will be needed on several upcoming agreements that are central to ASEAN-U.S. relations.

Bilateral development assistance.—U.S. development aid to East Asia is going down both in relation to total transfers worldwide and in real value, if price inflation is taken into account. East Asia's share of the total AID program will drop from about 13 percent in fiscal year 1977 to less than an estimated 10 percent in fiscal year 1980. As a relatively well off region, some decline is expected. Indonesia's projected decline in oil production will reduce its own ability to finance development.

Multilateral Development Bank loans are most important in total resource flows to East Asian countries. The United States, however, is seriously behind in its contributions to the World Bank Group and the Asian Development Bank, partly because the Congress contends that the U.S. payments schedules for these agencies are goals rather than binding commitments, partly because of differences between the Appropriations Committees and the Executive on the relative priority the U.S. should give this program compared to others, and partly because of complex policy disputes in which the Congress wishes to see the development banks take actions which are not supported by other member countries. This has handicapped the Bank's ability to make loans. It has also reduced international support for U.S. efforts to expand other donors' share of contributions and thereby to diminish the burden of U.S. contributions. The administration will be submitting legislation in order to make current contributions and makeup outstanding unfunded postpledges.

As a result, the administration has unusually large contribution requests for the Asian Development Bank in fiscal year 1980. It will seek an appropriation of $248.4 million for the Bank's ordinary capital: $203.5 million for our third of four tranches of the second ADB replenishment, and $44.8 million for unfunded past pledges. It will also seek appropriations for the third tranche of $60 million to the first replenishment plus $111 million for the first (of four) contributions to the second replenishment. An authorization of $445 million for the second ADF replenishment will also be requested.

The ADB requests will be included in a total fiscal year 1980 budget request for the multilateral development banks of $3.6 billion, of which $990 million constitute unfunded past pledges. The United States also remains $292 million in arrears to the fourth International Development Association (IDA) replenishment; besides fulfilling this pledge, the administration will seek the final tranche of $800 million in fiscal year 1980 for the fifth IDA replenishment.

In short, the upcoming session will be critical in determining U.S. support of the MDB's and in their lending volume. Continued substantial U.S. arrearages could undermine the U.S. role in these banks and undercut the current cooperation system of pledging and burden sharing. On the other hand, reduced U.S. payments might succeed in forcing the banks to accede to congressional demands or, alternatively, it might disengage the United States from the costs and limitations caused by participation in these international foreign aid programs. A diminished role, either of the Banks or of U.S. contributions to them, or both, would adversely affect U.S. policies and relations in East Asia.

Philippine bases agreement.—Recent agreement on amendments assures continued U.S. military operations at Clark Air Base and the Subic Bay Naval complex. These bases enable the United States to project military strength throughout the Pacific. The amendments clarify Filipino sovereignty over the bases and commit the administration to seek congressional approval of $450 to $500 million of military and economic acid over the next 5 years.

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THE POLITICAL IMPACT OF U.S. ECONOMIC RELATIONS WITH JAPAN

(By Douglas D. Mitchell*)

Issue Definition

As close political allies and as the two leading market economies in the world, the United States and Japan have enjoyed a relationship of mutual cooperation in economic and international security affairs in recent years. Today, greater conflict exists in the relationship, primarily because of outstanding and persistent international trade issues. American economic well-being and international stability make it important for the cooperative relationship to be preserved even as persisting economic problems draw greater attention to the rivalry between the two countries.

United States-Japan relations have changed considerably from years past, presenting new challenges for the United States in maintaining the bilateral United States-Japanese relationship and in filling the U.S. role in East Asia as a region. Whereas defense issues, centered on domestic Japanese controversy over the Mutual Security Treaty, were the more contentious through the 1960's, economic issues now pose the greater problems in making mutually acceptable policy decisions. This shift from a concentration on military issues to economic issues has been accompanied by a partial evolution in the Japanese perception of its role in the world, in the region, and in its relationship to the United States.[1]

Equally important, U.S. perceptions of Japan seem to reflect more widely the economic tensions which have continued to grow. As a result, pressures on U.S. leaders may now be greater than ever to reassess the nature of our relationship with Japan and perhaps to redefine United States goals vis-a-vis Japan and East Asia.

United States-Japan trade relations have been particularly strained since 1977 and are likely to remain an issue of considerable concern in the next few years. At the heart of the bilateral trade controversy has been Japan's huge overall current account surplus and more directly her bilateral trade surplus with the United States. The 95th Congress emphasized the importance of achieving a significant reduction in Japan's external surpluses. Principally at issue for the 96th Congress will be whether to press for specific measures, and if so how hard, and whether to support administration strategies for resolving the difficulties in United States-Japan relations. Congressional actions will

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[1] Wakaizumi Kei. Consensus in Japan. Foreign Policy, No. 27, Summer 1977: pp. 158–177. Also Destler. I. M. United States-Japanese Relations and the American Trade Initiative of 1977: Was This "Trip" Necessary? in U.S. Congress. House. Committee on Ways and Means. Subcommittee on Trade. Background Articles on United States-Japan Trade Issues. Sept. 27. 1978. Washington U.S. Government Printing Office, 1978. 72 pp. Committee Print: 95th Cong., 2d sess. WCMP 95–102.

reflect the different weights assigned to maintaining close Japanese ties, supporting administration policies, and resolving the conflicting demands made on Congress by domestic economic interests.

Several unresolved issues are contained in the debate over bilateral United States-Japan relations. Most important are the extent of protectionism versus liberalized trade, disagreement over the preferred U.S. response to the declining value of the U.S. dollar, formulation of a policy to reduce U.S. and western vulnerability to OPEC actions, the clarification of U.S. strategic, political and economic interests in East Asia, and the more equitable sharing of costs incurred by mutual security interests.

In approaching these issues, Congress will both reflect and help to form U.S. perceptions of Japanese actions and motivations. At the same time, congressional actions may account significantly for Japanese impressions of U.S. intentions with regard to Japan. As a result decisions made primarily in the economic sphere may have important political consequences.

Background

The United States is by far Japan's most important foreign market; and for the United States, Japan's markets are more valuable than any save Canada's. Japan and the United States share goals of mutual economic well-being and regional stability. Those goals are served by an alliance which makes a guarantee of Japan's physical security while providing a firm basis for an American role in the strategically important Pacific basin. The relationship offers the United States a valuable "gateway to Asia," and gains for Japan maneuvering room in its dealings with its powerful neighbors, China and the Soviet Union. Finally, the United States has established strong ties to Japan not only as another open society and constitutional democracy, but as an ally of potentially great power.

Although neither country is likely to lose sight of these important reciprocal interests, increasing economic strains have appeared in the bilateral United States-Japan relationship, adding impetus to question on both sides about the mutuality of the relationship's benefits.

Sources of the Current Tensions

Strains in the bilateral United States-Japan relationship have appeared often since the mid-1960's, when the export-oriented Japanese industry posed its first consistent challenge to the American economy. In the last several years, as shown in table I, the United States relative trade position has declined, and its trade and current account balances have incurred large and unprecedented deficits.[2] The existence of large surpluses in Japan's balance-of-payments surplus is widely seen in the United States as an important obstacle to reducing U.S. external payments deficits. Additionally, the development of those surpluses concurrently with the U.S. deficits has suggested to some Americans a bilateral explanation for the U.S. decline (see table II).

The readiness among some Americans to think that Japanese external trade surpluses are the cause of the U.S. external deficits has been reinforced in some instances by beliefs that Japan benefits unfair-

[2] See chapter, "The Balance of Payments and Domestic Policies," p. 40.

ly from a "free ride" on defense spending, from government subsidy of its exports, from an undervalued yen, from protected domestic markets, from "dumping" its exports on foreign markets, and from contributing less than its fair share in overseas aid.[3]

TABLE I.—UNITED STATES AND JAPAN TRADE AND CURRENT ACCOUNT BALANCES

[In billions of U.S. dollars]

	1973	1974	1975	1976	1977	1978
Trade balance:						
United States	0.9	−5.4	9.0	−9.2	−31.2	−36.5
Japan	3.7	1.4	5.0	9.9	17.5	24.3
Current account balance:						
United States	2.5	1.4	15.5	3.1	−20.2	−25.0
Japan	.1	−4.5	−.4	3.9	11.0	17.5

Sources: International Monetary Fund Annual Report, 1977 and OECD Economic Outlook No. 23, July 1978.

TABLE II.—UNITED STATES-JAPAN BILATERAL TRADE BALANCE

[In billions of U.S. dollars]

	1973	1974	1975	1976	1977	1978
U.S. imports from Japan	9.68	12.34	11.27	15.50	18.62	24.46
U.S. exports to Japan	8.31	10.68	9.56	10.15	10.52	12.89
U.S. balance	−1.37	−1.66	−1.71	−5.35	−8.10.	−11.57

Source: Department of Commerce.

Taken together, these perceptions generate criticism of Japan's comparatively protected position in its security relations and in its trade relations. To the degree that such dual protection still exists, it has its origins in the period of postwar recovery, when U.S. patronage encouraged export promotion and import restrictions as stimuli to industrial development and economic growth in Japan. The extent of Japan's defenses has been limited since the American occupation by th pacifist terms of the constitution drafted under the guidance of Gen. Douglas MacArthur. Both economically and militarily, Japanese reliance on United States assurances was part of a strategic response in Asia to a postwar threat identified as Sino-Soviet expansionism. Japan may genuinely misunderstand American complaints today involving a situation in whose creation Americans were more-than-equal partners.

Perhaps in part to defuse U.S. criticisms made about Japan's protected position, some Japanese political and opinion leaders have called for a relationship of "equality" or "mutual benefit" with the United States, in place of the former "dependency" relationship. Left unstated is the judgment about which party in the earlier relationship benefited more. Whereas Americans have argued that Japan has prospered under the U.S. security guarantees, Japanese have responded that their own interests (for example, better relations with China) have often been deferred because of ties to the United States.

Presumably, Japan's expressed willingness to assume more responsibility for itself and in world affairs follows a recognition that the

[3] Berger, Michael. Hidden Dimensions in United States-Japan Trade. Pacific Community, April 1978: p. 328.

protections offered by the United States may be less meaningful in today's world and less beneficial for a Japan now in pursuit of national interests which are potentially antagonistic to those of the United States. If Americans react to such a Japanese shift as a self-serving change in the "rules of the game," then the Japanese may feel they have succeeded in illustrating the inconsistency they find in U.S. complaints about Japan's "unequal burden" to date.

Motivations aside, Japan has been held increasingly responsible for changing its protected position, with the result that many of the common complaints about Japan's unfair advantage appear less valid today than they were in 1970. For example, although the Liberal-Democratic Party's (LDP) planning for the annual defense budget still holds to a ceiling set at 1 percent of GNP, the growth in that GNP has permitted Japan's expenditures on its self-defense forces to grow into the world's seventh-largest military budget.

In trade practices, Japan has gradually reduced tariffs, eliminated quotas on all but agricultural goods, and reduced other formal trade restrictions. Particular product areas remain protected, however, and complaints are regularly heard about discriminatory government procurement practices, especially the restraints against purchases of foreign products by quasi-governmental public corporations, which occupy monopolistic positions in such important areas as telecommunications and electric power generation.

On the export side, Japan has agreed to negotiated restraints (orderly marketing agreements) on the sale in the United States of Japanese goods such as color televisions and specialty steel items. Such agreements have been made only after injurious effects of imports have been felt by U.S. producers, so that the Japanese continue to be accused, as in the past, of artificially stimulating exports. Governmental means of stimulus have included manipulating the exchange rates in order to keep the yen from appreciating, and more pertinent today, providing cheap loans and subsidies which often lead to large discounts in overseas markets.[4]

All these Japanese trade practices of concern to the United States and others have been subjects of the Multilateral Trade Negotiations in Geneva. Also, an agreement on agriculture reached in December 1978 provides Japanese concessions that could increase U.S. exports to Japan by $1.4 billion a year within 5 years.[5]

Finally, the level of Japanese economic assistance to developing countries has been criticized as too low since the late 1960's, especially by the countries of the Organization of Economic Cooperation and Development (OECD) nations. Although Japan has reiterated over the years its goal of overseas assistance at a level of 1 percent of its GNP, its repeated failure to achieve that goal, combined with the often restricted nature of the aid extended, has assured continuing complaints.

Some critics consider that Japanese changes in trade practices have been too limited and begrudgingly made; defenders of the Japanese position point to the short period of time over which those changes

[4] U.S. Congress. House. Committee on International Relations. Export Stimulation Programs in the Major Industrial Countries: The United States and Eight Major Competitors. Washington, D.C. U.S. Government Printing Office, 1978. 322 pp. Committee Print. 95th Cong., 2d sess.

[5] See chapter, "Multilateral Trade Negotiations," p. 48.

have been made. In any event, trade practices represent only one area of needed change, and Japanese trade concessions alone could not have been expected to forestall the growing imbalance in the bilateral trade relationship. Japan's bilateral trade surplus with the United States has continued to grow, reaching a record $8 billion in 1977 and another record $12 billion in 1978.[6] Accordingly, attention has been directed to more fundamental elements in the economic relationship, and in particular at the "structural characteristics" of the Japanese economy. These critical characteristics for present purposes may be summarized as (1) dependence upon imports for needed raw materials; (2) over-reliance on production to be exported; and (3) the existence of barriers against imports of intermediate products.[7] Combined, they suggest that Japan has tended to promote the export and limit the import of those consumer items for which there are large overseas markets; to produce major manufactured items without the use of foreign-made intermediate products; and to increase exports to maintain domestic growth during cyclical slumps in the economy. These characteristics, statistically reflected in tables III and IV, have been particularly evident in Japanese trade with the United States, but they represent problems by no means limited to the bilateral United States-Japan trade relationship.

Relationships Between Bilateral Developments and Changes in the Global Economy

The economic tensions which exist today between the United States and Japan have developed against the background created by the oil crisis of 1973. Because of Japan's dependency upon imports for 99.7 percent of its oil needs, the "oil shock" was felt even more severely by Japan than by other oil-consuming nations. According to one view, the oil price increases and the high inflation rates that followed led Japan to underestimate its own economic strengths during the period of recovery; that misjudgment may have been responsible for Japanese resistance in permitting the exchange rate of the yen to rise to a value which other nations felt reflected more fairly the strengths of the Japanese economy and the competitiveness of its products.

Because industrial oil use in Japan accounts for a relatively large proportion of its oil consumption, government measures to limit oil use, added to Japanese sensitivity to their vulnerable position with respect to oil, helped preserve Japan's economic strengths. Accordingly, the Japanese have argued that their edge in competitiveness over various U.S. industrial products is due in part to their greater efforts at improving fuel efficiency.

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[6] U.S. Library of Congress. Congressional Research Service. Japan-United States Trade Balance [by] Raymond Ahearn. Issue Brief 78025 (Regularly updated).

[7] For summary of structural characteristics and related problems, see Hormatz, Robert D. Japan in the World Economy. Department of State Bulletin, June 1978: p. 5–11. Equal attention has been directed at distortions and possible solutions related to international currency exchange rate adjustments. Those and other issues of specialized economic concern are discussed elsewhere in this volume.

TABLE III.—COMPARATIVE TRADE STRUCTURE, JAPAN AND THE UNITED STATES, 1977

[In percent]

	Exports		Imports	
	United States	Japan	United States	Japan
Food	11.7	1.1	8.5	16.0
Basic materials and fuel	14.2	.8	35.6	61.8
Manufactured goods	74.1	98.1	55.9	22.2
Total	100.0	100.0	100.0	100.0

Source: Boston Consulting Group from Japanese Ministry of Finance data.

TABLE IV.—JAPAN TRADE BALANCE, 1977

[In billions of dollars]

	Exports	Imports	Balance
Manufactured goods	78.9	15.7	63.2
Raw materials and food	1.6	55.1	(53.5)
Total	80.5	70.8	9.7

Source: Boston Consulting Group from Japanese Ministry of Finance and OECD data.

The success of those efforts is indicated by the contrasting patterns of U.S. and Japanese oil consumption and growth in output since 1973. (See tables V and VI.) Japan has urged the United States to adopt an energy policy to reduce the heavy U.S. dependency on foreign oil. The Japanese identify this dependence as the root of overall deficits in U.S. trade and capital accounts, and as the major contributor to loss of confidence in the U.S. dollar.

TABLE V.—RATES OF GROWTH IN OUTPUT (%)

[In percent; changes from previous year in real terms]

	1973	1974	1975	1976	1977	1978
United Staes	5.5	−1.4	−1.3	6.0	4.9	3.75
Japan	9.8	−1.3	2.4	6.0	5.1	5.5

Sources: International Monetary Fund Annual Report, 1977 and OECD Economic Outlook, No. 23, July 1978.

TABLE VI.—NET IMPORTS OF OIL

[In millions of barrels per day]

	1973	1974	1975	1976	1977	1978
United States	6.25	6.15	6.07	7.30	8.67	8.40
Japan	4.95	4.84	4.35	4.67	4.87	5.05

Source: OECD Economic Outlook, No. 23, July 1978.

A second and more recent change in global economic relations has been the establishment of commercial, formal, and increasingly cordial relations with China by Japan and the United States. President Nixon's surprise visit to the People's Republic of China in 1972 was very likely the final "shock" that set Japan in pursuit of a political course more independent from the United States. There is an irony, therefore, in the recent claims by some Japanese that the conclusion of a Treaty of Friendship and Cooperation between Japan and China in 1978 was the final impetus to the U.S. normalization of relations with China, announced by President Carter at the end of the year.

The emergence of an internationally active and more commercially oriented Chinese leadership is likely to influence the bilateral United States-Japan relationship. For example, as Japan acquires Chinese oil in exchange for Japanese industrial products, the effect over time may be to reduce Japan's deficits with OPEC and help relieve the pressure of Japanese exports on the U.S. economy. As another example, stronger ties to China during a time of mutual concern over Soviet military expansion may bring about a more defense-oriented foreign policy in Japan than the previous "economic diplomacy" which attempted to show no favorites between the Communist powers while maintaining a primary alinement with the United States.

These changes illustrate the increasingly regional character of evolving United States-Japan issues. That trend may be distinguished from the trilateralism which characterized early Carter administration approaches to Japan.

Role of the United States in Issue Resolution

The Carter administration has shown its understanding of the United States-Japan economic disequilibrium by focusing its efforts on redressing the overall Japanese balance of payments surplus, as opposed to the Japan's surplus with the United States alone. Japan's overall current account surpluses in 1977 and 1978 have not only been huge—$11 billion and $18 billion respectively—but they have come at an inopportune time. Because the oil-exporting countries are running a $30–$40 billion surplus, the rest of the world necessarily has a deficit of that size, which is then added to by the amount of Japan's surplus. If the Japanese overall surplus can be substantially reduced, it is argued, its surplus with the United States could be tolerated within reasonable bounds. This position is based on the belief that Japanese deficits with other countries would provide improved possibilities for the purchase of U.S. exports, thus facilitating an overall balance for the United States as well. In addition to this indirect effect, it is felt that reducing the Japanese overall current account surplus will bring simultaneous reduction to the size of the U.S. bilateral deficit with Japan as a direct result.

The January 1978 Agreement

Following this line of reasoning, the United States-Japan economic agreement, announced on January 12, 1978 in the joint communique by U.S. Special Trade Negotiator Robert Strauss and Japan's Minister of State for External Economic Affairs Nobuhiko Ushiba, contained several goals designed particularly to reduce Japan's current account surplus. First, by subscribing to a real growth target of 7 percent in the fiscal year ending March 1979, the Japanese hoped to expand domestic demand so as to increase the market for exports from all countries, not just the United States. Second, the Japanese announced their commitment to increase the level of foreign aid to developing countries. By stimulating demand for Japanese goods in newer markets, the pressure of Japanese exports on the U.S. economy (which has been absorbing as much as half of Japan's exported output) and on other industrial economies should be eased.

More importantly, perhaps, was the commitment given to the provision of Official Development Assistance (ODA), which is not tied to the recipient's purchase of goods from Japan. This assures that Japan and other exporting nations stand to gain from the stimulative effects of Japanese aid. Such action by Japan has been sought as a matter of Japan's "carrying its own weight" along with other developed nations. The United States has taken the position that Japan should be "sharing its strengths" with the industrial nations who are experiencing balance of payments deficits, rather than adding to those deficits, as is currently the case. At the same time, a primary aim of the Carter administration has been to increase demand among traditional trading partners for U.S. goods. Discussions with European and Japanese leaders in London and in Bonn have emphasized that approach to strengthening the U.S. trade position overall.

The agreement of January 1978 also included Japanese promises to (1) undertake tariff reductions on items of interest to the United States and other countries, in order to achieve greater parity in Japan's trade position with other nations and to open their market to a level equivalent to that of the United States; (2) reduce tariffs an average of 23 percent on 318 items in advance of the Multilateral Trade Negotiations (MTN); [8] (3) remove quotas on 12 agricultural items and raise the quotas on some imports of beef and citrus; and (4) take a variety of other measures in such areas as import credits, inspection procedures and government procurement to improve the prospects for imports from the United States.

On the part of the United States, the joint statement conveyed U.S. intentions to maintain growth and to improve its balance-of-payments position through expanded exports and a reduced dependency on imported oil, "thereby improving the underlying conditions upon which the value of the dollar depends." [9] Also, confidence was expressed in enactment within three months of an effective U.S. energy program. Finally, the agreement stated that common trade objectives were to be sought in the course of the Multilateral Trade Negotiations and through the operation of a Joint Trade Facilitation Committee.

The fact that Japan failed to achieve the 7 percent growth rate target for 1978 has been a disappointment to the Administration, which argues that greater stimulus to Japan's economy is called for.

[8] According to testimony by Ambassador Strauss, those 318 items represent a 1976 value in imports from the United States of only $724 million. U.S. Congress. Senate. Committee on Finance. Subcommittee on International Trade. Hearings, 95th Congress, 2d session. Feb. 1, 1978. Washington, U.S. Government Printing Office, 1978: p. 11.

[9] Joint Statement by Minister Ushiba and Ambassador Strauss, Ibid., p. 46.

Evolution of the Security Relationship

Although campaign pronouncements by Jimmy Carter gave early indication of Carter administration plans for U.S. troop withdrawals from South Korea, the formal announcement on March 9, 1977, of plans for ground troop withdrawals from South Korea over the following 5 years came as a surprise to the Japanese.[10] Advance consultations with the Japanese leaders were inadequate, and thus, U.S. decisionmakers may have helped create a situation which has required considerable consultation and reassurances since. For many Japanese, the unilateral U.S. decision to begin ground troop withdrawals from the potentially unstable Korean peninsular reinforced existing fears not only of a U.S. strategic withdrawal from East Asia as a region, but of declining attention and commitment to Japan as an ally.

Concern over U.S. intentions in East Asia are compounded by Japanese perceptions of increasingly uncertain U.S. military capabilities in the region. Those perceptions have arisen in the first place out of contrast with an improving Soviet Pacific Fleet which has been conducting more active air and sea operations at more extended ranges from its Northwest Pacific bases.[11] In the second place, repeated testimony over recent years by the Chief of Naval Operations and the Commander-in-Chief, U.S. Pacific Command have added to Japanese awareness that despite the 7th Fleet's assessed capability to prevail over the Soviet Pacific Fleet in a direct confrontation, its ability to protect the merchant sea lanes from Soviet interdiction in the Western Pacific and Indian Oceans is less assured.[12]

The U.S. response has been to offer assurances that cuts in forward-deployed U.S. naval and air forces in the region will not be made. Such assurances do not, however, deny the possibility that in time of actual conflict, for example, between NATO and the Warsaw Pact, the current U.S. "1½ war" strategy would dictate a shift of forces to Europe from the Eastern Pacific. These are the forces which would otherwise reinforce forward-deployed elements in the Western Pacific region.

At the same time, the United States has made clear the contribution which the Japanese could make to the protection of the sea lanes, especially important to the oil import dependent Japanese, through improvements in their antisubmarine warfare (ASW) capabilities.[13] The defensive nature of ASW has been stressed for its compatibility with constitutional constraints on a war-fighting capacity for Japan.[14]

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[10] See chapter, "U.S. Troop Withdrawal From South Korea," p. 403.

[11] Japan Defense Agency. Defense of Japan, 1978. Tokyo, 1978: pp. 33–34. Growing Soviet Fleet Causing Alarm. Los Angeles Times, Apr. 9, 1978: p. 18.

[12] Statements of Adm. James L. Holloway, III in U.S. Congress. House. Committee on Armed Services. Military posture and fiscal year 1979 authorizations. Hearings, 95th Cong., 2d sess. Washington, U.S. Government Printing Office, 1978; HASC No. 95–56; p. 729; and Subcommittee on Seapower and Critical Materials. Military posture and fiscal year 1977 authorizations. Hearings, 94th Cong., 2d sess. Mar. 2, 1976. Washington, U.S. Government Printing Office, 1976: p. 632.

[13] Shilling, David. A Reassessment of Japan's Naval Defense Needs. Asian Survey, vol. 16, March 1976: pp. 216–229.

[14] Article 9 of the Constitution of Japan states:

"Aspiring sincerely to an international peace based on justice and order, the Japanese people forever renounce war as a sovereign right of the nation and the threat or use of force as means of settling international disputes.

"In order to accomplish the aim of the preceding paragraph, land, sea, and air forces, as well as other war potential, will never be maintained. The right of belligerency of the state will not be recognized."

The same considerations have figured in encouragements offered toward better air defenses. The need for improvement in air defense capabilities was impressed upon the Japanese by a Soviet defector's unchallenged penetration of Japanese air space and landing of a Mig-25 in 1976.

Current U.S. arms sales to Japan have been consistent with these two concerns. Ongoing improvement programs in the air and maritime self-defense forces have been emphasized. The Japanese Government has agreed to the purchase over a 10-year period of 45 P-3C ASW aircraft and 100 F-15 fighter-interceptor aircraft.[15]

Despite changes in Japan's defensive activities, the 1 percent of GNP ceiling on defense spending will remain a symbolic irritant to U.S. critics of Japanese recalcitrance in security matters.

THE ROLE OF CONGRESS

In the recent conduct of United States-Japan relations, the areas in which Congress has been particularly active have been in trade disputes involving risks to the survival or profitability of U.S. industries. Concerns for labor-intensive industries such as textiles and footwear, previously directed at Japan, now primarily involve other East Asian exporters. Increasingly, demands for protection from Japanese competition have arisen in parts of the technology-intensive manufacturing sector, especially from steel, automobile, television and radio, and other consumer electronic industries.

The Trade Act of 1974 (Public Law 93-618), which authorizes the current trade negotiations to reduce or harmonize tariffs and nontariff measures, reflected a congressional sentiment supporting in principle the goal of liberalizing trade relations between the United States and other countries, including Japan. As one writer has pointed out, however, "multilateral free trade seems to be a fair-weather philosophy. When times are prosperous, it works well; when times are bad, protectionism creeps under the door."[16]

Under the burden of oil price increases, the global economy has experienced greater pressures toward protectionism; each nation's need for new political bargaining instruments in a world increasingly viewed as multipolar may reinforce protectionist tendencies.[17] Conditions that lower U.S. economic growth or threaten unemployment in particular invite a protectionist response by Congress.[18]

The view that Congress is becoming more protective of U.S. industry was supported in the 95th Congress by two actions in particular. First, in July 1978, five members of the Trade Subcommittee of the Ways and Means Committee proposed that the President impose a 5-percent surcharge on all U.S. imports from Japan. Second, a measure adopted by Congress to prohibit any U.S. concessions on textile tariffs during the multilateral trade negotiations was prevented from becoming law only by the President's pocket veto of the bill to which the measure was an amendment.

[15] Although initial deliveries will be aircraft manufactured in the United States by Lockheed and McDonnell-Douglas, respectively, most will be manufactured or in some cases assembled in Japan under licensed production agreements. Wall Street Journal, Dec. 29, 1977: p. 5.

[16] Hollerman, Leon. U.S. Protectionism in Economic Relations with Japan. Asian Survey, vol. 17, May 1977: p. 496.

[17] Ibid., p. 492.

[18] Karlik, John R. Crisis in United States-Japan Relations? A Congressional View. The Oriental Economist, May 1978: pp. 22-29.

The administration is reported to have used the perception of a protectionist Congress to advantage in achieving the United States-Japan agreement in January 1978.[19] Trade Negotiator Strauss has exhorted the Congress to keep up the pressure on the Japanese to fully implement the concessions won in January.[20] At the same time, Ambassador Strauss and other administration spokesmen have emphasized that the agreement's greatest value lies not in the specific (microeconomic) concessions pledged by the Japanese, but in the dramatic change in philosophy represented in the general (macroeconomic) policies adopted. In their view, the willingness of the Japanese to undertake such measures as increased government deficits is the result of their recognizing finally the extent of their influence on the global economy and the accompanying responsibilities.[21]

To a large extent the micro or product-specific objectives were implemented during 1978, but the macro or overall objectives were not. The fact that both Japan's overall current account surplus and bilateral trade surplus with the United States increased in 1978 will likely lead to increased pressure on Japan to take additional action. Much of that pressure may be expected to originate in Congress.

Oversight and Legislation Affecting Trade Relations

A three-member Task Force on United States-Japan Relations was created in the Ways and Means Committee in April 1978 to monitor Japanese efforts to stimulate its economy, increase imports, and improve market access through "structural changes." Oversight related to the implementation of the January 1978 agreement by both the Japanese Government and the Carter administration will continue to be an important role for the 96th Congress. In evaluating progress in bilateral trade relations, Members of Congress face difficulties in measuring the extent of desired improvements, because they may be masked by the effects to date of currency exchange rate adjustments, or revealed only indirectly in overall trends.[22] In the final analysis, the issue will likely be treated as Senator Ribicoff has expressed it: "Either the Japanese import more or export less." [23]

Japanese steps toward fiscal expansion and economic "structural change," potentially combined with U.S. steps to limit imports, are aimed at achieving the latter of those two results: Japan's exporting less. If Japanese efforts alone are not deemed sufficient, Congress may legislate an import surcharge, quotas, or other restrictive measures.

[19] U.S. negotiators implied to the Japanese that failure to reach an agreement before the 95th Congress entered into its second session would result in the passage of restrictive trade measures. I. M. Destler, in remarks at Mid-Atlantic Regional Conference of the Association for Asian Studies, Washington, D.C. on Oct. 29, 1978.

[20] Ambassador Strauss has testified, "[T]his trade balance will be turned around * * * because this committee and its counterpart in the House showed the kind of political will that was necessary. That is why it will be turned around. Because not only the Japanese, but other governments, will find out that if this does not start working both ways, it is not going to work at all and because they are frightened at the threat of our market being closed down if they do not open theirs up." United States-Japanese Trade Relations and the Status of the Multilateral Trade Negotiations, op. cit., p. 19.

[21] Deputy Special Representative for Trade Negotiations Alan Wolff testified, "The value of the measures really is primarily that they signify a change in attitude on the part of the Japanese Government and an important beginning of the process of integrating the Japanese economy into the industrialization world trading system." U.S. Congress. Senate. Committee on Foreign Relations. Subcommittee on East Asian and Pacific Affairs. United States-Japanese Relations. Hearings, 95th Cong., 2d sess. Apr. 27, 1978. Washington, U.S. Government Printing Office, 1978 : p. 4.

[22] For a discussion of the effects of the yen-dollar relationship and its effects on trade relations, see "Why the Japanese Yen Is Big News: How It Matters to the American Citizen." Floor statement by Senator John Glenn, Apr. 27, 1978. Ibid., pp. 35–41.

[23] United States-Japan Trade Relations and the Status of the Multilateral Trade Negotiations, op. cit., p. 13.

Although the economic benefits of protection would only accrue in the short term to a limited number of industries, other groups may lend support to protectionism for the sake of a stronger stand and a more demanding U.S. posture in relation to Japan. On the other hand, the effects of such measures would add to U.S. consumers' costs and would presumably be harmful to trade negotiations and possibly to the future political relationship between the two countries.

The second result of Senator Ribicoff's pairing—that is, increasing Japan's imports—is to be achieved through Japan's concessions in lowering barriers, potentially combined with U.S. steps to expand exports to Japan and elsewhere. Increased export stimulus, promised by the United States in the January 1978 agreement, is an important area of possible congressional actions to affect United States-Japan trade relations. Supporters of export-stimulus programs argue that they will not only help achieve goals in the United States-Japan relationship, but will redress the lagging competitiveness of U.S. products in other markets as well. Some have argued that past noncompetitiveness has resulted in the lost market shares which are a fundamental cause of U.S. deficits.[24]

Through its power of taxation, Congress may consider a variety of general incentives which would have a primary or secondary effect of promoting exports and encouraging efforts to open Japanese markets for U.S. goods. Among these are to: (1) Change tax laws affecting capital investment for plant improvement; (2) provide more attractive loan guarantees for capital improvement programs; (3) offer tax breaks such as deferrals for costs incurred in export market penetration; and (4) change accounting procedures to permit companies to capitalize the expense of entry into Japanese markets.

Proposals of this sort may find opposition from companies who already have absorbed these expenses without assistance, or from competitors in the domestic market not in a position to use such programs to their own benefit. The argument that such measures only match existing ones in Japan may be countered by the suggestion that some, such as rebates, may constitute trade practices of questionable legality, and of the very sort for which Japan has been criticized in current negotiations. If adopted, such export-stimulation measures would supplement steps already taken by the administration to provide information services for exporters, such as the Trade Facilitation Committee under the Department of Commerce, and formation of trade study groups to visit Japan and to be briefed on opportunities and successful marketing strategies there.

The Congress may consider legislation to change current restrictions on U.S. export of raw materials such as lumber and crude oil. Export of oil from the North Slope of Alaska in particular has been promoted by some as dovetailing with Japan's present commitment to stockpile energy. If pursued in consultation with Japanese leaders, such changes might not only lead to reciprocal benefits for the United States, but also help overcome Japanese suspicions about the United States as an unreliable trading partner in raw materials. (This mistrust has developed in particular over past experiences with soybeans, grain, and enriched uranium.)

[24] See, for example, Abegglen, James C., and Hout, Thomas M., "Facing Up to the Trade Gap With Japan." Foreign Affairs, fall 1978, pp. 148–149.

In summary, legislative options available to the Congress weigh more heavily on the side of increasing U.S. exports to Japan than on the side of reducing U.S. imports from Japan. A combination of both approaches, however, may provide the most constructive U.S. steps for reducing Japan's external surpluses, along with a strong message to the Japanese, underlining how politically important it is that those steps succeed.

Spending and Energy Legislation

Legislation with an effect on inflation and the overall U.S. balance of payments will also have an effect on economic relations with Japan. Particularly important from the Japanese standpoint will be further legislation related to U.S. energy policy. The Japanese remain skeptical of U.S. efforts to improve the balance-of-payments position and to bolster the international strength of the dollar so long as U.S. oil imports continue to increase. Japanese leaders feel their self-imposed restraint and efforts to increase fuel efficiency have gone unreciprocated—and even discriminated against through the effects of changes in currency exchange rates. The tendency among some Americans to single out the U.S. deficit with Japan while appearing to accept for the time being its deficit with OPEC adds to Japan's sense of unfairness.

The national energy plan submitted to Congress in 1977 by the Carter administration was intended to achieve a significant reduction in oil imports by 1985 through a variety of measures incorporating the pricing policy that "the true value of a depleting resource is the cost of replacing it." As part of phase I, the 95th Congress enacted legislation for the gradual deregulation of natural gas prices; but disagreement over oil pricing remains an issue to be dealt with by the 96th Congress. Success in legislating a program to reduce oil consumption would be seen by Japan and others as a responsible step in addressing the problem they feel underlies many of the U.S. balance-of-payments and exchange rate problems.

Congressional Concerns in Security Matters

Although self-defense forces in Japan are receiving more popular acceptance, and the need for improved defenses is more widely perceived in Japan, the Japanese continue to see their national security interests primarily in economic terms. Security requirements consist of insuring sources of raw materials, market outlets, and access to sealanes.[25] The first two are directly affected by bilateral trade relations. It is important to recognize here that changes in bilateral relationships which may appear economic in nature to others are perceived by the Japanese as security related and thus have a powerful political impact.

The third security requirement, access to sealanes, is related to U.S. deterrent force levels in East Asia and, in particular, the deployment of U.S. naval forces to defend vital oil supply routes to Japan and elsewhere. It is in this connection that debate and actions in the 96th Congress with respect to defense will be most important for United States-Japan relations.

[25] Weinstein, Franklin B., and Lewis, John W., "The Post-Vietnam Strategic Context in Asia." In Weinstein, Franklin B., ed., "United States-Japan Relations and the Security of East Asia : The Next Decade." Boulder, Westview Press, 1978, p. 147.

The need for greater "burden sharing" is a theme which has recurred in U.S. criticism of Japan's economic and military efforts. Over recent years, Japan has been urged to assume a greater share of the costs in maintaining U.S. forces in Japan.[26] In recognition of the dollar's depreciation, the Japanese Government last year approved an increase of $160 million to help pay those expenses—which grew by 30 percent during 1978 in dollar terms.[27]

Although the suggestion has been made by one commentator that the withdrawal of U.S. forces be used as a threat to force Japanese concessions in trade talks, there is little likelihood of further U.S. peacetime force reductions in East Asia over the next 2 years.[28] At the most, the "burden-sharing" argument may be used to promote an increased role for allied forces in the Pacific, in order to relieve the demands over the long term on contracting U.S. naval forces. Some in Congress may press to see greater evidence of a meaningful Japanese contribution to the defense of the region in order to satisfy arguments that increases in U.S. force levels are not needed.

Japanese leaders have given new emphasis to coordination of defense policies with the United States. At the end of 1978, the Japanese cabinet approved the Guidelines for United States-Japanese Defense Cooperation, the product of several years' effort that opens the door to joint military planning, interoperability of forces, and improved evaluation of joint preparations for defense of the region. The Japanese have also shown a willingness to expand their areas of responsibility, as indicated by Defense Minister Kanemaru, who met with Defense Secretary Brown and presented a plan for future employment of naval forces which would enlarge considerably the anti-submarine patrolling responsibilities of Japan's Maritime Self Defense Forces.[29] The influence of U.S. political sentiment on such decisions is uncertain; some encouragement may be effective, but excessive congressional pressure to accelerate those changes may carry risks to the stability of the United States-Japan political relationship.

Security relations between the United States and Japan have grown increasingly cooperative as the process of normalizing relations between the United States and the People's Republic of China has brought U.S. views of China as a military actor more closely into line with Japan's view.[30] At the same time, mutual perceptions of an increased Soviet threat to regional stability, and to Japanese lifelines in particular, may combine with closer ties to China to introduce new possibilities for future security arrangements previously considered extremely remote. One example might be Sino-Japanese cooperation in the conduct of naval operations in the China Sea to reduce the threat of Soviet activities there. It may be found that such changes become increasingly likely as regional powers reorient their security policies away from bipolar premises and more toward a multipolar approach.

Since the U.S. ties to Japan will remain primary in the Pacific, U.S.

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[26] U.S. General Accounting Office. "The United States and Japan Should Seek a More Equitable Defense Cost-Sharing Arrangement." Report to the Congress, June 15, 1977, ID–77–8, 16 pp.

[27] International Herald Tribune, Aug. 29, 1978, p. 5.

[28] "Even planned ground troop withdrawals from South Korea may be affected by recent U.S. intelligence reassessments of North Korean military strength." Washington Post, Jan. 4, 1979, p. 1.

[29] Japan Times Weekly, July 8, 1978; Tokyo Kyodo, July 3, 1978.

[30] Langdon, Frank. Japan's Concept of Asian Security. Asian Forum, vol. 8, autumn 1976: p. 39.

leaders must insure that, if shifts in Japan's defense posture or political alinement occur, they are made with the benefit of accurate information about U.S. interests and policies toward Japan, and not in reaction to misperceived U.S. actions. This requirement may suggest to Congress the need for a periodic reassessment of U.S. security interests in East Asia and careful communication of the nature of the U.S. commitment to Japan.

CONSEQUENCES

Especially since Japan's strong reaction to the "Nixon shocks" of 1971, U.S. leaders have recognized that the Japanese perception of the U.S. commitment to Japan is influenced not only by the substance of U.S. policy, but by the manner of its conduct as well. A number of commentators have indicated how the Japanese view of their relationship with the United States has been shaped by the dependency orientation known as *amae*.[31] According to this perception, still widely held among "mainstream" leaders in business and government, the United States is Japan's benefactor. It is the U.S. role to be demanding, but at the same time, to be understanding if, despite best efforts, the demands are not clearly met. Japan's role, as junior partner, is to show loyalty and sincere efforts, in the assurance that its behavior in continued good faith and acknowledged dependency will be reciprocated in terms of continued U.S. indulgence. These roles are important to understand, since any U.S. action which, in effect, signals a limit to that indulgence, may give impetus to Japanese reassessments of the relationship as a whole.

Efforts at establishing a new basis for the relationship seem to have begun. Some voices on both sides have called for a relationship of greater "equality;" however, the term may not be understood in the same way. For many in the United States, Japanese "equality" implies carrying its weight economically or assuming a greater share of its own defense. For many Japanese, a relationship of equality is one in which *amae* applies to both parties; in other words, "equality" between the two countries will be achieved when the United States more openly accepts its own vulnerabilities and responsibilities—indeed, its own degree of "dependency" on Japan and others. One Japanese writer has expressed the problem this way:

> In an equal relationship an exchange of roles should be possible where one is sometimes senior partner and sometimes junior partner, but Americans, while proclaiming "equal partnership" with Japan, psychologically resist assuming the role of junior partner.[32]

In view of these changing perceptions, actions by the 96th Congress to resolve bilateral trade issues through measures thought to be inimical to Japanese interests may carry the risk not only of a protectionist counterresponse, but, over time, of Japan's political and strategic isolation from the United States. Protectionist actions intended to spur Japan to greater openness in its trade relations may have the opposite effect.

At the present, Japan is diversifying its sources of needed supplies and is being encouraged to diversify its foreign markets. These changes

[31] See, for example, I. M. Destler et al., op. cit. and Gibney, Frank, Japan: The Fragile Superpower. New York, W. W. Norton & Co., Inc., 1975.

[32] Karlik, John R., op. cit., cited from Masataka Kosaka. "Japanese and Americans in a Competitive Alliance." The Silent Power. Tokyo, Simul Press, 1976: p. 173.

may reduce Japan's "dependency" on the United States without weakening bilateral ties. However, if Japan's sense of vulnerability increases in the emerging economic system, which will not be so dominated by its past patron, it might begin to reorient its economy in a direction leading ultimately to a more closed regional subsystem dominated by a militarily stronger Japan or a Sino-Japanese alliance.

Although such an occurrence may seem remote, its possibility in the future points out the delicate balance of interdependence, and the influence of U.S. policy toward Japan on the regional economy. Ironically, the tensions resulting from today's growing interdependence may be creating the preconditions for more narrowly defined interests and nationalistic responses in years to come. This need not be the case. Just as U.S. spokesmen have praised the January 1978 agreement with Japan as a milestone "change in philosophy" for the Japanese, so do Japanese leaders seek assurances that the United States is sufficiently committed to the bilateral relationship that it will undertake painful and perhaps unpopular actions of its own to help relieve those tensions in a mutually beneficial way. The actions of the 96th Congress may well have a major impact on what assurances are conveyed and how they will be received.

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U.S. TROOP WITHDRAWAL FROM SOUTH KOREA

(By Larry A. Niksch*)

Issue Definition

In March 1977, President Carter announced his intention to withdraw American ground forces from South Korea over a 4–5 year period. Today, the basic issue in this plan remains the impact it will have on stability in the Korean peninsula. This issue relates not only to whether there will be war or peace in Korea but also to the roles and policies of the United States, Japan, China, and the Soviet Union. All four have major interests in Korea and Northeast Asia, which will be fundamentally affected by the outcome of the President's plan.

In order to attempt an evaluation of the plan's current impact on stability and render some analysis of future prospects, it is first necessary to define those elements or factors that have contributed to stability in the Korean peninsula. Especially important are those elements that influence North Korean perceptions of the likely costs versus gains of the use of hostile force to reunify Korea under its control (often called deterrence), and those elements that most influence the policies of South Korea and the four major powers. A close examination of the statements and actions of these parties, and a close reading of North Korean government (Democratic People's Republic of Korea—DPRK) and media pronouncements,[1] suggest that the major elements of stability are:

(1) The U.S. military presence in South Korea (Republic of Korea—ROK).

(2) The military balance between North and South Korea, particularly the South Korean ability to defend Seoul, 25 miles from the demilitarized zone (DMZ).

(3) Political stability in South Korea (including the human rights situation and the attitudes of the South Korean public toward the Park Chung Hee government).

(4) The state of the South Korean economy (which affects political stability and South Korean public attitudes).

(5) The credibility of the U.S. defense commitment, particularly congressional and American public support for the defense commitment, security assistance, and the residual U.S. military force that will remain in South Korea after 1982.

(6) U.S. perceptions of Japanese views on Korea, which carry growing weight in view of Japan's emergence as an economic superpower and the key ally of the United States in Asia.[2]

(7) Japan's role in South Korea, particularly its willingness to have U.S. forces use bases in Japan to support operations in Korea.

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[1] North Korean policy statements and analysis can be found in the Foreign Broadcast Information Service's Daily Report, Asia and Pacific volume.

[2] See chapter, "The Political Impact of U.S. Economic Relations With Japan," p. 386.

(8) Soviet and Chinese restraint on North Korea.

Given the assumption of a potentially aggressive North Korea, the success of the administration's troop withdrawal plan may depend on how its implementation affects other elements of stability. If, through a combination of skilled political, military, and diplomatic policies, the administration prevents erosion of elements of stability or even succeeds in strengthening some of them, the withdrawal of ground troops may not damage overall stability and the professed goal of security for South Korea. On the other hand, if erosion of these elements takes place, the danger of war may increase in the early 1980's.

Background

The Plan and Rationale

The plan calls for the withdrawal of all ground combat forces by 1982. This would include the 14,000-man Second Infantry Division, presently located between the DMZ and Seoul, and additional army elements numbering about 12,000 including air defense and missile units. After 1982, a remaining residual force would consist of: (1) the 314th Air Division (9,000 men) with a principal combat element of 72 F-4 fighter aircraft (or conceivably newer, replacement aircraft); and (2) a ground support contingent (of about 7,000 Army personnel) involved in logistic support of South Korean forces, intelligence, command, and communications.

Under a modified withdrawal schedule, 3,400 troops left Korea in 1978, including one combat battalion of the Second Infantry Division. Another 2,600 troops will depart in 1979, including two more battalions of the Second Division. In 1980, logistics, other support, and air defense units totaling 10,000 are to leave. The remaining two brigades (six battalions) of the Second Division and the division headquarters are to remain in place until the final stage of the withdrawal in 1981–82.

According to the administration's stated rationale, U.S. ground forces are no longer required to maintain an effective deterrent to a North Korean attack because of: (1) South Korean military and economic strength; (2) changing great power relationships in Northeast Asia, including the Sino-Soviet split and Soviet and Chinese unwillingness to support North Korean military adventurism; (3) a continued and clear U.S. defense commitment to South Korea under the 1954 mutual defense treaty; and (4) the planned retention of a U.S. residual force in South Korea.[3]

Another, unstated, rationale has been the objective of avoiding involvement in another Asian land war. During his campaign for the Presidency, Carter consulted closely with a number of authorities and research organizations which held the view that the first priority of U.S. policy toward Korea should be to withdraw American ground forces, especially the Second Division, that would be automatically involved in combat in the event of a North Korean attack. Presidential Review Memorandum (PRM) 13, the primary planning document for the withdraw policy, laid heavy emphasis on eliminating the "tripwire"

[3] See, for example, President Carter's news conference of May 26, 1977, and Under Secretary of State Philip Habib's statement before the House subcommittees on International Security and Scientific Affairs and Asian and Pacific Affairs, June 10, 1977.

of ground combat involvement.[4] The President, himself, reportedly told James Schlesinger that Presidents Truman, Johnson, and Nixon were prevented from concentrating on more urgent problems because of American involvement in the Korean and Vietnam wars.[5]

Since the summer of 1977, the Carter administration has followed as part of the withdrawal policy a strategy whose objective is to reassure South Korea, Japan, and other U.S. allies and friends in East Asia as well as critical elements within the American body politic that the troop withdrawal plan would not result in a diminution of the U.S. defense commitment to South Korea. It is also intended to restructure the deterrent with a maximum impact on DPRK perceptions. Several factors influencing the administration to adopt this strategy have been: (1) the sharp criticism of the plan in South Korea, Japan, and other East Asian non-Communist countries; (2) equally strong criticism within the United States, including continuous pressure on the administration from U.S. military officials are the Congress to show greater flexibility and caution;[6] (3) increased awareness of North Korean military capabilities; and (4) the emergence of dissent at least by early 1978 among some key foreign policy civilian appointees of the President.

Implementation of this strategy has involved several actions. The administration has given South Korean and Japanese officials verbal and written assurances that the United States would provide prompt and effective military support to South Korea in case of an attack. In 1978, administration officials frequently stated that the United States would reconsider the plan if the military balance in Korea was adverse to the ROK. They emphasized the U.S. capability to redeploy ground combat forces into South Korea. In July 1977, the administration promised to keep the bulk of the Second Division in place until the very end of the withdrawal period in 1982.

The administration also undertook a number of "compensatory measures." This included a pledge to provide South Korea with compensatory arms transfers of about $2 billion over the withdrawal period, a promise to strengthen U.S. air power in Korea, an agreement to establish a combined United States-South Korean military command, and the holding of several joint United States-South Korean military exercises to demonstrate the capacity of the United States to commit substantial forces into Korea.

The Compensatory Measures

ARMS TRANSFERS AND ROK DEFENSE BUILDUP

The administration's policy involves two elements: the transfer of $800 million in weapons from the 2d Division to ROK forces and

[4] For a description of the background to Carter's decision and PRM 13, see Oberdorfer, Don. Carter's Decision on Korea Traced to Early 1975. Washington Post, June 12, 1977; and A National Security Council Document Shows Carter's Aim in Seeking the Withdrawal of U.S. Forces from the ROK is to Avoid All-Out Involvement in the Event of War; Ground Forces Will be Withdrawn in 2 to 5 Years for Fear of Involvement. Mainichi Shimbun. Mar. 7, 1977. The Tokyo newspaper had obtained a copy of PRM 13, which it summarized.

[5] Zagoria, Donald. Why We Can't Leave Korea. New York Times Magazine, Oct. 2, 1977: p. 86.

[6] Basically, the criticisms were: (1) that the plan would weaken the deterrent to a North Korean attack: (2) that the plan was adopted from the 1976 presidential campaign without any substantive analysis of it by experts in the Departments of State and Defense and the CIA: (3) that the plan was presented to Japan and South Korea as a fait accompli without any prior consultation; and (4) the plan was part of a general pattern of U.S. disengagement from the East Asian region.

the extension of foreign military sales credits (FMS) to South Korea from fiscal year 1978 through fiscal year 1981. However, the original plan called for South Korea to receive FMS credits totaling $275 million annually during this period. For fiscal year 1979, the actual amount was $225 million as a result of congressional cuts, and the administration's request for fiscal year 1980 is $225 million.

The transfer program involves a wide variety of weapons and equipment. Major items are some 200 M48A5 tanks, M–113 armored personnel carriers, 81-millimeter and 107-millimeter mortars, 155-millimeter howitzers, helicopters, antiaircraft missiles and guns, and TOW antitank missiles.

FMS during the fiscal year 1978–80 period has emphasized purchases of aircraft and air defense equipment by South Korea in order to complete programs intended to offset the superiority of North Korea's airpower. For example, of the $275 million FMS credits originally requested for fiscal year 1979, $52 million are earmarked for air defense equipment (missiles and command and control equipment) and $125 million for purchase of F–4 and F–5 aircraft and radar; $35 million is allocated for acquisition of TOW missiles and kits for upgrading M–48 tanks, $30 million for C–130 transport aircraft and helicopters, and $20 million for antiship missiles. Similar priorities appear to exist for fiscal year 1980. Moreover, ROK cash purchases under FMS (an amount in fiscal year 1980 estimated to be roughly equivalent to the $225 million in FMS credits) have emphasized aircraft, air defense equipment, and antiship weaponry.

In terms of military goals, the Carter administration seeks, first, to replace the combat capability of the U.S. ground forces to be withdrawn and, second, to reduce certain deficiencies in South Korea's defenses. According to Secretary of Defense Brown,[7] these deficiencies are lack of quantity and quality of firstline tanks and antitank weapons, lack of long-range artillery, inadequate command and control systems, numerical inferiority in aircraft, and inferiority to North Korean naval capabilities. However, according to Brown, certain quantitative gaps will remain between ROK and DPRK assets, especially in heavy weaponry; and increases in ROK ground strength undoubtedly will not compensate for the capabilities of U.S. ground forces that would have been committed in case of war in accordance with pre-Carter administration contingency plans.

South Korea is subject to the six controls of the administration's general policy on overseas arms transfers.[8] The most important of these for South Korea are limits on the levels of transfers, prohibition of the introduction of advanced weapons systems that would raise regional combat capabilities, and prohibition of coproduction agreements between U.S. arms manufacturers and foreign governments for local production of major weapons and equipment.

Consequently, the United States set the overall level of FMS at $275 million annually during the withdrawal period (later reduced to $225 million) and has rejected ROK requests for advanced weapons, most notably 100 M–60 tanks. The 100 M–60's are with the Second Divi-

[7] U.S. House of Representatives. Committee on International Relations. Foreign Assistance Legislation for fiscal year 1979 (part I). Hearings. 95th Cong., 2d sess. Washington, U.S. Government Printing Office, 1978: 94–97.
[8] Countries exempt from these restrictions are NATO countries, Japan, Australia, and New Zealand.

sion and will be taken when it withdraws.[9] As a substitute, the administration will give South Korea 200 older M-48 tanks. South Korea's request for 60 F-16 fighters has been accepted in principle, but President Carter has ruled out an actual sale at least during 1979.

The FMS program is less than that requested by South Korea. Gen. Lew Byong Hion, Director of South Korea's Joint Chiefs of Staff, stated in December 1977 that even with the $800 million transfer program,[10] South Korea would require $600 million in FMS credits annually to make up for ground combat capabilities lost by the withdrawal of the 2d Division and also by the loss of American ground units that would no longer be committed under the U.S. policy of not using American ground troops if North Korea attacked. South Korean officials express disappointment over the reduction from $275 million to $225 million, but they acknowledge that Seoul will be able to make up the loss through cash purchases.

FMS credits are intended to support South Korea's 5-year (1976-80) force improvement plan. Total expenditures for the FIP will be about $5.5 billion. Republic of Korea spending for defense now accounts for about 35 percent of the annual budget or 7 percent of GNP. The defense budget for Republic of Korea fiscal year 1979 will be over $3 billion.

South Korea's defense industry dates from 1970. Today it produces about 50 percent of the weapons and equipment acquired by the South Korean Armed Forces. This includes light weapons (mortars, M-16 rifles, grenade launchers, submachine guns), communications equipment, 105 and 155mm artillery, Vulcan anti-aircraft guns, light helicopters, and various types of ammunition. South Korea is modifying U.S. M-48 tanks to give them added speed and firepower, but full production of a tank will not take place until at least 1984 or 1985. The South Korean Government has expressed interest in coproduction of the F-16 fighter, but the administration opposes this as contrary to its arms transfer policy.

U.S. FORCE AUGMENTATION

In November 1978, the United States added 12 F-4D fighters to the 60 already in South Korea. This is the only permanent force increase planned by the United States. A number of military exercises have demonstrated U.S. ability to bring air, sea, and ground forces from elsewhere in the Pacific and the continental United States. In "Team Spirit 78" in March 1978, 30,000 U.S. troops participated in operations between Seoul and the DMZ, including 4,000 Marines from Okinawa, 8,500 naval personnel, 1 of the 2 aircraft carriers with the 7th Fleet, a battalion of the 25th Infantry Division in Hawaii, and tactical aircraft based in Japan. "Team Spirit 79," held in March 1979, involved 47,000 American troops. Most of the same units participated.

In the Defense Department's fiscal year 1980 annual report, Secretary Brown listed the American forces in the Western Pacific immedi-

[9] The administration has also cited the needs of U.S. forces to justify denial of the M-60 s but this did not prevent it from providing North Yemen with 64 M-60's in early 1979. The President decided against providing F-16's at the conclusion of an intragovernment debate in November 1978.

[10] Seoul Hantong, Oct. 27, 1977. South Korea's foreign minister stated that the $800 million program was $200 million above what the Carter administration had originally proposed to South Korea.

ately available to respond to a North Korean attack. They are 10 squadrons of land-based fighters (72 F-4's in Korea, about 72 in Japan, and 48 in the Philippines), two-thirds of the 3d Marine Division and its tactical air wing in Japan (Japan proper and Okinawa), and 20 to 25 combat vessels of the 7th Fleet including the 2 aircraft carriers forward deployed in the western Pacific. Brown has also stated in congressional testimony that the 25th Infantry Division and another division on the west coast could be moved to Korea "within a matter of weeks to a month." Presidential Review Memorandum (PRM) 10, completed in 1977, reportedly stated that a successful defense of South Korea would require the United States to commit 5 carriers, 2 Marine divisions, 1 Army division, and 24 fighter squadrons.[11]

UNITED STATES-REPUBLIC OF KOREA JOINT COMMAND

The United States-Republic of Korea Combined Forces Command (CFC) was inaugurated in November 1978. It has operational control over all South Korean Armed Forces and U.S. Air Force and air defense units (but not the 2d Division, which remains a separate U.S. command). The United Nations Command remains a distinct organization with responsibility for the present armistice. Gen. John Vessey, who is the U.N. Commander, became commander of the CFC. South Korea's Gen. Lew Byong Hion is the deputy commander.

North Korea's Objectives and Strategy

Since the end of the Korean War, North Korea has consistently professed that its basic policy objective is the "peaceful reunification" of Korea. Pyongyang has also maintained that two essential prerequisites for reunification are (1) the withdrawal of all American forces from South Korea and the termination of American military aid to South Korea and (2) substantial changes in the personalities, organization, and internal policies of the South Korean Government. North Korean statements indicate a strong belief that the two prerequisites are closely related: realization of one will create conditions leading to the realization of the other.

The DPRK's strategy emphasizes a mixture of the diplomatic, political, and military. Pyongyang has followed different approaches at certain times, depending on its perceptions of conditions in the South and the policies of the four major powers.

Diplomacy: In terms of diplomacy, North Korea's negotiating approach with South Korea and the United States is governed by Kim Il-sung's view of the potential willingness of either to agree to a total American military disengagement from Korea. From July 1972 until March 1974, North and South Korea negotiated over the reunification question. Pyongyang pressed Seoul for a broad five-point military accord as the first step to reunification. The proposal included mutual troop reduction and a North-South peace agreement, but it also specified a total U.S. troop withdrawal and an end to U.S. military aid. North Korea inserted in the proposal "five great principles" for reunification enunciated by President Kim Il-sung in June 1973. This called

[11] Burt, Richard. U.S. Analysis Doubts There Can Be Victory in Major Atomic War. New York Times, Jan. 6, 1978. The Times claimed to have received a copy of a section of PRM 10, from which it quoted.

for a political conference composed of all political parties or social groups in both Koreas and the establishment of a North-South confederation. South Korea rejected such "first steps" and countered with proposals for "gradual" measures including economic and cultural exchanges, admission of both Koreans to the United Nations, and a North-South nonaggression pact.

In early 1974, North Korea abandoned the talks and directed its diplomacy toward the United States. It initially approached the Congress. In a public letter to Members of Congress on March 25, 1974, the DPRK proposed bilateral United States-North Korean negotiations to conclude a peace agreement which would require a U.S. military disengagement from South Korea and termination of military assistance. Since then, Pyongyang has offered, both in public statements and in private messages, to open bilateral talks with the United States. It has rejected South Korean participation, claiming a willingness to negotiate with Seoul following a peace agreement with the United States. Coinciding with this, North Korea has attempted to influence Japan to reduce its support of the U.S. military role in South Korea.

In late April and early May 1979, North Korea used the visit of an American ping pong team to Pyongyang as an occasion to re-emphasize its proposal. This time, North Korean officials offered as a prelude to a peace agreement the initiation of U.S.-DPRK cultural exchanges and visits to North Korea by members of Congress.

Political: Since the mid-1960's, North Korea has followed a political strategy of attempting to foment a Communist-led revolution in the South. On several occasions, Kim Il-sung has said that his government would actively aid such a revolutionary uprising. In the 1966–69 period, hundreds of infiltrators failed to ignite a Vietcong-style insurgency in South Korea. During the period of contacts and negotiations (1970–74), the strategy of revolution was deemphasized. After North Korea broke off talks in 1974, it resumed its calls for revolutionary movement in South Korea and the overthrow of the Park Chung Hee government as a necessary condition for "peaceful reunification." The DPRK's position has been that, in the absence of an agreement for total U.S. military disengagement, it would negotiate only with a new "patriotic, democratic" government whose leaders are committed to "peaceful reunification" without foreign interference. DPRK statements suggest that such a government would not be Communist in its initial stage but that it would become increasingly a leftist or Communist-leading coalition as the process of reunification proceeded.

One element in this strategy is the Revolutionary Party for Reunification, which claims to be a Communist revolutionary party in the South loyal to "Kim Il-sungism." The RPR was proclaimed in 1964 as a spearhead for the revolution and "democratization" of South Korean society. An RPR radio located in North Korea often appeals for an uprising or armed struggle against the South Korean Government. such broadcasts occurred at the same time (May 1979) that North Korean officials told visiting American journalists that South Korea could retain its "social system" under reunification. The RPR's actual membership in the South is believed to be extremely small. Nevertheless, its existence provides a rationale for Pyongyang's strategy of a southern revolution.

In January 1979, North Korea responded to a South Korean proposal of unconditional negotiations by reemphasizing its proposal of a political conference and offering various negotiating formulae as a preliminary to a conference. It also reduced media criticism of the South Korean Government. Exploratory meetings between the two sides collapsed at the end of March 1979. Pyongyang rejected Seoul's offers of direct government-to-government talks. The South Korean Government believes that North Korea would use a political conference or similar forum for talks to exploit political divisions among South Korean parties and groups, and to give legitimacy to the RPR, and avoid direct talks with ROK officials.

Military: A policy of rapid DPRK military buildup was set in 1966 and has been carried out since that time. Annual military spending has been around 15 percent of GNP. North Korea has built up its own arms industry and now produces nearly all of its own ground and naval weapons and equipment.

Current Trends in Elements of Stability [12]

Since the administration announced the troop withdrawal policy, several developments have affected the elements of stability in Korea. Certain elements have either been strengthened or at least have not eroded. Among these are:

Political stability in South Korea: South Korea appears politically stable, and there has been limited improvement in the human rights situation. Thus, events so far have not born out the claims and fears of the Carter administration's critics (both in the United States and among opposition leaders in South Korea) that the withdrawal policy would result in increased Government restrictions on political and civil liberties. Elections for the National Assembly in December 1978 produced a 77-percent voter turnout. It was apparently a fair election; and the opposition New Democratic Party gained seats. At the end of December, the Government released 106 political detainees and reduced the prison sentences of 34 others. Despite these developments, the human rights issue remains potentially volatile. Opposition groups continue to call for abrogation of the 1972 "Yushin" constitution and repeal of Emergency Measure No. 9, the major act currently restricting civil liberties. Since 1974, the Government has liberalized its policies several times only to reimpose restrictions and arrest its opponents when they escalated their protests.

South Korea's economy: South Korea's economy continues to boom. Investor confidence has not been affected by the troop withdrawal policy. The estimated GNP growth rate for 1978 was 12.5 percent. GNP surpassed $45 billion, and per capita GNP reached $1,242. Living standards for all classes of society showed general improvement, as income distribution has been similar to that of the United States and Japan and more equal than that of several Western European countries.[13] South Korea has established a consistent record of attaining

[12] See chapter, "Stability in the Pacific Basin," p. 453.

[13] Statistics published in the Economist (May 7, 1977) showed that of 18 free market countries listed, South Korea ranked fifth in terms of equality of income distribution, only slightly behind Japan, Taiwan, and the United States, and Great Britain and ahead of Sweden, West Germany, and other West European countries listed. Recent World Bank studies have concluded that income distribution in South Korea is more equitable than in nearly all other developing countries. See Hasan, Parvez. Korea: Problems and Issues in a Rapidly Growing Economy. Baltimore and London, The Johns Hopkins University Press, 1976; and Jain, Shail. Size Distribution of Income: A Compilation of Data. A World Bank Publication, 1975.

economic objectives. If this continues, its future as a middle industrial power is good, provided two problems—inflation and protectionist pressures in the United States and Japan—are kept under control, and there is no war.

Japanese policy: As for Japan's role, the Government of Japan continues to emphasize its interest in a stable Korea. From a geographic perspective the Government believes that a nonhostile, non-Communist South Korea is important to Japan's security. It has also viewed the present balance in Korea as contributing to stability in relations among the four major powers in Northeast Asia. Thus, the Government has cautioned the United States not to withdraw ground forces in a manner that would jeopardize stability. Increasingly, Korea has become a test of the credibility of American commitments in the region; this factor has been enhanced by the frequent assurances of the Carter administration to Japanese officials that the U.S. defense commitment to the ROK is firm.

Regarding its own policy, the Japanese economic role in South Korea remains strong, and Tokyo's diplomacy in the region is giving greater priority to the Korean question. In the last 2 years, the Government has taken a firmer stand that U.S. forces could use bases in Japan to support operations in Korea.

Public and opposition party attitudes are decidely more mixed. Polls in 1976 and 1977 indicated that the Japanese public was ambivalent on whether or not a strong relationship existed between Japan's security and a non-Communist South Korea. The polls also showed that a majority opposed U.S. use of bases in Japan in case of a North Korean attack.[14] Of the opposition parties, the Democratic Socialists and New Liberal Club give measured support to the Government's policy on Korea, but Komeito and the Socialist Party remain strongly opposed. On the other hand. recent polls show increased support for U.S.-Japan security relationship and Japanese defense preparedness, and this trend may strengthen the Government's position on Korea.

In contrast to the above, the status of other elements of stability has shown increasing uncertainty and, in at least one case, erosion. These are:

Soviet and Chinese restraint: Soviet and Chinese restraint on North Korea is uncertain. Both the Soviet Union and China have similar objections toward Korea. Neither wants events there, including a war, to bring about a confrontation with the United States that could have adverse effects on their interests elsewhere. (Both have defense treaties with the DPRK). They also desire that the situation in Korea not damage their policy objectives toward Japan. Moscow and Peking seek to influence North Korea's position in the Sino-Soviet dispute, and each wishes to prevent the other from establishing a predominant role in North Korea.

The U.S.S.R. and the People's Republic of China desire stability in Korea, at least over the short term, and apparently counsel restraint on North Korea; but they also give strong political support to the DPRK's reunification goals. The contradictory nature of these actions limits their ability to take initiatives toward either stronger

[14] U.S. Senate. Committee on Foreign Relations. U.S. Troop Withdrawal from the Republic of Korea. A Report by Senators Hubert H. Humphrey and John Glenn. 95th Cong., 2d sess. Washington. U.S. Government Printing Office, 1978: 13 (hereafter, this will be cited as Humphrey-Glenn report).

military support for the DPRK or political stabilization of the Korean peninsula. Their mutual rivalry gives Pyongyang a degree of independence and maneuverability that it might otherwise not have. Moreover, the DPRK has reduced its military dependence on them through successful development of its arms industry.

Today, North Korea appears closer to China than the Soviet Union. The People's Republic of China's influence is determined by geographical proximity, perceptions of ideological affinity and common political goals, and perhaps some economic aid. North Korea has no absolute need for Chinese arms, since it already produces the types of weapons that China can supply. Thus, the People's Republic of China has little leverage as an arms supplier, even though it currently provides more military aid than the Soviets. Therefore, it tries to compensate with total political support for North Korea's position.

North Korea has indicated uneasiness over China's motives in signing the Japan-People's Republic of China friendship treaty in August 1978 and establishing diplomatic relations with the United States on January 1, 1979. Moreover, it may not be happy over statements by Teng Hsiao-ping depreciating the importance of the Korean question and the need for early reunification. As the last Asian Communist state without a definite pro-Soviet bias, North Korea will probably become even more important to China, thus giving the DPRK more room to maneuver between Moscow and Peking.

Given China's openings to the West, the People's Republic of China at this juncture may take the view that similar steps by North Korea would be the best insurance that Pyongyang would remain out of the Soviet camp. Some State Department officials believe that the People's Republic of China may be counseling North Korea to adopt such a course. If this is the case, China could also be expected to emphasize this to the DPRK as a tactical move and to pledge, in return, continued political support for Pyongyang's objectives. Moreover, Teng's recent statements to American officials and Members of Congress suggest that China may have justified its policies to North Korea by promising to use its new relationship with Washington to influence the United States to reduce its support for South Korea.

North Korean-Soviet relations generally have been cool since the early 1970's. North Korea is wary of Soviet domination, and it has been displeased by certain Soviet actions, particularly the inviting of South Korean citizens to participate in international sporting events and meetings held in the U.S.S.R. and the withholding of certain types of economic and commercial credits from the DPRK. Moscow has provided little military aid to North Korea since 1973 and has not given Pyongyang modern aircraft like the Mig-23 fighter or advanced SAM's.

Still, North Korea has shown periodic interest in improving relations with the U.S.S.R. Some movement in this direction occurred in 1977, but it came to a halt following the North Korean defense minister's visit to Moscow in February 1978. With Chinese Premier Hua's visit to Pyongyang in May 1977, North Korea shifted toward a pro-People's Republic of China position and issued numerous criticisms of the forces of "dominationism" in the world—an apparent reference to the Soviet Union. However, such pronouncements have disappeared since the signing of the Sino-Japanese friendship treaty, and Soviet-

North Korean relations may be improving somewhat. For example, North Korea has granted the Soviet Union the use of a port on its east coast for "commercial" purposes; and in January 1979, more than 100 North Korean pilots arrived in Libya to begin flying Soviet-supplied Mig-23's.

On the bilateral level, the Soviet Union may hold the key to future restraint on North Korea. Of the four major powers in East Asia, the U.S.S.R. appears least satisfied with present political and military relationships. This is evidenced by the steady buildup of Soviet naval and air forces in the region and Moscow's strong support, including arms, for Vietnam's invasion of Cambodia. According to numerous accounts, the Soviet Union is interested in the use of North Korean ports by the Soviet Pacific Fleet. Korea is also an issue that could be used to drive a wedge between China and the United States and Japan. Thus, under certain circumstances, the Soviet Union might be more tempted than the other powers to take initiatives that would upset stability in Korea. Militarily, Pyongyang's arms industry cannot produce modern aircraft and air defense weaponry; Soviet arms of this type would be important insurance in any plan to attack the South. Thus, a Soviet decision to provide these would undoubtedly represent a reduction of external restraint on North Korea.

The increased uncertainty in Soviet and Chinese influence over North Korea on the level of bilateral relations coincides with an apparent lack of movement on a multilateral basis to bring about cooperation among the four major powers on Korea and begin a political process that would contribute to stability. Such a process would create new pressures on North Korea to exercise restraint. Specifically, there has been no progress toward the diplomatic objectives set out by Secretary Vance in his Asia society speech of June 1977: Admission of both Koreas into the United Nations, negotiation of a new Korean armistice arrangement, and initiation of a process of cross normalization of relations between the four majors and the two Koreas. China has rejected these proposals and refuses to have even nonofficial contacts with South Korea. By depreciating the importance of the Korean question and perhaps by emphasizing People's Republic of China bilateral influence over North Korea, Teng Hsiao-ping may have established a rationale for resisting post-normalization U.S. proposals for greater United States-China diplomatic cooperation. Consequently, the Teng-Carter talks in Washington evidently produced no change in the Chinese position.

Despite South Korean participation in international events in the U.S.S.R., the Soviet Government has shown no substantive interest in Vance's proposals. If the Soviet Government is inclined toward them, it is unlikely to move until China begins to change its attitude toward contacts with South Korea. However, it may be that the Soviet Union sees contacts with South Korea and the withholding of modern aircraft from the DPRK as a means of political leverage over North Korea rather than as a forerunner to acceptance of cross normalization.

The North-South military balance: An important change in the elements of stability has been the North Korea-South Korea military balance. A new, classified U.S. intelligence estimate has concluded that the North Korean army numbers 560,000 to 600,000 rather than the previous estimate of 440,000.[15] The army has the equivalent of about 40 combat divisions instead of the prior estimate of 29 divisions. Unclassified statistics over the last 2 years show sharp increases in the number of tanks, armored personnel carriers (APC's), multiple rocket launchers, and mortars in North Korea's arsenal. Consequently, it now has decided numerical advantages over South Korea in these weapons. Pyongyang has begun to manufacture the T-62 tank, which was the main battle tank of the Soviet army until 1976 and is far superior to South Korea's M-48 tanks. The following chart shows these changes in the North-South balance:

	1976 (2d half)		1978 (2d half)	
	North Korea	South Korea	North Korea	South Korea
Tanks	1,350	840	2,100	880
APC's	[1] 200	500	800	500
Multiple rocket launchers	700		1,300	
Mortars	2,500	[2] 3,000	9,000	5,300

[1] Figure for 2d half of 1975.
[2] Figure for 2d half of 1977.

Source: International Institute for Strategic Studies, Military Balance, 1976–77, and Military Balance, 1978–79.

The new intelligence estimate may show higher numbers for North Korea. Press reports state that the estimate places the number of tanks in the 2,400–2,600 range.[16] (According to a January 1978 Senate report, South Korea has 11,000 tanks.)[17] One may conclude from the estimate that the United States has also underestimated the production capabilities of the DPRK's arms industry.

Since 1976 South Korea has reduced its inferiority to the North in air power with the acquisition of approximately 126 F-5E aircraft.[18] The ROK can be expected to enhance further its air capabilities in relation to the DPRK unless the Soviet Union begins to supply the North with MIG-23's and other modern aircraft. South Korean production of field artillery pieces will also likely close an existing gap, and purchase of anti-tank weaponry will add to ROK defensive capabilities.

North Korea has a greater capability than previously believed to begin an all-out attack with the objective of seizing Seoul, 25 miles below the DMZ. Most observers believe that North Korea has positioned its forces so that it could launch a surprise attack with minimal warning time—some U.S. officers say as little as 6–8 hours. A full-scale invasion would likely focus on the traditional invasion corridors through the mountains to the capital (the Kaesong-Munsan corridor and the Chorwan-Ui jongbu corridor).[19] DPRK forces could pour tremendous firepower into South Korean positions along these invasion routes.

[15] The assessment was first done by the U.S. Army in 1978 and was later reviewed by the CIA. According to executive branch sources, the Washington Post article of Jan. 14, 1979, is the most accurate, unclassified description of it.

[16] The significance of the revised estimate in terms of future U.S. policy preference has not yet been decided.

[17] Humphrey-Glenn report, p. 27.

[18] International Institute for Strategic Studies. The Military Balance, 1978–79: p. 64.

[19] The Chrowan-Uijongbu corridor from the northeast was the invasion route used by North Korean forces in 1950 and by Chinese forces in their spring offensive of 1951. However, the present DMZ lies north of the old 38th parallel in this region, making this invasion route longer. U.S. officers in Korea generally believe that a new attack would come primarily down the Kaesong-Munsan corridor from the northwest, which is closer to Seoul, with a secondary attack from Chorwan.

They would have a greater chance of opening gaps in the ROK defenses, through which they could send their armor, even though heavy losses in tanks and manpower.

North Korea's increased firepower makes more difficult the South Korea-U.S. strategy of halting an invasion just below the DMZ with defense fortifications and superior firepower; a strategy whose success Carter administration studies and U.S. officials in Korea questioned in 1977 on the basis of older intelligence estimates and figuring in the participation of the 2d Division.[20] U.S. commanders in Korea have envisaged that, in a surprise invasion, the fate of Seoul would be decided in the first few days (before U.S. ground troops could arrive if displaced from Hawaii and the west coast).

To some degree, North Korea has neutralized potential U.S.-South Korean air superiority north of the DMZ with its 5,000–6,000 anti-aircraft guns and the hardening of its installations. Only the most sophisticated U.S. conventional "smart bombs" and electronically-guided bombs could penetrate these positions. U.S. interdiction bombing of North Korea would likely be a costly endeavor.[21]

Pyongyang's measures may also have reduced the requirement of sophisticated Soviet-supplied aircraft to support an invasion in the initial stage. It is estimated that the DPRK could maintain a full-scale attack for 30–90 days without resupply by China and the U.S.S.R.[22]

It appears likely that the imbalances between the North and South in these categories of ground weapons, except perhaps for mortars, will continue into the early 1980's with little or no reduction. This assumption is made on the basis of a continuation of present U.S. levels of FMS; current growth trends in the ROK's defense industry; the heavy emphasis on procurement of aircraft by South Korea during the first 2 years of the compensatory program; the long lead time of usually several years between purchases and delivery of weapons; a continued high level of North Korean domestic production; and the fact that, on the basis of old intelligence estimates, Secretary Brown and American officers in Korea stated that U.S. compensatory arms transfers and South Korea's domestic production would only partially reduce existing gaps.[23]

Credibility of the U.S. defense commitment: Several developments have affected perceptions of the credibility of the U.S. defense commitment to South Korea. First, the administration may have convinced Pyongyang that the troop withdrawal does not represent U.S. abandonment of the defense commitment. Beginning in 1978, North Korean statements suggest that the DPRK government has been impressed with the administration's compensatory measures; media pronouncements aften have referred to these as added obstacles in the way

[20] U.S. Analysts Doubt There Can Be Victor in Major Atomic War. New York Times, Jan. 6, 1978. Evans, Rowland and Robert Novak. PRM–10 and the Korean Pullout. Washington Post, Sept. 7, 1977. PRM–10 stated that "If the North Koreans were to achieve tactical surprise, it is possible that they could at least temporarily attain their most likely major objective—the capture of Seoul." It added that North Korea could not prevail in sustained combat if the United States brought substantial ground, sea, and air forces into the battle.

[21] In a report to Congress in December 1977, President Carter stated: "However, while there would be effective defenses to limit North Korea's use of air power in the war in the South, Pyongyang's hardened and numerous installations and extensive air defense facilities would still make it difficult and expensive to carry the war to the North."

[22] Humphrey-Glenn report, pp. 31–32.

[23] Ibid., pp. 28, 43, 47.

of reunification. The DPRK now regularly attacks the troop withdrawal policy in contrast to its generally favorabe attitude in 1977.

Congressional support appears to be strong for retaining the defense commitment and extending compensatory arms to South Korea. However, American public support for fulfilling the defense commitment is limited and qualified. A national public opinion poll conducted by Potomac Associates in the spring of 1978 showed that 52 percent of Americans opposed the use of U.S. military force to defend South Korea if it was attacked by North Korea; only 32 percent were in favor; and 16 percent were undecided. On the other hand, 55 percent favored keeping U.S. forces in Korea at their present level or increasing their numbers; 17 percent supported reduction; and 17 percent were for total withdrawal. When questioned on President Carter's troop withdrawal policy, 52 percent favored retaining ground forces; 35 percent supported the President's policy of withdrawing ground forces; and 13 percent were undecided. On whether or not the United States should recommit ground troops if North Korea attacked and seemed likely to prevail, 49 percent opposed this course; 31 percent were in favor; and 20 percent undecided.[24] These results are contradictory in one sense, but they suggest that the American people believe that U.S. ground forces are the best deterrence to war and that they are apprehensive that President Carter's policy will increase the risk of a war in which a majority would oppose U.S. involvement.

Responses to other questions indicated that the issues of human rights and South Korean influence buying in Congress had negative effects on American opinion of South Korea. To some degree, this undoubtedly reflects American press coverage. The influence buying scandal and human rights have dominated newspaper stories on South Korea, and these have shown the Republic of Korea Government in an unfavorable light. The Government's more positive accomplishments—such as the economy and the recent parliamentary elections—receive far less coverage.[25] The poll results show, even among college educated people, a general lack of knowledge and underestimation of the level of South Korea's economic development and the level of U.S. trade with the Republic of Korea. Coverage of the economy in the American press often suggests that the benefits of economic growth have been distributed unequally to an extent unacceptable by American standards [26] —despite the studies cited above showing a relatively equitable distribution of income comparable to the United States, Japan, and West European countries.

[24] Clough, Ralph N. and William Watts. The United States and Korea: American Attitudes and Policies. Washington. Potomac Associates. 1978: 18–35.

[25] For example, relatively short articles in the Washington Post and the New York Times did not comment on whether or not the elections were conducted freely and fairly. This is contrasted with extensive coverage of national assembly elections in the Philippines in April 1978 that reported at length on allegations and accounts of vote fraud.

[26] A recent example was the Washington Post editorial of Dec. 27, 1978, which stated: "The country's explosive economic growth, however, has produced a class of citizens whose expectations for a better life have been aroused even as they have come to feel they are not getting their proper share of the fruits of growth. Not in looking for Communists agents among the elite but in dealing with the legitimate grievances of the people does the Seoul government's challenge now lie."

Issue Outcomes and Consequences

One can envisage four different levels of outcomes concerning the troop withdrawal issue. The first centers on alternative U.S. responses to the new intelligence estimate and other changes in the elements of stability. A second assumes completion of withdrawal of ground forces and examines outcomes in terms of continued peace or a renewed Korean War. Third, there is the impact on the other major powers in Northeast Asia of U.S. success or failure in preserving stability in Korea. Finally, war or peace will profoundly affect South Korea's future.

Alternative U.S. responses: The administration has announced that a reassessment of its Korea policy is underway. Several options are available, both military and diplomatic. One is to abandon the plan or at least postpone the 1982 deadline. This option would be intended to deter a North Korean attack undertaken through a miscalculation of U.S. intentions or through a depreciation of U.S. ROK military strength. Retention of ground forces would allow more time for U.S. U.S.S.R. and China to counsel restraint on North Korea and would reassure the Japanese. However, it would continue to present "trip wire" situation of automatic U.S. involvement in ground combat should North Korea attack. One cannot completely rule out a decision by Kim Il-sung to attack in the 1980's even if the 2d Division was still in Korea, since, after that time, the DPRK could face waning prospects for reunifying Korea under its auspices as the ROK achieves economic superiority and at least military parity in the early 1990's.

Increasing compensatory measures is another option. Foreign military sales credits could be raised considerably above the present level of $225 million annually. The United States could place the ROK in the same category as NATO, Japan, and the ANZUS countries, thus removing the six controls cited above. The administration could provide South Korea with the M–60 tank and could expedite the sale of the F–16 fighters. U.S. air and sea forces in the region could be increased through transfer of tactical fighter squadrons to South Korea and the forward deployment of a third aircraft carrier to the Western Pacific. South Korea would be encouraged to give a higher priority to acquisition of ground weaponry.

This option would allow the administration to continue the withdrawal of ground forces, but increased FMS and provision of more advanced weapons hopefully would alleviate the gaps in the North-South military balance in terms of both quantity and quality. Movement of additional aircraft and a third carrier to the region would reinforce the administration's pronouncements pledging fidelity to the defense commitment.

Increasing compensatory measures woud escalate the level of arms in Korea at a time when the administration seeks to limit arms transfers worldwide in order not to excacerbate local arms races. If Soviet policy on arms is influenced by American actions (some Soviet officials have alleged this), providing F–16's could produce a Soviet reaction, such as the supply of advanced aircraft to North Korea.

Diplomacy is a third option: Shortly before Vice Premier Teng Hsiao-ping's visit to Washington in January-February 1979, President Carter called for maximum Chinese influence on North Korea to preserve stability. Administration officials disclosed that the President would give Korea priority in his talks with Teng and that he would suggest that the PRC establish contacts with South Korea. In April 1979, an American ping-pong team visited North Korea for an international tournament. The administration has been circumspect in discussing this, but it probably hopes that the visit will result in expanded United States-North Korean contacts at nonofficial levels that will, in turn, stimulate official diplomatic initiatives by various parties. Moreover, any renewal of talks between the two Koreas in 1979 would reinforce a diplomatic option.

The goal of a diplomatic option would be to construct a political framework for stability to replace the military framework based on U.S. ground forces. This would allow the withdrawal to continue according to present plans. Moreover, since the removal of the last two bridgades of the 2d Division is not scheduled until 1982, the administration has time—probably 2 years—to proceed with diplomacy.

This option would require the Carter administration to give a higher priority to Korea in its dealings with the Soviet and Chinese Governments than apparently it has done until now. It would also appear necessary for a diplomatic strategy to show clear, concrete results in approximately 2 years, in the form of Chinese and Soviet government-to-government contacts with South Korea as part of a cross-normalization process, or specific agreements between the North and South, or the conclusion of a new armistice agreement. Given the growing uncertainty in Soviet and Chinese influence over North Korea and the lack of knowledge the United States has concerning these relationships, a political framework for stability would appear insufficient if it was based on alleged, private, bilateral Soviet and/or Chinese atempts to counsel restraint on the North Koreans.

Reliance on diplomacy would also reduce U.S. military flexibility as the 1982 deadline approaches. If diplomacy produced no concrete results by 1981, there would be insufficient time to address the North-South military balance on the ground by increasing arms transfers to South Korea. The administration's options would consist of canceling or postponing the withdrawals or quickly deploying additional air and sea forces to the Korea-Japan region.

A fourth option is to shift U.S. policy from withdrawal of ground troops to removal of all forces by 1982. Its purpose would be to avoid recourse to either the first or second options. Total withdrawal could be linked to a diplomatic strategy similar to the third option; but even if diplomacy failed, the United States could still carry out a complete withdrawal. Total disengagement would end any possibility of the United States being involved in another Asian land war.

The option would also end any meaningful U.S. role in South Korea's defense. Once U.S. forces were removed, none of the parties interested in Korea would believe that they would return in case of war. The issue of war or peace essentially would be in the hands of North Korea and its allies as well as South Korea.[27] Total withdrawal

[27] Advocates of total withdrawal often contend that North Korea is not aggressive, is sincere in its stated policy of "peaceful reunification," and presses for a total U.S. military disengagement from South Korea because it sees the American presence as preventing a political process that would lead to reunification. This view also cites the elements of stability listed above as major factors influencing the Korean situation, but proponents argue that they must be altered or eroded. For a composite of this perspective, see the papers presented for the Conference of Japanese and U.S. Parliamentarians on Korean Problems, held in Washington, Sept. 19–20, 1977.

would diminish the key incentive for the Soviets and Chinese to counsel restraint on North Korea: the prospect that a renewed Korean war would damage their relations with the United States to the detriment of their interests elsewhere. The Soviet Union, especially, has sought gains through military support of pro-Soviet governments and movements in a number of countries where the United States was not directly involved (Angola, Rhodesia, Ethiopia, Afghanistan, Vietnam in 1975 and, most recently, Cambodia). U.S. disengagement from Korea could create an incentive for the Soviet Union to act in this way. Finally, the option would undoubtedly increase South Korea's interest in developing nuclear weapons.

Conditions for peace or war: In the absence of a clear diplomatic breakthrough, the question of peace or war after ground forces are withdrawn would probably rest on how North Korea and the other parties interpret trends in the other elements of stability. Focusing on North Korea, continued stability would likely depend on D.P.R.K. perceptions of the following:

(1) A solid consensus in Congress and the American public for maintaining the residual force in South Korea and heavily reinforcing South Korea in case of a North Korean attack.

(2) U.S. security assistance and growth of South Korea's defense industries adequate to sharply reduce the present North-South military imbalance in the early 1980's.

(3) Political stability in South Korea, including accommodation between the Government and the opposition.

(4) Strong Japanese support for the residual force and the use of U.S. bases in Japan to support operations in Korea.

(5) Some degree of Soviet and Chinese restraint on North Korea.

Conversely, the risk of war could increase if one or more of the following circumstances developed:

(1) A strong, visible American debate in Congress and elsewhere on whether or not to maintain the residual force.

(2) A continuation or enlargement of the present North-South military imbalance.

(3) Major political instability or disorder in South Korea.

(4) A shift in Japanese policy away from supporting the American presence in South Korea.

(5) Soviet support for an invasion.

After 1982, scenarios could develop along these lines, or North Korea could "test the waters" to gain a clearer picture of trends. The D.P.R.K. would have several strategy options short of an all-out invasion that could be employed to measure the probable responses of the United States, Japan, South Korea, and its allies in Moscow and Peking. One option would be an attack on South Korean-held islands off Korea's west coast that North Korea claims. Under a second option, the North Koreans would begin frequent artillery shelling and other shooting incidents along the DMZ but would not launch an immediate invasion. Pyongyang could also resort to infiltration similar to that of the 1966–69 period, aimed at fomenting an insurgency; this could be conducted either alone or in conjunction with one of the other options.

Import on the major powers: The relationships among the major powers in Northeast Asia will be deeply affected by the success or failure of the administration's policy in preserving stability in Korea. Success would solidify the United States-Japanese alliance, allaying growing Japanese concerns over the credibility of U.S. security commitments in the region, and contributing to closer cooperation in defense matters (a goal currently sought by both governments). War in Korea in the wake of the withdrawal of U.S. ground troops would place considerable strain on the alliance. If the United States responded vigorously to an invasion, American use of bases in Japan would be controversial in that country and would depend on the political resolve of the Japanese Government. Failure of the United States to give adequate support to South Korea would probably shake Japanese confidence in the United States to its foundations, since the Carter administration has repeatedly assured the Government that the U.S. defense commitment to South Korea is firm. A North Korean military takeover of South Korea could result in a Japanese decision to increase the strength of the Japan Self-Defense Forces beyond present plans; but it is uncertain whether, in these circumstances, such a buildup would take place in cooperation with the United States.[28] Japanese political stability could be weakened, as events in Korea polarized the Japanese body politic as it considered the future course of Japan's foreign and defense policies. These reactions would be especially severe if the U.S.S.R. extended major support to North Korea.

With regard to China, continued peace and stability in Korea would be beneficial to development of new United States-China and Japan-China relationships. However, war would jeopardize their continuation. China would almost certainly support North Korea out of ideological considerations and to offset Soviet involvement. If North Korea adopted overt pro-Soviet policies, China might extend less backing; but failure by the United States to help South Korea repel a Soviet-backed invasion would strengthen P.R.C. views that the United States was in "strategic retreat" in the face of Soviet "hegemonism." Such strains in the Sino-American relationship could result in major changes in P.R.C. policy in Asia, heavy P.R.C. pressure on Japan for a Sino-Japanese alliance, or increased dangers for Taiwan.

The Soviet Union, too, would likely support North Korea in another Korean war. Moscow could be expected to use the D.P.R.K.'s military needs to try to establish a predominate influence in Pyongyang while avoiding a direct confrontation with the United States. However, a confrontation is possible if the United States was involved militarily. Active Soviet backing of a succesful North Korean invasion could produce a number of gains for the U.S.S.R. including the movement of the D.P.R.K. into the Soviet camp, use of North Korean ports by the Soviet Pacific Fleet, and new strains in the United States-Japan alliance and in U.S. relations with other Asian allies.

Continued stability in Korea, on the other hand, would not disrupt the present United States-Soviet balance of power in Northeast Asia,

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[28] The Japanese Government's 1978 "white paper" on defense states: "The defense policy of Japan is based on the assumption that the situation in the Korean Peninsula will not change radically that at least no major armed disputes will break out. Therefore, Japan is strongly hoping, as a matter of its national interst, that the military balance in the Peninsula, consequently the peace and stability of the Peninsula, will be maintained in the course of implementation of the proposed withdrawal."

but it also would not guarantee its continuation over the long run. The steady buildup of Soviet air and naval forces in the region will no doubt affect future Sino-Soviet relations and North Korea's policies toward Moscow and Peking. It will also bring into question the adequacy of the U.S. response, in terms of both the military balance itself and the role of U.S. forces in supporting major U.S. political objectives, including strengthening the United States-Japan alliance and maintaining nonhostile relations with China.

South Korea's future: South Korea's political and economic future will be determined by the question of peace or war in the aftermath of the withdrawal. As stated previously, the country has a promising future as a middle-sized industrial power, provided there is continued stability in the peninsula. A North Korean invasion, on the other hand, would undoubtedly result in considerable destruction in the northern part of the Republic of Korea, especially around Seoul, where 45 percent of the country's GNP is produced. This could wipe out many of the economic gains achieved in the last 15 years, and South Korea could again require U.S. economic aid. For this reason, South Korean and some U.S. military officials in Korea assert that South Korea would lose overall if war broke out even if it won militarily. This view is one factor behind the South Korean Government's emphasis on maintaining an adequate deterrent to an attack.

Politically, continued stability would appear to improve chances for a broadening of human rights and evolution toward a more democratic system. South Korean Government officials have stated privately that by the late 1980's, South Korea should be strong enough militarily and economically so that the Government could begin to remove restrictions on political and civil liberties. Even if the Government did not move in this direction, growing pressures for liberalization can be expected within the next decade as economic prosperity deepens and as the middle class becomes the dominant socio-economic element in South Korean society.

War and economic destruction would make these prospects less certain. If an invasion were thrown back, the Government would almost certainly emphasize security and economic reconstruction in the postwar period and, as it does presently, would probably use these issues to justify a continuation of political controls. The South Korean Armed Forces could be expected to press for such a course. The public, which has displayed sensitivity to national security, would be more likely to accept or tolerate this situation in the aftermath of a destructive war in which the Government had been relatively successful militarily.

A North Korean military success—at a minimum the capture of Seoul—would most likely create conditions conducive to political instability and domination by the North. Assuming that part of South Korea south of Seoul continued to exist, the present government would be discredited and probably would not survive. The choices would then be a government subservient to the Democratic Peoples Republic of Korea, or a military dictatorship. The ability of either to sustain itself would be doubtful.

The Role of Congress

The role of the 95th Congress was to influence the Carter administration toward greater flexibility in its troop withdrawal policy in connection with the compensatory measures and the troop withdrawal schedule. This tone was consistent, despite the effects of the Korean influence-buying scandal. Congress acted through hearings, legislation, reports, and statements by individual Members. Hearings, especially those conducted by the House Special Investigations Subcommittee of the Armed Services Committee, gave critics and supporters of the administration opportunity to voice their views. The subcommittee's report and the report by Senators Humphrey and Glenn cited earlier emphasized the difficulties and dangers of the withdrawal policy, although the latter did not oppose it.

Legislation dealt with compensatory arms transfers to South Korea and consultation between the administration and Congress over the future course of the policy. The International Security Assistance Act for fiscal year 1979 approved the administration's $800 million weapons transfer proposal and the $275 million in security assistance for South Korea. However, the influence-buying scandal resulted in delays in passing the legislation. This, in turn, influenced President Carter's decision in April 1978 to reduce the number of personnel to be withdrawn in 1978 from 6,000, including three combat battalions, to 3,600, including one combat battalion.

Pressure for consultation grew during the session. The fiscal year 1978 Foreign Relations Authorization Act contained language that U.S. policy toward South Korea should be decided by both the President and Congress and that implementation of the President's plan was to be "carried out in regular consultation with Congress" with reference to U.S. interests in Korea and Japan. The International Security Assistance Act for fiscal year 1979 directed the President to provide Congress 120 days before each phase of the troop withdrawal a detailed report on the effects of the withdrawal on various facets of the situation inside Korea and in the Northeast Asian region.

According to congressional sources, the new intelligence estimate will result in an intensified debate in the 96th Congress over the troop withdrawal policy. Current signs are that congressional pressures on the administration for further modifications will increase. Compensatory measures, including arms transfers, will receive close scrutiny. Congress may begin to examine the administration's diplomatic strategy (a heretofore neglected area). The human rights issue, which was a major area of congressional concern, may receive less attention, because of changes in personnel of congressional committees and if the South Korean Government maintains its policy of measured liberalization. With the conclusion of House and Senate investigations of the influence-buying scandal, that issue is expected to have less impact on the actions of Congress.

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RELATIONS WITH THE PEOPLE'S REPUBLIC OF CHINA AND TAIWAN

(By Robert G. Sutter*)

Issue Definition

President Carter's surprise announcement on December 15, 1978, that the United States would establish diplomatic relations with the People's Republic of China (PRC) as of January 1, 1979, and break its diplomatic ties and defense treaty with the Nationalist Chinese administration on Taiwan has presented the 96th Congress with several legal, economic, and strategic concerns regarding future U.S. relations with China and with Taiwan. In general, these issues focus on the following four questions:

(1) What are the implications of the President's unexpected decision for the Congress recently legislated request that it be consulted prior to the break in the U.S. defense treaty with Taiwan?

(2) How can the United States continue current commercial (including arms sales), cultural, and other interchanges with Taiwan in the wake of the break in official diplomatic relations?

(3) What legislative actions are likely to be required in order to improve commercial and other interchanges with the People's Republic of China following the normalization of Sino-American diplomatic relations?

(4) What should be the direction of future U.S. policy toward China, and what effect will improved relations with the People's Republic of China have on other important American foreign policy concerns.[1]

Background

President Carter's decision is designed to put an end to the Taiwan issue as an impediment to normal Sino-American diplomatic relations. The Taiwan question had remained the major stumbling block between Washington and Peking following President Nixon's landmark visit to the People's Republic of China in February 1972. At that time, Nixon and Chinese leaders signed the Shanghai Communique[2] which deferred problems of diplomatic relations and Taiwan for the sake of working together on the basis of common Sino-American strategic interests in Asian and world affairs. In particular, the two sides pledged to cooperate to insure that the East Asian region would not become subject to international "hegemony"—a codeword used by China to

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[1] For an analysis of differing opinions in the United States on the subject of United States-People's Republic of China normalization, see U.S. Congress, Library of Congress. Multilith [by] Robert G. Sutter. United States-Peoples Republic of China Normalization: Arguments and Alternatives. Aug. 3, 1977. 55 pp. 77–182 F. See also, U.S. Congress, Library of Congress. U.S.-China Relations. Issue Brief No. IB 76053 (periodically updated) 20 pp. See also, U.S. Congress. House. Committee on International Relations, Subcommittee on Asian and Pacific Affairs. Normalization of Relations with the People's Republic of China: Practical Implications. Washington, U.S. Government Printing Office, 1977. 394 pp.

[2] The Shanghai Communique has been formally endorsed as the centerpiece of U.S. policy toward the People's Republic of China, by every U.S. Administration since that of President Nixon. However, the communique does not have the status of U.S. law, particularly inasmuch as it has not been subjected to formal approval by the U.S. Congress.

denote Soviet expansion. Prospects for such cooperation had been enhanced during the Nixon administration by the reduction of the U.S. military role in Vietnam and by the scaling down of the U.S. military pressure along China's periphery in East Asia. Peking, for its part, was actively searching for increased support against the Soviet Union. The Chinese had been facing heavy Soviet military pressure since the Sino-Soviet border clashes of 1969. They now viewed the Soviet Union as China's major adversary and saw the United States as a source of useful leverage against the Soviet "threat."

PRC Policy Goals

Over the next 5 years, the Nixon and Ford administrations emphasized common United States-People's Republic of China strategic interests in opposition to international "hegemony," and encouraged closer U.S. contacts with the People's Republic of China, without significantly altering formal U.S. diplomatic and defense ties with Taiwan. This policy seemed acceptable to China and relations gradually improved. In particular, Peking saw the gradual withdrawal of U.S. forces from East Asia—under terms of the Nixon doctrine—as conducive to a slow expansion of Chinese influence in the region. Of course, Peking expected the United States to avoid a precipitous pullback and to maintain sufficient forces in the area—especially naval and air forces—to help China offset possible Soviet expansion in Asia. At the same time, Peking expected the United States to vigilantly check Soviet moves in Europe and the Middle East, thereby compelling the U.S.S.R. to focus its strategic attention westward, away from China.

Minor problems arose in Sino-United States relations during 1974, apparently because of leadership debate in China between moderates, led by Premier Deng Xiaoping and Vice Premier Zhou Enlai, and more radical leaders led by leftist Chinese Politburo members. The debate focuced on domestic issues, but it also affected foreign policy, including policy toward the United States. Thus, for example, leftist-inspired propaganda attacks against Western culture and Western trade with China dampened Peking's interest in cultural and economic interchange with the United States. Leftist influence apparently was responsible for a sharply more militant line on Taiwan, with Peking spokesmen giving atypical stress to China's determination to strike miltarily across the Taiwan straits in order to "liberate" Taiwan.[3]

In 1975 both moderate and leftist Chinese spokesmen began to voice concern over U.S. strength and resolve against the Soviet Union. The U.S. leadership crisis over the Watergate scandal during 1974, the collapse of U.S.-supported governments in Indochina early in 1975, and U.S. détente agreements with the Soviet Union during summit meetings at Vladivostok in November 1974 and Helsinki in August 1975 prompted Chinese leaders to express misgivings over what they saw as growing signs of U.S. strategic "weakness" and U.S. "appeasement" in negotiations with the Soviet Union. The Chinese feared that these U.S. developments would result in a weakening of U.S. strategic competition with the Soviet Union, which in turn would allow Moscow to

[3] See U.S. Foreign Broadcast Information Service, Special Report on Communist Media, Peking Media Treatment of the Taiwan Issue (1972–1976). Oct. 29, 1976. 5 pp.; and Special Memorandum, Peking Media Attention to U.S. Domestic Issues (1972–1976). July 9, 1976. 3 pp.

relax along the western front and devote greater attention to Asia, and China in particular.

Following the death of Zhou Enlai and the purge of Deng Xiaoping in early 1976, leftist leaders temporarily regained influence in the conduct of Chinese affairs. As during the period of leftist influence in 1974, Peking media sharply criticized Chinese trade with the West and Chinese spokesmen adopted a more militant line on Taiwan. Mao's death in September 1976 was followed in a few weeks by the purge of leftist Chinese Politburo members. The purge of the leftists and the advent of the Carter administration in January 1977 were accompanied by a return to more moderate and smooth functioning in Sino-United States relations. Since the middle of 1977, Peking has avoided criticizing the United States over the normalization issue and has repeatedly expressed understanding and patience over the difficulty the United States faced in breaking its ties with Taiwan.[4] It has also demonstrated remarkable pragamatism in other areas of foreign affairs, notably by increasing economic and poiltical ties with Japan and West Europe, while it has ended longstanding aid programs and political support for former ideological allies like Vietnam and Albania.

The Carter administration, for its part, reaffirmed its intention to work for the full normalization of United States-People's Republic of China relations. As Soviet-American relations encountered difficulties over arms control, Soviet policy in Africa, and human rights, a number of U.S. leaders in and out of Government advocated a closer relationship with China as a means to pressure the U.S.S.R. into a more accommodating posture toward the United States.[5] Perhaps with this in mind, U.S. leaders emphasized parallel strategic interests with China during the visit of Presidential Assistant for National Security Affairs Zbigniew Brzezinski to Peking in May 1978, and they subsequently stepped up technical exchanges and trade with China while limiting similar interaction with the Soviet Union. In response, Soviet leaders strongly warned the United States against trying to "play the Chinese card" in its relations with the U.S.S.R.[6]

Meanwhile, U.S. economic relations with Taiwan remained close, even though political ties became increasingly cool and the U.S. gradually withdrew its military forces stationed on the island. United States-Taiwan trade continued to grow rapidly; its annual value in recent years has been several times the annual value of U.S. trade with the People's Republic of China. In 1977, United States-Taiwan trade amounted to $5.4 billion, and is estimated at $7.4 billion in 1978. United States-People's Republic of China trade turnover was valued at about $400 million in 1977, and is estimated at somewhat more than $1 billion for 1978. U.S. investments in Taiwan have also grown substantially, as private U.S. banks have lent over $1.5 billion to Taiwan and the U.S. Export-Import Bank guarantees have amounted to $1.7 billion.[7]

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[4] See, in particular, U.S. Congress. The United States and the People's Republic of China. Report of the Sixteenth Congressional Delegation to the People's Republic of China. Washington, U.S. Government Printing Office, 1978, p. 13.

[5] See in particular, Bernard Gwertzman, "When Do Gestures to Peking Become an Anti-Soviet 'Tilt?'" New York Times. July 9. 1978. p. E–1; and Ross Terrill, "The Strategy of the Chinese Card." Asian Wall Street Journal, July 20, 1978, p. 10.

[6] See Pravda editorial of June 17, 1978.

[7] United States-China Relations. Issue Brief No. IB 76053, op. cit., p. 6.

President Carter's Decision

Peking leaders had long demanded that the United States meet three conditions for the normalization of Sino-American diplomatic relations—the United States must withdraw all military forces from Taiwan, break diplomatic relations with the Government on Taiwan, and terminate the United States-Taiwan defense treaty. At the same time, the leaders had urged the United States to follow the example of Japan's normalization of relations with the People's Republic of China in September 1972. The so-called Japanese formula required the United States to end diplomatic relations with the Taipei government, recognize Peking as the sole legal Government of China, and acknowledge Peking's claim that Taiwan is part of China. The United States-Taiwan defense treaty was to be ended. However, U.S. economic relations with Taiwan would continue unhindered and political relations were to be maintained through private offices staffed by career Foreign Service officers who were officially "retired," "separated," or "on leave."

President Carter's December 15 speech showed that the United States would meet Peking's three conditions and that it would follow the Japanese formula with few modifications. The United States did not immediately terminate the United States-People's Republic of China defense treaty, but it announced that it would notify Taiwan on January 1, 1979 that the mutual defense treaty between the United States and Taiwan is being terminated in 1 year, in accord with the provisions of the treaty.[8] Administration spokesmen told the press after the President's announcement that the United States would continue during 1979 to deliver military equipment already contracted for by Taiwan, and that even after formal military ties end, the United States will continue to make available to Taiwan "selected defense weaponry on a restricted basis."[9]

The Chinese leaders in Peking hailed the Sino-American agreement on normalization, with Premier Hua Guo-Feng holding his first press conference in order to welcome the accord. Hua pointedly reaffirmed Peking's claim to Taiwan, but in what may be a gesture to ease world concern over People's Republic of China intentions toward the island, Hua avoided Peking's standard call for Taiwan's "liberation." Instead he used the milder term "reunification."[10] In Taipei, Chinese Nationalist leaders bitterly condemned the President's "sellout," while some anti-American demonstrations were held in the city. Reactions of most major foreign governments were mild, and President Carter disclosed on 19 December that he had received a personal message from Soviet leader Leonid Brezhnev which reportedly used a "positive tone" in referring to the United States-People's Republic of China normalization.[11] President Carter's interpretation was later disputed by the Kremlin.

[8] Washington Post, Dec. 16, 1978, p. 1.
[9] Ibid.
[10] New China News Agency (NCNA) Dec. 16, 1978.
[11] CBS television program, "A Turning Page of History," Dec. 19, 1978.

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Issue Outcomes and Consequences

Consultations With Congress

President Carter disclosed on December 19 that the final decision to normalize relations with China had been made by only a "tiny group" within the administration.[12] Western press reports also noted that Congressional leaders were formally notified about the decision only a few hours before it was announced.[13] The administration's action has caused some in Congress to criticize the China decision, especially inasmuch as the Congress had passed only a few months earlier an amendment to the International Security Assistance Act of 1978 (Public Law 95–384) expressing the sense of the Congress that there should be prior consultations between the Congress and the executive branch on any proposed policy changes affecting the continuation in force of the U.S. defense treaty with Taiwan.[14]

Meanwhile, some congressional members have challenged the right of the President to unilaterally end a treaty such as the defense treaty with Taiwan. Thus, for example, Senator Goldwater, along with 25 cosponsors, introduced a resolution (Senate Concurrent Resolution 109) on October 10, 1978 that says: "The President should not unilaterally take any action which has the effect of abrogating or otherwise affecting the validity of any of the security treaties comprising the post-World War II complex of treaties, including mutual defense treaties, without the advice and consent of the Senate, which was involved in their initial ratification, or the approval of both Houses of Congress."[15]

In the wake of the President's announcement, Senator Goldwater said that he would challenge the President's actions in the courts, and he reportedly called for a special session of Congress to consider whether President Carter acted improperly by failing to fully consult Congress before making the decision to open relations with Peking and break the treaty with Taiwan.[16]

Future Relations With Taiwan[16a]

Subsequent to the President's announcement, Herbert Hansell, the State Department legal adviser, told the press on December 17, 1978, that even though diplomatic relations will be severed with Taiwan and the defense pact will be ended, the United States wished to continue in force the approximately 60 other treaties between Washington and Taipei, which cover such matters as trade, visas, and economic and technical cooperation. Hansell said that the maintenance of these ties would have to be done on an unofficial basis through special corporate arrangements and that legislation by Congress would be re-

[12] Ibid.
[13] Washington Post, Dec. 16, 1978, p. 1.
[14] Washington Post, Dec. 17, 1978, p. 1.
[15] Congressional Record, Oct. 10, 1978, p. S17903.
[16] Washington Post, Dec. 17, 1978, p. 1.
[16a] This section was prepared prior to congressional consideration of the administration's "omnibus bill" on future relations with Taiwan which was signed into law in April 1979.

quired. Hansell did not specify what kind of legislation he felt would be needed, but the administration reportedly is preparing a package of legislation for submission to the Congress.[17]

There has been considerable disagreement among American legal experts over the kinds of legal changes that will be required in order to allow for continued U.S. interchange with Taiwan. Thus, for example, there is debate over whether or not Taiwan can be legally considered as a separate "nation," "country," or "state" in the wake of Sino-American normalization.

In addition, President Carter declared as part of his December 15, 1978, announcement that the United States "recognizes" the People's Republic of China as the "sole legal Government of China," and that "the Government of the United States of America acknowledges the Chinese position that there is but one China and Taiwan is part of China." The administration takes the position that this does not mean that the United States has recognized Taiwan as legally coming under Peking's jurisdiction. It says: "We have acknowledged that Chinese on both sides of the Taiwan Straits—both on Taiwan and in Peking—assert that there is only one China of which Taiwan is a part. But just as in the Shanghai Communique in 1972, we do not assert any view of our own." Nevertheless, some American legal experts question whether the President's December 15 statement concerning Taiwan may be interpreted as meaning that U.S. legislation currently applying to the People's Republic of China would now also be seen as applicable to Taiwan, and they ask whether some legislation to clarify the situation may be called for.[18]

In any event, there appear to be three major issues involved in future U.S.-Taiwan relations: (1) The maintenance of continued—albiet unofficial—political ties; (2) U.S. arms sales to Taiwan; and (3) continued trade with and continued U.S. private investment in Taiwan. This third issue includes the continued application of most-favored-nation (MFN) treatment and of the generalized system of preferences (GSP) to Taiwan, the extension of Export-Import loans to Taiwan, and investment guarantees provided by the Overseas Private Investment Corp. (OPIC) to U.S. firms investing in Taiwan.[19]

If the United States—as reported—follows the Japanese formula in order to maintain unofficial ties with Taipei, the United States and Taiwan will establish nominally private organizations in each other's territory to carry out most of the functions normally conducted by embassies. Thus, for example, the Government of Japan has set up an Inter-change Association with offices in both Japan and Taiwan. Taiwan has established an East Asian Relations Association with offices in Taiwan and Japan. Both organizations are manned by former foreign service officers who are officially "retired," "separated," or "on leave." The two organizations signed an agreement in December 1972 outlining the diplomatic and consular functions for which they would

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[17] New York Times, Dec. 18, 1978, p. 1.

[18] Information on the legislative implications of normalization is contained in Victor H. Li, "De-recognizing Taiwan: The Legal Problems," Washington, Carnegie Endowment for International Peace, 1977, 41 pp.; and in "Normalization of Relations With the People's Republic of China: Practical Implications," op. cit., pp. 80–136.

[19] For further discussion see United States-Peoples' Republic of China Normalization: Arguments And Alternatives, op. cit., pp. 54–59. See also United States-China Relations, Issue Brief 76053, op. cit.

be responsible. However, other matters apparently are covered by secret agreements, including: (1) the personal security of representatives of the organizations including immunity from arrest or legal process arising from the "normal" conduct of business; (2) coded communications and transmission of documents by the equivalent of a diplomatic pouch; (3) the status of Chinese in Japan holding Taiwan passports; and (4) the maintenance of postal, telegraph, and, telephone communications between the two countries.[20]

If the United States follows Japan's example, Congress might have to legislate on the question of privileges and immunities for personnel of Taiwan's organization in the United States. (Congress granted full diplomatic privileges and immunities for personnel of the PRC Liaison Office.) Congress might also have to legislate with respect to the career benefits of U.S. Foreign Service personnel who would operate the U.S. organization and who might be officially separated from the State Department.

There is uncertainty as to whether security ties with Taiwan, in the form of cash sales of weapons and military equipment, could continue under current U.S. law. Thus, for example, U.S. military sales to Communist countries are now restricted, and some observers judge that Taiwan may be seen as subject to these restrictions inasmuch as the United States has now formally acknowledged the Chinese position that the island is part of China and the PRC is the sole legal Government of China.

It would appear that there are some legal obstacles to the continuation of normal trade between the United States and Taiwan. MFN treatment and the generalized system of preferences treatment for Taiwan might continue unless the United States specifically discontinued them. However, if Taiwan is seen as part of the PRC—a Communist country—the island may be seen as falling under legislation (Trade Act of 1974) which restricts the ability of Communist countries to receive MFN and GSP treatment from the United States.

Export-Import Bank loans to Taiwan apparently might continue, as the bank is authorized under the Export-Import Bank Act of 1945 to direct such loans to "any foreign countries or the agencies of nationals thereof" in order to facilitate the foreign trade of the United States. Henry Kearns, head of Export-Import Bank, stated during congressional testimony in 1973 that "we are not restricted to doing business only with a country with diplomatic relations" with the United States. However, the ability of the Export-Import Bank to continue its operations in Taiwan would depend, as in the case of MFN treatment, on whether the United States legally viewed Taiwan as part of a Communist country. Thus, for example, under provisions of the Trade Act of 1974, Export-Import Bank loans are currently restricted in the case of Communist countries which limit the rights of their citizens to emigrate.

In regard to OPIC, which extends Government guarantees to U.S. private businesses that invest in Taiwan, the Foreign Assistance Act of 1961 as amended directs OPIC's activities to "less developed friendly countries and areas." One could assume that Taiwan would at least fall under the category of "area," but if it is seen as part of a Communist country, it may not be seen as "friendly." Moreover, section

[20] For further discussion, see David Nelson Rowe, Informal "Diplomatic Relations": the Case of Japan and the Republic of China, 1972–74. Hamden, Conn., the Shoe String Press, Inc. 1975.

620 (t) of this act may be interpreted as prohibiting OPIC guarantees being given to Taiwan, inasmuch as it is seen by some experts as not allowing such assistance to countries with which the United States has broken diplomatic relations. Unlike Export-Import Bank programs, OPIC is considered foreign assistance and thus is covered by the provisions of section 620(b) and (f) which restrict deals with Communist countries.

The Johnson Debt Default Act imposes a criminal sanction on persons in the United States who deal in the securities of a foreign government or extend loans other than bona fide commercial credits to a foreign government that is in default of payments due the United States. The PRC is considered by some legal experts to be a party in default of loans made by the United States to China prior to 1947, even though the U.S. Treasury currently does not list any outstanding debts as being owed specifically by the PRC. If Taiwan is seen by the United States as legally a part of the PRC, then in the absence of amending legislation the restrictions of the Johnson Act might apply to Taiwan.

As to U.S. treaties with Taiwan, there are only a few which are still operational and deal with relatively important matters. Perhaps first among these is the Treaty of Friendship, Commerce and Navigation signed in 1946 which established the framework for political and commercial relations between the two parties, and is the basis for a broad range of private rights enjoyed by the nationals of either side. The air transport agreement signed in 1946 established routes between the China mainland and the United States. The agreement was later amended to suspend the operation of these routes and to establish new routes to and from Taiwan.

The United States and Taiwan signed an agreement in 1972 regarding the transfer of U.S. nuclear material to Taiwan. It contains guarantees by Taiwan not to use the materials for military purposes and not to transfer any material or restricted technical data to unauthorized persons. There are two agreements setting up textile quotas for Taiwan exports to the United States and there are agreements for relief from double taxation on earnings from operations of ships and aircraft, and an OPIC-related agreement on guarantees for projects in Taiwan proposed by nationals of the United States.

The legal consequences of U.S. withdrawal of recognition from Taiwan and acknowledgment of the Chinese position that Taiwan is a part of China on these pre-existing treaties remain unclear. A case can be made that international law does not require that treaties affecting only the territory controlled by the Taiwan authorities must lapse. Some observers judge that the United States at this point should not try to impose legal precision on a basically ambiguous situation, but should state which treaties—perhaps all—it considered still to be in force.

Economic Relations With the PRC [20a]

The normalization of diplomatic relations will affect U.S. economic ties with China in several important areas.[21]

[20a] This section was prepared prior to the signing of a Sino-American agreement on the settlement of mutual financial claims and the initiating of a Sino-American trade agreement during the visit to China of U.S. Commerce Secretary Juanita Kreps in May 1979.

[21] For further discussion see United States-Peoples' Republic of China Normalization, op. cit. pp. 48–54, and United States-China Relations Issues Brief 76053, op. cit.

(*a*) MFN and GSP tariff treatment for the PRC—Following the establishment of diplomatic relations, the Chinese Government probably will increase demands for MFN status, i.e., nondiscriminatory tariff treatment by the United States. Nondiscriminatory tariffs for the PRC were withdrawn pursuant to the Trade Agreement Extension Act of 1951. In the Trade Expansion Act of 1962, as amended, section 231 provided for mandatory continuation of the prohibition against MFN tariffs for countries under Communist rule. This provision was superceded by a similar provision in the Trade Act of 1974.

Under terms of the 1974 act, MFN status could be granted to the PRC in the context of a Sino-American bilateral commercial agreement valid initially for 3 years after approval by Congress. The agreement must, among other things, contain safeguards against market disruption, contain agreements for the settlement of commercial disputes, make provisions for bilateral consultations, and secure protection for the individual property rights of U.S. nationals, equivalent to those contained in the Paris Convention for the Protection of Industrial Property.

Moreover, the granting of MFN may not be extended to any nonmarket economy that denies its citizens the right or opportunity to emigrate or imposes more than nominal exit fees or taxes on documents or individuals—provisions which may apply to the PRC.

In regard to GSP, the PRC is clearly a developing country which would—judged by economic criteria—qualify also for a U.S. designation as a beneficiary developing country (BDC) under the GSP. The benefit accruing to a country that is so designated is in having a large array of its exports to the United States dutied at a zero-rate (imported duty free). A communist country, however, is denied the status of a BDC unless it has been granted the MFN status, is a contracting party to the General Agreement on Tariffs and Trade, and is not dominated or controlled by international communism. (The PRC at this time does not qualify for the lack of 1 and 2, and arguably 3.)

(*b*) Blocked assets–private claims.—Settlement of the issues of Chinese assets blocked in the United States and U.S. private claims against the People's Republic of China will be required before certain steps in United States-People's Republic of China commercial relations can be taken. These issues stem from the blocking by the United States of Chinese dollar denominated accounts and other assets on December 17, 1950, after People's Republic of China military forces entered North Korea, and from the subsequent Chinese decree of December 29, 1950, announcing seizure of American public and private property in China.

In 1966, the Congress amended the International Claims Settlement Act of 1949 to authorize the Foreign Claims Settlement Commission to undertake an evaluation of claims by American nationals for losses due to Chinese nationalization of property and other assets after October 1, 1949. Claims by private U.S. citizens and corporations adjudicated by the Commission total about $197 million.

The Treasury Department, responsible under the foreign assets control regulations for maintaining control over the blocked Chinese assets, undertook a second census of these assets in June 1970. Since the first census of 1951, many changes in assets had occurred. The completed census placed the value of the assets in June 1970 at $76.5 million.

These unsettled claims have had some impact on United States-People's Republic of China trade, although it is not possible to say that trade turnover would have been so many millions greater had the issues been resolved. Unsettled, these issues prevent direct shipping and direct airline connections by the flag carriers of the People's Republic of China, owing to the possibility that private claimants might seek redress through the courts by attaching ships, aircraft, and other People's Republic of China property which came into the United States. Direct banking is forestalled for the same reason, and the resultant need to work through third-country correspondent banks is cumbersome for American traders. The ending of People's Republic of China trade exhibitions to the United States is virtually precluded. In addition, the fact that the People's Republic of China has nationalized and expropriated U.S.-owned property and has made no move to compensate for it would preclude the People's Republic of China from obtaining GSP (19 U.S.C. 2462(a)(4)).

Apart from the private claims of U.S. nationals, there exist possible public claims arising from Export-Import Bank loans for facilities located on the mainland, and from other obligations of previous Chinese Governments. These past public debts have implications for current private U.S. financing in the People's Republic of China. In particular, the Johnson Debt Default Act prohibits certain financial transactions by individuals and firms in the United States involving foreign governments which are in default in the payment of their obligations to the United States unless a U.S. Government agency participates in the transaction or unless they are members of the International Monetary Fund and the World Bank. The People's Republic of China is not a member of either organization. If the Johnson Act were held to be applicable to the People's Republic of China, it would limit U.S. ability to make long-term loans to China.

Moreover, the Trade Act of 1974 embodies a potentially troublesome section where the settlement of outstanding claims is concerned. Section 408 (19 U.S.C. 2438) requires a claims settlement, previously negotiated with Czechoslovakia by the State Department, to be renegotiated and submitted to the Congress as part of any agreement granting to Czechoslovakia the MFN status, on the grounds that the settlement reached was unfair to U.S. claimants. Although the section applies specifically to Czechoslovakia, it may be an indication of prospective congressional attitudes on claims settlement with the People's Republic of China.

(*c*) Other trade issues.—There is a possibility that legislation may be called for to loosen the controls of U.S. exports to China provided for by the Export Administration Act of 1969 as amended and extended by the Equal Export Opportunity Act of 1972 and the Export Administration Amendments of 1974. (Of course, such loosening can take place entirely by action by the executive branch or by simply amending the export administration regulations. It would make the controls applicable to exports to the PRC less restrictive than those on exports to Soviet bloc states.) One purpose of this legislation is to authorize controls over the export of goods and technology that would contribute to the military potential of Communist countries in a way that would adversely affect U.S. national security. The legislation also declares it to be the policy of the United States to encourage trade in nonsensitive items with all nations, including China, with whom we have diplomatic and trading relations. Since 1969 the general trend in the administration of export control has been toward liberalization of control on all but the most strategically sensitive items.

In addition, the importation of certain Chinese furs to the United States is prohibited by the Tariff Act of 1930 as amended (19 USC 1202, schedule 1, part 5, subpart B, headnote 4).

(*d*) Restrictions on possible U.S. aid and export credits to the PRC.—In the wake of normalized U.S.-PRC diplomatic relations, legislation may be called for to ease current restrictions on the provisions of U.S. aid and credits to the PRC. Thus, for example, provisions of Public Law 480 appear to prohibit assistance provided for in the law from being granted to Communist countries, including China. The Foreign Assistance Act of 1961 also limits the furnishing of almost every type of assistance provided for in that act to friendly countries. However, the act does not explicitly define the term. There is a specific ban on furnishing any assistance covered by the act to any Communist country unless the President issues a narrowly defined waiver. Exempt from this ban is assistance for famine and disaster relief, and assistance to schools, libraries, or medical education and research hospitals sponsored by U.S. citizens.

Also exempt upon Presidential waiver noted in the previous paragraph, are programs administered by OPIC. The Export-Import Bank Act of 1945 as amended prohibits any credit transaction by the bank directly or indirectly involving a Communist country, unless the President determines that such transaction is in the national interest. Moreover, Eximbank credits may in general not be granted to non-market countries which curb their citizens right to emigrate.

United States-China Strategic Relations

The normalization of United States-People's Republic of China diplomatic relations is likely to strengthen the United States-People's Republic of China strategic understanding—set forth in the Shanghai Communique—that the two countries will cooperate together to maintain a stable balance of power in East Asia that will preclude domination of the region by Soviet "hegemony." Significantly, the December 15 announcement by President Carter pointedly reiterated the antihegemony clause first seen in the Shanghai Communique.

In addition, the establishment of United States-People's Republic of China diplomatic relations on terms agreeable to Peking represents a major diplomatic accomplishment for the current leaders in China, which will probably reinforce their recent policies of cordiality toward the United States and hostility toward the Soviet Union. At the same time, it will enhance Sino-American cooperation to a point where Peking might become more helpful in the settlement of such sensitive strategic problems as military confrontation in Korea and international arms control.

A number of U.S. observers maintain that the United States should strengthen its policies which enhance Sino-American strategic cooperation, especially against the Soviet Union.[22] They emphasize that the

[22] For background on the views of these and other observers below, see footnote 5.

Chinese preoccupation with the Sino-Soviet rivalry in international affairs has clearly resulted in substantial benefits for the United States, and that Washington should take initiatives, including the sales of arms and the transfer of advanced technology to China, either directly or through America's allies in Western Europe and Japan, that will serve to enhance Peking's strength vis-a-vis the U.S.S.R. In particular, members of this school of thought maintain that American interests coincide with Chinese interests, insofar as they serve to preclude the growth of Soviet international power. In Asia, they note, China's posture has allowed the United States to reduce costly American military presence without dramatically upsetting the balance of power there. Peking's positive view of the United States has also reduced the possibility of a major Sino-American conflict in Asia, and it has made the Chinese less likely to disrupt the political order and economic stability of non-Communist Asian states—which are important to the United States—for fear that turmoil there could open opportunities for Soviet expansion.

In contrast, other observers are less sanguine about Chinese intentions. They point out that China remains one of the most unpredictable major powers in world affairs, having shown a remarkable flexibility in the past regarding the building and breaking of alliances, and a willingness to use force, as well as conventional diplomacy, in order to achieve foreign objectives. They note in particular that the unity of the Chinese leadership remains a major unpredictable element in Chinese foreign policy, and that a major shift in the policies of either the Soviet Union or the United States could result in a substantial change in Chinese policies. Thus, for example, they note that if the United States followed Peking's repeated advice, adopted a decidedly anti-Soviet tilt in American foreign policy and sold arms to China, the result might be a violent Soviet response against the weakest link in the Sino-American "alliance"—China—that could seriously damage the interests of the United States, China, Japan, and other states important to the United States in the maintenance of stability and prosperity in Asia.

A third group of observers advocates a balanced U.S. approach to the Chinese and the Soviets. They judge that the United States in the past has gained considerable international benefit within the great power triangle relationship by trying simultaneously to improve relations with both the U.S.S.R. and the People's Republic of China. In the current context, these spokesmen urge the United States to extend all efforts to follow up the normalization of relations and high-level contacts with China with a SALT accord and high-level meetings with Soviet leaders.

Role of Congress

Congress has played an active oversight role in regard to the issue of United States-People's Republic of China diplomatic normalization since President Nixon went to China in 1972. Thus, for example, well over 100 Members of Congress have traveled to the People's Republic of China for talks with Chinese leaders—representing the most active channel of high-level, official communication between the United States and the Peking administration. During the past year alone, 57 congressional Members traveled to the People's Republic of

China. Many Members have also traveled to Taiwan for talks with top-level officials there. Congressional hearings on the impact of diplomatic normalization on American interests have been held periodically. Most recently, the House International Relations Committee, Subcommittee on Asian and Pacific Affairs, heard the testimony of 22 expert witnesses in hearings during September and October 1977 designed to examine the "practical implications" of United States-People's Republic of China normalization.[23]

During 1978, Congress made a formal request to the administration that it be consulted before the United States takes steps to abrogate or alter the security ties existing between the United States and Taiwan. A group of Senators led by Robert Dole proposed an amendment to the Foreign Assistance Act of 1961 and the Arms Export Control Act, which expressed the sense of Congress that there should be prior consultations between the Congress and the executive branch on any proposed policy change affecting the United States-Taiwan mutual defense treaty. The amendment became law in September 1978. The Congress in October 1978 also took a step to facilitate U.S. agricultural trade with China. An amendment to the Agricultural Export Trade Expansion Act of 1978, which was approved by Congress on October 14, authorized the Commodity Credit Corporation to provide short-term financing for commercial sales of U.S. agricultural products to the People's Republic of China. Other notable action included Senator Goldwater's proposed resolution limiting the President's ability to end unilaterally U.S. defense treaties such as the one with Taiwan.

As discussed earlier, Congress probably will be called upon in the wake of United States-People's Republic of China diplomatic normalization to pass legislation that will facilitate continued U.S. commercial relations with Taiwan, permit the establishment of unofficial trade offices in Taipei and Washington, and allow for the continued supply of American arms to Taiwan. It will probably also consider requests to amend current legislation in order to ease restrictions on U.S. trade with the People's Republic of China, and to debate the propriety of the President's action on normalization, in light of the recent, widely supported congressional requests to be consulted prior to the ending of the U.S. defense treaty with Taiwan.

Congress will also probably consider, in its oversight capacity, the future direction of American policy toward China, especially as it relates to U.S. interests in the United States-Soviet-Chinese great power triangular relationship and to U.S. interests in Asian stability and prosperity. In particular, Congress is likely to be called upon to consider the arguments of those American observers who judge that the United States should solidify its new political relationship with Peking by strengthening Sino-American strategic ties, especially through the transfer of advanced American technology and weapons to China, either directly or through American allies in West Europe and Japan. Related questions include: What will be the Soviet reaction to such transfers? How will they affect the non-Communist countries in Asia which remain apprehensive over the growth of Soviet and Chinese power in the region? Are such transfers likely to increase

[23] See. "Normalization of Relations with the People's Republic of China: Practical Implications," op. cit.

prospects for People's Republic of China military action against Taiwan; or against Vietnam or the Soviet Union?

Conversely, Congress is likely to be required to consider how U.S. measures designed to ease tensions with the Soviet Union, such as the SALT talks, are perceived in Peking and how they are likely to affect the emerging relationship between the United States and China. Related questions include: Will Peking see a SALT accord as evidence of U.S. "appeasement" of the Soviet Union and thereby increase Chinese suspicions that the United States merely wishes to use relations with China as a pawn in order to elicit favorable détente settlements with the U.S.S.R.? Would United States-Soviet disarmament agreements in SALT and in other areas be seen by Peking as part of an U.S. effort to shift the burden of Soviet "expansion" eastward, away from the West and toward China? And would such a perception prompt Peking to seek a better relationship with Moscow, perhaps leading to a substantial Sino-Soviet rapprochement?

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ECONOMIC AND POLITICAL STABILITY OF THE PEOPLE'S REPUBLIC OF CHINA

(By Thomas W. Robinson*)

Issue Definition

Over 2 years have passed since the demise of Mao Tse-tung in early September 1976. By now, it should be apparent that China has managed not merely to pass through the early post-Mao transition but to have initiated a new course for Chinese development over the next three decades. Far from slipping into a period of disorder and turmoil in the absence of the "Great Helmsman," China appears to be more stable now than at anytime in the past decade, at least.

During the period of Maoist rule from 1949 to 1976, Chinese policies exhibited a characteristic alternation between more radical policies in all areas and a more conservative reaction to those policies. Most analysts of Chinese political behavior during that period trace the origin of the sometime extreme swings of the political pendulum directly to the personality and the initiatives of Mao Tse-tung. With Mao's death in 1976, the question has arisen whether the amplitude of such variations would be significantly dampened or even cease altogether, or whether other more basic factors continue to be at work. Given the tumultuous nature of the Chinese past, before as well as after 1949, it would be folly to make an outright prediction that the turmoil so characteristic of Mao's time is now past. Moreover, the politics of succession in every Communist country have never been smooth, and the intraleadership struggles for power have always seen their reflection in the general atmosphere of the domestic political economy. Nonetheless, weight must be given to the widely repeated desire in China to prevent repetitions of the fiascos of the Cultural Revolution and the Great Leap Forward. It is this desire that, when combined with Mao's departure from the scene, suggests that a prolonged period of relative quiescence is possible for the first time since the Chinese Communist Party came to power in 1949.

Although it is possible that this is the calm before an approaching political-economic storm, there is a good case that overall stability will be a general feature of Chinese domestic politics and foreign policy for the indefinite future. The events of the second half of 1978—opening China widely to Western influence, reducing the influence of several remaining Maoists in the Politburo, and in November and early December, a near free-for-all wall poster debate on political liberties, emulation of Western economic successes, and the decline in Mao's posthumous status—did temporarily carry the Chinese Commu-

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nist Party beyond the bounds of political safety. Even so, the Maoist transition has so far been much smoother and less disruptive than most observers had expected and the long-term prognosis is for a clear shot at achieving the very ambitious modernization program on which the leadership has centered its sights.

Two reasons for short-term success have been given. First, the Chinese people as a whole, and the Chinese Communist Party in particular, are reportedly relieved not to have to undergo another cultural revolution-like social breakdown that continued Maoist rule would probably have brought. Second, there is evidence that the party and perhaps the populous too agreed on the necessity to modernize the country as fast as possible and make up for the time lost during the last decade.[1] These shared goals and the pressure, both internally and with regard to China's foreign relations, to carry them out with the utmost rapidity has tended to overcome issue-related disagreement normal to the immediate postsuccession periods.

If a reasonable degree of stability is a likely future for China at home, it follows that, to the extent that Peking is able to arrange her own destiny, relative calm is likely to be the order of the day in Chinese foreign policy as well. To be sure, the level, direction, and degree of Chinese involvement abroad is liable to grow steeply over the next years in response to the impetus to modernize. But it is highly unlikely that China will willingly involve herself militarily in areas and situations outside her own boundaries. For the next 2 years, in particular, there seems little likelihood that the Chinese will, of their own volition, initiate the use of force abroad or otherwise engage in behavior inimical to American security interests in Asia. This presumes, of course, that Peking will not be dragged into conflict with the Soviet Union or Vietnam, and that North Korea will not invade the South, with the potential of involving China in a new Korean war with the United States.

What role China will choose to play in the international arena is a significant issue and one in which Congress has shown an increasing interest. The degree to which the United States actively seeks to abet the stability and economic development of China, through trade or aid, will be a major issue for Congress to consider, especially in the wake of normalization of relations with the People's Republic of China.[2]

BACKGROUND

The Meaning of Stability in China

In order to detail these generalities, it is necessary first to understand what stability means in the Chinese situation. In general, stability can mean either a factual situation—in the Chinese case a situation of reasonable political, social, and economic quiescence; or it can be a goal—

[1] These desires are best expressed in the programmatic statement of Communist Chairman Hua Kuo-feng before the Fifth People's Conference in February 1978. See Hua Kuo-feng, "Unite and Strive to Build a Modern, Powerful, Socialist Country." Report on the Work of the Government, Delivered at the First Session of the Fifth National People's Congress on February 26, 1978." The Peking Review, No. 10 (Mar. 10, 1978), p. 14. See also Communique of the 3d Plenum of the Chinese Communist Party's (CCP) 11th Central Committee, New China News Agency (NCNA), Dec. 24, 1978.

[2] See chapter, "Relations With the People's Republic of China and Taiwan," p. 424.

in China a policy to effectuate changes in the present situation, presently regarded as unstable, that will result in a better, for example, a more stable, future. Both meanings are accurate: China today is already comparatively stable and seems fairly likely to maintain a degree of stability, both as a condition and as a goal, over the long run.

There are, however, three particular meanings of the term relevant to this discussion. One is the situation with regard to political leadership. Here the situation is about as stable—that is, relatively unchanging—as in any period of time since 1949. From the removal of the "Gang of Four" in October 1976, there has been almost no change in the makeup of the top Chinese leadership, save only removal by death or the occasional demotion of a recalcitrant official.[3] To be sure, that situation will indeed change within the coming decade if only because the average age of the top Chinese leadership is so advanced.[4] However, demographic reasons alone are unlikely to produce a wholesale leadership turnover in the short term, say the next 2 years or so; and even were the process of generational renewal to change quickly the makeup of the top leadership, the new rulers, probably would dedicate themselves to continue the developmentalist policies of the present group. Indeed, a new leadership would probably be characterized by bureaucratic politicians like Hua Kuo-feng and modernizers like Teng Hsiao-p'ing even more than is the case at present.[5]

Stability can also be defined in economic terms as the continuation of present growth rates and economic trends, without rapid or deep swings in economic cycles. For reasons spelled out below, China is liable to be stable in this meaning of the term also, particularly over the short term. Finally, stability can be a product of the linkages between politics and economics in China. In the Maoist era and before, political instability invariably gave rise to economic shortfalls, which in turn made continuation of political turmoil more likely.[6] Conversely, the appearance of economic problems for whatever reason (weather, overzealous expansionist fever, etc.) in the past led eventually to political instability, as the leadership broke apart under the impact of competing recommendations to solve those problems.[7] How-

[3] The open calls for "democracy" in Peking in late November 1978, together with a wallposter campaign apparently supporting Teng Hsiao-p'ing's program to move ahead as fast as possible with the "Four Modernizations," seemed at first to be a device to discipline or even to remove high party officials opposed to Teng's New Economic Course. Nonetheless, with perhaps the exception of the former mayor of Peking, Wu Teh, the Chinese leadership remains intact and even such presumed candidates for removal as Wang Tung-hsing and Ch'en Hsi-lien appear still to be in their posts, although their effectiveness may indeed have been impaired. Most importantly, Teng has moved to assure the continuity in office of Hua Kuo-feng himself. Although Teng has undoubtedly gained in stature, both within the Party and throughout the country as a result of the late November events, he has been quick to point out the necessity for unified Party leadership and of the impermissibility of moving too far too fast in the direction of political, if not economic, liberalization. See, in this regard, the New York Times, November 21, p. A1; Nov. 22, p. A2; Nov. 23, p. A6; Nov. 24, p. A1; Nov. 25, p. A3; Nov. 26, p. A1; Nov. 27, pp. A1 and A3; Nov. 28, p. A1; Nov. 30, p. A2; Dec. 1, p. A1; Dec. 2, p. A1; Dec. 3, p. A12; Dec. 4, p. A14, for reports of the Peking events, and the Peking Review, No. 47 (Nov. 24, 1978), pp. 10–11, and No. 48 (Dec. 1, 1978), p. 3 for the official Chinese version.

[4] Jurgen Domes, "China in 1977: Reversal of Verdicts," Asian Survey vol. XVIII, no. 1, January 1978: 7; National Foreign Assessment Center, China: A Look at the Eleventh Central Committee, RP 77–10276 (October 1977), p. 3; William Whitson, "The Succession Question in China: Problems and Prospects for the 1970's," pp. 27–34.

[5] See Communique on 3d Plenum of CCP 11th Central Committee, NCNA Dec. 24, 1978.

[6] Andrew Nathan, "Policy Oscillation in the People's Republic of China: A Critique," China Quarterly, No. 68, December 1976: 720–733.

[7] See Alexander Eckstein, China's Economic Development: The Interplay of Scarcity and Ideology (Ann Arbor: The University of Michigan Press, 1975), pp. 65–87. See also Jan S. Prybyla, The Chinese Economy: Problems and Policies (Columbia: The University of South Carolina Press, 1978).

ever, as noted below, the future does not seem to portend the kind of economic dislocations so in evidence after the Cultural Revolution. Hence, it appears unlikely at this point that political instability on that scale will follow.

Issue Outcome

Three Visions of China's Future

Whatever the case, different notions of what stability means in China seem less important than approaching the subject by sketching out competing visions of China's future and how these might affect the country and its international environment. One can discern three such visions in China. The first is the view of China's future held by the present Peking leadership. Basing themselves on some of the pragmatic programs seen in the last will and testament of China's most important modernizer under communism, Chou En-lai, rather than on the ideological ideals of its most important revolutionary, Mao Tse-tung, this vision advocates rapidly constructing that "strong, powerful, and modern socialist China" by the end of the 20th century of which Chou En-lai so often spoke.[8] That vision—economic modernization over all else—has played down revolution or used it as a means of enhancing the efficiency of industrial production. All of the policies of the present leadership group since the removal of the Gang of Four have been designed to further that vision.[9] Thus, such departures as adjusting wages to reflect quantity and quality of work, reintroducing high standards of achievement in education, opening the country's research facilities to investigation of basic research, the wholesale importation of foreign technology, the vast increase in China's foreign trade, the stress on modernization of tactics and equipment in the army, and the general emphasis upon expertise rather than "redness" are all features of this vision and are essential aspects of the present political economy of China. These elements and the goals toward which they are pointed have recently met with the strong approval in Chinese leadership councils.

A second view of China's future is more or less the converse of the first, namely that agreement to pursue the Chou-Hua-Teng vision will break down for one reason or another or that it will prove impossible to fulfill. The Chouist vision is, after all, exceedingly ambitious and perhaps too much so. The goals outlined by Hua Kuo-feng in his speech before the National People's Congress in February 1978 envisage catching up to the advanced industrial countries of the West in gross national product terms by 1985 and in per capita terms by the turn of the century. Most analysts regard the attainment of these ends as extremely unlikely.[10] For instance it may be that China can

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[8] Chou En-lai, "Report at the Fourth National People's Congress," Peking Review, No. 4, January 24, 1975 : 25.

[9] Any survey of the content of Peking Review or the Peking People's Daily comparing the last 2 years of Mao's life (and hence the heyday of the so-called Gang of Four) with the period since October 1977, will demonstrate the vastly different approaches to modernization and development taken by Mao and his associates versus those taken by his successors. See Richard P. Suttmeier, "Science Policy Shifts, Organizational Change and China's Development," China Quarterly, No. 62, June 1975 : 239–241; John Gittings, "New Material on Teng Hsiao-p'ing," China Quarterly, No. 67, September 1976 491–492; and Colina MacDougall, "The Chinese Economy in 1976," China Quarterly, No. 70, June 1977 : 355–360.

[10] See Robert F. Dernberger, China's Economic Future, in Allen S. Whiting and Robert F. Dernberger, China's Future: Foreign Policy and Economic Development in the Post-Mao Era. (New York: McGraw-Hill Book Co., 1977), pp. 81, 187; Dwight H. Perkins, "The Constraints on Chinese Foreign Policy," in China and Japan: A New Balance of Power, ed. Donald C. Hellmann, (Lexington, Mass.: D. C. Health and Co., 1976), pp. 159–195; and Jan S. Prybyla, Industrial Development in China: 1967–76 and 1976–78, Challenge, No. 21, September-October 1978 : 7–13.

produce 65 million tons of steel by 1985, but it is unlikely that she can grow 450 million tons of grain by that date. Such a vision, moreover, provides room neither for the natural disasters that are a normal concomitant of Chinese economic life, nor for the intrusion of the effects of domestic political strife, nor of the intervention of foreign policy problems, all of which have long been regularities of post-1949 Chinese history. Whatever the case, were it to become clear that the announced goals are not going to be attained, political discord might well break out at the top and, as has occurred so often before in China, be reflected progressively at various levels below.

Indeed, it is likely that economic shortfalls will occur, that natural disasters will take place, that foreign policy problems will intervene, and that political discord will result. The essential choice is whether the Chouist vision will be thrown aside entirely or whether the leadership will redefine its goals in a somewhat more realistic direction and then vow to persevere. The point is that the alternative to nontotal fulfillment of these admittedly over-ambitious goals is not necessarily a high level of instability in China nor a return to Maoist procedures and policies. Rather, it could well be a mere redefinition of the situation and a replacement of the policy of assault by one of toughing it out.

A third vision of the Chinese future emerges when influences impinging from the international environment are considered more directly. This vision stresses the determining character of foreign ininfluence, especially those associated with Soviet and American policies toward China. In the Soviet case, this vision would predict the likelihood of a Soviet military attack—whether all-out or not makes no difference—or of China being drawn into the inter-Communist regional conflict in Southeast Asia. In the American instance, this vision emphasizes the effects of a breakdown over the largely unresolved Taiwan question in the ongoing process of normalization and a possible reversal of the current more friendly atmosphere. Such an outcome could also occur were the United States to prove unwilling or unable to come forth with the hoped-for degree of political-military assistance against the Soviet Union or to supply the desired degree of economic-technological assistance to assure economic success. The probability of Soviet attack and/or Chinese involvement in Southeast Asia seems small; so seems the possibility of a short-term breakdown in Sino-American rapprochment, thus it would be foolish to abstract from foreign policy issues entirely. The question is how much they will influence the prospects for success of the Chouist vision, and whether the leadership will be able to insulate the country adequately from shocks, sure to come, from the international environment.

While no one can foretell the future (especially that of China, which by now has a long history of rapid turns of the wheel of fortune) present trends point toward at least a modified version of the first vision, with the influences stemming from the second and third visions reduced to relatively minor disturbing variables. As noted, leadership and populous (with less substantial evidence) seem united in support of the present policy, and are strongly committed against a return to the more radical Maoist policies. In particular, the dichotomy, so evident in the Maoist era, between revolution and development now seems to have been solved in favor of the latter. In this sense, the Chinese revolution (in terms of an active, tumultous phase) may be over and China's future is best looked upon as that of a country moving further into a long period of economic development.

In fact, every country that successfully modernizes must concentrate over a lengthy period nearly exclusively on internal development. France did so in the 18th century, England in the early 19th century, Germany took its turn between 1866 and 1914, Japan did so after the Meiji Restoration of 1868, and America entered that period after the Civil War, as did the Soviet Union after 1921. Now arguably, it is China's turn. It may not take quite so long in her case, because of the efficiencies stemming from modern technology, the lessons derivable from others' experience, and the innate energies and productivity of the Chinese people. But it probably can be done. Indeed, the stage was set during the Maoist era itself. By the mid-1950's, China had come to the point of "economic takeoff." Concomitantly, social conditions largely were stabilized. And, as now seems clear, the rule of the Chinese Communist Party has been accepted, in fact if not desire, by the Chinese people. It is instructive to note that, at no time during the flurry of posters put up in Peking and other Chinese cities in November 1978 was there a call for the establishment of a multiparty system in China. Apparently, the authors of posters calling for democratization of China and stressing the need for guarantee of human rights did not deem it necessary to link those sentiments with non-Communist rule in China or for imposing legal restrictions on the party's still-total freedom of policy action. This is in some contrast with the situation during the Hundred Flowers Campaign in 1957, when calls were made for replacement or modification of single party rule.[11] These are conditions supportive of successful modernization; others—bureaucratic openness to scientific methodology, development of highly differentiated social institutions, a reasonably high rate of literacy and of health standards, et cetera—have been in place for some time.[12]

On the other hand, it is possible that the Chinese environment will overcome the present leadership. It is undoubtedly true that their dreams are much too ambitious. It may be that agricultural production will not be able to keep up with population growth; urban-rural conflict may develop. China might fall prey to the temptation to involve herself too much in foreign policy matters or be forced into foreign conflict. And it is possible that, as a result of all of these pitfalls, the present consensus of views within the leadership will break down and that factionalism, which is the product of competing recommendations on what to do in such situations, will reemerge. Indeed, it is highly probable that China will have problems in some or all these areas in the next several years. But one can only give subjective estimates of their influence, separately or together, and it seems that,

[11] See, in this regard, Dennis J. Doolin, Communist China: The Politics of Student Opposition. (Palo Alto: The Stanford University Press, 1964).

[12] See S. N. Eisenstadt, Tradition, Change, and Modernity. (New York: John Wiley and Sons, 1973); Samuel P. Huntington, Political Order in Changing Societies (New Haven: Yale University Press, 1968); Series of Seven Studies in Political Development, ed. Lucian W. Pye. Sponsored by the Committee on Comparative Politics of the Social Science Research Council. Lucian W. Pye, Chairman (Princeton University Press, 1963–1969); and Myron Weiner, ed., Modernization: The Dynamics of Growth. (Washington, D.C.: U.S. Information Agency, 1966).

in all but extreme circumstances, the drive to modernize and develop will remain strong enough to overcome or avoid such problems.

Implications for Chinese Foreign Policy and Sino-American Relations

If stability, in the sense described above, is the likely future for China internally, what does this mean for China's foreign relations within Asia, with regard to the United States in particular, and in the overall global sense? In Asia, Chinese political stability and the resultant growth of Chinese economic power mean that over the long run China will become an ever-more important regional factor. However, it is likely that, to support the policy of economic development, China will attempt to minimize her regional involvement for the next several years by stressing the need for a peaceful international atmosphere. Hence, she is unlikely of her own volition to involve herself other than marginally in regional disputes.

It may be that the international environment will not permit Peking to adopt such a relatively benign regional policy. If, for instance, the Soviet Union were drastically to increase its military pressure on Chinese borders or were the Chinese to find themselves pulled into a new Indochina war, this forecast could well change. Moreover, were the Chinese to conclude that it would be better to strike a bargain with Moscow than to mortgage all of their foreign policy maneuverability to continued stringent anti-Sovietism, the result would be a series of Sino-Soviet compromises on strategic issues and even ideological differences. China might then be tempted to involve herself more heavily in Asia in the short term. Also, it is hardly outside the realm of possibilities that, Washington now having completed recognition of Peking on the basis of China's three conditions and having withdrawn the American security commitment to Taiwan, China would turn and attempt to take Taiwan by force. This would destroy whatever progress has been made in Sino-American relations to that date and create a new political-military situation in East Asia as a whole.

Such possibilities are not out of the question. But to the extent that China's Asian policy is dictated by its domestic requirements, Peking will not want to create such extreme tensions in Asian regional politics that her domestic development program would be seriously jeopardized. It is true that, as a state gains rapidly in the sinews of power, it not only has more resources to apply to the solution of perceived international problems, but it also discovers new interests or brings to the fore others that had previously lain dormant. This will presumably happen with China as she gradually fulfills her self-proclaimed economic destiny. But it is unlikely that such a propensity will be pronounced until the Chinese leadership has definitely concluded that it is winning the battle of internal economic development and that China really does have the material base to carry out a foreign policy of increasing involvement in Asia and elsewhere.

As for Sino-American relations, one cannot speak of the future without making two presumptions. One concerns whether or not the two countries are able to capitalize on establishment of full diplomatic relations to put aside, at least for several years, their differences over Taiwan. The other pertains to the future of Sino-Soviet relations and presumes that the continued expansion of Soviet military power and its projection abroad will lead to further deterioration of Peking's relations with Moscow, or at least to no improvement. If one takes both of these presumptions as likely, and adds to them the continued dominance of Peking's motivations to develop economically, two conclusions follow. First, relations with the United States will probably improve in the near future, even more so than they already have. This would mean, in particular, a large increase in Sino-American trade, a much more rapid and efficient transfer of American technology to China, and a much higher level of tourism and academic exchanges between the two countries. It could also mean the further development of what may be already a de facto alliance [13] between the United States, Western Europe, Japan, and China against the Soviet Union.

There are many specific implications of these two likely developments. In defense matters, the question will have to be faced soon as to how much interest the United States has in assisting China' military development not merely indirectly through permitting West European sales to China of arms containing American technology but also in a more direct sense, should the Soviet threat to the Chinese border grow.[14] In trade, granting most favored nation status to Peking will likely lead to rapid growth in Sino-American economic ties, and it is not too early to predict that interest group pressure will mount, as in the Soviet-American case, to insulate grain sales and the exchange of American technology and industrial products for Chinese raw materials from the political fluctuations between the two countries. In Sino-Japanese-American triangular relations, the trend, already evident, of tacit military cooperation against the Soviet Union could emerge into full-blown cooperation in such areas as anti-submarine warfare, air defense, and Japanese-American supply of military-related technology to China.[15] Finally, with regard to Korea, a China whose first interest is regional peace would do what it could to hold back North Korea from invading the South. The possibility could thereby arise of Sino-American parentage of realistic negotiations between Seoul and Pyongyang.[16]

Despite the benefits for regional stability that seem likely to flow from redirection of Chinese foreign policy interests to support domes-

[13] "Alliance" may be too strong a term. The parallel that comes readily to mind is the unwritten entente that emerged before World War I between Great Britain and France against Germany, which both powers perceived to be a threat to their national interests and to international order.

[14] See, in this regard, Aviation Week and Space Technology, Dec. 4, 1978, p. 21; as well as the New York Times, Feb. 28, 1977, p. A6; June 24, 1977, p. A5; Sept. 11, 1977, p. A1; Jan. 4, 1978, p. A7; Feb. 5, 1978, section IV, p. 2; Apr. 14, 1978, p. A14; May 3, 1978, p. A7; May 18, 1978, p. A6; June 9, 1978, p. A1.

[15] The first of these has apparently already been broached by the Chinese in conversations with Japanese Self-Defense Agency leaders in Tokyo. Whereas direct Sino-Japanese military cooperation against the Soviet Union is still out of the question, nonetheless the probability of tacit cooperation has been enhanced by such conversations and by the greatly increased Japanese concern over the Soviet naval and air buildup in Northeast Asia. See Susumu Awanohara, "A Nod and Wink for Tokyo," The Far Eastern Economic Review, Sept. 30, 1977: 26–27; the New York Times, Oct. 8, 1978, p. A9; and Japan, Defense Agency, Defense of Japan, 1978.

[16] At the moment there appears to be no movement in Peking away from total diplomatic support of Kim Il-sung's policies toward South Korea. Indeed, one should not be sanguine about near-term changes in Chinese support of North Korea: the Sino-Soviet conflict is carried on in Pyongyang as well as along the Soviet-Chinese border. On the other hand, China has never encouraged Kim actually to take military action against the South and fears, as much as anyone else, the consequence of a new Korean war. Finally, the liberalization of Chinese domestic and foreign policies can only mean, in the long run—i.e., when Kim passes from the scene—that North Korea also will take a less isolationist and intransigent line in its foreign policy. At that point, and presuming continuation of Sino-Soviet enmity, it is possible to conceive of meaningful Chinese pressure on Pyongyang to work out a "German Solution" with the South.

tic economic development, natural limits to this process are already apparent. Particularly, Peking and Washington may be nearing the natural political (if not economic) limits of rapprochement. That is having moved to full recognition, policy-makers in both capitals must now face the realities which they have been able temporarily to place aside. There are five aspects to this. The most important is the future of Taiwan. Both the Administration and the Congress will have to face a multitude of details: the continuation of most favored nation trade status for Taiwan; legal aspects of the changed relations with the Republic of China; and the question of continued military sales to Taiwan and the attendant problems of military assistance, joint training exercises, the extent of the residual security commitment to the island, and comparative human rights records of the Mainland and Taiwan.[17]

A second reality that will in all probability reemerge after recognition is the motivational basis of Chinese anti-Sovietism. Not only will the (temporary) solution of the Taiwan problem prompt the Chinese to address the Soviet issue more nearly on its merits but, as modernization takes hold in China, the likelihood of revisionism in Peking may rise steeply and with it the possibility of improvement in Sino-Soviet relations. Were Sino-Soviet ties to improve, the fundamentals of Sino-American relations would change accordingly. The central policy issue for the United States is how to avoid, forestall, or at least prepare for this development and how to so change Chinese motives toward the United States that, if Sino-Soviet detente comes, the blow to Sino-American relations will not be irreparable.[18]

A third reality was alluded to above: the increasing propensity for China to project its power abroad as it gains a firmer base in factors of national power. Like the Soviet Union at present, China will want its own place in the sun, regionally and globally. There are plenty of disputed islands in the South China Sea on which China can focus in her eventual drive to assure regional primacy,[19] just as there are many situations and temptations in Southeast Asia for the exercise of newfound Chinese power.[20] Sooner or later the Chinese will feel the need to utilize the fruits of their domestic labors in such a manner.

A fourth reality is the different nature of Chinese and American societies. Both societies are rapidly evolving, it is true, but the enormous differences between them are likely to remain. As the American citizenry comes to know in greater detail and with increased realism the stringent Communist character of Chinese society, the present tendency to idealize things Chinese is likely to drop away rapidly and

[17] See Donald E. Fink, "Nationalist Update Fighter Force," Aviation Week and Space Technology, May 29, 1978: 14–16; Donald E. Fink, "Center Designs Two Aircraft," Aviation Week and Space Technology, June 5, 1978: 14–16; "Carter Vetoes F-5G Sale to Taiwan," Aviation Week and Space Technology, Oct. 23, 1978: 24; and Victor H. Li, De-Recognizing Taiwan: The Legal Problems (Washington, D.C.: Carnegie Endowment for International Peace, 1977).

[18] For some suggestions in this regard, see Thomas W. Robinson, "Political and Strategic Aspects of Chinese Foreign Policy," in China and Japan: A New Balance of Power, ed. Donald C. Hellmann. (Lexington, Mass: D. C. Heath and Co., 1976), pp. 254–265.

[19] Tao Cheng, "The Dispute Over the South China Sea Islands," Texas International Law Journal, 10 No. 2, Spring 1975: 265–278; John F. Cooper, "China's Claim to South China Sea Islands," China Report 10 No. 2, May–June 1974: 10–15; and Dieter Heinzing, Disputed Islands in the South China Sea. (Wiesbaden: Otto Harrassowitz, 1976).

[20] It shou'd be noted that Teng Hsiao-p'ing, in his late 1978 tour of non-communist Southeast Asian states, refrained from promising that China would no longer assist local revolutionary movements. This is some contrast to the promises made by the Vietnamese Premier, Pham Van Dong, during his trip to Thailand in September 1978. See, in this regard, Foreign Broadcast Information Service—People's Republic of China, Nov. 8, 1978, pp. A19–20; and Foreign Broadcast Information Service—Asia and Pacific, Sept. 7, 1978, p. J2.

the pendulum of opinion will swing in the opposite direction. In this regard, application to China of the administration's human rights policy may well catalyze revision in recent popular American idealization of China.[21]

A final reality may also limit Sino-American rapprochment. For the last quarter century, Asia, as a whole, has been split roughly into two groupings of states: one oriented principally toward China and the other toward the United States. In the first group are the socialist states (China itself, North Korea, Vietnam,[22] and now Laos and Cambodia), and the quasi-socialist, neutral, Burma. They are all centrally planned economies, autarchic, led by Communist parties, and oriented geographically to internal Asia. The other group comprises states or other political entities largely at the periphery of landmass Asia: South Korea, Japan, Taiwan, the Philippines, Hong Kong, Singapore, Malaysia, and Indonesia. These are largely American-oriented, capitalist, foreign trade based, relatively democratic societies which are more interested in the world and the West as a whole than in Asia per se.

There are, then, two quite different Asias that have emerged since World War II: the societies in these two groups of states tend to be organized on the Chinese or the Western models. Where they meet, or have met, are points of tension—the 38th parallel in Korea, the Taiwan Straits, South Vietnam, Thailand. These two models of social organizations [23] have competed and still are competing for the allegiance of Asian peoples. To the extent that China now begins to orient herself along less stringently anti-Western lines and wishes to engage in a creative relationship with Japan and the United States, to that extent, tensions between the two Asias decline and prospects for regional peace improve.

The important question, however, is whether this change in Chinese policy is a temporary aberration or whether it reflects a more permanent structural modification. If the change is secular and long lasting, geographic and issue-related conflicts between the two Asias, and thus between Peking and Washington, will tend to decline over the next years and decades. If the change is superficial and temporary, China will probably again turn away from the West and the policy differences with Peking, presently in abeyance, will reappear with a vengence and confront Washington policymakers with difficult choices.

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[21] Before the poster campaign of late 1978 in favor of "democratic rights," a new realism had emerged in American and other Western evaluations of China. See in this regard, Simon Leys, Chinese Shadows. (New York: Viking Press, 1974), and Orville Schell. In the People's Republic: An American's Firsthand View of Living and Working in China. (New York: Random House, 1977). The former, written by a retired Belgian diplomat, exudes a perhaps too severe degree of cynicism about the entire post—1949 Chinese scene, but has served as a useful corrective to the idealization of China to be found in the writings of a host of relatively uncritical one-time visitors. The latter is of somewhat greater interest, inasmuch as it stems from the pen of a previously supportive New Left student of China. Having finally managed to visit China for an eight week period, Schell came away much more confused but all the same sobered about his experiences. Such division and confusion about China is hardly new, of course; American writings on China have exhibited such characteristics since at least the 1840's.

[22] Vietnam today is hardly "oriented principally toward China" in the foreign policy scene. But the entire history of the Vienamese Communist Party is associated with that of the Chinese Communist Party and the internal political and economic order in the Communist portions of Vietnam has historically been similar to that of China under Communist rule.

[23] For a set of essays on various aspects of the Chinese model, see Werner Klatt, ed., The Chinese Model: A Political, Economic and Social Survey. (Hong Kong: Hong Kong University Press, 1965).

This may not occur for some time, probably not for the next 2 or 3 years at least. But it seems probable that not all the post-Maoist reforms will exhibit long-term staying power. Limits have already been placed on popular sentiments favoring political liberalism in order to preserve the essential features of (Marxist) economic liberalism. It is not clear whether the Peking leadership will be able in the long run to continue to divorce economics from politics in this manner. Only time will tell, but it should be noted that, in the Soviet case, attempts to divorce them have failed and that the discipline needed to achieve high rates of economic growth has meant both political and economic suppression.

The Role of the United States

What are the decision points for the administration and, in particular, for Congress, presuming China continues along the present path of mortgaging all policies to rapid economic modernization? The most immediate policy issue relates to the future of Taiwan. A modernizing, anti-Soviet and pro-American mainland is a China that, in all likelihood, will not press for an early solution to the Taiwan problem, in the sense of demanding full return of the island to mainland administration and then putting economic and military force behind that demand. This does not mean, however, that the United States can presume that it is safe to treat lightly the issue of Taiwan's long-term future. Ways may be sought to contribute meaningfully to replacing the Taiwan-United States security treaty with some less formal arrangement which nonetheless adequately protects Taiwan but does not, at the same time, jeopardize the still-tenuous relationship with the mainland. Congress may decide to initiate such an action through a resolution. Timing of such an arrangement is as important as the strength of its language and its legal status. Should such an arrangement be entered into before the end of the transition period to full Embassy status in Washington and Peking, this would call into question the entire course of normalization. Aside from maintaining American interest in peaceful settlement of the Taiwan issue, the central question for longer term congressional consideration is how to encourage an increasingly self-confident China neither to return to close political cooperation with Moscow nor to revert to a policy of joint anti-Sovietism and anti-Americanism.[24]

Either outcome would be a serious blow for the United States, in the overall global political arena as well as in Asia itself. One approach to forestalling or avoiding such an unpalatable future is to so engage the Chinese in terms of agreements, exchanges, trade, and political orientation against the Soviet Union that Peking will have increasing motivations to be more relaxed about the Taiwan question and, more importantly, not to be tempted to return to a close relationship with Moscow.

[24] It is instructive to note that since 1949, China has alternated between four possible foreign policy orientations. In the 1950's, she leaned to the Soviet side in order to compensate for felt weakness against the United States. In the early 1960's, perceiving that Moscow and Washington were relatively balanced and in a state of conflict, Peking attempted to carry out a policy of independence from both. In the late 1960's, under the impetus of the Cultural Revolution, China withdrew entirely from world affairs. Reemerging from isolation in the 1970's, Peking found much to its distress that the Soviet Union now posed a direct threat and therefore leaned toward the United States. The policy of independence from Moscow and Washington of the early 1960's was eventually found to be impossible of application because of innate Chinese weakness. In a period of Chinese strength, however, she may well revert to such a policy and this time with success.

As long as Peking is so completely absorbed in the drive to modernize and so long as she fears the Soviet military threat so highly, the probabilities are maximized for a viable compromise on Taiwan.[25] Presuming that questions of timing of the normalization transition are successfully resolved, the larger question of American interest in Chinese activism in Asia, with regard to Moscow, and in the Third World, will have to be faced on its merits. The Congress will have to address both in principle and in detail the kind and level of trade, technological, cultural, and perhaps even military relations with Peking that American national interest would seem to require. It is tempting to argue that, at least in trade, technology, and culture, more is better. But even in these realms, to say nothing of the military question, the development of Sino-American relations is closely linked to the future of Soviet-American relations. A good case can be made for making up for lost time in each of these areas. But it makes less sense to convince the Russians that China and America are joining their resources to oppose without further consideration Soviet influence wherever it is found throughout the globe.

It is true that, to the extent that China opposes the Soviet Union militarily, the American responsibility of deterring the Soviet Union in Europe and elsewhere is made less difficult. It is also true that an increasingly strong China in the military sense will tend to draw Soviet attention away from the Middle East, Africa, and other Third World tension points. All the same, it may not be wise for the United States to assist in creating such a strong China that she could easily threaten those Asian states, referred to above, that are developing so successfully along pro-American lines. Nor does it make sense to so enrage the Soviet Union that Moscow will conclude that Japan and Europe have joined the United States and China in union against it. Were the Russians to conclude that time was against them and that such a new entente was indeed being fashioned, they might decide they had no choice but to forestall such a coalition at a comparatively early state by initiating military action directly against China or encouraging—even more than they have—a level of conflict in Southeast Asia that the Chinese could not handle.[26] In either of these instances, the United States might find itself an unwilling military participant, even if indirect, in a Sino-Soviet war. Moreover, the United States might find that the Chinese were not only unable to continue with their

[25] While this contribution does not attempt to suggest solutions to the problems of Taiwan, it seems reasonably clear that the Peking-Washington compromise is a viable one. On its part, Washington has agreed to the three Chinese conditions for normalization: Abrogation of the security treaty with Taipei; removal of all American military forces from the island; and calling home the American Ambassador and his staff from Taipei. On the other hand, Peking, in effect, has accepted American conditions for normalization: Continuation of trade, financial, and cultural intercourse with Taiwan, including the establishment in Taipei of an unofficial office for that purpose; and the right to sell or transfer defensive military equipment to Taiwan, although the status of associated training functions remains unclear.

[26] Whereas the recently signed so-called Treaty of Friendship between the Soviet Union and Vietnam is designed to prevent China from assisting Cambodia against Vietnam through direct action on the Sino-Vietnamese border, the Chinese may nevertheless feel they have no choice but to press upon Vietnam militarily from along their common border in order to prevent the emergence of a strong and unfriendly united Indochina allied with the feared Russians to the north. Were the Chinese to move in this manner, the Soviet Union, under the very terms of the recent treaty, would have no choice but to assist the Vietnamese militarily and could well do so by moving directly against the Chinese along the Sino-Soviet border. The danger of war between Communist states in Asia is, therefore, high. In particular, the assumed parallel with the Soviet-Indian Treaty of 1971, that Moscow hopes will be understood and acted upon by all, may work to everyone's disadvantage and bring on war rather than prevent it.

modernization program but were very much weakened by the ensuing conflict, thus freeing the Soviet Union to concentrate its forces and policy attention elsewhere. The difficult policy choice for the United States is how to support China in various realms such that it can resist Soviet military threats and yet not thereby convince the Russians that an acute challenge to their own interests has arisen.

A third decision point for the U.S. policy toward China concerns the extent to which the human rights policy, sometimes thought to be a central feature of the Carter administration's view of the world, is to be applied to China. The administration has not stressed strict application of its human rights policy toward China, perhaps wisely: over the last half decade the Chinese have been willing to improve relations with the United States, despite nonsolution of the Taiwan question, and this has been useful to American interests in Asia and globally. Nevertheless, the improvement in Sino-American relations will not continue forever, and when both capitals return to facing the reality of their policy differences as well as their conflicting interests, the human rights question may quickly reemerge.[27] This is particularly so were Peking drastically to slow the course of liberalization internally if not to do a total about-face, or were Peking to find itself militarily engaged in Southeast Asia on the side of the Pol Pot Cambodian regime, whose disrespect for basic human rights seemingly knows no limit. China is a Communist society, after all, and the Congress will have to decide to what extent it wishes to make exception to uniform application of laws now on the books that have a high human rights content. Specifically, the Jackson-Vanik amendment linking most-favored-nation treatment to the liberalization of a Communist state's emigration policy might have to be amended to provide specific exception for the People's Republic of China.[28]

A fourth decision point for American relations with China concerns what emphasis the United States wishes to place on its relations with Asia in general, and therefore with China in particular, as compared with other regions and states. The time may have passed wherein Washington can conduct a policy of activism and engagement in several areas of the world simultaneously and still back that policy up with all the requisite policy instruments. The United States may have to choose between devoting primary attention to one geographic region or one policy issue as compared with another. In the past several years, policy attention has centered on Europe and the Middle East in the regional sense, and the Soviet military buildup and the international monetary crisis in terms of global issues. Asia, and therefore China, has taken a back seat to the necessity to confront those issues and problems first. If it is true that the United States is forced to choose, implications follow for our relations with Peking. For instance, if we can give less substance to our policy goals in Asia now, we cannot legitimately make promises to China that outrun, or could

[27] The Congress may wish to address directly the degree to which absolute standards of human rights should be applied to China. Heretofore, the administration has tended to ignore violations of human rights in China for obvious political reasons. But with the raising of the issue in Peking by the Chinese populous itself (informed, interestingly enough, at least partially, by Voice of America broadcasts), the issue might no longer be evaded. See, the recent "Amnesty International Report on Human Rights in China"; U.S. Library of Congress. "Human Rights in China" [by] Robert G. Sutter, Washington, Jan. 10, 1978.

[28] "Title IV—Trade Relations With Countries Not Currently Receiving Nondiscriminatory Treatment," Trade Act of 1974 (Public Law 93-618).

outrun, the material support that we might have to provide as a result of the situation created, if only partially, by those very promises. It is one thing to assist the Chinese to fulfill their program of economic modernization through easing trade restrictions, transferring needed technology, and exporting capital to China. But it is another thing to promise Peking military assistance, either to strengthen China against the growing Soviet threat or more directly by hinting at direct military support in the event of actual Soviet attack.

Finally, the United States, including the Congress, could beneficially set priorities for its goals within East Asia. It is important for the United States to continue to assist in the constructing of "island Asia." It is important militarily to support South Korea in case of attack from the North. It is important to solve outstanding problems in Japanese-American economic relations.[29] And it is important to maintain a favorable overall Asian balance of power, especially by forestalling or minimizing the expansion of Soviet military power in the region. China must be seen as an element, important to be sure, but only one element in an overall American strategy toward Asia that contains equal measures of security, access in the broadest sense of the term, and regionwide development and modernization.

To the extent that Chinese and American interests fit into that strategy, and to the extent that these goals support China's own goals, there will be an improvement in Washington-Peking ties. But the United States should be under no illusion that long-term Chinese interests in Asia and elsewhere are coterminal with those of the United States. Rather they are parallel, with some—such as excluding the Soviets militarily from Asia—very much in line with American policy goals, but with others—such as what the future shape of Asian international politics is to be in the long run—only coincidentally and temporarily similar to those of the United States and probably directly opposed to American interests in the long run. What is needed, then, is a general vision of America's role in and goals for Asia. If and when that can be articulated and agreed upon, the details of American policy toward the People's Republic of China should emerge with greater clarity. Since that more general vision has yet to appear, it is possible to talk about changing relations with Peking only in relation to short-term developments and policies, almost all of which are prone to rapid amendment or total abrogation.

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STABILITY IN THE PACIFIC BASIN

(By Alva M. Bowen*)

ISSUE DEFINITION

Stability as a Goal

In the Pacific basin, as elsewhere, the two major U.S. goals are continued access to valuable trading and resource areas and the continued maintenance of a global strategic balance.

Recognized objectives of the United States toward the Pacific Basin center primarily on those Western Pacific countries which account for more than 25 percent of all U.S. foreign commerce. Total interchange for the last 6 years has exceeded that with the European Economic Community.[1] Japan, with the world's third largest economy, is a major ally of the United States. China, with the world's largest population, is an avowed enemy of the only country in the world able to directly threaten the security of the United States, the U.S.S.R., Southeast Asia, Australia, and New Zealand are important sources of strategic materials whose supply is short in the United States.[2] Continued access on reasonable terms to the markets and resources of the Western Pacific littoral is a natural U.S. objective of long standing. East Asia is the market for U.S. exports with the greatest growth potential in the less developed world. Increasingly, U.S. dependence on foreign sources for energy and raw materials will require the United States to export in order to maintain a trade balance. An emerging objective may be the ability to count various Asian countries, particularly Japan and mainland China, on the U.S. side of the global power balance.

These objectives both could be threatened by radical change in either the political or economic structure of the region. This is not to say that change, per se, would necessarily threaten U.S. economic access or upset the global balance of power. Some changes, such as the emergence of several of the Southeast Asian countries as strong and independent economic units, would be welcome. Even some unfavorable change might be accommodated if the change occurred over a period of time. However, a sudden shift in political alinement affecting the economic policies of a major regional player might seriously affect U.S. economic interests. And a change in political alinement that neutralized mainland China or seemed to lead to hegemony over the region by any power or combination of powers not friendly to the United

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[1] Interviews, U.S. Dept. of Commerce, International (Foreign) Trade Division, Washington, D.C., Feb. 1, 1978. Cited in M. F. Weisner, The U.S. Posture in Asia and the Pacific. Strategic Review, Summer, 1978. The U. S. Strategic Institute, Washington, D.C. p. 42.
[2] Ibid.

States could adversely affect the global power balance. Accordingly, "stability," by which is meant the absence of radical, adverse political and economic change, is often seen as a goal of U.S. policy, since it contributes to the more fundamental goals of economic access and the maintenance of the regional and global balances of power. Policy instruments favored for fostering stability are U.S. military deployments and economic assistance.

The Policy Question

There is basic disagreement within the United States about the character and degree of involvement necessary to promote stability in the Pacific Basin. At the acknowledged risk of oversimplification we describe three schools of thought that appear to be distinguishable. At one extreme are those who favor withdrawal. For a time this alternative was rooted in the isolationist tradition that characterized most U.S. foreign policy throughout the history of the Republic, until the Second World War. The defeat suffered by the United States in Vietnam revived this school of thought and gave it new force and credibility. Adherents saw the post-World War II activist U.S. foreign policy in Asia as an aberration and view Vietnam as proof of its disastrous consequences.[3] Although some vestiges of this attitude remain, today advocates of withdrawal from Asia more often base their arguments on an "Atlantic" view that would enhance U.S. strength in Europe by withdrawing forces from the Pacific except for Japan.

At the other extreme are those who would continue the activist foreign policy in Asia more or less along the same lines as has been U.S. practice since World War II. To advocates of this school, Vietnam was a setback that must be overcome. They would strengthen the Pacific Fleet, form new alinements, based on the emerging power structure, possibly with mainland China as new partner (dropping the Taiwan Chinese if necessary). Formal alliances would not be required, as all parties would be responding to a common perceived danger: the Soviet Union. This point of view discounts opposing views that the global scene is characterized by multipolarity, and focuses on the undeniable fact that there are only two military superpowers.

The third point of view perceives multipolarity as the relevant condition. Its advocates reject both isolationism and the cold war as policy choices and argue for the United States a role similar to Britain's role as European power balancer during the years when the European powers ruled the world. Ambiguity would be a useful characteristic of U.S. foreign policy in their view as uncertainty about possible U.S. responses would deter adventurism.

These three points of view also exist about U.S. policy for other regions, the relative strengths of adherents to one or the other of them varying depending on the region under consideration. With respect to Asia, views on the U.S. experience in Vietnam, and its domestic and international impact strongly influence attitudes toward whether the United States should withdraw, lead a coalition, or play a more standoffish but concerned role from the sidelines. Perceptions concerning

[3] The analysis in this section leans heavily on remarks by Robert A. Scalapino in a lecture in Seoul, Korea on July 6, 1978 sponsored by the International Cultural Society. and assessments made in the Foreign Affairs and National Defense Division of the Congressional Research Service.

this basic policy choice affect attitudes toward several sub-issues that will be discussed later in this chapter. These are: (1) How the reduction in U.S. military deployments to the region, which has been apparent since 1968, will affect regional stability; (2) the impact of normalizing diplomatic relations with the People's Republic of China; (3) how to resolve the balance-of-payments deficit between the United States and Japan; and (4) U.S. policy issues affecting ASEAN.[4] These issues are discussed in context of their affect on regional stability which, as noted above, is a surrogate for more fundamental interests.

BACKGROUND

Some Criteria and Measures of Effectiveness

In assessing the stability of the region one must take into account those factors which contribute to or detract from that stability and the consequences which may follow from each. This chapter addresses five factors which contribute to stability, with measures of effectiveness as indicated:

Conditions favoring regional stability

Criteria	*Measures of effectiveness*
A "stable" balance of power	Absence of hegemony by any power or combination of powers inimical to the United States.
Generally stable international political conditions	Absence of external aggression; Peaceful resolution of international issues; Regional solutions when violence occurs.
"Stable" internal political relationships	Demonstrated ability of local governments to accommodate social change without violence getting out of hand.
"Stable" internal economic conditions	Balance of payments in equilibrium, or reliable source of economic support exists for most states. Population and economic growth rates in favorable balance; "equitable" sector economic growth rates.
"Favorable" international economic relationships	"Equitable" access to resources and markets.

The power structure.—Over the years since World War II, the Western colonial powers have left or been driven out of Asia. There has emerged in almost every Asian country a regime that enjoys a substantial measure of popular support, although "within many of these countries, particularly in Southeast Asia, internal institutions for managing social change without excessive violence still suffer from a lack of self-confidence." [5] These governments have acquired, or been provided, near self-sufficiency in internal defense capability and substantial capacity for self-defense against external threats of the kinds likely to emerge on their borders. On the other hand, very few of these coun-

[4] See chapters. "Relations With the People's Republic of China and Taiwan," p. 424; "The Balance of Payments and Domestic Policies," p. 40; "The Political Impact of U.S. Economic Relations With Japan," p. 386; and U.S. Economic Role in East Asia," p. 371.

[5] The analysis in this section draws heavily from an unpublished manuscript, "Structure and Process of Power in East Asia: A discussion Paper" by William W. Whitson, Congressional Research Service.

tries have the ability to conduct sustained military operations across extended lines of communication. Only the United States maintains a capability in the Western Pacific for sustained overseas military ventures. This restricts most countries' military options to border crossings, and these are mostly deterred by the self-defense capabilities previously mentioned. The recent wars between Vietnam and Cambodia, and China and Vietnam are obvious exceptions.

In the Western Pacific the superpower military balance is in a state of rough equilibrium. According to a recent analysis, "it will take more than marginal changes on either side to tip the balance decisively in one direction or the other." [6] This condition reflects the global balance of which the situation in the Pacific basin is a part.

Finally, there is no combination of powers that could dominate the region. Thus the political and military situation existing in the Western Pacific basin is deemed to favor regional stability at this time, subject to some reservations with respect to Southeast Asia.

Economic considerations.—Chart 1 shows the enormous growth in economic strength among individual states of East Asia and in the region as a whole since 1945. Despite some uneven sector performance in several Southeast Asian countries, overall economic growth rates compare favorably with population growth rates in most countries. However, percentage growth rates mask large differences in economic well being. For example, the 1977 per capita GNP for the five ASEAN nations ranged from $300 (Indonesia) to $2,560 (Singapore).[7] Taiwan, Japan, Australia, and New Zealand enjoyed per capita GNP of over $5,000. Still, per capita economic growth rates among Western Pacific countries for the past decade have been the highest in the world.

Moreover, the general state of international trade within and external to the region has generally been favorable to Western Pacific countries as shown in chart 2.

Finally, economic access is generally available to and within the region on equitable terms to most nations. Thus the general economic situation in the Western Pacific basin also seems to favor regional stability at this time.

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[6] Collins, John, "The Military Balance Between Super-Powers in the Far East." Manuscript prepared for presentation at the Korean-American-Japanese Conference on Northeast Asia, Aug. 29–30, 1978, at Seoul, Korea, p. 20.

[7] Niksch, Larry A. "The Association of Southeast Asian Nations (ASEAN): An emerging Challenge in U.S. Policy Toward Asia." Congressional Research Service, The Library of Congress, Washington, D.C., Nov. 10, 1978. Appendix.

CHART 1

GROSS NATIONAL PRODUCT [1]

[In millions of U.S. dollars]

Country	1955	1965	1976 [2]
NORTHEAST ASIA, GNP TOTAL			
Japan	24,000	98,000	446,026
Korea: [3]			
1. Republic	3,800	6,950	21,610
2. Democratic People's Republic	915	4,150	9,600
People's Republic of China	82,000	134,000	306,000
Taiwan: [3]			
Republic of (China) [3]	1,300	2,800	12,710
Hong Kong	706	1,578	6,850
Regional total	112,721	238,478	802,796
SOUTHEAST ASIA, GNP TOTAL			
Burma	1,109	1,623	2,910
Thailand	1,810	4,000	12,670
Philippines	4,400	5,507	13,650
Indonesia	7,795	8,984	21,780
Malaysia	1,755	2,861	7,910
Singapore	730	1,089	4,970
Cambodia	629 [4]	869	570
Laos	419 [4]	205	220
Vietnam [5]	2,330	2,430	6,510
Regional total	20,977	27,568	71,190

[1] Statistics calculated from World Tables (World Bank) unless otherwise noted. Figures reflect current market prices.
[2] World Bank Atlas 1976 statistics.
[3] Statistics quoted from State Department.
[4] 1960 Statistics—1955 figures not available.
[5] 1955, 1965 statistics refer to South Vietnam. Statistics not available for North Vietnam.

CHART 2

Percentage of external trade for selected countries in Southeast/Northeast Asian regions

	Millions of U.S. dollars		*Millions of U.S. dollars*
Southeast Asia:			
Exports—1970:		Imports—1970:	
Total exports	8,725.82	Total imports	10,480.55
Exports external	3,550.00	Imports external	3,533.40
Percentage	(40)	Percentage	(33)
Exports—1976:		Imports—1976:	
Total exports	34,728.83	Total imports	35,443.67
Exports external	14,804.79	Imports external	15,552.30
Percentage	(42)	Percentage	(43)
Northeast Asia:			
Exports—1970:		Imports—1970:	
Total exports	23,385.65	Total imports	24,849.76
Exports external	9,938.99	Imports external	12,846.70
Percentage	(42)	Percentage	(51)
Exports—1976:		Imports—1976:	
Total exports	90,173.87	Total imports	87,217.71
Exports external	36,482.12	Imports external	47,155.42
Percentage	(40)	Percentage	(54)

Conditions That May Threaten Regional Stability

Despite the favorable conditions noted in the preceding section, there is no room for complacency. A number of factors exist that could threaten regional stability.

Sino-Soviet power struggle and the continuing Soviet military buildup in Asia.—The planned exit of the last U.S. ground forces from the Asian mainland, announced in 1977 by the Carter administration, leaves the entire littoral from the Arctic Ocean to the Thailand border in Communist hands except for the Republic of Korea, isolated at the southern end of its divided peninsula. With this long standing Communist objective all but accomplished, the way is clear for the simmering power struggle between the Chinese and Soviet Union for control of the mainland to enter a new phase with much higher stakes. This may have already begun in Southeast Asia with a "proxy war" between China's client Cambodia and Vietnam, which recently joined CMEA (Council for Mutual Economic Assistance), the Soviet sponsored economic bloc of Communist countries, and signed a security pact with the Soviet Union as well as the Sino-Vietnam conflict. Whether the rest of Asia and the United States will be required, eventually, to choose sides as the struggle unfolds is not clear at this time. This Sino-Soviet rivalry generates the greatest pressure for radical, probably adverse change in the political alinement and military balance in East Asia.

Asian perceptions of declining U.S. strength, coupled with U.S. strategic withdrawal.—Economic problems in the United States have caused unprecedented budget deficits, unfavorable trade barriers, a decline in value of the dollar relative to other, more stable, currencies, social unrest and past public unwillingness to keep pace with Soviet military production, although this last factor may be waning. All these factors have contributed to a perception of declining U.S. strength among some Asia elites. To this perception of declining strength is often added a perception that the United States is engaged in a strategic withdrawal from East Asia. Some relate the two trends, claiming strategic withdrawal is forced by declining economic powers. The planned withdrawal of U.S. ground forces from Korea is cited as an example.[8] The Korean reduction, accompanied by renewed emphasis on NATO commitments, seems to imply inability to meet both obligations and intent to downgrade Asia.[9] Others lay withdrawal to American public rejection of Asian commitments following the U.S. defeat in Vietnam, a rejection which the leadership is unable to control, preferred policies notwithstanding. Congressional action that denied South Vietnam promised assistance in its final days despite executive branch efforts is the most often cited example.

Asians who hold these views reject the counterargument that improving Sino-United States relations have resulted in a declining military threat to U.S. interests in East Asia while the threat to NATO is unabated. They point to the Soviet military buildup in Asia, particularly the growth of Soviet naval capability, as evidence that the real threat to U.S. interests in the region has not declined and may be growing.

These perceptions are not universally held and U.S. recognition of China and successful negotiation of a new Philippines bases agreement could foster a contrary impression. But the mere expression of these doubts is a recent phenomenon which is potentially destabilizing. This would be true particularly if the various Asian nations

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[8] These observations are based on personal conversations during October 1978 between the author and a number of senior Asian civil and military officials holding a wide spectrum of political views.

[9] See chapter, U.S. Troop Withdrawal From South Korea," p. 403.

come under intense pressure to choose sides in the Sino-Soviet rivalry since they might see no alternative to alinement with one or the other of those two powers.

Unresolved civil wars and insurgencies.—Unresolved civil wars in Korea and China are a quiescent threat to regional stability as are insurgencies in Thailand, the Philippines, Malaysia, and Indonesia. For the time being, the main impact of these challenges to the legitimacy of Asian governments is the adverse affect on human rights in the affected countries. Threatened governments feel compelled to suppress dissent while dissidents often publicize alleged human rights violations as the most effective means of advancing their cause. Any of these potential trouble spots could heat up if governments and their dissidents achieve client status on opposite sides of the Sino-Soviet rivalry and succeed in bringing their sponsors into their internal dispute or if the Chinese or the Soviets decide that their own interests could be advanced by escalating a particular confrontation, such as the Korean civil war.

Chinese succession.—The ongoing power struggle within the Chinese government that has been apparent since before the death of Mao Tse-tung has destabilizing potential should it reach the stage of insurgency or civil war, particularly if one side requested Soviet aid. Because of the the secretiveness with which it is being waged, the state of play is uncertain although the more pragmatic faction appears to be in control as the 96th Congress convenes. The future course of the succession struggle appears to depend to some extent on the ability of the pragmatists to meet domestic economic challenges by turning to the industrialized west for technology and other development assistance, a departure from long-established Chinese policy. Should this initiative of the new Chinese leadership fail, their continuance in power could be in jeopardy, or civil war could result.[10]

U.S. balance of payments problem.—Since 1973 the United States has experienced a growing balance-of-payments deficit which in 1978 alone amounted to $36.5 billion (trade balance estimate). Some of the deficit can be traced to the increased price of oil imports, but about 25 percent of the deficit results from the difference between imports from and exports to Japan, which after Canada is the United States most important foreign trading partner. Policy differences over how to deal with the problems this causes (Japan has an overall favorable balance of payments) have occupied the attention of administration officials in both governments. The U.S. Congress has taken an active interest in negotiations. The overall U.S. balance-of-payments problem has been previously cited as a contributor to Asian perceptions of declining U.S. strength, and its impact on prospects for regional stability assessed in that context. However, the specific balance-of-payments deficit relative to Japan presents a particular danger because of its irritant affect on the partnership between the United States and Japan which has been the keystone of U.S. Pacific policy since the early post-World War II years.

Law of the sea related disputes.—Law of the sea related disputes over fishing rights, nonliving resource exploitation and political control have abounded in East Asia for many years. Over the past several years the concept of an economic zone, extending up to 200 miles be-

[10] See chapter, "Economic and Political Stability of the People's Republic of China," p. 438.

yond the territorial sea, has gained general acceptance as emerging international law although the rights and duties of coastal states and other users of the zone are still being resolved. The number of parties to old disputes is increased by this new concept, and a number of new disputes could arise. Since the brief, but violent, assertion of political control over the Paracel Islands by China in 1974, which was apparently largely inspired by law of the sea considerations, there has been no open conflict attributable to law of the sea related disputes. But the potential for conflict has been demonstrated many times in the past in East Asia and in other regions of the world. The disputes listed below constitute issues ready for exploitation by any country, and by some subnational groups, seeking to stir up trouble between the countries concerned for reasons of policy. The indefinite nature of authority over an economic zone (extending from control only of resource exploitation to outright sovereignty, depending on the claimant) provides ample new grounds for dispute, even where none existed before.

Law of the sea related disputes

Soviet-Japanese Fishing Dispute. Aggravated by emerging 200-mile economic zones.
Japanese-Korean Economic Zone Boundaries In Sea of Japan. East China Sea.
North China Sea Disputes over fishing, continental shelf boundaries and economic zone boundaries, including disputed islands (China, Koreas, Taiwan and Japan)
South China Sea Disputes over Spratley and Paracel Islands ownership and over boundaries of continental shelf and economic zones (China, Vietnam, Philippines, Taiwan, Indonesia)
Gulf of Siam Disputes over continental shelf boundaries (Thailand, Cambodia, Vietnam)
Archipelago Transit Rights (Philippines, Indonesia Against Global Maritime Nations—U.S., USSR, Britain, Japan)

Other conditions adversely affecting domestic stability in Asian countries.—There are a number of factors that have placed several Asian governments under varying degrees of pressure and which could increase in severity under adverse conditions: uneven sector economic growth rates in Southeast Asia, especially the agricultural sector and between urban dwellers and the rural population; continuing tensions in civil-military relations (Korea, Philippines); internal ethnic and religious conflicts (e.g., the overseas Chinese and Filipino Moslems but are only two examples among many that could be cited); Indo-Chinese refugee flow; civil and human rights abuses in Korea, Philippines, Indonesia, China, Vietnam and Cambodia; and irredentist claims in a number of countries.

As a general observation it may be said that old animosities, suppressed during both the colonial and cold war periods, have resurfaced and some of them are potential threats for regional stability, alongside certain residual superpower issues. The People's Republic of China has apparently replaced the United States as the Soviet Union's principal adversary in Asia. The issue for the Unitde States has become one of role and degree of participation in the Sino-Soviet rivalry, and how to factor Japan into the regional power alignment.

Possible Outcomes and Consequences

Thus, while a fragile stability exists in East Asia at the beginning of the 96th Congress, there are a number of factors that could threaten regional stability in the years ahead. The ongoing Sino-Soviet power struggle is the factor most likely to stimulate radical change in the political alinements and power balance in East Asia. The unfavorable U.S. balance-of-payments situation relative to Japan is also an ongoing problem. Vietnamese aggressiveness threatens her neighbors. Other factors, though real, are less likely to become active threats to regional stability during the course of the 96th Congress unless aggravated by one of these ongoing problems.

It is possible, perhaps probable, that the fragile regional stability now existing in East Asia could grow and the political, economic, and military situations in the region could continue to evolve favorably to U.S. interests there. U.S. policymakers would generally favor and support this development. It is possible to speculate on other outcomes, and to do so may be useful in visualizing the hazards policymakers are trying to avoid.

Possible Adverse Economic Changes

There appears to be some danger that any of the following changes might occur if care is not exercised over the next several years. The U.S. role in Asia could have a major bearing on whether they can be avoided.

Change	*Adverse consequence to be avoided*
Declining economic growth rates in Southeast Asia	Communist take-overs supported by Vietnam, the Soviet Union, or, under certain conditions, China
"Runaway" United States-Japanese economic competition	Restricted markets and resources; major political realinements; accelerated U.S. strategic withdrawal from Asia or return to interventionist role for United States.
Chinese economic crisis	Succession government discredited: "meddling" by external powers

Possible Adverse Political Realinements

None of the possible realinements listed below is likely to take place without some significant preceding event that would provoke the major necessary policy changes they imply. A completely passive U.S. role in Asia might prompt some of the listed realinements while a too active role might prompt others. In most cases, U.S. options would be constrained by the actions of other players.

Realinement	*Adverse consequence to be avoided*
ASEAN military alliance	Greater tension in South-East Asia, especially if alliance results from threat of Vietnamese take-over of Thailand.
Vietnamese hegemony in Southeast Asia	Restricted resources and markets for capitalist developed countries, loss of U.S. bases and use of Southeast Asian straits.
Sino-Japanese alliance	Chinese hegemony if Chinese potential realized (long term).

"Militarist" Japan	Antihegemony consortium by other Asian powers.
Sino-American alliance	(1) Cold war with Soviets. (2) Chinese hegemony if Chinese potential is realized (long term).
Sino-Soviet alliance	Cold war, might presage Soviet attack on NATO.
Thailand as a client state to the PRC	Breaking up of ASEAN, Vietnamese-Thai confrontation, intensification of Sino-Soviet rivalry in Southeast Asia.
North Korean shift to the Soviet camp	Increased danger of Korean War, possible Soviet bases in North Korea.

Possible Wars

Most observers of the Asian scene agree that the possibility of any of the following wars occurring in the near term is remote, but any of them could occur if strategic conditions changed sufficiently. Some of the political realinements and economic changes listed in the preceding paragraphs would probably have to occur first. U.S. role (active or passive) could be a factor in causing or preventing any of them.

War	*Possible involvement by other powers*
Wars over wealth and use of the seas	Depends on the circumstances.
Sino-Vietnamese [1]	U.S.S.R., United States, Thailand.
Sino-Soviet	United States, Japan, Vietnam.
Two Chinas	United States, U.S.S.R., Japan.
Two Koreas	United States, Japan, China, U.S.S.R.

[1] This presumes a more protracted conflict than the recent border war.

Alternative U.S. Roles in the Pacific

If future historians argue that the massive investment of American power in Asia after World War II was ultimately dedicated to the proposition that time must be bought for local Asian institutions to flourish and assume responsibility for management of their own issues, the same historians must also assess the nature and timing of the American withdrawal of power.[11]

As noted in the introduction to this chapter, the policy question underlying most Asian issues before American policy makers is the appropriate degree of U.S. involvement. Faced with pressing and costly domestic requirements and security problems in other regions Americans are increasingly asking how much longer they must underwrite Asian stability. This section addresses the policy question in that "how much longer" context, first considering changes in Asia since the United States committed itself to Asian stability after World War II and then presenting the alternative views on the appropriate U.S. role outlined in the introduction.

[11] William W. Whitson, op. cit.

Changes in Asia Since World War II

Strategic situation.—The bipolar confrontation in Asia between a U.S. led coalition and monolithic communism that emerged as the principal strategic fact after World War II had, by 1978, moderated considerably in the Pacific Basin. The United States and the Soviet Union are still the only superpowers in the world, but events have taught that neither country is able to commit all its power to a single theater. Over the years, several Asian nations have been armed with effective weapons which they have learned to use in combat. This has produced a group of countries with military strength which must be taken into account. Several countries have the capability of producing modern, sophisticated armaments, including nuclear weapons. It thus appears that Pacific Basin countries are no longer totally dependent on the two superpowers for military leadership or for devising military solutions to regional problems. This is not to say that superpower involvement doesn't matter. It does, but the superpower is likely to be only a senior partner now. Some feel even that relationship is changing.

Perhaps because Asians have more to say, the Asian scene today is fraught with Asian disputes and conflicts in contrast to a few years ago when conflicts in Asia which were not a part of the global confrontation between the West and Communism were suppressed. The recent war in Cambodia may be a part of the Sino-Soviet rivalry, but it is first of all a Vietnamese-Cambodian conflict over local interests. The Sino-Vietnam conflict is another aspect of this rivalry. Other disputes and potential conflicts discussed elsewhere in this chapter may also have overtones of global grand-strategy, but they are at bottom local disputes.

According to Admiral M. F. Weisner, Commander-in-Chief of the U.S. Pacific Command, "Except for the unique situation on the Korean Peninsula, the United States does not contemplate in the Asian-Pacific theater a classical military scenario featuring opposing forces across some line or boundary." [12] According to the Admiral, U.S. Pacific military deployments are intended to counter the Soviet global threat which he sees as primarily an effort to deny use of the sea routes through the Pacific theater in wartime, and to foster Asian perceptions of U.S. power which he considers necessary to sustain the secure atmosphere "prerequisite for the continued influx of the foreign capital which is essential for the economic advancement of the region." [13] The Japanese also perceive the U.S. military presence as a "pillar of their security relationship with the United States." [14] There has thus been a significant change in the rationale for the overseas deployments of U.S. military forces in the Western Pacific due to the change in the strategic situation in Asia over the past 30 years.

Political situation.—In response to and part of the changing strategic situation described in the preceding paragraphs, the political structure in East Asia has also undergone changes. In the early 1950s both the superpowers entered into security treaties with Pacific Basin countries. The overall effect of the treaties was to polarize the region

[12] Weisner, op. cit., p. 45.
[13] Ibid., p. 46.
[14] Ibid.

into clients of one side or the other. The emergence of strategic multipolarity described in the preceding section has permitted political diversity to grow. In contrast to the rigidly polarized client-sponsor relationships of the past, today partnership is more often the case. Robert A. Scalapino has identified at least four groupings of the Asian nations now, in contrast to the bipolar arrangements that used to prevail, and their composition is flexible.[15]

The rigid system of treaties has begun to break down in the face of these political realities. The Sino-Soviet treaty, for example, is apparently discredited. President Carter has promised the mainland Chinese he will abrogate the U.S. mutual defense treaty with Taiwan and, on December 23, 1978, he so announced to Taiwan in accordance with the terms of the treaty. The Southeast Asia treaty is still on the books, but there is uncertainty as to whether Thailand, the only treaty signatory not also signatory to some other security pact with the United States could rely on it. A major reason discussed in the media for the planned withdrawal of U.S. ground forces from Korea is to eliminate the so-called "tripwire" that would automatically involve U.S. military forces in any war on the Korean peninsula, and this has raised questions about the continued effectiveness of the U.S. treaty with Korea.[16]

The effect of this loosening of political ties is to allow the individual Pacific Basin countries and the superpowers more room for maneuver, to seek after their own interests. But it is also unsettling since political alignments are less certain.

At the same time, domestic political factors are cause for concern in a number of countries as may be seen by referring to the discussion of factors threatening stability in the early part of this chapter. Limited self-confidence inhibits the ability of some governments to take advantage of the freedom of maneuver that loosening of rigid ties to superpowers has brought. And internal political weakness in these countries continues to be a factor in assessing the appropriate Asian role for the United States.

Economic considerations.—The emergence of Japan as an economic giant is the most dramatic change in the economy of Asia over the last 30 years. A second major change has been the substantial shift from

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[15] At a conference on Security and Development in the Indo-Pacific Arena in Boston, Mass. Apr. 24–26, 1978, sponsored by the Fletcher School of Law and Diplomacy, Robert A. Scalapino divided the nations of Asia and the Pacific Basin into the following groupings:

Group 1: U.S., Japan, ROK, ROC, Australia, New Zealand, sometimes the Philippines and Indonesia.

Group 2: USSR and Mongolia, and to some extent, Vietnam and Laos. To a lesser extent, India.

Group 3: PRC, Cambodia, and to a lesser extent North Korea and Pakistan.

Group 4: the ASEAN nations, (Thailand, Malaysia, Singapore, Indonesia and the Philippines).

Scalapino also included subnational groups (local Communist parties) in his accounting. The Australian and Indian parties being assigned to group 2, and the parties in the ASEAN countries to group 3.

[16] See Zagoria, Donald, "Why We Can't Leave Korea." New York Times Magazine, Oct. 2, 1977; Washington Post, June 12 and Sept. 7, 1977; and Mainchi Shimbum, Mar. 7,1977. Presidential aide Stuart Eizenstat has stated that briefings by the Brookings Institution were "a significant development" in Carter's thinking on the Korean troop question prior to his assumption of office; and the Brookings analysts stressed to Carter that withdrawal of ground forces would remove the possibility of automatic involvement in a ground war on the Korean peninsula. The President reportedly told James Schlesinger that he was determined to avoid the mistakes of Presidents Truman, Johnson and Nixon of being involved in Asian land wars. Finally, the widely reported PRM (Presidential Review Memorandum) 10 and PRM 13 cited avoidance of automatic involvement in a ground combat situation (and generally in a war in Korea) as a primary reason for the Administration's policy. PRM 10 analyzed U.S. global strategy, and PRM 13 dealt exclusively with Korea.

U.S. public financing to international lending institutions such as the World Bank, IDA, and the United Nations as the primary source of development funds for the region. A third significant change is the growth of U.S. trade with the region until it now exceeds trade with the European Economic Community.

The region has been experiencing sustained economic growth, but wide differences in per capita income still remain as one of the soft spots in regional economic performance. In addition, some real economic problems have been noted earlier in this chapter. They are, the U.S. balance-of-payments deficit with Japan, China's need for development and economic growth, and the need for equity and growth in the economies of the ASEAN countries. The role of the United States is in the solution of these and other economic problems of the region will have a significant bearing on their outcomes.

Alternative Points of View on the U.S. Role in the Pacific Basin

Three (simplified) points of view concerning the appropriate U.S. role in the Pacific Basin were identified in the introduction of this chapter. They are: those who favor early and substantial additional withdrawal from the region; those who favor an activist role which would be more or less a resumption of the cold war in Asia but with China on our side; and those who would seek to take advantage of the new regional multipolarity and encourage regional solutions to regional problems. The latter two groups would continue U.S. involvement in Asia indefinitely though of different character.

Underlying these differing approaches are different assessments of the significance of Asia to the United States. Those who favor early withdrawal attach little importance to Asian stability or feel events there will turn out acceptably whether the United States plays a role or not. The activists view Asia as having significance primarily in context of the East-West confrontation (though north-south conflict is also considered), mostly for strategic reasons. The multipolarists tend to regard Asia as important to the United States in its own right, principally for economic reasons, but also politically. Obviously there is a wide range of opinions in both groups, but these descriptions generalize them.

Those who favor additional withdrawals from Asia believe either: (1) that the Soviet Union is the only significant threat to the United States and that Europe is the primary arena. Therefore attention to the Pacific Theater is a diversion of resources better applied to the main theater; or (2) the United States should have learned from Korea and Vietnam not to become involved in Asian wars, which we can never win, so why devote any more resources to Asia which we can do without if we must. People holding these points of view sometimes acknowledge the importance of Japan to the United States although she is also sometimes seen more as a competitor than a help and in any case they believe she should do more in her own defense. According to this view military withdrawal from Asia would improve U.S. economic and political relations with Asians by improving our acceptability to Asian nationalists.[17]

Those who favor an activist role for the United States believe the Soviet Union is the principal threat to the United States in the Pacific

[17] This analysis draws heavily on the previously cited works of William W. Whitson and Robert A. Scalapino.

Basin as well as Europe, and that it is important to confront them in both theaters. They believe making common cause with the Chinese, not necessarily extending to an actual alliance, would insure that the Soviets would always face a second front which would deter them in both Europe and Asia. To make this work will require China to modernize her armed forces which the United States should encourage and be prepared to assist. This view also believes Japan should be encouraged to do more in her own defense, and to make a greater economic commitment to regional stability, including economic links to China. As many of the smaller Asian countries as possible would be brought into this anti-Soviet alinement. This approach would have the effect of restoring the bipolar relationships that formerly existed in Asia which, adherents believe, would be a good thing as in their view multipolarity has only created uncertainty, inefficiency, and losses in the bipolar competition still pursued by the other superpower.

The multipolarists believe East Asia is on the verge of becoming a functioning regional system, if not already one. They argue it is an area of vital economic importance to the United States and that political developments in Asia have as much significance for the United States as developments in any other region except the American Continent. Multipolarists believe a regional system is a better check against Soviet adventurism than the bipolar confrontation espoused by the activists and that the positive gains from maintaining partnership status rather than a sponsor/client relationship are worth any inefficiency the multipolar regional system may induce. They would, therefore, do what seems necessary to foster regional institutions and processes in the same way in earlier times the United States did what seemed necessary to foster national institutions among new States. Although multipolarists would not withdraw from the region, they would enter into no new alliances, de facto or otherwise, and would seek to disengage from existing alliances as soon as this could be done without destabilizing the situation. This would be done to achieve as much flexibility in U.S. relations as possible. In this regard the hostage status of U.S. military forces in Korea would be eliminated as soon as possible. These actions would be taken to stimulate self-reliance and dependence on regional crisis management among the countries of the region.

Underlying the policy question, and implied by phrasing, "how much longer?" is a broader debate over the relative importance of international considerations and domestic concerns when budget decisions are being made. Advocates of withdrawal perceive domestic concerns as overriding and would reduce spending on military programs and foreign aid in favor of balancing the budget or spending on domestic social programs. The international activists perceive the Soviet threat as overriding and would increase defense spending. They favor channeling foreign aid selectively to those who could count most on our side of the strategic balance. Multipolarists see economic interdependence as the key factor. They tend to downgrade the military policy instrument in favor of economic assistance of various kinds, and would direct aid differently than the activists—toward programs designed to promote regional economic stability with less regard for political alinements.

Possible Pacific Basin Stability Issues During the 96th Congress

Regional stability in the Pacific basin, or in any other region, is not a goal to be achieved for once and for all; but rather it is a condition to be sought and maintained. The factors fostering or threatening stability discussed in this chapter are not generally susceptible to one time solutions. Instead, stability or instability in the Pacific Basin is the product of countless incremental decisions made within the executive branch, Congress, and the private sector over the years. Congress has been, and continues to be, a full partner in the American quest for regional stability in the Pacific Basin. Over time Congress has demonstrated each of the conflicting views noted in the preceding section of this chapter, depending on the question. Because the economic dimension of the question has expanded beyond simple considerations of the amount of public moneys to be committed to foreign aid and now encompasses such diverse questions as how the decline of the dollar can be arrested or whether U.S. energy policy is realistic, many congressional committees are involved every year in legislation and oversight activities that directly affect prospects for regional stability in the Pacific basin. But policy questions that bear on regional stability in the Pacific basin are not necessarily debated in that context, and not all regional issues have regional stability components. The other chapters on Asia present many policy questions, some of which might become issues before the 96th Congress. This section identifies those that could strongly affect regional stability. These are, the impact of U.S. diplomatic recognition of the People's Republic of China, which bears directly on the Sino-Soviet rivalry factor; issues over U.S. military posture in the Pacific basin, which will influence Asian perceptions of U.S. strength and continuation of its role as a Pacific power; United States-Japanese economic issues; and the absence of an identifiable, agreed on, U.S. policy toward ASEAN. Each of the issues summarized here is more fully covered in a separate chapter of this volume.

The Impact of U.S. Diplomatic Recognition of China

Issues concerning the impact on regional stability of U.S. diplomatic recognition of the People's Republic of China can be expected to occupy the attention of the 96th Congress from the very outset. Opponents of recognition have taken the constitutional issue over whether congressional action is required to abrogate the Mutual Defense Treaty between the United States and the Republic of China to the courts. Regardless of the outcome there, congressional approval of the appointment of an Ambassador to the People's Republic of China and congressional action on an extensive legislative package said to be under preparation to implement the shift of formal and informal relations between the United States and the two Chinas will provide ample opportunity for congressional oversight of this major event in global and regional affairs.

U.S. Military Posture in the Pacific Basin

Issues over U.S. military posture in the Pacific basin can be expected to occupy congressional attention again during the 96th Congress. Negotiations are completed on an amendment to the Philippines bases' agreement which is reported to involve a commitment by the administration to seek a large increase in U.S. aid for the Philippines over the next 5 years. This proposal could be controversial if opposed by those who favor withdrawal from the Philippines bases. Congressional oversight of the announced withdrawal of U.S. ground forces from the Republic of Korea, now in its third year, could become contentious, as it has in prior years, in connection with administration proposals to augment ROK armed forces in preparation for their assumption of greater self-defense responsibilities. Both the Philippines bases and ROK armed forces buildup issues have human rights overtones. The size of the U.S. 7th Fleet may become an issue in the expected debate over an administration proposal to build a conventionally powered, medium sized aircraft carrier to replace U.S.S. *Midway*, the carrier homeported in Japan. This issue, if it occurs, could raise openly the question of Japanese participation in Pacific maritime matters. Finally, an issue may arise over arms sales to the Government on Taiwan, and whether the size or location of U.S. forward deployments should be changed to reflect the abrogation of the mutual defense treaty.

United States-Japanese Economic Issues

The major issue in United States-Japanese relations is how to restore a balance in their trade relationship. The 96th Congress can expect to deal with this issue in several contexts. As noted above, the defense aspect may come up in connection with the U.S. naval shipbuilding appropriation or as pressure for Japan to buy more armaments from U.S. suppliers. Protectionism against free trade issues have come up in the past and may surface again as particular congressional constituencies feel the effects of Japanese economic competition directly. In a more fundamental way, the 96th Congress will be working with the Executive to correct the U.S. economic weaknesses that underly the overall U.S. balance-of-payments problem, of which the Japanese portion is perhaps the most irritating, but is only a part. Correcting these weaknesses could in the long run do more for stability in the Pacific region than most other factors discussed in this chapter.

U.S. Policy Issues Affecting ASEAN

As previously noted, the governments of ASEAN nations are under internal pressures from insurgencies and external pressure from a militarily powerful unified Vietnam which as the 96th Congress convened was engaged in the final subjugation of Cambodia. Issues likely to come up before the 96th Congress that could affect regional stability are those having to do with the conditions of continued U.S. aid to the ASEAN countries, their requests for special treatment in trade matters, which, in general, have been denied by the administration, and execution of congressionally mandated human rights policies. There is also a possibility that the issue of diplomatic recognition of the present Vietnamese Government may arise although the Vietnamese invasion of Cambodia has dampened incipient enthusiasm for such a step according to press reports. A more general issue has to do with differences over the priority accorded Southeast Asian affairs in U.S. policy making. The administration has only partially erased an early impression that Southeast Asia was receiving very little high-level attention. Whether this represents the true state of affairs, and what priority Southeast Asia deserves were issues during the 95th Congress that may arise again.

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SOUTHEAST ASIA: U.S. POLICY TOWARD ASEAN

(By Larry A. Niksch*)

Issue Definition

The Vietnamese invasion of Cambodia in December 1978–January 1979 and the Chinese attack on Vietnam in February–March 1979 has resulted in a resurfacing of the issue of security in Southeast Asia, not only among the countries of the region but also among the major powers, including the United States. This has happened at a time when actions by the Carter administration have only partly clarified American policy toward Southeast Asia in the post-Vietnam War period, including policy toward the five non-Communist member states of the Association of Southeast Asian Nations or ASEAN (Indonesia, Malaysia, Philippines, Singapore, and Thailand). Broad American policy objectives are clearer today than they were at the beginning of 1977. Nevertheless, it is uncertain whether the administration or the American body politic as a whole gives very high priority to the region.[1] There also appears to be disagreement both inside and outside the U.S. Government over the most suitable mix of policy instruments and the most suitable role of other countries in supporting policy goals.

Within this context of uncertainty concerning the future direction of U.S. policy, the administration and Congress likely will examine several specific issues in the next few years. Among them are:

(1) The future U.S. military presence in the Philippines.

(2) The relationship between U.S. economic policies and programs and the developmental goals, strategies, and performances of the ASEAN states.

(2) The impact of human rights considerations on the utilization of policy instruments towards ASEAN countries.

(4) The Vietnam-instigated overthrow of the Cambodian Government and its implications for the security of ASEAN countries.

(5) The meaning of the expanded U.S. security relationship with Singapore and Malaysia.

(6) The impact of U.S. security assistance on ASEAN country military capabilities.

(7) American influence on the changing Japanese role in Southeast Asia.

(8) The extent to which the United States should cooperate with China in Southeast Asia.

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[1] The American body politic is defined here as those institutions and interest groups that most influence the executive branch in its formulation of foreign policy. These would include the Congress, the press, the academic community, and private organizations that advocate and lobby for specific views or causes. General public opinion is also part of the body politic, but on many foreign policy questions it may not be defined or clear.

BACKGROUND

Future American policy will have to be formulated within the context of the changing conditions in Southeast Asia in the post-Vietnam War period. These changing conditions have three dimensions: an internal Southeast Asian dimension, a dimension involving the other great powers, and a U.S. dimension.

The Internal Dimension

Internally, the major elements are:

(1) The emergence of Vietnam as the dominant power in Indochina and the strongest indigenous military power in Southeast Asia.—Communist Vietnam, now officially called the Socialist Republic of Vietnam (SRV), emerged from the Indochina War with large, well-equipped armed forces that have formidable conventional warfare capabilities. Vietnam dominates Laos and has an estimated 30,000–60,000 troops in that country. Cambodia, however, resisted Vietnamese hegemony, and sporadic border fighting erupted into major conflict late in 1977. In 1978 Hanoi embarked on a systematic effort to overthrow the Communist Pol Pot regime in Phnom Penh and install a pro-Vietnam Communist government in its place. Vietnamese forces launched a full-scale invasion on December 25, 1978, and Phnom Penh fell on January 7, 1979. A new government was proclaimed based on a united front organization of Cambodian dissidents that Vietnam had created a month earlier. However, it has no administrative structure, and forces loyal to Pol Pot continue to resist. Vietnam has increased its invasion force to 150,000-200,000, and SRV troops are likely to remain in Cambodia indefinitely.

(2) The uneasy relations between Vietnam and ASEAN.—Tension between Vietnam and ASEAN arose quickly after the Communist takeovers in Indochina. Its origins lay in ideological hostility, Vietnamese military superiority and support for Communist insurgencies in ASEAN countries, and the outright support or at least underlying sympathy given by the individual ASEAN states to the U.S. war effort in Indochina. Thailand, in particular, is concerned over Vietnamese and Lao material aid to the Thai Communist insurgency and SRV efforts to gain the dominate outside influence in the insurgency; and the overthrow of the Pol Pot Government now confronts it with a united Communist Indochina dominated by Hanoi.

In June 1978, Vietnam began to moderate its public attitude toward ASEAN, probably as a result of its conflicts and disputes with China and Cambodia. ASEAN governments have expressed interest in Hanoi's apparent willingness to engage in a dialog, but they are uncertain whether Vietnam seeks a genuine relaxation of tensions or whether its motives are to weaken the unity of ASEAN, drive a wedge between ASEAN and China, and soften the impact of the Hanoi takeover of Cambodia.[2] In short, future SRV–ASEAN relations are very uncertain and probably won't be clarified until after Vietnam consolidates its position in Cambodia. A key indicator will be Vietnam's actions toward Thailand.

[2] In September 1978, SRV Premier Pham Van Dong visited individual ASEAN countries and offered each a bilateral peace and friendship treaty.

(3) Growing unity of the ASEAN states.—Since the end of the Vietnam War, a pattern of growing unity among the ASEAN states has emerged. Internal economic cooperation is very limited but growing. Five industrial projects have been agreed upon, one for each country, although it now appears that only two of the projects (fertilizer plants in Malaysia and Indonesia) are certain to be implemented. ASEAN has also set tariff cuts on over 1,000 items in intra-ASEAN trade, and member countries have agreed on common sharing of oil and rice in emergency situations.

The organization has forged a united front in dealing with the Western industrial countries on economic issues. Since the summer of 1977, the ASEAN states put several proposals before the United States and Japan intended to secure:

(*a*) The establishment of a "STABEX" scheme to stabilize the export earnings of ASEAN states, through loans by the United States and Japan.

(*b*) United States and Japanese financial support for the five ASEAN industrial projects.

(*c*) Continued United States and Japanese Government backing for private investment in ASEAN countries.

(*d*) Greater opportunities for ASEAN products to enter the United States and Japanese markets.

Diplomatically, the ASEAN states have maintained a single position in reacting to the strong overtures for support from China, Vietnam, and increasingly, the Soviet Union. ASEAN policy is one of equidistance between the contending Communist powers, but this growing pressure to take sides is a major test of ASEAN unity. A key question is whether or not the Vietnamese overthrow of the Pol Pot regime will prompt Thailand to abandon equidistance and adopt a pro-China stance.

Security cooperation among the member states has increased considerably since 1975, although not within the formal ASEAN structure, since ASEAN is not a military alliance. Cooperation has grown in four areas: Exchange of intelligence, regularized meetings of military staffs, combined training exercises, and joint operations against smugglers and Communist insurgents.

Thailand's ability to cope with its security problems will probably be the main determinant of future defense cooperation among the ASEAN states. In reality, the other four ASEAN states do not possess the military and economic strength to assist substantially Thailand's defense or counterinsurgency efforts. If Thailand proves able to keep its diffculties with Communist Indochina under control and contain the insurgency, security cooperation among the member states probably will remain limited. However, should these threats grow to the point of challenging the Thai Government for control of the country, the other ASEAN states are likely to react with new and more extensive security measures.

ASEAN unity in the future is by no means assured. Economic cooperation remains limited, and differences exist over how fast to proceed. Ethnic and border disputes have been laid aside, but they could resurface. Fundamentally, the Indonesia-Malaysia axis (including Singapore by reason of geography and its small size) is the most secure relationship in ASEAN. The association of Thailand and the Philippines with the other three members may be more susceptible to change, given Thailand's position as the "frontline" state facing Indochina, the Philippines offshore geographic position, and latent territorial and religious problems between the Philippines and Malaysia. In short, the five states face a continuing challenge in preserving and expanding their present unity.

Internally, in recent years, there has been general economic improvement in all the ASEAN countries and political stability in all except Thailand. On the average, the five countries are maintaining an economic growth rate of about 7 percent per annum, which is among the highest in the world for any regional group of countries. However, they still face serious challenges in alleviating economic problems such as unemployment, food shortages, substandard health and education, overpopulation, rural-urban economic disparities, and generally weak private business activity. They are still struggling to establish viable and effective political and government institutions and armed forces. ASEAN leaders believe that these conditions, if unrelieved, could breed future political instability and heightened insurgencies as well as opportunities for great power meddling.

The Other Great Powers Dimension

The most pronounced change since 1975 has been the intensification of the Sino-Soviet rivalry. China's main policy objective in Southeast Asia is to counter Soviet penetration, and it views a strong ASEAN as important to this goal. Accordingly, it has moved toward closer state-to-state relations with the ASEAN countries, supports ASEAN as a regional bloc, and has reduced (but not ended) its support for Communist insurgencies. China would like ASEAN to become more anti-Vietnam, anti-Soviet, and establish greater defense cooperation. The ASEAN countries have welcomed improved relations with China, but they remain apprehensive over Peking's ties with insurgent groups, its claims to extensive areas of the South China Sea Basin, and its ambiguous policy toward overseas Chinese minorities in Southeast Asia.

China also holds that the United States and Japan are factors in checking Soviet influence. The People's Republic of China now favors a U.S. military presence in the region, and it has urged greater U.S. support for the ASEAN states. It also does not oppose an expanded Japanese economic role.

China supported Cambodia in its conflict with Vietnam and now views Hanoi as a firm ally of the Soviet Union. China's attack on Vietnam may have had several motives: restore Chinese prestige in Asia in relation to the U.S.S.R., warn Vietnam against further aggression in the region and closer cooperation with the Soviet Union, and begin a long-range campaign of pressure on Vietnam's northern border in order to tie down Vietnamese troops that could be sent to Cambodia or elsewhere. With Vietnam's takeover of Cambodia, Peking will probably reassess its position in Thailand and the other ASEAN states. In particular, the new situation may create strains in China's effort to consolidate its ties with both the Thai Government and the Thai Communist insurgency (which has a pro-People's Republic of China leadership but also elements more sympathetic to Vietnam and the U.S.S.R.).

Major Soviet goals in Southeast Asia appear to be: (1) The reduction of American influence and elimination of the U.S. military presence; (2) prevention of Chinese hegemony over the region; and (3) the development of a pro-Soviet bloc of Southeast Asian states. Since the end of the Vietnam war, Soviet relations with Vietnam have remained close on all three levels of contact (government, party, and armed forces).

In June 1978, Vietnam joined the Council for Mutual Economic Assistance, the Soviet-sponsored economic bloc of Communist countries. In November, the U.S.S.R. and Vietnam signed a friendship and cooperation treaty which contains a pledge of mutual assistance in case either signatory is attacked by a third country. As of December 1978, there were 4,000 Soviet military advisers in Vietnam and perhaps as many as 4,000 in Laos.[3] The Soviet Union has provided the Socialist Republic of Vietnam with large quantities of arms, especially during the latter part of 1978 in support of Vietnam's intensified military pressure against Cambodia. Moscow reportedly urged Vietnam to launch a Czechoslovakia-type invasion of Cambodia.[4] It has also sought and obtained the use of facilities at Camrahn Bay and elsewhere for the Soviet Pacific Fleet and aircraft.

In response to the Chinese attack on Vietnam, the Soviet Union did not directly intervene, but it threatened intervention if China carried the invasion too far. It sent naval vessels into the South China Sea and speeded arms shipments to Vietnam.

Elsewhere in the region, the U.S.S.R. has only tenuous ties with other Communist movements despite its interest in establishing closer relations. It reportedly has supplied some arms and money to Thai Communist insurgents.

Moscow has had limited results in its efforts to promote aid and trade with ASEAN countries. In this respect, it has shown particular interest in the Philippines, including offers in 1978 to provide arms and a nuclear plant to that nation at a time when the Philippines Government had shown displeasure over U.S. policies in these areas. In parallel with Vietnam, the Soviet Union recently has moderated its critical view of ASEAN, but the member states are suspicious of Russian motives. In short, today the Soviet role in Southeast Asia is tied almost exclusively to Vietnamese policy.

The Government of Japan's decision to undertake a more activist policy toward ASEAN stems from three factors: The growing strategic and economic importance of Southeast Asia to Japan, the Japanese perception of a declining American presence and interest in the region, and a new assertiveness and self-confidence in Japanese policy itself. In line with its general policy of no military involvement beyond its borders, Japan has emphasized an expanded economic role, and it is already the major trading partner and source of new private investment for the ASEAN countries. Japan has also shown a growing in-

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[3] "Split Between Cambodia and Vietnam Goes Back Long Before Communism." Asian Wall Street Journal. Nov. 25, 1978. Mathews, Linda. "Hanoi Girding for Offensive Into Cambodia." Los Angeles Times, Oct. 5, 1978. Bangkok Post, Dec. 2, 1978.

[4] Chanda, Nayan, "Peking Escalates the War of Nerves." Far Eastern Economic Review, Mar. 17, 1978: 10–11. Terzani, Tiziano. "Behind the Lines in Third Indochina War," Asian Wall Street Journal. May 23, 1978. Chanda, Nayan, "The Timetable for Takeover," Far Eastern Economic Review, Feb. 23, 1979: 33.

terest in regional stability and concern over the situation in Indochina and the ties between Vietnam and the Soviet Union, including Soviet use of bases.

In weighing ASEAN's economic proposals, the Japanese Government has felt constrained by its reluctance to work through a regional group as opposed to existing international mechanisms, the demands of the domestic economy, and policy disagreements within its own political and administrative leadership. Japanese policy has been to: (1) Expand assistance to the ASEAN states and agree to aid the five industrial projects if proven feasible; (2) reject special tariff reductions for ASEAN but consider increasing the number of ASEAN export items under the general system of preferences; (3) reject an immediate STABEX plan but consider it as a future option; (4) reaffirm government support for Japanese private investment in member countries; and (5) increase cultural exchanges. The two sides have accomplished little on the trade issues, and this is a source of unhappiness on ASEAN's part. Pressures on Japan from the United States and the European Economic Community on trade and new trade opportunities in China may further distract it from responding.

Japan does not see itself as replacing the United States in Southeast Asia. Japanese officials favor a strong American economic role in the ASEAN states. Prime Minister Fukuda stated in Manila, in August 1977, that there should be no change in the U.S. presence in Southeast Asia,[5] and Japanese officials stress—mainly in private conversations—the importance of U.S. bases remaining in the Philippines. The Government of Japan considers as important to Japanese security the U.S. Navy's missions of protecting sea lines of communication in the Indian Ocean and the South China Sea and maintaining a naval presence in the waters around Japan. The new Ohira administration has retained these views.

The U.S. Dimension

The U.S. dimension of a changing Southeast Asia features a general continuity of political and economic objectives transcending the Vietnam war period into the postwar era. The Vietnam experience, however, has altered certain military objectives, enhanced the importance of human rights, and has resulted in major changes in, and uncertainty with regard to, the use of policy instruments.

Major U.S. political objectives with respect to Southeast Asia are:

(1) *Maintenance of a balance of great power involvement.*—This objective is an umbrella for other political, military, and economic goals. It currently has two aspects: U.S. involvement to correspond with or offset the involvement of the other powers, and a balanced use of political, economic, and military instruments with a shift from the direct military role of the Vietnam war years to less direct military instruments.

(2) *Preservation of Japan's orientation to the United States.*—With the rise of Japanese economic power in the 1960's, this has become a high American priority throughout East Asia. U.S. strategy to maintain that relationship concentrates on Northeast Asia, where Japan's essential security interests lie. Nevertheless, the American role in

[5] Tasker, Rodney. The Balance Sheet. Far Eastern Economic Review, Sept. 2, 1977: 14.

Southeast Asia has become significant because of Japan's dependence on oil from the Persian Gulf and Indonesia, the geographical location of Southeast Asia straddling sea lines of communication (SLOC's) from the Persian Gulf to Japan, the growth of the Soviet Pacific Fleet, and the extensive Japanese economic interests in the region and adjacent Australia.

(3) *Security and stability for the non-Communist countries of Southeast Asia.*—ASEAN is now central to this goal, and stated American policy is to support the growth and unity of the organization. The Carter administration has emphasized economic instruments as the most appropriate form of support. A strong ASEAN oriented toward the West is considered important to the realization of several economic and military objectives (see below). It is pointed out that ASEAN represents a moderate force within the "Third World" and that it follows economic policies generally in line with "western" theories of development. On the other hand, both inside and outside the Carter administration, there are individuals who question whether ASEAN will be able to retain its unity. ASEAN countries, too, are viewed by some as allowing too much corruption and inefficiency in their economic affairs, fostering a very unequal distribution of the benefits of development, and extensively restricting human rights. As a result, some question their stability and economic prospects and fear massive upheavals may someday take place.

(4) *A stronger Japanese role in supporting the ASEAN countries.*—This objective has emerged in the post-Vietnam war period and is intended, in part, to compensate for reduced American involvement. The emphasis is on Japanese economic support, which the Carter administration views as the most appropriate contribution Japan can make to stability in the ASEAN countries.

(5) *Democratic political development.*—A controversial goal arising from the Vietnam War debate, it is embodied in President Carter's human rights policy. ASEAN countries have been targets of the administration's human rights initiatives and of congressional investigations of human rights conditions overseas.

(6) *Normalization of relations with Vietnam.*—The administration has not spelled out a complete rationale for this goal; but it appears to be that normalization would help the United States to influence Vietnam to adopt less hostile policies toward its regional neighbors and lessen its ties with the Soviet Union. The administration has downgraded the priority of normalization in the aftermath of Vietnam's invasion of Cambodia.

Major U.S. economic objectives are:

(1) *Access to resources and markets.*—It is generally accepted that Southeast Asia has some economic importance to the United States as a source of energy and raw materials and as a market for American exports, although economic access is not vital to this country.

(2) *Development.*—Aid programs have been the principal U.S. instrument to promote economic development in the ASEAN states. Since the late 1960's, aid strategy has changed from emphasis on infrastructure-related projects and commodity import programs to priority for "basic human needs" programs in education, health, population control, and food production. Aid to Thailand has been sharply reduced. Partly as a result of the changes, trade and foreign private

investment have replaced aid as the main vehicles for overall development. However, economic conditions in the United States have produced domestic opposition to the encouragement of American private investment in Asian countries and the opening up of U.S. markets to the products of Asian countries. Since the 1974–75 period, the rate of new U.S. investment in ASEAN countries has declined.

Major military objectives are:

(1) *Avoid combat involvement on the Southeast Asian mainland and ground combat involvement throughout the region.*—Based originally on the Nixon doctrine, the American body politic strongly supports this goal in the post-Vietnam war period. The United States has withdrawn forces from Vietnam and Thailand, and American military power is now concentrated offshore in Subic Bay Naval Base and Clark Air Force Base in the Philippines.

(2) *Containment and defeat of Communist insurgencies in ASEAN countries.*—In view of the preceding objective, security assistance and training may well be the maximum supportive instruments acceptable to the American body politic in helping ASEAN governments. In recent years, security assistance to Thailand has been cut substantially, but there have been increases in arms transfers to Indonesia and Malaysia. Military assistance advisory groups have been reduced in size or eliminated.

(3) *Access to the passages between the Pacific and Indian Oceans and protection of Japan's sea lines of communication.*—This objective focuses on sea routes from the Middle East oil countries to Japan through the straits in the Malaysia-Singapore-Indonesia area.

From the perspective of ASEAN governments, there is uncertainty over the future American role in Southeast Asia. They are apprehensive over the progressive pattern in U.S. troop withdrawals from Vietnam and Thailand, reductions in the strength of the 7th Fleet, the policy of removing ground forces from South Korea, the current debate over the retention of bases in the Philippines, reductions in military and economic aid to Thailand, and reductions and removals of military assistance advisory groups. They have also perceived as part of this pattern the growth of protectionist sentiment in the United States toward imports from Asia, the decline in the level of new American private investment in ASEAN countries after 1975, and actions by Congress to reduce security assistance and terminate military assistance advisory groups overseas.

In varying degrees, the ASEAN governments view a continued American role in Southeast Asia as important to their attempts to deal with the issues facing them. U.S. arms are valued as strengthening their defense capabilities in relation to Vietnam and the insurgencies. Officials of Indonesia, Singapore, Thailand, and Malaysia desire a continued U.S. base presence in the Philippines at least until a genuine neutralization of Southeast Asia is accomplished.[6]

It is held that an American military presence will help deter or counter any projection of Soviet or Chinese military power into the region. More important today, the bases are seen as the chief

[6] Malaysia originally proposed a Southeast Asian zone of "peace, freedom, and neutrality" or ZOPFAN; and ASEAN endorsed it in 1971. Little has come of it because of the Vietnam war, subsequent Vietnam-ASEAN hostility, Vietnamese attacks on the proposal, the ambivalent attitude of the major powers toward it, and differing interpretatitons among the ASEAN states themselves over the proposal's meaning. Recently, as China, Vietnam, and the Soviet Union have emphasized a desire for improved relations with non-Communist Southeast Asia, there has been more public comment favorable to the proposal. Its prospects, however, are still very uncertain.

visible symbol of the willingness of the United States to remain involved in Southeast Asia. American economic aid, trade, and private investment are thought to be very important to the growth of ASEAN export-oriented economies. Finally, a strong American role is believed to enhance the ability of the five governments to deal with the growing pressures placed on them by Moscow, Peking, and Hanoi to take sides in the Sino-Soviet dispute.

Another area of uncertainty involves U.S. perceptions of the extent to which the United States and China have parallel interests in Southeast Asia. It is generally acknowledged that the two powers have some common objectives, but the Carter administration appears undecided and perhaps divided over China's proper role in dealing with Vietnam. After May 1978, the administration took a number of actions that appeared to encourage China to escalate its pressure against Vietnam. After Peking attacked, the administration seemed to link a Chinese withdrawal to a Vietnamese pullout from Cambodia. However, it then switched to pressuring China to withdraw unilaterally. Subsequently, U.S. officials emphasized a policy of non-involvement in conflicts among Asian communist states.

Issue Outcomes and Consequences

Since 1973, U.S. policy toward Southeast Asia has been dominated by the effects of the Vietnam war; and, as described earlier, the results have been a declining American presence and also a general feeling that the American body politic would countenance no substantial U.S. involvement in the region. However, a number of factors and forces have emerged which have slowed U.S. disengagement. The escalating Sino-Soviet rivalry has enhanced Southeast Asia's role in great power relationships. China and Japan have joined the ASEAN states in pressuring the United States to remain involved. The importance of sea lines of communication through Southeast Asia has gained recognition in this country because of the energy crisis and Japan's interest in the security of these routes. There is also a new awareness that the United States faces a security problem in the expansion of Soviet naval and air power in the Western Pacific. The Soviet role in Southeast Asia is increasingly viewed in this context.

Today, the human rights issue is less a source of tension between the United States and ASEAN countries, except perhaps for the Philippines. Problems and sources of contention remain, but the trends over the last 2 years (releases of large numbers of political prisoners and some improvements in freedom of the press and opposition party political activities) have given Carter administration officials a somewhat more favorable view of the ASEAN states then they had early in 1977.

In a sense, American policy in Southeast Asia is at a crossroad. Its future direction will be determined by developments within the region, the state of the U.S. economy, and the balance between the post-Vietnam war pressures to disengage and those factors pushing the United States to remain involved. The following is an assessment of alternative outcomes of U.S. policy toward ASEAN, the probable conditions necessary for the realization of each, and the likely impact.

(1) A stable U.S.-ASEAN relationship based on a limited American military role and present economic relations.—A continuation of this

relationship would probably depend upon no sudden changes in the current situation either in the region or in the United States. The following conditions would undoubtedly be important: stability in the balance between ASEAN and Indochina or some loosening of the Soviet-Vietnam connection; Improved United States-Vietnam relations, continued ASEAN unity; internal political stability in the member states and a trend toward improvement in human rights conditions (or at least no sharp reversal of present trends); American retention of bases in the Philippines; further development of Japan-ASEAN economic relations; and stability or improvement in U.S. domestic economic conditions.

For the United States, the major result of this alternative outcome would be to enhance the economic dimension of United States-ASEAN relations. Trade and investment issues would increasingly dominate United States-ASEAN diplomacy. Economic instruments would grow in importance in supporting American policy objectives; and the United States would likely persist in seeking an expanded Japanese economic role in the ASEAN countries. Predominant Western economic influence in the ASEAN states would probably continue to shift from the United States to Japan. The continued American role in Southeast Asia would be a stabilizing factor in United States-Japan relations.

(2) Military withdrawal from the Philippines.—U.S. withdrawal from Subic and Clark bases could be based upon developments outside of the Southeast Asian region, since the bases support the operations of U.S. forces in the Indian Ocean and Northeast Asia. With regard to Southeast Asia, the most likely conditions would be a continued desire within the American body politic to withdraw militarily from the region (or a reconsideration by the administration of its pro-bases policy), a heightening of United States-Phillippines tensions over the human rights question, or failure by Congress to approve the new bases agreement, which was signed on January 7, 1979, or approve the aid funds to the Philippines connected with the agreement.

Militarily, the loss of the bases, especially Subic, would severely restrict the ability of the Seventh Fleet to conduct operations in the Indian Ocean. It would also affect logistical support for naval missions in the Western Pacific.[7] No single alternative base could adequately replace the Philippines installations, particularly Subic. Most missions in Northeast Asia could be conducted from expanded facilities in Japan, the existing U.S. base at Apra Harbor, Guam, and bases not yet built in the Northern Marianas (Saipan and Tinian). Without large numbers of replenishment ships, new naval installations southwest of the Philippines would be required to support the current level of 7th fleet operations in the South China Sea and Indian Ocean. In terms of geography and existing facilities, Singapore provides the best alternative for Subic followed by Penang, Malaysia, and Surabaya, Indonesia. A Filipino-operated Subic facility conceivably could serve in combination with Singapore or one of the others. For nearly all of these alternatives, a considerable amount of money, extensive planning, negotiations, and time would be required before they could be realized.

With respect to the ASEAN states, Japan, other non-Communist Asian states, and, to a degree, even China, the political consequences

[7] Subic provides general logistic support to the 7th Fleet, including 65 percent of the fleet's repair work. The fleet's primary communications network is also located in the Philippines.

of withdrawal probably would depend in part on the manner in which it was carried out. A precipitate termination of the bases would shake confidence in U.S. reliability and could influence these countries to reassess their own policies. On the other hand, such a reaction might not result if the United States carefully implemented withdrawal through advanced consultations with allies and friends and arrangements for alternative bases. With regard to U.S.-ASEAN relations, termination of the bases could further enhance the importance of economic instruments in American policy as well as security assistance and military training programs.

(3) *General American disengagement from Southeast Asia.*—This alternative would involve an end to military involvement and a lowered economic role. Militarily, its basic elements would likely be withdrawal from bases in the Philippines; sharply lowered 7th Fleet operations in Southeast Asian waters and reduction or termination of security assistance to ASEAN countries. It could also include abrogation of the Southeast Asia Collective Defense Treaty and the United States-Philippines Mutual Defense Treaty. Economic disengagement would encompass further restrictions on the import of key products from ASEAN countries, disincentives for American private business investment in the region, and reductions in the flow of aid and Export-Import Bank loan funds. Aside from Government actions, private sector decisions affecting trade and investment could have a similar impact.

General disengagement would probably be influenced by a continued view within the American body politic that additional military withdrawal from Asia was in the national interest. In Southeast Asia, there could occur a breakdown of ASEAN unity, worsening human rights conditions in the member states and a critical American response; political and social instability in the five countries, and the rise of anti-American nationalism. In the United States, contributing factors would include domestic political shifts and worsening economic conditions, especially a serious recession, leading to protectionist pressures affecting trade and investment or to a general decline in demand for consumer goods, including imports from Southeast Asia.

Militarily, general disengagement would end any probability of direct or indirect U.S. involvement in another Southeast Asian conflict. It would contract the American security presence in the Western Pacific to Japan and possibly Korea. The alternative would leave Japan's sea lines of communications vulnerable in the Indian Ocean and South China Sea; and it might create pressures in Japan to expand naval patrolling south toward the straits with ramifications for future Japanese defense policy.

Politically, general disengagement would undoubtedly have a negative impact on the United States-Japan alliance for the reasons indicated above. China would also consider it as destabilizing and as opening the way for further Soviet penetration into Southeast Asia. Both would see it as a major change in the balance of power in the Western Pacific, and they would probably react by reassessing their own policies and roles. China would likely feel pressure to abandon its ambiguous position between ASEAN governments and Communist insurgencies (an ambiguity which the U.S. presence helps China to maintain) and make a more clear cut choice between them in order to consolidate its position in the region. Very likely, the Soviet Union would view U.S. disengagement as presenting opportunities for greater initiatives. United States-Vietnam relations could become less hostile, but the impact on SRV–ASEAN relations is less certain.

The ASEAN states would no longer perceive the United States as a main source of support and as an integral part of the power configuration in Southeast Asia. In response, ASEAN states could close ranks, increase security cooperation, negotiate with one of the other major powers—probably Japan along with Australia—for greater support, and press for acceptance of ZOPFAN. As a second possibility, ASEAN could disintegrate with each member state attempting to reach accommodations with or secure support from the other major powers, Vietnam, and Australia. Economically, a sharply diminished American role would force the ASEAN countries to review their economic policies, and the result could be a trend toward autarchic policies based on reduced goals for growth.

(4) *An enlarged United States-ASEAN economic relationship.*—This would be based on American acceptance of the major economic proposals made by ASEAN in recent negotiations (see "The Role of the United States in Issue Resolution" below) plus added incentives for American private investment and expanded aid programs. Necessary conditions for this outcome would likely be: a general reassessment by the executive branch of the importance of Southeast Asia in U.S. foreign policy and a change in the general strategy dealing with "North-South" economic issues; improved economic conditions in the United States which reduced protectionist sentiment; continued ASEAN unity; and possibly prior action by Japan in negotiating new arrangements with ASEAN on the basis of the organization's proposals.

The alternative would solidify United States-ASEAN relations and could, over the long term, contribute to the member states' economic development. It would be welcomed by Japan and probably China. Vietnam, however, might oppose it, which would worsen ASEAN relations with both Hanoi and Moscow.

For the United States, acceptance of a STABEX arrangement and changes in the U.S. General System of Preferences (GSP) to allow for increased imports from ASEAN countries would signal a shift from a strategy of dealing with "North-South" economic issues on a global basis to one of negotiating with regional groupings. This could influence the current North-South dialog and bring about pressures on the United States from other "Third World" regional groups for special economic relationships.

(5) *Increased U.S. support for Thailand.*—The United States would seek to help strengthen the Thailand Government politically, promote a rise in the economic livelihood of Thai rural inhabitants (Thailand's fundamental economic and social problem), and help to improve the combat capabilities of the Thai armed forces. The basic elements of the policy would be: More emphasis given to Thailand by higher levels of the U.S. Government and more direct communication between the upper echelons of the two governments; an increased flow of aid resources into the Thai rural areas (reversing the post-1973 trend toward lower aid levels); a concerted effort to influence Thai economic policies, particularly those policies that affect the distri-

bution of national wealth between the cities and the countryside; and increased security assistance and training for the Thai armed forces. Additional military support would not involve U.S. combat troops in Thailand. Stepped up training programs could be conducted mainly in the United States or perhaps elsewhere in Southeast Asia. The number of U.S. military personnel in Thailand to administer the security assistance program would have to be increased above the March 1979 level of 35.

Conditions leading to such an alternative would likely be: Vietnamese domination of Cambodia followed by an escalation of SRV hostility toward Thailand, stepped up Vietnamese and Soviet material aid to Thai Communist insurgents, and a shift by the Thai Communist Party away from its present pro-China orientation toward a closer association with Vietnam. Japan, the other ASEAN states, and China might pressure the United States to increase support. The United States would decide not to depend on China exclusively to balance Vietnam and the Soviet Union in mainland Southeast Asia and that there was little it could do to influence Vietnam to adopt a more moderate policy or lessen its cooperation with the Soviet Union. One other requirement would be a U.S. assessment that the existing Thai Government offered a reasonable promise of stability and effectiveness in governing.

Adoption of this alternative could produce new fears in the American body politic of another military involvement in Southeast Asia. Unless the policy delineated the limits of military support, domestic opposition could prevent its implementation. In this respect, cooperation between the administration and Congress would be essential.

Within Southeast Asia, increased U.S. support for Thailand would escalate the involvement of the major powers, especially the Soviet-American rivalry. It would probably influence the Thai Government to strengthen its ties with the other ASEAN countries. China would likely welcome such a U.S. role as important in checking the Soviet Union and Vietnam. Increased U.S. support could contribute to political stability in Thailand, but it is uncertain whether American influence would outweigh the deep divisions among and between Thai military and civilan factions, which have produced the frequent changes of government over the last decade.

(6) Assertion of a U.S. security role in the Malaysia-Singapore-Indonesia region.—This alternative would be based upon a trend in U.S. security policy that began in the early 1970's (see following section "The Role of the United States in Issue Resolution"). The United States would render greater assistance to the anti-insurgent and defense efforts of these countries in order to keep the Malay Peninsula and Indonesian Archipelago in friendly hands. This would include: Expanded U.S. arms sales and training with emphasis on increasing the mobility and logistics capabilities of the Indonesian army and general naval capabilities of the recipients; initiation of direct economic aid programs in Malaysia and more economic aid to Indonesia; encouragement of a larger Australian-New Zealand military role under the Five Power Defense Arrangement between these states and Malaysia and Singapore; and a stepped up 7th Fleet presence in the area of the straits and the Gulf of Siam. The deployment of U.S. military advisers within these countries appears a less likely

element, though it could not be ruled out. A commitment of U.S. ground combat forces seems improbable, given political, local manpower, and geographical factors.

Realization of this alternative would probably depend on a lessening of the U.S. domestic opposition to any form of security involvement in Southeast Asia; greater use of Singapore facilities by U.S. military forces; continued effectiveness by Malaysia in its counterinsurgency programs; a continuation of generally favorable human rights conditions in Malaysia and Singapore and sustained improvement in Indonesia; and Indonesia remaining an important source of U.S. energy imports. Impetus for a reassertion of a U.S. security role would probably come from major changes in the configuration of power in Southeast Asia, particularly the Vietnamese takeover of Cambo dia followed by instability in Thailand and a reescalation of Thai-Vietnam ASEAN-Vietnam tensions. An expanded Communist threat or a Communist takeover in Thailand would be a major force, and an enlarged Soviet naval presence in Southeast Asian waters could act as an added influence.

This alternative outcome would reverse the board trends in U.S. policy toward Southeast Asia in the post-Vietnam war period. It would increase the possibility of some form of American military involvement in a future conflict between Communist and non-Communist elements, though probably not a direct ground combat role. Reactions to this alternative within the region, by Japan and China, and within the United States would depend partly on the circumstances behind it. Generally, it would more likely be accepted or supported if it were viewed as a clear reaction to a Vietnamese-Soviet effort to expand their power by undermining neighboring governments. It undoubtedly would receive less support if it were perceived as related primarily to local conditions in Malaysia, Singapore, or Indonesia. In the latter case, China might oppose the United States, given its continued links to Communist movements in these countries.

Role of the United States in Issue Resolution

The United States is actively involved in a number of issues, emphasizing economic and human rights issues and a limited security role. The principal ones are the U.S.-ASEAN dialog over economic issues, encouragement for Japan to play a greater economic role in Southeast Asia, human rights policy, the Philippines base negotiations, security assistance and the general security role, and relations with Vietnam.

(1) The U.S.-ASEAN dialog.—Two ministerial conferences have been held between ASEAN and the United States since September 1977. They have focused primarily on a number of ASEAN proposals aimed at changes in the economic relationship. Specifically, ASEAN has proposed:

(*a*) That the United States support the ASEAN STABEX proposal.

(*b*) That the United States provide financial aid for the industrial projects, possibly matching the Japanese offer of $1 billion.

(*c*) That the United States liberalize its general system of preferences for a list of specific commodities submitted by ASEAN.

(*d*) That the United States not change present legislation that prohibits taxation of the overseas earnings of American companies until that income is repatriated to the United States.

(*e*) That U.S. law be revised to allow Indonesia to qualify for the general system of preferences (GSP) in trade.

Generally, the U.S. response has been negative. The administration has rejected STABEX in favor of continued efforts in the globally based "North-South" negotiations. It has responded that U.S. foreign aid legislation prohibits U.S. aid to the industrial projects. On tax deferral, President Carter proposed legislation to Congress that would end tax deferral in 3 years. The administration's position has hardened against making tariff concessions on tropical products beneficial to ASEAN, and the administration is reluctant to propose amendments to the 1974 Trade Act to make Indonesia eligible for GSP.

In order to compensate for this reaction, the administration has pledged to work in the North-South negotiations for the establishment of a common fund, which is intended to help stabilize the prices of certain commodities exported by developing countries. It has also offered to expand certain existing American economic programs in the ASEAN region, including Export-Import Bank loans and investment promotion programs of the Overseas Private Investment Corporation. These actions have been enough to encourage continuation of the dialog, but the results of the conferences have dampened ASEAN hopes that U.S.-ASEAN economic relations would broaden in scope.

(2) Encouragement of a greater Japanese economic role in ASEAN.—The Carter administration has encouraged this, particularly at the two Carter-Fukuda summit conferences. However, it apparently wants Japan to deal with ASEAN within the existing framework of North-South economic relations, and the State Department specifically opposes Japanese involvement in a STABEX scheme.[8]

(3) Human rights.—Carter administration initiatives on human rights have sought to influence the ASEAN states toward greater political openness. Discussions with State Department officials indicate that many of them are especially unhappy about human rights in the Philippines. In all three areas of human rights concern (integrity of person, basic human needs, and political and civil liberties), conditions and trends in the other four countries are believed to be more positive than in the Philippines. Indonesia ranks next as an area of concern followed by Thailand.

In discussions with leaders of these countries, administration officials have stressed the issue of political prisoners. They appear to have placed less emphasis on the question of democratic political development (i.e., free elections, the role of opposition parties, and freedom of the press). They apparently have avoided the problem of rights for religious and ethnic minorities in such cases as the Indonesian annexation of Timor and the Muslim insurgency in the southern Philippines. Moreover, the administration generally opposes suspending economic or military aid as a method of pressuring ASEAN states on human rights. Proposals for such action have been the source of conflict in the State Department between human rights

[8] Yano, Toru. U.S. Intertia and the High Expectations of Japan. Far Eastern Economic Review, Mar. 10, 1978: 40. Executive branch officials who deal with ASEAN affairs have confirmed this to the author.

officials, who often favor such a strategy, and region/country officials who generally oppose it. Finally, among some ASEAN country officials, the administration's attentiveness to the human rights situation in non-Communist Southeast Asia is contrasted with the belated and low-keyed recognition of the reported mass killings in Cambodia and sweeping violations of political and civil liberties in Vietnam and Laos.

Another element of uncertainty concerns President Carter's suggestion that U.S. policy toward Southeast Asia would give special consideration to the needs of democratically governed states. Contrary to expectations within the Malaysian Government, the administration has not followed up with concrete policy initiatives the President's statement of September 27, 1977, that "our first responsibility" would be to democratic countries like Malaysia. Comments by State Department officials indicate that some, inconclusive debate has taken place within the Department over whether or not to provide incentives or rewards to countries with good or improving human rights conditions.

(4) *Philippines bases negotiations.*—During the first half of 1977, the Carter administration considered whether or not to retain U.S. bases in the Philippines.[9] Secretary of Defense Harold Brown announced in July 1977 that the administration would seek a new bases agreement with the Philippines. Negotiations ensued which culminated in a new agreement on January 7, 1979. It provides for United States use of the installations until at least 1983 and contains clauses relating to military and economic aid to the Philippines, Filipino sovereignty over the bases, and Filipino commanders for each base. Moreover, President Carter promised U.S. compensation of $500 million in security assistance and economic assistance during fiscal years 1980–84.

(5) *Security assistance and the security role.*—As stated previously, the dominant trend in the U.S. security role has been a military withdrawal from mainland Southeast Asia to an offshore position based in the Philippines and cuts in security assistance to Thailand (from $123 million in fiscal year 1972 to $30 million in fiscal year 1979). In response to Vietnam's invasion of Cambodia, President Carter restored $6 million that had been cut in the fiscal year 1980 budget, and he promised that the United States would speed delivery of weapons to Thailand that were on order. However, the administration has made no commitment of new economic assistance or increased training of Thai military personnel.

A little noticed development has been a growth in security-related activities in the Malaysia-Singapore-Indonesia region. Since the early 1970's, the United States has begun an important security assistance program to Malaysia and has become a commercial supplier of arms to Singapore.[10] The 7th Fleet has initiated regular patrols through the

[9] For reports of the debate over the bases, see Wall Street Journal, Mar. 10, 1977. Washington Post/Parade magazine, Apr. 17, 1977: 4. Barber, Stephen. What Price Manila's Strategic Bases? Far Eastern Economic Review, Apr. 22, 1977. Executive branch officials knowledgeable on this issue have told the author that upon entering the State Department, many of the new Carter appointees questioned the need to retain Subic and Clark.

[10] From fiscal year 1962 through 1971, U.S. military assistance to Malaysia totaled $18.9 million with $11.8 million of that total allocated in fiscal year 1967. From fiscal year 1972 through fiscal year 1978, security assistance (mainly under the foreign military sales financing and training programs) totaled approximately $118.5 million. Malaysia has also become an important purchaser of U.S. arms on a commercial basis: $93.3 million during fiscal years 1976–78. Singapore made a major purchase of U.S. arms in fiscal year 1977: about $120 million including 21 F–5E jets, and it has continued to purchase more modest amounts of weapons and equipment.

straits connecting the Pacific and Indian Oceans. In May 1978, it was disclosed that the U.S. Navy was using the Tengah military airfield at Singapore as a support facility for reconnaissance flights over the Indian Ocean.[11] It is doubtful that Singapore would have agreed to this without the acquiescence and understanding of Malaysia and Indonesia.

(6) *Relations with Vietnam.*—In response to overtures from Hanoi, the Carter administration reopened discussions with Vietnam in October 1978 concerning normalization of relations. Negotiations had been stalemated over Vietnam's demand for U.S. reconstruction aid as a precondition for normalization. U.S. officials now emphasize that the SRV has dropped this demand, but they have cautioned that the administration may delay normalization because of its unhappiness over the Vietnam-Soviet friendship treaty, Hanoi's invasion of Cambodia, and the heavy flow of refugees out of Vietnam. The administration suspended talks after Vietnam invaded Cambodia. It is now sensitive to possible Chinese reaction. ASEAN, too, will be interested. Peking and the ASEAN governments do not appear to oppose United States-Vietnam diplomatic relations, but they may be concerned over the timing of normalization in connection with the current tensions in Indochina. Moreover, they have indicated that large scale American or Japanese economic aid to Vietnam would not be in their respective interests.[12]

The Role of Congress

The role of Congress reinforces the limited nature of American policy in Southeast Asia and the restrained U.S. response to the ASEAN economic initiatives. In informal conversations during the second U.S.-ASEAN conference, officials of the ASEAN countries took particular note of the repeated occasions when the Carter administration claimed it could not act on key issues because of attitudes in Congress. Congress as a whole has shown little interest in the region since the end of the Vietnam War. Certain congressional actions have aimed at restricting the American role.[13]

Protectionist sentiment in Congress toward certain East Asian imports appears to have grown (or at least to have become more vocal) in the last year, giving some credibility to the administraton's warnings against tampering with legislation affecting the ASEAN economic proposals. Congress would have to amend foreign aid legislation to allow U.S. aid for ASEAN industrial projects. Congress controls the appropriation of funds for international financial institutions like the Asian Development Bank, and it would have to amend the 1974 Trade Act to make Indonesia eligible for U.S. GSP. Congress will decide the fate of the President's tax deferral proposal.[14] In other areas, Congress legislates security assistance and will have to approve or disapprove aid funds to the Philippines at the levels

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[11] Richardson, Michael, "U.S. Sub Spotters Win Singapore Assent." Far Eastern Economic Review, May 19, 1978: 10.

[12] For accounts of the PRC view, see: Oberdorfer, Don. Asia's Communist Powers—China and Vietnam—Now Woo U.S. Washington Post, Aug. 27, 1978; Li Hsien-nien Comments on SRV. Asahi Shimbun, Sept. 29, 1978. For the general ASEAN view, see: Kamm, Henry. Singapore Enjoying Incongruous Visits. New York Times, Nov. 7, 1978. Wanandi Jusuf. Politico-Security Dimensions of Southeast Asia. Asian Survey, Aug. 1977: 785.

[13] Attempts to cut security assistance to Thailand, Indonesia, and the Philippines; legislation on linking security and economic assistance to human rights performance, termination of Military Assistance Advisory Groups, and the "basic human needs" priority of foreign aid legislation.

[14] In 1978, Congress did not include the President's proposal in its tax legislation.

cited in connection with the bases agreement. Congressional legislation and oversight also influences U.S. policy on human rights; in particular, the hearings of the House Subcommittee on International Organizations have focused a great deal of attention on human rights conditions in ASEAN countries. Finally, the trips of several congressional delegations to Southeast Asia over the last 2 years have been important sources of information concerning the views of ASEAN governments.

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Middle East

THE U.S. ECONOMIC ROLE IN THE MIDDLE EAST AND NORTH AFRICA

(By John K. Cooley*)

Issue Definition

Probably never since the young American republic's early trade and conflicts with the Barbary states of North Africa has the area extending from the Atlantic coast of Morocco eastward to the Asian subcontinent been of such vital importance to the United States as in 1979. The realities are familiar, now almost truisms: U.S. energy supplies, despite encouraging new developments in Alaska and Mexico and better domestic supply prospects, depend increasingly upon Mideast sources. Events like the upheaval in Iran, the resulting world shortfall of Iranian oil, and the new uncertainties this has brought to the Arab States of the Persian Gulf oil reservoir, which supplies better than 60 percent of the West's energy needs, have an inescapable economic impact here.

The Carter administration's hopes that the Camp David agreements of September 1978 would begin an inexorable process leading toward peace and prosperity throughout the Mideast, with early benefits for U.S. business, trade and jobs, as well as for upwards of 200 million Arabs, Israelis, Iranians and others living in the Mideast, have at this writing proven vain. Though Egypt and Israel seem unlikely to go to war again, even if they do not implement the kind of peace outlined at Camp David, Israel continues its perennial financial dependence on the United States. In Egypt, President Sadat's 4-year-old economic opening to Western capital and investment carries with it the mixed blessing, for the United States, of Egypt's growing reliance, if not dependence, on Western and especially U.S. public and private funds for economic growth and for financial and even military support, with current U.S. annual government aid commitments to Egypt hovering around the billion-dollar mark. After the Arab oil States, especially Saudi Arabia, largely sustained Egypt's flagging, war-shattered economy following the Arab-Israel war of 1973, Egypt has begun to lean more on the West and somewhat less on the Arabs for this support.

Before the 96th Congress completes its work, it may face important decisions about the levels of U.S. aid of various kinds to Egypt, as well as to Israel and other central actors in the Mideast such as Iran,

*Christian Science Monitor.

whose once-prosperous oil economy has faltered and ground to a halt under the impact of the anti-Shah revolution. Syria, a relatively new and somewhat hesitant trading and investment partner of the United States, and the kingdom of Jordan, an old and important friend of the United States, which like Saudi Arabia has remained aloof from the Camp David effort, will also figure in the planning of U.S. economic policy. So will Lebanon, which has already received mainly humanitarian help following the devastation of its 1975–77 civil war, and the continued fighting caused by the confrontations of its Palestinian population with Israel to the South.

Though the details of the Iranian crisis are outside the scope of this chapter,[1] the possibility that the Soviet Union may seize the opportunities offered by this crisis to grab new sources of energy and secure older ones (such as the natural gas flow from Iran into the U.S.S.R. and the U.S.S.R.'s own deliveries to Eastern and Western Europe, which are tied to the Iranian ones), is another disquieting eventuality for U.S. planners.

After President Sadat's expulsion of the Soviets from Egypt in 1972, Soviet economic as well as political influence throughout much of the Arab world receded. However, excluded from the peacekeeping process ever since the abortive and now forgotten 2-day Geneva Peace Conference of December 1973, Soviets chose to "bypass" Egypt and its huge, impoverished southern ally-neighbor, the Sudan, by selling more than $1 billion in arms to Egypt's radical western Arab neighbor, Libya. The Libyan leader, Colonel Muammar al-Qaddafi, whose envoys have been seeking to improve Libya's image in the United States and lift U.S.-export restrictions to Libya, sits at the strategic heart of North Africa and controls formidable oil wealth.

To the south of the Nile Valley, the Soviets and their Cuban allies, flushed by their earlier victory in Angola have through a remarkable Soviet military airlift in 1977–78, and a parallel, well-coordinated politico-economic operation, established themselves in Ethiopia and on the Horn of Africa flanking the oil trade routes of the Red Sea and Indian Ocean. In 1978, the year in which the Shah of Iran's opponents vowed they would supply no more oil to South Africa or Israel (which has a 1975 commitment from the United States to make up its oil shortfall, if necessary), the Soviets scored two additional major diplomatic successes: 20-year Soviet alliance treaties were signed with both Ethiopia's Marxist regime to the south of the Persian Gulf oil reservoir, and a pro-Soviet government which seized power in Afghanistan, to the north of the reservoir, last May.

The U.S. administration and Congress also face the uncertainties of a fluctuating U.S. dollar, which had begun to decline again in early 1979 in Mideast and other world markets, following the brief rally after President Carter's protective measures announced in December 1978. There were new, if still fairly muted, calls from some OPEC members to replace the dollar as an exchange medium and pricing yardstick in international oil commerce with a new pricing unit, perhaps on a "basket" of hard currencies.[2]

Saudi Arabia's inability to continue imposing an oil price freeze in OPEC in 1979, and resulting phased 14.49 percent rise in OPEC

[1] See chapter, "The Future Role of Iran," p. 540.
[2] See chapters, "The Balance of Payments and Domestic Policies," p. 40; and "World Energy and the U.S. Economy," p. 98.

prices during 1979, as well as its disapproval of the Camp David experiment, brought calls from Israel's sympathizers in the United States to introduce legislation in the 96th Congress to reverse the Saudi portion of the three-way sale of combat aircraft to Israel, Egypt, and Saudi Arabia which the 95th Congress had approved after a bitter battle. An added complication by mid-January of 1979 was that Saudi Arabia, which the United States and Egypt had both expected to put up more than $600 million for Egypt's purchase of 150 Northrop F–5's, had still not done so. One motive for the Saudi refusal, which U.S. Defense Department officials were trying to remove through negotiation, was perhaps a desire to restrain President Sadat from signing any peace agreement with Israel which would not deal with the future of the West Bank, Gaza, and the Palestinians in a way satisfactory to Saudi Arabia and the other active Arab States.

Another result of the Camp David tentative agreement was Israeli wishes for U.S. compensation in the billion-dollar category for removing its settlements and military forces from Sinai, in case the agreement with Egypt is implemented. There was also a possibility that the growing budget deficit of the United Nations Works and Relief Agency for Palestine Refugees (UNWRA), which has already compelled the agency to shorten rations and curtail school and other essential services to over a million Palestinians in the Mideast refugee camps, would cause UNWRA to appeal to the United States to increase its own appropriated contributions to that agency.

Largely because of growing U.S. dependence on Mideast oil and the rising price of that oil, the U.S. trade deficit in 1977 reached a record $26.7 billion, of which $7.5 billion is attributed by the Department of Commerce to the imbalance of U.S. trade with the Near East and North Africa.[3] Figures are likely to be even higher for 1978 and 1979. To help offset this imbalance, strengthen the dollar, protect jobs and otherwise stimulate the U.S. economy, the Congress and various executive departments have reportedly encouraged U.S. export sales to "recycle" oil revenues from the major oil exporters, like Saudi Arabia. In those countries, the oil income finances massive development programs ($142 billion in Saudi Arabia's 1975–80 Development Plan) with an ever-growing demand for Western, especially United States, goods and services. As one U.S. trade official points out, the region lacks trained manpower and has limited industrial capacity and raw materials which must be imported, and "U.S. industry is highly qualified to respond to this demand for high-technology products and services."[4]

Congressional and other critics of the growing interdependence of the United States with Arab oil-based economies, especially those of Saudi Arabia, Kuwait, and the United Arab Emirates (UAE), believe that Arab investments in the U.S. economy, the ability of the oil-producing states to control the supply and price of oil, their massive purchases of U.S. goods and services and their growing political role, particularly that of Saudi Arabia, may overinfluence U.S. policy

[3] U.S. Department of Commerce. A Businessman's Guide to the Near East and North Africa. Washington: 1978 p. 1.
[4] W. Dean Moran, Deputy Assistant Secretary of Commerce for Export Development, in ibid., p. 111.

decisions.[5] The few critics of continuing major U.S. aid to Israel respond that this has created an earlier and more chronic imbalance in U.S. policy, also typified by the long and uncritical U.S. backing for the Shah of Iran, which the Congress and the executive branch ought to correct.[6]

In particular, U.S. Federal legislation to counter the Arab boycott of Israel will be a subject of attention by the 96th Congress. The export assistance amendments (EAA) are scheduled for renewal by the fall of 1979. U.S. executive departments, including Treasury, Commerce and Justice are called upon to make executive interpretations and rulings arising from the legislation, which is aimed primarily at preventing U.S. business from taking any part in the Arab boycott, which President Sadat's Arab foes have threatened to extend from Israel to Egypt if that country does finally sign and implement a purely bilateral peace with Israel. Some U.S. banks and firms doing business with the Middle East have criticized the EAA and other antiboycott rules as detrimental to U.S. interests and have filed suits charging that these are unconstitutional restraints of trade. However, Stanley J. Marcuss, Deputy Assistant Secretary of Commerce for Trade Regulation, who was responsible for drafting antiboycott regulations for Commerce as mandated by the Export Administration Amendments of 1977, has found that early predictions "that passage of the foreign boycott provisions of the Export Administration Amendments would cost thousands of U.S. jobs and severely damage United States-Arab trade have not materialized." On the contrary, since the passage of the law, there has been a significant increase in U.S. exports to the 14 Near East/North African boycotting countries, Mr. Marcuss told the International Trade Club of Chicago. "For the first 6 months of 1978," Mr. Marcuss reported, "U.S. sales to those countries totaled just under $4 billion, an increase of 10 percent over the same period last year. While it is premature to assess the antiboycott law's ultimate trade impact, present signs make us hopeful." [7]

The present state of the Middle East points to the need for greater contingency planning by all branches of the U.S. Government to meet energy requirements and other economic emergencies. Some of these emergencies have already appeared as a result of the Iranian crisis. Others may arise in the future from any new Arab-Israel conflict, such as a war involving Israel against the Palestine Liberation Organization (PLO) (and its Lebanese and Syrian sanctuaries) and the radical Arab "steadfastness front": countries like Iraq and Libya which support the PLO. Such a war would be likely to involve Jordan and Saudi Arabia, threatening oil sanctions in some form against the United States and other allies of Israel, and threatening the entire Western economic system.

Background

A few figures illustrate the magnitude and the emphases of the huge U.S. economic role in the Middle East, and of the Middle Eastern role in the U.S. economy. U.S. liabilities to foreigners in May

[5] Cf. Walinsky, Louis J. and Nathan, Robert R., "Arab Investments and Influence in the United States." New York, 1978. A report prepared for and issued by the American Jewish Committee. October 1978.

[6] Cf., for example, an appeal released Jan. 13, 1979, by Dr. Muhammed Mehdi, chairman of the Arab-American Action Group, a pro-Arab organization.

[7] Reproduced in Boycott Law Bulletin (Chicago 1978), vol. II, No. XII, December 1978: 311.

1978, in the Middle East oil exporting countries, including Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, and Saudi Arabia and the UAE were $7.842 billion as opposed to $8.979 billion in 1977, and compared to a record high of $9.360 billion in 1976.[8] According to the same U.S. Commerce Department sources, of a preliminary figure for total U.S. investment abroad in 1977 of $19.851 billion, $1.891 billion was in the same Mideast countries as above, plus South Yemen (where it is negligible), Syria, and North Yemen. Petroleum accounts for $1.607 billion of these investments in the Mideast area.[9]

Since the four and fivefold oil price rises of 1973, the period of the Arab oil embargo against the United States and other Western countries, some 19 Near East/North-African countries have become increasingly critical in the U.S. balance of payments, as indicated by tables 1 and 2.

TABLE 1.—U.S. BALANCE OF PAYMENTS, NEAR EAST-NORTH AFRICA, 1973, 1977

[Dollar amounts in billions]

U.S. sales [1]	Percent of U.S. exports	U.S. purchasers	Oil as percent of total U.S. imports
1973–$3.5	4.9	$1.8	2.7
1977–12.0	10.3	19.9	13.5

[1] The mainstays of U.S. sales are machinery (31 percent), transport equipment (25 percent), food products (mostly cereals) and military goods, (12.5 percent each).

Source: U.S. Department of Commerce. A Businessman's Guide to to Near East and North Africa, op. cit., pp. 1–3.

TABLE 2.—U.S. TRADE WITH SELECTED MIDDLE EAST COUNTRIES, 1977

[In billions of dollars]

	U.S. exports	U.S. imports	Next difference for U.S.
Iran	$2.731	$2.789	—$0.057
Israel	.570	.447	+.123
Libya	3.575	6.359	—2.784
Saudi Arabia	.314	3.796	—3.482

Source: U.S. Department of Commerce. Bureau of the Census. Statistical Abstract of the United States, 1978. Washington, 1978. pp. 878–79.

An analysis of U.S. Government foreign grants and credits to the area is also instructive. In these figures, most of the Near East including Greece, Turkey, Egypt, and South Asia are included. For the total post-WorldWar II period (1945 to 1977), the total for the region was $33.099 billion. Included in this was an all-time high of $12.338 billion in the 1956 to 1965 period. The figure dropped to a record low of $623 million in 1974, in the backwash of the world recession caused by the Arab oil embargo and price increases, than climbed steadily again to $2.661 billion in 1977. In that year, Israel was far above other recipients (military aid is not included in these figures) with $1.461 billion. Other important U.S. clients of the past, however, showed negative figures (meaning the total of grant returns, principal repayments and/or foreign currencies disbursed by the recipient government ex-

[8] U.S. Department of Commerce, Bureau of Census, "Statistical Abstract of the United States." 1978. Washington, 1978. p. 863.
[9] Ibid., pp. 864–865.

ceeds new grants and new credits utilized, or acquisitions of foreign currencies by the United States through new sales of U.S. farm products). These negative figures were, for Iran—$105 million, Iraq—$2 million, Saudi Arabia—$4 million.

U.S. foreign aid *commitments* for economic assistance from 1962 to 1977 totaled $37.442 billion, of which $16.748 billion was in loans. The biggest recipient of such committments was Egypt, $1.461 billion, Israel $641 million and Iran $45 million. However, in 1977, when the total was $3.178 billion, Israel was ahead with $735 million, followed by Egypt with $699 million Syria with $80 million and Jordan with $70 million.[10]

U.S. Foreign Military Aid, as shown in Commerce and DOD figures reported by Commerce, were a total of $32.004 billion in the entire world from 1970 to 1977, of which 76.9 percent were grants. Of this, Near East and South Asia countries (mainly Iran, Israel, Saudi Arabia) received $9,625 billion (48.2 percent grants). The 1975 total for the same area was down to $600.5 million (following the 1973–74 war and embargo period). In 1976 the total had rocketed back up to $1.795 and in 1977 was $2.355, in terms of military assistance program (MAP) grants, foreign military credit sales, service programs, and excess defense articles.[11] The huge U.S. military construction programs of the U.S. Army Corps of Engineers, estimated by some sources in 1978 at $24 billion for the entire Saudi program over the next few years, and many sales to Iran were apparently not included.

In dealing with the U.S. economic role in individual countries under consideration,[12] four main categories of countries can be distinguished: Category 1 countries include the big Arab oil and with the case of Algeria, natural gas producers: Saudi Arabia, Kuwait, the United Arab Emirates, Libya and Algeria. With all but the last two, the United States enjoys excellent political relations. With Libya, the trade and oil relations are extensive with poor political relations. With Algeria, economic and technical exchanges are steadily growing. There has been a conscious effort on both the United States and Algerian sides to separate political disagreements (Algeria, like Libya, is a backer of the Palestinians and other militant liberation movements, and the late President Boumedienne was an apostle of major world economic change to favor the lesser developed countries).

Category 2 countries have close political relations with the United States but are not significant oil or raw material suppliers. Several have considerable strategic significance for the United States and have utilized considerable United States and other Western economic assistance. They include Jordan; and Morocco, Tunisia, and the Sudan which are treated briefly.

Category 3 countries have extremely close political relationships with the United States (some, like Egypt, of more recent date than others), and are in more or less dependent economic status. All would like to have much more U.S. technology and support of various sorts, and therefore are especially anxious to sell more of their exports to the United States. They include Israel, Egypt, and Bahrain (which, under an informal arrangement extending the formal agreement

[10] Ibid., pp. 871–872.
[11] Ibid., p. 871.
[12] Iran is excluded from this chapter. See chapter, "The Future Role of Iran," p. 540.

terminated in mid-1977, still grants port facilities to the U.S. Navy's small Middle East squadron in the Persian Gulf). Of these, only Bahrain is a significant producer of energy resources though Egypt is rapidly taking its place as one, thanks to extensive Western and especially U.S. investments in its rapidly mounting petroleum industry.

Category 4 includes countries with fair to poor or nonextensive political and economic relations with the United States, but which have strategic or economic significance in their own right. The Soviet Union has entered into arrangements with all of them, ranging from an outright military alliance with South Yemen, to heavy cash or credit sales of arms to Iraq. These countries include South Yemen, Iraq, and Syria, and are not considered in detail below.

The U.S. Regional Role

Category 1 Countries

The only three Arab countries with financial surpluses—the amounts available for investment or other use after current international expenditures are deducted from their earnings—are Saudi Arabia, Kuwait, and the United Arab Emirates (Qatar would rank closely behind the UAE, but because of limited U.S. investment there and few Qatari placements in the United States, it is omitted).

SAUDI ARABIA

The huge importance and impact of Saudi oil exports for the United States has already been mentioned and is studied in more detail in the Saudi Arabian chapter of this book.[13] Critics of the growing involvement of the United States and Saudi Arabia in each others' economies claim that U.S. Treasury data underestimates total OPEC surpluses since the oil price increase of 1973. This data shows that some $43.25 billion, or about one-quarter of the Treasury's estimated OPEC surpluses since the oil price increase of 1973. This data shows that some $43.25 billion, or about one-quarter of the Treasury's estimated OPEC investible surplus, was invested in the United States from 1974. Treasury instruments, corporate stocks and bonds, and commercial bank deposits, accounted for $31.8 billion, while direct investment, prepayment on U.S. exports and debt amortization make up the remaining $11.4 billion.

However, as the American Jewish Committee study of the subject prepared in October 1978 contends, "these figures do not take into account two other ways that OPEC members' funds are placed—through third parties, and through substantial holdings in foreign branches of U.S. banks—the actual total of such investment in the United States could conservatively be estimated at $50 billion and another $10 billion in foreign branches of U.S. banks. Of this $60 billion, close to $55 billion (about 90 percent of the OPEC surplus invested in the United States or its foreign banking subsidiaries) were accounted for by Saudi Arabia, Kuwait and the UAE. The Saudi share must have been close to $50 billion—a sum which was probably increased by $10–$12 billion in 1978." [14]

[13] See chapter, "The Future Role of Saudi Arabia," p. 526.
[14] American Jewish Committee, op. cit., abstract, p. 1.

The latest U.S. Treasury official statistics available show, in fact, that U.S. liabilities to official institutions of foreign countries (such as SAMA, the Saudi Arabian Monetary Agency, which acts as Saudi Arabia's central bank and also controls its governmental placements abroad—the official institutions have nothing to do with the private placements of Arab citizens abroad, not dealt with separately by the American Jewish Committee or separate studies, and which are essentially unmeasurable) were $51,354; $51,202 and $51,758 billion in August, September, and October 1978 respectively.[15] These are assigned to the category which the Treasury calls "Asia," which includes the Saudi, Kuwait and UAE statistics lumped together and, according to Treasury sources, very little else (they are estimated to account for 85 to 90 percent of the Asia total). Exact breakdowns by country and by categories of U.S. Treasury securities are not published, at the request of SAMA and of the Kuwait and UAE central banks.

Another argument often used by those who point with alarm to growing Arab investment in the United States—which several U.S. business and Government sources have estimated to this writer only represents a net total of around 2 percent of all foreign investment, which is mainly European (and which has evoked no cries of alarm)—is that the OPEC surpluses which developed after 1973 would impose "intolerable strains" on both the U.S. and world monetary systems. A Brookings Institution analyst, Bruce K. MacLaury, recently addressed this question in an exhaustive study published by Brookings.[16] MacLaury recalls that increases in OPEC surpluses between 1973 and 1974 were so enormous that they had the same effect in oil-importing countries as would receipts which are hoarded and not spent, helping to bring a recession in 1975 which was the deepest since the 1930's. Recovery from this recession has been slow, and may have even been attended by slower growth rates in such countries as Japan, with inflation spurred upward and investments slumping everywhere, as well as huge payments deficits accumulating for poor, oil-importing countries. Despite this, finds MacLaury, the problem of "recycling" has been accommodated "with less disruption than seemed likely at the time. More generally, the resilience of world economic relationships has proved greater in the face of the oil shock than we had any right to expect." As a result, "there is substantially less danger to financial stability from OPEC surpluses—past, present, future—than seemed likely only a short time ago."

Although current account surpluses of OPEC states jumped from $6 billion to $67 billion (sic) between 1973 and 1974, McLaury makes the observations:

(1) OPEC imports expanded fast enough to absorb the enlarged receipts: For OPEC as a whole (including its non-Arab members, like Iran, Venezuela, and Nigeria), imports increased roughly by two-thirds in both 1974 and 1975. The pace of increase has slowed (one suspects that since MacLaury's study was completed, Iran has ceased to import anything at all). The only countries showing continuing sub-

[15] U.S. Treasury Department. Office of the Secretary. Treasury Bulletin (Washington, 1978). December 1978. p. 85. The estimate is by a personal contact in Treasury, dealing with Saudi Arabian affairs.

[13] MacLaury, Bruce K. OPEC's Billions. The Brookings Institution. The Brookings Bulletin, No. 15, fall 1978.

stantial surpluses are Saudi Arabia (which showed for the first time in 1978 a slight domestic budget deficit, mainly, it appears, due to bookkeeping problems), Kuwait and several members of the UAE, mainly Dubai and Abu Dhabi. The astoundingly ambitious development plan shows that even sparsely-populated countries have managed to work out plans to spend the money.

(2) Demand for oil, until the recent Iranian shortfall began was unexpectedly slack, partly because Europe and Japan were slow to recover from recession. Unemployment in Europe remains high, with industrial production "only now recovering from 1974 levels."

(3) New production from outside OPEC is coming on stream; the Alaskan North Slope; the North Sea, serving as an influence for softening the oil markets.

(4) Lower energy use. In the United States, energy use in the period 1965–73 grew faster than the real U.S. Gross National Product (GNP)—4.3 as against 3.7 percent a year. However, since 1973, energy consumption per unit of real GNP appears to have declined. MacLaury points out that on the assumption that U.S. oil prices will move gradually up to world levels, one (unnamed) major oil company is now making projections for the 1980's on the assumption that energy use will increase at only two-thirds of the projected growth rate of real GNP—2.3 percent as against 3.4 percent a year during 1980 and 1990.

In fact, says MacLaury, rapidly rising OPEC imports and slowing demand for OPEC oil exports brought a substantial drop in current surplus account of oil exporting countries from its $35 to $40 billion range in 1975 to 1977, he anticipates the surplus to "decline to $20 billion or less in 1978 and narrow further through 1980."

The Brookings analyst next addresses the concern—expressed with considerable force and a wealth of detail in the American Jewish Committee study of October 1978, to which MacLaury probably had no access—that aggressive manipulation of dollar reserves was a threat to the United States and the Western monetary system in general. In fact, as he points out, the preference of SAMA and other institutions in Kuwait and the other states concerned has been for short-term deposits at major banks. In 1974, nearly two-thirds of the exceptionally large OPEC surplus for that year was reportedly invested in short-term instruments mainly foreign currency deposits. But in the three following years, he says, only about one-third of the smaller surpluses in those years went into short-term deposits, with two-thirds going into longer-term investments. Saudi Arabia, Kuwait and others have shifted toward long-term maturities.

"On the other hand," MacLaury acknowledges, "shifts in the currency composition of OPEC reserves during the past year (1977–78) may have contributed to exchange rate fluctuations and to the weakness of the dollar." Latest reports of the Bank for International Settlements showed that "direct flows of OPEC funds into the United States fell by a quarter from 1976 to 1977, including a slow down between the first and second halves of last year, when the dollar began to weaken. In the first half of 1977, when new OPEC deposits in reporting banks grew by $8.5 billion, 90 percent of those deposits were denominated in dollars. In the second half of the year, nearly all of the $5 billion increase in deposits was denominated in currencies other than the dollar.

MacLaury deals in some detail with the growing debt of the lesser-developed countries (LDC's), which experienced severe balance of payments difficulties in the first 2 years following the oil price increase. He finds that their current account deficits ballooned from $11 billion in 1973 to nearly $40 billion in 1975, then fell back to $25 billion in 1976. During the 1973–76 period, the external debt of these countries jumped from $80 billion to $140 billion. Capital inflows to major LDC's in 1977 were larger than required to finance their collective deficits, with the fortunate result that their reserves rose by roughly $10 billion for the second straight year. With this increase, LDC reserves were nearly as large in relation to imports as before oil price increases. Non-oil developing countries which had borrowed nearly $30 billion from banks in the 1974–76 period actually became net lenders to banks last year. On balance, says MacLaury, the relatively developing countries kept up the momentum of their exports and their domestic expansion better than most industrial countries did after the 1973–74 oil shock.[17]

In Saudi Arabia last year, the highly successful United States-Saudi Arabian Joint Commission on Economic Cooperation continued its work of expanding Saudi development and mutual Saudi-United States trade and private business activities. These projects now number 20 in all, in various stages of planning or realization, including a unique $100 million solar energy research project, from which the United States is drawing the benefit of avant-garde research in the field going on in Saudi Arabia, and which the U.S. Treasury Department, the parent of the U.S. side of the Joint Commission, has upon President Carter's decision put up one-half of the equity, $50 million.[18] (Saudi Arabia, with a large account at the U.S. Treasury, finances other projects.)

Other projects, reviewed at the Joint Commission's last annual meeting attended by Treasury Secretary Michael Blumenthal and Saudi Finance Minister Muhammad al Ali Abakhail in Jeddah on November 18–19, 1978, include agriculture and water, a Saudi national park area, a national center for science and technology, desalination technology, vocational training and construction, consumer protection, statistics and accounting, electric power projects including the kingdom's 25-year electrification program, a national highway program, and others. All of these activities involve the work of hundreds of U.S. specialists in Saudi Arabia, and work and training of hundreds of Saudis in the United States.[19]

The crucial question now facing Congress and the executive concerning Saudi Arabia is whether Saudi Arabia can and will continue to exceed its 8.5 million barrels per day (bpd), self-imposed ceiling on production for 1979 by producing better than 10 million bpd to make up for the shortfall in Iranian production (Kuwait and the UAE have indicated that they cannot significantly raise production). Prior to the Iranian upheaval, the world oil glut and consequent slowing of production dominated the Saudi economy and Saudi-United States economic relations in 1978. Decreasing

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[17] Ibid., pp. 3–5.
[18] Mr. Ted Rosen, U.S. Treasury Department, interview Jan. 12, 1979.
[19] Saudi Arabian-United States Joint Commission on Economic Cooperation: Three Years of Progress in a Unique Program of Technical Cooperation (Washington, 1978), June 1978, passim and Department of Treasury news release, Dec. 6, 1978.

Saudi oil revenues brought the Government budget and external accounts more closely into balance and caused a leveling off of GNP growth. The U.S. Embassy in Jeddah and the U.S. Commerce Department estimate that "oil output and exports for the first half of 1978 were running a fifth below 1977 rates," and despite growth of the nonoil sectors, fiscal year 1979 Gross Domestic Product (GDP) was unlikely to increase much over the fiscal year 1978 level "unless oil output rebounds" (as it has because of Saudi willingness to help out in the Iranian crisis). Increasing imports and the oil revenue drop should reduce the account surplus of the kingdom to about a third of that recorded in 1977. The Embassy/Commerce report predicts that U.S. business, despite stiffening European and Asian competition (in particular from South Korea), still enjoys outstanding prospects in Saudi Arabia. With the devalued dollar—adjusted downward again against the Saudi riyal from 1.00 equals SR 3.32 to SR 3.30 on December 31, 1978 [20]—U.S. firms are advised to seize the advantage and move quickly in their sales promotion efforts.[21]

Though Saudi private investment in the U.S. economy has so far observed guidelines suggested by SAMA and has scrupulously observed U.S. Federal regulations, the Securities and Exchange Commission (SEC) was notified in December 1978 that Saudi interests would buy about 11.4 percent of the Wall Street securities firm, Donaldson, Lufkin, and Jenrette. Two Saudi businessmen, Sulaiman Olayan and Khaled ibn Abdallah, are represented on Donaldson's board by former Arabian American Oil Co. (Aramco) chairman Frank Jungers. In January 1979, Financial General Bankshares (FGB) of the United States was reported opposing a proposed takeover by Saudi investors being advised by the Luxembourg-based Bank of Credit and Commerce International. FGB said Bert Lance, President Carter's former Budget Director, appeared to be assisting the takeover, opposed by Virginia State Regulators.[22]

However, by far the widest Saudi-United States economic issue which may concern the Congress this year is the still-pending agreement for total Saudi takeover of Aramco assets. Aramco, which handles all but about 2 percent of total Saudi production, is now a State-owned Saudi company in all but legal title. The four U.S. "parents"—Exxon, Standard Oil of California, Texaco, and Mobil—still own 40 percent of Aramco's producing assets. The long-negotiated agreement for the Government to take over this share has been in suspense for nearly 3 years. When it is announced, it will be retroactive to January 1, 1976. In June 1978, it was reported that the U.S. partners had already been paid nearly $3 billion—about half the value of their oil producing and refining assets, exclusive of their huge gas-gathering, power generation, and other industrial projects in the kingdom. It is also believed in the oil industry, though not publicly disclosed, that any fixed investments now made by the four in Saudi Arabia are immediately written off and paid for by the Saudi Government. In 1978, Aramco had 33,800 employees, including about 17,500 Saudis, 2,600 Americans, 2,000 British, and about 5,700 others, including Arabs and Asians. Aramco is recruiting Britons rather than Americans because the U.S. Tax Reform

[20] Middle East Economic Digest, Jan. 5, 1978 (London), p. 32.
[21] FET. Foreign Economic Trends and Their Implications for the United States. Departments of State and Commerce. No. 78–137. December, 1978. Saudi Arabia. Pp. 3–8.
[22] Middle East Economic Digest, op. cit., pp. 12–13.

Act of 1976, before it was amended, so penalized Americans that employing them in Saudi Arabia became almost prohibitively expensive.[23]

Throughout Saudi Arabia, U.S. firms are moving into major construction jobs, feasibility studies, engineering and architecture, project management. Aramco alone has provided over $2.8 billion in such contracts to American firms and individuals.[24]

Out of the $142-billion Saudi development plan for the 1975–80 period, $17 billion goes for industrialization, $25 billion for manpower training, $20 billion for other educational programs and school construction and outfitting, $12 billion for agricultural development, $18 billion for foreign aid to Egypt, Syria, and many other Arab, African and Asian countries, $10 billion for housing, including 300,000 new units. Included within the plan is construction of new military bases for $3 billion, with the U.S. Corps of Engineers responsible for constructing, for the staggering sum of $24 billion, military cantonments, airfields, hospitals, military schools,[25] and a new city, al-Kharj, intended to house the new armaments industry which Saudi Arabia is developing with Egypt, Qatar, the UAE, France and Britain (the Arab Industrial Organization, AIO), in which at least one major U.S. vehicle manufacturer has taken a modest part, in building "nonmilitary" jeeps for the Egyptian armed forces (for the time being in Egypt, not in Saudi Arabia).

KUWAIT

In Kuwait, where a large Palestinian population employed in high-technology jobs helps to keep the royal government following a militant line in Arab politics, the competition for American business from Japanese and Europeans is far stiffer than in Saudi Arabia. United States and Japanese exports have, for example, both accounted for just under 20 percent of the total. However, U.S. car sales, seven Boeing airliners sold to Kuwait Airways, and big U.S. firms like Kellog International (a $250 million gas-processing plant), Foster Wheeler ($70 million for oil refinery expansion), General Electric ($40 million for gas turbine engines), are just a few of the factors in a large and important U.S. stake in Kuwait, whose sophisticated private investors and whose governmental Kuwait Arab Fund for Arab Economic Development have spread Kuwait capital placements and air around the world out of its $8 billion in oil revenues, from the purchase of Kiawah Island off the South Carolina coast to investments in fishing industries in Indonesia and African countries.[26]

Kuwait announced on December 31, 1978, that it would not increase oil production to compensate for the Iranian shortfall, but would continue its "normal" production of about 2 million barrels per day.[27]

In contrast to Saudi Arabia, where SAMA takes measures to avoid use of the Saudi riyal in the world markets as an international medium of exchange, and does not offer bond issues on the markets, Kuwait is

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[23] MEED special report, Saudia Arabia, Middle East Economic Digest, August 1978, pp. 20–21, and conversations with oil industry sources.
[24] Partners in Growth: Saudi Arabia. Aramco World magazine, New York and The Hague, January–February 1977, p. 15.
[25] Department of Commerce, Businessman's Guide, op. cit., p. 19.
[26] Ibid., p. 10.
[27] Middle East Economic Digest, op. cit., Jan. 5, 1979, p. 28.

developing a highly sophisticated system to attract public and private investors around the world. The Kuwait thrust seems to be aimed more at the Euromarket in 1979 than at American investors. Figures released by Kuwait's biggest securities trading corporation for 1978 showed that while the volume of the new issues of the Kuwait dinar (KD) bonds in 1976 totalled KD 85 million ($301.1 million), new issues in 1978 had reached KD 154 million ($561.8 million). Of the 18 bond issues completed in 1978, 15 were for foreign borrowers. The company said it expected its trading turnover in KD bonds to be worth $547.2 million, about double the 1977 figure. The weakness of the U.S. dollar has increased the popularity of the KD as a vehicle for Mideast-oriented investors. In 1979, if dollar interest rates remain high, more "quality" borrowers, following the example of the city of Oslo, Norway; Mexico's state petroleum company, Pemex, and the Philippines Development Bank (to name a few), were expected to seek a piece of the Kuwaiti action. Kuwaiti banks, which have jealously guarded their operations through strict banking regulations against competition by the major American and European and Japanese banks, are also active in the money markets. In early January of 1979, for example, the Industrial Bank of Kuwait issued $22 million worth of KD certificates of deposit, with interest rates spread above the Kuwait interbank rate.[28]

UNITED ARAB EMIRATES

In the United Arab Emirates (Abu Dhabi, Dubai, Sharjah, Ras al-Khaima, Ajman, Um al-Qawain, and Fujairah), oil policy has generally followed the lead of Saudi Arabia. This was the case at OPEC conferences from December 1977, when OPEC split over the price question with Saudi Arabia sticking to a moderate 5-percent rise and only the United Arab Emirates joined it. It was equally true when 1978 meetings continued the price freeze which ended with the Abu Dubai meeting that decided on the 1979 rise of 14.49 percent. However, when the issue of compensating for Iranian shortfall arose in January 1979, Abu Dhabi, with Dubai as one of the United Arab Emirates two top producers, elected to keep its own production at close to 1978 levels, or just over 2 million barrels per day.[29]

In its most recent report on the overall United Arab Emirates economy, the Department of Commerce found it emerging from "a business turndown brought on by overstimulated expectations of continued rapid expansion." Concern about the future "has led to a new policy of increased exploration as well as conservation, highlighted by a 16-percent cutback in 1978 Abu Dhabi oil production" (to the approximately 2 million barrels per day mentioned above). "This policy will mean $1.3 billion less export sales in 1978 and less investable surplus in the near term." U.S. businessmen, the report added, are finding that Abu Dhabi (although not Dubai), "is increasingly restricting new business opportunities to local citizens, as certain 'business nationalism' is coming to the fore," favoring joint ventures or service contracts rather than direct U.S. business operations. "Reflecting high import levels and Abu Dhabi's oil production cutback, the United Arab Emirates in 1978 (was) no longer a significant balance-of-payments surplus country.

[28] Ibid., p. 28.
[29] Ibid., p. 28.

In order to finance industrial, gas and oil projects, United Arab Emirates borrowers are expected to tap the international markets during the next several years. In these circumstances, Abu Dhabi's $112-million, foreign-aid program is likely to be increasingly criticized as pressures mount to give priority to domestic investments as well as modest expansion of the United Arab Emirates foreign investment porfolio for the day when energy-derived income is depleted. A conservative foreign investment strategy is likely to continue, *with considerable movement out of the dollar into the yen and DM (German mark) until decisionmakers judge that the dollar's fall has stopped.*" [30]

In the past, U.S. firms and groups of firms, have enjoyed a bonanza, it being estimated that "altogether, 600 American subcontractors and suppliers were involved and revenue for the States totaled $10 billion." [31]

U.S. firms have contributed significantly to development of two major new ports in the United Arab Emirates. Dubai's Port Rashid handled about two-thirds of 1977 imports, but has begun to have tougher competition from Abu Dhabi and from newer container and roll-on, roll-off ports in Sharjah. Expansion is to more than triple the United Arab Emerates total of 50 berths over the next few years. Jebal Ali's 74 berth setup will be the Middle East's largest, whereas Sharjah has the Gulf's first specially designed container port and at Khor Fakkan, south of the strategic Hormuz Strait, through which passes better than 60 percent of the industrial world's oil supplies (though less since Iran stopped exporting), the United Arab Emerates only deep-water terminal on the Gulf of Oman. Since better port efficiency has cut waiting time at other Gulf ports and such states as Bahrain are developing their own port and drydock facilities, the Gulf will soon have considerable overcapacity.[32]

Commerce finds that while United Arab Emirates authorities continue to be interested in U.S. holdings, "recent weakening of the dollar has caused the United Arab Emerates as an investor to attempt to transfer its financial holdings out of the dollar and into yen and DM, and this trend is likely to continue. While at the end of 1976 more than 70 percent of United Arab Emirates holdings were in dollars. Investment portfolios are in high-quality U.S. bonds, cash in short-term deposits, previous metals, equities, and property. Property investments are considered attractive but difficult to find. The corollary, of course, of the declining dollar is that American purchases are relatively cheaper. The tendency, however, among the Abu Dhabi leadership is to observe that the best investment that they can make is to leave their oil in the ground to appreciate." [33] Summing up, the Commerce/State report finds that "the U.S. presence in the United Arab Emirates is in high-technology petroleum and high-skill industries, neither of which are suitable candidates far rapid nationalistic endeavor assuming that the overall moderate policies pursued by Sheikh Zayid (the United Arab Emirates President) continue.

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[30] Emphasis added. FET, United Arab Emirates, FET, State/Commerce, No. 78–105, September 1978, p. 3.
[31] Aramco World, Partners in Growth, op. cit., p. 6
[32] Ibid., p. 11.
[33] Ibid., p. 12.

Willingness to be peripheral adviser or to put up equity on a subordinate basis is very well received. American companies who are able to accommodate . . . will find increasing success."[34]

LIBYA

The full story of Category One's least pro-American member, Libya, is far too long to tell here, and it has been extensively related elsewhere. Libya continues to be an important oil supplier of the United States, despite minimal United States-Libyan diplomatic relations and many points of political friction. The principal grievance of the Carter administration against Colonel Muammar al-Qaddafi's huge but sparsely populated, and now highly prosperous, desert republic has been its past support for the Palestinian guerillas, and, more particularly, for "international terrorists." On several occasions, Libya provided support or asylum to Arab, Japanese, or other skyjackers, a policy which it proclaimed was ended by late 1978.[35]

Libya is of special importance in the pattern of U.S. economic relations with the Arab world because it was there, even before Qaddafi's revolution, that the OPEC nations first began to assert their unilateral control over American oil companies in pricing, production and personnel matters.

Colonel Qaddafi's best-known policy to the West is his tendency to contribute large sums to liberation movements of all descriptions, but especially Islamic ones, throughout the world. Help has extended from the Irish Republican Army in Northern Ireland, to southern Africa, to the Filipino Muslim revolt, to oil and other emergency aid to Turkey in its conflict with Greece and the Greek Cypriots in 1974, and in many other situations.

What is less known and appreciated in the United States is that for every billion Qaddafi disburses to a liberation movement, two billion seem to be spent on development at home. This had made Qaddafi popular at home, and whatever his quarrels with other elements of the Libyan inner leadership, this fact and his close collaboration with his Prime Minister, Major Abdel Salem Jalloud, a politician and diplomat of consummate skill who seems to enjoy Qaddafi's total trust, have given him what appears to be a thoroughly secure power base.

Up-to-date Libyan trade statistics are difficult to come by U.S. Treasury figures for 1978 indicate that Libya, Algeria, Gabon, and Nigeria together—the main oil-exporting African countries—held $1.198 billion of the total liabilities to foreigners reported by United States Banks in August 1978, with a preliminary figure of $1.230 billion in October 1978.[36]

Western European countries are Libya's main trading partners, and are also its most important collective market for oil. The Libyan embargo on oil exports to the United States from late 1973 lasted until

[34] Ibid., p. 12.

[35] For detailed accounts of Libya's renunciation of support to terrorists—not including PLO guerillas who operate inside Israel or the occupied territories—see accounts by former Senator J. William Fulbright, aviation executive Najeeb Halaby, and other Americans who attended the first "Arab-American dialogue," at invitation of the ruling Libyan Peoples Congress, in October 1978; Ahmed Shehati, the Peoples Congress foreign affairs representative, repeated this disavowal to this writer in January (see my interview with Shehati in the Christian Science Monitor, Jan. 8, 1979).

[36] U.S. Department of Treasury. Treasury Bulletin. December 1978, op. cit., p. 94.

the end of 1974, long after the other Arab oil producers had lifted their cutbacks on the U.S. U.S. purchases from Libya in 1974 therefore sank to an insignificant $1.5 million, but with the resumption of oil sales in 1975, they began to climb and probably have reached the $1 billion yearly level. Despite rather strict Libyan adherence to Arab boycott regulations, now off-limits to U.S. firms because of the Export Assistance Amendments of 1977 and other U.S. rules and legislation, "there is," as the Commerce Department observed in 1976, "no structural impediment to increased U.S. trade with the Libyan Arab Republic (now officially called the Libyan Arab Peoples Jamahariya). Libyans indicate a high regard for U.S. technology, especially in agricultural development and industrial equipment. There is no tariff discrimination against American products in Libya." [37]

The 96th Congress and the Carter administration may have to decide during the current session whether or not the State Department ought to lift a ban on exports to Libya of eight Lockheed C–130–H military transport planes purchased by Libya in 1974 at $8.125 million apiece, and paid for, but blocked because of U.S. unhappiness with Libya's opposition to President Sadat of Egypt, its support for guerillas, and its general political stance. Exports of several hundred trucks, manufactured by the Oshkosh Corporation in Wisconsin, and of three Boeing 727 airliners for the Libyan airline were released in the fall of 1978. Billy Carter's hospitality to Ahmed Shehati and a delegation of the Libyan People's Congress which visited the United States in January 1979 secured further unfavorable publicity for Libya, and no early action to release the Lockheed aircraft appeared likely at this writing.

ALGERIA

The role of Algeria, the fourth Category 1 nation considered here, in the U.S. economy, and the U.S. economic role in Algeria, carried some important question marks in 1979 because of action by the U.S. Federal energy authorities disapproving two major Algerian natural gas contracts with the United States, as will be seen in more detail below. Algeria's oil, like Libya's, enjoys special preference in the world market and in particular in Western Europe and on the East Coast of the United States, because it is light, of low sulfur-content and (like Libya's), close to the markets. Western Europe's share of Algerian oil made up 90 percent of total exports in 1970, with 58.1 percent of this for France, the former colonial power. By 1976, however, U.S. demand had increased and Western Europe's portion fell to 46.6 percent with 11.5 percent for France in that year. The U.S. share moved from 7 percent of the total in 1970 to 47 percent in 1976. The United States had become Algeria's most important customer by 1974.[38]

Shortly before the death of Algerian President Boumedienne in December 1978, the U.S. Embassy and the U.S. Commerce Department reported that the "The United States bought over half of Algeria's crude oil in 1977 and will be a major customer for Algerian LNG (liquefied natural gas)." The Algerian market for U.S. goods was expected to grow and offer openings for suppliers of capital and trans-

[37] U.S. Department of Commerce. Overseas Business Reports. Marketing in the Libyan Arab Republic, November 1976 (Washington, 1976), p. 3.

[38] Fiches du Monde Arabe (Arab World File). (A printed information system on the Arab world on cards), Beirut, Lebanon. No. 1100, Oct. 25, 1978.

portation equipment, as well as for contracting and consulting services and financing arrangements with Algeria's socialist-operated government companies and banks. U.S. exports to Algeria reached $6 billion in 1977, making the United States still the largest customer by far.[39]

Algeria's reserves of oil and natural gas were recently reassessed and found to be adequate for an expanded export program until the year 2000. Exports of crude oil and liquefied natural gas to the United States in 1977 were worth $3.1 billion, with Germany and France as second and third in place. France, however, remained Algeria's largest supplier with $1.8 billion in 1977 and the United States in fourth place with $527 million in sales. Imports of 570,000 barrels of crude oil in 1977 represented 8.2 percent of the U.S. total and 56.2 percent of total Algerian production. In addition, the United States is to become a major market for Algerian LNG.

Long-term contracts for 17 billion cubic meters per year (1.8 standard cubic feet per day) have been signed by U.S. companies and approved by the U.S. Federal energy authorities, though a further series of contracts, as outlined below, were not approved. U.S. exporters, however, have only 10 percent or less of the total Algerian market worth $6 billion, and the U.S. visible trade deficit is around $2.5 billion. Main U.S. exports are grain, mechanical handling machinery, iron and steel products, construction and mining machinery, oilfield machinery, motor vehicles, electric power equipment, and aircraft. Many U.S. firms have won contracts for gas liquefication plants, gas treatment plants, electronics plants, irrigation projects, and oil and gas exploration and consulting. These, says the Commerce/State report, are "important contributions to U.S. invisible earnings and partly account for the large net deficit in the services account of Algeria's payments balance."[40] Under development plans, Algeria will require $33 billion in investments for energy to the year 2000. U.S. financial institutions now have about $2.5 billion in disbursed outstanding credits from the U.S. Export-Import Bank and private banks. Algeria has an excellent credit and payments record.

During the third week of December 1978, the U.S. Energy Department rejected two major gas deals between Algeria's state energy firm, Sonatrach, and U.S. firms. El Paso Natural Gas and the Tenneco Corp. had each sought to import about 10 billion cubic meters of Algerian LGN over 20 years. In its ruling, the Department said long-distance LNG imports should not be encouraged with long-term commitments until sources closer to the United States, such as Mexico and Canada, were fully used. It qualified this with a statement that it might reconsider the El Paso deal if it could be shown that California, which was to have received about half the Algerian gas, really needed it. Though the El Paso deal got preliminary approval in 1977, the Energy Department said the outlook for domestic gas production had improved since then. Disapproval of the plan means suspension of plans to construct in General Dynamics Corp., Quincy, Mass., shipyard and possibly other yards. Rejection of the two deals left Algeria with 20 million cubic meters of gas a year to market. However, Sonatrach indicated its optimism that Western European customers would be found.[41]

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[39] FET, Algeria, Commerce/State, Aug. 1978, p. 3.
[40] Ibid., p. 18.
[41] Middle East Economic Digest, op. cit., Jan. 5, 1979, pp. 13–14.

These decisions of the Energy Department left the United States and Algeria with the following major gas contracts in operation: Distrigas of Boston began in 1978 a 20-year contract to import 1.9 billion cubic meters a year, with delivery to Everett, Mass. El Paso's original contract, which was approved, also began its imports in 1978 for 25 years at 10.9 billion cubic meters a year, landed at Cove Point, Md., and Savannah, Ga. Contracts approved but not yet in operation include one with Trunkline for 20 years, beginning in 1980, with 4.8 billion cubic meters a year to be landed at Lake Charles, La. European countries which concluded new contracts with Sonatrach during 1978 included Italy, West Germany, the Netherlands, and Sweden. One contract with West Germany's Thyssengas and Gewerkschaft Brigitta replaced a deal with the U.S. firm of Eascogas, which failed because U.S. Federal Energy Department approval was not granted in time.[42]

Congress may wish to keep a more watchful eye than in the past on U.S. energy-connected and other relations with Algeria, as it is a country which—unusual in the Arab world—has been able to separate its political differences of opinion with the United States from its excellent economic and technological ties with the United States.

Category 2 Countries

Morocco, Tunisia, Jordan, and the Sudan are not significant suppliers of oil or other raw materials to the United States, but their development and their recent histories have all been closely tied to U.S. policy and they are of considerable strategic significance to this country. The key role of Jordan's King Hussein in the Arab confrontation with Israel, because of Jordan's loss of East Jerusalem and the Jordan West Bank to Israel in the 1967 war, is familiar to Americans. King Hassan of Morocco played a little known but extremely important role in the secret negotiations which preceded President Sadat's trip to Jerusalem in November 1977 and the ensuing buildup to the Camp David negotiations of September 1978, acting as intermediary between Sadat and key Israeli figures, including Israeli Defense Minister Moshe Dayan, who secretly visited Morocco for this purpose in the early fall of October 1977. Tunisia, whose patriarchal President, Habib Bourguiba, was one of the most pro-Western of the "liberation heroes" of Africa and the third world in the 1950's and 1960's, is still a close friend of the United States, and Tunisia has received one of the highest amounts of U.S. foreign aid per capita of population anywhere in the world. However, social and economic discontent, due to lack of markets for Tunisia's goods—which meet stiff competition in the European Community, despite Tunisia's association agreement with the EC—rising unemployment, the pressures generated by the proximity of two big socialist neighbors, Libya and Algeria, have all turned the attention of Tunisia's Western-educated elite increasingly inward to the affairs of their own country and away from the world stage.

In the Sudan, Africa's largest and potentially one of its richest (but currently one of its poorest) countries, President Jafaar al-Nimeiry has closely supported President Sadat and sought growing political and economic integration with Egypt, his big Nile Valley neighbor

[42] Middle East Economic Digest, op. cit., special issue on Algeria, Nov. 24, 1978, pp. 7-8.

to the north, especially since the arrival of Soviet influence and Soviet military forces airlifted to the aid of the Marxist regime in Sudan's southern neighbor, Ethiopia. The war fought in 1977 and 1978, with Soviet and Cuban support, against Somalia's push into Ethiopia's Ogaden territory, and the offensive against the Eritrean guerillas who have fought for their separate existence since 1960, brought a huge influx of hundreds of thousands of refugees into southern Sudan. That area has only now begun emerging, since the peace signed with by Nimeiry in 1972, from 20 years of civil war between the Muslim central government and the mainly non-Muslim southerners, facing the Sudan with great economic strain and requiring considerable international humanitarian aid from the United States and other Western countries.

MOROCCO

Morocco suffered a severe economic slump in 1977, for several reasons: An unexpected slump in the world demand for phosphate; poor crops resulting in increased grain imports; an increasingly unfavorable trade balance; and the economic drain of two military operations—the intervention in the Zaire-Shaba crisis in June 1978 and the ongoing struggle with Algerian-backed Polisario guerrillas in the former Spanish Sahara.

When he visited Washington in November 1978, King Hassan was unsuccessful in persuading the U.S. administration to press for removal of congressional restrictions on sales of OV–10 counterinsurgency aircraft, night vision equipment and other material sought by the Royal Armed Forces to prosecute the war in the Sahara. The United States has maintained a legalistic position, supporting UN General Assembly resolutions recognizing Morocco's older international boundaries in the Sahara, perhaps partly out of a desire to avoid adverse effects on the extensive U.S. commercial relations with Algeria. King Hassan has shown considerable chagrin that his services to the Western cause, in Zaire and above all in support for President Sadat's peace initiative, were not more generously compensated by the United States. In February 1978, the OCP (Office Chretien des Phosphates, the government phosphate concern) concluded a long-term deal with the Soviet Union for development and export to the U.S.S.R. of Moroccan phosphate rock over the next 50 years. The Commerce and State Departments believe that U.S. goods and services, as before, will be welcomed by Morocco, and that the kingdom will increase its efforts to increase the amount of U.S. private investment in the country, believed to be less than $900 million at present.[43]

TUNISIA

In Tunisia, where United States aid levels are running at about $50 million a year in 1977, 1978, and 1979, extensive social and civil disorders in the early part of 1978 led to an internal crisis of authority which had adverse affects on the economy. Opponents of the Bourguiba regime claimed that the aging President and his Prime Minister and heir apparent to power, former Central Bank Governor, Hedi Nourra, were out to break the power of the trade unions and their leader,

[43] FET, op cit. Morocco No. 78–111, September 1978, passim, and writer's own observations in Morocco.

Habib ben Achour, who was imprisoned following the January 1978 rioting.

U.S. aid has concentrated mainly in the fields of agriculture and food, rural development and low-income housing.

The United States has a 5.6-percent share of the Tunisian import market. U.S. suppliers have the edge in aircraft sales and large shares in agricultural machinery, computer, and business machine sales and in some other technology areas, including support to the energy industry.[44]

JORDAN

Jordan has largely overcome the economic aftermath of the war disaster of 1967, when the West Bank and East Jerusalem were lost to Israel, and with it, a productive population of nearly 1 million Palestinian citizens of Jordan who are still subject to Israeli military occupation. However, due to the Israeli "open bridges" policy, some commerce between the West Bank agricultural areas and Jordan still continues.

The East Bank's economy continues to grow at a healthy pace, despite over speculation in real estate and other symptoms of an inflationary boom which began to be especially evident in 1976. The Lebanese civil war pushed many regional branches of Western business firms from Beirut to Amman, which is able to service a wide area, especially in the Arab Gulf countries, with skilled manpower (creating a "brain drain" problem for Jordan) and excellent air connections through the Jordan national airline, Alia and charter services.

Jordan suffers from a chronic and growing trade deficit. The kingdom must import about 27 percent of all its raw materials including oil, and about 41 percent of its capital goods. While exploration oil has proved to be unavailing, exploration of available phosphates and potash appears to be primary.

U.S. imports to Jordan have grown from $55 million in 1974 to $214 million in 1977, according to Jordan Government statistics. During 1977, the U.S. dollar depreciated 5 percent against the Jordan dinar, while currencies of other major suppliers appreciated (West Germany's by 7 percent and Britain's by 6 percent), making U.S. goods more attractive. Of all the countries affected by most directly by the 1967 war and much less directly by the 1973 war, Jordan has made the most spectacular recovery. However, King Hussein has, since Sadat's Jerusalem trip, taken an essentially gloomy view of the political future, a view in part reflected by the new military alliance with Jordan's formerly hostile Syria.[45] The 96th Congress may be called upon to decide on current levels of U.S. economic and military aid to the kingdom, with supporters of Israel likely to oppose increases in the latter.

SUDAN

U.S. political and economic relations with the Sudan, at a low level after the killing of two United States diplomats by Palestinian guerrillas in Khartoum in 1975, improved dramatically with the opening of Sudan's northern partner and ally, Egypt, to Western and U.S.

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[44] FET, op. cit. Tunisia, No. 78–027 September 1978, pp. 3–9 and conversations with Mr Cecil Hourani, consultant to President Bourguiba.

[45] Economic information in FET, op. cit., No. 78–067, Jordan, pp. 3–8, and from briefing papers prepared by Dreums & Co. Washington (public relations consultants to Jordan). Political observations were made in the course of the writer's own reporting from the area.

influence from 1974 on. A USAID program was established in 1977. United States exports to Sudan have exceeded $100 million yearly since 1975 and are still improving.

Saudi Arabia is supposed to finance the purchase of 12 Northrop F–5 fighter-bombers authorized by the U.S. Congress for the Sudan's defense, to beef up an obsolete air force of much older British and Soviet types. Concern about the Soviet and Cuban foothold in Ethiopia and Sudan's refugee problem resulting from the wars in Ethiopia over the past 20 years, as well as the aftermath of its own tragic civil war in the south, have focused more attention on its role as an anti-Communist buffer area, considered by Egypt to be its strategic hinterland, guarding the Nile Valley approaches from the south, and ultimately, Egypt's entire water supply.

Category 3 Countries

ISRAEL

Israel, which with Egypt glimpsed the vision or mirage of coming peace following the events leading to the Camp David agreements, remains (like Egypt) essentially a country on a war footing, economically speaking. Austerity and retrenchment have been the watchwords since the 1973 war. Like other countries, Israel had to bear the shock of the 1973–74 oil price increase. With the cutoff of oil from Iran, which supplied more than 60 percent of its requirements, Israel has had to turn to Mexico, the Sinai oil still pumped out of the areas captured from Egypt in 1967 and, perhaps ultimately, to the guarantees the U.S. extended in September 1975, when Egypt and Israel signed the second Sinai disengagement agreement, that the United States would if need be make up any emergency shortfall.

Since 1974, when the Labor government then in power began to slow down the economy and divert resources to export development, the GNP growth rate fell from about 10 percent in the pre-1973 period to 2 percent in 1975 and approached zero in the ensuing years. These restrictive policies and revival of the world economy after the 1975 recession helped reduce Israel's $4 billion payments balance deficit in 1975 to $2.56 billion in 1977.

When the Likud coalition government of Prime Minister Menahem Begin assumed office in June 1977, Finance Minister Simcha Ehrlich's free-enterprise-minded Liberal Party cut government involvement in the economy and relied on the private sector for the mainsprings of growth. But taxes were raised sharply, subsidies on basic consumer goods cut, resulting in inflation and sharply rising energy costs. The government and the Hisatdrut Labor Federation reached accord on a 1978 wage guideline permitting increases of 15 percent plus allowances. Subsidized and price-controlled goods and services, the government promised, would be held down. Commerce/State found in July 1978, that "there are indications that Israel's economic growth may be starting up again" with construction starts up and more spending on consumer durables. Official estimates at that time called for a real growth rate of 4 percent in 1978, accelerating to at least 8 percent in ensuing years.

Some of the huge flow of United States aid to Israel, exceeding $1 billion a year is compensated by high export sales, $956 million or 20.2 percent of the Israeli market in 1977 taken by U.S. exporters. However, the U.S. market share appeared to be declining, mainly due to temporary increase in demand for raw diamonds by Israeli importers as the Israeli diamond industry, a principal foreign-currency earner, built up stocks of raw diamonds from non-U.S. sources. Increase of non-diamond exports were projected for 1978, with especially bright prospects in high technology areas where Israel is already producing, either under U.S. license, or on its own, a variety of computer, electronic, power, and other equipment for both military and nonmilitary purposes. U.S. aerospace sources have estimated that aircraft industries and other defense related and armaments firms in Israel are probably earning well over $200 million a year through arms sales and exports.

Government spending, however, has contracted considerably, falling 9.5 percent in real terms in 1977, and mostly in the defense sector. "Direct defense imports," says Commerce, "and domestic defense spending fell sharply," though Government personnel rosters rose with a policy of increased hiring for the Government bureaucracy, which helped to reduce unemployment figures. Israeli export prospects have improved by the Israel-EC Association agreement which allows many Israeli goods to enter the EC duty-free. Some 2,700 items enter the U.S. market duty-free under the U.S. Generalized System of Preferences. Tourism has climbed steadily since the 1973 war, with over 1 million visitors a year reported from 1977 on. "Total foreign debt," says Commerce, "rose to $10.7 billion in 1977 from $9.3 billion in 1976. All the additional debt was in the medium and long-term range, with most of it in very long-term debt to the U.S. Government and Israel Bond holders. The short-term debt level remained at a very little over $800 million. The total debt is large for a country of Israel's size, and the per capita debt is probably the highest in the world. However, most of the debt—over $8 billion—is long-term and much of it is owed to the U.S. Government or Israel Bond holders on easy terms.

Israel's credit rating remains strong and it has few problems in borrowing in international financial markets." [46] The 96th Congress may have to consider Israel's requests for at least $2 billion over and above its usual annual aid requirements, for resettling Israeli settlers and their projects from the Sinai to Israel's Negev Desert, if the Israel-Egypt peace treaty is ever implemented. In addition, assurances were given by the Carter administration after signing of the Camp David accords that the United States would finance construction of two new military airfields for Israel, to compensate for those which would be lost in Sinai. However, a U.S. Defense Department mission which travelled to Israel in the fall of 1978 to study this question had not made public any report at this writing, although its recommendations were given to Defense Secretary Harold Brown and the President.

EGYPT

Following President Sadat's economic *infitah* or "opening" to the West after the 1973 war, the West, Japan and Iran offered Egypt large

[46] FET, op. cit., No. 78-077, Israel, pp. 4-9.

amounts of concessional and development aid. The Saudi-led Gulf Organization for the Development of Egypt (GODE), also including Kuwait, the UAE and Qatar, has put up $2 billion alone. However, since about the end of 1976 there has been an noticeable shift in Egypt away from the Arabs and toward the West, which has both funds and technology for the weary, defense-burdened and population-strained Egyptian economy.

An Egyptian Government report showed in November 1978 that more than half of Egypt's outstanding nonmilitary debt of $11,786 billion was to the West and international institutions. Fifty-two percent of all loans were Western and the average for all loans was 61 percent, suggesting that Arab concessional aid is being phased out, just as the Soviet-bloc aid to President Nasser's governments gradually phased out after about 1970. This suggests that Egypt will look primarily westward and especially to the United States for help. This may face the 96th Congress with some difficult and urgent decisions about raising the percent level of U.S. assistance.

According to the same source, Egypt now receives about $2 billion a year in aid and credits. The United States provides $970 million a year, including $750 million through the capital and commodity aid program of USAID and $220 million through Public Law 480 wheat shipments. The World Bank has furnished $270 million, including $150 million in loans and $120 million in credits from the bank's soft loans affiliate the IDA. Japan contributed $184 million (primarily in Suez Canal development projects), West Germany $163 million. France, the United States and others contribute smaller amounts. The International Monetary Fund agreed last year to supply about $240 million in standby credits.

A special $1.2 billion agreement with Iran, mainly for investment funds from the Misr Iran Development Bank, may be totally lost because of the Iranian political upheaval. The EC has ratified a 5-year $211 million trade and aid program. The vital USAID loans and Public Law 480 payments are on easy terms: 40 years, with a 10-year grace period and bearing only 2–3 percent interest. In the fiscal year ending in September 1978, grants made up about half of the $750 million USAID commitment and this percentage was expected to grow.

An analyst writing in Middle East Economic Digest found that the size of the USAID program and USAID's meticulous insistence on observing regulations means that the USAID program is making a visible (positive) impact on Egyptian business practice. Some would say it is merely teaching the Egyptian businessman to work with the United States rather than with Egyptian bureaucracy—a mixed blessing * * * USAID can also have some impact on efficiency by insisting that the Ministry of the Economy and Economic Cooperation lends USAID loans to industry at near-commercial rates. Recent loans are for 15–25 years, with a grace period of up to 5 years and 8.5 percent interest—comparable with World Bank terms. Most of the recent loans go to public sector companies (a survival of Egypt's period of Nasser socialism). USAID is encouraging private sector participation by insisting that the public is sold a share—usually 20 percent—of the equity of companies set up to carry out projects.

Contrary to belief, USAID's capital aid program has moved according to schedule, but the pressures on it are increasing. The head of the capital aid program, Bob Bakeley, told MEED he is confident the program "will stand up quite well" when he presents it to Congress "this year." [47]

Egypt's economic problems, despite the high aid levels, remain formidable. Its poor do not share the benefits of most of the Western and Arab help very quickly. Living standards remain low, the burdens of inflation grow heavier, making possible the kind of major popular riots which swept Egypt in January 1977 when the Government tried to remove price subsidies on basic foods and other commodities. The vision of peace and plenty just around the corner, aroused with the hopes of Sadat's Jerusalem trip and Camp David, has faded fast. The population now expands at a rate of 1 million annually. In 1978 a Saudi Arabian financial expert deeply involved in Saudi aid to Egypt told this writer: "It's like pouring water into sand."

Nonetheless, U.S. analysts of the Egyptian scene see encouraging signs. Gross earnings in tourism were close to $800 million in 1977, representing a huge increase in U.S. visitors. There is heavy investment in major U.S. hotel projects. In petroleum, international companies have spent over $600 million on exploration, bringing revenues of $350 million in 1977, estimated at $700 million in 1978, even without the year's price increase (Egypt is not an OPEC member and its prices often do not follow OPEC prices); 1980 oil revenues are estimated at $1 billion, largely because of three important discoveries in the Gulf of Suez area.

U.S. trade officials acknowledge that the continued flow of investment capital into Egypt depends on political stability and the maintenance of the flow of concessional aid from abroad. Commerce says the "domestic Egyptian demand for U.S. agricultural products, farm machinery, manufactured goods and services is strong and should continue, while present USAID assistance "could virtually sustain present U.S. import levels for 2 years." If aid levels increased further, U.S. exports should increase in 1979–80. Highest priorities are being given to measures to alleviate the terrible population pressures and the broken-down public utilities, all of them antiquated, in Cairo and Alexandria. The dollar's slump in international markets has improved the relative competitive position of many U.S. suppliers. Coca-Cola, Xerox, Ford, and others, blacklisted by the Arab boycott of Israel, have nevertheless been allowed to start up new activities or revive old ones in Egypt, hoping that this reentry would open the wider Arab market to them later on, if peace really spreads through the Arab world. Major U.S. banks are doing profitable business in Cairo.[48]

Issue Outcomes and Consequences: the Role of Congress

After reviewing the background of the category 1 and 2 countries, those most important in present economic relations with the United States, one might reach these tentative conclusions on the consequences which the 96th Congress might be expected to address:

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[47] Mackie, Alan. Cairo is now looking to Washington as a major source of aid. Middle East Economic Digest, Jan. 5, 1978, pp. 4–5.
[48] FET, op. cit., No. 78–089, Egypt. August 1978, pp. 1–14.

(1) U.S. investment in major oil-producing countries, especially Saudi Arabia, and the growing interdependence of their economies with the U.S. economy will continue to grow. Supporters of Israel will point to this phenonemon with alarm; while the administration will, in the main, defend the need to continue along this course in defense of the U.S. payments balance, jobs and fight against inflation.

(2) There is likely to be growing interest in the Congress and in concerned quarters in the Nation over strategic and scarce materials, other than energy (the overriding interest in energy is assumed), which the U.S. now obtains or could obtain in the Middle East. Such interest may be addressed to such substances as barite, obtained from Morocco and Greece (7.4 percent each of total requirements in 1975) and which is not stockpiled in the U.S.; chromite (approximately 13.8 percent from Turkey); mercury (21.2 percent from Algeria) [49] At the same time, there will be attention to research done in the area, mainly in the joint United States-Saudi solar energy research project (some similar research is being performed in Israel) and their applications in alternative energy-source development in the United States.

(3) Federal legislation in the EAA and other categories opposing the Arab boycott of Israel may be strengthened, despite objections of Arab-American commercial and cultural groups and some legal cases brought by U.S. firms.

(4) The expected Saudi Arabian nationalization, by agreement, of ARAMCO and the long-term arrangements resulting from that agreement are likely to draw new attention to the question posed in a key report of the U.S. General Accounting Office (GAO) in December 1978: Are U.S. international energy and related policies consistent with domestic energy goals and national security, economic performance and quality-of-life objectives? [50]

(5) Saudi Arabia, believing that the United States has not adequately defended its interests, and feeling threatened by Soviet moves from Afghanistan to the Horn of Africa, may draw closer to the Soviet Union and even establish diplomatic relations. This will raise in Congress many new criticisms of the United States-Saudi alliance.

(6) Levels of U.S. aid to several countries of the area, including Israel, Egypt and possibly Syria and North Yemen are likely to be examined by the Congress, and considered for increase.

(7) In general, the deteriorating position of President Sadat, King Hussein and other Arab friends of the United States may grow worse and with the acute phase of the post-Shah crisis in Iran, dangers of a new Middle East conflict may arise. These will lead the Congress to give urgent consideration to implementing United States and International Energy Agency contingency plans to secure oil stocks, and take preparedness measures generally. The tough fight for ratification with the Carter administration faces in the Senate if a new SALT teaty is signed with the Soviet Union may further weaken the administration's ability to resist congressional criticms of U.S. Middle East policies, in the economic as in the political sphere.

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[49] Twenty-six strategic materials, including these, are shown according to use in U.S. industry and foreign sources in U.S. Lifelines, Imports of Essential Materials, 1967, 1971, 1975 and the Impact of Waterborne Commerce on the Nation. Op Nav–09D PIA January 1978. Office of the Chief of Naval Operations, Washington, D.C.

[50] U.S. General Accounting Office. Report to the Congress of the United States. The United States and International Energy Issues. EMD78–105, Washington. Dec. 18, 1978.

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MIDDLE EAST SETTLEMENT*

Issue Definition

Since 1948, the Middle East has experienced four full-scale wars between Israel and its Arab neighbors, producing a cycle of war, cease-fire, and war, which never began to solve the fundamental issues dividing the belligerents. The conflict has been of global as well as regional importance, given the interests of the United States and the Soviet Union in the outcome, and the direct connection between the conflict and world energy problems.

A major change in the situation came through the initiative of President Muhammad Anwar al-Sadat who personally opened direct talks with Israel with his trip to Jerusalem in November 1977. Although little movement followed this dramatic gesture over the next 10 months, it did provide the precedent for direct negotiations between Egypt and Israel.

In September 1978 and again in March 1979, President Carter intervened directly in the peacemaking process. This intervention produced, first, the Camp David Accords of September 1978, and then, after another period in which little progress was made, an acceptable peace treaty between the two parties, which is expected to reach fruition by the end of March 1979.

Given the past history of the region, these have been narrowly achievements, although they do raise a number of pertinent issues which still must be resolved. It remains unclear whether the other Arab states will accept the Egyptian-Israeli treaty as a first step toward a comprehensive peace. Certain details in the treaty, especially when and in what forms Palestinian areas will be granted autonomy, remain to be worked out. Of special interest to the United States, and to Congress, will be the cost to the United States in aid and other commitments to carry out the terms of the treaty.

Background

Since 1948, the State of Israel has been at war with Syria, Lebanon, Jordan, and Egypt, the Arab states acting on behalf of the Palestinian Arabs and with the support of most of the other Arab nations. The principal issue is control of Palestine. Despite several efforts by individual statesmen and various United Nations mediators, commissions, and representatives, there has been negligible progress toward a comprehensive resolution of the conflict. Following the fourth Arab-Israeli war of October 1973, U.S. Secretary of State Henry Kissinger mediated disengagement of forces agreements between Israel and Egypt and Syria. In September 1975, Israel and Egypt, with Kissinger's assistance, signed a second disengagement agreement.

*Prepared by the Foreign Affairs and National Defense Division, Congressional Research Service, Library of Congress.

On November 9, 1977, President Anwar al-Sadat told the Egyptian Peoples' Assembly that for the sake of peace, he would go to Israel to address the Knesset. Prime Minister Menachem Begin said in response to al-Sadat were that he would invite the Egyptian President to Israel if Al-Sadat were serious. A few days later, Al-Sadat repeated the offer and Begin responded with a formal invitation. On November 19, Al-Sadat arrived in Jerusalem, and the next day addressed the Knesset and met with Israeli officials, Israeli political factions, and a Palestinian Arab delegation from the West Bank.

King Hassan of Morocco, President Numayri of Sudan, and Sultan Qabus of Oman openly endorsed the Al-Sadat trip to Jerusalem. Leaders of Syria, Libya, Algeria, Iraq, and the Palestinians condemned Al-Sadat. Qatar, Jordan, Kuwait, the United Arab Amirates, Tunisia, Saudi Arabia, and the Yemen Arab Republic either were noncommital or mildly disapproving. Al-Sadat was denounced for destroying Arab unity and for accepting a separate peace with Israel which would abandon the Palestinians and condone Israeli occupation of Jordanian and Syrian land. He was praised, particularly by Western nations, for his willingness to compromise for the sake of peace, and for his courage. The United States endorsed the Al-Sadat initiative and the Soviet Union condemned it.

Basic Positions

In his November 20, 1977, statement to the Israeli Knesset, President Al-Sadat outlined Egypt's basic demands, which had not changed since the 1967 war: total Israeli withdrawal from all occupied territories and recognition of the Palestinian Arab right to self-determination, which could include the right to establish a Palestinian Arab state. In exchange for withdrawal, Al-Sadat offered recognition of Israeli independence and sovereignty (conferred in practice if not in law by his appearance before the Knesset), an end to war, a permanent peace treaty, acceptance of security guarantees for Israel's borders, and the promise of future diplomatic and economic relations between the two countries. Al-Sadat maintained that the first step to peace was Israeli withdrawal, after which other steps could be taken. He told the Knesset that he had taken great risks in coming to Jerusalem to create an opportunity for peace, and it was up to Israel to take equally bold steps to insure that the opportunity was not lost.

In his response to Al-Sadat's speech to the Knesset, Israeli Prime Minister Begin presented Israel's basic position; An end to war, a permanent peace treaty, open borders and free relations with its neighbors, and direct face-to-face negotiations at which all issues would be open to discussion. He reminded Al-Sadat that the Arabs started the war and that Israel always had been willing to negotiate for peace. Begin did not address directly the withdrawal question or the Palestinian Arab recognition issue.

Prior to Begin's election in May 1977, Israeli Governments had stated that they would be willing to negotiate withdrawal from some of the occupied territories, although which territories and how far they would withdraw were left vague. It was widely presumed that Israel would not withdraw from the Golan Heights or East Jerusalem, that Israel would withdraw from parts of the West Bank and Sinai, and the Gaza Strip was open to negotiation. But with Begin as

Prime Minister, Israel appeared to retrench, and to consider the West Bank and Gaza as "liberated" territory to be retained by Israel. Thus, at the time of the Al-Sadat visit to Jerusalem, the only territory open to a negotiated withdrawal was the Sinai. Israeli Governments, including Begin's, refused to recognize the Palestine Liberation Organization (PLO) as a negotiating partner or to accept the formation of a Palestinian Arab state in the West Bank or the Gaza Strip. The only concession offered by Israel, and continued by Begin, was to permit Palestinians from the West Bank and Gaza to "participate" in the negotiations, although their role was not defined.

Negotiating Positions

Egypt and Israel disagreed over several procedural issues, such as whether talks should be direct or indirect, separate peace treaties, the need for and contents of a declaration of negotiating principles, and the role of the United States in the negotiations. Israel maintained that only direct face-to-face negotiations could lead to a permanent peace, while the Arabs preferred indirect contacts through a mediator. One reason why many Arab states opposed the Al-Sadat visit to Jerusalem was that he was engaging in direct negotiations, which meant a recognition of Israel's legitimacy and an approval of Israel's seizure of territory from the Palestinians. Al-Sadat's appearance in Jerusalem was a concession to the Israeli demand for a face-to-face, public meeting. Begin commented during the Jerusalem meeting that he hoped the direct negotiations would continue and he looked forward to a reciprocal visit to Cairo in the near future.

On November 26, 1977, Al-Sadat invited all parties involved in the Arab-Israeli dispute to Cairo to prepare for a reconvening of the Geneva peace conference. (The Geneva conference convened on December 21, 1973, but adjourned the next day pending the outcome of Kissinger's disengagement negotiations.) Israel, the United States, and the United Nations accepted the invitation; Syria, Jordan, Lebanon, the PLO, and the Soviet Union declined. At Cairo, beginning on December 14, 1977, the Israeli, Egyptian, American, and United Nations representatives met to prepare for a second Begin/Al-Sadat meeting, rather than a reconvened Geneva peace conference. On this occasion, Begin returned Al-Sadat's gesture, and the two leaders met at Ismailia, Egypt, on December 25. At that meeting, two committees were created: a military committee to discuss details of future disengagements, and a political committee to discuss agendas, timing, and negotiable issues.

However, neither committee achieved very much over the next several months, and in June 1978 the talks were ended. However, the precedent had been set for direct talks. Informal contacts continued through the military committee, exchanges of letters, and face-to-face meetings, such as the Weizman/Al-Sadat talks in Vienna in early July. In mid-July, Dayan and Kamil accepted Secretary of State Vance's invitation to meet in London (later changed to Leeds Castle for security reasons) to try to save the deteriorating talks. After Leeds, Begin and Al-Sadat agreed to a summit with President Carter at Camp David, Md. With the face-to-face meetings at Jerusalem, Ismailia, Cairo, Vienna, Leeds, and Camp David, the issue of direct or indirect talks became moot.

The Egyptians also made a concession on the procedural issue of a separate peace agreement. The Arabs had maintained that they would not sign separate agreements, but would insist that all issues be resolved before they all would sign a peace treaty. Al-Sadat, in his statement to the Knesset, emphasized that he would not sign a separate peace agreement, and Begin, in his Knesset statement, said it was not Israel's intention to divide the Arabs by signing a separate agreement with Egypt. At the first political committee meeting in January 1978, Dayan proposed that Egypt and Israel sign a separate agreement. Kamil refused. But on July 13, 1978, Minister of War Al-Jamasi said that Egypt would sign a separate agreement if Israel and Egypt could agree on a resolution of the West Bank and Gaza Strip problems, even without the participation of Jordan and the Palestinians. With the signing of the Camp David "framework" it became evident that Egypt compromised, and accepted a separate peace treaty.

The Future of the West Bank and Gaza Strip

One major problem dominated the negotiotions from mid-November 1977 until the meeting at Camp David in early September, the future of the West Bank and Gaza. On December 18, 1977, Israeli Prime Minister Begin introduced a plan to give the West Bank and the Gaza Strip autonomy under Israeli sovereignty. The 26-point plan approved by the Knesset on December 28 included: (1) an end to Israel administration of the territories; (2) election of an 11-person administrative council to run West Bank/Gaza affairs, except security; (3) continued Israeli military presence for security; (4) a committee composed of adminisrative council, Jordanian, and Israeli representatives to control immigration and advise on legislation; (5) free movement and settlement rights for Jews in the autonomous zones and for autonomous-zone Arabs in Israel, providing the Arabs met Israeli citizenship requirements: (6) sovereignty over the autonomous zones to rest with Israel, but to be held in abeyance temporarily; (7) open access to all holy places; and (8) a review of the autonomy plan after 5 years. For the Sinai, the Prime Minister offered demilitarization, retention of Israeli settlements with Israeli defense forces for protection, staged Israeli withdrawal during an interim period, and free passage through the Strait of Tiran. Egypt rejected the autonomy plan, but praised Israel for breaking with its past practices and offering a proposal. President Carter called the autonomy plan a "long step forward" toward peace, then added that the Palestinians deserved a "homeland" or "entity" of their own that could be attached to Jordan.

On January 6, 1978, in the course of a press interview, President Carter commented on the future of the West Bank and Gaza. The comment became, in effect, an amendment to the Israeli antonomy plan: the West Bank and Gaza would be administered by a joint commission composed of representatives from Jordan, Israel, the Palestinians, and the United Nations, and at the end of 5 years, the residents of the territories would vote in a referendum to choose between continuing under the joint administration or federating with Jordan. Carter's suggestion appeared to reduce Israeli authority and to increase the international character of the joint administration by adding the United Nations to the joint administration, Where the Israeli autonomy plan left the future vague after 5 years, but implied continued Israeli sovereignty, the Carter suggestion for a referendum would have ended Israeli sovereignty. But Carter did not mention the elected council and did not include a Palestinian Arab state as a choice in the referendum, omissions which negated the prospect of an independent Palestinian Arab state. The Carter suggestion has a compromise between the Israeli autonomy plan and Arab call for a Palestinian State; in effect, Carter would neutralize the West Bank and Gaza Strip.

For the most part, discussions of the future of the West Bank and the Gaza Strip were suspended for the next few months, as other events overshadowed the negotiations. The attempts to reconvene the political committee and the debate over the declaration of principles dominated the exchanges through the remainder of January and February. The terrorist raid in Israel, the Israeli invasion of southern Lebanon, and the establishment of the United Nations force in Lebanon took up March and April. But early in May, the Egyptians returned to the West Bank and Gaza questions.

Foreign Minister Kamil said on May 2 that the Arab demand for a Palestinian Arab state was a long-term goal rather than a short-term goal, a concession which made possible some other, non-state, arrangement during the short-term. This short-term period coincided with the 5-year joint administration proposed by the Israelis and refined by President Carter's suggested international administration. On May 11, President al-Sadat formally submitted an interim peace plan which called for an immediate Israeli evacuation of the West Bank and Gaza, administration of the West Bank to be returned to Jordan, and administration of the Gaza Strip turned over to Egypt. The future permanent status of the territories would be left to negotiations. Al-Sadat's plan to place the occupied territories under Arab administration was a counter to joint administration proposed by Israel and amended by Carter. Apparently, Egypt postponed, or perhaps surrendered, its demand for a Palestinian Arab state by leaving the future of the occupied territories open to negotiations. Israel rejected the Egyptian proposal on May 13.

President Carter had posed two questions to Israeli Prime Minister Begin during his visit to the United States in early May: Under the autonomy plan, what was to become of the West Bank and Gaza after the 5-year interim period, and by what mechanism would the future of the areas be resolved? The Israeli Cabinet approved Begin's answer to the questions on June 18, 1978: After 5 years, Israel would be willing to discuss the "nature of future relations" of the West Bank and the Gaza Strip. The fact that Israel was willing to discuss the future of the territories was considered a concession, but being willing to discuss the problem did not guarantee that the discussions would actually be held, or that, if held, any proposal would be considered to remove the Israelis from the occupied territories. Neither Egypt nor the United States was satisfied with the Israeli answer.

On June 24, Foreign Minister Kamil announced that Egypt was preparing a new proposal to be released shortly. The next day, the Israeli Cabinet rejected the Egyptian proposal, explaining that they knew from press reports that it would not be suitable. On June 26, President Carter expresed his disappointment that Israel rejected the proposal before it was offered and his disappointment that Israel was unwilling to commit itself to any future action in the ocupied territories. Begin said on June 27 that Israel would not necessarily reject all of the Egyptian proposal, just the demands that Israel withdraw from the West Bank and the Gaza Strip. On June 29, Vice President Mondale began a state visit to Israel to commemorate the State's 30th anniversary; from Israel, Mondale went to Egypt. In Cairo, on July 3, Mondale and al-Sadat announced that Egypt was ready to resume direct talks.

Egypt issued its new proposal on July 5: (1) Israel will withdraw from the West Bank and Gaza during a 5-year transition period; (2) the withdrawal will include all settlements and all military installations; (3) the withdrawal will be supervised by the United Nations; (4) as Israel withdraws, Jordan will assume administrative responsibility for the West Bank and Egypt for the Gaza Strip; and (5) at the end of the 5-year transition, the Palestinians will determine their own future in a referendum. The proposal emphasized that negotiations would begin immediately to discuss security arrangements and that Egypt and Jordan would be responsible for the security of the administered territories. The most evident concession in the proposal was the phased withdrawal of the Israeli forces over the 5-year transition period rather than the immediate and total withdrawal demanded in previous Egyptian proposals. Israel rejected the Egyptian proposal on July 9, the same day it accepted the American invitation for a new round of direct talks at Leeds Castle.

Foreign Minister Dayan, Foreign Minister Kamil, and Secretary of State Vance met at Leeds Castle on July 18. While the meeting produced no dramatic breakthrough, it did provide an opportunity to discuss basic positions, review past proposals, and focus on possible areas of compromise. On August 8, it was announced in Washington, Jerusalem, and Cairo that President Carter, Prime Minister Begin, and President al-Sadat would meet at Camp David, Md., on September 5.

In the weeks between the announcement and the beginning of the Camp David meeting, most observers speculated that the summit would concentrate on formulating a declaration of principles that would resolve the basic problem of Israeli withdrawal. On August 21, Begin announced that Israel would introduce a new permanent peace plan, but, on August 28, stated that Israel would stand by its autonomy plan of December 1977. The Egyptians remained noncommittal on their proposals for Camp David other than to emphasize that the United States must be a "full partner" to the talks.

The Camp David Summit Agreements

On September 17, after nearly 2 weeks of guarded, secret negotiations at Camp David, Md., President al-Sadat, Prime Minister Begin, and President Carter signed two "framework" agreements which, it was hoped, would be the basis for a comprehensive resolution of the Arab-Israeli disupte. The first "framework" was for an Egyptian-Israeli peace treaty to be negotiated within 3 months under United

Nations auspices based on U.N. Resolution 242. The "framework" called for a two-stage Israeli withdrawal from the Sinai back to the international frontier within a 2-to-3 year time period. Full sovereignty over the Sinai would remain with Egypt. The Suez Canal would be opened to Israeli ships and the Strait of Tiran would be designated an "international waterway." The "framework" limited the number of Egyptian troops allowed east of the Suez Canal, created a 20-kilometer-wide strip along the western side of the international frontier to be patrolled by U.N. observers, and a 3-kilometer-wide strip along the eastern side of the international frontier to be patrolled by U.N. observers and a limited number of Israeli troops. Apparently, early warning stations were optional on both sides of the line. A United Nations force would be stationed at Sharm al-Shaykh. Once the treaty was signed and the first Israeli withdrawal back to a line between al-Arish and Ras Muhammad completed, Egypt and Israel would establish full diplomatic, economic, and cultural relations and Egypt would end its economic boycott of Israel.

But the first "framework" depended on the withdrawal of the 18 Israeli settlements on the Egyptian side of the international frontier. Egypt demanded that the settlements be withdrawn prior to the signing of the peace treaty. Israel demanded that the issue of the settlements be resolved through negotiations. According to statements made at the September 17 announcement, the Israeli Knesset would decide within 2 weeks whether to accede to the Egyptian demand. A "no" vote could have cancelled the peace treaty. On September 28, the Knesset, by a vote of 85 in favor, 19 opposed, and 16 absent, approved the peace treaty and agreed to withdraw the Israeli settlements from the Sinai. It was announced the same day that an Israeli-Egyptian committee, headed by Weizman and al-Jamasi, would begin conferring on October 9 on details of the peace treaty.

Among the other details to be explored are:

Agreements to and arrangements for a United Nations observer force to patrol both sides of the international frontier (the United Nations Emergency Force currently patrols the buffer zone in the Sinai).

U.N. Security Council acceptance of responsibility for the recall, if the occasion should arise at some future date, of the U.N. force along the international frontier, particularly the unanimous consent of the five permanent members.

Replacement of the Israeli air bases in the Sinai.

Designation of the Strait of Tiran as an international waterway.

Precise demarcation of the al-Arish-Ras Muhammad line.

The construction of a road from Akaba, Jordan, across Israel to the Sinai.

The second "framework" proposed the establishment of a West Bank-Gaza Strip autonomous area, outlined general principles to be followed in arranging peace treaties between Israel and other Arab States, and set a 3-month time limit for the conclusion of the Egyptian-Israeli peace treaty. The outline of general principles included:

The establishment of "normal" relations among the States and the granting of "full recognition."

Called for an end of economic boycotts and the beginning of cooperation in economic development.

Created a claims commission to settle all outstanding claims among the States.

Invited the United States to assist in establishing the modalities and timetables for the peace treaties.

Invited the United Nations Security Council to "endorse" the peace treaties and "insure" they were not violated.

Invited the permanent members of the Security Council to "underwrite" the peace treaties and "ensure" respect for their provisions.

In addition to the most obvious questions of whether Syria, Lebanon, Jordan, and other Arab States would agree to sign peace treaties with Israel, there were other questions about the general principles. For example, did the U.N. Security Council permanent members "underwriting" the agreements amount to a security guarantee against aggression? Or, would the claims commission handle compensation for Arab refugees from 1948 and Jewish refugees from Arab countries from the 1950's, compensation for loss of property due to Israeli bombing raids in Lebanon, or compensation for loss of property caused by Palestinian terrorist attacks in Israel or elsewhere? Could an Arab country, Syria for example, sign a peace treaty with Israel but not establish diplomatic relations or agree to enter a cooperative economic arrangement?

The heart of the second "framework" was the section on the future of the West Bank and the Gaza Strip. Egypt, Jordan, Israel, and Palestinian representatives (Israel will have veto authority over the Palestinian representatives) will negotiate "modalities" for electing an administrative council that will replace the Israeli military and civilian administration in the West Bank and Gaza. The Israeli military forces will then be "redeployed" to "specified security areas." Israel, Jordan, Egypt, and the Palestinian representatives will define the authority and responsibility of the administrative council, negotiate a "final status" of the West Bank and Gaza (to be completed within 3 years), determine the area's relations with other countries, negotiate a peace treaty between Jordan and Israel to be signed within 5 years, and resolve boundary and security issues. All this is to take place during a 5-year "transition" period. The "full autonomy" proposed in the "framework" was similar to the Israeli autonomy plan of December 1977.

The "framework" did not provide for the formation of a Palestinian state, confederation of the West Bank and Gaza with Jordan or Egypt, complete withdrawal of Israeli military forces, removal of Israeli or Jordanian claims of sovereignty over the territories, migration of nonresident Palestinians, or the representation of the Palestine Liberation Organization. The "framework" made references to the "legitimate rights of the Palestinians," a "resolution of the refugee problem," and "accepted norms of international law," but in each case, the precise implications of their use was unclear. There was a provision for a joint Jordanian, Israeli, Egyptian, and administrative council committee to consider the admission of refugees from the 1967 war.

The Egyptian-Israeli Peace Treaty

The negotiations for an Egyptian-Israeli peace treaty began at Blair House in Washington on October 12, 1978. Given the unexpected accomplishments of Camp David, the cooperative and positive attitudes demonstrated by both sides, and the apparently simple task of drafting a treaty, most observers anticipated a short meeting, quick approval of a draft, and a formal signing well before the December 17 deadline called for in the Camp David framework. The draft treaty was completed by the first week in November but has remained unsigned.

At issue is the so-called linkage between the implementation of the Egypt-Israel peace treaty and the disposition of the West Bank and Gaza areas. Egypt demands an explicit connection between the treaty and the West Bank framework, such as a clause stating that the elections to the West Bank/Gaza administrative council must be held within 1 year of the signing of the treaty. The linkage is important to Egypt for two reasons: first, because the Egyptians believe the Israelis would not risk abrogating the treaty by reneging on their promise to grant autonomy, and eventually self-determination, to the West Bank and Gaza; and second, because Egypt feels it needs proof that it did not abandon the Palestinians and the Arab cause to sign a separate peace treaty with Israel. Linkage becomes a form of Egyptian leverage over Israel and a face-saving device in its relations with the Arab world.

It is to Israel's advantage to have Egypt sign a separate peace treaty and become isolated from the rest of the Arab world. A credible Arab war against Israel ends without Egypt; the skirmishing, the dispute, the conflict may continue, but not the threat of a major, prolonged war. The Israelis, along with most other observers, realize that the Israeli autonomy plan for the West Bank is unacceptable to the Arabs and that the framework for the West Bank and Gaza has little chance of success. If the Egyptian peace treaty is linked to the West Bank framework, the Israelis may feel compelled to protect the peace treaty by modifying their autonomy plan and allowing the Palestinians self-determination. It is to Israel's advantage to avoid timetables and specific plans which could foreclose their freedom of action in the occupied territories. They want to maintain control over and access to the territories.

The United States has played the role of semanticist in the linkage controversy, seeking the right combination of words to allow each side a measure of victory without sacrificing an intention suggested in the Camp David frameworks to link the Egyptian peace treaty to a resolution of the West Bank/Gaza problem. It remains a matter of contention whether the United States is "taking sides" or is acting as an "honest broker." Other issues have been interjected into the linkage debate. Egypt wanted to change article 6 which gave the treaty precedence over other treaties, thereby restricting Egypt's freedom to assist other Arab states in time of crisis. Israel wanted the Egyptian-Israeli boundary left flexible rather than permanently demarcated. Egypt rejected a clause condemning guerrilla warfare. Israel rejected an Egyptian suggestion for a review of the peace treaty after 5 years. Egypt rejected an Israeli suggestion to share control over the Sinai oil fields. Israel sought compensation for war damages and improvements made in the Sinai during the occupation. Egypt sought compensation for the oil Israel pumped from the Sinai oil fields. But while these and other issues were important, they were not as important as the linkage question.

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Issue Outcomes and Consequences: The Role of the United States

President Carter's direct intervention in the peacemaking process entailed both risks and obligations for the United States. The exact nature of these obligations—moral commitments, arms promises, and aid funds—remains one of the most important unresolved issues. The administration has already put forth the argument that any costs incurred by the Egyptian-Israeli peace treaty would be far less than those involved in a new Arab-Israeli war, a sentiment which has found bipartisan support from the Congress. However, some question the wisdom and worth of a "purchased" agreement. It is currently estimated that the United States will give Israel $3 billion in aid ($2.2 billion in loans, $800 million in grants) and Egypt $2 billion to meet expenses to implement the treaty. Both of these figures are in addition to economic and military aid figures already being received.

The role played by the United States thus far has also raised questions about its relations with other Middle East states. Relations with Saudi Arabia are already strained over differences about U.S. policy in the region in general and in Iran specifically, and the Carter administration is eager to obtain Saudi acquiescence if not cooperation in the new peace process. Thus, the degree to which other Arab states will accept the current agreement and how they will treat Egypt remains unclear.

Each of these questions will be of interest and concern to Congress. The substantial sums of aid will require congressional approval as would any formal U.S. commitments or obligations to either or both parties. As part of its regular oversight functions Congress can be expected to follow closely the outcome of administration efforts to achieve wider support for the settlement in the Arab world, given the importance of U.S. strategic and economic interests in the region.

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THE FUTURE ROLE OF SAUDI ARABIA

(By Richard M. Preece*)

Issue Definition

In recent years, the Kingdom of Saudi Arabia has assumed an increasingly significant role in regional and world affairs by virtue of its geographical location, its control over key deposits of oil, and its petrodollar surpluses. The country's considerable oil reserves and its production capability give it an influence out of all proportion to its small population base or military capacity. Its political leverage in international affairs stems primarily from economic factors. The United States and Saudi Arabia have established a special relationship which had its genesis in the major role of U.S. oil companies in the development of Saudi petroleum resources and that, more recently, has been fostered by government-to-government assistance and cooperation. It has become apparent that the preservation and enhancement of this relationship could provide a basis for resolving political, security, economic, and energy issues facing both countries. From the U.S. perspective, decisions on the part of the Saudi Arabian Government potentially affect the U.S. balance of payments, the future of the dollar, the rate of world economic recovery, U.S. interests in the Persian Gulf region, and the objective of an overall resolution of the Arab-Israeli conflict.

The United States-Saudi Arabian relationship presents a number of related questions on issues likely to confront the 96th Congress. These include the following:

By what means can the United States and its allies be assured of continued supplies of Persian Gulf oil at tolerable prices?

Will Saudi Arabia continue to exert a moderating influence with respect to the price of oil?

Will Saudi Arabia expand its oil production capability to meet future consumer needs? What tradeoffs might be considered?

Instability and conflict within and between regional countries have the potential for seriously affecting the flow of oil and the global balance. The current situation in Iran, for example, would seem to affect U.S. policy objectives and strategic and economic interests in the Persian Gulf region.[1] Should the United States continue to nurture its special relationship with Saudi Arabia and its encouragement of regional security cooperation? Or should the United States limit its involvement and avoid responsibility for developments it might not be able to control? Do current U.S. policies, such as arms transfers, promote stability or instability?

Does the autocratic nature of the Saudi Arabian regime pose problems for the future? What are the potentials for instability in the country?

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[1] See chapter, "The Future Role of Iran," p. 540.

To what extent does the United States-Saudi Arabian relationship involve the identification of the United States with Saudi policies toward its neighbors or its own subjects? To what extent will U.S. concern about such matters as human rights, discrimination, and the free flow of persons and information affect government-to-government or business relations?

How important are the levels of bilateral trade between the United States and Saudi Arabia? [2]

Will anti-Arab boycott legislation affect U.S. ability to do business in Saudi Arabia?

Will Saudi Arabian investments and holdings in the United States give the Saudis leverage over U.S. policies and activities?

Does the Saudi Arabian policy of seeking to counter the spread of Soviet and radical-revolutionary Arab influence coincide with U.S. policy objectives?

Can the United States develop an energy policy that will reduce U.S. dependence upon foreign oil?

The major instruments of policy in promoting United States-Saudi Arabian relations have been oil, trade, arms, and political support, and for both countries, these instruments have been viewed as being interrelated. Efforts to foster ties in one area have been envisaged as a means of insuring close liaison in the others. All instruments of policy, therefore, need to be viewed as part of an effort to achieve a stable and lasting mutually beneficial relationship, and require coordination, consistency, and the probability of a considerable degree of U.S. involvement in the region.

BACKGROUND

The Kingdom of Saudi Arabia is the largest state in the Arabian Peninsula, occupying an area approximately the size of the United States east of the Mississippi River. The precise size of the country's population is not known for certain or, at least, it has not been made part of the public record.[3] Estimates vary from 3.5 million to 8 million, but knowledgeable observers are generally agreed that the indigenous population probably numbers about 4 million. Estimates on the literacy rate vary from 5 to 20 percent.

The central institution of government is the monarchy, and its authority is based on Islamic law—the Shari'a—and on tradition. A significant aspect of the Kingdom's history has been Wahhabism, a puritan Sunni Muslim movement of the Hanbali school that had arisen in the Arabian Peninsula during the latter half of the 18th century. Among the early adherents to Wahhabism were the Al Saud clan of Diriyah in central Najd who, by the end of the 18th century, had welded the tribes of Najd and Al Hasa into a religio-military confederacy under their leadership. Wahhabism was an essential factor in the unification of the country as the Kingdom of Saudi Arabia between 1902 and 1932 under the late Abd al-Aziz Ibn Saud.

Religion, therefore, is the first pillar of the Saudi Arabian State, and the Shari'a is strictly enforced by the governmental authorities in

[2] See chapter, "The U.S Economic Role in the Middle East and North Africa," p. 489.

[3] The results of a September 1974 population census have been closely held by the Saudi Arabian Government.

concert with the religious establishment. The Kingdom is the center of the Islamic faith and contains within its borders the holy cities of Mecca and Medina.

Saudi Arabia does not possess a unified economy within its borders but rather, in large measure due to the scattered nature of its population in its large territorial extent, has an aggregate of several separate economic regions linked by an increasingly improving but still basic network of hard-surfaced roads and air routes. The regions differ considerably from each other, and they include the important oil-producing Eastern Province, on the Persian Gulf, and the largely urbanized and commercial Hijaz which contains Mecca and Medina and the port of Jiddah, on the Red Sea. The central part of the Kingdom—the Najd—is the seat of power of the Al Saud and center of Wahhabi influence.

Economic development and modernization is based virtually entirely upon the exploitation of the Kingdom's oil resources. In 1977, oil production averaged 9.4 million barrels per day (b/d), and government oil revenues were estimated to have been $40 billion. Saudi Arabia's immense oil reserves, estimated conservatively at 170 billion barrels, or a quarter of the world's currently known reserves, place it in the forefront of oil-price policy by the Organization of Petroleum Exporting Countries (OPEC). With the quadrupling of oil prices in 1973–74, and the explosion of revenues to the oil-producing countries, new perspectives were opened up in Saudi Arabia's economic development and modernization strategies. The country's policy on oil has been tied to development plans which, together with substantial allocations for infrastructural development, education, water development, and social services, have placed high priority on industrial projects and agriculture. While the price per barrel of oil is of considerable concern for oil-consuming countries, Saudi Arabia, as an oil producer, looks to steady revenues to meet its present commitments and future economic development plans.

Despite rapid economic progress in recent years, Saudi society remains strongly traditional and religious, with a tribal orientation. While power resides in the royal family and, in particular, in the person of the King, the King's powers are undefined and, in practice, are limited by consensus of the Al Saud family, the religious leaders, the chiefs of the important tribes, and—to some extent in recent years—the armed forces and the bureaucracy. Matters of consequence are referred to the capital, Riyadh, for decision. Within the past decade, there has been a developing trend from monarchical to ministerial rule. Legislation is by royal decree and must be compatible with the Shari'a.

Two major drawbacks are acknowledged as impediments to the objectives of modernizing the country. First, despite the presence of competent individuals, the Government is small and often functions slowly. The ambitious nature of development plans has placed severe stress on an already overburdened, centralized decisionmaking process. A long time usually elapses between conception and completion of a particular project or plan. The problem is compounded by the fact that a lucrative private sector has attracted many people from Government service, and there exist several important high-level vacancies in the bureaucracy. Second, there is a serious lack of personnel to implement the ambitious programs. As a consequence, there has been a large influx of manpower, both skilled and unskilled, from outside Saudi Arabia.

The effective indigenous labor force—males from 15 to 65 years of age—has been estimated at just over 1 million, nearly all of whom have lacked the most rudimentary skills and education. The average age of workers is quite low. The very large influx of foreign labor has been for positions not only requiring advanced education and high degrees of skills, but also for manual labor jobs. It has been estimated that between 1½ and 2 million foreign workers are resident in the country performing all types of work, from manual labor involved in the construction boom—including more than a million Yemenis—to the technical and required skills of modernization, supplied by Europeans, Americans, "northern" Arabs, Pakistanis, and Koreans. There is considerable concern in the Kingdom over the potential social and political influence of these foreigners. As a result, they are kept isolated and do not play a significant role in the processes of Government. There exists among the foreign community a fair degree of resentment with respect to their status in the country and the treatment accorded to them because, without them, the Saudi programs of modernization could not function properly.

During the past several years, Saudi Arabia has evidenced increasing concern for its security. It has perceived significant threats from regional states with which the Soviet Union has strong ties—including Iraq and the People's Democratic Republic of the Yemen (PDRY). There is considerable concern over Soviet and Cuban activities in the Horn area. To counter these threats, the Saudi Government has embraced three principal strategies: first, the reduction of Soviet influence in the region; second, the development of a credible defense structure; and third, the maintenance of stability in the Middle East, including a settlement of the Arab-Israeli conflict. The Saudi's consider that renewed hostilities would place intolerable strains on their "special relationship" with the United States and would bring about a strengthening of radical-revolutionary regimes in the region together with Soviet influence.

The Saudi perception of threat has basically emanated from regimes possessing opposing ideologies. During the past two decades, however, the country has faced overt hostile action from external forces only three times: in 1962, by Yemeni-based Egyptian air and naval units; and in 1969 and 1973, by PDRY units that attacked Saudi border posts in the southern part of the country. The impotence of Saudi air defenses revealed by these incidents became a major factor in the decision by the Saudi Government to commence, and subsequently to accelerate, a military modernization program in the mid-1960's. The program initially was predicated on the need to protect the country's widely separated coastal and border areas with only a small military establishment. Given the country's population base of approximately 4 million, the premise of the Saudi Arabian Armed Forces, particularly the air force, has been that they must achieve superior technology and a sophisticated air defense system to compensate for small numbers in manpower. The Saudi Government perceives few options open to it in that it is unwilling to allow foreign nationals to play a significant role in defense, and thus its Armed Forces are unlikely to be able to substitute numbers for technology in the foreseeable future, especially considering its small population relative to larger—in terms of population—and less wealthy neighbors.

Although relations with Iran have not always been harmonious, Saudi Arabia has cooperated with Iran and the Arab Gulf States in the maintenance of stability in the region. The current situation in Iran is one of considerable concern to the Saudi Government, and it would be difficult to perceive how the collapse of the Shah of Iran's power could fail to affect security in the gulf region. The fact that a change in Iran's political system will not necessarily favor the Soviet Union in the short term does not detract from the consequences of political instability in this vitally important area of the world. The Saudi Government has supported Oman and the Yemen Arab Republic (YAR) politically and financially against radical subversion and insurgencies from the PDRY, and it is financing the YAR's acquisition of U.S. arms.

Apart of the Yemeni-Egyptian and PDRY incidents, noted above, which were ideologically motivated and somewhat isolated, Saudi Arabia to date has experienced little trouble along its extensive borders. The situation in part is based upon the prestige and influence that the country's considerable resources have helped to achieve; but, at the same time, it is these very resources that make the country a potential target for external influence. Up to the present time, essentially indirect, ideological pressures from external sources have been contained.

The country possesses both advantages and disadvantages with respect to defense against invasion. With a large areal expanse and scattered small population centers, its defense strategy has centered on protection of the interior, particularly the vital Jiddah-Riyadh-Dharan/Damman corridor. In contrast to other regional states, Saudi Arabia does have a defense in depth—of being able to sacrifice land for time and strategic maneuvering in the event of attack. Its disadvantages, however, include long borders, both land and sea, that are difficult to defend, and terrain a large part of which is ideal for tank warfare.

Saudi Arabia has few cultural and strong historical ties with regional states and therefore must achieve a capacity for its own defense with no dependence upon assistance from neighbors. The Saudi Government thus perceives that, with only a limited availability of manpower, the essential elements of defense are advanced technology and a mobile striking force capability.

Stability in Saudi Arabia will in large measure be dependent upon regional political and economic factors. Since the 1950's, political, economic and social pressures on the Al Saud ruling family stemming from the Middle East region and elsewhere have been considerable. To date, the Saudi system has been resilient and relatively open and accessible. The threat to the country and its present policies lie in the Middle East political situation in general. At the same time, the Al Saud will need to maintain an equilibrium between the forces of traditionalism and those of modernization within the country.

There exist a number of factors which inhibit the successful execution of a coup d'etat in Saudi Arabia, in contrast to other states in the region. In the first place, the Al Saud family is large and diffuse. Second, the territorial extent of the Kingdom is large, and its population centers are at widely scattered locations. In the event of an internal uprising or attempted coup, it would be difficult to control a substantial portion of the Al Saud family together with all or most parts of the country. The Saudi Government has taken precautions against potential internal opposition: the Al Saud is represented throughout the armed forces; ammunition and fuel are tightly controlled; and special security units are responsible for the safeguarding of population centers.

In the event of a new outbreak of Arab-Israeli hostilities, some observers consider that it would be difficult for Saudi Arabia to escape active engagement. Its prominent political role in the Arab world might reduce its options in a new political and military crises in the region and, while the country may endeavor to avoid involvement, it might be drawn actively into any new conflict.

Although the importance of Saudi Arabia's oil resources has remained constant, the Saudi leadership until the October 1973 Arab-Israeli war had been unable to translate the country's economic importance into a political importance beyond the regional confines of the Middle East. The belief on the part of Western governments that cheap oil would be available in almost unlimited quantities for years to come was terminated by the oil embargo [4] of 1973–74 by members of the Organization of Arab Petroleum Exporting Countries (OAPEC). In addition, the embargo ended the notion that any oil-producing state's threats could be controlled by a consumers' boycott. For Saudi Arabia, the oil weapon subsequently evidenced the country's role as the world's producer of last resort. This factor, coupled with increasing U.S. dependence on imported oil, indicated that Saudi views would need to be considered by Washington in Middle Eastern affairs.

In inter-Arab relations, Saudi Arabia has become a force for moderation. It has looked to peaceful resolutions of conflict in the Arab world and has undertaken the role of mediator in a number of inter-Arab disputes and hostilities. It has also become the principal instrument of persuasion with respect to Arab political goals concerning the Arab-Israeli conflict, and the Saudi Government has perceived the United States as the only entity able to exert pressure on Israel to come to terms on a peace settlement. Within OPEC, the Saudi position is all important regarding oil-policies and, in this capacity, Saudi Arabia also has become a force for moderation. The Saudi Government has perceived that damage to the world economy could affect oil-producers in the form of higher-priced imported goods and services, and that economic and social dislocation in Western countries could lead to the emergency of Communist governments to the advantage of the Soviet Union. This significant role—that of protector of the health of the world's financial and economic system—has been forced on Saudi Arabia in part by its key position in OPEC's pricing policies and in part by the fact that the value of its accumulated financial surpluses (between $70 and $100 billion) is tied to the fortunes of the world economy in general, and the U.S. economy in particular.[5] While the Saudis may endeavor to diversify away from their heavy reliance on the short-term American markets, there is no market outside the dollar capable of handling the volume of currency which they generate, and the bulk of their assets are denominated in the dollar.

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[4] The embargo applied to the United States and the Netherlands. OAPEC members reduced production and allocated the available supplies among the other oil consuming nations.

[5] See chapter, "The U.S. Economic Role in the Middle East and North Africa," p. 489.

Issue Outcome and Consequences

The political importance of the Middle East derives in large part from its oil and the basic U.S. policy goal of resolving the Arab-Israeli conflict that has affected virtually every other issue of major U.S. concern in the Middle East. While maintaining a longstanding commitment to the security and survival of Israel, the United States also has a broadly defined commitment to peaceful relations and stability within the entire region. The character of Soviet intentions in the Middle East likewise is extremely important in defining U.S. policy options. During the recent past, political perceptions within the United States have undergone a process of change. There has occurred a growing public understanding of the Arab point of view in the Arab-Israeli conflict. The dependence of the West upon Arab oil, with the entire spectrum of implications for energy supplies and viability of Western economies, also has had its impact on U.S. policy.

The economic importance of the Middle East derives from the central concern that the vitality of the United States—and, ultimately, the global—economy could be adversely affected by the collapse, or the threat of collapse, of the international financial system and the consequent potential for restrictive monetary, fiscal, and trade measures stemming from Middle Eastern stratagems and tactics with respect to oil availability, prices, and profits. The strategic significance of the region arises primarily from three factors: its geographical location as a bridge between three continents across which land, sea, and air routes give it a crucial role in world trade and commerce and, in time of war or emergency, military importance; its proximity to the Soviet Union and to the southern flank of NATO; and as a supplier of petroleum to the non-Communist world and the site of more than half the world's proven crude oil reserves.

Within this regional context, Saudi Arabia is likely to continue to occupy a significant position in U.S. foreign policy in light of American economic, political, and strategic interests in the Middle East. Possessing more than a quarter of the world's proven oil reserves, Saudi Arabia will retain its capability of being the world's largest oil producer during the coming decades when a number of other producers' petroleum resources may begin to dwindle.[6] World oil production, therefore, probably will reach its ultimate plateau while global needs continue to rise—thus failing to satisfy world demand for oil at prices currently considered tolerable. Accordingly, the Saudis will retain a decisive voice in the flow and price structure of oil worldwide as its dominance among oil exporters is expected to increase. At the same time, the United States—in the near term, at least—will continue to consume a considerable percentage of the world's energy, and U.S. imports of oil will continue to rise.

Trade with the Middle Eastern region and the interdependence which it fosters between oil-producing and consumer countries are balance-of-payments factors of considerable significance to the United States. Symbolic of the economic relationship between Saudi Arabia and the United States is the Joint Commission on Economic Cooperation, established in June 1974 in order to provide a government-to-government mechanism to assist in Saudi economic development, with

[6] For a full discussion of projections of world oil reserves see chapter, "World Energy and the U.S. Economy," p. 98.

a system of parallel command in which Secretary of the Treasury Michael Blumenthal and the Minister of Finance and National Economy Muhammad Ali Aba al-Khayl serve as co-chairmen. To support and coordinate the Commission's work, the Treasury Department set up an Office of Saudi Arabian Affairs in Washington and a U.S. Joint Commission Office in Riyadh. All U.S. technical assistance and development projects under the Commission are fully reimbursed by the Saudi Government.

The Commission is considered an important instrument for furthering the U.S.-Saudi economic relationship and has important benefits for both countries. It represents for the United States an opportunity to increase exports to Saudi Arabia and reduce the negative U.S. trade balance caused in large measure by oil imports. In addition, direct U.S. Government involvement in developmental projects has led to closer relations with Saudi decisionmakers. For Saudi Arabia, the Commission represents an effective method of obtaining needed assistance and technology for internal development in such areas as industrialization, trade, manpower training, agriculture, transportation, and science and technology. During the visit of Secretary Blumenthal and other U.S. officials in November 1978 to Jiddah for a meeting of the Commission, Minister al-Khayl stated American companies had won contracts worth $23 billion over the past 4 years, and, as of the first 8 months of 1978, U.S. private investment in Saudi Arabia had reached a total of $195.5 million. The number of American companies licensed to work in the Kingdom had risen to 173 by the end of the third quarter of 1978, of which 46 were industrial and 127 nonindustrial. In a subsequent conference in Houston, Tex., in December 1978, Treasury Department Director of Saudi Arabian Affairs Bonnie Pounds declared that Saudi Arabia was the largest U.S. market in the Middle East and that the United States expected to do more than $4 billion in business in the Kingdom by the end of 1978; projections indicated that overall Saudi imports would reach between $18 and $20 billion, some 25–30 percent more than the 1977 import level.

In the forthcoming decades, the Kingdom's capability and willingness to increase its oil production will be dependent upon a number of interrelated technical, operational, political, economic, and security factors. Future Saudi production decisions will likely reflect the leadership's perceptions of political, economic and security interests and objectives. While Saudi Arabia has looked to the United States for assistance in achieving its domestic and foreign policy goals, it has evidenced concern over the degree to which the United States has used its influence with Israel in effecting a resolution of the Arab-Israeli conflict, and over the apparent lack of resoluteness with which the United States has regarded its support of or commitments toward countries considered friendly in order to halt or at least diminish the advance of Soviet influence in the region. An outbreak of new hostilities in the Middle East could seriously disrupt the flow of oil—even with the absence of an oil embargo—as a result of shipping restrictions and possible damage to Saudi oilfields or destruction of facilities. The Saudi Government continues to desire that the United States effectively exert greater pressures to obtain Israeli concessions and accelerate negotiations toward a comprehensive peace settlement.

Saudi Arabia's considerable and increasing accumulations of petrodollars continue to provide leverage in the Government's pursuit of domestic and international policy objectives. The Kingdom's ability to use effectively its oil revenues will likely remain a significant factor in future oil decisions. There exist divisions within the Saudi leadership over the maintenance of current production levels, with some desiring to slow down capacity expansion and restrict future production levels more in line with the country's economic needs, particularly in light of the fact that accumulating petrodollars are declining in value against other hard currencies, including the dollar. Social and religious pressures within Saudi society also must be taken into account. There are members of the royal family, led by King Khalid's full brother Prince Muhammad, who are opposed to the current rapid modernization of the country because of the societal impact of the presence of large numbers of foreign workers and the erosion of traditional Muslim values. In addition, young Saudi technocrats, many of whom have been trained in American universities yet who remain nationally inclined, are critical of the prevailing waste and inefficiency. Some believe that oil production should not be expanded at a rate necessary to meet the needs of the industrial world in the future, and would prefer to keep more oil in the ground for later exploitation. Such divisions would seem to indicate that the present United States-Saudi special relationship cannot be assumed to be immutable.

It remains to be seen how developments in Iran over the past year and a half will effect the growing U.S. involvement in Saudi Arabia. Some observers consider that Saudi Arabia is unlikely to experience—in the short term, at least—the economic, social and religious problems that have affected Iran. The basic conditions are dissimilar, and the Sunni Muslim attitude toward authority in Saudi Arabia differs from that of Shi'a Muslim attitudes toward authority in Iran. At the same time, however, the 10,000 Saudi Arabians being educated in the United States and other Western countries are bound to influence the future. The homogeneous character of Saudi society with its common heritage, language and religion—in contrast to the heterogeneous nature of Iranian society—nevertheless is likely to come under strain.

The Saudi Government has stated that its willingness to produce oil at levels substantially beyond its own domestic revenue needs will depend on the industrialized countries' willingness to provide real value guarantees for the resultant surplus, and to provide assistance, including technological transfers, in the implementation of Saudi Arabia's development programs. At the same time, Saudi leaders are cognizant that world stability is dependent upon a viable global financial system and the maintenance of a world power balance. They also acknowledge their dependence on technology, capital goods, training, and management expertise provided by the industrialized consuming countries.

The Role of the United States In Issue Resolution

Since the 1968 announcement by the British Government of its decision to withdraw British forces from the Persian Gulf by 1971, U.S. policy has centered on support for the two largest, pro-Western states on either side of the Gulf—Iran and Saudi Arabia—in order that they might play key strategic and regional security roles. With the adoption of this "two pillar" policy, U.S. arms sales to the two Gulf nations stemmed from the Guam doctrine, enunciated by the Nixon administration in July 1969, of building up local powers which would be expected to assume increasing responsibility for collective security with U.S. arms, but without direct participation of U.S. forces.

United States-Saudi Arabian economic relations date from the 1930's with the operations of the Arabian American Oil Co. (Aramco). The U.S. military connection with the Kingdom likewise has a long history when, toward the end of World War II, the United States constructed a large airbase at Dhahran that was completed in 1946 and to which the Saudi Government granted its ad hoc, short-term approval, without formal agreement. The following year, the United States established a training program at the base for Saudi personnel.

The two countries in 1951 signed a mutual defense assistance agreement by which the United States would sell arms and defense materials and provide military training in their use in exchange for the continued use of the Dhahran airbase by the United States. In 1952, the United States took over a training mission from the British with the acceptance by King Abd al-Aziz Ibn Saud of a U.S. military assistance advisory group (USMAAG). In April 1957, the Saudi Government agreed to a 5-year extension of the U.S. lease on the Dhahran base in return for a U.S. agreement to train Royal Saudi air force and naval personnel and to expand its training program for the Royal Saudi army. In 1962, although the Saudi Government declined to renew the U.S. lease on Dhahran and took over full operation of the base, the U.S. military training mission (USMTM) was continued.

The earlier years of the United States-Saudi Arabian military assistance relationship were characterized by comparatively modest shipments of unsophisticated equipment and limited training for Saudi personnel, both in-country and in U.S. service schools. A significant change in the relationship occurred in 1965, with a joint United States-United Kingdom effort—termed the "Magic Carpet" program—to modernize the Saudi Armed Forces as a result of Egyptian attacks during the Yemeni civil war. By the early 1970's, the United States had become intricately involved in a number of defense programs with the Saudi Government. It should be noted that up to that time, the bulk of U.S. assistance had been through MAP grant aid. The basis of the relationship shifted from grant aid to cash sales programs in the 1970's. The principal programs in recent years involving the United States include the following:

(1) Extensive defense-related construction projects stemming from a bilateral engineer assistance agreement in 1965 and coordinated by the U.S. Army Corps of Engineers. The corps has provided engineering and management services for the construction of a wide range of facilities such as military cantonments, schools, hospitals, airports, dependent housing, headquarters buildings, and deepwater ports. It has been involved in Saudi Arabia for the past 28 years, and has won the confidence of the Saudi Government to the point of Saudi reliance upon its advice and assistance in the modernization process.

(2) Following a 1966 agreement, the Saudi Arabian mobility program, currently termed the Saudi Ordnance Corps program. Under

this program, the Department of Defense undertook a long-range effort to establish an integrated logistics system for the Saudi Ordnance Corps, improve the maintenance of Saudi army vehicles, train Saudis in maintenance and automated supply operations, construct support facilities, and provide limited small arms maintenance. It has involved the sale of some 9,300 tactical and general purpose vehicles.

(3) A 10-year program to modernize and expand the Royal Saudi Navy (RSN). The Saudi Government accepted a U.S. survey of the long-term requirements for the Saudi Navy in 1972 that resulted in an agreement providing for a 10-year modernization and expansion program. The program aims to transform an antiquated four-ship force by the addition of some 25 ships, the construction of bases, and the provision of training and maintenance.

(4) A Royal Saudi Air Force (RSAF) modernization program. The Saudi Government requested an FMS contract in 1971 for the procurement of F-5 intercept/close-support aircraft and the training of RSAF personnel. The training program involved 1,600 personnel and, while Saudi pilots performed well, observers have estimated it will take close to a generation for RSAF personnel to absorb aspects of the program effectively in order to operate, maintain and manage the weapons systems independent of external assistance.

(5) A Saudi Arabian National Guard (SANG) modernization program. The United States and Saudi Arabia implemented a bilateral agreement in 1973 whereby the United States agreed to assist in the modernization of the SANG in such areas as organization, training, equipment procurement, supply, communications, and facilities.

(6) A Royal Saudi Army (RSA) modernization program. The United States has undertaken to modernize two infantry brigades by converting them to mechanized brigades patterned after U.S. Army units.

(7) A Hawk air defense system. Under a commercial contract with the Saudi Government, the Raytheon Corp, has upgraded a basic Hawk system, which in the mid-1960's had provided for the sale of 10 batteries, to an improved Hawk system. The expanded system will protect major population centers, defense sites, and the approaches to the strategic oil-producing Eastern Province.

Up to the present time, U.S. defense-related programs with the Saudi Arabian armed forces can be broken down as follows: construction, 50 percent; training 28 percent; and hardware, 22 percent. In addition to the United States, Saudi Arabia is also purchasing hardware from other sources, including the United Kingdom and France. Most of the current modernization programs in Saudi Arabia will continue into the 1980's. It has been observed that if the Saudi Government were to cease receiving military equipment at the present time, it would take some 6 years or more for its personnel to be trained adequately to operate, maintain, and manage equipment already at hand.

Since the 1960's, the Department of Defense has conducted a number of detailed surveys of Saudi Arabia's defense needs, and these have formed the basis for substantial U.S. involvement in the modernization of the Saudi defense establishment. The surveys were undertaken at Saudi request and expense. Among the more important surveys have been the 1968 survey of the RSN and the 1974 surveys of the RSA and RSAF. With the development of Saudi confidence in U.S. military expertise and training, there has been a tendency to regard the Department of Defense surveys as blueprints for modernization of the armed forces and, more often than not, the acquisition of U.S. equipment, military management and control, and training techniques.

The 1974 survey of the RSAF not only pertained to the procurement and utilization of upgraded F–5 aircraft but also the possible purchase of advanced fighter aircraft to replace aging British Lightning interceptors which were to be phased out in the early 1980's. From the Saudi perspective, there was an urgent need to strengthen the kingdom's air defense capability, and replacement aircraft had to meet the requirements for a credible defense against potential threats in the timeframe of the 1980's and 1990's. Saudi military planners have stressed the dispersal of air and ground units throughout the kingdom, and replacement aircraft must have the range to defend Saudi Arabia's extensive airspace and the widely scattered population centers and installations. The Saudi Government selected the McDonnel Douglas F–15 Eagle air superiority fighter because it met criteria considered important to its defense needs.

The 54–44 Senate vote of May 15, 1978, approving President Carter's proposed sale of 60 F–15 aircraft to Saudi Arabia, became a symbol, in the eyes of the Saudis, of U.S. commitment to the security of the Kingdom that far transcended the narrower military dimension. For the United States, the fulfillment of the Saudi request could be viewed as important in order to enhance the forces of Arab moderation.

Over the longer term, the role of the United States in the special relationship with Saudi Arabia is likely to retain its complexities. Future U.S. policy choices would appear, with respect to the relationship, to be in the context of mutual dependence. There exists, however, a number of factors which may constrain or inhibit policy decisions. For example, the Arab-Israeli conflict may turn out to be insoluble—at least, by peaceful means—in which case there could be expected growing Saudi impatience with those Western powers, including the United States, endeavoring to maintain relations with both sides. The decline of the Shah in Iran also has challenged certain precepts of U.S. foreign policy toward the Gulf region. There remains the rivalry between Iranian and Arab nationalism on either side of the Gulf which may, in the future, be beyond the capacity of others to resolve or to control. Political change in Iran may reduce U.S. ability to come to terms with a new regime because of its close identification with the old.

The Role of Congress

Particularly since the October 1973 Arab-Israeli war, the OAPEC oil embargo, and the rise in crude oil prices of 1973–74, the Congress has maintained an increasing interest in monitoring developments and U.S. policy in the Persian Gulf region. The issue of the United States-Saudi Arabian "special relationship" has been examined through hearings, reports, and debate on a number of related issues that include oil supplies, security interests, and arms transfer programs. It has been generally recognized that the Gulf region is of vital importance to the economic life and security of the United States and its allies, and that Saudi Arabia plays an extremely significant role in this context as well as in the context of an overall settlement of the Arab-Israeli conflict.

It is inevitable that the 96th Congress will be required to act on a number of measures arising from the "special relationship" because of oil and increasing U.S. involvement with the Arab world. Congressional interest may take the form of legislation on energy policy that would decrease over time U.S. vulnerability to OPEC decisions on oil. It would not be inconsistent for the United States to be simultaneously reducing its energy dependence while building up a sound relationship with Gulf producers, particularly Saudi Arabia, for the continuing supply of oil at tolerable prices—a policy that has been encouraged by the Saudi Government. Congress will likely play a role in working out U.S. security policy in the Gulf region, especially—in light of the Iranian situation—if it involves the review or overhaul of existing commitments or the assumption of new ones.

In overall U.S. policies in the region designed to further essential economic and security interests, the role of Congress will continue to be evident, particularly as it relates to issues concerning Saudi Arabia. These include:

(1) Arms sales, on which existing legislation requires consultation between the administration and Congress on all sales of $25 million or more. In the event of future Saudi requests for U.S. military equipment and services, what is the relationship between U.S. arms sales policy and the furtherance of U.S. interests and objectives in the Middle East and the gulf region?

(2) Anti-Arab boycott legislation. Legislation restricting American companies from cooperation with the Arab states' boycott of Israel (title II of Export Administration Amendments of 1977, Public Law 95–52) was designed to protect the freedom of U.S. commerce and the civil rights of American citizens. Does the legislation have the effect of hindering American companies' ability to compete for the Arab petrodollar market, thereby inhibiting U.S. trade in the Middle East?

(3) Human rights. The question of violation of human rights by governments receiving arms and other cooperation from the United States—a question that already had arisen in the case of Iran—will require finding a balance of various political, moral, economic and strategic factors. With respect to Saudi Arabia, can ways be found to minimize controversy and obstacles to sound policy decisions?

(4) Foreign investment and holdings. There has been a general animosity toward Arab equity investments in the United States and debate over proposed requirements for American banks to disclose foreign invsetments that have caused considerable Saudi concern. Should there be a reassessment of American attitudes toward foreign investment in the United States? Should Saudi investments in industrialized countries be encouraged as a means of giving the Saudis a larger stake in the health of the industrialized economies and providing incentives for continued oil production beyond the levels necessary for internal Saudi needs?

(5) The need to improve intelligence gathering and analysis. Some observers have indicated that the lesson of Iran could be applicable

to the Middle East in general with respect to the evaluation of intelligence information, and they have criticized U.S. policymakers for having ignored detailed, sophisticated analysis, preferring to look at the "big picture," while remaining blind to its more subtle nuances, including social contradictions, competing ideologies, theocratic chauvanism, and other intangibles. In light of the vital importance of the gulf region to U.S. interests, can there be a reassessment of U.S. intelligence procedures and estimates that will remain independent from policy implementation?

(6) The need for a workable strategic petroleum reserve program. By what means can Congress encourage the development of an energy policy that will reduce U.S. dependence upon foreign oil? In the meantime, what measures are required for the formulation of a workable strategic petroleum reserve program and a standby gasoline rationing program to meet emergency situations?

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THE FUTURE ROLE OF IRAN

(By Alvin J. Contrell and Robert J. Hanks*)

Issue Definition

Th 1978 upheaval in Iran transcends previous, more narrow American concerns over the access to Middle Eastern oil, the stability of nations within the Persian Gulf, or continuing friendly relations with regional states. Iran's current political crisis raises fundamental questions about U.S. policies toward that part of the world—past and present—their continued relevance to American interests in the strategically vital northwest quadrant of the Indian Ocean, and, questions with respect to the global balance of power.

U.S. Policy Toward Iran

To what extent has U.S. policy toward Iran and adjacent Persian Gulf states, as pursued in recent years, been overtaken by events in the former country? Does it still serve American interests, or has it been rendered obsolete by the ongoing Iranian crisis? If it does not, what changes ought to be made?

When Britain announced in January of 1968 that it would withdraw all military forces from the area "east of Suez" by the end of 1971, the Shah of Iran moved quickly to fill the vacuum which he and others believed would exist following the termination of British protection for the area—a role Britain had exercised for over 150 years.

Iran fitted into the American foreign policy concept as enunciated by the Nixon administration, namely, a policy of building and strengthening selected power centers along the Eurasian maritime littorals. Under this concept the United States would provide a backup for such forces in the form of sea-based naval and air power but expected the local and regional powers to provide immediate security for themselves.

Accordingly, the United States engaged in large-scale transfers of sophisticated armaments to such key countries in the Persian Gulf as Iran and, to a lesser extent, Saudia Arabia.[1] These two nations became the "twin pillars" of a U.S. policy, enunciated in 1972 by Assistant Secretary of State Joseph J. Sisco, of placing reliance on two states to provide for local and regional security and stability. Significantly, all states backing on to the Persian Gulf—with the exception of non-traditionally ruled Iraq—were either royal (e.g., Oman, Saudi Arabia, and Iran) or quasi-royal and traditional (e.g., the seven sheikdoms forming the United Arab Emirates, Bahrain, Qatar, and Kuwait). Doubts have persisted for years about the stability of a region based

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[1] See chapter, "The Future Role of Saudi Arabia," p. 526.

on what some considered anachronistic forms of governance. This doubt has increased in the view of many to a near reality given the situation in Iran.

Thus, a prime subordinate question is: Can the loss of the monarchy and the weakening of authoritarian royal rule in Iran be limited to the Iranian side of the Persian Gulf?

The U.S. "two-state policy" (i.e., reliance on Saudi Arabia and Iran) to provide security in the Persian Gulf is in great jeopardy since there is considerable doubt that the Saudi monarchy will be able to maintain the same tight control over its policies as in the past, given changes in monarchial rule in Iran. The Saudi regime has been very pro-American and this remains, for now anyway, a key factor in Saudi oil policy. Therefore, it is possible that what happens in Iran will have even greater effect on U.S. policy because of its potential impact on Saudi Arabia and the other traditional states of the Persian Gulf than any change in Iran per se.

While it cannot be proved conclusively, it would appear that Iran's military power has constituted a deterrent to threats to traditional rule on the Arabian side of the Persian Gulf. Indeed, at the request of Sultan Qaboos, Iran intervened directly and successfully in Oman's Dhofar Province beginning in 1973 to prevent the Sultan's overthrow by Soviet-supported insurgents operating from the pro-Soviet sanctuary of the Peoples' Democratic Republic of South Yemen. Iranian intervention here—at its peak involving as many as 3,000 troops—not only served to forestall the overthrow of the Sultanate, it also served as warning to radical revolutionary elements in the entire area that any attempted coup against a traditional ruler would be viewed in itself as a threat to the security and stability of the other royal and quasi-royal states of the area. Thus, another subordinate question: if the new regime is uninterested in employing military force in defense of the traditional rulers of the Persian Gulf, to what extent will the stability of the entire region be placed in jeopardy? And, concomitantly, if Iran no longer plays this sort of role, what if any nation or combination of nations will? Finally, in these circumstances, what should be the U.S. posture?

The future role of Iran will be of interest to Congress in the areas of arms sales, oil and energy policy, human rights, and regional stability in general.

Background

The roots of the present crisis in Iran are deep and diverse. Fundamentally, however, they center on the inherent conflict between conservative Shiite Moslem tenets and the demands of modern industrialization. Throughout this century, the nation's domestic political scene has depended for its stability on the successful coexistence of religious leaders and Iran's temporal ruler—in this case the Shah—neither forcing the other to relinquish power held nor to abandon the ultimate goals each sought. The disparity between the aims and aspirations of the two contending factions has thus rendered confrontation almost inevitable.

The drive to modernize Iran did not originate with Shah Mohammad Pahlavi. Nor has this conflict between ruler and religious leader been a phenomenon of the post-World War II years. Reza Shah—

the present Shah's father—began the first comprehensive campaign to convert Iran's peasant-nomad society into a modern state. Seeking to instill unity among the disparate tribes and to rekindle national pride in the past power and glory of the ancient Persian Empire, Reza Shah was aided in his efforts by the growing global demand for oil and the vast deposits lying beneath the sands of western Iran. That he did not encounter problems to the extent that they beset his son was due essentially to the fact that modernization proceeded at a relatively moderate pace. Moreover, the international political environment—especially in the regions adjacent to Iran—remained for the most part monarchical or colonial in character. In the aftermath of World War II, of course, that environment underwent profound changes. The triumph of communism in the Soviet Union had been completed, the old imperial powers had been exhausted by the war itself, nationalism was in floodtide, and the demise of colonial and monarchical governments was moving at an ever-accelerating rate.

It was into this world of ferment that Mohammad Reza Shah Pahlavi brought his own plans for rapid modernization and industrialization of his country. And with the British decision to withdraw from its commitments "east of Suez," he added to those basic aims the goal of developing sufficient military prowess to permit Iran to assume the United Kingdom's soon-to-be-abandoned responsibilities for maintaining stability throughout the immediate region.

But the conjunction of the Shah's objectives and the new political reality in the world laid the foundations for eventual domestic strife in Iran. Unlike his father, the present Shah had the wherewithal as well as the ambition to see modernization effected in a greatly compressed time scale aided by the inflow of funds resulting from OPEC oil price increases. It can be fairly asserted that he was determined to complete the task in his lifetime or, at the very least, so far advanced that no successor would be able to reverse it.

To do this, the Shah instituted a strong, centralized government—one which could orchestrate every facet of the complex programs ahead. To be sure, this meshed well with the Shah's companion desire to be remembered as the king who restored the lost power and glory of the ancient Persians. The resultant authoritarian rule, however, alienated many segments within the Iranian body politic, albeit for widely varying reasons.

On the one hand, modernization and liberalization to the extent and at the pace envisioned by the Shah ran directly counter to the beliefs and aims of the Shiite leadership. That leadership has consistently sought an Islamic government for the nation, thereby assuring the primacy of the Shiite hierarchy and the fundamental tenets of the Shiite branch of Islam. Thus, religious opposition to the Shah focused on overthrow of the monarchy itself as well as uncompromising resistance to liberalization, especially that with respect to women.

On the other hand, liberal and leftist elements which oppose the monarchy on purely political grounds, insist that liberalization—specifically with the respect to governmental forms—be pushed at a much faster rate and the benefits of industrialization be more evenly distributed throughout the nation.

Furthermore, the foregoing stresses have been exacerbated by many facets of the modernization program itself. It was clear to the Shah that if his nation was to catch up with those of the advanced world, education was a vital necessity. He therefore instituted a two-pronged program to provide the industrial base which would one day be needed to replace the petroleum reserves when they ultimately ran out. First, he sent large numbers of young Iranians overseas to schools where they could acquire the knowledge and skills necessary to operate the complex systems and installations he intended to purchase. Concurrently, he imported massive numbers of foreign technicians and advisors to operate those installations until such time as his own people could return home and assume the responsibilities. This program led to two serious complications.

The students—educated primarily in schools in the United States and Western Europe—were exposed to democratic precepts and, at firsthand, witnessed representative governments in operation. When they returned to Iran, many brought with them a new political consciousness and a strong accompanying desire to see similar freedoms established in their own country. The authoritarian rule of the Shah thus became anathema to large numbers of students.

In Iran itself, the influx of foreign technicians and advisers—mostly American and European, including about 40,000 of the former—brought with it the Western ethos and myriad on-scene examples of the more liberated and relaxed societies from whence they came. The impact made by these expatriates was profound, despite a strong xenophobic streak in Iran.

As might be expected, the liberal elements of the Iranian population desired to emulate aspects of the foreign lifestyle and political beliefs. But to the conservative Moslem leadership, these same Westerners personified an unwelcome foreign influence that had to be expunged from the country. To the Islamic hierarchy, rapid industrialization and militarization were not only unneeded but were, indeed, a destructive influence on the peoples of the country.

Thus, the Shah's dilemma. If he continued to press his program of swift industrial modernization and liberalization, he was certain to provoke the wrath of the Shiite leaders. He could expect the Ayatollah Ruhollah Khomeini—acknowledged head of Iran's most militant Moslem faction, exiled first to Iraq and then to suburban Paris—to persist in his demand for overthrow of the Pahlavi dynasty, an end to the monarchy, and establishment of an Islamic republic. On the other hand, to slow down modernization—especially its liberalization aspects—was equally certain to infuriate the liberal elements in the country.

A convergence of somewhat unlikely associates and disparate views created the challenge to the Shah's rule. Wealthy landlords, incensed over expropriation of their vast holdings incident to the Shah's 1963 "White Revolution," made common cause with religious leaders and leftist elements in opposition to the monarchy, although not necessarily in agreement as to the preferred outcome. Together with disaffected students, these groups entered into a de facto alliance in the manifest hope that irresistible pressure could be brought to bear and the monarchy thereby overthrown. The Iranian populace, in large measure followers of one or more of the foregoing factions, is the instrument through which the pressure was exerted. Strikes, violent demonstrations, and anti-American overtones—the latter ostensibly provoked by

U.S. official support for the Shah—continued to plague the nation despite installation of a military government by the Shah. As 1978 drew to a close, it was apparent that the prime objective of the dissident groups was to overthrow the monarchy. It was equally apparent that there was no agreement among the various resistance leaders which respect to the kind of government which would replace the monarchy should they succeed in bringing it down.

The implications of radical change in the Iranian government reach far beyond the shores of Iran and, indeed, those of the region itself. Quite conceivably, they extend to the economic and political welfare—in some instances, very seriously—of many nations in Western Europe, of Japan, and to some extent, of the United States itself. Insofar as the United States is concerned, the external ramifications derive in part from past and present American policies toward the countries in the strategically important northwest quadrant of the Indian Ocean.

Issue Outcomes and Consequences

At the outset, it must be said that the continued fluidity of the situation in Iran—considerable confusion with daily changes in the pressures and outlook—renders accurate prediction impossible. For the present, the best that can be done is to list the plausible outcomes and speculate on their relative probabilities. The possibilities would appear to be four in number.

Republican Government

Here, the monarchy would be dissolved and replaced by representative rule. Probably parliamentary in form, it would feature moderate leadership and would exist only with the cooperation of the military and the religious institutions, but would remain basically pro-Western character. Some loosening of ties to the United States would seem likely. Current prospects for this remain questionable.

Radical Regime

This outcome would find the monarchy dissolved and replaced with radical leftist leadership. The actual form could vary from a reasonably representative type rule to the more familiar, authoritarian Marxist government such as those which now hold sway in Ethiopia and Afghanistan. It would center in the upper ranks of the military, perhaps among the industrial elite, and probably throughout the Shiite hierarchy. With respect to the latter, one cannot discount the possibility of a religious accommodation despite the historic Moslem antipathy toward Communism.

Military Coup

One form of military coup would originate in the middle ranks of the army among officers with left-of-center views. While it could signal a turn toward the Soviet Union, the present predominance of Western weaponry—especially American— in the Iranian armed forces might mitigate this possibility to some extent, although similar conditions also existed in Ethiopia, which is now a Soviet client. Alternatively, should there be continued instability under a new government, a coup led by higher ranks of the armed forces could lead to a quite different military government. One must conclude that considerable uncertainty cloaks the most likely result of any military coup.

Islamic Republic

Finally, there is the insistent call of the Ayatollah Ruhollah Khomeini for establishment of an Islamic Republic, which is the current phase of the Iranian revolution. This development would make a swift move to basic Islamic, especially Shiite, tenets, and would return Iran to a governmental situation more akin to that which existed under the Qajar Dynasty—the monarchy which preceded the Pahlavis'—in which the religious elements were in the ascendancy over the political ones. According to Ayatollah Khomeini, it would feature renunciations of armaments and adoption of a policy of strict nonalinement, the government accepting only economic aid and that from any country offering it. Given the stresses and demands permeating the resistance to the Shah's rule and the aforementioned assertions of the Ayatollah, an Islamic Republic could eventually evoke opposition from the military, leftist-liberals, and the bulk of the students.

As previously noted, it is impossible to forecast with any degree of accuracy how the crisis will ultimately be resolved.

Internal Consequences

The manifest confusion and uncertainty notwithstanding, a number of things can be said about the ultimate results in Iran and what they portend for that nation's foreign policy stance as it affects the region. The power of the Shah has clearly been broken and seems unlikely to be restored. The Iranian focus will surely be inward for the foreseeable future. Moreover, its orientation will be less Western than it has been under the Shah. Whether, or the degree to which, that orientation will shift toward the Soviet Union will depend largely on the extent of domestic political disintegration before a solution is found. The greater the chaos before that time, the greater the danger of a radical outcome in one form or another.

External Consequences

Again, despite the uncertainty attending the crisis, some consequences of the outcome can be postulated with relative confidence at this time. Developments in Iran certainly rule out the possibility of a continuation of a U.S. policy based upon the "twin pillars" i.e. Iran-Saudi Arabian cooperation, policy. The removal of the king from this policy will render the indigenous basis for the policy inadequate in the sense that basic differences between the two monarchies were largely muted by their common stake in kingship and the desire to place the preservation of that institution above other divisive issues.

For the first time in over 150 years, the Persian Gulf may not have a friendly paramount external or local power to preside over the security and stability of the area. The possibility of Soviet influence over the gulf would be greatly enhanced since any anti-Western changes in the political balance of the area would inevitably represent a net gain for the Soviet Union. Iran with its 35,000,000 people—double that of any other Persian Gulf state—was the only local state capable of playing this role. Thus, as previously noted, if Iranian military forces continue to be tied down internally and unable to contribute to regional security, or if a new regime refused to employ military force in defense of the traditional rulers of the Persian Gulf, the stability of the entire region would be in jeopardy.

There is, of course, every reason to believe that a radical regime in Iran might eventually come to power which would seek security in nonalinement and regional cooperation rather than by attempting to maintain Iranian military paramountcy in the Persian Gulf as the Shah has done. Such a regime would not necessarily be Marxist in the broad sense, but it would most likely be supported by Marxist elements in Iran and in the region. While such a regime would not be entirely pro-Soviet, it could be expected to receive Soviet support and to cooperate more with the Soviet Union than has the Shah.

It is always dangerous to view an incident or crisis in isolation. This most assuredly is true with respect to Iran. There has been a series of recent events which, taken in context with the present Iranian upheaval, is noted by Western national security planners. Existing radical or Marxist regimes in Iraq and South Yemen have now been joined by ones in Ethiopia and Afghanistan. If Iran is then added to this mosaic it is clear that the globe's foremost source of energy will have been essentially surrounded by governments either sympathetic to or allied with the Soviet Union. Emergence of a radical regime in Iran and the subsequent fall of the Ibn Saud monarchy in Riyadh while not necessarily connected, would then place that vital source of energy under the control of a handful of nations, each looking to Moscow for guidance, or at least cooperation. While the Soviet Union and its clients clearly could not absorb total Middle Eastern petroleum output, they could employ selective manipulation of supplies so as to damage Western interests or coerce Western policies. The possibilities of such encirclement are hard to gauge, particularly when it comes to assessing the degree of control or coordination that the Soviet Union can effect over Moslem countries such as Afghanistan, Iraq, and South Yemen, at a time when Moslem fundamentalism is reportedly on the rise. Some of the countries in question in fact, may reject Soviet influence, as Egypt did. Moreover, the further question arises of the extent to which Afghanistan, Ethiopia, Iraq, South Yemen, and perhaps Iran are capable of coordinating an encircling threat against pro-Western Arab nations.

Finally, there is the problem of perceptions. In this instance, those of pro-Western nations in the vicinity of Iran are central to U.S. interests. Warnings of Soviet designs have recently been enunciated by the ambassadors of Pakistan and Saudi Arabia. Based on those and other statements, some observers find that the United States may have confused its friends throughout the Middle East without impressing its adversaries. Those friends are watching American reaction to the events in Iran with concern, and reactions triggered by their perceptions are not likely to be long in coming.

Many believe, not without evidence, that the Iranian crisis, involving as it does a major source for large U.S. oil imports and thus with its potential for harming the U.S. economy and its effects on stability throughout the rest of the oil-producing regions, may be one of the most critical foreign policy issues currently confronting the U.S. Government.

The Role of the United States in Issue Resolution

American support of Iran, whether political or in the form of military assistance, is not a new development. Rather, that policy spans six American Presidential administrations, going back to early 1946 when the Soviet Union applied direct military pressure in an effort to seat a Communist government in Tehran. The decision of the Truman administration to force a Soviet withdrawal and, subsequently, to assist Iran in building up its defenses and maintaining its territorial integrity, was based not so much on largesse as it was on strategic self-interest. The United States detected renewal of the old Russian imperial designs on the strategic, oil-rich regions adjacent to the Persian Gulf, and determined to block those designs. Inasmuch this nation did not have the wherewithal to do it alone on these as geographically remote grounds, Washington grasped the best alternative: Namely, helping a regional country considered most capable of aiding in that task.

In subsequent years, such support returned dividends in the form of stability, access to Iranian oil, Iranian association with the American-sponsored Baghdad Pact—later the Central Treaty Organization —and, ultimately, the assumption by Iran of many of Britain's regional responsibilities when the United Kingdom decided to withdraw from its commitments "east of Suez."

This consistent program of support for Iran and its ruling Shah was most recently clearly articulated following promulgation of the so-called Nixon Doctrine, an approach to foreign policy premised on the notion that the United States would draw back militarily from some areas of the world. Stripped of its broader designs, for example, the creation of a "pentagonal world," that doctrine essentially called for:

(1) A more selective approach by the United States to its global role, particularly in the exercise of its military power;

(2) A greater degree of burden-sharing by America's allies or friends in their own defense; and

(3) American help (primarily in the form of military assistance and sales) in the creation of independent power centers that could maintain local stability and help safeguard American interests.

As noted, in the case of the Persian Gulf, this doctrine was supplemented by the "twin pillar" policy wherein the United States sought to promote Saudi Arabian-Iranian cooperation in maintaining stability in the Gulf.

Since the outbreak of violence in Iran and the subsequent deterioration in domestic stability, U.S. actions have been somewhat ambivalent. From the outset, President Carter publicly supported the continuation of the Shah in power. This provoked a good deal of anti-Americanism in the rhetoric and actions of the dissidents and evoked the criticism that the United States is closing the door to any rapproachment with the opposition forces.

On the other hand, when Leonid Brezhnev issued his blunt, keep-your-hands-off warning to the United States in November 1978, the administration hastened to assure the Soviets that Washington had no intention of interfering in the internal affairs of Iran. This statement—made by Secretary of State Cyrus Vance—did little to dampen the anti-American overtones of the crisis, but it did appear to raise serious questions in the minds of the other regional, friendly states as to American commitment in the area and American determination to oppose what some perceive as a concerted Soviet drive for hegemony over this part of the world.

Then, the ordering and subsequent suspension of a U.S. naval task force built around the carrier *Constellation* exposed deep divisions within the administration as to just what American policy ought to be. Thus, there has been widespread criticism that ambivalence—perhaps even disarray—characterizes the present American approach to the crisis. Controversy, of course, is not confined to the issue of naval presence.

The prime question at present is: What will the relationship of the United States be with the new Iranian regime, and what adjustments will have to be made to reorientations in Iranian policy? What, if anything, can or should the United States do to facilitate the formation of a moderate regime that can achieve stability and restore Iranian oil production? This situation remains highly fluid, with the final results still uncertain.

Some observers maintain that prolonged U.S. support of the Shah, perhaps for too long into the crisis, may have alienated all of the factions contending for power. These observers contend that the best approach now is for the United States to back away completely and let the Iranians themselves settle the problem without any overt U.S. involvement, accepting the outcome, whatever it might be.

In formulating U.S. policy with respect to the crisis, it is important that the American leadership take into account the positions being espoused by the current leaders. The Ayatollah Khomeini has repeatedly asserted that an Islamic republic will cancel all extant armament contracts and will accept only economic aid, from whatever source will offer it. In addition, Ayatollah has stated that Iran will no longer be "the policeman of the Gulf."

Particularly the latter statement highlights yet another question that is subject to great controversy among American policymakers. What is to be done about the "twin pillar" approach to security in the Gulf? On one hand, some maintain that the only real U.S. option available is to shift reliance entirely to the other "pillar," looking to Saudi Arabia to take up the slack. This, of course, ignores the comparative military weakness of Saudi Arabia as well as the political danger of an overthrow of Saudi monarchy given the Iranian example.

A second option being mentioned is the encouragement of a new regional security arrangement encompassing all of the states of the immediate. area, regardless of government or political persuasion. Transformation of the almost moribund Central Treaty Organization might offer one opportunity. Such a solution to area stability and security problems is attractive. But it faces obstacles of no little difficulty as evidenced by the recent efforts of the Gulf States to form just such an organization; efforts that foundered on the distrust which the monarchial sheikdoms harbor with respect to the radical regime in

Iraq. Moreover, the emergence of a similar government in Iran would upset states on the Arab side of the Gulf whose historic antipathy toward what would surely be seen as revival of an expansionist and unfriendly Iran would be aroused.

The difficulties attending this issue lead directly to two further questions around which controversy continues to swirl. The military sales to these countries have provoked considerable debate in the United States and can be expected to do so in the future. Yet, no regional security arrangement can be expected to prosper without adequate military credibility. Thus, one can expect the debate to continue.

Finally, if no suitable replacement for the "twin pillar" can be found locally, the question of U.S. military power enters the equation. There are some who argue that, insofar as military power is concerned, the United States should seek to limit and stabilize military forces in the Indian Ocean region, relying on negotiated agreements to keep others—especially the Soviet Union—out as well. The Carter administration initiated such talks after coming into office in 1977.

Opposed to these arguments are those who believe that, given the deterioration which has occurred in the region in recent times, the United States will have to rely on its own power to protect its vital national interests. They assert that the foregoing policy would leave the Soviets free to prosecute surrogate operations and covert subversion of the kind which is apparently paying Moscow substantial dividends in Africa. Compliance with any agreement to refrain completely from meddling in Middle Eastern affairs would patently be impossible to verify. Thus, this group maintains that instead of withdrawing, the United States ought to be strengthening its military position through expansion of the facilities on Diego Garcia and enhancing the power of the Middle East Force on a permanent basis, while scheduling longer and more frequent excursions of additional naval forces into the Indian Ocean.

Critics doubt the credibility of such a force as a coercive instrument and see it as likely to stimulate a weak interventionist image, to say nothing about the risks of provoking a military reaction in kind from the Soviet Union—in which case, U.S. forces could be at a disadvantage to the Soviet forces in some important respects.

The Role of Congress

Given the rapid acceleration of the Iranian crisis during the closing months of 1978 and the concurrent election campaigns in the United States, Congress played little part in fashioning or influencing the American approach to the issue. To be sure, past legislation and oversight actions have contributed significantly to the present U.S. position in Iran, in other regional nations, and in the Indian Ocean in general. In part, the foundations for future American policy toward the northwest quadrant of the Indian Ocean will be found in those Congressional actions.

As for the 96th Congress, it can expect to be confronted with some momentous questions which will reach the sinew of U.S. national security and economic health. The Congress will probably wish to review present American arms transfer policies. The question of what to do about Diego Garcia is certain to be raised as well as the related issue of continuing naval arms limitation talks in the Indian Ocean, which might eventually rely on the Senate's treaty powers. If it appears that the United States has no viable option other than looking to its own resources for the protection of American interests in the region, the entire question of the adequacy of current American military strength will have to be reexamined. Finally, a continued absence of Iranian oil raises serious questions about alternative sources and our continuing energy crisis.

Just as the crisis in Iran may very well present the administration with a most difficult test of international security acumen, so it may confront the Congress with some of its most complex legislative and oversight tasks.

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U.S. ECONOMIC ROLE IN AFRICA

(By Nate Fields*)

ISSUE DEFINITION: FOREIGN POLICY CONTEXT

The issue of the U.S. economic role in Africa must not be viewed in isolation. Traditionally, discussions of African-American relations have asserted that Africa was only a marginal interest to the United States in political, military, and security terms. Correspondingly, historical discussions of U.S.-economic relations with Africa have concluded, that in a bilateral context Africa is of secondary importance to the United States, and that the United States plays only a secondary role in the economic affairs of Africa. Since the early 1970's these perspectives have been rapidly changing, as significant shifts occur in the management of global economic, political, and security issues, and as it becomes more apparent that African States play an increasingly important role in resolving and managing these issues.

In order to provide as complete an understanding as possible of issues surrounding the U.S. economic role in Africa, this discussion is first cast in the context of specific interests the United States has with respect to its overall policy towards the Third World, with particular emphasis on the international economic issues under deliberation in the so-called North-South dialogue. Second, the U.S. economic role in Africa is discussed as one element in an evolving set of specific U.S. interests within the larger framework of U.S. policy toward Africa.

An analysis of the general direction of U.S. policy toward Africa reveals a considerable overlap in these two areas. Specific economic interests motivating the United States in its relations with Africa are linked to soliciting the assistance of African nations in advancing larger U.S. global interests.

Various policy statements related to U.S. interests vis-a-vis developing countries show that U.S. policy has been geared toward: (1) maintaining access to raw materials and markets, and protecting U.S. foreign investment; (2) encouraging developing countries to cooperate with the United States in achieving certain global aims (including the promotion of respect for human rights, the limitation of the spread of nuclear weapons, and the reduction of the pace of regional arms races); (3) assisting developing nations in their efforts greater growth in the global economy; and (4) mobilizing industrial nations and LDC's in efforts to promote better management and development of important natural and strategic resources.

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If one accepts the above as the basic tenets of U.S. relations with Africa, several important policy questions should be examined as U.S. policymakers continue efforts to establish more effective and reliable relations with Africa:

(1) Are overall U.S. political, security, humanitarian,, and economic interests compatible with African interests in these areas?

(2) Are U.S. economic interests in Africa sufficiently important to become the primary element of influence in relations between African States and the United States?

(3) Can compatibility between Africa and U.S. economic interests lead to greater compatibility and cooperation in other political and security areas where tensions presently exist?

(4) What action should the United States take to demonstrate that trade, economic assistance, and investment relations with Africa are mutually beneficial?

These are the large policy questions for the 96th Congress to keep in mind as it legislates specific economic policies and programs which affect U.S. relations with Africa.

Background: U.S. Economic Interests in Africa

Attempts to define a coherent U.S. approach to relations with Africa began in earnest with Secretary of State Kissinger's efforts to frame a solution to the intensifying conflict in southern Africa at the end of the Ford administration. The Carter administration articulated an overall U.S. policy towards Africa when, in several addresses in 1977, Secretary Vance delineated the basic construct of the U.S. Africa policy.

In the area of U.S. economic policy, Vance highlighted several major policy positions. He noted that:

U.S. assistance policies must recognize the unique identity of Africa. The United States cannot be effective if we treat Africa simply as one part of the Third World, or if the United States responds to Africa and its economic needs solely out of pressures resulting from East-West competition.

The United States does not insist that there is only one road to economic progress. Considering the diversity of Africa, the United States is prepared to work with peoples and governments of varying beliefs, with programs designed to meet specific country and regional needs.

The U.S. objective is to foster a prosperous and strong Africa that is at peace internally and at peace with the world. The United States recognizes that the evolution of successful United States-Africa policy depends more on long-term constructive assistance to African development than on short-term diplomatic maneuvers.

Although trade and investment will continue to provide the major U.S. inputs for development, the United States is committed to providing bilateral as well as multilateral assistance that will directly improve the lives of those most in need.[1]

In May and June of 1978, when the public pressures for a clarification of the U.S. response to the Zaire Shaba crisis began to mount, the Carter administration in a series of public statements attempted to further refine and clarify its Africa policy. The most explicit enunciation of U.S. African policy was given by Secretary of State Vance on

[1] Statements contained in July 7, 1977 speech by Secretary of State Vance before the National Association for the Advancement of Colored People (NACCP).

June 20, 1978 in an address before the U.S. Jaycees at Atlantic City, N.J.

In this address the Secretary pointed out that African nations play a key role in global political and economic affairs and in other international areas. Further, he stated that U.S. policy toward Africa was based upon American interests and African realities. Specific U.S. interest in its relations with Africa were said to include soliciting the assistance of African nations in (1) stopping the spread of nuclear weapons, (2) controlling the accumulation of conventional armaments, (3) stopping hunger and malnutrition, (4) securing better management of the world's resources.

After outlining the specific U.S. policy objectives in South Africa, Rhodesia, Namibia, Zaire, and the Horn of Africa, the Secretary pointed out that the strongest element in United States-Africa relations was the economic tie built up over the years through trade, aid, and investment. Strengthening the economic relationship was said to be the most essential element in advancing both African and American interests. A large number of African affairs analysts agree with this approach.

American policymakers have begun to subscribe to the view that Africa is important in the future growth of the U.S. economy. Further, they have begun to suggest that there is a growing interdependence between the African and American economies. Specific emphasis is being placed on the economic importance of Africa as a source of critical mineral and raw materials imports, as well as on the U.S. interest in creating a more favorable climate for U.S. investment and trade with Africa.

Several African States possess valuable mineral and energy resources which the United States needs. In addition to the large imports of petroleum from Nigeria and Angola, the United States also needs other African mineral exports. These include: columbium from Nigeria, manganese from Gabon and South Africa, cobalt from Zaire, chromium from South Africa and Rhodesia, gold and platinum, antimony and vanadium from South Africa. There is copper in Zaire and South Africa, uranium in Gabon, Niger, and South Africa, iron in Liberia and Mauritania, and flourspar in Kenya and Mozambique. Guinea is estimated to have the world's largest reserves of bauxite.

U.S. Investment in Sub-Saharan Africa

Investments have been the major link in the United States-Africa economic relationship. The bulk of U.S. investment in Africa has occurred since the end of the colonial era, and over the past 10 years it has incerased significantly. In 1977, U.S. direct investment was estimated at $4.6 billion (up from $1.3 billion in 1966), over half of which was in the black majority-ruled developing countries of Sub-Saharan Africa. Of this 1977 total, $2.8 billion was concentrated in the petroleum and mining sectors. Manufacturing activities amounted to $1 billion, with investments in the service sectors such as transportation, trade and finance totaling approximately $0.5 billion.

Analysis of the geoeconomic pattern of U.S. investment in Africa reveals that mining investments are concentrated in southern Africa, with South Africa being the primary locus. Petroleum investment, on

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the other hand, is concentrated in West Africa, notably Nigeria, Gabon, and Angola. A new era of investment growth in Africa is the manufacturing sector. At present U.S. investments in the manufacturing sector are also concentrated in South Africa, but new discoveries of mineral deposits in west and central African states could lead to significant increases in U.S. investment in these areas.[2]

Trade

United States trade with the developing countries of Sub-Saharan Africa has been growing at a faster rate than U.S. trade with the rest of the world. In 1977, exports to Black Africa rose by 15 percent compared with 4 percent to the rest of the world, and imports from Black Africa rose by 22 percent compared to 21 percent from the rest of the world.

Since 1972, the United States has had a trade deficit with Sub-Saharan Africa resulting almost exclusively from U.S. imports of Nigerian petroleum. In 1977 this deficit amounted to $6.7 billion, of which $5.6 billion was the deficit in our trade with Nigeria. Nigeria has become ever more important as a trading partner with the United States, not simply because it supplies the United States with clean-burning low-sulphur oil imports, but also because U.S. businesses are increasingly attracted by the size of the Nigerian market. In 1977, U.S. trade with Nigeria, ($7.1 billion in exports and imports) was over three times the value of U.S. trade with South Africa, which amounted to $2.3 billion in 1977.

The attraction of the Nigerian and South African markets notwithstanding, the total Sub-Saharan African market is still untapped by U.S. businesses. In 1977, U.S. exports to Sub-Saharan Africa totalled $3.1 billion which was approximately 10 percent of total worldwide sales to that region. Although U.S. exports are expected to increase by 5 to 10 percent in 1978, they still represent less than 3 percent of total U.S. exports worldwide. U.S. exports are roughly equal between South Africa and Nigeria (Nigeria has just recently surpassed South Africa as the largest recipient of U.S. exports) and the remaining 43 markets. In 1977, major U.S. exports to Africa included construction and mining machinery ($409.2 million); motor vehicles ($398 million); heating and cooling machinery, pumps and mechanical handling machinery ($363 million); and telecommunications equipment ($249 million).

U.S. imports from Sub-Saharan Africa totalled $10 billion in 1977, up $1 billion from 1976. A slight decline is expected in 1978 and 1979 as the United States endeavors to reduce it oil imports from Nigeria, Angola and Gabon. Minerals, raw materials, and foodstuffs account for most U.S. imports from Sub-Saharan Africa. African nations supplied the following percentages of U.S. imports of the following raw materials in 1977:[3]

[2] Source: Bureau of Economic Analysis, U.S. Department of Commerce; and Statement of James A. Joseph, Under Secretary, U.S. Department of Interior before the Congressional Black Caucus' 1978 Legislative Workshop on "The U.S. Role in African Economic Development;" Washington, D.C. Sept. 29, 1978.

[3] Source: Trade data from U.S. Department of Commerce, Bureau of Economic Analysis; Statement by Stanley J. Marcuss, Senior Deputy Assistant Secretary for Industry and Trade before the Congressional Black Caucus' 1978 Legislative Workshop on "The U.S. role in African Economic Development," Washington, D.C., Sept. 29, 1978.

		Percent
Coffee	($901,000,000)	23.1
Gem Diamonds	(410,000,000)	26.1
Cocoa	(274,000,000)	41.7
Platinum	(156,000,000)	57.6
Copper	(102,000,000)	26.9
Manganese	(46,000,000)	32.8

Economic Assistance

In light of the fact that Africa has the largest number of the poorest countries in the world (with 20 of the 32 countries listed as the world's relatively least developed [RLDC's] located in Africa), and is considered the most underdeveloped region of the world, providing economic assistance would seem to be the most effective means by which the United States can promote steady economic development in Africa. Adequate bilateral economic assistance in the form of development and food aid programs and multilateral assistance through the international development lending institutions such as the World Bank, International Development Association (IDA) and the African Development Fund can make a major contribution to sustained economic development in Africa. When coupled with the benefits of acceptable commodity agreements, debt relief, trade liberalization, and greater foreign investment, well-defined economic assistance programs provide these countries with the ability to mobilize the human resources necessary for sustained economic growth.

Moreover, many supporters of increased economic assistance to Africa have argued that such aid can be an element in helping countries maintain political stability. Within Africa, several countries including Ghana, Zaire, and Zambia, have suffered from political instability caused at least in part from economic crises. Instability in countries such as these can lead to larger global economic dislocations by disrupting exports of valuable mineral and raw material exports. And instability within important countries can often lead to increased U.S. arms sales and military programs thus frustrating larger goals of controlling the build up of conventional arms within various regions. In this respect, according to many analysts, maintaining (or in some instances increasing) economic assistance can be useful to the United States in its relations with Africa.

Whether existing U.S. assistance programs to Africa are adequate for these economic and political purposes is an issue that will be considered by the 96th Congress. It should be noted, however, that under the Carter administration economic assistance to Africa has been increased. Historically, Africa received a very small percentage share of the U.S. bilateral foreign aid budget, and this is still true. Africa's share of the bilateral economic assistance budget for the period 1962–79 averaged about 11 percent. The annual average from 1970 to 1975 was about $290 million. In 1977, the Africa economic assistance budget was increased to $309 million, with a further increase in fiscal year 1978 to a level of approximately $475 million.[4] Fiscal year 1979 foreign aid appropriations for Africa were slightly below the fiscal year 1978 mark with estimated program levels totalling between $430 and $450 million. The aggregate fiscal year 1979 figures include $260 million in develop-

[4] U.S. Congress. House. Committee on International Relations. Subcommittee on Africa. Foreign Assistance Legislation for Fiscal Year 1979 (Part 3). Hearings, 95th Congress, 2d session. Feb. 7 * * * Mar. 2, 1978. Washington, U.S. Government Printing Office, 1978. 227 p.

ment assistance funds for health, food and nutrition, population, and education and human resource development programs in Africa; $45 million in Economic Support Funds (formerly security supporting assistance); approximately $122 million programmed as Africa's share of Public Law 480 title I and title II funds; and $15 million in funds earmarked for assistance to African refugees.[5]

African Economic Interest

Because of Africa's limited economic and financial role in the world economy, African leaders, in their appeals for greater participation and equity in the international economic system, argue that global economic trends will continue to dominate African countries—while Africa gains only marignally greater influence on the economic activity of the rest of the world. This represents the position taken by African States in the North-South dialogue.[6] In this regard, African States along with other developing states, have persisted in their attempts to reach agreement with the developed countries on issues that affect their ability to pursue sustained economic growth and to improve the welfare of the poor in their countries.

Within the North-South negotiations framework, the issues of most importance to African countries include:

(1) *The availability of nonconcessional capital flows.*—Developing countries are calling for further expansion in hard loans from the World Bank and regional development banks, for improvement in the terms and amounts of credits available from the IMF, and for greater access to the capital markets in industrialized countries.

(2) *The amounts and forms of official development assistance.*—Developing countries continue to press the OECD (Organization for Economic Cooperation and Development) countries for annual economic assistance amounting to 0.7 percent of the donor countries GNP. A related issue is the call by developing countries for debt relief to harmonize past and present aid terms to the poorest countries. This issue is particularly important for Africa given its large numbers of relatively least developed countries.

(3) *Commodities.*—This issue is important for African and other developing states, because commodity and raw material exports are most crucial for the foreign exchange earnings, and because the unusually wide fluctuations in the commodity prices over the past years have severely disrupted economic growth in many of the poorest countries. These fluctuations have been equally disruptive for many developed countries. Producer countries are seeking specific commodity price stability agreements for tin, cocoa, coffee, sugar, copper, and rubber. All of these are principal exports for many African States.

(4) *Export expansion.*—This too is a crucial area for African economic growth. In addition to greater shares of the various commodity markets and more favorable prices for their exports, these countries are advocating a general lowering of trade barriers in their

[5] See International Development and Food Assistance Act of 1978 (H.R. 12222), International Security Assistance Act of 1978 (S. 3075), and Foreign Assistance Appropriations for Fiscal Year 1979 (H.R. 12931).

[6] See chapter, "U.S. Policy Toward Developing Countries," p. 70.

negotiations in the Multilateral Trade Negotiations (MTN) and have proposed a global scheme to provide preferential treatment for developing country exports in UNCTAD.[7]

(5) *Food and food reserves.*—African and many other developing States face a persistent problem of increasing food production at a rate sufficient to offset population growth rates. Negotiations are being conducted to formulate a world policy on food reserves, while efforts to reach a coordinated approach to food production in LDC's continue.

As authorities in developed and developing countries grapple with these issues, ways will be sought to resolve them in a manner which provides mutual benefit to the Western economies and to developing economies. Given the emergence of issues that are distinctly global, economic officials in many developed and developing countries are anxious to avoid the acrimony which had characterized economic relations between the North and South between 1974 and 1977 (the height of the so-called North-South debate). Because of the importance of the Third World to the United States and because the United States is still regarded as the leader in the international economic system, this country is widely expected to take the lead in resolving these economic issues.

At a time when world economic trends point to shortages of energy and mineral resources, Africa's heretofore peripheral role in the global economy will in the eyes of many analysts, become important for sustained economic growth in the United States and in the West. The increase in global demand for mineral and energy resources bodes well for African states. When coupled with new African attitudes favoring orderly exploitation of their nonrenewable resources at higher prices, the inceased demand could permit a rapid and sustained economic growth for these resource-rich countries. The same holds true for those countries that have developed diversified agricultural export economies. These countries should also benefit from increased demand and more orderly marketing and price agreements.

In contrast to these two classes of resource-rich countries, the resource-poor African states (notably the Sahel states of Mali, Chad, and Upper Volta, along with others such as Ethiopia, Benin, Burundi, Malawi, and Tanzania) are projected to experience lower and sometimes even negative rates of economic growth for the next decade. Although U.S. policy toward these poor countries is not directly related to future economic growth in the United States, or to overall global economic growth, the United States nonetheless has an interest in maintaining good political relations with them. Particularly important is the political leadership several of these countries exercise in Africa, in the Third World generally and in international forums. For this reason, the United States will want to maintain economic ties to these countries.

Program Issues and Options

Development Assistance Issues

Perhaps the most contentious issue facing the United States in the area of African foreign assistance in 1979 and 1980 will be the level of

[7] See chapter, "Multilateral Trade Negotiations," p. 48.

authorization and appropriation of funds for the poorest countries in Africa. As mentioned earlier, total bilateral aid to Africa declined in fiscal year 1979, and few increases in 1980 funding levels for Africa aid programs are expected in light of the across-the-board cuts made by both the authorization and appropriation committees in the administration's 1979 budget request for foreign aid programs. At a time when the administration is expected to keep requests for budget increases to an absolute minimum, the foreign aid budget could be particularly vulnerable. Congress will probably want to give careful consideration to the political implications of real reductions in the foreign aid budget.

At a time when developing countries are pressing demands for greater United States and Western economic assistance, a budget cut could be seen in Africa as a retreat from commitments made by the United States in official discussions within the North-South framework. The most noteworthy of these commitments is the U.S. pledge to double concessional economic assistance to the poorest countries by 1981. Foregoing increases in the 1980 foreign aid budget would further dim any possibility of meeting this commitment by 1981.

Although U.S. economic aid to African States is only a small percentage of total economic assistance by all donors, a U.S. retreat or slowdown in its support for economic assistance to these countries could have a depressing impact on their already fragile economies. Further, because of the U.S. leadership role in the North-South dialogue, any significant retreat could trigger similar reactions by other developed countries.

The bulk of U.S. bilateral economic assistance to African countries has been programed to assist countries in meeting the basic human needs of the poor. Allocations have been concentrated in health, population, small-scale farming, and education programs. African States continue to express a need for assistance outside of the basic needs areas. Assistance is being requested for financing projects in energy, environment, transportation, urban development, and other larger scale infrastructure projects. These projects are deemed essential by African States for achieving any degree of economics self-sufficiency over the long term.

The United States should consider whether present policy guidelines should be broadened to provide more assistance in these critical development areas. Two areas are under discussion within the African development assistance context: road construction, and river basin and lake development projects. African States argue that foregoing the development of projects in these areas seriously hampers their ability to deliver benefits to the majority of poor within their respective countries. U.S.-Africa policymakers acknowledge the need for such projects, but take a cautious approach to increased U.S. participation in these areas. Major concerns are that the cost of these high technology projects could divert resoures from projects which directly benefit the poor, and that past U.S. involvement in such projects has often shown that unanticipated technical problems can occur which reduce the intended benefits of such projects.

In the fiscal year 1979 foreign assistance authorization bill, the economic and political justification for such projects was acknowledged when the Congress included a provision providing for limited U.S. participation in larger scale capital projects when done with the participation of other donors, and when such projects are shown to be essential for the achievement of other agricultural development objectives.[8] It is anticipated that the first use of this expanded authority will occur within the context of the regional development schemes in the Sahel States of West Africa and in the proposed Southern Africa development program.

The concept of U.S. economic assistance being provided within larger regional economic development programs has received much support over the past several years. The Sahel development program was created to provide a coordinated approach to common development problems affecting the eight countries which suffered from the extreme drought of 1970–76. Observers have stated that this program provides the most efficient mechanism for providing U.S. resources to the poorer states in Africa. It is further argued that regional economic development programs provide a framework for greater cooperation between states in respective regions, thus reducing the potential for conflicts between these states. It has also been suggested that regional assistance strategies allow for greater coordination of donor resources to countries within a specific region, thus reducing the political competition between donors for high profile and often economically inefficient projects.

The Sahel regional development scheme is also being proffered as a model for providing U.S. economic assistance to the nine countries in Southern Africa. Issues surrounding the use of such schemes pose the question of whether U.S. funds should be targeted for selected key countries where the U.S. has a specific bilateral interest in maintaining access to critical raw materials and/or interest in establishing strong political ties. (Such a policy would more than likely come at the expense of assistance programs for the resource-poor states of Africa.) Or alternatively, could the U.S. use the regional development schemes in a fashion which would not only support key countries, but also assist other poorer countries by providing stimulating economic assistance in a regional context and by encouraging African interest in regional economic integration. Effective strategies in this regard would require greater coordination of U.S. foreign aid loans and grants with other U.S. trade and investment programs.

In the 1978 foreign aid authorizations, the Congress enacted special policies to guide U.S. assistance to the RLDCs. These policies, which apply to twenty African countries, mandate that all U.S. bilateral assistance to these countries should be provided on a grant basis, and contain an important provision which would allow the President to waive or forgive the debt of these poorest countries on a case-by-case basis.

Immediate consideration is expected to be given to several African states which are experiencing difficulties in meeting payments on outstanding loan obligations to the United States. However, the legisla-

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[8] See International Development and Food Assistance Act of 1978, H.R. 12222, See 101(b)(12).

tion requires annual congressional authorization and appropriation of any amounts forgiven. Some observers expect that this case-by-case provision will lead to the introduction of political criteria into decisions which, in their view, might better be made on the basis of economic need. Those who take this position fear that the denial of debt forgiveness might damage relations that had otherwise been satisfactory.

Trade Issues

The basic questions confronting the United States in its trade policy with Africa are: (a) Should, and how can, African states be assisted in their efforts to expand exports and (b) should, and how can, African states be assisted in stablizing export earnings which are crucial for sustained growth within their economies? There is growing sense of protectionism in the United States as various industries call for restrictions on imports. On the other hand, increased trade and exports of U.S. goods to African markets can only exist if the African states obtain foreign exchange earnings from their exports sufficient to purchase U.S. goods. Thus, when considering trade relations between the United States and Africa, policymakers must take into account diverse and at times contradictory interests.

The Generalized System of Preferences (GSP) and the Export-Import Bank programs are the two immediate policy instruments which the United States has at its disposal for encouraging increased trade with African states. The GSP was designed to assist developing countries' trade efforts by giving preferential tariff treatment to selected imports from these countries.

With the exception of Nigeria and Uganda all African states are eligible for preferential tariffs for certain products. However, most African states only benefit marginally if at all from the U.S. Generalized System of Preferences. In 1977, only $136 million worth of goods from sub-Saharan countries entered the United States duty free. In the first 6 months of 1978, only $48 million worth of goods entered the United States under this program. Because of the relative newness of the program, many African states are not aware of procedures for obtaining preferential treatment for their specific exports. An effort might thus be undertaken to inform African states of the potential benefits of this program, and special consideration might be given to the more important commodity exports from African states which are currently not benefitting from the program.

Special attention might also be given to the prospects for increasing U.S. exports to African states. The Export-Import Bank program of loans and credits to foreign companies and governments to purchase U.S. exports is designed to promote U.S. exports worldwide. Most of the benefits of this program have gone to upper and middle income countries. African states have received the smallest share (less than 10 percent) of financial credits and guarantees under this program. Policy analysts may want to give attention to finding ways to expand the role of the Export-Import Bank in Africa.

The question of stabilizing earnings from the export of primary commodities is the most crucial problem facing African countries in the area of trade relations. Countries such as Zambia, Zaire, Sudan, Ghana, and Senegal have experienced severe balance-of-payments problems due in part to unstable prices for their principal raw materials exports. In the United States some efforts are being made to address this problem through international commodity agreements and through providing bilateral assistance for balance of payments support in key African countries.

In the area of international commodity agreement, the United States has since 1976 participated in on-going international discussions to determine the feasibility of establishing commodity price stabilization agreements. African states are members of the primary producer countries who have been seeking specific agreements for tin, cocoa, coffee, sugar, copper, rubber, cotton, sisal, and vegetable oils. The United States is a party to agreements already reached for cocoa, sugar, and coffee, and is committed to participate in pending negotiations for cocoa, tin, rubber, and copper price stabilization and orderly marketing agreements. There are many unresolved technical issues related to each commodity. Many analysts believe that agreements in these areas will serve both the developed and the developing countries by providing a cheaper and more efficient global price stabilization system. All of these commodity groupings have strong domestic lobbies which attempt to influence U.S. policymakers. The Congress plays an extremely important role in this respect because it must approve all negotiated agreements. In performing this responsibility, the Congress must weigh U.S. domestic interests against the interest of foreign producer countries.

In this area of balance of payments support, the United States has been limited in its ability to assist key African countries. In the past 3 years, Zambia and Zaire were the only countries to receive U.S. funds for balance of payments support. Traditionally, Security Supporting Assistance (SSA) funds have been used for this purpose. However, these funds, which are used to promote economic and political stability in areas where the United States has special security interest, require strong political justification. Although the United States has political interests in many African states, Congress has been disinclined to permit the use of this assistance in meeting serious balance of payments needs in African states where there are no immediate political or military conflicts. New authorities might be considered to assist African states in this area.

Other trade issues affecting the United States' economic role in Africa center around specific restrictions placed on U.S. trade and commercial activities with Uganda, Rhodesia, and South Africa. The Congress has imposed specific embargoes or special limitations against the regimes of these countries because of human rights and political conditions within the respective countries. In the case of Uganda, a near-total ban has been established on all U.S. trade and commercial activities. Trade with Rhodesia is prohibited because of U.S. participation in the U.N. economic sanctions against that country, and the United States observes a United Nations embargo on arms sales to South Africa. In addition, the 95th Congress imposed restrictions on U.S. Export-Import Bank financing of exports to South Africa. The 96th Congress is expected to deal with proposals from some conservative members that would end U.S. participation in the sanctions against Rhodesia. On the other hand, it is anticipated that liberals may mount an effort to prohibit or at least severely restrict trade with South Africa.[9]

Investment Issues

According to the State Department, many African governments approach U.S. officials for assistance in obtaining U.S. investment in their countries. African countries most often cited for their interest in U.S. investment include Liberia, Kenya, Mozambique, Guinea, and Angola. African interest in foreign investment should remain constant or even increase as many states, ideology notwithstanding, begin to take a pragmatic approach to the need for foreign capital. Although U.S. programs for promoting investment in developing countries have in the past been primarily limited to providing political risk insurance to U.S. investors, new programs might be considered to help keep U.S. investors informed of investment opportunities in Africa, and to assist U.S. investors in securing markets for their investment production.

In the 95th Congress, the issue of U.S. investment in South Africa received considerable attention. It is anticipated that the 96th Congress will again be faced with legislative initiatives calling for restrictions on U.S. investment and economic activity in South Africa. The issue involves a full range of U.S. economic, political, security, and moral interest.

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[9] For a discussion of the restriction on U.S. economic activities with South Africa and Rhodesia, see chapter, "U.S. Policy Toward Southern Africa," p. 576. For an account of the embargo on U.S. trade with Uganda see House Reports: No. 95–853 and No. 95–1613, and Senate Reports: No. 95–603 and No. 95–698.

THE SOVIET AND CUBAN ROLE IN AFRICA

(By Raymond W. Copson*)

Issue Definition

The Policy Debate

Soviet and Cuban involvement in Africa became a major issue in U.S. foreign policy with the intervention of large numbers of Cuban troops and Soviet military advisers in the Angolan civil war in 1975. Concern over the Soviet and Cuban role was intensified in late 1977 and the early months of 1978 by massive Soviet arms shipments to Ethiopia during the war against Somali forces in the Ogaden, and by the participation of Cuban troops in the offensive which ended the Somali threat, at least temporarily, in March 1978. In addition, President Carter's accusations against Cuba for its alleged role in the May 1978 guerrilla invasion of Zaire's Shaba province led to a new round of debate on the issue.

Estimates of the size of the Soviet and Cuban presence in Africa vary. However, several sources place about 17,000 Cuban troops in Ethiopia, together with 1,000 Soviet military advisers. In Angola, Cuban troops are usually estimated at 19,000–20,000, along with 4,000 Cuban civilian technicians and 1,000 Soviet military personnel. Press reports have cited the presence of much smaller Soviet and Cuban contingents, both military and civilian, in 12–15 other African countries, for a total of 40,000–45,000 Cuban and 4,000 Soviet personnel in Africa as a whole. In addition, some 3,000 East German military and civilian personnel are reported to be advising at least four African governments.

To some analysts of international politics, recent Soviet and Cuban involvement in Africa represents a potentially dangerous new bipolarization in the international system. Bipolar conflict, in this view, has been extended—or is about to be extended—to a region that has in the past been somewhat removed from superpower competition. Those who take this view, which has been termed the "globalist" approach, are alarmed by the opportunities Africa's unstable international politics may provide for the further extension of Soviet and Cuban influence in Africa. Rhodesia and Namibia are likely theaters for an expansion of the Soviet and Cuban role, in this view, and other countries, such as Zaire, Chad, or Somalia might also fall victim. South Africa's internal racial tensions, the globalists fear, make it vulnerable to Soviet and Cuban designs over the longer term, even if that country is militarily able to defend itself at the present time.

There is another school of thought on Africa policy, however, whose

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advocates are sometimes called "Africanists" or "area specialists," which takes a multipolar approach to African problems. In this view, African nationalism will in all probability frustrate any Soviet or Cuban attempt to create satellite regimes in Africa, particularly if Western countries help Africa to resolve the underlying sources of instability that the Soviet Union and Cuba have exploited to advance their interests. Many, though not all, advocates of a multipolar approach to African security problems believe that Britain and France should be encouraged to continue their role in African political and security affairs, relieving the United States of the need for any deep involvement on the continent.

Potential Issues: 96th Congress

The debate on the U.S. response to the Soviet and Cuban role in Africa has not been concerned with the prospect of large-scale American military intervention. The Vietnam experience has meant that even those most alarmed by the global strategic implications of the Soviet and Cuban presence do not foresee the United States playing a combat role in support of any African regime. Thus, it is extremely unlikely that the 96th Congress would be called upon to support such a role.

Contingencies might arise, however, in which a very limited American military role, particularly one involving U.S. air transport capabilities, would be a possibility. U.S. aircraft and support personnel might be deployed briefly in operations designed to rescue U.S. nationals and nationals of allied European nations in countries undergoing domestic upheaval, as happened in the May 1978 Shaba crisis in Zaire. The alert of American airborne units during this crisis suggests that combat forces might be briefly deployed for rescue purposes in Africa if necessary.

A violent denouement of the Rhodesian crisis might find the British or Rhodesian governments requesting U.S. assistance in the evacuation of white Rhodesian refugees. Should there be a peaceful settlement in Rhodesia, the United States might be requested to fly in United Nations peacekeeping forces. African troops, as happened in the case of Zaire, might be flown in U.S. planes to assist African governments confronting revolutionary or secessionist uprisings. Any of these military contingencies might cause controversy in Congress, and some of them would raise issues under the War Powers Resolution of 1973 [Public Law 93–148]. The extent of Soviet and Cuban involvement in a situation giving rise to one of these contingencies would be a key factor in the Congressional response.

Congress will probably most often deal with the Soviet and Cuban role in Africa, however, in response to foreign assistance proposals made by the executive branch. Security and development assistance might be requested for governments threatened by a Soviet and Cuban presence in a neighboring country or by Soviet and Cuban sponsored subversion. Alternatively, the executive might wish to offer assistance to a government already friendly with the Soviet Union and Cuba in a competitive effort to enhance U.S. influence. Such a request would be almost certain to meet some Congressional opposition, but any aid request could become the subject of debate if the proposed recipient were controversial for some reason—alleged human rights violations, for example, or charges of corruption in government.

The role of the Soviet Union and Cuba in Africa may have an impact on a variety of other issues. The normalization of U.S. relations with Cuba will of course be affected by Cuban conduct in Africa. Approval of a new strategic arms limitation agreement with the Soviet Union may also be affected by Soviet behavior in Africa even though Administration officials might prefer that the two issues not be linked. Pressure to end United States participation in the sanctions against Rhodesia may mount if Cuba takes a direct role in the Rhodesian conflict, and escalating Soviet and Cuban involvement in Africa might bolster the arguments of those who would ease U.S. opposition to South Africa's racial policies. Administration complaints that legislative restrictions on the President's authority to offer economic and security assistance and to launch covert operations limit his ability to respond to Soviet and Cuban activities in Africa, made in the wake of the 1978 Shaba crisis, might be renewed if a new escalation in the scope of those activities should occur.

Background

Soviet Policy

The Soviet Union has been an active force in African affairs for more than 20 years. Soviet leaders seem to have concluded, not long after the 1955 Bandung Conference of African and Asian States, that the movement toward independence among the less developed nations was an important event that might be exploited to Soviet advantage. Independence in the former colonial areas had once been dismissed as formalistic and of no real consequence,[1] but at the 20th Congress of the Soviet Communist Party, held in February 1956, Premier Khrushchev stated that "the present disintegration of the imperialist colonial system is a postwar development of world-historical significance."[2] Soviet assistance to Egypt for the construction of the Aswan Dam and other projects, beginning in 1955, was an early result of this new Soviet interest in the developing areas. Guinea, undergoing the strain of an acrimonious break with France in 1958, was the first sub-Saharan country to benefit.

Soviet assistance to a number of leftist leaders and revolutionary movements in Africa increased in the early 1960's, but despite the increase the Soviet Government began to suffer some serious policy reverses on the continent. The unilateral Soviet attempt to supply equipment to Prime Minister Lumumba in the Congo (Leopoldville), now Zaire, during the unstable period following Congolese independence in June 1960, led to Lumumba's overthrow by anti-Communist leaders and to much criticism of Soviet intreference by African leaders who supported the United Nations peacekeeping operation in the Congo. Guinea, acting at the request of the Kennedy administration, denied landing rights to Soviet aircraft during the Cuban missile crisis

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[1] Albright, David E. Soviet Policy. Problems of Communism, v. 27, January–February 1978: 21.
[2] Ibid.

in 1962. Egypt's President Nasser, angered by Soviet gains in the Middle East, nearly broke with the Soviet Government in 1959, and imprisoned several hundred Egyptian leftists without trial in 1960.

These setbacks, which may have been a factor in Khrushchev's downfall in 1964, were probably responsible for the Soviet shift in the mid-sixties toward a new Africa policy which placed less emphasis on support for revolutionary movements, although selected movements continued to receive support, and more emphasis on the development of what were called "businesslike" relations with African governments all across the political spectrum.[3] This new flexibility was, in part, a response to the consolidation of authority by non-Communist leaders in several key African countries, including Kenya and Nigeria. Setbacks continued nonetheless, as governments that had been friendly to the Soviets fell in Ghana (1966), and Mali (1968). An abortive leftist coup in Sudan in 1971 deprived the Soviet Union of its considerable influence over that country, and in 1972, 20,000 Soviet military and technical personnel were forced to leave Egypt by President Sadat.

The Role of Cuba

Cuban military involvement in Africa apparently began in 1963, when weapons and, according to some reports, troops were provided to Algeria during its border war with Morocco. Cuban combat forces were not reported again during the 1960's, but Cuban interest in Africa remained high, and arms and military advisors were evidently supplied to some leftist regimes and guerrilla movements. Che Guevara was in Africa in 1964–65.

The Soviet Government maintained "businesslike" relations with a variety of African regimes into the 1970's, but a mid-decade escalating Soviet and Cuban involvement in several countries suggested that a new and more activist policy had been launched. Somalia, in July 1974, became the first sub-Saharan nation to sign a treaty of friendship and cooperation with the Soviet Union. Allegations of Soviet base construction in Somalia began to appear at the time. In Angola, as the November 1975 Portuguese withdrawal approached, Soviet arms aid to the MPLA mounted and Cuban military advisors and troops began to arrive. Angola signed a treaty of friendship and cooperation with the Soviet Union in October 1976. Soviet and Cuban assistance to the Marxist regime in Ethiopia accelerated after the Somali guerrilla offensive in the Ogaden got underway in mid-1977. In a massive airlift begun in November, the Soviet Government delivered more than $800 million—and according to some reports more than $1 billion—in weapons to Ethiopia. Cuban troops together with Soviet advisors and equipment were crucial in Ethiopia's defeat of Somali forces.

The degree to which Cuban forces in Africa are "surrogates" of the Soviet Union has been the source of much discussion. Under the surrogate hypothesis, Cuban troops are in Africa to further Soviet ambitions. Those who support this hypothesis emphasize Cuba's dependence on Soviet economic assistance and sugar purchases. On the other hand, some analysts suggest that the Cuban Government has its own ambi-

[3] Nielsen, Waldemar A. The Great Powers and Africa. New York, Praeger [1969] p. 203.

tions in Africa. In support of their view, they take note of President Castro's longstanding interest in Africa and of the cultural and ethnic affinities that tie Cuba to Africa. Those who take the middle ground in this debate acknowledge Cuba's independent goals in Africa, but point out that, at the present moment, these goals coincide closely with those of the Soviet Union. Consequently, the question of whether Cuba is a Soviet surrogate or not is of little practical significance. Moreover, these analysts argue, the fact that Soviet weapons and Soviet logistical support are essential to Cuban operations in Africa would seem to give the Soviet Government a veto over Cuban actions on the continent.

Prospects and Significance

The recent history of Soviet and Cuban involvement in Africa has not been one of unalloyed success. The Somali Government, probably angered by the growing closeness of its Soviet and Cuban supporters with the Ethiopian regime, expelled all Soviet advisors and broke relations with Cuba in November 1977. The bloodshed in Ethiopia has not enhanced the reputation of international Marxism, and Soviet and Cuban advisors now face a difficult dilemma in deciding what assistance to give the Ethiopian regime in repressing the secessionist movement in Eritrea, led by Marxists they once supported. The Angolan regime has continued to need massive economic assistance, and Cuban troops there are still entangled in combat with UNITA guerrillas led by Jonas Savimbi.

Nonetheless, several unstable situations in Africa, particularly in Rhodesia, Namibia, and the Horn of Africa, offer opportunities in the short run for a rapid escalation of Soviet and Cuban involvement. Guerrillas from Namibia and Rhodesia accept arms and advice from the Soviet Union and Cuba today, and, if the military situation facing these guerrillas should seem promising, an expansion of Soviet and Cuban involvement would be quite possible. In the Horn of Africa, renewed fighting between Somalia and Ethiopia in the Ogaden, a Somali-Ethiopian confrontation over Djibouti, or a drive to end the Eritrean secession might lead to a sudden increase in the Soviet and Cuban presence. Dissident movements in Zaire, Chad, and perhaps other countries may be exploited to expand Soviet and Cuban influence. Over the longer term, as the bipolarists suggest, South Africa is indeed vulnerable to black African nationalists supported by the Soviet Union and Cuba.

The overall significance of the Soviet and Cuban role in Africa for America's world position is a matter of some debate. American trade and investment in Africa are small. Exports to sub-Saharan Africa in 1977 amounted to only about $3.2 billion,[4] or about 3 percent of total U.S. exports. U.S. direct investment in Africa totalled about $4.6 billion in 1977,[5] or 3 percent of foreign direct investment. Among the black African states, Nigeria—a country that is under no apparent threat from the Soviet Union or Cuba—is by far the most import-

[4] Calculated on the basis of data appearing in U.S. Department of Commerce, Bureau of the Census. Highlights of U.S. Export and Import Trade, December 1977 [Washington, March 1978]. Pp. 36 and 38.

[5] Calculated on the basis of 1976 data appearing in U.S. Department of Commerce, Bureau of Economic Analysis. Survey of Current Business, August 1978, vol. 58, No. 8 [Washington, 1978]. P. 28.

ant in economic terms. However, about one-third of U.S. exports and overseas investment have in the past gone to South Africa, a country for which Soviet and Cuban involvement in Africa has, as noted above, some long term significance. South Africa will probably retain its economic importance to the United States for some time to come even if political considerations persuade U.S. firms operating there to cut back their operations somewhat.

More important than trade and investment for the United States are Africa's mineral reserves, many of them located in countries that may be threatened by the Soviet and Cuban role in Africa. According to data published by the U.S. Bureau of Mines,[6] more than 96 percent of the world's chromite reserves are found in South Africa and Rhodesia. Chromium derived from chromite is used in the production of stainless steel and other high-temperature ferroalloys, and it is generally agreed that the industrial economies would be severely damaged if chromite became unavailable. In addition to chromite, South Africa has 71 percent of the world's known reserves of the platinum group metals, 49 percent of gold reserves, and 37 of manganese. Namibia is rich in several minerals, and its large uranium deposits are being explored and developed by several companies. Zaire has about 73 percent of known world industrial diamond deposits and about 31 percent of the world's known cobalt reserves. Cobalt is used to produce what are known as super-alloys, with applications in the construction of jet engines, missiles, and submarines.

In the globalist approach to African affairs, Soviet and Cuban involvement raises the danger that the United States will be denied access to these key minerals. Advocates of the Africanist view suggest that Africa's need for development capital will persuade African governments to continue mineral exports no matter what their ideology. Africanists point to Angola's continuing petroleum exports to the United States, and to the use of Cuban troops to guard Gulf Oil properties in Angola, to strengthen their case. Even should supplies of a particular mineral be interrupted, according to the Africanist outlook, the means exist to deal with any crisis. These include turning to alternative suppliers, drawing down stockpiles, using natural and synthetic substitutes, and recovering metals from scrap.

Dependence on alternative suppliers of chromium is not an attractive option, however, because the Soviet Union is the principal alternative source. Moreover, satisfactory substitutes for chromium and cobalt in some metal alloys may not be available.

Petroleum shipping lanes from the Persian Gulf around Africa to Europe and the United States are often cited as a cause for alarm with respect to the Soviet and Cuban presence in Africa. Current Soviet and Cuban activities, however, seem to pose no immediate threat to this supply line. Even should Soviet naval bases or missile batteries be established somewhere along the African coast, it is doubtful that the Soviet Government would run the tremendous risk of using such facilities to attack the oil lifeline. To do so would raise the possibility of major war. An Ethiopian victory in Eritrea, however, might prove alarming to Israel, since it could open the way for Soviet military installations along the Red Sea route to the Israeli port at Elat.

[6] U.S. Department of the Interior, Bureau of Mines. Mineral Commodity Summaries, 1978 [Washington, 1978].

The political implications of Soviet and Cuban successes in Africa—should there be new successes over the next 2 years—are more difficult to assess. In the bipolar perspective, victories on the part of Soviet and Cuban backed forces in Namiba or Rhodesia would discourage friends of the United States in Africa and other parts of the Third World, while encouraging those who believe the Marxist-Leninist forces will be victorious in world politics over the long run. From this perspective, the emergence of new Marxist-Leninist regimes in Africa will contribute to the creation of a hostile international environment, detrimental to American interests. In such an environment, in the bipolar view, the United States would face increasing difficulties in achieving its higher purposes in world affairs as a champion of human rights, economic freedoms, and democratic forms of government.

In the multipolar outlook, nationalism is too strong a force today to allow the Soviet Union or Cuba to dominate African regimes or to succeed in any attempt they might make to create satellites in Africa. However, according to the multipolarists there will inevitably be a diversity of regimes in Africa, and among these diverse regimes there will probably be some that are Socialist in ideology and some that call themselves Marxist-Leninist. This is not something the United States can prevent. Like the Soviet Union and Cuba, the multipolarists assert, the United States must live in a diverse global political environment. Diversity does not threaten American security, in the multipolar view, but it does define the framework within which the United States must work in pursuing its political purposes abroad.

Issue Outcomes and Plausible U.S. Roles

The conceivable outcomes of Soviet and Cuban involvement in Africa range over a spectrum from the creation of satellite states throughout Africa to the expulsion of all Soviet and Cuban influence. During the 96th Congress, neither extreme is likely to be reached. What is likely is a continuation of a mixed situation displaying elements of bipolarity and multipolarity. There will be times and places which find the Soviet Union and Cuba attempting to advance their interests against those of the United States and its Western allies. A revolutionary uprising in Zaire might provide the occasion for such bipolar competition. In other instances, African crises will lack an East-West dimension. A flareup of the Ghana-Togo border dispute, or a new round of tribal conflict between Rwanda and Burundi, would be outcomes primarily of African social and political forces and would probably not result in any significant involvement on the part of the United States, the Soviet Union, or Cuba.

Within this context of a mixed international environment, tendencies might exist toward increasing bipolarity or multipolarity. Increasing bipolarity could occur if developments that seemed to enhance the Soviet and Cuban threat in Africa provoked the United States and its Western allies to more rigorous opposition. Several events well within the realm of possibility, such as a victory by Marxist-oriented guerrillas in Rhodesia, increasing civil violence in South Africa, a revolutionary upheaval in Zaire, or in Ethiopian invasion of Somalia, might persuade the United States and its allies that more active countermeasures to Soviet and Cuban involvement must be taken. While a combat role for the United States would probably still be excluded, several steps could be taken that would place the United States in the role of an anti-Marxist ally for beleaguered African regimes. Such steps could include security assistance, increased development assistance, and condemnations of Soviet and Cuban actions in international forums. The Soviet and Cuban role might also be more explicitly linked to progress on a strategic arms limitation agreement and the normalization of relations with Cuba. Thus increasing bipolarization in Africa might contribute to an intensified bipolarization in international politics generally.

However, a expanding Soviet and Cuban role in Africa need not necessarily lead to increased bipolarization on the continent should the United States choose not to respond. American policymakers could conclude that multipolar tendencies in world politics would ultimately win out in Africa despite what they might see as merely temporary Soviet and Cuban gains. Alternatively, policymakers might determine that the economic and political stakes in Africa were not sufficient to justify any further challenge. But it is most likely that increased Soviet and Cuban activism in one or more African crises would alarm executive branch policymakers and intensify U.S. opposition to that activism.

A trend toward increased multipolarity in Africa would be most likely if progress were made in the near future in resolving some of Africa's major international conflicts. Western efforts to find solutions to the crises in Rhodesia and Namibia have been underway for some time,[7] and several African countries have contributed to peace efforts in Rhodesia and the Horn. Since it is conflict that provides African governments and guerrilla movements with their major incentive to seek assistance from the Soviet Union and Cuba, the success of peace efforts would seem likely to lessen Soviet and Cuban influence and allow African nationalism greater sway.

Should a movement toward conflict resolution in Africa occur, the United States would probably seek to expand its new-found role as an African peacemaker, reinforcing and multipolar trend. This might be done by assuming an active role in creating and supporting peacekeeping forces for Africa, by providing assistance in refugee relief and in economic development in former conflict regions, and by moving rapidly to mediate new disputes as they arise. Secretary of State Vance's mission to Pretoria in October 1978, together with high-level officials of Britain, France, West Germany, and Canada, in an effort to persuade the South African Government to accept a United Nations settlement of the Namibian issue is an example of the diplomatic activism the African peacemaker role requires.

The Role of Congress

Congress, in the wake of the Vietnam experience, initially responded to Soviet and Cuban involvement in Africa by attempting to limit executive branch countermeasures. It was clear that Congress feared escalating U.S. involvement in Africa that might eventually lead to a combat role on the continent. Thus the "Clark amendment" to the

[7] See chapter, "U.S. Policy Toward Southern Africa," p. 576.

International Security and Arms Export Control Act of 1976—Public Law 94–329, section 404—for example, which became law on June 30, 1976, prohibited assistance that would promote "military or paramilitary operations in Angola." This provision denied the President the option of opposing the MPLA and its Cuban and Soviet allies by giving aid to Jonas Savimbi's UNITA.

Mounting concern over the Soviet and Cuban role in Africa led the 95th Congress to begin to take action against African countries that supported that role and against Cuba itself. The prohibtiion on aid to Angola and Mozambique, for example, contained in the Foreign Assistance and Related Appropriations Act for fiscal year 1978—Public Law 95–148, section 114—came about in large part because these countries were cooperating with the Soviet Union and Cuba. Section 613 of the Foreign Relations Authorization Act for fiscal year 1979—Public Law 95–426—takes note of "a sharp increase in the number of Cuban military personnel serving in Africa in the past year" and states the sense of the Congress that the President should undertake a comprehensive review of U.S. relations with Cuba and submit a report on the review to the Congress House by January 20, 1979. This provision suggests that the Cuban presence in Africa may well be on the agenda of the 96th Congress.

However, it should be noted that the wording on Cuba in this act is milder than that in the foreign relations authorization bill—S. 3076—as it went to conference. The Senate language condemned the Cuban presence in Africa and expressly called on the President to sever existing diplomatic and economic relations with Cuba. The conference committee on the foreign relations authorizations bills also deleted a Senate provision prohibiting the use of funds under the act for the establishment of diplomatic relations with Angola as long as Cuban forces remained there.[8]

These conference committee actions were indicative of the caution shown by the 95th Congress, despite its deep concern with respect to Soviet and Cuban involvement in Africa, in reacting to that involvement. Two factors were responsible for this caution—a continuing strong reluctance to allow the United States to become too deeply involved in African international politics, and an unwillingness to impose congressional will on executive branch policymakers in a complex international environment.

The reluctance to unduly restrict executive branch actions in Africa was enhanced by the administration campaign against foreign policy restrictions launched by the President himself in May 1978. The administration seemed particularly concerned by the Clark amendment and by a similar restriction in the International Security Assistance Act of 1977—Public Law 95–92, section 25—prohibiting during fiscal year 1978 aid that would promote military or paramilitary operations in Zaire. This restriction, however, differed from the Clark amendment in allowing a Presidential waiver if necessary in the national security interest. During the administration campaign against congressional restrictions, it was claimed not only that restrictions inhibited the President's authority to deal with the Soviet and Cuban role in

[8] U.S. Congress. House of Representatives. Conference committee report. Foreign Relations Authorization Act, fiscal year 1979. Sept. 6, 1978. Rept. No. 95–1535. Washington, U.S. Government Printing Office, 1978. P. 66.

Africa but also that Congressional interference in African affairs might offend key African leaders, complicate Rhodesian peace negotiations, raise obstacles to a strategic arms limitation agreement, and have other undesirable and perhaps unforeseen consequences. Many Members of Congress disputed these claims, but the administration campaign did seem to have the effect of increasing congressional caution in the African policy field.

Instead of demanding a firmer U.S. policy on Soviet and Cuban involvement in Africa, Congress was in general content to express its opposition to that involvement while allowing the executive branch to retain its freedom of action in dealing with the problem. This pattern is seen in the legislation on U.S. participation in United Nations sanctions against Rhodesia. Despite growing congressional dissent from administration policy on Rhodesia, the International Security Assistance Act of 1978—Public Law 95–384, section 27, would end enforcement of the sanctions only if the President should determine that the Rhodesian regime has agreed to good faith negotiations at an all parties peace conference and that a freely elected government has been installed in Rhodesia.

Should the international situation in Africa retain its current complexity, displaying aspects of bipolarity and multipolarity, the 96th Congress might well continue to show caution in dealing with African affairs. However, should the Soviet and Cuban role in Africa begin to expand once again, Congress might respond with legislative countermeasures. If it were the sense of the Congress that executive branch actions against an expanding Soviet and Cuban role were not firm enough, then these legislative countermeasures would probably take the form of restrictions on Presidential authority. The President might be expressly required, for example, to sever existing relations with Cuba, or to end enforcement of the sanctions against Rhodesia. If, on the other hand, Congress perceived executive branch action on the Soviet and Cuban role as firm enough, then its legislation on Africa policy would be primarily supportive or enabling rather than restrictive.

Whatever the course of Soviet and Cuban involvement in Africa, however, congressional wariness on potential combat involvement in Africa will almost certainly persist. This wariness will lead Congress to exercise an oversight function if executive branch actions in response to Soviet and Cuban involvement seem to be leading toward such a role. The August 10, 1978, House hearing, held before the Subcommittee on International Security and Scientific Affairs,[9] on the limited U.S. role in the Shaba rescue operations, is an indicator of Congressional sensitivity on this issue. The fact that the subcommittee took no action, however, again reveals congressional caution in limiting the executive branch in Africa affairs.

A multipolar trend in African international politics over the next 2 years would, of course, mean that Congress would be less likely to take action against Soviet and Cuban involvement on the continent. Indeed, a general lessening of congressional interest in African politi-

[9] U.S. Congress. House. Committee on International Relations, Subcommittee on International Security and Scientific Affairs. Congressional oversight of war powers compliance. Hearing, 95th Cong., 2d sess. Washington, U.S. Government Printing Office, 1978. 38 pp. Hearing held Aug. 10, 1978.

cal and security affairs would probably result from such a tendency. Executive branch proposals to extend security assistance, and perhaps even economic assistance, to African countries might meet increased congressional resistance in such a situation. The stage for a new dispute between the executive and legislative branches over Africa policy would be set if lessened congressional interest in Africa coincided with an administration desire to expand its role as an African peacemaker.

A tendency toward multipolarity in Africa, however, would not end congressional interest in Africa altogether. Human rights in southern Africa, Uganda, Equatorial Guinea, and perhaps other countries will in all probability continue to be a matter of concern to the Congress. The U.S. economic and political relationship with South Africa is likely to remain controversial. Economic development, a problem that is just as important as the problem of Soviet and Cuban involvement for most African countries—indeed it is far more important in the eyes of many African leaders—will remain a concern of the Congress even if a decrease in Soviet and Cuban influence should lessen the political incentive for offering assistance.

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U.S. POLICY TOWARD SOUTHERN AFRICA

(By Jennifer C. Ward*)

INTRODUCTION

Southern Africa has received growing attention from the Carter administration, and the administration's policies toward that region became a focus of debate within the 95th Congress. The activist role which the administration has chosen to play with respect to conflict resolution in southern Africa, the complexity of the conflicts themselves, and the difficulties which the administratinon has faced in pursuing its policies all seem likely to evoke further debate during the 96th Congress.

American interest in Africa has been growing in recent years for a number of reasons—for the increased role which its member nations play in the arena of international politics including efforts to halt the spread of nuclear weapons; for its vast human potential, much of which is underutilized, malnourished, and undereducated because of widespread poverty; for its raw materials and especially its mineral wealth; for its growing importance to the United States in terms of trade and investment opportunities; and last, but not least, for concerns about human rights and racial injustice.

These interests, together with African realities, form the basis of U.S. policy towards Africa. In a speech on June 7, 1978, at Annapolis, President Carter stated that our goal is an Africa "free of the dominance of outside powers, free of the bitterness of racial injustice, free of conflict, and free of the burdens of poverty, hunger and dissease." Particularly with respect to southern Africa, the achievement of those goals has been increasingly frustrated in recent years as the process of attaining majority rule has led to violent conflicts, outside intervention, and opportunities for further intervention, and serious setbacks to economic and social progress. Violent struggles for majority rule are continuing today in Southern Rhodesia (Zimbabwe) and southwest Africa (Namibia). In Angola and Mozambique, Soviet and/or Soviet-Cuban support of the current regimes is of increasing concern to the United States.[1] And in the Republic of South Africa, there remains a great potential for racial confrontation and violence as a result of government policies towards the nonwhite population of that nation.

ISSUE DEFINITION: THE U.S STAKE IN SOUTHERN AFRICA

Particularly since the Angolan civil war in 1975, in which Soviet and Cuban support played a major role in the coming to power of the

[1] See chapter, "The Soviet and Cuban Role in Africa," p. 565.
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current regime in Angola, southern Africa has received renewed attention by U.S. policymakers. The possibility that overall U.S. goals in this region could be further impeded by continuing Eastern block support to Angola and Mozambique as well as to liberation movements in Namibia, Zimbabwe, and South Africa has highlighted the U.S. stake in southern Africa.

Economic Interests [2]

In assessing the importance of this region to the United States and the Western powers, several factors need to be taken into account. First, southern Africa is an important source of minerals to the West: It contains 97 percent of the world's chromite, 65 percent of its platinum group metals, 53 percent of the world's gold, 35 percent of its columbium and tantalum, 32 percent of its vanadium and 25 percent of its asbestos. According to these and other figures provided by the U.S. Department of the Interior,[3] the U.S. demand for these minerals will increase significantly by the end of this century, and a large percentage of the world's supply of these same minerals, some of which are important to defense production, is concentrated in southern Africa and Communist countries. Namibia may soon become the world's second largest producer (behind the United States) of uranium oxide. By value of exports, Namibia is already Africa's fourth largest mineral producer behind South Africa, Zaire, and Zambia. It contains significant sources of diamonds, uranium, copper, lead, zinc, cadmium, silver, and vanadium.

U.S. trade with Sub-Saharan Africa, although still small in comparison with other regions of the world, is growing. In 1978, Nigeria replaced the Republic of South Africa as the United States' most important trading partner in Sub-Saharan Africa. However, in 1977 33 percent of the U.S. exports by value to Sub-Saharan Africa were destined for the Republic of South Africa and 13 percent by value of U.S. imports from Sub-Saharan Africa originated in South Africa. Of the total U.S. direct investment ($4.574 billion) in Africa in 1977, $1,791 or 39 percent was concentrated in the Republic of South Africa. In terms of overall foreign investment in South Africa, however, U.S. sources account for only 20 percent.

Despite the relative importance of U.S.-South African economic relationships, our economic relations with the rest of Africa are growing at a faster rate and will probably continue to do so. Yet there are certain minerals—chromite, manganese, vanadium, platinum, and industrial diamonds—for which the United States is heavily dependent upon South Africa. South Africa alone is the source of over 20 percent of world production of each of the following minerals: antimony, chromite, industrial diamonds, gold, manganese, platinum, and vanadium. Sanctions imposed on South Africa or violent revolution in that country could temporarily interrupt supplies of these minerals to the West, cause serious alterations in world prices of these minerals, and result in dislocations to U.S. industries, at least in the short term.

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[2] See chapter, "U.S. Economic Role in Africa," p. 553.

[3] Statement by James A. Joseph, Under Secretary, Department of the Interior, before Congressional Black Caucus' legislative workshop on "The U.S. Role in Economic Development in Africa," Washington, D.C., Sept. 29, 1978.

Strategic Interests

The strategic importance of southern Africa to the United States, although a matter of some debate, has received growing attention within the context of East-West conflict. In the past the focus of strategic interest has been the Republic of South Africa alone rather than southern Africa as a whole. South Africa has often been singled out because of her control of the shipping routes around the Cape of Good Hope, routes heavily traveled by oil tankers. Mozambique, however, faces the southwestern portion of the Indian Ocean, and until the present has refused to allow foreign bases on its territory and has opposed the militarization of the Indian Ocean. Similarly, Namibia and Angola could be important future factors with respect to control of the southeastern Atlantic sea lanes, as South Africa recognizes all too well. Angola, too, has so far refused to allow foreign military bases on its territory. In fact, Angola's constitution prohibits the installation of foreign military bases on Angolan territory. Interception of shipping could, after all, occur at any of these intervals, not just from South Africa.

In addition to economic and strategic considerations, the United States is also faced with the potential nuclear weapons capability of the Republic of South Africa. South Africa's nuclear capability has grown out of agreements with the United States and other countries dating back to the immediate post-World War II era. South Africa presently has two reactors and her scientists have developed a sophisticated uranium enrichment technique. The implications of South Africa's nuclear weapons capability (presumed to be close at hand) for local, regional, and global conflicts have not been lost on U.S. policymakers. Attempts to induce South Africa to sign the nuclear nonproliferation treaty or place its nuclear program under International Atomic Energy Association (IAEA) safeguards have thus far been unsuccessful. The United States has sought South African agreement to the treaty in exchange for our continued supply of enriched uranium for commercial and research purposes only. However, to date South Africa has balked at inspection by the IAEA of facilities where, it is claimed, there is a secret process for uranium enrichment.

The specter of a white South Africa with nuclear weapons capability is one to which African nations naturally react with fear. In fact, this is only one of several areas where the U.S. position on southern African issues is influenced by U.S. policy objectives with regard to the rest of Africa. In a speech on June 20, 1978, Secretary of State Cyrus Vance noted that among the ingredients of a positive U.S. African policy were respect for African nationalism, a strong U.S. commitment to social justice and economic development in Africa, and helping to foster respect for human rights. The achievement of these objectives in southern Africa has posed a special challenge to American foreign policy, as the Secretary noted, yet they are priority objectives for the peoples of black Africa for whom the remaining white minority regimes of southern Africa represent a serious and deeply felt reminder of the colonial past. The Carter administration has recognized that change in southern Africa is inevitable and has indicated that it will use its influence to convince the Government of South Africa that progress toward racial justice is in the interests of all its people. African nations continue to watch the United States closely to determine the extent of U.S. commitment to these objectives.

Domestic Concerns

In addition to U.S. political objectives with respect to the nations of black Africa, there are domestic components to the U.S. stake in southern Africa. First, the specter of growing Soviet involvement both in the Horn of Africa and in southern Africa cannot be ignored by any administration within the context of domestic public opinion and its relation to the pursuit of other foreign policy objectives, particularly detente. Second, there are concerns related to race relations in the United States. Influential black Americans have often pointed to the implications of U.S. actions in southern Africa on domestic race relations. Continued turmoil in southern Africa with the ominous consequence of racial war could lead to considerable pressures on any administration to intervene on the side of whites, creating "vital interests for the United States—and * * * intolerable tensions within our own multiracial society." [4]

BACKGROUND: THE EVOLUTION OF U.S. POLICY IN SOUTH AFRICA

In 1960, the so-called "year of African independence" when 18 African nations became independent, all of the nations of southern Africa except South Africa were under colonial rule. Angola and Mozambique were Portuguese colonies; Botswana, Lesotho and Swaziland were British High Commission Territories; southern Rhodesia was a British colony, and Southwest Africa (Namibia) was administered by South Africa as a mandate granted by the League of Nations after World War I. Of all these territories, only the three British High Commission Territories were transferred to black majority rule without armed struggle.[5]

Angola and Mozambique

In the Portuguese colonies of Angola and Mozambique modern liberation movements were formed in the early 1960's.[6] Within a decade, Portugal was forced to commit over 150,000 troops to her African colonies. A military coup in Portugal in 1974 brought to power a government committed to the independence of Portugal's five African colonies—Angola, Mozambique, Guinea-Bissau, Sao Tome and Principe, and the Cape Verde Islands. In Mozambique, a single liberation movement, FRELIMO (the Front for the Liberation of Mozambique), brought that nation to independence in April 1975. In Angola, the transition to independence was marked by a civil war among three competing groups—the MPLA (the Popular Movement for the Liberation of Angola), UNITA (the National Union for the Total Independence of Angola), FNLA (National Front for the Liberation of Angola) and by the intervention of foreign powers including the

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[4] For a discussion of this issue, see Clark A. Murdock. "U.S. Policy Toward Rhodesia: Many Costs and Few Benefits"—paper presented at the African Studies Association annual meeting, Baltimore, Md., Nov. 1, 1978, pp. 33–34.

[5] Botswana and Lesotho became independent in 1966, Swaziland in 1968.

[6] For background works, see Gerald J. Bender, "Angola Under the Portuguese" (Berkeley: University of California Press, 1978): John Marcum, "The Angolan Revolution—The Anatomy of an Explosion," vol. I. (Cambridge, Mass.: M.I.T. Press, 1969) and Eduardo Mondlane, "The Struggle for Mozambique" (Baltimore, Md., Penguin Books, 1969).

United States, the Soviet Union, Cuba, Zaire, and South Africa.[7] Angola became independent in November 1975 under an MPLA government headed by Dr. Agostinho Neto and supported by Cuban troops.

In both of these former Portuguese territories, the governments in power today received major support for their liberation movements from Eastern bloc nations. For approximately a decade, the United States remained committed to Portugal as a means of retaining its air and naval base in the Azores. In consideration of this legacy, the governments of both these countries have retained strong ties with those nations which supported them in their efforts to gain their independence from Portugal. Recently, however, relations between the United States, Angola, and Mozambique have improved slightly. Both countries have supported U.S. and Western efforts to attain peaceful settlements in Namibia and Rhodesia (Zimbabwe). After U.S. charges (denied by both Angola and Cuba) that Katangese troops which invaded the Shaba province of Zaire from Angola in May 1978 were Cuban-supported, Angola cooperated with Zaire in disarming the Katangese troops, pulling them back from the Zaire border, and in moving toward the establishment of a joint border commission. And in spite of the covert intervention by the United States on the side of both UNITA and the FNLA during the Angolan civil war in 1975, there is evidence today that both nations desire better relations with the United States. At present, however, there are no official relations between the United States and Angola, and only a limited official U.S. presence in Mozambique.

Namibia

Namibia, a sparsely populated mineral-rich territory which was formerly the German colony of Southwest Africa, has been the focus of international legal disputes since 1946.[8] South Africa, which has administered the territory since 1920 as a League of Nations mandate, treated Southwest Africa as a province of the Republic of South Africa, extended apartheid legislation to the territory, and gave white settlers there voting rights in the South African Parliament. SWAPO, the Southwest Africa People's Organization, was formed in 1960 and began guerrilla warfare several years later against South Africa's continued administration of Namibia.

South Africa has defied all attempts to place Namibia under U.N. trusteeship. The status of Southwest Africa first came before the International Court of Justice in 1950, and in 1971 the court's advisory opinion held that South African rule over the territory was illegal and that all states were obliged to recognize this. In the 3 years following, South Africa made pledges to consult Namibia's population on the future of the territory. However, these same years were marked in Namibia by growing unrest and by increased repression.

In 1975, reacting to international pressures as well as the impending independence of the Portuguese territories to the north, South Africa sponsored the Turnhalle talks but excluded from these con-

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[7] For further information on the U.S. role in the Angolan civil war, see John Stockwell, "In Search of Enemies" (N.Y.: W. W. Norton, 1978); for the South African role see Robin Hallett, "The South African Intervention in Angola, 1975–76," African Affairs, vol. 77 (July 1978), pp. 347–386.

[8] For background information on Namibia, see John Dugard, "The Southwest Africa-Namibia Dispute" (Berkeley: U. of Calif. Press, 1973); and H.H.P. Serfontein Namibia (Randburg, South Africa: Fokus Suid Publishers, 1976).

stitutional deliberations representatives of SWAPO. The Turnhalle proposals would have established an interim structure which guaranteed over-representation of minority ethnic groups and a weak decentralized government in which the whites (representing 2 percent of the population) would have retained effective control. Partly as a result of negotiations begun by Secretary of State Kissinger in 1976, the Turnhalle proposals were laid aside in May 1977 when a five-power Western "Contact Group" (the United States, the United Kingdom, Canada, France and the Federal Republic of Germany) began negotiations under U.N. auspices towards a resolution of the Namibia conflict with the full participation of both SWAPO and South Africa.

By July 1978, both SWAPO and South Africa had agreed to the Contact Group's proposal for the independence of Namibia; however, on September 20, 1978, the Vorster government in South Africa rejected the U.N. Secretary General's report on Namibia submitted as a result of his Special Representative's mission to the territory. South Africa's decision came on the eve of Prime Minister Vorster's resignation and threw into doubt the possibility of a U.N. presence in Namibia and an internationally supervised transition to majority rule. In October, the foreign ministers of the Contact Group met in Pretoria with the new South African Prime Minister, P. W. Botha, in an effort to reconcile differences. While progress was made on two issues which had allegedly caused South Africa's rejection of the plan—the number of proposed U.N. troops and the role of the U.N. police force—South Africa remained adamant on the matter of holding elections in December 1978. SWAPO refused to participate in these elections. By May 1979, it appeared that the Western-backed peace plan for Namibia was breaking apart over South African demands that SWAPO guerrillas be denied bases within Namibia during the transition period.

Rhodesia

Zimbabwe, legally still the British colony of Southern Rhodesia, is one of Africas richest countries and has been ruled by a white minority representing 4 percent of the population since 1965.[9] Attempts in the late 1950's to accommodate black pressures for reform were unavailing. One year after Ian Smith became Prime Minister and after fruitless negotiations with Britain over progress toward majority rule, the white minority government proclaimed a unilateral declaration of independence in 1965. Britain did not take direct action against her rebellious colony, but subsequently supported voluntary and then mandatory sanctions against Southern Rhodesia imposed by the U.N. Security Council. Since sanctions were imposed, both Britain and the United States, which supported the U.N. resolutions, have knowingly broken them—openly in the case of chrome imports into the United States (the Byrd amendment) and covertly in the case of the British Government as the recent Bingham report alleges.[10] A

[9] For background information see Patrick Keatley, The Politics of Partnesrhip: The Federation of Rhodesia and Nyasaland (Baltimore: Penguin, 1963). For an account of U.S. Policy, see Anthony Lake, The "Tar Baby" option: American Policy Toward Southern Rhodesia (N.Y.: Columbia University Press, 1976).

[10] See P. H. Bingham, Q. C. and S. M. Gray, F.C.A. Report on the Supply of Petroleum Products to Rhodesia submitted to the right Honorable David Owen, M.P. Secretary of State for Foreign and Commonwealth Affairs (Unpublished, 1978).

final attempt by Britain to negotiate a transition to majority rule, the Pearce Commission, failed in 1972.

The Pearce Commission provoked temporary unity among African political factions inside and outside Rhodesia under the African National Council headed by Bishop Abel Muzorewa. Prior to 1972, two groups competed for the nationalist following: ZAPU (the Zimbabwe African People's Union), headed by Joshua Nkomo and headquartered in Zambia after it was banned in Rhodesia in 1962; and ZANU (the Zimbabwe African National Union), under the leadership of Reverend Ndabaningi Sithole, a group which split from ZAPU in the same year and was banned from Rhodesia in 1964.

In September 1976, Secretary of State Henry Kissinger embarked upon an effort to win support for a plan for Rhodesia's future which included majority rule within 2 years, the organization of an interim government with a Council of State (half African, half European) and a Council of Ministers (majority African), and the lifting of sanctions and the termination of all acts of war upon establishment of an interim government. Even before the Geneva conference to discuss this plan took place, there were widely differing interpretations of and disagreements with the Kissinger proposals. In the meantime the forces of ZANU, now headquartered in Mozambique and under the leadership of Robert Mugabe, and ZAPU, headquartered in Zambia, joined to form a fragile alliance known as the Patriotic Front. The Geneva Conference which began on October 28 failed to produce an agreement either on an interim government or on a date for independence.

In September 1977, as part of the Carter administration's new commitment to seeking a peaceful resolution of the conflicts in Southern Africa, an Anglo-American plan for transition to majority rule was announced by Britain and the United States and eventually supported by the front line states (Angola, Mozambique, Zambia, Botswana and Tanzania). By December 1977, Prime Minister Smith was able to capitalize upon the growing split between the forces of the Patriotic Front and black leaders within Rhodesia and begin discussions with the latter which produced an internal settlement agreement signed in Salisbury on March 3, 1978. Under the terms of this agreement, an Executive Council composed of Smith, Sithole, Chief Chirau and Bishop Muzorewa, together with a Ministerial Council composed of equal numbers of black and white ministers, would comprise a transitional government responsible for bringing about a ceasefire, drafting a new constitution, registering voters, and achieving independence by December 31, 1978. The terms of majority rule as agreed to on March 3 provided for universal suffrage, an entrenched judiciary, and an elected legislative assembly in which 28 seats would be reserved for whites for at least a 10-year period, thereby giving them a blocking vote over key constitutional amendments.[11] Although invited to return, the Patriotic Front refused to lay down their arms and join in the internal settlement on Smith's terms. The Presidents of the front line states together with the United States and the United Kingdom continued to press for an all-parties conference.

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[11] For a succinct analysis of the strengths and weaknesses of the internal settlement agreement, see U.S. Senate; Committee on Foreign Relations. A staff report. June 1978. Washington, U.S. Government Printing Office, 1978, 15 pp.

After some delay, the elections were held in Rhodesia on Aril 17 through April 21, 1979, and Bishop Muzorewa, whose party captured 51 seats, was expected to assume office as Prime Minister in June. What policy the United States would adopt toward the new government was uncertain, but the situation was complicated by the announced intention of the new Conservative government in Britain to move toward recognition of Rhodesia and a lifting of the sanctions.

South Africa

South Africa, first colonized by the Dutch in 1652, is almost universally perceived as the core of the problem of white minority rule in southern Africa. White South Africans, primarily of Dutch and British descent, hold a complete monopoly of political and economic power in this mineral-rich nation whose population of 26 million is 70 percent black, over 9 percent colored (persons of mixed blood) and more than 2 percent Asian. White South Africans, numbering over 4 million, make up less than 18 percent of the population.[12]

Over the last three centuries and particularly since the accession to power of the Afrikaner (white South Africans of Dutch descent) controlled Nationalist Party in 1948, South Africa has built up a body of legislation which denies basic human rights and citizenship to the black African majority and other non-whites. Under apartheid legislation passed by an all-white Parliament, Africans are citizens only of certain homelands, known as Bantustans, which comprise 13 percent of the territory of South Africa. The White South African Government has granted "independence" to two of the 10 contemplated homelands—Transkei (1976) and Bophutatswana (1977)—which are recognized diplomatically only by South Africa. These homelands do not appear to be viable or realistic entities: their territories are fragmented; their people are dependent upon income generated within South Africa; up to 80 percent of their budgets derive from the South African Parliament; mineral resources are scarce and agricultural productivity stagnant; and they are now and will continue to be unable to provide gainful employment to the majority of their "citizens" who live in the Republic of South Africa. Per capita income derived from homeland economic activity is among the lowest in the world.

Since the early 1960's, African resistance which dates back 200 years has taken a number of forms including urban protest, as exemplified by the student uprising in Soweto in 1976, sabotage by underground groups, and labor and student activism. African resistance at present, while continuing, is severely curtailed for a number of reasons: first, the overwhelming military and police powers of the South African State; second, the Government's widespread use of a network of informers throughout the nonwhite communities; third, the systematic imprisonment, banning and torture of nonwhite leaders as well as documented cases of their outright murder; fourth, the Bantustanization of the African population; and fifth, the nonwhite communities' day-to-day dependence on the white economy for their jobs and very survival. While some white South Africans have called for changes

[12] For background information, see Monica Wilson and Leonard Thompson (eds.) The Oxford History of South Africa, 2 vols. (New York: Oxford University Press, 1969 and 1971): Leonard Thompson and Jeffrey Butler (eds). Change in Contemporary South Africa (Berkeley: University of California Press, 1975) and R. W. Johnson, How Long Will South Africa Survive? (New York: Oxford, 1977).

both in the economic and political spheres, only a very small minority is prepared to advocate voting rights for black South Africans in a single South African Parliament. Various proposals for separate Coloured and Indian Parliaments, for a South African federation based on racial and ethnic divisions, or for the abandonment of "petty" rather than "grand" apartheid fall short of the desires of the African population for all participation in a non-racial South Africa.

It was not until the post-World War II era, when Afro-Asian States gained their independence, that the international community began to pay serious attention to South Africa's policies towards her non-white population. These policies, together with South Africa's continued occupation of Southwest Africa, brought severe criticism from most member states of the United Nations. During the 1960's, the United Nations General Assembly and Security Council passed numerous resolutions condemning South Africa's policies, including a non-binding resolution calling for economic and diplomatic sanctions in 1962, and in 1963 the Security Council called for a voluntary embargo which became mandatory in 1977 on arms shipments to South Africa.

South Africa's relations with black Africa mirror both the hostility felt by African nations toward the deprivation of African rights by the Government of the Republic of South Africa and the realities of South Africa's economic and industrial strength. Efforts at a dialog began in the late 1960's but had broken down by 1971. Today only one African nation, Malawi, has official representation in South Africa. Yet while the Organization of African Unity has imposed economic sanctions on South Africa, a number of sub-Saharan African countries still trade with the Republic of South Africa. In particular, the countries of southern Africa are heavily dependent on transportation links with South Africa, and most recently Zambia announced a reopening of her rail links through Rhodesia to South Africa to import much needed fertilizer and export its copper. Mozambique still has tens of thousands of its nationals working in South African mines and elsewhere in the economy. South African nationals continue to work in port facilities in Maputo and on Mozambique's railroads. While South African relations with Angola have been bitter ever since the former's intervention in the Angolan civil war in 1975, South African concerns remain involved in mining activities in Angola.

U.S. relations with the Republic of South Africa have continued to pose a serious dilemma for American policymakers. While stressing a desire for peaceful change, successive administrations have chosen from a limited number of policy options. One vigorously resisted from the mid-1960's on by the Western powers has been the application of mandatory economic sanctions on South Africa by the United Nations.

In the early 1970's, the Nixon administration chose from a series of options laid down by National Security Study Memorandum (NSSM) 39. The resulting policy of communication with the white regimes of southern Africa was based on the premise that whites would remain in southern Africa and that constructive change could occur only through them. The Angolan civil war of 1975 led to United States-South African cooperation on a further objective—that of preventing an MPLA victory and limiting Soviet/Cuban intervention in southern Africa. Secretary of State Henry Kissinger's efforts to find a peaceful solution to the conflict in Rhodesia in 1976 was undertaken with South African cooperation, since South Africa has played a vital role in maintaining the Smith government in power.

The growing repression of dissent in South Africa during the 1970's, culminating in the tragic events associated with and after the death of Steve Biko in 1977, renewed international concern over South Africa's policies. The Carter administration joined in the U.N. mandatory arms embargo against South Africa in 1977, announced that it would review U.S. commercial and economic relations with that nation, and prohibited future exports of all commodities and technical data destined for the military or police. At the same time, however, the administration attempted to work with and ensure the cooperation of South Africa on peaceful solutions to the conflicts in Namibia and Zimbabwe.

Congress and U.S. Policy Toward Southern Africa

The Carter administration's policy toward southern Africa received considerable attention during the 95th Congress and will no doubt continue to do so during the 96th. In addition to numerous hearings conducted by the House and Senate Subcommittees on Africa,[13] a number of key legislative initiatives tested Congressional sentiment vis-a-vis southern Africa.

Rhodesia: U.S. Role to Date

On March 7, 1977, the House of Representatives passed H.R. 1746, an act which halted the importation of Rhodesian chrome into the United States. The Senate passed a similar bill 8 days later and on March 18 the President signed this legislation (Public Law 95–12).

Since 1971, when the so-called "Byrd Amendment" allowed the United States to import chrome from Rhodesia in violation of U.N. Security Council sanctions, efforts to repeal the Byrd amendment had failed in the House of Representatives. In 1977 the Congress, supported by a new administration fully committed to upholding U.N. sanctions against Rhodesia, armed with ample evidence that a halt to chrome imports would not hurt the U.S. steel industry, and assisted by church groups, labor unions, citizens and political organizations which had supported earlier attempts, was able to repeal the Byrd amendment.

During the first session of the 95th Congress a proposal by the administration to establish a Zimbabwe Development Fund was considered and rejected by the Congress. The proposed fund had been part of Secretary of State Kissinger's plan for a transition to majority rule in Rhodesia. Estimated to cost some $100 million (out of a proposed $1 billion total to be shared by 18 donor countries), the fund was aimed at ensuring an economic transition during the initial period of majority rule and especially at encouraging the white population to remain in an independent African state of Zimbabwe. The Subcommittee on Africa of the House International Relations Committee believed that the proposed fund (which had come under rather intense scrutiny during hearings) should be reprogramed to provide

[13] See bibliography for a complete list of hearings.

necessary economic assistance to the southern African and front line states disadvantaged by political and military conflicts in the region.[14]

What emerged was a southern African Special Requirements Fund which allowed for education and job training assistance from Africans from Namibia and Zimbabwe, prohibited the use of these funds for military, guerrilla or paramilitary activities in any country, and authorized funds not to exceed $1,000,000 for a comprehensive analysis of the development needs of southern Africa. Congress declared its intent to support a Zimbabwe Development Fund when progress towards an internationally recognized settlement of the Rhodesian conflict leading to majority rule permitted the fund's establishment.[15]

The March 3, 1978 internal settlement between Ian Smith and three black Rhodesian leaders prompted attempts during the second session of the 95th Congress to lift sanctions against Rhodesia which had been imposed only 16 months earlier. The executive branch's position, as detailed in the Anglo-American proposals of September 1, 1977, was seen by some Members of Congress as supportive of the Patriotic Front rather than a neutral position as the administration claimed. In arguments on the Senate floor, Senator Jesse Helms claimed that the internal settlement agreement represented the will of vast majority of black and white Rhodesians, that it more than fulfilled requirements laid down by Secretary of State Henry Kissinger in his talks with Ian Smith in 1976, and that the Patriotic Front had been invited to join the internal agreement but was holding out for total power. Although Senator Helms' attempts to lift sanctions failed, a substitute offered by Senators Case and Javits provided for a conditional lifting of sanctions.[16]

In the House of Representatives, an amendment conditionally lifting sanctions offered by Representative Richard Ichord was passed on August 4, 1978. The committee of conference adopted a compromise version which provides that the President of the United States shall not enforce sanctions after December 31, 1978 "provided that the President determines (1) that the Government of Rhodesia has demonstrated its willingness to negotiate in good faith at an all-parties conference held under international auspices on all relevant issues; and (2) that a government has been installed chosen by free elections in which all political and population groups have been allowed to participate freely, with observation by impartial, internationally recognized observers." [17]

While the executive branch did not formally endorse any of the compromise language, it obviously preferred the language which emerged to any immediate lifting of sanctions against Rhodesia. But the attempt to lift sanctions was interpreted by most observers as an expres-

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[14] See House International Relations Committee. Foreign Assistance Legislation for fiscal year 1978, parts 1–9, Hearings and Markup Before the Full Committee and Subcommittees of the Committee on International Relations, House of Representatives, 95th Cong., 1st sess. (Washington, D.C.: U.S. Government Printing Office, 1977) p. 230.

[15] U.S. Congress, Joint Committee on International Relations, Committee on Foreign Relations. Legislation on Foreign Relations Through 1977, vol. 1. (Committee Print) Washington, U.S. Government Printing Office, 1978, pp. 97–98. This declaration of congressional intent was dropped from the fiscal year 1979 International Security assistance authorization bill.

[16] For the debate in the Senate, see Congressional Record, July 26, 1978, particularly pp. S11783–11806.

[17] For the debate in the House of Representatives, see Congressional Record, vol. 124, Aug. 2, 1978: H7715–H7732. For the final compromise on the lifting of sanctions, see U.S. Congress. House. International Security Assistance Act of 1978. Report. Washington, U.S. Government Printing Office, 1978. (95th Cong., 2d sess. House. Report No. 95–1546) p. 17.

sion of disapproval of the administration's policy toward Rhodesia which it could not easily ignore. In September 1978, 27 Senators invited Prime Minister Smith and his colleagues in the Executive Council to visit the United States in order to present their case to the Congress and the American people. The State Department delayed approving visas to the Rhodesians, caught in a dilemma of wishing neither to break U.N. sanctions against the Smith regime nor to appear partisan toward the Patriotic Front.

The visas were finally issued and Prime Minister Smith and Reverend Sithole spent the last week of the legislative session of the 95th Congress in Washington, D.C. Despite much media coverage, meetings in the Senate and House and with Secretary of State Vance, the Smith visit failed to win administration support for the internal settlement. On October 20, 1978, at a final meeting with officials of the State Department, the four Executive Council members agreed to participate without preconditions in an all-parties conference. Their agreement, however, coincided with massive strikes by Rhodesian forces on Patriotic Front bases and camps in Zambia (where an estimated 1,500 persons were killed) and in Mozambique. This action left in doubt whether the Patriotic Front leaders could be induced to attend an all-parties conference and thus made less likely an imminent solution to the conflict in Rhodesia.

U.S. Policy Alternatives

Within and outside the Congress, current U.S. policy toward Rhodesia has provoked much debate. Opponents of the administration's policy argue that the United States has become engaged in haggling over complex procedures for a transition while engaged in a self-fulfilling prophecy that the internal settlement is doomed to failure; [18] that the United States, not being a party to the conflict, is limited in its ability to influence the outcome; that the failure of the United States to recognize the internal settlement agreement despite its deficiencies, represents a blow to any hopes for a multiracial Zimbabwe; and that, in effect if not in intent, the United States is helping to prolong the conflict and assure a military victory by the Patriotic Front.

Supporters of the current U.S. policy argue that any future government must include the Patriotic Front which has considerable backing within Rhodesia and without whose military opposition no transition to majority rule would ever have been contemplated by Ian Smith; that to do otherwise will only invite further intervention by Soviet-Cuban forces, thereby doing further damage to overall U.S. policy goals in Southern Africa; and that only an agreement acceptable to all parties to the conflict including the front line states and other African allies of the United States can put an end to the fighting. They argue further that the U.S. role in promoting negotiations and a transfer to majority rule is reflective of America's overall policy of seeking peaceful rather than violent change in Africa.

There are, of course, alternatives to current U.S. policy in Rhodesia. The United States could, for example, remove itself from present

[18] See, for example, Chester A. Crocker, "The United States and the Endgame in Rhodesia," Strategic Review, vol. 3 (Summer 1978), pp. 28–40. Clark Murdock in the paper cited above, suggests that there are no peaceful solutions to the Rhodesian conflict "since all parties view it much more as a zero-sum game, not a variable-sum game." (p. 36).

attempts to hold an all-parties conference, declaring that its efforts to date have not proved fruitful. At the same time, President Carter or Secretary Vance could leave open the possibility for the United States to resume its role of peacemaker when so requested. Responsibility for further negotiations could be left to the United Kingdom or to the United Nations. By removing itself from present attempts to end the conflict in Rhodesia, the United States might further weaken its role in any future settlement in that country and, perhaps just as important, could be regarded as having lost its resolve and the moral imperative to assist in ending the suffering and preventing the deaths of Rhodesians of all races.

A second alternative, now that the promised elections have been held, would be to recognize the new government following a determination that the elections were free and fair and that a new government has been installed with a new constitution acceptable to a majority of the Rhodesian people. Those who see this as a viable alternative to current U.S. policy should consider whether such an action taken unilaterally by the United States would contribute to ending the warfare in Rhodesia.

But more important to U.S. policy objectives would be the consequences of such an action. To what extent would recognition contribute to a peaceful settlement of the conflict? Would it only harden the position of both Ian Smith and Bishop Muzorewa and of the leaders of the Patriotic Front? Would it contribute to an end to or a further escalation of the fighting?

Should the conflict in Rhodesia remain unresolved through the first half of 1979 congressional action may well be undertaken with a view to the implementation of one or more of these alternative policies. For example, renewed attempts to lift sanctions might be anticipated during the first session by tying such actions to various authorizations or appropriations for fiscal year 1980. While not explicitly conferring recognition upon the internal settlement, lifting of sanctions would imply recognition. Proponents of the lifting of the sanctions should consider the effects of such action: To what extent would this contribute to a resolution of the conflict? To a further escalation of the conflict? Would the United States be willing to supply war material to the internal settlement government with all that such action would imply?

Other attempts might be made to voice disapproval of current U.S. policy towards Rhodesia. For example, further restrictions on U.S. assistance to the front line States, particularly Mozambique and Zambia, might be made in order to voice disapproval of those nations for harboring the forces of the Patriotic Front. Again, such efforts should be thought of in terms of larger U.S. policy goals. In the case of Zambia [19] which has suffered both from the application of sanctions on Rhodesia and from retaliation by Rhodesian forces on ZAPU camps, any cut-off of U.S. assistance could further endanger the already troubled state of that nation's economy. To date, Zambia has played a constructive role in assisting U.S. peace initiatives in southern Africa and has refused to seek security assistance from the Eastern bloc. Zambia has much to gain from a peaceful settlement of the Rhodesian conflict, and more to lose if the conflict continues much longer or escalates.

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[19] Mozambique is discussed below.

While it is true that the Smith regime remained in power longer than many observers expected, the war continued to accelerate to the point where in October 1978 scores of persons were dying daily and where official statistics admitted to some 0.75 percent of the white population emigrating monthly. If the white exodus cannot be halted, it is doubtful how long the internal settlement can last. A takeover by the Patriotic Front could well result in further fighting between ZANU and ZAPU forces and in even more destruction of lives. A regime which finally emerges out of such a conflict would be faced with enormous problems of maintaining power and rebuilding the economy. The 96th Congress, in considering alternatives to current U.S. policy in Rhodesia, will need to weigh them with respect to several fundamental questions: does this alternative provide a more efficacious means of ending the conflict and its costs to an independent Zimbabwe in terms of human lives? And, if so, does it also serve to implement larger U.S. policy goals in terms of our commitment to an Africa "free of dominance of outside powers, free of the bitterness of racial injustice . . . and free of the burdens of poverty, hunger, and disease?"

Namibia

When the Foreign Ministers of the Western Contact Group left Pretoria on October 19, 1978, the outcome of the Namibia conflict was left in doubt. Much appears to hinge on whether or not South Africa will continue negotiations towards the implementation of the U.N. plan after the December elections. The South African Government did agree to a new round of talks between the Secretary General's representative, Finnish diplomat Martti Ahtisaari, and southwest Africa's Administrator General, Justice M. T. Steyn. The Foreign Ministers of the Western Contact Group urged the United Nations to refrain from punitive action against South Africa in the meantime.

Whether or not such punitive action can be withheld from U.N. Security Council consideration is a matter of speculation. If this matter does reach the security council, the imposition of economic sanctions—either total or partial—could of course be prevented with a "no" vote by any of the permanent members of the council. The Western nations would have to weigh their present economic stake in South Africa against their relations—economic and political—with the rest of Africa. In addition, they would have to consider whether or not such sanctions would have the desired effect of pressuring South Africa into accepting the U.N. plan for Namibia. If sanctions were imposed, there would well be moves in the Congress to pass legislation nullifying all or part of them in the spirit of the Byrd amendment.

SWAPO's reaction to the current negotiations over Namibia will also be crucial: fighting could well be resumed, in which case the prospect of a Zimbabwe-type situation might occur. The December elections which were entered by only one of the major political forces, the Democratic Turnhalle Alliance (DTA), resulted in a major victory for the DTA, but were marked by considerable irregularities according to many observers. While the purpose of these elections is still unclear, the DTA has probably gained a more substantial bargaining position in future elections if and when held. If SWAPO does not agree to await the results of further negotiations, a resolution of the conflict in 1979 would appear to be in doubt.

Much will also hinge on the reactions to the new negotiations by the front line states which, in the past, have fully supported the U.N. plan and have assisted the Western Contact Group in urging SWAPO's acceptance of the plan. Will the governments of these nations accept the Western Contact Group's proposal to maintain faith in South Africa's willingness to continue negotiations on implementation of the U.N. plan? And even if they do show such good faith, will they be able similarly to convince SWAPO?

If in fact, the Government of South Africa does agree to carry out the rest of the U.N. plan after the December elections and if no complications occur with respect to SWAPO and the front line states' acceptance of this delay, the U.S. Congress may be asked to provide additional funds to the United Nations for that purpose. Such funds would insure the full implementation of the U.N. plan through U.N. troops, a civilian police force, and civilian personnel to supervise and monitor the election process and assist in the return of refugees and the release of political prisoners, among other tasks. All contigents of the U.N. presence are expected to be drawn from a wide number of member nations.

Namibia: U.S. Policy Alternatives

Opposition to current U.S. policy toward Namibia has been voiced in the 95th Congress. Should U.S. policy succeed in securing the implementation of the U.N. plan in 1979 as outlined above, the opposition could be lessened. If not, some of the same concerns raised during the course of the 95th Congress could be renewed in 1979. Opponents of current U.S. policy have argued that the United States is assisting in the handing over of power in Namibia to a Soviet-supported, Marxist group (SWAPO). They would in all likelihood accept the results of elections supervised by South Africa and leading to independence for Namibia. Independence per se is perhaps less the focus of controversy than the proposed role for the United Nations, the extent of the proposed U.N. presence during a transition, and questions concerning the impartiality of the United Nations.

Are there alternatives to current U.S. policy and, if so, to what extent do they fulfill larger U.S. objectives in this region? If South Africa does not resume negotiations toward the implementation of the U.N. plan, the United States could unilaterally abandon any further international efforts and accept the outcome of South African-supervised elections. Such a course of action would leave the U.S. isolated from its Western allies and even further isolated from most other members of the international community. The question might well be asked whether in taking such a course of action the United States would be impeding, rather than contributing to a resolution of the conflict in Namibia. Would such action have the effect of further polarizing the peoples of Namibia, rather than bringing them together? Would it further the U.S. goal of achieving an Africa free of outside intervention or provide greater opportunities for outside forces?

The most preferable outcome of the Namibia conflict would appear to be further negotiations leading to an implementation of the U.N. plan with the cooperation of both South Africa and SWAPO. Yet, as outlined above, there are many "unknowns" which could prevent such an outcome. By the time the 96th Congress is seated, Western faith in South Africa's somewhat ill-defined promises will have been put to the test and an end to the conflict in Namibia could well hinge on the outcome.

Angola and Mozambique: Policy Options

With the passage ofthe "Clark amendment" in 1976,[20] the Congress put itself on record as opposing the type of U.S. intervention in Angola pursued by the Ford administration. Since 1977, however, and in light of the growing Cuban presence in Angola as well as the Neto regime's heavy reliance upon Soviet assistance, the Congress has restricted direct U.S. assistance to Angola. The same prohibition exists on direct U.S. assistance to Mozambique. A provision which would have permitted direct assistance to both countries if the President determined that such assistance were in the foreign policy interests of the United States, was removed from the conference report accompanying the fiscal year 1979 foreign assistance bill when it was considered on the floor of the House of Representatives on October 12, 1978.

Proponents of continued restrictions against Angola and Mozambique argue that the United States should not assist Marxist regimes which are in reality Soviet puppets on the African continent. They point to the fact that Angola harbors SWAPO forces and Mozambique harbors the forces on ZANU and argue further that the two regimes are fostering violence and instability in Southern Africa. Those who favor such a prohibition even with a Presidential determination insist that their stand represents a vote of "no confidence" in the administration's policies toward Southern Africa as well as disapproval of the regimes of Angola and Mozambique.

Supporters of efforts to remove the prohibitions against direct U.S. assistance to Angola and Mozambique argue their position from several perspectives. First, they contend that the instability which characterizes Southern Africa today is the result of a failure of the remaining minority regimes to provide for a peaceful transition to majority rule, either SWAPO nor ZAPU nor ZANU would have a raison d'etre if their pleas for change had been heeded by the governments in Pretoria and Salisbury fifteen years ago or more. In addition, they point to the fact that while the governments in power in Angola and Mozambique do reflect Marxist ideology, they are by no means Soviet puppets. The largest donor of assistance to Mozambique is Sweden, not the Soviet Union, and Mozambique has shown an increased interestern in Western investment. Gulf Oil, one of a number of Western companies operating in Angola, provided 60 percent of Angola's total governmental revenues and 80 percent of her export earnings from its operation in the Cabinda enclave in 1976. De Beers of South Africa also has operations in Angola and there is evidence that the Neto regime, in order to lessen its dependence on Soviet bloc assistance, is welcoming assistance from Portugal and other Western nations.

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[20] U.S. Congress. Joint Committee on International Relations, Committee on Foreign Relations Legislation on Foreign Relations through 1977, vol. 1. (Committee Print). Washington, U.S. Government Printing Office, 1978. pp. 308–09.

A third argument presented by supporters of possible U.S. assistance to Angola and Mozambique is related to overall U.S. policy objectives in Southern Africa. Angola and Mozambique have cooperated with the United States, the United Kingdom, and other members of the Western Contact Group in attempts to negotiate an end to the conflicts in both Namibia and Zimbabwe. Why should they do so if their main objective is to create instability and further conflict? How would this serve the interests of both Angola and Mozambique? Both nations are in desperate need of rebuilding their economies and providing basic services to their populations. Neither task can be carried out with continued warfare on and inside their borders. In addition, both nations carry the extra burden of thousands of refugees from neighboring Namibia and Rhodesia.

The basic question which needs to be addressed here is to what extent continued denial of U.S. assistance to Angola and Mozambique furthers U.S. policy objectives in Southern Africa. Will such denial lessen or increase the dependence of the governments in question on Eastern bloc support? Will it assist or hinder U.S. goals of fostering economic development and an end to poverty, hunger and disease? Will it help improve or diminish the prospects of stability and hence opportunities for further outside intervention?

No doubt the fate of assistance to both Angola and Mozambique in the fiscal year 1980 legislation will hinge at least partly on the outcome of the conflicts in Namibia and Zimbabwe. Should both conflicts be resolved, both nations will have a greater opportunity to pursue domestic concerns free from the exigencies of war. But even if they are not resolved, the 96th Congress will still need to consider whether assistance to Angola and Mozambique, however limited, can serve the goals of U.S. policy in Southern Africa.

The Republic of South Africa: Congressional Action

The issue of U.S. relations with the Republic of South Africa has come before the relevant subcommittees of the Senate Foreign Relations Committee and the House International Relations Committee during the 95th Congress. Numerous hearings have been held on U.S. corporate interests and private investment in South Africa, South Africa's visa policy, United States-South African nuclear cooperation, the effectiveness of the U.N. embargo on arms shipments to South Africa, the prospects of change in South Africa, and the events surrounding the death of Steve Biko in 1977.

On October 31, 1977, the House of Representatives voted overwhelmingly in favor of House Concurrent Resolution 388 which denounced the acts of the South African Government in connection with and following the death of Steve Biko and called upon the President to take effective measures to register the concern of the American people. Numerous other resolutions were introduced in the House calling for various forms of withdrawal of U.S. direct and indirect support of the Government of South Africa. The U.S. Ambassador to South Africa was temporarily recalled during the fall of 1977 and on November 4, the United States joined the U.N. mandatory embargo on arms to South Africa.

The House of Representatives took a further initiative during the 2d session of the 95th Congress with respect to restrictions on U.S. Export-Import Bank activities in South Africa. An amendment offered by Representative Paul Tsongas and further amended by Representative Thomas Evans to the Export-Import reauthorizaation bill (H.R. 12157) was adopted by the House of Representatives and retained in conference. It prohibited guarantees, issuance, extension or participation in the extension of credit: (1) in support of any export which would contribute to enabling the Government of South Africa to maintain or enforce apartheid; (2) to the Government of South Africa or its agencies unless the President determined that significant progress toward the elimination of apartheid had been made and a statement transmitted to the Congress describing and explaining that determination; and (3) to any company in South Africa unless the Secretary of State certified that the company had endorsed and proceeded toward implementing fair employment practices as enunciated in the code of corporate conduct put forth by the Rev. Leon Sullivan in the so-called Sullivan Principles.

During the summer of 1978, the Subcommittees on Africa and International Economic Policy and Trade of the House International Relations Committee considered three bills, (H.R. 12463, 13262, and 13273) all of which would have restricted U.S. private investment in South Africa by U.S. corporations. The subcommittees heard testimony from private, corporate and administration witnesses. The executive argued against the proposed legislation for a number of reasons—its likely effectiveness in changing the practices of South African Government, its effects on the U.S. economy and on long term U.S. competitiveness in world markets, possible retaliations, the ability to enforce sanctions of any kind, the relationship of the proposed legislation to the long-standing U.S. principle of nonintervention in foreign economic transactions, and the legislation's possible adverse effects on current negotiations on other southern African issues. While no decisions were made by the subcommittees on reporting out legislation, it is likely that the matter of U.S. investment in South Africa will be taken up again in the 96th Congress.

Two other resolutions (H. Con. Res. 720 and 729) on South Africa passed the House International Relations Committee at the close of the 2d session of the 95th Congress. The first resolution urged the South African Government to reconsider its decision to destroy the Crossroads squatter camp; the second urged all Namibian political parties to adhere to the U.N. plan and similarly urged the South African Government reconsider its position on that plan and resolve remaining differences with respect to its implementation.

A number of other bills were introduced during the 95th Congress with respect to U.S. relations with South Africa, including proposed restrictions on U.S. defense relationships with the Republic of South Africa through prohibition of the assignment of U.S. military and security personnel to South Africa; prohibition of exports of defense articles and other items for military, police or internal security purposes, and of nuclear materials, facilities and technology; and the denial of foreign tax credits for any tax paid or accrued to the Republic of South Africa.

Republic of South Africa: Policy Options

It can be expected that the issue of U.S. relations with South Africa will be on the agenda of the 96th Congress since the problems which affect United States-South African relations are unlikely to be solved in the short run. The Carter administration has stressed that change in Southern Africa is inevitable and that U.S. influence will be used to convince the South African Government that racial justice is in its best interests. In light of the goals which the President himself set for U.S. policy in Africa as a whole, it appears that the United States would welcome peaceful change toward a South Africa in which all people regardless of color should share in decisionmaking about the future of that nation.

There are of course some who believe that the United States should not involve itself at all in this matter. But not to take any stand on the denial of basic human rights in South Africa would appear to sanction the current government's policies and would pose very serious problems for the achievement of larger preferred policy goals in Africa. If the President's goals are acceptable, how best can they be achieved? There are at least three major schools of thought on this subject. First, there are those who believe that the United States should continue to cooperate with South Africa in all spheres—political, economic, cultural, and diplomatic—and to expand such cooperation. Through increased contact and cooperation, it is argued, white South Africans can best be persuaded to move toward fundamental changes in their own society. A corollary of this argument is that with increased foreign investment, expanded employment opportunities and a faster rate of economic growth, substantial changes will undoubtedly occur in the economic status of black South Africans, changes which will eventually lead to greater liberalization in the political system. Opponents of this school of thought argue that South African history shows exactly the opposite trends: periods of economic growth and substantial foreign investment have also been those of heightened political repression; cooperation and communication with the West have served only to support the policies of the Nationalist Government and strengthen it; and all too few white South Africans appear to have been persuaded that fundamental changes are necessary in all spheres of South African society.

A quite different approach would call for the United States to disassociate itself as completely as possible from the Government of South Africa by ending communication and cooperation in all spheres and by the unilateral application of full economic and diplomatic sanctions. Supporters argue that this approach, especially if accompanied by assistance to South African liberation movements, would place the United States firmly on the side of opposition to apartheid. In addition to the very serious domestic political and economic constraints on the pursuit of such a course of action by the U.S. Government, opponents argue that the United States would lose all possibility of leverage on South Africa and of a future role in peaceful change in that country.

A third body of opinion holds that the United States should demonstrate its concern over South African Government policies by a series of moves designed to disassociate and distance the United

States from South Africa. Such moves would include, but not be limited to, restrictions on U.S. exports or export financing (through the Export-Import Bank, for example), discouragement of new investment, denial of tax credits, curtailment of loans, a gradual reduction in the official U.S. presence in South Africa, an end to "gray area" sales (spare parts and components, light aircraft, etc.) and to nuclear cooperation, and encouragement of the exploration of alternative sources of minerals currently supplied by South Africa.[21] Supporters of this approach argue that its value lies in maintaining some lines of communication open while at the same time giving concrete evidence to the South African Government of our willingness to continue "business as usual" in the face of lack of progress toward the elimination of apartheid. Opponents argue that most moves contemplated are either too costly or not costly enough, and question the extent to which such actions can in fact have the desired effects of promoting peaceful change.

The Carter administration, in observing the mandatory U.N. arms embargo and in prohibiting exports of commodities for sale to or for the use of the South African police and military, appears to be following this third course without, however, wanting to move toward economic sanctions at this time. However, in endorsing the Sullivan principles and in expressing the belief that U.S. corporations can and should act as positive forces for change through the adoption of enlightened labor practices, the administration appears simultaneously to be following the first course—that of persuasion through demonstration in the economic sphere. The two courses are not mutually exclusive: by following both, the administration is possibly attempting to use a wider variety of options. There are additional options available to the administration which it has not yet taken: discouragement of U.S. investment in South Africa and of U.S. bank loans; restrictions on the sale of technology items; termination of the Commodity Credit Corporation's programs by which South Africa imports mainly rice and soy protein from the United States, and a lowering of the official U.S. presence in South Africa. These options could be exercised by the Administration without any further legislation. Congressional action would be required to prohibit new investment or bank loans, restrict South Africa exports to the United States, or deny foreign tax credits or deferrals.

The 96th Congress is likely to consider some of these options in seeking to influence the direction of U.S. relations with the Republic of South Africa. Bills introduced during the 95th Congress may well be reintroduced; other initiatives can be expected. U.N.-imposed sanctions, whether full economic sanctions or an oil embargo, may force the issue upon the Congress.

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[21] For a full list of options, see Clyde Ferguson and William R. Cotter, "South Africa: What is to be done?" Foreign Affairs vol. 56, January 1979: 253–274.

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IV. FOREIGN POLICY MANAGEMENT ISSUES

THE ROLE OF CONGRESS

(By Pat M. Holt*)

Issue Definition

The role of Congress in foreign policy involves two broad issues.

The first of these is both constitutional and conceptual: What is, or should be, the proper role of Congress?

The second is practical or technical: How can Congress best play its role, whatever that role is determined to be?

Conceptually, there are three broad views:

That Congress should be predisposed to cooperate with the executive branch, giving Executive proposals the benefit of the doubt, approaching them with the presumption that, at least in their broad outlines, they ought to be implemented, and generally waiting for the executive to take the initiative.

That the congressional position should be one of independence; that Executive proposals should be considered on their merits without any preconceptions pro or con; and that Congress itself should frequently take the initiative in suggesting policies and legislating programs.

That Congress should posture itself in an adversary relationship with the executive branch; that the Executive should carry the burden of proof in justifying its proposals; and that Congress should look outside the executive branch—to its own resources, to nongovernmental experts, and to the public at large—for the bulk of its information and advice.

These views of the congressional role have more to do with attitudes than with processes; yet the processes which Congress adopts and follows depend to a considerable degree on which attitude is prevalent at a particular time or with respect to a particular issue.

The adherents of each of these schools of thought form instable groups, the membership of which shifts not only from time to time but also from issue to issue at the same time. Individuals who support the executive branch on the merits of one issue are likely to argue cooperation, but if the same individuals oppose the executive branch on the merits of another issue, they may well argue an adversary relationship. Within its 2-year span, a single Congress is likely to adopt all three positions at different times on different issues.

On the practical side, there arise technical questions of how Congress can assert itself with respect to foreign policy, once it determines that it wishes to do so. There are many problems of foreign policy which are not susceptible to legislative solutions. The question is, What instruments are available to Congress to influence the course of events abroad? What levers of influence can Congress provide the executive branch?

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In addition, there are many actions which the President can take, or policies which he can proclaim, on his own authority. What devices are available to Congress to shape, or even negate, these actions and policies?

Note should also be made of Congress role as an initiator of foreign policy, or at least of foreign programs. Conspicuous examples—some of them enacted against the wishes, or despite the doubts, of the executive branch—include the educational exchange program, Public Law 480 for the grant or concessional sale of agricultural commodities abroad, the International Development Association, and the Peace Corps, and concerns over human rights under previous administrations.

Background

Congress deals with three broad and frequently overlapping categories of foreign policy issues. There are, first, those matters on which congressional action is necessary to implement an Executive policy. These include treaties and anything requiring an appropriation.

Second, there are those matters which are beyond the scope of congressional action (and may, indeed, be beyond the power of the United States to influence more than marginally). They may, nonetheless, present difficult problems of foreign policy and arouse intense congressional interest. Prominent current examples are the situations in Iran and Nicaragua.

The third and largest category covers those matters which fall in between. It is rare that Congress faces a situation in which its only choice is to approve or reject an Executive policy in toto. And whatever the limitations of American power, it is also rare that Congress faces a situation in which it can do absolutely nothing even if the only available action is no more than a statement of what Congress would like to happen. Most of the time Congress can push the Executive in one way or another through reshaping programs, mandating certain actions, limiting or earmarking funds.

Policy Issues for the 96th Congress

There follows a discussion of some examples of issues the 96th Congress can expect to face in each of these categories.

China.—There are three main issues: recognition of the government in Peking, abrogation of the Mutual Defense Treaty with Taipei, and arrangements for continuing nondiplomatic relations with Taiwan.[1]

The authority of the President to recognize foreign governments and to receive ambassadors is well settled, but implementation of the act of recognition requires Senate confirmation of an American ambassador and approval by both houses of appropriations to maintain an American embassy and staff. In 1951 President Truman's attempt to establish diplomatic relations with the Vatican was frustrated when the Senate failed to act on his nomination of General Mark Clark to be Ambassador.

There are also precedents for the authority of the President to abrogate treaties, acting alone, though this is now being challenged in the

[1] See chapter, "Relations With the People's Republic of China and Taiwan," p. 424.

courts in the specific case of the treaty with Taipei. Historically, other procedures have also been followed in the abrogation of treaties. Sometimes the President has requested and received the approval of the Senate; sometimes he has received the approval of the Senate or of both Houses after transmitting notice of his intention to abrogate; sometimes the matter has been initiated by Congress through a resoltuion advising the President to abrogate.[2]

Pending a judicial decision, there does not seem to be much Congress can do, as a practical matter, to overturn the President's action. It could pass a resolution declaring the treaty to be still in force, but this would be of little effect beyond sharpening the legal issue raised in the pending case.

The terms of the treaty itself help to frustrate congressional efforts to continue it in force. Aside from some general provisions about cooperation and construction between the parties, there are only two operative articles. In the first of these (Article V):

> . . . each party recognizes that an armed attack in the West Pacific Area directed against the territories of either of the parties would be dangerous to its own peace and safety and declares that it would act to meet the common danger in accordance with is constitutional processes.

Executive branch spokesmen have said that the United States made it plain to the People's Republic that the United States would take a very grave view of an attack on Taiwan. Congress could, if it wished, go a step further and pass a resolution embodying the substance of the treaty language.[2a] Or it could reenact the substance of the Formosa resolution, passed in 1955 and repealed in 1974, authorizing the President "to employ the Armed Forces of the United States as he deems necessary for the specific purpose of securing and protecting Formosa and the Pescadores against armed attack . . ."

If either of these actions took the from of a joint resolution and if the President signed it or it were passed over his veto, it would have the same practical effect, so far as U.S. law is concerned, as the treaty. Even if it were only a concurrent resolution, it would still have to be taken into account as an indication of strong congressional sentiment.

In the other operative provision of the treaty (article VII):

> The Government of the Republic of China grants, and the Government of the United States of America accepts, the right to dispose such United States land, air, and sea forces in and about Taiwan and the Pescadores as may be required for their defense, as determined by mutual agreement.

Any attempt by Congress to keep American forces in Taiwan would raise a different set of issues, discussed below under "troop deployment."

The role of Congress with respect to the China problem becomes more direct in connection with arrangements for continuing nondiplomatic relations with Taiwan. Although there is some dispute about the legal requirements, Congress will be asked to pass legislation the effect of which will be to treat Taiwan as a country for certain

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[2] For a good discussion, see a memorandum by Vita Bite of the Congressional Research Service, "Precedents for U.S. abrogation of treaties," dated Feb. 25, 1974, and printed as appendix 4 in U.S. Congress. Senate. Committee on Foreign Relations. The Role of the Senate in Treaty Ratification, a staff memorandum. Washington. U.S. Government Printing Office, 1977.

[2a] Congress has subsequently done so in P.L. 96-8, U.S.-Taiwan Relations, enacted Apr. 10, 1979.

purposes (for example, Export-Import Bank loans, the supply of nuclear fuels, arms sales) while Taiwan is not being treated as a country for diplomatic purposes. At the same time, analogous legislation will be required fully to develop the new relationship with the People's Republic. Congress could, if it wished, put more restrictions on one than on the other.

Panama.—Legislation will be required to implement the treaties with Panama concerning the canal. It will deal essentially with transitional matters such as termination of the Canal Zone Government, the transfer of functions from the old Panama Canal Company to the new Panama Canal Commission, provision of early retirement benefits for American employees in the Canal Zone, and a multitude of housekeeping items.

The legislation will also raise an issue which is more directly related to the respective prerogatives of the House and the Senate than it is to foreign policy. This is the issue of the disposal of American property abroad: Can it be done by the President and the Senate through a treaty, or does it require also the participation of the House through legislation?

SALT.[3]—It is contemplated that the prospective SALT II agreement will consist of three parts—the agreement itself, a protocol dealing with new weapons technologies, including the cruise missile and new types of ballistic missiles, and a statement of principles for SALT III. Despite strong pressure from the Senate to submit the agreement as a treaty, the administration at least through 1978 was keeping open the option of submitting it as an executive agreement. This would require a majority vote in both Houses instead of a two-thirds vote in the Senate. In January 1979 President Carter did say he would submit the SALT II agreement as a treaty. However, the administration could, to an extent at least, have it both ways by submitting the agreement and protocol as a treaty and the statement of principles, a much less specific document, as an executive agreement. This would give the agreement and protocol the additional dignity of a treaty; it would preserve the Senate's treatymaking prerogatives; and it would involve the House in the broader formulation of future policy represented by the statement of principles.

A related issue is that of linkage. How does SALT fit in the total context of relations between the United States and the Soviet Union? To what extent should approval of SALT be conditioned on Soviet behavior with respect to other matters [4]

Troop deployment.—Until the 95th Congress, most of the long controversy over the relative powers of Congress and the President with respect to the armed forces centered on sending troops abroad in either combat or noncombat roles. President Truman's decision in 1951 to reinforce ground troops in western Europe sparked a great debate in the Senate over whether he had the authority to do so without congressional approval. The debate ended inconclusively, in major part because most Senators approved of the action whatever they thought of its constitutionality. In 1973, frustrated by the war in Vietnam, Congress passed the War Powers Resolution over the veto of President

[3] See chapter, "Strategic Arms Limitation Talks (SALT)," p. 148.
[4] See chapter, "United States-Soviet Relations," p. 136.

Nixon who argued that it was unconstitutional. The resolution gives Congress a veto, in certain circumstances, over sending troops abroad.

President Truman sent troops into combat in Korea in 1950 without asking Congress, though some Members of Congress (notably Senator Robert Taft) argued that he should have asked. But in the 95th Congress, when President Carter proposed bringing some of the troops home, there was asserted a congressional power to prevent him from doing so.[5]

Although the numbers of military personnel involved are much smaller, a similar issue may arise in the 96th Congress with respect to Taiwan.

It is one thing to say troops cannot be sent abroad; it is something else to say they have to remain there. The first can be done through prohibitions on the use of appropriations; this was how Congress eventually ended U.S. combat operations in Indochina. It is more convoluted (though probably possible) to prohibit use of appropriations to bring troops home. As a matter of fact, when the House Armed Services Committee adopted an amendment (subsequently deleted) designed to keep troops in Korea, it simply provided that they should stay there. But what if the President, challenging such a provision as an infringement of his constitutional powers, brought the troops home anyway? Congress would probably be without an effective remedy (short of impeachment) other than generally taking a harder line with the President overall.

Another possible technique is to make troop withdrawals dependent on certain contingencies or certain findings by the President. The law does now require certain reports to Congress, including data on the military balance, 120 days before the withdrawal of significant numbers of troops from Korea. In the case of Taiwan, it could be provided that such American military personnel as remain would have to stay (or possibly even be reinforced) until such time as the People's Republic publicly renounces the use of force or until such time as the President finds and reports to Congress that other measures have been taken adequately to assure the security of Taiwan. Again, however, it is questionable how effective such a technique would be in the face of determined presidential opposition.

The issue of troop deployment is an exquisite example of the difficulty in drawing the line between congressional involvement in broad policy and in micro-management. If Congress can say that troops cannot be sent to Vietnam or that they have to be kept in Korea, then it can equally well say that they cannot be sent to for example, Fort Riley, Kans., or that they have to be sent to Fort Hood, Tex. Although it has not been seriously suggested that Congress concern itself with this kind of detail, Congress has come close to it in trying to prevent some military base closings. One way for Congress to influence deployment, particularly over the long term, is through action on military construction bills.

Foreign aid, trade, and arms sales.—Bills on these subjects frequently provide the only instruments available to Congress to attempt to influence situations otherwise beyond its reach. The basic technique is to prescribe criteria or conditions for the extension of aid or credits,

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[5] See chapter, "U.S. Troop Withdrawal From South Korea," p. 403.

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or most favored nation treatment, or the sale of arms (including, in the last case, provision for congressional veto of proposed sales). As the list of criteria and conditions has grown, contradictions have appeared.

Thus, foreign aid legislation prohibits aid to countries guilty of gross violations of human rights but also directs that aid be designed to help the poorest people.[6] The practical effect is that the administration can give greater weight to whichever provisions it chooses and thereby obtain about as much flexibility as it would have had without either provision.

Taking another tack, Congress has embargoed coffee imports from Uganda. It has prohibited the President from embargoing chrome imports from Rhodesia. This prohibition, temporarily lifted, will have to be considered again during the 96th Congress, as will the extension of credits to South Africa.

Aid, trade, and arms sales, in one form or another, may be the only congressional entree into the complex situation in southern Africa and the horn of Africa. They may also provide the only basis for congressional action in regard to the Arab-Israeli dispute and particularly implementation of an Israeli-Egyption peace settlement, or in dealing with that situation if there is no settlement.

As in the matter of SALT and U.S.-Soviet relations, the question of linkage arises: To what extent should programs like aid and trade, which are essentially economic, be conditioned on a country's noneconomic policies or behavior?

Arms sales, which can hardly be divorced from political considerations, give Congress a more direct instrument. Congress could, for example, either prohibit sales or mandate more sales to countries such as Iran and Nicaragua. The impact on U.S. policy would be dramatic, though the impact in Iran and Nicaragua would be more speculative.

ORGANIZATIONAL AND PROCEDURAL ISSUES

Foreign Economic Policy

This issue area raises a different set of problems in connection with the role of Congress, problems mainly of committee jurisdiction and coordination.

The Senate reorganized its committee structure in the 95th Congress, reducing the number of standing committees from 18 to 15 and putting some limits on the proliferation of subcommittees. Even so, under the revised rules, 9 of the 15 Senate committees have some jurisdiction over international economic policy.

The situation in the House differs only in degree: 9 out of 22 standing committees have some jurisdiction in this field.

This fragmentation raises formidable problems of coordination, problems which are made even more intractable by the interrelationships between foreign and domestic economic policy and by the conflicting interests and pressure groups involved. Parceling out jurisdiction over foreign economic policy was one of the most difficult issues the Senate faced in reorganizing its committees in 1977, and it is

[6] See chapter, "U.S. Human Rights Policy," p. 192.

doubtful that another attempt at reorganization would produce a substantial improvement.[7]

The Senate has tried to deal with the problem in the existing framework by joint or sequential referral of legislation in which there is overlapping jurisdiction. As a coordinating device, this has been only partially successful. It may technically meet the jurisdictional claims of the committees involved (for example, the Committees on Banking and Foreign Relations with respect to international monetary affairs), but what is lacking in the House as well as the Senate is a device to bring together all aspects of foreign economic policy in a coherent whole. Given the experience of several Congresses and of the executive branch under several Presidents, this may not be a feasible goal.

One possibility would be the creation of a supercommittee on foreign economic policy which would review all relevant legislation reported by one of the standing committees before sending it to the floor. (The Joint Economic Committee could be converted into such a committee by an appropriate change in the rules.) An analogous suggestion has frequently been made with respect to national security affairs—even the creation of a congressional counterpart of the National Security Council—but it has not been well received in Congress, and there is no reason to think that the suggestion of a supercommittee on foreign economic policy would be received any differently.

One trouble with both these suggestions is that they would simply add another layer to the congressional machinery further slowing and encumbering its functioning. A supercommittee could not do anything that the House and Senate could not do themselves in floor action. Indeed the Founding Fathers, who did not foresee the development of the committee system, intended for the coordinating function to be performed by the Senate and the House as a whole. For this to happen, there needs to be more careful scheduling of legislation for floor action so that related bills are considered as close together as possible. More importantly, there need to be fewer distractions for Members of Congress so that they can pay attention to, and participate in, debates on the floor, and these debates need to become again what they once were—debates and not routine exercises.

Unanimous consent agreements fixing a time certain for a vote used to be a rarity in the Senate; now they are commonplace. They have the advantage of making it easier for Senators to attend to their many activities requiring absence from the Senate floor, but by the same token they encourage absenteeism and contribute to the stultification of debate.

The problem of coordination is further complicated by the intermingling of political and economic policy issues. Trade, for example, is essentially an economic matter, but political considerations are important in devising trade policy with respect to Communist countries. U.S. policy toward the Third World is such an intermixture of politics and economics that one sometimes tends to cancel the other: trade legislation may take away what foreign aid gives, or vice versa; the tax treatment of foreign investment may have repercussions far beyond its impact on revenues.

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[7] See S. Res. 4 (95th Congress), and U.S. Congress. Senate. Committee on Rules and Administration. Report on S. Res. 4, Committee System Reorganization Amendments of 1977. Washington, U.S. Government Printing Office, 1977. (95th Congress, 1st session. Senate. Report No. 95–2), 70 p.

Consultation

The constitutional basis for consultation between the executive branch and Congress lies in the requirement that the President obtain the Senate's advice and consent to the making of treaties and the appointment of Ambassadors and certain other officials. The practical basis lies in Senator Arthur Vandenberg's oft-quoted dictum that if the President wants Congress with him at the crashlanding, he had better be sure it is also with him at the takeoff. With respect to some matters, there is also a statutory requirement. The War Powers Resolution says the President "shall consult" with Congress about the foreign deployment of troops in specified circumstances. The Security Assistance Act of 1978 expressed the sense of Congress that there "should be prior consultation" regarding any proposed policy changes affecting the 1954 mutual defense treaty with Taiwan.

This latter expression was ignored in large measure, but quite apart from this, there do exist procedural and mechanistic difficulties in making the consultative process work.

First, the executive branch, under a succession of Presidents, has generally interpreted "consult" to be synonymous with "inform." Congress has generally interpreted it to mean that it be asked for an opinion, and to be asked at an early enough stage in the policymaking process for the opinion to be taken into account.[8]

Third, there is the problem of time which, especially in crisis situations or when Congress is not in session, may not permit much, if any, consultation.[9]

Finally, even when time is not a factor, the executive branch may find Congress unresponsive. The Members whose advice is sought may have other things to do or may be reluctant to commit themselves on an issue which involves risks regardless of how it is decided.

Various suggestions have been made, mainly of a mechanistic nature, to regularize the consultative process between the executive branch and Congress. These include a question period for Cabinet members in the House and Senate, a joint committee on national security which would meet regularly with the President, designation of ad hoc groups or subcommittees to meet regularly with lower ranking executive branch officials, closer staff liaison with the National Security Council, or even the designation of certain Members of Congress (e.g., the Speaker of the House and the President pro tempore of the Senate, or the chairmen of the Senate Foreign Relations and House Foreign Affairs Committees) as statutory ex officio members of the National Security Council.[10]

In fact, various committees and subcommittees do meet from time to time in a consultative way with officials of the executive branch.

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[8] See U.S. Congrss. House. Committee on International Relations. Subcommittee on International Security and Scientific Affairs. Hearings. 94th Congress, 1st session. May 7, June 4, 1975. Washington, U.S. Government Printing Office, 1975, 136 pp.

[9] For an illuminating account of consultation during the Cuban Missile Crisis see Theodore C. Sorensen, Kennedy. New York: Harper and Row. 1965. p. 702.

[10] See, for example, Francis O. Wilcox, Congress, the Executive and Foreign Policy. New York: Harper and Row, 1971. pp. 157–59; H.R. 7290 (92d Congress); U.S. Congress. Senate. Committee on Foreign Relations. War Power Legislation. Hearings, 92d Congress, 1st session on S. 731, S.J. Res. 18, S.J. Res. 59. Mar. 8–Oct. 6, 1971. Washington, U.S. Government Printing Office, 1971. pp. 17. 456; U.S. Congress. Senate. Committee on Foreign Relations. War Powers Resolution. Hearings, 95th Congress, 1st session. July 13–15, 1977. Washington, U.S. Government Printing Office, 1977. pp. 199–203.

But none of the other suggestions mentioned above has been well received by either the executive branch or Congress.

There are, however, some things that could be done in both the executive branch and Congress to make the system work better without creating overly mechanical formal procedures.

More often than not, the initiative for consultation comes from the executive branch, but there is no reason why Congress could not take the initiative more frequently. Indeed, in a variety of informal ways, it does so more often than it sometimes appears. And in a formal sense, Congress can and sometimes does advise the President through passing House or Senate or concurrent resolutions or through the inclusion of policy statements in legislation.

Wherever the initiative comes from, both the executive branch and Congress ought to exercise discriminating judgment in selecting the issues requiring consultation. The process will probably work better if there is more consultation about major issues and less about minor ones. In the space of a single week, the Johnson administration chose to consult the Senate Foreign Relations Committeee about the nomination of an Ambassador to an obscure African country but not about the nomination of an Under Secretary of State.

If consultation is to be fruitful, both parties must proceed from the same data base. Members of Congress must be as well informed as their executive branch counterparts across the table. This means the executive branch should be more forthcoming than has always been the case in sharing the information available to it. It also means that Congress should use its own staff for independent reporting. Perhaps most important, it means that Members of Congress involved in consultation should do their homework. No amount of brilliant staff work can compensate for the lack of a Member's time and attention.

Oversight

By law (2 U.S.C. 190d(a)) each standing committee of the Senate and the House is to "review and study, on a continuing basis, the application, administration, and execution of these laws, or parts of laws, the subject matter of which is wihin the jurisdiction of that committee."

In effect, this gives every agency of the executive branch a congressional committee looking over its shoulder. Frequently it is more than one committee because most committees define their jurisdiction loosely when it comes to oversight. This is likely to cause some unhappiness in a committee which thinks its jurisdiction is being invaded. It also sometimes subjects the agency in question to conflicting advice and pressures from Congress. But the problem, such as it is, has generally been kept to manageable proportions.

The more difficult questions raised by oversight have to do with congressional priorities and with drawing the line between policy and day-to-day administration, between examining the forest and counting the leaves on every tree.

Congress oversight activities have greatly increased in recent years as a result of the proliferation of agencies and programs in the executive branch and of subcommittees and staff in Congress. Another factor is the increasing congressional assertiveness in foreign policy, an area in which there is an uncommon number of problems not readily susceptible to a legislative solution but with respect to which the relevant committees feel the need to be more fully informed.

In trying to be more active in oversight, Congress has spread itself rather thin and has sometimes given the appearance of scattering its shots.

The results might be better if each committee at the beginning of a Congress drew up a plan for its oversight activities during the next 2 years and restricted these activities to only a few programs, deliberately ignoring the others for the time being. This would permit more concentrated attention to the programs selected, and over the span of a few Congresses virtually all the large and complicated programs could be covered. There would, of course, have to be enough flexibility to allow for unforeseen events.

There is no easy or universally valid answer to the problem of where to draw the line between policy and day-to-day administration; the line seems to vary from program to program and from time to time. Experience suggests that oversight is likely to be more productive the more it concentrates on policy questions and eschews micromanagement. To take an extreme example, it is generally more useful for Congress to ask, "What national interest of the United States is served by this program?" than to ask, "Is the agency's staffing pattern appropriate?" or "Does the agency follow efficient contracting procedures?"

The problem of oversight is related to the recent propensity in Congress to authorize programs, or even to authorize appropriations for permanent departments, for only 1 year at a time. This results in a longer list of bills which have to be considered every year and increases the demands on Congress time. On the other hand, it provides readymade opportunities for the oversight function if Congress wishes to use them. It also has gone a considerable distance toward providing de facto sunset legislation.

Information

Information, raw factual data and insights, perceptions, and analyses are crucial to Members of Congress whether they are legislating or engaged in oversight.

Although most discussion of the problem has been concerned with how Congress can acquire more information, the flow has increased so much that this is not as important as it once was. The one aspect which will remain unresolved has to do with information for which the executive branch is the unique source. This is of two types: intelligence,[11] and facts about executive branch programs and operations.

The executive branch is engaged in many activities which are related to intelligence only indirectly, if at all, and which Congress needs to know about. These include such things as foreign aid, foreign information, foreign military bases. Although a good deal of information about these and similar operations can be gathered piecemeal from independent sources, it is most readily obtained from the executive branch. The executive branch must be cooperative, candid, and forthcoming for Congress to have ready access. That has not always been the case. Some of the more notable and protracted struggles between Congress and the executive branch over the last several administrations have been over congressional access to executive branch information.

[11] See chapter, "Foreign Intelligence: Management and Organization Issues," p. 635.

This problem has not been so acute in the Carter administration as in its immediate predecessors. In part, this is because of the Freedom of Information Act and a considerable body of legislation requiring reports to Congress. Moreover, the Carter administration has tried to follow a policy of more openness in dealing with Congress. But the problem persists and can be expected to continue, sometimes getting worse, sometime getting better.

With respect to most matters, however, the executive branch is neither the only nor necessarily the best source of information. This is particularly true with respect to political and economic analysis. Here Congress has available, if it wishes to use them, resources at least equal to those of the executive branch and in some cases superior.

There is, first of all, the ever-growing flood of published material. There are vast resources in the Library of Congress and the Congressional Research Service, the General Accounting Office, the Congressional Budget Office, and the Office of Technology Assessment. Congress own staff has greatly increased, and staff expertise has improved. Nongovernmental experts abound in universities, foundations, research institutes, journalism, and elsewhere. Finally, many well-informed foreigners visit Washington.

The staffs of congressional committees and of individual members have the main responsibility for digesting this flood of information. The staffs themselves, if unwary, are likely to be overwhelmed. But the staffs have a higher function than simply sifting through the mass and writing summaries for Members. An important part of this function is getting out and doing original reporting. When this is done at its best, Congress may have better information than the executive branch gets from its own people.

Travel by Members as well as by staff is an important source of information, more so if it is done in smaller rather than larger groups and if foreign contacts are made over a broader rather than a narrower spectrum. In dealing with foreigners, especially foreign politicians whether in or out of power, there is a danger that the contact will be misconstrued or misrepresented, even if it is strictly limited to fact-finding. The less political sophistication in the country in question, the more this is likely to be the case. The problem stems from the desire of an individual or group to use a Member of Congress or a congressional committee so as to further its own interests. The likelihood of this happening increases with the level and dignity of the contact. It is usually small when it consists of a private interview. It is much larger when it is raised to a formal appearance before a committee in public session.

Congress' independent information gathering activities are closely related to its oversight function. Taken together, these two enable Congress to perform an important non-legislative role in foreign policy. Simply put, this is keeping the Executive Branch honest so that the public may be assured, to the maximum extent possible, that things are indeed what they seem, and that stated reasons are real reasons. A notable example is the work of the Senate Foreign Relations Committee and its staff in uncovering, ex post facto, the real story of the Gulf of Tonkin.

A related part of the congressional role is serving as a forum for public discussion of basic issues of foreign policy. Committee hearings and congressional debates can help to clarify issues and shape opinion even if they do not result in legislation.

Aside from these general matters, there are two specific questions which the 96th Congress may wish to consider with respect to information.

It may wish to review the reporting requirements which its predecessors have imposed on the executive branch and make its own determination as to the utility of the reports.

It may also wish to consider further refinements in its systems of automatic data processing, particularly the storage and retrieval of information.

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THE ROLE OF THE EXECUTIVE

(By Dr. Norman J. Ornstein*)

Issue Definition

Two key developments characterize American foreign policy in the 1970's. One is the growing interdependence of policy areas—the linkages between domestic and foreign policy domains, as well as the connections among the international economic, political, strategic, and security spheres. It has become increasingly clear that domestic policy decisions on energy and inflation, for example, have a direct effect on international money markets, and on the economic policies pursued by America's allies (and rivals). The attitudes and opinions of a variety of American groups—ethnic and ideological—have framed American responses to many international situations, including the Middle East, Cyprus, Cuba, and the Panama Canal. Tariff decisions, or decisions on whether to deploy weapons systems (such as the neutron bomb) can and have influenced broad economic and political relations between American and other foreign powers.

Obviously, foreign policy has never been determined or implemented in isolation either from domestic considerations or from economic or political factors. But a trend in the 1970's toward a growth in the interrelationships has coincided with a growth in assertiveness on the part of Congress in the foreign policy arena. These twin trends have directly influenced many American foreign policy decisions—arms aid to Turkey, human rights considerations on foreign aid, American conditions on World Bank participation, to cite three examples—and they have also shaped the direction of congressional concerns on foreign policy.

The executive branch has had to respond in a variety of ways to both of these developments. With changes in the world arena, new and different policy alternatives have been developed and considered. A concurrent concern has developed over the management and coordination of foreign policy objectives. As Congress has more aggressively demanded a larger role in these areas, the executive branch has had to respond, structurally and in policy terms, to this newly assertive actor on the foreign policy stage.

To some extent, the executive branch's actions in recent years in foreign policy and its management have been directly spurred by Congress; the ongoing reorganization of the intelligence community was in large part a result of the investigations of the temporary House and Senate Intelligence Committees, chaired respectively by Representative Otis Pike and Senator Frank Church, and by their successor, permanent committees.[1] And the various organizations in the State De-

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[1] See chapter, "Foreign Intelligence: Management and Organization Issues," p. 635.

partment that now focus on human rights were created out of the concern raised in the early 1970's by a House International Relations Subcommittee. Similarly, the anticipated concern in both branches in the next 2 years over the organizational arrangements and the management of U.S. foreign trade and investment stem in part from congressional attempts in the 95th Congress to create a Department of International Trade.[2]

The emphasis on various questions of foreign policy management in both Congress and the executive branch, have obviously occurred during a time when international and domestic issues have changed. Certainly the most important single factor was Vietnam, which acted as the catalyst for congressional reform and a newly assertive attitude among Members of Congress, and which also spurred the U.S. Government, on the mid-1970's, to focus on and rethink its foreign policy decisionmaking processes. But many other issues have also surfaced during this era, that have both divided Congress and the executive branch and raised new questions about who manages American foreign policy, and through what channels. These issues, in 1973–76, included limitations and conditions in Soviet-American trade; American political, economic, and military support for the Greek junta; American policy in Chile, revelations of CIA conduct; American involvement in Angola; American diplomacy in the Middle East; and Presidential use of executive agreements.[3] In the 95th Congress, many seemingly domestic concerns—especially energy policy and trade, economic and anti-inflation policy—brought divisions between Congress and the executive branch, and additional concern with the management and coordination of U.S. international economic policy.

Overall, during the 1970's, the interconnections between policy decisions in economic, political, strategic, and other areas have increased, while the fragmentation and lack of coordination among the executive agencies charged to implement policies in these areas have become more apparent. Hence, many actors in both the executive and legislative branches of Government have begun to grapple with the related organization and management questions. The high priority given by President Carter to executive branch reorganization generally has reinforced this tendency.

The importance of these issues will continue during the 96th Congress, both in terms of continuing executive reorganization, congressional oversight of these changes and congressional efforts to promote further changes as well.

Background: The Context of Issues for the 96th Congress

Questions of the management and direction of American foreign policy have been approached in several ways, which can be roughly categorized as follows: (a) Direct organizational-structural changes—the creation of new agencies or departments, the consolidation of functions, the abolition of administrative units; (b) congressional oversight to examine the management of a foreign policy area, such as export policy; (c) overhaul of an entire area of decisionmaking

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[2] See chapter, "Reorganization of Foreign Economic Policy," p. 647.

[3] Hamilton, Lee H. and Michael H. Van Dusen. Making the separation of powers work. Foreign affairs, v. 57, Fall, 1978: 17–39.

(i.e., intelligence); and (d) congressional structures and responses to executive foreign policy actions. These broad approaches will shape the issues to face these institutions over the next 2 years as well.

Direct Organizational Structural Changes

THE STATE DEPARTMENT

Certainly the most comprehensive recent initiative to examine the State Department was the establishment by Congress of the Murphy Commission on the Organization of the Government for the Conduct of Foreign Policy.[4] Created through the Foreign Relations Authorization Act of 1972 (Public Law 92–352), the Murphy Commission was given a broad mandate to submit findings and recommendations for a better system for the management of U.S. foreign policy to both Congress and the President. The commission was chaired by career diplomat Robert D. Murphy, and included two members from each House of Congress, two from the executive branch, and six people from outside the Government. A several volume set of findings was submitted to both Houses of Congress and to the President in 1975. The commission recommendations included suggested major structural changes within the State Department and elsewhere. Some changes have subsequently been made that correspond to various Murphy Commission recommendations, but no comprehensive structural alterations have occurred. Organizational inertia, the tendency by policymakers to focus on immediate policy decisions and downplay structural problems or considerations, the lack of political payoff in a major State Department reorganization and disagreement with the substance of recommendations, are all likely reasons for the inaction. Nor has Congress taken the Murphy Commission suggestions as its blueprint for change, and pushed the executive branch aggressively to implement them. Within the State Department, Congress (through the Senate Foreign Relations Committee) did extend the bureau concerned with science and technology to include oceanic and environmental matters, but a concentrated effort to reorganize the State Department and foreign policy agencies overall has not followed the Murphy Commission's report.

USIA

The U.S. Information Agency has been the subject of numerous reorganization studies in the past several years, many of them focused on American propaganda efforts, particularly through the Voice of America. Congress played a prominent role in investigating the role and structure of USIA, and urged changes, though with little direct effect. In 1973, the Senate Foreign Relations Committee looked into the administration of USIA programs, while in 1976 ,the House International Relations Committee called for a new, major examination of U.S. public information efforts.[5] In 1977, President Carter, spurred by Congress and his own reorganization goals, sent reorganization

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[4] Commission on the Organization of the Government for the Conduct of Foreign Policy Report. Washington, U.S. Government Printing Office, 1975. 278 p.
[5] See Lanouette, William. "The reorganized ICA: a new look for the U.S. abroad." National Journal, v. 10, Sept. 23, 1978: 1514.

plan No. 2 to Congress, which proposed the merger of USIA with the State Department's Bureau of Educational and Cultural Affairs, to create an Agency for International Communication (later changed to International Communication Agency, or ICA). The ostensible purpose of this reorganization was to combine the "information" function of USIA with the "cultural exchange" function of the State Department Bureau, streamlining American "public diplomacy." While there was some discussion in Congress about making Voice of America independent, and some controversy about the new agency name, Congress essentially allowed the Carter plan to pass intact.[6]

AGENCY FOR INTERNATIONAL DEVELOPMENT

In 1970–71, President Richard M. Nixon attempted by statute to change the structure of the foreign aid program; his proposals, based on the recommendations of the Peterson (Presidential) Commission, would have altered the Agency for International Development (AID) internally and created several new and independent institutions. The proposals died in Congress. Major changes nonetheless occurred in AID during the 1971–77 period, but all were initiated and put into effect by the executive, and Congress paid comparatively little attention to them.

Congress began to focus on the management and organization of the foreign aid program in the 94th and 95th Congresses, especially through the interests and initiatives of Senator Hubert H. Humphrey, chairman of the Senate Foreign Relations Committee Foreign Aid Subcommittee. Humphrey introduced a major reorganization of foreign aid programs and their implementation, S. 2420 in the 95th Congress, the foreign assistance program bill. But this major effort to reorganize AID faded in the 95th Congress with Humphrey's death.

ARMS CONTROL AND DISARMAMENT

The Arms Control and Disarmament Agency (ACDA) was reorganized substantially in 1973 at the initiative of Secretary of State Henry Kissinger. A year later, in 1974, the House Foreign Affairs Committee, through its Subcommittee on National Security Policy and Scientific Developments, instigated a staff review of the agency,[7] basically to determine if it was operating in accord with the original congressional intentions. The staff study examined the role of ACDA in arms control policy formulation, in negotiations, in research, and in public information, concluding that, as an independent resource for Congress, "it (ACDA) has scarcely functioned." In all, ACDA has "not played a sufficiently imaginative and independent adversary role within the executive branch, and has not carried its disagreements often or vigorously enough to the Congress and public." [8]

The subcommittee staff made a substantial set of recommendations, several of which were subsequently adopted, in whole or in part, in the

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[6] A list of relevant congressional documents can be found in U.S. Congress. House. Committee on International Relations. Congress and Foreign Policy (Committee Print) Washington, U.S. Government Printing Office, 1978, p. 19.

[7] U.S. Congress. House. Committee on Foreign Affairs. Subcommittee on National Security Policy and Scientific Development. Review of arms control legislation and organization. (Committee Print) Washington, U.S. Government Printing Office, 1974, 48 p.

[8] Ibid., p. 35.

fiscal year 1976 Foreign Relations Authorization Act (Public Law 94–141). The act gave ACDA primary authority for making recommendations on U.S. arms control policy, and for assessing the policy, under the aegis of the President and the Secretary of State. The ACDA Director was designated principal adviser to the National Security Council on arms control. The Senate Foreign Relations Committee subsequently indicated its displeasure with the outcome of their legislative efforts, particularly the arms control impact statements filed in 1976.

The 1973 House staff report had also recommended that ACDA authorizations be changed from multiyear to annual; this began in 1974 and indicated continuing interest within Congress especially in the Nixon-Ford years, for active oversight of ACDA. As will be shown, Congress approach to ACDA has changed somewhat in the Carter era, with different Members of Congress interested in the management of the agency, but with a continued overall aggressive approach.[9]

DEPARTMENT OF DEFENSE [10]

In recent years, the Congress has played a limited, usually passive role in the reorganization of the Department of Defense. A case in point: In 1977, spurred by President Carter's pledge to make reorganization a top priority of his administration, Secretary of Defense Harold Brown made substantial structural changes in DOD. Most were accomplished internally on the statutory authority of the Secretary. But several important proposals were statutory: Recommendations by Brown to abolish one of the two Deputy Secretary of Defense positions, create two new Under Secretaries (for Research and Development and for Policy) below the one remaining Deputy, with corresponding changes in the chain of command. The proposals were enacted into law on October 21, 1977, as Public Law 95–140. Congress in recent years has considered various DOD reorganization proposals from its Members, but has essentially acted only upon the initiative of the Secretary and the President.

NATIONAL SECURITY COUNCIL

The National Security Council, contained in the Executive Office of the Presidency, has seen its role and importance change several times in the seventies. Under President Nixon, the NSC developed a number of advisory committees, and became a highly important force in the foreign policy process, a role it basically continued under President Ford. Congress' main initiative in the Nixon-Ford years was to pass a provision in 1975 which would have made the Secretary of the Treasury a statutory member of the NSC; the bill containing this provision was vetoed by Ford. The Carter administration altered the role of the NSC, lowering its profile and diminishing its role somewhat, and also implemented a significant reorganization of the Council, reducing the number of staff committees from seven to two, and reducing the size of the staff. Congress played little if any role in this process and has not engaged in any serious or detailed oversight of the operation or structure of the NSC.

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[9] U.S. Library of Congress. Congressional Research Service. Foreign Affairs and National Defense Division. "Executive reorganization: the Arms Control and Disarmament Agency." Washington, D.C., 1977, p. 26.

[10] See chapter, "Department of Defense Organization," p. 623.

THE TRADE AGENCIES[11]

In the past 2 years, the area of trade has seen more active attention in terms of executive reorganization than many other areas of foreign policy. Spurred in part by recommendations contained in a book written by Prof. Stephen Cohen of American University, "The Making of United States International Economic Policy: Principles, Problems, and Proposals for Reform," Senator Abraham Ribicoff, chairman of the Senate Governmental Affairs Committee and a member of the Finance Committee, and Senator William Roth, a member of both the Government Affairs and Finance panels, introduced in the 95th Congress a bill (S. 1990) to establish a Department of International Trade and Investment. The Ribicoff-Roth proposals would consolidate into the new department the Office of the Special Trade Representative, the Export-Import Bank, the Overseas Private Investment Corporation, the international business and export control functions from the Commerce Department, the antidumping and countervailing duties enforcement and customs administration from the Treasury Department, and the statistical reporting work of the International Trade Commission (though the ITC would continue to exist as an independent agency). In February and May of 1978, the Senate Governmental Affairs Committee held hearings on the proposals, with no administration witnesses, but no further action was taken in the 95th Congress.[12] Notably, in the House hearings on the coordination of U.S. international economic policy on September 15, 1977, Treasury Secretary Michael Blumenthal personally opposed the idea of a separate Department of Trade.[13]

The House of Representatives devoted some attention to the broader structural coordination of international economic policy in the 95th Congress, through the hearing of the International Economic Policy and Trade mentioned above. The hearing examined the termination in the Carter administration of the White House Council of International Economic Policy (which had been created in 1972), and the creation by Carter of an Economic Policy Group, with task forces and lead agencies. The 1-day hearing also explored the possibility of mandating legislatively an international economic report, to continue the function that had been performed by the Council of International Economic Policy. No action was taken as a result of this hearing.

CONGRESSIONAL OVERSIGHT: THE CASE OF EXPORT POLICY

Congress has relied upon its general oversight authority to investigate many foreign policy questions. In the 93d, 94th and 95th Congresses, the House International Relations Committee's Subcommittee on International Organizations held numerous wide ranging hearings on American human rights policies. Beyond the intelligence area,[14] perhaps the most sustained and comprehensive oversight effort

[11] See chapter, "Reorganization of Foreign Economic Policy," p. 647.
[12] U.S. Congress. Senate. Committee on Governmental Affairs. To Create a Department of International Trade and Investment. Hearings, 95th Cong., 2d sess., on S. 1990. Feb. 24 and May 1, 1978. Washington, U.S. Government Printing Office, 1978, 163 p.
[13] U.S. Congress. House. Committee on International Relations. Subcommittee on International Economic Policy and Trade. Coordination of U.S. International Economic Policy. Hearings, 95th Cong., 1st sess., Sept. 15, 1977. Washington, U.S. Government Printing Office, 1978, 24 p.
[14] See chapter, "Foreign Intelligence: Management and Organization Issues," p. 635.

in the past few years was the Senate's investigation in the 95th Congress of U.S. export policy. Under the direction of Senator Adlai E. Stevenson, in 10 separate hearings conducted during the first half of 1978,[15] the Subcommittee on International Finance of the Senate Committee on Banking, Housing and Urban Affairs explored numerous aspects of American export policy including the effects of floating exchange rates on exports, trends in export markets, foreign governments' export policies, the role of the Export-Import Bank, the strategic coordination of American export policy, including antitrust policy, and the strategic coordination of high-technology exports. Especially in the latter two areas, the subcommittee explored the jurisdictions, roles, and interrelationships of the Justice Department, the Federal Trade Commission, and the International Trade Commission on export policy, and the coordination among the State, Treasury, and Commerce Departments for the making of high-technology export policy. In the latter case, at a hearing held jointly with the Commerce Subcommittee on Science, Technology, and Space, Senator Harrison Schmitt suggested the formation of a body composed of individuals from both the Government and the private sector to coordinate high technology export policy. While no concrete bills or structural changes have yet come of these hearings, it was a case of a congressional body focusing sustained attention on a broad management problem.

CONGRESSIONAL STRUCTURES AND RESPONSES

During a period of stress in the political system and reform in Congress, some attention has been given in the 1970's to the ways in which Congress itself examines the various facets of American foreign policy. In 1973–74, the House of Representatives, through a Select Committee on Committees chaired by Representative Richard Bolling, examined the structure and jurisdictions of all House committees. Among the Bolling Committee's recommendations was a proposal to shift foreign trade jurisdiction from the Ways and Means Committee to the Foreign Affairs Committee. However, most of the Bolling panel proposals were defeated on the House floor in 1974.[16] In 1976–77, the Senate attempted its own committee system reorganization. A Select Committee to Study the Senate Committee System, chaired by Senator Adlai E. Stevenson, issued recommendations in September 1976, many of which were adopted by the Senate on February 4, 1977.[17]

The Stevenson Committee gave serious attention to merging the jurisdictions of the Senate Foreign Relations and Armed Services Committees, to create an omnibus Committee on National Security, though it ultimately rejected the idea. The committee did recommend,

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[15] U.S. Congress. Senate. Committee on Banking, Housing, and Urban Affairs. Subcommittee on International Finance. Export policy. Hearings, 95th Cong., 2d sess., 7 parts. Washington, U.S. Government Printing Office. 1978.

[16] See Davidson, Roger H. and Walter J. Oleszek. Congress Against Itself. Bloomington: Indiana University Press (1977), 306 p. Also U.S. Congress. House. Select Committee on Committees. Final report, Committee Reform Amendments of 1974. Washington, U.S. Government Printing Office, 1974 (93d Cong., 2d sess., House Rept. No. 93–916).

[17] See U.S. Congress. Senate Temporary Select Committee To Study the Senate Committee System. First report, with recommendations. Washington, U.S. Government Printing Office, 1976 (94 Cong., 2d sess. Senate. Rept. No. 94–1395), 225 pp. See also U.S. Congress, Senate. Committee on Rules and Administration. Report on S. Res. 4, Committee System Reorganization Amendments of 1977. Washington. U.S. Government Printing Office, 1977. (95th Cong., 1st sess. Senate. Rept. No. 95–2), 70 p.

however, a consolidation of subjective legislative jurisdiction over international economic policy, in the Senate Banking Committee. The Senate ultimately decided to divide the jurisdiction between the Banking and Foreign Relations Committees (leaving tariff jurisdiction in the Finance Committee), with both the Banking and Foreign Relations panels given a broadened oversight authority over international economic policy.

THE OUTLOOK FOR THE 96TH CONGRESS [18]

The past decade has seen a much more active and energetic Congress in the foreign public arena. Both the House and Senate have decentralized their decisionmaking processes, enlarged their professional staffs and become more assertive in expanding their roles. Activity has focused not only on the substance of U.S. foreign policy, but also on the management and organization of the executive branch institutions which implement the policy decisions. The organizational issues facing the 96th Congress flow from the concerns which have been expressed in the 94th and 95th Congresses, described above.

Executive Agencies and Reorganization

Given that President Carter will continue to make executive branch reorganization a high priority in the next 2 years, reorganizational questions will be correspondingly important in the 96th Congress. Congress' attention to these issues has rarely been sustained or translated into concrete legislative action, except at the initiative of the executive. But several structural concerns will be initiated by, or pushed by Congress in the next 2 years.

THE DEPARTMENT OF TRADE

The proposal to create a Department of International Trade and Investment, carried over from 1978, will be an issue which could be considered by the 96th Congress. In part, this consideration may occur because the key proponents of the bill—Senators Ribicoff and Roth—are also members of the relevant Senate committees. But the proposal also reflects a widespread congressional concern over the lack of political, economic and strategic coordination of American trade policy. Moreover, the Carter administration reorganization efforts may include some movement in this direction. However, the idea within Congress of a separate department of trade has been largely restricted thus far to the Senate; whether the interest will spread in the next 2 years to the House of Representatives remains to be seen.

OVERSIGHT OF MULTINATIONAL CORPORATIONS

Another area of congressional concern from the past few years which will carry over into the 96th Congress is the organization of the executive branch to oversee multinational corporations (MNCs), in terms of U.S. foreign policy. With an expectation that the Senate Judiciary Committee may well emphasize antitrust policy, the focus in the Sen-

[18] See chapter, "The Role of Congress," p. 599.

ate on the oversight of MNC's may be enhanced further. In 1975, the Senate Foreign Relations Subcommittee on Multinational Corporations examined multinational oil companies in terms of U.S. foreign policy with an emphasis on the structure and role of the State Department, the Treasury Department, the Federal Energy Administration, and various domestic concerns.[19] The Multinational Corporations Subcommittee was changed into a Foreign Economic Policy Subcommittee in 1976, but the concerns over coordination of U.S. foreign economic policy with regard to multinationals should continue into the next 2 years.

NUCLEAR EXPORTS

The regulation and coordination of U.S. nuclear export policy is another area likely to be addressed by Congress in 1979–80. The various roles of the State and Energy Departments and the Nuclear Regulatory Commission were explored in the Senate during the 95th Congress through various Senate committees. The Governmental Affairs Committee, particularly, has an interest in this area as an organizational matter, but so too do Committees on Foreign Relations and Environment and Public Works.

ARMS CONTROL

As mentioned above, Congress has been active in suggesting and shaping the role played in arms control policy and arms assessments by the Arms Control and Disarmament Agency (ACDA). In the early 1970's, Congress focused on ACDA essentially because of suspicion and distrust of the Nixon administration's arms control policy. Congress wanted a strong ACDA as a counterbalance in the executive branch to the President. In the 95th Congress, ACDA was seen in a more negative light, as shown by the intense debate in the Senate over the confirmation of Paul Warnke as ACDA Director. In the 96th Congress, with the SALT II agreement, the conflict within the Senate over the role and structure of ACDA may intensify, with some polarization in the legislative body, along ideological lines. Those suspicious of a SALT agreement are more hostile to ACDA now, and to its prominence in the arms control policy process, while those who support Carter's arms limitation policies will defend a strong agency. The appointment of Lt. Gen. George Seignious to be the Director of ACDA focused debate on some of these concerns.

INTELLIGENCE

After preliminary work during the 95th Congress on a general overhaul of the intelligence apparatus, and creation of a comprehensive charter, the subject will be taken up again in the 96th Congress. These broad matters of intelligence management and policy should preoccupy the House and Senate Intelligence Committees, and while there is a general consensus between Congress and the Executive, continuing problems and significant unresolved issues will be of crucial importance to the outcome.

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[19] U.S. Congress. Senate. Committee on Foreign Relations. Subcommittee on Multinational Corporations. Multinational Oil Corporations and U.S. Foreign Policy (committee print), Washington, U.S. Government Printing Office, 1975, 172 p.

EXECUTIVE AGREEMENTS

In the past decade, a more assertive Congress has become increasingly concerned about the growing dominance of executive agreements over treaties in the making of U.S. commitments abroad.[20] Indeed, in 1978, the Senate Foreign Relations Committee adopted a provision to the fiscal year 1979 State Department Authorization bill (H.R. 12598) allowing the Senate to decide whether pacts with other countries should be submitted as treaties, requiring ⅔ Senate approval, or as executive agreements. The Senate altered the provision to state that the President, when considering an international pact should seek the advice of the Foreign Relations Committee.[21] This concern was exacerbated by the prior unwillingness of President Carter to exclude the possibility of concluding a strategic arms limitation pact in the 96th Congress by executive agreement rather than treaty, although he subsequently announced that a SALT II agreement would be presented as a treaty. Congress options in dealing with this broad problem directly are unclear, but it is quite likely that the subject will be explored extensively in the coming Congress.

CONCLUSION

There are a variety of other policy areas where Congress may intervene actively to suggest new patterns of policy management, or to demand a more active management role for the legislative branch itself. Several prominent Members of the House and the Senate have a deep and abiding interest in the nature and coordination of international economic policy. Their interest and concern may well translate into congressional attention paid to the broad subject, perhaps along lines similar to those of the 94th and 95th Congresses, described above. The coordination of the administration's human rights policies is another potential topic of interest within the Foreign Relations and International Relations Committees.

In the past few years, Congress has taken a somewhat more active interest in the organizational makeup of the executive branch. But this interest has only occasionally gone beyond the traditional passive role of responding to a reorganization initiative from the President, to a more active role as an initiator or reorganization. Most often when Congress has examined the organization of the executive branch in relationship to the conduct of foreign policy, it has been through a staff study, or a report commissioned by Congress. But in the next few years, legislators themselves will likely expand their interest in reorganizational questions.

However, several aspects of Congress' organization and behavior may limit and fragment congressional initiatives in examining the coordination and management of U.S. foreign policy. To begin with, the striking decentralization which has occurred in both Houses of Congress within the past decade, while it has contributed to the overall activism on Capitol Hill, also inhibits the ability of the legislative branch to focus on broad policy management oversight, or to implement changes.

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[20] Johnson, Loch and James M. McCormick. Foreign Policy by Execuive Fiat. Foreign Policy. No. 28, fall: 1977, 117–138.
[21] Congressional Quarterly weekly report, July 1, 1978, p. 1714.

But the agenda is set and followed at the behest or interest of the various subcommittee chairmen. If relevant chairmen have an appropriate interest, and have the time (given their range of other interests and commitments), an area may be explored, with constructive alternatives raised or recommendations made (this may well be the case, for example, with international economic policy coordination in the 96th Congress). But if no such strong interest exists among subcommittee chairmen, areas may be wholly neglected in Congress. The internal organization of various executive agencies, such as the Defense Department and the National Security Council, and for the most part, the State Department, are relevant examples. Moreover, a decentralization into subcommittees and across committees has changed the legislative emphasis in Congress away from full committees and toward both subcommittees and the floor. Much of Congress aggressiveness in foreign policy, and many of its initiatives, have come from action taken not in the appropriate committees, but on the floor itself—the Harkin amendment, for example.[22] The House or Senate floor is, perhaps, not a place congenial to the discussion or analysis of foreign policy management questions.

Third, in spite of substantial committee system reorganization in the Senate and modest changes in the House, both Chambers remain fragmented in their policy jurisdiction, with many committees retaining bits and pieces of foreign policy jurisdiction. International economic policy is handled by the Finance, Appropriations, Commerce, Banking, Governmental Affairs, and Foreign Relations Committees, among others in the Senate, with a comparable group having authority in the House. Nuclear export policy is handled by the Governmental Affairs, Environment and Public Works, Armed Services, and Foreign Relations Committees in the Senate, again with a comparable group in the House. With a lack of coordination within Congress on foreign policy questions, it is difficult for the legislature to focus on, and affect, the overall management and coordination of U.S. foreign policy. Substantial attention may be paid within the 96th Congress to these internal organizational problems, as much as to the broader policy arenas.

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[22] A floor amendment to the 1975 Foreign Economic Aid bill offered by Representative Thomas Harkin, to prohibit U.S. aid being given to any country that consistently violated international human rights. The House adopted the amendment, 238–164.

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DEPARTMENT OF DEFENSE ORGANIZATION

(By James L. George, Ph.D.*)

ISSUE DEFINITION

Introduction

Issues regarding Department of Defense organization, while receiving less attention than other defense-related issues, are nevertheless important for several reasons: First, on a day-to-day basis, nothing is more important than organizational relationships. During crises, the importance of so-called C^3 (Communications, Command, and Control) is recognized as "the very heart of military power." [1] Second, the Carter administration has made several significant changes during the 95th Congress and perhaps more important, has completed five major organizational studies. Neither the changes nor studies have been formally reviewed by Congress. Finally, the management of any Department with a budget of some $125 billion and employing over 3 million people requires oversight.

General Questions

Before proceeding to specific questions relating to the Department of Defense, there are some broad questions that can be asked of any organization. First, does organization really matter, or is individual leadership really the key? For example, Robert McNamara would have been a strong Secretary of Defense no matter what the organization. Second, can reorganization really make a difference in an organization as large and complex as the Department of Defense? Third, are reorganizations "reinventing the wheel" and simply wasting time? Finally, and perhaps most important, are "organizational changes" really "substantive changes"? As former Chairman of the Joint Chiefs of Staff, Adm. Thomas Moorer wryly noted at a hearing on defense decisionmaking, we never lost a war before the National Security Act of 1947 and have not won one since.[2]

Specific Questions

There are, of course, many specific issues that relate to DOD organization. Some of the more important are:

(1) *Issue of military versus civilian "influence"*.—Without a doubt, one of the most recurring issues for any democracy has been the question of military versus civilian "influence." It is important to note

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[1] Donald G. Brennan, "Command and Control," in Francis P. Hoeber and William Schneider, Jr., Arms, Men, and Military Budget: Issues for Fiscal Year 1978. (New York: Crane, Russak & Co., Inc., 1977), p. 323.

[2] U.S. Congress. House. Armed Services Committee. Subcommittee on Investigation. Joint Chiefs of Staff Current Defense Decisionmaking Process. Hearings of Oct. 13, 1978. 95th Cong., 2d sess.

that the issue of military versus civilian "control" is a "nonissue" according to a recent study.[3] On the other hand, since the Vietnam war there has been debate once again over increasing civilian influence in every aspect of military operations.

(2) *Role of the Joint Chiefs of Staff.*—Another recurring issue along the same line is the question of the role of the Joint Chiefs of Staff. Should they be strictly advisers to the President and Secretary of Defense, or should they be in operational control of their services, or both?

(3) *Role of other commanders.*—A new issue might be the role of some of the other commanders. For example, one of the new studies recommended that the CINCS (Commander in Chiefs of Areas, e.g., CINCLANT) be considered in the decisionmaking process. There is also the question of "intra" service conflicts. The Navy has what observers call the "union" problem with fights between the surface, submarine, air and nuclear "unions"[4] and there was considerable concern within the military over General Jones' selection as Chairman Joint Chiefs of Staff because he supposedly had not fought hard enough for the B–1.[5]

(4) *Role of the Service Secretaries.*—Another recurrent issue given new importance is the question of the role of Service Secretaries, since it was learned during hearings in 1975 that Secretary of the Army Howard Calloway, was not being kept informed.[6] Under current regulations, the Service Secretaries have "administrative" control, but not any operational influence.

(5) *Span of control of Secretary of Defense.*—Perhaps the crucial issue is whether a Secretary of Defense can really control the Department of Defense and the Services. This is often called the "span of control" issue with recommendations arguing either that DOD should be more centralized, or conversely decentralized. Secretary of Defense Brown has recently cut his span of control drastically by placing most Assistant Secretaries under two Under Secretaries, but this could raise the question of whether he will get proper and conflicting advice.

(6) *Role of the other DOD civilian heads.*—While there is no question of civilian versus military influence with regard to the Secretaries of Defense and the Service Secretaries, there is some question of the influence of their subordinates. During the McNamara era (1961–68), there was considerable concern that the so-called Whiz Kids in International Security Affairs and Systems Analysis were either ignoring, overruling or actually governing military decisions. Adm. Thomas Moorer (chairman, JCS, 1970–74) commented that during the *Mayaguez* incident there were so many civilian aides that the chiefs could not get into their own situation room.

(7) *Relationship with other agencies.*—Another recent issue is the relationship of DOD with other agencies and groups such as the Arms Control Disarmament Agency (ACDA), the Central Intelligence

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[3] U.S. Department of Defense. National Military Command Structure. Richard C. Steadman. July 1978, p. 40.

[4] Norman Polmar. "Are We Quite Sure We'll Settle for a 2nd Class Navy?" Washington Star, June 11, 1978, p 1E.

[5] Armed Forces Journal, August 1978, pp. 4–5.

[6] U.S. Congress. House. A subcommitte of the Committee on Government Operations. Access of service secretaries to military information. Hearings, 94th Cong., 1st sess., Washington, U.S. Government Printing Office, 1975, 40 pp.

Agency (CIA) or even the National Security Council. Admiral Moorer stated that ACDA essentially vetoed a decision by the Department of Energy to proceed with a nuclear weapon system simply by not filing an impact statement.[7] Interestingly, this issue of the relationship with other agencies is not covered in any of the recent DOD command studies.

(8) *Impact of zero base budgeting.*[8]—One of President Carter's campaign promises, besides reorganization, was for "zero base budgeting." Has this made a change in the large DOD budget? Skeptics would say no. However, the ZBB process now presents a fairly formal procedures with a minimum level of spending plus various "bands". The level and bands of the ZBB would presumably present an alternative budget for different contingencies.

(9) *Impact of NATO standardization.*—Weapon standardization has been a goal of NATO since 1949, but it has only taken an increased importance in the last few years. One of the Secretary of Defense Harold Brown's first organizational decisions was the appointment of Ambassador Robert Komer as a special assistant for NATO affairs with the rank of Assistant Secretary. If there is a new emphasis on NATO and especially weapons standardization, this could have a major impact on international economies.[9]

(10) *Who makes the decisions.*—Finally, the issue arises on who is eventually going to make the decisions—the Services, the Department of Defense, the National Security Council, the President, or, the Congress?

Each of these issues affects the United States defense posture, as well as more immediate issues such as defense costs, all of which will be of concern to the 96th Congress.

Background[10]

Early Years[11]

The organization of the Defense Department has gone through many changes, especially since World War II. The first Congress established a Department of War in 1789 with authority over both land and naval forces, but because the Secretary of War complained about being "overworked", Congress in 1798 established a Department of the Navy. In 1903, a "Joint Board" was established with two Army and two Navy officers and although it functioned until 1942, it was mostly an advisory board with little impact, although some of its plans were actually used during World War II. During World War II, the Americans did set up a Joint Chiefs of Staff (JCS) for coordination, but also to have an organization to meet with their British counterparts. Admiral William Leahy was appointed Chief of Staff to the Commander in Chief, but served mostly in a liaison capacity between the JCS and the President.

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[7] See n. 2, supra.
[8] Zero-Based Budgeting. Commanders Digest, v. 20, No. 17, Sept. 22, 1977.
[9] See chapter, "NATO Modernization," p. 261.
[10] For more detail see U.S. Library of Congress. The Department of Defense: Organizational History, Mark M. Lowenthal. Washington, Sept. 13, 1978. 69 pp. CRS Report 78-188F.
[11] For summary of pre-1947 history, see Demetrios Caraley, The Politics of Military Unification. (New York: Columbia University Press, 1966), pp. 3–14.

After World War II, pressures, such as those for a separate Air Force, grew until even those vehemently opposed realized that some changes was necesary. Since the end of the war, there have been five major legislated organizational changes, in 1947, 1949, 1953, 1958 and 1977 with other significant changes by Secretaries of Defense McNamara, Laird, and Harold Brown.

1947 National Security Act.—This act (Public Law 80–253) created a "National Military Establishment" under the Secretary of Defense. The establishment consisted of the newly created Department of the Air Force, plus the Departments of the Army and Navy. The act also created the National Security Council (NSC) as a coordinating body for national security policies, the Central Intelligence Agency (CIA), and formally recognized the Joint Chiefs of Staff, but not a chairman. The JCS would be the principal military advisors to the President and the Secretary of Defense and were also given control over the United Commands.

While this was the seminal step toward a strong DOD, it was only the beginning. The Secretary of Defense was really in a coordinating role with a very small staff. While the Services had lost their independence, they still retained much power including the right of appeal to the President and the Director of the Budget, and their individual memberships on the NSC.

The 1949 amendments.—One of the first problems that arose was the question of service missions and roles. This was finally settled by the so-called Key West Agreements [12] which defined the functions of the Armed Forces in general and of the JCS and the services. Parts of this "informal" agreement are still in effect.

Both Secretary of Defense James Forrestal and the Hoover Commission soon recognized the weakness of the 1947 act and recommended changes that became effective in 1949. By the 1949 amendments (Public Law 81–216), a Department of Defense was created with the Secretary of Defense in charge and with the designation as principal advisor to the President. Also created was a new Deputy with full deputy powers plus three Assistant Secretaries and a Comptroller, the beginnings of the Office of the Secretary of Defense (OSD). The Chairman, JCS was established and the JCS staff also increased. The 1949 amendments increased the power of the Secretary of Defense especially in the budget area, but the Services were still left with much leeway.

The 1953 reorganization.—Continuing interservice rivalry and other problems prompted a new study under the auspices of Nelson Rockefeller. Many of their recommendations led to Reorganization Plan No. 6 of 1953 which included a further strengthening of the Secretary of Defense. Six new Assistant Secretaries were created and the authority of the Secretary of Defense was strengthened in several areas. In addition, the authority of the Chairman, JCS was increased by giving him appointive authority and responsibility for the Joint Staff.

The 1958 amendments.—Continued interservice rivalry, exacerbated by the Soviet launching of Sputnik brought pressure for further reorganization. At one time, all three services, the Army, Navy and Air Force had their own space programs. A report by the Rocke-

[12] For the texts of the Key West Agreement, see Army and Naval Journal, v. 85, Apr. 3, 1948.

feller Brothers Fund on "International Security: The Military Aspect" chaired by the Prof. Henry Kissinger also called for DOD reorganization. The 1958 amendments (Public Law 85–599) enhanced the authority of the Secretary of Defense and included the creation of a Director of Defense Research and Engineering (DDR&E). In addition, the military departments were removed from the chain of command and the Chairman JCS would act only under the authority of the Secretary of Defense. This was the last major reorganization until 1977 and saw the Department of Defense change from the loose "National Military Establishment" concept in 1947 to a tightly unified Department under the Secretary of Defense just 12 years later.

The McNamara Years

While a few formal organizational changes occurred during the years of Secretary McNamara, considerable management changes were introduced, such as PPBS (Planning, Programming, Budgeting System), the 5 year defense program, and a system analysis organization eventually under an Assistant Secretary. Finally, there were the so-called McNamara "Whiz Kids" who ran these new managerial programs, which caused severely strained relations between OSD and the professional military, especially the JCS. This era was undoubtedly one of the most fascinating organizational relationship stories of the whole history of DOD.[13]

The Fitzhugh Report

After becoming Secretary of Defense in 1969, Melvin Laird established a "Blue Ribbon Defense Panel" [14] to "reappraise the defense establishment." This Panel, more popularly called the Fitzhugh Report after its chairman, made some 113 recommendations of which 92 were implemented. However, the main recommendations were never implemented. The Fitzhugh report found that decisionmaking was concentrated at the Secretary of Defense level with little room for other opinions. The report recommended three Deputies—one each for Operations, Management of Resources, and Evaluation; and, while another Deputy was authorized, all of these positions were never filled.

Carter Administration (95th Congress)

One of the major Carter campaign promises was to reorganize the Federal Government. The President has, in fact, made several changes throughout the executive branch including major changes in the Department of Defense.

(a) *Changes in DOD.*—Secretary of Defense Harold Brown in the first 2 years of the Carter administration, has made some number of changes in Department of Defense organization. Probably the

[13] Keith C. Clark and Lawrence J. Legere, eds. The President and the Management of National Security: A Report by the Institute for Defense Analyses (New York: Frederick A. Praeger, 1969). 274 p.

[14] Blue Ribbon Defense Panel. Report to the President and the Secretary of Defense on the Department of Defense (Washington: U.S. Government Printing Office, 1970) 237 pp. For a summary and analysis of the Fitzhugh Report see U.S. Library of Congress. Department of Defense Reorganization: The Fitzhugh Report [by] Mark M. Lowenthal. Washington, August 19, 1976. CRS Report 76–153F. 58 p.

major changes were the elimination of the second Deputy Secretary of Defense position (which Carter never filled) and the creation of two Under Secretary of Defense positions, one for policy and the other for research and engineering, then grouping several of the Assistant Secretaries and their functions under these two new Under Secretaries. Thus, Secretary of Defense Brown has drastically cut his "span of control". Other changes include:

Elimination of two Assistant Secretaries of Defense and one Assistant Secretary in each of the three military Departments.

Transfer to the Under Secretary for Research and Engineering of the major weapon systems acquisition responsibilities previously carried out by the Assistant Secretary for Installation and Logistics.

Consolidation of the position of Assistant Secretary of Defense (Intelligence) and Director, Telecommunication, Command and Control Systems under a new Assistant Secretary for Communications, Command, Control, and Intelligence.

Consolidation of manpower, reserve affairs, installations and logistics under one Assistant Secretary.

Establishment of a NATO affairs advisor reporting directly to the Secretary.

Reduction of major staff offices reporting to the secretary from 14 to 9.

Assigning supervisory responsibility of Defense Agencies to Defense officials rather than the Secretary as a further means of reducing span of control.

Strengthening of the program analyses and evaluation function by upgrading the head of the office from a director to an Assistant Secretary, along with measures to increase the office's prominence.

Reduction in the size of the OSD staff from 2,065 to 1,519.

Introduction of new management procedures of which the most important is the Consolidated Guidance.

Reorganization Plan No. 3 of 1978 moved the Defense Civil Preparedness Agency (DCPA) from the Department of Defense to a new agency, the Federal Emergency Preparedness Agency (FEMA).

The Commandant of the Marine Corps was made an official member of the Joint Chiefs of Staff on the initiative of Congress. He had been an "invited" member when the Chiefs considered matters relating to the Corps and in practice, attended most meetings, but he is now a statutory member.

Finally, within the services, many of the commands were downgraded from, e.g., a three-star command to a two-star command. The Navy's CINCUSNAVEUR was downgraded from a four- to a three-star billet. The Air Force's Air Defense Command (ADCOM) under NORAD was reduced and it may, in fact, be eliminated.

In short, there were many, and in some cases major, changes, made in the Department of Defense during the 2 years of the 95th Congress. However, only one, the change in status of the Marine Commandant, was invited by Congress, and only the elimination of one Deputy and the creation of two Under Secretaries were undertaken through formal legislation.

(b) *Studies.*—Besides making major changes within DOD, the Carter administration commissioned five major studies during the 95th Congress. These were: the Fubini Report on Intelligence, the President's Commission on Military Compensation (PCMC), the Rice Report on Defense Resource Management, the Ignatius Report on DOD Departmental Headquarters Study and finally the Steadman Report on National Military Command Structure.

(1) Fubini report.—A panel headed by Dr. Eugene Fubini was appointed to review Defense intelligence including roles, missions, analysis and its relationship with the rest of the intelligence community. The actual two Fubini reports are classified, although changes have been made which presumably were a result of this panel. As noted, the office of Assistant Secretary of Defense (Intelligence), Director of Defense Intelligence and that of Director of Telecommunications and Command and Control were combined. Then, in January 1978, President Carter signed Executive Order 12036 which confirmed the central role of the Director of Central Intelligence over the foreign intelligence community. The order also set fourth the responsibilities of the Defense Intelligence Agency (DIA) and the other agencies;

(2) President's Commission on Military Compensation.[15]—While this report did not deal with DOD organization per se, it recommended a far-reaching change in the Defense Military Retirement System which, if implemented, could cause some manpower problems. Since Manpower positions have been downgraded by Secretary of Defense Brown, this decision might have to be reconsidered.

(3) Rice report.—In the fall of 1977, Secretary of Defense Brown commissioned three reports. One of them headed by Donald R. Rice, president of RAND, is on Defense Resources Management. This report was released in February 1979, and made a broad array of recommendations, centered around a "destructuring of the PPB cycle.[16]

(4) Ignatius report.[17]—The second report commissioned by Harold Brown was the departmental headquarters study headed by former Secretary of the Navy Paul R. Ignatius. This report looked at six options for organizational changes ranging from decentralization (which would reduce OSD by 50 percent and allow greater freedom to the military departments) to centralization (which would eliminate the military departments and place more control in OSD). The report finally recommended an "Evolutionary" approach to reorganization. There were 13 recommendations which are:

1. Use the Armed Forces Policy Council, as it was chartered, to offer the Secretary of Defense frequent advice in the formulation of Defense policy.
2. Establish a Planning Office under the Under Secretary for Policy, formally linked in liaison to the Chairman, Joint Chiefs of Staff, with assignments including politico-military long-range planning and contingency planning.
3. Assign the Under Secretary for Policy, working in close coordination with the Chairman, Joint Chiefs of Staff, to support the Secretary of Defense in the development of Defense Policy Guidance governing the Consolidated Guidance for force structure and resources allocation decisions.
4. Make further improvements in the Defense Systems Acquisition Review Council process to establish more clearly the primary and secondary mission requirements of major weapons systems.

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[15] Report of the President's Commission on Military Compensation (Washington, D.C., U.S. Government Printing Office, 1978). 205 p.

[16] U.S. Department of Defense. Defense Resource Management Study. Final Report [by] Donald B. Rice. February 1979. 112 p.

[17] U.S. Department of Defense. Departmental Headquarters Study: A Report to the Secretary of Defense [by] Paul R. Ignatius. June 1978. 91 p.

5. Eliminate redundant and repetitive program reviews during the budget development process.
6. Reexamine the decision to link manpower, reserve forces, and installations and logistics responsibilities under a single Assistant Secretary of Defense.
7. Establish flexibility in the procedures governing rotation of Civil Service executive-level personnel within and outside the Department of Defense.
8. Make multi-service assignments to Service Secretaries from time to time, instead of to Under Secretaries or Assistant Secretaries of Defense.
9. Establish a formal role for the Service Under Secretaries oriented to common liaison functions with the Office of the Secretary of Defense.
10. Authorize the Service Secretaries, if they desire, to eliminate their Assistant Secretaries for Manpower Reserve Affairs and Logistics functions, with the Service Secretaries carrying out their responsibilities through the military heads of the respective functions and with the assistance of the civilian staff in the Office of the Secretary of Defense.
11. Integrate, in each Military Department, the Research and Engineering staffs now separately reporting to the Assistant Service Secretary and the Service Chief, and concurrently, increase the number of development and acquisition programs assigned for primary management authority to the Military Departments.
12. Provide common access for both the Service Secretary and the Service Chief to the Military Departments' Systems Analysis, Inspector General, and Audit Service capabilities.
13. Continue the effort to reduce headquarters military staffs by greater dependence on subordinate commands, particularly in the material area.

(5) Steadman report.[18]—The third and final report was on the National Military Command Structure (NMCS) chaired by Richard C. Steadman. This report viewed the Military Command Structure in two broad areas: the organization for war-fighting including command and control of forces in the field and then the relationships between the Secretary of Defense, OSD, JCS, the Joint Staff and the Feld Commanders. To look at these broad areas, 10 crisis situations between 1967 and 1976 were examined.

Generally, the Steadman report concluded that the NMCS worked well. No major changes were suggested in the area commands such as European Command (EUCOM) or the like. However, they did call for clearer lines of chain of command, including putting policy decisions during crises in writing as soon as possible. The report recommended an increased role for the CINC's (Command-in-Chiefs of the area), the Chairman, Joint Chiefs of Staff and suggested a new National Military Advisors (NMA) group that would be ranking military officers and principal military advisors to the Secretary of Defense, the President, the NSC and Congress, as a more drastic alternative should other efforts not work.

Issue Outcomes and Consequences

Since the creation of the National Military Establishment in 1947 the major organizational trend within DOD has been the steady increase in the authority and responsibility of the Secretary of Defense, personally and through OSD, and a directly inverse decrease in the power of the individual services.[19]

Secretary of Defense Harold Brown has continued this trend, which should not be surprising since he served under Secretary of Defense McNamara in several positions including Secretary of the Air Force.

On the other hand, there has been an increased debate over the proper role of the military influence in the decisionmaking process and in

[18] Cited above, n. 3.
[19] Lowenthal, "The Department of Defense: Organizational History," p. 50.

actual operations. There have been numerous newspaper articles of late with such titles as "Docile Joint Chiefs" by former JCS Chairman Maxwell Taylor, and "The Decline of America's Military Chiefs" by George C. Wilson, a well-known observer of the Pentagon.[20] There has even been a televised debate on the subject in the last few months.[21]

Finally, while the Steadman and Ignatius reports generally give the Department of Defense and command organizations good marks, they do make several recommendations, many of which would call for an increase in military input into the system. While neither report questioned the principle of civilian control, there did seem to be a definite call for a greater role by the military.

There were two issues that did not seem to be addressed in any of the recent studies although there have been some organizational changes that could have far-reaching consequences. These are the coordination of national security policy and the renewed emphasis on NATO affairs.

The role of the Department of Defense in long-range problems such as SALT, MBFR, etc., is becoming complicated because of the role of other agencies. The Arms Control and Disarmament Agency, ACDA, under the strong leadership of Paul Warnke, became involved in many issues. Samuel Huntington, a well-known national security analyst and personal friend of Assistant for National Security Affairs Zbigniew Brzezinski, was involved in long-range national security problems on an ad hoc basis on the NSC, but, since his departure, a new office within the NSC has been created on the policy coordination bodies, and this additional complexity makes it even more necessary that DOD organization and process is well run if it is to have an effective voice along with its rightful competitors.

The Carter administration has placed increased emphasis on NATO affairs and is committed to a real growth of 3 percent in defense spending for this area. To indicate their concern, former Ambassador Komer has been appointed as a special assistant to Harold Brown. Recently, OSD announced that the management of foregoing weapons systems evaluation, particularly weapons to be used for NATO standardization, would be centralized in the Directorate of Defense Research and Engineering.[21] This seemingly innocuous organizational chance could have far-reaching implications and be a source of potential conflict between OSD, our NATO allies, and the various services. The Army reluctantly has accepted a new German gun for its new tank, but this was almost defeated in Congress. The tank gun issue could be the tip of the iceberg in problems if the other services are also forced to take European weapons.

This whole area of NATO interests and NATO standardization could be a major issue in years to come. A recent House report recommended that, when DOD does reorganize, consideration be given to the creation of an Assistant Secretary of Defense for NATO Affairs,

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[20] Maxwell D. Taylor, "Docile" Joint Chiefs? Washington Post, Sept. 4, 1977, p. C7. George C. Wilson, The Decline of America's Military Chiefs, Washington Post, June 25, 1978, p. D1.

[21] Also published as, "The Role of the Joint Chiefs of Staff in National Policy," with General George S. Brown, USAF (retired), Senator John C. Culver, Dr. Curtis W. Tarr, and General Maxwell D. Taylor, USA (retired), (Washington, D.C.: American Enterprise Institute, 1978). 42 p.

[22] Aviation Week and Space Technology, Aug. 21, 1978, p. 9.

with a Deputy Assistant Secretary appointed just for NATO standardization.[23]

International Consequences

Department of Defense reorganization per se would have little immediate impact in the international arena, unless troop withdrawals were considered organizational changes. However, there are two organizational changes that in time could have some impact.

(1) *Role of the CINC's.*—The Steadman report recommends that the CINC's (Commanders of the Unified and Specific Commands) have more of a role in the budgetary process and in resource planning decisions. Since many of the CINC's wear "international" hats (e.g. CINCLANTFLT is also NATO SACLANT), there could be more consideration given to the needs or policy preferences of our allies. Also, most of these CINC's have staff officers from allies up to and including the deputy positions.

(2) *NATO standardization.*—NATO standardization may well be the "sleeper" defense issue. If NATO standardization does become a firm policy, and all indicators are that it will grow, instead of just buying a German gun for a tank or adapting a ROLAND anti-air system to American standards, our military services could be buying complete weapon systems. As mentioned above, Ambasador Komer is now a special assistant for NATO affairs and weapon evaluation has been taken from the services and given to OSD.

Weapon standardization and interoperability could have a direct effect on military purchases, but it would also have an indirect effect on the whole question of foreign military sales. The Carter administration has already blocked foreign military sales because a component of a plane was built in the United States, giving the United States a veto.

Role of Congress

Congress has played an important part in many of the organizational changes. For example, most commentators note that the only reason the original National Security Act passed in 1947 and not 1945 was because during the 79th Congress there were separate Military and Navy Committees and the Navy coalition opposition prevented any action. In the 80th Congress, the Military and Naval Committee merged into the Armed Services Committees and the 1947 act was passed. Congress also played an important role in other reorganizations.[24]

With a few exceptions, Congress has paid little attention to Department of Defense organization in the past 2 years. Representative Sam Stratton, chairman of the Investigations Subcommitee, House Armed Services Committee, held hearings that prevented the Department of Defense from abolishing the Assistant Secretary of Defense for Health. Chairman Stratton started hearings at the end of the 95th Con-

[23] U.S. Congress. House. Committee on Government Operations. "Interim Report on the Standardization and Interoperability of NATO Military Equipment." Washington, U.S. Government Printing Office, 1977. (House. Report No. 95–806.) 15 p.

[24] U.S. Library of Congress. The Role of Congress in the Department of Defense Reorganization Act of 1958, [by] Nathaniel Gregory, Jr. Washington, June 2, 1975. 169 pp. CRS Report 75–161F; and Department of Defense Organization: Selected References. 1944–74. [by] Nathaniel Gregory, Jr. Washington, Aug. 15, 1974. 32 pp. CRS Report 74–156F.

gress on the role of the Joint Chiefs of Staff.[25] The House Government Operations Committee has also held hearings on the Service Audit Agencies, and discovered that there were potential savings versus costs of 10 to 1 and actual savings of about 5 to 1.[26]

Finally, during the 95th Congress, the General Accounting Office issued a very critical report on the May 1977 decision by Secretary of Defense Brown to reduce staffs by 20 to 25 percent. The report, entitled "Defense Headquarters Staff Reductions—An Overview." [27] found that most of the reductions were achieved by transferring functions, positions and personnel to non-headquarters activities. It found that few employees were actually removed from the DOD payroll.

Possible Congressional Action for 96th Congress

(1) A new Congress might consider a review of the actual organizational changes that were made during the past 2 years. The role of the new Under Secretary for Policy, a more important issue since the resignation of the first man in that position, Stanley Resor. A second look at the consolidation of the Assistant Secretaries for Manpower to the logistics (also questioned in the Ignatius Report), and all the other changes made could be reviewed.

(2) Review of Ignatius, Steadman, and Rice reports.—A congressional review of these reports could help resolve the increasingly difficult problems of the role of the Joint Chiefs of Staff and the military in charge vis-a-vis the civilian hierarchy.

(3) Role of DOD in Civil Defense.—Sometime early in 1979, the DOD's Defense Civil Preparedness Agency (DCPA) will be transferred to the new Federal Emergency Preparedness Agency (FEMA). DOD will retain some control over civil defense. However, the exact relationship should be delineated, especially since many overseers are stating that civil defense is now an important part of the whole SALT process.

(4) Role of Services and DOD in weapon standardization.—If weapons/NATO standardization does become the issue which many claim it will, sooner or later there will be some serious conflicts between DOD and the services on weapons standardization. The exact relationship of the services might be clarified before this issue proceeds much further, to help keep the issue from being damaging.

(5) Impact of zero base budgeting.—This procedure might be further explained, and reviewed by Congress. Congress might find the ZBB "bands" useful for contingency planning purposes.

(6) Finally, the question of decisionmaking.—The whole decisionmaking process including not just the Department of Defense but the role of the Office of Management and Budget, the National Security Council, ACDA, and Congress merits review. Instead of making decisions, Congress has rather found itself in the role of "refereeing".

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[25] See hearings cited above, n. 2.

[26] U.S. Congress. House. Committee on Government Operations. Imposing Internal Auditing in the Department of the Army. Washington, U.S. Government Printing Office, 1977 (95th Congress, 1st session. House. Report No. 95–807), 14 p. Committee on Government Operations. Report on Imposing Internal Auditing in the Departments of Air Force and the Navy—An Interim Report. Washington, U.S. Government Printing Office, 1978. (95th Congress, 3d session. House. Report No. 95–1675). 27 pp.

[27] U.S. General Accounting Office, Defense Headquarters Staff Reduction—An Overview. [Washington, U.S. Government Printing Office, Oct. 2, 1978.]

Nowhere is this clearer than in the Navy's shipbuilding program. On the other hand, DOD and especially the services are increasing their complaints about "micromanagement", that is, Congress getting too involved in details of management.

While Congress interest in DOD reorganization has been sporadic, these are signs, as noted, that this interest is now increasing. These issues pertain not only to the management of one department, but to fundamental policy and budgetary issues which will be of interest to the 96th Congress.

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FOREIGN INTELLIGENCE: MANAGEMENT AND ORGANIZATION ISSUES

(By Mark M. Lowenthal*)

ISSUE DEFINITION

The management of intelligence, the availability of timely and accurate intelligence to decisionmakers, is an interesting issue in that while there is a broad consensus on the necessity for such information there are widely disparate views as to how it should be obtained, processed, and disseminated; how the intelligence community [1] should be organized; and what the role of intelligence should be in the policy process. Indeed, it can be argued that the 30-year consensus under which the intelligence community developed and operated has broken down in the wake of revelations of misconduct and mismanagement as shown by three investigations, and that a new consensus still has not formed.

While a number of steps have been taken to improve the role played by intelligence and to prevent future abuses, these steps have only begun the task of a general reorganization of the intelligence community, and exist for the most part only as Executive orders without the permanence of laws. Major legislation covering all aspects and agencies of the intelligence community was introduced in the 95th Congress (S. 2525, H.R. 11245), but did not get past the preliminary hearing stage. Therefore the 96th Congress can expect a reintroduction of this legislation, which will offer the basic context in which the relevant issues may be discussed.

In considering the issue of information management a number of questions should be addressed:

What is the proper role of intelligence and the intelligence community in the policy process?

How does one assess the quality of intelligence? What factors distinguish "good" intelligence? Can it be evaluated on an ongoing as opposed to an ex post facto basis?

To what extent does the current organization of the intelligence community promote or detract from the quality of intelligence? What changes, if any, should be made?

What effects have the recent investigations had on the effectiveness of U.S. intelligence agencies?

Given Congress' increased oversight powers, what role can it expect to play in the future? Do current multiple reporting requirements properly disseminate intelligence? Do they have any negative effects on intelligence operations?

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[1] The phrase "intelligence community" is used to refer to a number of intelligence agencies, including the Central Intelligence Agency (CIA), Defense Intelligence Agency (DIA), National Security Agency (NSA), and the Federal Bureau of Investigation (FBI). The community also includes various departmental intelligence bodies and a number of communitywide groups which handle specific administrative or subject area tasks.

Background

The Investigations: Findings and Result

Allegations of improper activities by intelligence agencies throughout 1973 and 1974 led to the establishment of three separate investigations of the intelligence community, one by the executive and one each by the House and Senate. The results of these investigations helped end the previous consensus on intelligence activities and its role, and offered numerous recommendations for a reformed and reorganized intelligence community.

The first investigation to be formed and to report was the Commission headed by Vice President Nelson Rockefeller. This investigation was limited to Central Intelligence Agency (CIA) activities within the United States, and found that the "great majority" of CIA activities complied with the statutory authority, but that there had been "some activities that should be criticized and not permitted to happen again," and that while some activities fell into a "doubtful area" others "were plainly unlawful and constituted improper invasions of the rights of Americans." [2] The Commission recommended certain restrictions on CIA activities and operations, a greater communitywide role for the Director of Central Intelligence (DCI) and a 10-year limit on his term, and improved oversight of the CIA.

More extensive and wide-ranging investigations were held by the House and Senate Select Committees established during the 94th Congress. The House committee, chaired by Representative Otis Pike, investigated issues including intelligence costs and fiscal proceedings; intelligence community performance during the 1973 Middle East war, the Tet offensive, Cyprus, and the 1974 coup in Portugal; domestic intelligence programs; and intelligence and SALT I.[3] The final report of this committee was not released in an authorized form, although excerpts did appear in the Village Voice on February 16 and 23, 1976. These excerpts criticized the lack of general direction of policy, and alleged failures to give accurate warnings of a number of important events. Like the Rockefeller Commission, the House committee recommended a separation of the DCI from the CIA and that he be given a greater communitywide role; it also made separate proposals, including abolition of the Defense Intelligence Agency (DIA), separation of the National Security Agency (NSA) from the Defense Department, and restrictions on certain intelligence activities.[4]

The Senate committee, chaired by Senator Frank Church, investigated the CIA role in the Chilean coup of 1973, the use of toxic agents, the Internal Revenue Service, mail openings, the domestic role of the NSA, the FBI, covert activities, assassination plans against foreign leaders, and the investigation of the assassination of Presi-

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[2] Report to the President by the Commission on CIA activities within the United States. Washington, U.S. Government Printing Office, 1975. p. 10.

[3] U.S. Congress. House. Select Committee on Intelligence. U.S. Intelligence Agencies and Activities: (Part I—Intelligence Costs and Financial Procedures, Part 2—The Performance of the Intelligence Community, Part 3—Domestic Intelligence Programs, Part 4—Committee Proceedings—I. Part 5—Risks and Control of Foreign Intelligence, Part 6—Committee Proceedings—II). Hearings, 94th Congress, 1st and 2d sess. Washington, U.S. Government Printing Office. 1975–76. 2315 pp.

[4] Select Committee on Intelligence. Recommendations of the final report, reported together with additional supplemental, and separate views pursuant to H. Res. 591. Feb. 11, 1976. Washington, U.S. Government Printing Offiec, 1976. 29 pp. (94th Congress, 2d sess. House. Report No. 94–833).

dent Kennedy.[5] This committee found that there had been an excessive use of covert operations, unwarranted domestic activities which impinged on constitutional rights of Americans, and a number of assassination plans directed against foreign leaders, although it was noted that "No foreign leaders were killed as a result of assassination plots initiated by officials of the United States."

The Senate committee recommended a major recasting of the basic charter legislation, the National Security Act (Public Law 80-253, 1947; 50 U.S.C. 401-403), including the organization, role, and responsibilities of the intelligence community, and restrictions on certain activities; once again, a greater communitywide role for the DCI; the separation of intelligence analysis from clandestine activities in the CIA; and restrictions on the domestic activities of all intelligence agencies.[6]

The major immediate product of the Senate investigation was the creation of a permanent Senate Select Committee on Intelligence in May 1976 (S. Res. 400, 94th Congress), with exclusive legislation and authorization jurisdiction over the CIA, and shared sequential jurisdiction over DIA, NSA, FBI, and the Bureau of Intelligence and Research (INR) of the State Department. In carrying out its mandate for improved congressional oversight this committee has undertaken a number of evaluations of intelligence community products, overseen the first public authorizations for intelligence activities, and played a major role in shaping the charter legislation introduced in the 95th Congress. The committee's first annual report noted an improvement in the conduct of intelligence activities, and improved congressional oversight.[7] The House established a similar committee in July 1977 (H. Res. 658, 95th Congress), which has investigated CIA relations with the media and cooperated on the charter legislation. The first annual report of the House committee also noted positive aspects in the conduct and products of the intelligence community, but raised questions about weaknesses in intelligence reporting, divisions between "national" and "departmental" or "tactical" intelligence, information ex-

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[5] U.S. Congress. Senate. Select Committee to Study Governmental Operations with Respect to Intelligence Activities. (v. 1—Unauthorized Storage of Toxic Agents, v. 2—Huston Plan, v. 3—Internal Revenue Service, v. 4—Mail Openings, v. 5—The National Security Agency and Fourth Amendment Rights, v. 6—Federal Bureau of Investigation, v. 7—Covert Action). Hearings, 94th Congress, 1st sess. Washington, U.S. Government Printing Office, 1976.

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[6] U.S. Congress. Senate. Select Committee to Study Governmental Operations with Respect to Intelligence Activities. Final Report, together with additional, supplemental, and separate views. Book I: Foreign and Military Intelligence. Book II: Intelligence Activities and the Rights of Americans. Book III: Supplementary Detailed Staff Reports on Intelligence Activities and the Rights of Americans. Book IV: Supplementary Detailed Staff Reports on Foreign and Military Intelligence. Book V: The Investigation of the Assassination of President John F. Kennedy: Performance of the Intelligence Agencies. Book VI: Supplementary Reports on Intelligence Activities. Apr. 26. 1976. Washington, U.S. Government Printing Office, 1976. 2685 pp. (94th Congress, 1st sess. Senate. Report No. 94-755).

[7] U.S. Senate. Select Committee on Intelligence. Annual report to the Senate, together with additional views. May 18, 1977. Washington, U.S. Government Printing Office, 1977. 43 pp. (95th Congress, 1st sess. Senate. Report No. 95-217).

change between intelligence producers and users, and the bureaucratic mechanisms established to authorize covert actions.[8]

However, the investigations into intelligence activities have also had two other effects which appear less positive. One has been the growth of public doubts about intelligence activities, understandable given some of the revelations which were made. The other has been a probable negative effect on the morale within the intelligence community.[9] Both of these factors can affect future intelligence performance, and can only be restored by demonstrable successes in that performance. The degree to which this is necessary and possible given necessary security concerns will be another issue for Congress to consider.

Presidential Changes

Both Presidents Ford and Carter made a number of changes in the organization and role of the intelligence community, largely through Executive orders.

Under Executive Order 11905, February 18, 1976, President Ford once again confirmed the communitywide role of the DCI, abolished a number of specific intelligence committees, created the Intelligence Oversight Board (IOB) to improve executive oversight, and defined responsibilities of and restrictions on members of the intelligence community. A number of changes made by President Ford were later superseded by those implemented by President Carter.

The most important changes made by President Carter were those embodied in Executive Order 12036, January 24, 1978. This order greatly strengthened the DCI's role in specific areas, including requirements, resource allocation, priorities of intelligence gathering and production, production and review of intelligence, and the foreign intelligence budget. In carrying out these duties the DCI acts through a number of communitywide bodies, including Policy Review Committee of the National Security Council (NSC), the National Foreign Intelligence Board (NFIB), the National Intelligence Tasking Center (NITC), and the National Foreign Assessment Center (NFAC). This increased communitywide role has necessitated that the Deputy DCI take on increased responsibilities for the administration of the CIA.

In November 1978, President Carter sent a memorandum to DCI Turner in which he criticized the political intelligence he was receiving. It is assumed that this related to events in Afghanistan, Iran, and elsewhere, and points up once again the continuing problems within the intelligence community.

Evaluation

The most outstanding feature of these findings through the years and the subsequent changes is their repetition especially in terms of the recommendation for a strong DCI with communitywide control over certain aspects of the intelligence process. This conception of the DCI's role in intelligence community organization has obviously been a major factor in President Carter's reforms, which represent the greatest

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[8] U.S. Congress. House. Permanent Select Committee on Intelligence. Annual report. Oct. 14, 1978. Washington, U.S. Government Printing Office, 1978. 72 pp. (95th Congress, 2d sess. House. Rept. No. 95–1795).

[9] In its annual report the House Intelligence Committee noted that while morale had fallen during the investigations and revelations, it was still "good." See Ibid., p. 10.

specific delegation of authority to the DCI to date. However, this trend has given rise to some concerns that, should the DCI be divorced from any one agency, he may find himself too directly under the control of the President, thus increasing the political pressure on the intelligence process. The legislation introduced during the 95th Congress would have continued the trend of a greater communitywide role for the DCI, and perhaps even have accelerated it, as it left open the possibility that the redesignated Director of National Intelligence might not also be in charge of the CIA. The probable reintroduction of this legislation during the 96th Congress gives this entire issue continuing importance. However, this organizational issue represents only one facet of the overall management question, and perhaps one that is more easily solved than that of the quality of intelligence, which, as noted, resurfaced in President Carter's memorandum to DCI Turner.

Issue Outcome and Consequences

The problem of the quality of intelligence, and its uses in the policy process, have been major concerns in this new period of strengthened congressional oversight. Two specific issues which have been investigated by the Senate Intelligence Committee, the team A-team B report and the CIA assessment of world oil production, provide interesting and useful examples of the problems of evaluating quality and the role of intelligence in the policy process.

Team A-Team B

In 1976 the now defunct President's Foreign Intelligence Advisory Board (PFIAB)[10] initiated an inquiry to evaluate the national intelligence estimate (NIE) on the Soviet Union's strategic programs.[11] Three groups of outside analysts (team B) were asked to evaluate the data available to the intelligence community analysts (team A). The team B evaluation differed from the NIE, apparently stating that the team A estimate understated the extent and nature of the threat implied by Soviet strategic programs.[12]

Given the nature of the exercise, these studies were highly classified. However, leaks of the team B evaluation began to appear in the press, focusing on the differences between the two views and on the fate of the evaluation. Commentators and observers also focused on the presumed political views of team B, and cast their discussions in ideological terms. All of this drew additional controversy onto this exercise.

The delicacy and importance of the NIE's and the questions raised about them, as well as the attendant controversy prompted the Sub-

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[10] PFIAB was established by President Eisenhower (Executive Order 10656, Jan. 13, 1956) as a group of people outside of Government designated to advise the President on intelligence management. President Carter abolished PFIAB on May 5, 1977, stating that sufficient executive and congressional oversight mechanisms made PFIAB's role superfluous. On the role of PFIAB see U.S. Library of Congress. The President's Foreign Intelligence Advisory Board: A Historical and Contemporary Analysis (1955–75) [by] John Steven Chwat. [Washington] Nov. 13, 1975, 33 pp. Multilith 75–225F.

[11] NIE's are the premier product of the intelligence community, representing its collective wisdom on foreign trends which will have some effect or influence on U.S. security; the National Intelligence Officers (NIO's) have primary responsibility for these estimates.

[12] The origins of team A-team B can be found in U.S. Congress. Senate. Select Committee on Intelligence. The National Intelligence Estimates A–B Team Episode Concerning Soviet Strategic Capability and Objectives. Feb. 16, 1978. Washington, U.S. Government Printing Office, 1978, pp. 1–3 (95th Cong., 2d sess. Committee print).

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committee on Collection, Production, and Quality of Intelligence of the Senate Intelligence Committee to hold an inquiry into the team A-team B exercise. The subcommittee found that the outside review was a "legitimate" concept which raised some valid questions about the NIE's, although these criticisms were made less valuable by the limited spectrum of opinion represented on team B, team B's concentration on past NIE's rather than the production of an alternative estimate, and leaks to the press concerning this evaluation. The subcommittee recommended that the individual national intelligence officers (NIO's) responsible for producing these estimates be replaced by a "collegial estimate group" and that more broadly based outside critiques continue, under stricter monitoring however.[13]

The findings and recommendations of the subcommittee raised a number of significant issues. Organizationally, the report called into question the change made by DCI's James Schlesinger and William Colby in 1973, when the NIO's replaced the Board of National Estimates. More fundamental, however, was the question of how policymakers can evaluate the final intelligence products they are receiving. To what extent do interagency products highlight alternative views or interpretations, and to what extent are they overly homogenized or written to a lowest common denominator of agreement because of differing views? To what extent do the producers of intelligence have a professional interest in preparing estimates which do not represent sudden massive changes of view, and which would call into question past and future products? Do these products cater to known administration views?

These are the types of important questions which an outside analysis can help answer, as the subcommittee report recognized. However, the negative aspects of the team A-team B experience may deter policymakers from authorizing such an exercise again.

The CIA Oil Report

On April 18, 1977, President Carter addressed the Nation on the energy crisis. To bolster his message he also released a CIA analysis entitled "The International Energy Situation: Outlook to 1985," to which he had referred a few days earlier in a press conference. This report stated that world energy production up to 1985 had been overestimated, and that the demand for oil would "approach productive capacity by the early eighties and substantially exceed capacity by 1985." [14]

This report ran into immediate controversy on two grounds. First, as the report was more pessimistic than other assessments of world oil production, its accuracy was challenged. Second, in the opinion of many observers, the manner in which President Carter used and released the report raised serious questions about the politicization of the intelligence process. The issue of accuracy became even more controversial as the CIA released several revised estimates early in 1978, two of which gave lower figures of Saudi Arabian daily productive capacity, followed by a third figure returning to the original estimate,

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[13] Ibid., pp. 2–6. Separate views were also filed by Senators Gary Hart, Daniel P. Moynihan, and Malcolm Wallop.

[14] U.S. Central Intelligence Agency. The International Energy Situation: Outlook to 1985. ER 77–10240 U. Washington, April 1977, p. 1.

and an eventual downward revision of OPEC daily productive capacity.[15]

Once again the Senate Intelligence Committee felt that the issue warranted further inquiry. Specifically, five issues were addressed:

> 1. Did the analytical or estimate process respond to the Administration's preferred outcome?
> 2. Was the manner and style of the release of the CIA information appropriate?
> 3. How was the study on future Soviet oil production received by the public and by other petroleum analysts?
> 4. What is the track record of the CIA on the subject of Soviet oil?
> 5. On what sources of information did the CIA base its estimate?
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> The first two questions have to do with the integrity of the analytical process, while the remaining three are an attempt to address the question of the quality of intelligence . . .[16]

The committee staff reported that the integrity and independence of the analytical process had not been compromised in any way, but that there were political motivations behind the release of the report. It was felt that this in itself was not improper, and that there should be greater dissemination of economic and scientific intelligence products where possible. However, the manner in which President Carter released the material, citing it before it was released to the public, did give rise to questions about its use.[17]

In analyzing the quality of the report itself, the committee staff found a large degree of support for the CIA's projections among knowledgeable outside professionals, but also noted some imprecise phrases which had led to misinterpretations of the data presented. The Senate report finally recommended further release of unclassified intelligence analyses when possible, and greater sensitivities on the part of the executive branch as to their responsibilities:

> * * * in preserving the integrity of the analytical process and in creating confidence among Congress and the public that the substance and circumstances surrounding the release of economic and scientific intelligence are free from undue pressure.[18]

Significance of the Issues

The CIA oil report, like the team A–team B exercise, raised significant questions about the quality of the intelligence process and product. More apparent in the oil report, although also a part of the NIE issue, was the question of the politicization of the intelligence process and the possibility of products being written to buttress preferred policy choices. A final important issue involved in the oil report controversy is that of releasing future unclassified CIA reports to Congress and the public as a means of restoring lost confidence. Given the controversy surrounding the oil evaluation there may be greater hesitancy to do so in the future.

Interestingly, in both instances the Senate Intelligence Committee largely supported the nature of the exercises in terms of purposes and

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[15] See, for example: Misusing the CIA. Editorial. New York Times, Apr. 27, 1977, p. A22. Cowan, Edward. CIA's Forecast of Oil Shortage Is Disputed in 2 Private Reports. New York Times, Apr. 29, 1977, p. A15. Harwood, Richard, and J. P. Smtih. CIA's Oil Figures Raise Eyebrows Among Experts. Washington Post, Apr. 23, 1978, p. A1.

[16] U.S. Congress. Senate. Select Committee on Intelligence. The Soviet Oil Situation: An Evaluation of CIA Analyses of Soviet Oil Production. Washington, U.S. Government Printing Office, 1978, pp. 1–2. (95th Cong., 2d sess. Committee print.) The Senate committee's inquiry focused only on Soviet oil production, while the CIA report had a wider focus.

[17] Ibid., pp. 3–4.

[18] Ibid., pp. 14–15.

possible benefits. It can be argued that the problems surrounding both issues perhaps stemmed more from their novelty than from inherent defects. If this is the case, it would be unfortunate if the attendant controversies deterred more controlled repetitions of these efforts, either in terms of outside evaluations or publication of unclassified studies. It may be up to Congress, in its strengthened oversight role, to determine the wisdom of future exercises and to play a strong role in overseeing the quality of future intelligence products.

Issue Resolution: Alternative Views

In neither cases did the Senate Intelligence Committee offer any concrete or overall suggestions as to how the quality of the intelligence product can be improved, although it did favor future outside evaluations, as in team A–team B, provided they were balanced. The current remedy would appear to be continuing ex post facto evaluations which would hopefully point up weaknesses which could then be corrected. Such an approach implies a continuing active role on the part of Congress as the most knowledgeable body outside the Executive, and one with powers to propose and enact remedies.

However, as with any bureaucracy, the overall intelligence community structure and process cannot be continually or overly fluid. Choices have to be made as to preferred organizations and methods, to promote stability and continuity. Indeed, it can be argued that the instability which has prevailed within the intelligence community over the past 6 years (five DCI's since January 1, 1973; two major organizational changes with one more impending), has contributed to the problem of management and quality. Thus, most preferred solutions concentrate on the organizational issue as the easiest means of achieving quality.

As noted, most proposals look to the DCI as the main agent of change, hoping that an enhancement of his communitywide authority will improve coordination, programs, and products. The changes enacted by E.O. 12036 under President Carter are the most coherent steps to date in terms of achieving this goal, as they do deal with all aspects of the intelligence process—programs and priorities, budgets, resource allocation, tasking, production, coordination, and review. However, this approach does run the risk noted above, that a DCI largely removed from any one organizational base would be subject to greater pressure to present intelligence products which were in accord with preferred policy choices. Observers who raise this note of caution usually feel that the DCI would be better off with an organizational base of his own which produces intelligence, namely the CIA.

This has been the case in the past, although it represents, in part, the role the CIA has acquired as one independent producer, as opposed to the originally intended role as an overall intelligence coordinator. This evolution has raised problems for the CIA as it has had a dual role, as both a producer and coordinator. The organization and role of the CIA under President Carter and DCI Adm. Stansfield Turner has continued to underscore this duality within the CIA, as a number of officials perform functions relating solely to CIA activities and to intelligence community functions cojointly.[19]

The charter legislation introduced in the 95th Congress, as noted, would have designated the Director of National Intelligence (DNI) as head of the CIA, but allowed the President to transfer authority for the CIA to the Deputy DNI or to one of five Assistant DNI's with the approval of Congress. Given the conflicting points of view on this solution, this subject deserves careful consideration.

Another organizational issue, and one which closely affects the quality of intelligence production, has been the conflict within the CIA between the section responsible for covert activities (currently DDO: Directorate for Operations), and the section responsible for producing intelligence (currently NFAC: National Foreign Assessment Center). Most observers have felt that DDO has been more successful in terms of competing for resources and in terms overall management of the CIA,[20] perhaps accounting for some of the problems which have arisen. One remedy, suggested by the Senate committee which investigated intelligence activities, would be to separate intelligence analysis and production from covert activities. Among the objections raised to this solution are that in divorcing analysis from operations it might foster an "ivory tower" mentality within the analytical group, and that it would increase coordinative difficulties in terms of running activities which fulfill intelligence collection requirements and in terms of controlling such activities in general.

One final organizational issue has been the structure of the entire intelligence community. To a certain extent individual consumers (either single officials or departments and agencies) of intelligence have unique needs. Furthermore, it can be argued that having a number of separate intelligence producers helps promote competition, presumably improving the product. However, this same system also leads to increased coordinative problems, especially in current intelligence reporting with each agency striving to keep its principals fully informed, and in communitywide products such as the NIE's, as well as to other aspects of competition which are not beneficial, such as over budgets and resources and over areas of responsibility. This multiplicity of producers can also lead to unnecessary overlapping and duplication.

All of these issues are addressed either directly or indirectly in the charter legislation,[21] and will therefore likely confront the 96th Congress. There are no absolute or wholly correct choices under each problem, and each solution represents a certain amount of tradeoffs between various costs and benefits. However, each solution affects the type of intelligence community and the resultant products that the United States will have.

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[19] U.S. Library of Congress. The Central Intelligence Agency: Organizational History. [by] Mark M. Lowenthal. [Washington] Aug. 4, 1978. Pp. 7–21, 28–30, 49. Multilith 78–168F.

U.S. Congress. Senate. Select Committee to Study Governmental Operations with Respect to Intelligence Activities. Final report, book IV: Supplementary Staff reports on Foreign and Military Intelligence [Washington, U.S. Government Printing Office] 1976. Pp. 15–16. (94th Congress. 2d session. Senate. Report No. 94–755).

[20] Ibid., pp. 42–95 passim; Lowenthal, "The Central Intelligence Agency: Organizational History," pp. 22–23.

[21] For a summary of this legislation see U.S. Library of Congress. Issue Brief 76039: Intelligence Community Reform and Reorganization [by] Mark M. Lowenthal [Washington] regularly updated. Pp. 21–25.

During the 96th Congress the quality of intelligence will be important in a number of specific policy areas, including the global economy, energy, questions of regional conflict and possible "spillover" of these conflicts, the strategic balance, and the issue of SALT verification in light of the SALT II agreement. The diversity of these issues is but another indication of the complexity of the intelligence process and the difficulty of choosing between alternative solutions.

The Role of Congress

The active participation of Congress in intelligence oversight is a very recent phenomenon, a direct result of the investigations undertaken during the 94th Congress. Some of the areas in which Congress has taken a more active role have been discussed above. This represents a notable change from the preinvestigation period which former DCI Richard Helms characterized as one in which Congress "failed to assume" its responsibilities.[22] It should also be noted that this new period has been generally marked by cooperation between the Executive and Congress on intelligence matters.[23] However, a number of these issues remain unresolved and can or will surface during the 96th Congress.

The reintroduction of the charter legislation can be expected. Hearings on this legislation during the 95th Congress suggest that there may be revisions in the bill. A number of witnesses with experience in national security policy and the uses of intelligence stated that certain specific restrictions on activities should not be included, that the bill required excessive reporting to Congress, and that certain of the restrictions could hamper necessary intelligence activities.[24]

Another area of contention has been the initiation of covert or special activities. These activities are currently governed by the Hughes-Ryan amendment (section 662 of the Foreign Assistance Act of 1974, Public Law 93–559), which requires that appropriate congressional committees be informed "in a timely fashion" when the President has approved such an action. The Executive has maintained that this did not mandate prior notification, although the Senate Intelligence Committee has reported that it now receives prior notification.[25] The charter legislation would require prior notification, or notification within 48 hours under special circumstances, although this would not mean that Congress would have prior approval.

More fundamental, and more difficult to legislate, is the degree to

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[22] U.S. Congress. Senate. Committee on Government Operations. Oversight of U.S. Government Intelligence Functions. Hearings, 94th Cong., 2d sess. on S. 317, S. 189, S. Con. Res. 4, S. 2893, and S. 2865. Jan. 21, 22, 23, 26, 27; Feb. 2, 3, 5, and 6, 1976. Washington, U.S. Government Printing Office, 1976, p. 222.

[23] See Annual Report of the Senate Intelligence Committee, May 18, 1977, passim, cited above.

[24] These witnesses included Clark Clifford, McGeorge Bundy, former DCIs Richard Helms and George Bush, and former Deputy DCI E. Henry Knoche.

U.S. Congress. Senate. Select Committee on Intelligence. National Intelligence Reorganization and Reform Act of 1978. Hearings, 95th Congress, 2d session. Apr. 4, 5, 19, 25; May 3, 4, 16; June 15, 21; July 11, 18, 20 and Aug. 3, 1978. Washington, U.S. Government Printing Office, 1978. 1101 p.

[25] See appendix VII: Correspondence between Committee Staff and CIA Regarding Interpretation of Section 662 of the Foreign Assistance Act of 1961, as Amended (the Hughes-Ryan amendment), in U.S. Congress. House. Select Committee on Intelligence, U.S. Intelligence Agencies and Activities: Risks and Control of Foreign Intelligence. Hearings, part 5. Nov. 4, 6, Dec. 2, 3, 9, 10, 11, 12, and 17, 1975. Washington, U.S. Government Printing Office, 1975. Pp. 2011–20.

Annual Report of the Senate Intelligence Committee, May 17, 1977, p. 17.

which intelligence is an executive or legislative function. While Congress has not expressed any desire to do more than oversee intelligence activities, legitimate questions arise over the degree to which intelligence can and should be shared, and to the degree to which intelligence meets the needs of Congress, in such areas as SALT, international relations, and international economic or energy policy, as opposed to the needs of the Executive in these same areas. On any of these issues the Executive might well be expected to present intelligence which will buttress its own viewpoint or preferred policy choices. In such instances, Congress does not have systematic recourse to alternative points of view, and ends up being forced to act on the basis of the information presented. The most readily available solution to this problem would appear to be continued vigorous oversight of the intelligence process and products.

Another oversight issue facing Congress is one of internal organization. In addition to the two Select Intelligence Committees, six other congressional committees are included under the Hughes-Ryan reporting provisions. The charter legislation, as noted, also would require further regular reports to Congress on covert activities, and on Executive oversight, on possible violations of constitutional rights, on electronic surveillance, and on the use of unvouchered intelligence funds. These numerous reports were one area of criticism in hearings on this legislation. The question has thus arisen as to whether Congress can realistically hope to handle such a burden, and whether or not this multiplicity of reporting does not increase security risks. Similarly, Congress may wish to consider whether or not a Joint Committee on Intelligence should be formed instead of two separate committees. Notably, the Senate and House Intelligence Committees have expressed thier preference to maintain the current dual structure for the foreseeable future.[26]

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[26] Ibid., p. 37; Annual Report of the House Permanent Select Committee on Intelligence, pp. 13–15.

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REORGANIZATION OF FOREIGN ECONOMIC POLICY

(By Richard F. Kaufman*)

Issue Definition

The purpose of this essay is to assess the arguments for and against proposed reorganization plans for the government's foreign aid and foreign trade programs. The two subjects are dealt with together for several reasons. Not only do they represent two of the most important components of foreign economic policy, they are likely candidates for reorganization because of the controversy that seems constantly to follow them. Indeed, numerous proposals to reorganize these programs have been made and several are now pending before Congress. Foreign aid and trade are also substantively intertwined. One reason for giving countries economic assistance is the hope that they will provide us with foreign markets. Many former and present recipients of U.S. aid are now valuable trading partners. Trade itself can be used as a substitute for conventional forms of foreign aid and can be an important instrument for development in the poorer countries.

Pressures to reorganize the way the Federal Government makes decisions about foreign economic affairs come from two sources. One is the idea that Government mechanisms for dealing with these issues are haphazard and fragmented, often overlap and sometimes conflict with one another, and frequently fail to anticipate problems before they arise or to deal effectively with them when they do. Responsibilities for international economics have been assigned to a multitude of departments, agencies, bureaus and commissions. The need for better coordination and improved management of Government policies and activities is often cited in the areas of foreign trade and economic aid to the developing nations.

In addition, many observers attribute the long-term decline in our international trade position and the shortcomings in foreign economic development assistance to disarray in U.S. Government programs. For example, spokesmen for the business community have been joined by a number of Members of Congress, key Government officials and academic specialists in a call for more aggressive policies to stimulate U.S. exports. This group believes a consequence of the dispersal of foreign trade functions within the Federal Government is that no agency has the authority to promote exports, protect domestic firms from unfair foreign competition, and represent U.S. interests in trade negotiations.

A growing number of persons in the foreign trade community have come to believe that the trade functions shared by the Departments of State, Treasury, and Commerce, and several other agencies, must be

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consolidated into a single department if the United States is to realize its potential in international markets. Many also believe foreign aid programs would achieve better results if they were not scattered among so many agencies and if there was better coordination of bilateral and multilateral efforts.

There is wide disagreement with these views. To many, the dispersal of authority over international economic issues is characteristic of the American political system and not much different than the situation with regard to domestic economic policy. There, too, responsibilities are scattered over many Government departments and agencies. Some maintain that international economic policy should not be separated from domestic economic or foreign policy as it is a major element of both. This implies that if Departments such as Treasury and State are to continue performing their domestic economic and foreign policy missions, they must also continue exercising influence in the international economic field.

Treasury Secretary W. Michael Blumenthal in congressional testimony during 1977 said that while the Treasury Secretary is the main spokesman on international economic policy, Treasury should not be the lead agency in developing policies for which other Departments have statutory authority. Thus, the Agricultural Department should be the focal point of interagency coordination for international agriculture policy, the Special Trade Representative should do the same for commercial support policy, and so on. Blumenthal added that the President's domestic and national security policy assistants should continue to play central roles in economic coordination. This view, if carried to its logical end, would leave international economic policymaking about the way it is. The Secretary did express support for better coordination at the Cabinet and White House staff levels.

Others argue that many of the weaknesses in economic assistance and foreign trade programs can be repaired through management improvements and that structural changes are unnecessary.

Nevertheless, Congress has been pressing for Presidential decisions on organizational reform in international economic policy. Actions in the House and Senate in 1977 and 1978 make it a virtual certainty that the matter will be reexamined during the 96th Congress. Among the issues that need to be considered are the following:

(1) Would reorganization result in more effective foreign aid and foreign trade programs?

(2) Would reorganization increase or decrease Government expenditures for the foreign aid and trade programs?

(3) Is reorganization necessary or can better program management and coordination be achieved without reorganization?

(4) Should the foreign aid functions be fully or partially consolidated?

(5) Should the foreign trade functions be fully or partially consolidated into a single department? Should a Department of Trade be formed or can the functions be consolidated into an existing department such as Treasury or Commerce?

Background

Precedents in Economic Policy Organization

The modern era of U.S. economic relations with the world began with World War II. Before the war the Government's role did not extend much beyond the establishment and collection of tariff duties. Authority over tariffs was delegated by Congress to the executive branch for the first time by the Reciprocal Trade Agreement Act of 1934. Except for the negotiation of bilateral trade agreements and isolated instances such as German reparations after World War I and the arms embargo during the Spanish Civil War, the Government played more of a spectator's than a participant's role and it could not do much more than watch as the international economy collapsed under the weight of protectionism at home and abroad during the 1920s and early 1930s. In this period Congress acted twice to raise tariffs, in 1922 with the Fordney-Macumber Act and in 1930 with the Hawley-Smoot Act.

The need to coordinate economic with military activities during World War II led to extensive Government control of foreign commerce, military assistance programs such as lendlease and a variety of economic warfare measures. In this period a host of White House boards and coordinating groups were established by President Roosevelt to carry out America's new global economic responsibilities. In general, the policy was to facilitate the flow of resources to our allies and to keep them away from our enemies. However, Roosevelt's style and leadership did not provide firm precedents for policy coordination.

After the war a policy of international economic cooperation was established. This policy was in part an extension of the successful wartime practices, in part a conscious reversal of the prewar protectionism. The Bretton Woods Conference of 1944, much of the idea for which came from Treasury, produced agreements creating the International Monetary Fund and the World Bank. The next few years saw the adoption of the State Department's Marshall Plan for aiding Western Europe, President Truman's Point Four program for assisting the poorer nations, and the General Agreement on Tariffs and Trade (GATT), a framework for reducing tariffs and other trade barriers through multilateral negotiations. All of these initiatives places the United States at the center of the noncommunist world's hopes for monetary stability, balanced trade, economic reconstruction and development. They also set the pattern for the dispersion of authority among numerous Presidential offices, Cabinet level departments and specialized agencies.

Initially, the surge of U.S. involvement in world affairs from European recovery to the containment of communism— had repercussions principally for those agencies concerned with national security. In the immediate post-war period foreign economic assistance was channeled through the U.S. Army to countries under American occupation. (It was then known as Government and Relief in Occupied Areas (GARIOA).) When the Marshall Plan was established the economic aid function was transferred to the civilian agencies established to administer the Marshall Plan and the various programs for aiding developing nations have been more or less under the control of the State Department. The Agency for International Development (AID), created by the Foreign Assistance Act of 1961, is a semiautonomous agency within the State Department.

The Current Situation

Bilateral loans and grants amounted to $2.7 billion in fiscal 1979. Appropriations for U.S. contributions to the multilateral development banks, the United Nations and other international organizations was somewhat higher, about $3 billion. There are also a number of Government activities that contribute indirectly to foreign economic development—the Export-Import Bank is one—although they have different principal purposes. In addition, the Overseas Private Investment Corporation (OPIC), a federally chartered organization which provides financial services for private investment in developing countries, provided about $8.2 billion in insurance, $750 million in loans and $50 million in guarantees to the Third World last year.

The bilateral programs are managed principally by AID and the Agriculture Department. Responsibility for the multilateral programs lies in the Treasury Department.

The relative sizes of the programs reflect two important changes that have taken place in the management of foreign economic aid. First, the United States has been increasingly emphasizing multilateral as opposed to bilateral forms of assistance. AID and other U.S. grant and loan programs have declined over the years, while contributions to multilateral development institutions have grown. Second, AID's role and influence within the Government has eroded as the bilateral programs located in other agencies and the multilatral programs have multiplied and increased.

The Secretary of the Treasury now rivals AID's influence over foreign aid by virtue of the $2.5 billion appropriated in fiscal 1979 for U.S. participation in the development banks. Treasury's role can be seen as even greater than the funds paid into the banks as a result of the influence the U.S. exercises in the bank's policy.

A major rationale for U.S. participation in the development banks is that it encourages other nations to do the same. This results in sharing with other industrialized nations the burden of helping the poorer countries. It also gives the United States leverage with respect to the funds contributed by the other nations. To the extent that the Untied States influences decisions by the banks it is able to channel funds into development projects far in excess of its own contributions.

Congress authorized $260 million in fiscal 1979 for various international organizations which administer economic development programs in the Third World. These include the United Nations, the World Health Organization, and the Organization of American States. U.S. participation in these groups is supervised by the State Department with advice from AID.

The largest bilateral economic assistance program under the control of an agency other than AID is food for peace. The Department of Agriculture is responsible for implementing most of this program, for which over $800 million was authorized in fiscal 1979, although a portion is handled by AID. Other non-AID programs include the Peace Corps (about $100 million authorized in fiscal 1979), OPIC (which operates on a self-sustaining basis), and the Inter-American Foundation ($10 million authorized in fiscal 1979). Refugee relief activities ($164 million authorized in fiscal 1979) are managed by the State Department.

AID still controls a larger portion of the bilateral development assistance funds than any other agency. Authorizations for AID programs totaled $1.5 billion in fiscal 1979. In addition, AID is responsible for the security supporting assistance program, funded at $1.9 billion in fiscal 1979. This program is a form of development aid concentrated in select countries where the United States has special security interests. During the Vietnam war the program was centered in Southeast Asia. At present it serves primarily the Middle East.

Foreign Trade

Dissatisfaction in Congress and in the private sector with the State Department's handling of trade negotiations led to the creation of the Office of the Special Trade Representative (STR) in the early 1960's. In general, criticism of the State Department concerned its tendency to subordinate economic interests to foreign policy objectives. The results were trade agreements that seemed to give foreigners a greater access to U.S. markets than Americans had to foreign markets.

The establishment of STR illustrates two features of trade policymaking since World War II. One is the reassertion of congressional interest and active participation. The Office of the Special Trade Representative is a creature of Congress, and although located formally in the Office of the President, represents a partial retraction or at least a modification of the authority to negotiate trade agreements previously delegated to the President. The renewed interest of Congress can also be seen as part of the postwar shift in the focus of trade policy from political to economic objectives. Although foreign policy considerations still are a large factor in trade relations, there is much more private sector and congressional involvement in trade negotiations under STR than was previously the case.

The second feature is the dispersal of trade responsibilities among Government agenices. The Departments of Commerce, Agriculture, and State conduct export promotion activities. The Export-Import Bank provides financial services with respect to the export of U.S. goods and services. The Agriculture Department's Commodity Credit Corporation provides loans to both foreign commercial and food-for-peace buyers of U.S. agricultural products. The Treasury Department implements export tax incentives. Treasury also enforces tariffs, quotas, and the countervailing duty, antidumping and important relief laws. The International Trade Commission, an independent agency, investigates industry complaints of injury for Presidential action. The

President's Special Trade Representative was the most recent addition to the extended trade policymaking community.

This breakdown is oversimplified, for numerous additional trade functions are performed by the same and other agencies. For example, controls intended to prevent commodities and technical data of military significance from being exported to the Communist countries are enforced by the Commerce Department with the advice of the Defense Department and the National Security Council. A single decision concerning the transfer of advanced technology can involve both departments and the White House in time-consuming controversy. This occurred in the summer of 1978 when the sale of a computer by Sperry Rand to the Soviet Union was disapproved. In 1979 the decision was reversed. A number of other agencies are involved in export controls of drugs, agricultural products, endangered species, materials in short supply, and nuclear energy.

In addition, functions such as export promotion cover a wide variety of activities involving numerous bureaus and offices within the relevant agencies. The Commerce Department's Industry and Trade Administration (ITA) provides multiple services to U.S. business firms. It conducts overseas market research, furnishes trade data and counseling services, supports trade exhibits and trade missions, and tries to bring together foreign buyers and U.S. suppliers. ITA's Bureau of East-West Trade furnishes similar services with respect to the Communist nations. The Foreign Agricultural Services (FAS) of the Agricultural Department is ITA's counterpart for export sales of farm products. The State Department has a network of overseas commercial officers who promote U.S. exports. FAS also maintains agricultural attaches at foreign posts.

The Case for Reorganization

Proponents of Foreign Aid and Foreign Trade reorganization maintain that the diffusion of programs and responsibilities has resulted in confusion and lack of coordination within the Government, excessive red tape, delays and loss of world leadership for the United States. They maintain that jurisdictional disputes between agencies frequently cause delays, inconsistency and inaction. The multitude of interagency and White House coordinating committees has not solved the problem and adds to the outside impression that the Government lacks a concerted foreign economic policy. One expert concludes, "Fragmentation, jealousy, and duplication are endemic in all levels of existing organizational arrangements." [1]

This makes it impossible for any administration or Congress to construct a "grand design" that will be followed throughout the Government. Instead, strong cabinet officers or bureaucrats in one agency or another frequently dominate different aspects of policy without regard to government-wide goals.

Other western industrialized governments, it is argued, manage their foreign economic policy much more efficiently. Japan is usually held up as the best example of a relatively centralized, well-

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[1] Stephen D. Cohen, "The Making of U.S. International Economic Policy," (Praeger, N.Y., 1977), p. 113.

coordinated, and highly effective system. There, responsibilities for foreign trade are concentrated in a single ministry, the Ministry of International Trade and Industry (MITI). In West Germany and France a single ministry takes the lead role in trade policy, although in neither case is it as powerful as MITI. Observers are impressed by the fact that the centralization of trade functions in a single agency in other governments has produced more of a central focus for trade policy within those governments, better export promotion programs and closer government-business relations than exists in the United States.

In virtually all western industrialized nations foreign policy considerations are much more subordinated to domestic concerns than is the case in the United States. Bilateral foreign economic development assistance comes under the Ministry of Economics in West Germany. In France, the Ministry of Foreign Affairs administers only a small portion of the foreign aid program. The recipients of French bilateral aid are selected by the Ministry of Economics. Most of the aid program is directed toward French-speaking Africa and is handled by the Ministry of Cooperation.

In Japan, control over bilateral economic assistance is shared among four groups, the Foreign Ministry, MITI, the Finance Ministry and the Economic Planning Agency. Recipient countries and the amounts to be spent are determined through a consultative process involving the three Ministries and the Planning Agency. An organization within the Planning Agency does most of the implementation of the aid program.

Multilateral aid is implemented through the Finance Ministry in West Germany and Japan and the Ministry of Economics and Finance in France.

Critics of the foreign aid program allege that it does not have well-articulated goals and is a patchwork of laws and programs enacted over the past 18 years without any clear purpose. They argue that the laws and sometimes the activities conflict with one another and make it difficult to administer a coherent aid program.

In the 1973 Foreign Assistance Act Congress added a requirement that aid be channeled in "new directions" principally to help the poor. However, other foreign aid objectives remain embedded in the program. Foreign aid has always been viewed as a political as well as an economic instrument on the assumption that if we help a country become self-supporting it will stay out of the communist camp. In that sense, it has been used to promote the national security of the United States, as well as the economic development of foreign countries. In addition, foreign aid has been tied to foreign trade with requirements that goods and services be supplied by American firms. In some cases egalitarian goals have been pursued such as a more equitable distribution of income. In others the emphasis has been on capital intensive projects that have had the effect of widening the gap between rich and poor. In recent years economic assistance programs have also been used to advance U.S. concerns about human rights. There is a problem in reconciling such disparate aims.

In 1977, following a review of the program by the Foreign Assistance Subcommittee of the Senate Foreign Relations Committee, Senators Hubert H. Humphrey and Clifford P. Case, the chairman and ranking minority member of the subcommittee, wrote to President Carter that "the foreign assistance act no longer contains the clear policy direction and the proper organizational structure to deal effectively with the complexity of U.S. relationships with the developing countries." "The purpose of foreign aid," Senator Humphrey said, "should be to help the poorest countries and the poorest people." Others have been more blunt in their criticism. Senator Frank Church, now chairman of the Foreign Relations Committee, said in a 1978 speech that while the program has been used for humanitarian and worthy purposes, "Some of our aid, in my opinion, has been misdirected—to prop up repressive governments, and to provide arms to governments that have no real need for them." [2] "It is time," the Senator said, "to review the entire process and consider reorganization of foreign aid administration."

Foreign aid has also been the subject of numerous investigations and studies revealing instances of waste, mismanagement, ineffectiveness and corruption. By 1969 so many cases of improprieties had been turned up that the Senate Foreign Relations Committee concluded, "the future of foreign aid is bleak indeed until a new program can be developed which will command greater respect and support, both with the public and the Congress, than the current program commands." Two years later the committee published a compilation of summaries of General Accounting Office—GAO—reports covering 80 investigations from 1965–70, noting that "the GAO's compilation tells a tale of disregard for congressional intent and of the use of foreign aid funds as a kind of diplomatic porkbarrel." [3]

Although it can be argued that development assistance is unpopular mainly because many Americans view it as an international welfare program, continuing management problems have contributed to the unpopularity of foreign aid and demands for reform even among those who suuport it. In 1977 the Senate Appropriations Committee directed GAO to conduct an intensive review of AID management activities. In a lengthy report to the committee in 1978, GAO disclosed many weaknesses including misuses of operating expenses, imbalances in staffing levels and questionable procurement practices. It found that while the food for peace program is generally benefiting large numbers of needy people, some of the poorest countries are receiving little U.S. food aid while large amounts continue to be furnished to relatively more affluent nations. Other GAO reports in 1977 and 1978 pointed to problems with respect to AID's housing assistance activities, the Sahel development program, AID's loan program, security supporting assistance, the international organizations and the international development banks.[4]

A longstanding problem with respect to the international banks concerns accountability. None of the member governments including the United States have the right to audit the banks or to require that they render public accounts of the use of the funds placed at their disposal. Members of Congress have complained for years about the

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[2] The Humphrey-Case letter and Senator Church's speech may be found in the Congressional Record, Jan. 25, 1978, pp. S. 430–431.

[3] Senate Committee on Foreign Relations, "U.S. Economic and Military Foreign Assistance Programs" (1971), p. iii.

[4] Senate Committee on Appropriations, Hearings, "Foreign Assistance and Related Programs for Fiscal Year 1979" (1978), pp. 10–68.

inadequacy of U.S. oversight procedures, the fact that GAO does not have the right to audit the banks, and the absence of program evaluations of activties and projects financed by the banks.

The 1973 Foreign Assistance Act directed the President to try to get the banks to establish their own independent review and evaluation systems. The banks have set up internal review systems and they also now hire outside, private accountants to certify their financial statements. The number of bank documents sent to the Treasury Department and made available to Congress has been increased.

A recent detailed study of the international banks by the Surveys and Investigations Staff of the House Appropriations Committee shows that serious accountability problems remain, and raises new questions about the management of bank-financed development projects. One of the most disturbing questions concerns the lack of coordination beffitween multilateral and bilateral projects. The study concluded, "There is a frequent lack of coordination between IFI (International Financial Institutions) representatives and representatives of the U.S. Agency for International Development (USAID) when both have overlapping projects pursuing similar objectives in the same country." [5]

The study illustrates this problem with an account of a population control project in an Asian country. In 1974 the World Bank loaned the local government $25 million for a rural population control project despite the fact that AID has had an ongoing population control project in the same rural communities for about 10 years. The study attributes the duplication of efforts to the failure of World Bank officials to confer with AID. As a result local government officials are now trying to prevent the two groups of local workers from competing with one another and are concerned about a corresponding competition at higher government levels.

This type of problem is not surprising in view of the faulty procedures for U.S. Government oversight of bank projects for coordinating the bilateral and multilateral sides of the aid program. The United States, as is the case with each member government, appoints an executive director and several assistants to represent its interest at each of the banks. However, most of the banks' business including preparation of development projects is managed by bank employees under the direction of the president of each bank. The boards of executive directors meet periodically to review the bank's budget and loan applications but as the directors do not have the expertise or staff resources to examine the technical aspects of the projects, they tend mainly to rubber stamp decisions that have already been made. Visits to project sites by the directors are discouraged and they do not have access to certain bank documents.

Documentation for proposed loan projects take from 1 to 2 years for bank officials to prepare but are typically not received by the executive directors until 7 to 10 days before the board is scheduled to meet for consideration and approval of the loans. At the World Bank and Inter-American Development Bank an average of seven project pro-

[5] A Report to the Committee on Appropriations on the International Financial Institutions, p. ii, reprinted in House Appropriations Committee, Hearings on Foreign Assistance and Related Programs, Appropriations for 1980, Part 2, International Financial Institutions (1979).

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posals are processed per week. Copies of the documentation are sent to Treasury after they are received by the executive directors. Of course, neither Treasury nor the executive directors have sufficient time or resources to scrutinize adequately the proposed loans.

Treasury sends its analyses of loan proposals to the Development Coordinating Committee (DCC), an interagency group made up of Treasury, State, Labor, AID, and other agency representatives. The instructions to the U.S. Executive Director on how to vote on loan applications formally come from the Committee. The AID Administrator chairs the Committee but multilateral aid matters are handled by a subcommittee chaired by Treasury. The House Appropriations Committee staff study concluded, "To date there is little evidence that creation of the DCC has added any cohesiveness or worldwide strategy planning to the U.S. approach to bilateral and multilateral assistance."

Proponents of reorganization of the Government's foreign trade programs argue that a consolidated trade agency would enable the Government to articulate more cohesive global policies. Streamlined Government machinery would more effectively promote exports, protect domestic industries suffering from unfair competition, and investigate ways to improve our trade balance. It would also strengthen the hands of U.S. trade negotiators by combining in one agency the negotiating and retaliator trade functions.

Much of the impetus for trade reorganization is based on widespread unhappiness over the Government's performance. Business and labor groups criticize the Treasury Department for failing to enforce adequately the antidumping law designed to prohibit predatory foreign pricing. Some allege that Treasury officials have been reluctant to penalize foreign business firms guilty of unfair practices in the United States in order to avoid diplomatic confrontations. In a recent report, GAO concluded that delays averaging 3 to 3½ years in assessing duties after finding of dumping make it "highly improbable that U.S. industry is being adequately protected by the act."

The *Zenith Television* case is an example of how Government indecision has contributed to the call for restructuring trade mechanisms. In 1971 the Tariff Commission (now called the International Trade Commission) sustained Zenith's charges that Japanese firms were dumping TV sets in the United States. In the period 1972–78 the Customs Service, a part of the Treasury Department, conducted a protracted investigation into the pricing practices of the foreign manufacturers. Finally, in 1978, the Customs Service decided to charge importers about $400 million in dumping duties through April 1977. But Treasury set that decision aside and substituted a $46 million assessment for the period 1972–73.

The delays in this case prompted a statement by Representative Charles A. Vanik, chairman of the House Ways and Means Subcommittee on Trade, criticizing Treasury for making its decision in consultation with the Japanese Government and the importers, to the exclusion of Congress and representatives of the domestic industry and for failing to enforce the Antidumping Act in a vigorous and timely fashion. Representative Vanik went on to say that the history of the case "calls for a reconsideration by the Congress of where the responsibility for administering the act should be placed." The *Zenith* case, as of this writing, is still pending.

The adjustment assistance program, designed to help firms whose sales are impaired by foreign imports, has come under attack because it benefits only a small percentage of those in need of assistance and for delivering too little too late to those it reaches. Under the Trade Act of 1974 the Commerce Department's Economic Development Administration (EDA) can offer loans and technical assistance to firms adversely affected by imports. But according to the GAO, most firms in the industries eligible for assistance have been unaware of the program because the Commerce Department has not effectively publicized it.

Most of the firms who have received benefits under this program, as well as most of those who came under an earlier adjustment program enacted in 1962, are either no longer in business, delinquent on their loan repayments, or not becoming viable. One reason for the poor results appears to be connected with the passive attitude of the administrators. Technical assistance in the preparation or implementation of adjustment proposals is offered to business officials who visit EDA's Washington, D.C., or regional offices, or over the telephone. Visits to the firms by EDA officials are unusual.

Government export promotion activities are criticized for being inefficient and ineffective. A study conducted jointly by the Departments of State and Commerce concluded in a 1977 report that "There is at this time no generally agreed or widely understood U.S. policy on the extent of need for or the purposes of official export promotion." An investigation by the House Government Operations Committee in the same year found the heart of the program—the overseas trade centers operated by State and Commerce—ineffective and recommended the termination of the trade center exhibition program.

The program is supposed to encourage U.S. firms to sell abroad, especially those with little or no export experience. But most of the participants in trade center events are large or multinational experienced exporters. Small businesses are generally excluded as a practical matter. The services offered by the centers and other government export promotion programs "are duplicative and inferior to those offered by the private sector." [6] Business firms prefer private trade fairs over the Government centers because the private fairs are more responsive to their needs and produce better results. According to the committee, none of our trading partners have similar government operated trade centers.

In addition, there are chronic conflicts and problems between State and Commerce in the conduct of the overseas programs. The State Department has traditionally treated commercial affairs as a low priority. State Department officials engaged in commercial activities have the lowest status and fewest promotions in the agency. But State wants to prevent Commerce from operating its own foreign service and fears encroachment of its jurisdiction. Commerce wants more control over State employees working in export promotion because of State's low regard for commercial activities. Breakdowns in communication between the two agencies are common.

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[6] House Committee on Government Operations, report on "Effectiveness of the Export Promotion Policies and Programs of the Departments of Commerce and State" (1977).

More recently a House Ways and Means Committee task force, established to investigate United States-Japan trade issues, concluded,

> At present the various trade and export promotion functions of the Federal Government are badly scattered and fragmented. A new organization to bring these units together into a highly visible and coordinated position is necessary.[7]

The Case Against Reorganization

Those in favor of retaining the present dispersed system argue that: (1) improvements in program coordination and management can be obtained without reorganization; (2) stripping foreign economic functions from agenices such as Treasury, Commerce, and Agriculture would weaken their abilities to perform other functions; (3) trade imbalances should be corrected through exchange rate adjustments and improvements in the competitiveness of U.S. products rather than export promotion; and (4) drastic restructuring of foreign economic policy mechanisms could foster monopolies and make it more difficult for medium size and small businesses to engage in foreign trade.

This group argues that although large sums may have been wasted in foreign aid and trade programs through mismanagement, no reorganization plan can guarantee against future inefficiencies. The way to prevent waste is to properly design and implement programs. Reorganization treats the symptoms and not the cases of the problems.

If foreign aid statutes do not contain well articulated national goals, and if some provisions are in conflict with one another, the solution is to clarify the laws. A new program structure, no matter how streamlined, will not make up for deficiencies in the legislation on which the programs are based.

Much of the criticism of the multilateral development banks is unwarranted, although improvements can be made in bank procedures and in the flow of information to Congress. The important thing is that the multilateral banks are making major contribution in a cost-effective way to economic development in the poor countries.

According to the Treasury Department, every U.S. dollar put into the banks is matched by $3 from other donor countries. The World Bank, since its establishment, has made $50 of loans for every $1 paid in by the United States. In addition, U.S. payments to the banks contribute to employment and GNP gains in the United States and have had a favorable effect on our balance of payments. The success of bank projects is revealed by the rapid growth experienced by the developing countries in the period since the banks began operations and the fact that many countries that once were dependent on U.S. bilateral aid now rely on loans at market rates.

Treasury officials dispute the suggestion that the United States lacks influence on the policies of the bank and point out that in the past the banks were criticized for being too much under the influence of the United States. Changes in bank policies over the past 35 years reflect U.S. policy objectives and the United States, together with other member nations, continues to provide the policy framework for the banks. The job of the banks' management is to execute that policy.

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[7] House Ways and Means Committee, Subcommittee on Trade, Report on United States-Japan Trade" (1979), p. 47.

Proposals to consolidate trade and other foreign economic policy functions into an existing or new agency indicate a lack of understanding of the interrelationships of foreign and domestic policy. Agencies with responsibilities in the areas of finance, business, agriculture, and national defense cannot fulfill their responsibilities unless they are also part of the foreign economic policy process. For example, the fact that food exports have serious consequences for the domestic farm sector makes it necessary for the Agriculture Department to be involved in export policy decisions. The Treasury Department's role in domestic and international finance could not be fulfilled if its trade functions were transferred. The Defense Department's responsibilities for national security require it to be involved in decisions concerning strategic materials and exports to the Soviet Union. These and other agencies could not adequately perform their missions if their foreign economic responsibilities were taken awav.

Efforts to achieve a proper balance of trade through direct export promotion are also misguided. Changes in the relative values of the dollar and foreign currencies will eventually adjust prices and bring trade into balance. If the United States has a trade deficit the exchange rate value of the dollar will fall. This will have the effect of reducing the prices of U.S. goods and raising the prices to Americans of foreign goods. As a result, U.S. exports will rise and imports will fall.

This process occurs in a floating exchange rate system regardless of direct measures to stimulate exports or the presence of a department of trade. Thus the fall of the dollar resulted in a sharp increase in U.S. exports in 1978 and they are likely to continue rising in 1979. Successful direct actions to promote exports can even be harmful because they would cause the value of the dollar to rise in world markets. In that event, prices of U.S. goods increase, making them less attractive to foreign buyers.

The existence to trade ministries in foreign governments is no reason for the United States to establish a department of trade. Our political and economic systems are different because of the uniqueness of the American experience and differences in values and we should not rush to emulate foreign institutions.

A department of trade could conflict with American values if it brought government and business into the close relationship that is common in other industrialized countries but frowned upon here. It could lead to the kind of central government-corporate economic planning that is carried on by some of our trading partners. For example, government business executives working together through a department of trade could decide to raise barriers to selected imports, extend assistance to particular firms selling abroad and bring pressure within the government to reduce or eliminate antitrust and tax constraints on firms engaged in foreign trade. Such actions could have profound effects on the structure of the economy, favoring some sectors over others, providing costly subsidies and insulating weak industries from more efficient or advanced foreign competitors.

A department of trade would probably become at least partly captive to the multinational corporations and other large firms and represent their interests as opposed to those of small business and consumers. Indeed, foreign trade ministries do seem to tilt toward big business. One result could be policies that encourage increased investment abroad by U.S. corporations and the manufacture and sale of products in foreign countries by U.S. owned companies. Such foreign investment does not contribute to U.S. exports or increased employment at home to the same extent as exports.

Many observers believe the principal causes of the U.S. trade deficit are the lack of competitiveness of U.S. products and the complacent attitude of U.S. business firms. Proof of the noncompetitiveness of American goods can be seen in the successful penetration of the American market in product categories in which we used to predominate including manufactured goods and consumer electronics. While some business firms have succeeded in persuading the Government to raise barriers against some imports, thus protecting their domestic markets, they are falling behind internationally. The reasons cited for America's loss of competitiveness include inflation, slow productivity growth, the low capital-labor ratio, the slowdown in technological advances, and disincentives to export such as controls and human rights requirements.

In addition, it is pointed out that the U.S. business community is not as aggressive in seeking foreign markets as are foreign businessmen. Although U.S. exports are high in dollar terms, they are lower as a proportion of gross national product than is the case in our major trading partners and many other nations. In general, the large, growing, relatively self-sufficient U.S. economy has allowed business to prosper. As Ambassador Strauss recently told a Senate subcommittee, "We've gotten real lazy because we've got a real fat, easy market right here."[8]

Reorganization is not the best way to solve any of these problems and it could delay progress by distracting efforts from what needs to be done. It is argued that tax incentives for new investment, improvements in corporate management, energy conservation and a greater willingness of business executives to learn foreign languages would do more to redress trade imbalances than establishing a department of trade.

Reorganization Options

In 1978 the chairman and ranking minority member of the Senate Foreign Relations Committee introduced a bill prepared by the late Senator Hubert H. Humphrey to reorganize the foreign aid programs into a new International Development Cooperation Administration (IDCA). Most of the bilateral and multilateral aid programs would be consolidated into the new agency under Senator Humphrey's proposal. The major exception is the title I concessional loan program of food for peace which would remain in the Agricultural Department. The development and relief aspects of Food for Peace would be transferred to the new agency. The Foreign Aid bill enacted in 1978 directed the President to institute a strengthened system of coordination "of all foreign economic development policies and to report to Congress in 1979 on legislation needed to attain that objective."[9]

Early in 1979 President Carter transmitted a plan to reorganize the foreign economic aid programs, in response to the request of Congress

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[8] Senate Select Small Business Subcommittee on Government Procurement, Hearings on "The International Procurement Code," Apr. 4, 1979.

[9] International Development and Food Assistance Act of 1978, title III.

proposing a trimmed down version of the Humphrey bill. AID and OPIC would be merged into a new agency with the same name as in the Humphrey bill, the International Development Cooperation Administration. But Treasury would retain responsibility for the multilateral banks. Food for peace would remain under the Agriculture Department, the Peace Corps would remain under ACTION, and State would continue selecting the countries to receive Security Supporting Assistance. However, the head of the new agency would share with Treasury the function of suggesting names to the President for appointments as directors of the multilateral banks, and would oversee management of U.S. contributions to international organizations.

In 1978 the Senate Government Affairs Committee held hearings on a bill sponsored by Senator William V. Roth to create a Department of International Trade and Investment (DITI). Senator Roth's proposal, patterned somewhat after Japan's MITI, would consolidate into one agency the Special Trade Representative's Office, the trade and investment functions of Commerce and Treasury and the International Trade Commission. The Eximbank and OPIC would be included as semiautonomous units. A bill introduced in 1979 by Senator Robert C. Byrd would incorporate in a "department of trade" the Foreign Agriculture Service as well as the agencies covered by the Roth proposal.

The remainder of this section examines these and other major reorganization options.

Foreign Aid

The options range from full to partial consolidation of programs whose principal purpose is economic assistance. By definition, this would exclude military assistance and programs whose principal purpose is trade. However, some programs, such as OPIC, can be considered principally economic assistance or trade, depending upon one's point of view.

(1) *Full consolidation.*—All bilateral and multilateral foreign economic aid programs would be placed in a new agency such as IDCA, including all those now managed by AID, plus such programs as food for peace and the Peace Corps. IDCA would select the countries to receive security supporting assistance and U.S. participation in the multilateral development banks and the international organizations would be transferred from Treasury and State to the new agency.

(2) *Partial consolidation.*—One possibility would be to merge one or more of the smaller programs such as the Peace Corps with AID. A variant of this option would be to move the OPIC under AID keeping it intact as a semiautonomous group but giving the AID Administrator a somewhat larger role with respect to the multilateral banks and the international organizations. This is essentially the plan proposed by President Carter.

(3) *Partial abolition.*—An option not generally discussed but conceivable would be to shift drastically the approach to foreign aid by phasing out either the bilateral or the multilateral programs. Abolition of AID would accelerate the trend to multilateralism even if programs such as food for peace and the Peace Corps were retained. Reducing U.S. participation in the multilateral banks would be a step back to bilateralism.

(4) *A foreign aid community.*—In this option the role of the AID Administrator would be enlarged by extending his authority over one or more of the non-AID programs without physically moving it or them under a single umbrella. The AID Administrator would be the President's chief adviser and major spokesman for foreign aid, much as the Director of Central Intelligence functions with respect to the intelligence agencies.

The advantages of full consolidation would be centralized of responsibility and accountability of policy, personnel, and budgets. Interagency coordination problems would be eliminated and administrative overhead savings made possible through central control. The symbolic effects of full consolidation would be to elevate the importance of foreign aid as a national priority. The stature of the head of the new agency would be enhanced, making it possible for him (or her) to claim a larger role and a larger budget, for foreign aid.

Among the disadvantages would be the likelihood that foreign policy political objectives would subsume economic considerations, assuming IDCA was attached in some fashion to the State Department. If IDCA were made totally independent of State it would probably be seen as a rival foreign policy agency leading to possible conflicts between the two. Moving the development banks out of Treasury could create concern abroad about U.S. long-term intentions with respect to multilateral assistance. It could also create concern about the financial soundness of the banks. Some might question the competency of the new agency, which would presumably be dominated by AID employees, to manage the additional responsibilities. The removal of foreing aid activities from Treasury and the Agriculture Departments could lessen public and congressional support for foreign aid.

The advantages and disadvantages of the partial consolidation and foreign aid community options are similar to those pertaining to full consolidation. Differences are matters of degree. In all cases the stature of the foreign aid spokesman is enhanced, coordination problems reduced, and steps taken to enhance the importance and possibly the size of the foreign aid program. However, in the foreign aid community option, conflicts among agencies would probably remain, especially the implicit competition for funds between the multilateral and bilateral programs.

The partial abolition option, by definition, reduces coordination problems, and program management problems as well to the extent that any program is actually terminated. This option is also the only one that would result in significant economies.

Foreign Trade

Reorganization options in the trade area are in one sense simpler and in another sense more complicated than in the foreign trade area. They are easier to consider because the conflict between foreign political and economic objectives is not so large a factor. The State Department's role is relatively small in the trade area (although it still is influential in trade negotiations) and no serious proposal has been made to consolidate trade programs into that agency. However, private sector interests are a much larger factor in trade questions and reorganization proposals must take the needs of business firms, labor, and consumers into account.

(1) *Full consolidation.*—In this option all government programs that have as their primary goal the promotion of foreign trade and the enforcement of laws intended to prevent unfair foreign trade would be consolidated into a single agency. The programs would include the commercial and export promotion activities of the State and Commerce Departments, the State Department's responsibility for negotiating and implementing trade agreements, the trade and investment functions and the U.S. Customs Service of Treasury, the International Trade Commission, the Export-Import Bank, OPIC, the Agriculture Department's Foreign Agriculture Service, and the President's Special Trade Representative. The question is where these programs would be consolidated, and proposals have ranged from a new Cabinet-level agency, Treasury, Commerce, and a beefed-up Office of the Special Trade Representative.

(2) *Partial consolidation.*—This option could consist of consolidating trade promotion activities in either Treasury or Commerce or in a new agency. The addition of other trade and investment programs in any reorganization proposal would probably depend upon judgments of what is politically possible. The Roth bill is a partial consolidation proposal.

(3) *Foreign trade community.*—The role of the head of one of the major foreign trade agencies, possibly the President's Special Trade Representative, could be enlarged by extending his authority over all or most of the trade programs located elsewhere, without transferring them, and designating him the President's major advisor and principal spokesman on foreign trade matters. This is another variant of the intelligence community model. In this option principal spokesman could be given control over the budgets of all trade programs and the responsibility for coordinating policy.

(4) *Public trade corporation.*—In this option a semiautonomous public corporation would be formed to relace the export promotion activities of the Commerce and Agriculture Departments, or of Commerce alone. The corporation would conduct market research and trade fairs and perform other services in the interests of increased trade. Funding would come partly from the Government, partly from membership fees and user charges to business firms and perhaps also to labor organizations. The corporation would operate under an existing or reoganized agency. This option is modeled after the Japanese External Trade Organization (JETRO) which functions under Japan's MITI.

(5) *Private sector subsidies.*—Direct government support of trade activities could be given directly to private business in place of or as a supplement to reorganization. Government support in the form of matching grants or tax incentives could be offered generally to trade associations and chambers of commerce, or channeled to promote specific categories of exports. Support could include subsidies to business firms for overseas market research, participation in trade fairs, and entry into new overseas markets. The government could also facilitate coordination of private bidding on foreign contracts and encourage business firms to form consortia or joint ventures to improve their

trade positions. If this approach is taken changes in the antitrust laws will probably be necessary.

(6) *Public education.*—The Government could increase significantly efforts to inform business firms about trade opportunities, support programs teaching trade techniques in schools, and conduct a publicity campaign to educate the public about the benefits of increased trade.

The advantages of consolidation are the same as for foreign aid: centralization of responsibility and accountability for policy, personnel and budgets, better program coordination and enhanced stature of foreign trade as a national priority. Whether it would be preferable to consolidate programs into one or another of the existing agencies or a new agency depends on an assessment of the strengths and weaknesses of each agency and the likelihood of success for a new agency. As discussed earlier, neither Treasury nor Commerce is without fault in carrying out its trade responsibilities.

The Office of Special Trade Representative has had more apparent success than the other agencies, but its role is a more limited one. Part of its appeal is its small size, its ability to move quickly from one problem to another, and its lack of bureaucratic trappings. The Trade Representative himself, in the case of Ambassador Robert Strauss, has enjoyed the confidence of the President and has been an articulate spokesman for U.S. trade interests. But there is no assurance that the Office would have similar success with the added responsibilities that consolidation would bring or that Ambassador Strauss' successor will have similar influence with the President.

These considerations have led many to conclude that a new cabinet level department is needed. A new department would not be weighed down with the bureaucratic accretions of the older agencies. Its head, as a member of the Cabinet, would automatically be considered the President's spokesman for trade issues. The disadvantages of a new agency are that it is more difficult and probably more costly to start a new agency than to transfer programs to one that already exists.

The foreign trade community option would be the least costly in actual expense and bureaucratic disruption. But it would probably have minimal effects on the management of trade programs, at least in the short-term. The designation of one official as the Government's trade spokesman would tend to enhance the visibility and the importance of foreign trade policy issues.

A public trade corporation would involve the Government and the private sector in an unusually close relationship. Such ties are common in other countries but may not be acceptable in the United States on grounds of excessive private business influence in government or excessive government interference in private business. On the other hand, it might be possible to design safeguards that would assure fairness to business and the public interest. The major advantage of a public corporation is that promotional activities would be closely tied to the needs of the business community but remain under Government control.

Business firms might also find direct subsidies more useful than government activities. However, there would be little accountability or Government control in a subsidy system and it might be difficult to justify the expense in terms of the results and the national interest. However, subsidies could be inconsistent with the subsidies code recently negotiated at the multi-lateral trade talks in Geneva. It would also be hard to measure the results of a public education program. One could not refute the argument that a better public understanding of trade issues is likely to improve the chances for success of any of the options discussed. The question is how much, and is it worth the expense?

Conclusion

The major problems in the foreign aid program cited by proponents of reorganization are the incompatability of goals, the dispersal of authority and responsibility, mismanagement, nonaccountability in the multilateral program, and the lack of coordination between the bilateral and multilateral programs.

The fact that foreign aid has several purposes, some of which at times conflict, is a fundamental weakness in the program. National security, humanitarian and economic objectives, cannot always be achieved simultaneously in particular developmental projects. This problem may be inherent to a degree in foreign aid no matter how it is organized. The different goals reflect the different public and private sector interests in the program.

The division of foreign aid responsibilities among AID and the Departments of Treasury and Agriculture virtually guarantees the absence of concensus about goals. AID is closely tied to the State Department and tends to emphasize political and national security interests. Treasury and Agriculture are more concerned with economic interests, but each agency has its own conception of what those interests are.

There is a widely held view that development assistance should be channeled to the poorest of the poor. Others believe that foreign aid needs to be more closely linked with U.S. trade objectives in order to broaden public and congressional support for the foreign aid budget. Whether AID in its present form is the appropriate agency to administer a program intended to serve principally either the poorest of the poor or U.S. trade interests needs to be carefully assessed.

A reorganization plan designed to resolve the question of foreign aid goals, and to relocate program responsibilities accordingly, would be well worth considering. Unless the goals question is resolved, the confusion of purposes and results is likely to continue no matter how the program is structured.

It is true that the problem of mismanagement can be attacked through administrative and other actions. If waste and inefficiency were sufficient grounds for reorganization many, if not most, Government programs would be candidates for such a change.

On the other hand, the shortcomings of foreign aid have been held up for public view for many years. Each session of Congress seems to bring yet another round of disclosures of irregularities and still another crisis with regard to approval of its budget. A reorganization plan that promised greater efficiency in the conduct of foreign aid might not only be desirable but necessary to its long-term survival.

The problems of accountability and coordination between the bilateral and multilateral programs are equally serious and more clearly related to organization issues. There are no audits, no effective oversight, and little control by the executive branch or Congress of the international development banks. In theory the Treasury Department can influence the policies of the banks through the individuals it selects as executive directors. But the executive directors themselves play only a minimal role in bank affairs. Real control is exercised by the presidents of the banks and the officials they select.

There is no way for Congress or the executive branch, under the present arrangement, to be fully and currently informed about bank activities, or to have any assurance that loan projects are well managed, successful, or compatible with our own bilateral projects. This situation makes it more difficult and perhaps impossible for the United States to design and manage a cohesive foreign aid strategy.

There is considerable truth in the argument that floating exchange rates will tend to bring trade accounts into balance and that levels and patterns of trade will reflect the essential competitiveness of each nation's goods and services in the international market. However, the limitations of the automatic adjustment mechanism were demonstrated in the fall of 1978. At that time it was necessary for the United States, with the aid of the central banks of Germany, Switzerland, and Japan, to intervene massively in the exchange market in order to halt what had become a precipitous decline in the value of the U.S. dollar. There is broad agreement that a major cause of the dollar's decline in 1977 and 1978 was the huge trade deficits incurred by the United States in those years.[10]

The point is that exchange rate adjustments will not always satisfactorily offset trade imbalances. Further, imbalances can result from inadequate export promotion, unfair foreign competition, and one-sided trade agreements. A reorganized government trade program designed to eliminate any of those deficiencies could have beneficial effects on U.S. trade performance.

Two additional sets of questions should be addressed. One concerns the likelihood that restructuring will achieve the intended results, and its costs. In the areas of trade promotion and unfair foreign practices there is substantial room for improvement in the government's role. It would not be hard to develop more effective programs than the present ones in these two areas. However, one of the bright spots in the Government trade program is the Office of the Special Trade Representative. Any change in that office through merger or expansion could have undesirable effects.

There should also be a careful assessment of the types and sectors of business that will be aided by reorganization, what the effects will be on workers and consumers, and whether the increased Government expenditures, if any, can be justified in terms of the probable public benefits.

Finally, there are questions about coordination between the various categories of economic programs. The problem is not only a lack of coordination within aid programs and a similar lack within trade

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[10] Alan R. Holmes and Scott E. Pardee "Treasury and Federal Reserve Foreign Exchange Operations," Federal Reserve Bulletin, March 1979, p. 201.

programs. There is also a lack of coordination between aid and trade and between foreign and domestic economic policy as well. For example, trade is growing in importance as a means for furthering development in the Third World. The Soviet Union, the East European countries, and China all view trade with the United States as important to their economic development. If political relations worsen with any of these countries, should trade be reduced or cut off? If so, what will be the effects on the U.S. firms involved in such trade? The use of trade as a political lever with respect to the Soviet Union has already caused anger and frustration within a portion of the business community. Extending this use of trade will have similar results in other areas and could conceivably impose hardships and bankruptcy on some firms and discourage others from entering foreign markets.

The effects on the domestic economy of changes in the level of exports are the same as changes in Government spending. An increase in exports adds to aggregate demand and acts as a fiscal stimulus. A reduction in exports has restrictive effects. Of course, the stimulative or restrictive effects of a rise or drop in exports could be offset through fiscal actions if they were required by a particular macroeconomic policy. The results can be unexpected.

For example, if a consolidated Department of Trade helped increase exports through an effective export promotion program, it could be necessary, in order to reduce inflationary pressures in an overheated economy, to cut Government spending or increase taxes. Or an overheated economy could bring about pressures on a Department of Trade to slow exports.

These potential interactions and many others that could be cited underline the need for a systematic review of the way foreign economic policy is made and the possibilities for structural improvements.

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