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INTERNATIONAL PERSPECTIVES

An Assessment of World Trends and Prospects

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I. A GLOBAL PERSPECTIVE

1. The world in 1977 seems dominated by the opposing dynamics of cooperation and conflict. The economic, political, and social pressures that have been building rapidly in recent years, and show no sign of abating, operate both as cause and effect of this international trend in different directions at the same time. The combination of pressures induces the nations of the world to cooperate in solving problems beyond their individual control while at the same time it impels them to seek national advantage; the result is a compounding of the pressures on national and international institutions that is evident in every region of the world.

Cooperation and Conflict

2. Contradictory forces operating for and against cooperation have always been at play in international relations, but they seem central to an explanation of world trends in the present period. It is the complexity and urgency of today's global problems that drive governments to work jointly to relieve the pressures that affect them all. And yet these same global issues, impacting on internal economic and social problems, create domestic pressures that undermine stability and force authorities to put national imperatives before international needs.

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3. A number of factors contribute to the current premium on cooperation. First, there is a new sensitivity to international economic dislocation and a growing awareness of economic interdependence. Recognition of the new realities has led policymakers around the world to place more emphasis on a search for international solutions of mutual or reciprocal benefit. Secondly, the industrial nations are finding that their power to control developments beyond their borders is increasingly constrained by domestic factors, especially in situations where the use of military capability or substantial economic assistance may be indicated. (These domestic factors are examined in the regional sections that follow.) Thirdly, the growing wealth and influence of certain developing countries, combined with the domestic inhibitions on foreign policies in the industrial West, have contributed to the diffusion of power evident in international relations for some time. This in turn has further stimulated cooperation by restricting the ability of major actors to pursue their objectives unilaterally and impose their will.

4. The forces that move nations in the direction of conflict are very old and very new in origin. Classic rivalries for national power remain a strong force in the world, of course, and take various political, military and economic forms. Secondly, the lack of institutional

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arrangements to deal effectively with the growing array of world problems has made it difficult to keep tensions in check, and the search for new mechanisms itself causes much friction as national players strive for advantage in international forums.

5. In a sense, the pressures for cooperation mentioned above--the enormity of global problems and constraints on national governments--also feed the counterpressures to secure national advantage and thereby risk conflict. With little confidence in consensual "fixes" and anxiety over the consequences of economic problems at home, governments feel forced to play for short-term gain.

6. Finally, the growing interconnections among global issues (for example, between energy dependence and nuclear proliferation or between LDC demands and the economic problems of industrial nations) inhibit cooperation on any single issue. The difficulties presented by one problem are almost always magnified by the reverberations among related issues. "National solutions" also become more complicated and difficult to achieve. While the prospects for cooperation might therefore improve over the long run, there are serious near-term grounds for conflict as each linkage problem confronts national leaders with very hard choices.

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7. The international energy situation perhaps best illustrates the tension between forces operating for and against cooperation. First they can be seen in the uneasy relationship between the developed nations--the oil importers--and the oil producing countries. Promoting cooperation is a mutual need for a stable, smoothly functioning international economic system, with particular reference to technology transfer, trade, and investment. On the other side, opposing objectives with regard to oil supply and price, as well as underlying differences over regional political issues, promote conflict.

8. Another set of forces operates within each community. Among the developed nations, there is a genuine desire to cooperate in energy research projects, joint resource development, financial integration, and emergency sharing programs. On the conflict side, nations vie with each other to establish closer bilateral links with OPEC producers to gain a preferred position among consumers.

9. The member states of OPEC are similarly afflicted with contradictory pressures. The desire for higher national revenues and for an influential role in efforts to resolve Middle East issues, which flow from shared control of oil, strongly motivate the Arab countries toward cooperation. On the other hand, deep-seated regional antagonisms and ideological differences between conservative and radical states are sources of current and potential conflict.

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10. Managing the problems and the opportunities that emerge from these crosscurrents will remain a central challenge to US and foreign policymakers during the last two years of the 1970s and the early 1980s. The ever-increasing strain on the institutions and systems through which solutions must be found will make this huge task even more difficult.

#### Institutions Under Pressure

11. The world has grown accustomed in recent years to rapid and extensive change in settled patterns of international relations, and most governments, although unable to anticipate or control these political, economic, and social changes, have managed better than might have been expected. But in 1977 the cumulative wear and tear on established institutions has become increasingly evident. Political authorities are finding it more difficult to respond effectively to rising pressures and demands. And it is not only national governments but a variety of international, regional, and local institutions and systems that **simply** are not working very well anymore.

12. The international arrangements stemming from World War II and its aftermath began to fray some years ago. Strained further by the impact of decolonization and the oil price revolution, they are now in some disarray. International and regional organizations, distracted by an increasing politicization of issues, have lost influence and effectiveness over the past few years.

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13. The new tensions are also having a corrosive effect on the major alliance systems. The US finds its NATO allies preoccupied with economic problems and divided on a number of issues. Disparities in national power and divergent interests seem to be widening the gulf between certain of the member countries--e.g., between West Germany and its less prosperous allies--and the trend is accentuated by differences over specific issues like arms standardization and positions taken in the negotiations with the USSR on force reductions. On the Communist side, the Soviet Union to worry about the loyalty of its Warsaw Pact allies.

14. The pressure on international systems seems certain to grow in the years ahead. The precise effects this will have on already unhealthy institutions are not as certain, but the nature of the dilemmas posed can be suggested:

- whether the political underpinnings of the major alliance systems can withstand the challenges of phenomena like the West European Communists' bids for power in France and Italy, the growth of dissidence in Eastern Europe, or other byproducts of detente;
- whether individual allies, especially our own, can continue to support the rising costs of modern armaments in an era of slow economic growth and increasing social pressures;

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- whether the emergence of regional powers with increasingly sophisticated military machines and expansionist ambitions will invite super-power intervention in local conflicts despite the risk of strategic escalation;
- whether nuclear weapons can be limited to a small number of responsible governments, given growing energy needs;
- whether technical advances and weapon developments will not so blur the distinction between conventional and nuclear warfare that the latter becomes "thinkable";
- whether international economic cooperation can survive growing disparities in the economic performances of nations and mounting pressures for protectionism;
- whether more rapid economic expansion, essential to overcome unemployment and to pay for growing social demands in industrial countries, can be achieved without giving OPEC stronger grounds to raise oil prices, possibly bringing on another economic recession.

15. In addition to these problems at the international level, national institutions are being severely tested by pressures from without and within. The nation-state is still the preeminent political form in the world today, and will remain so for the foreseeable future. But here again, the

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national governments of the world are not functioning very well. This is conspicuously true of the wealthy western industrial states, where internal pressures upon parliamentary institutions and political parties are straining the system.

16. Economic considerations continue to determine national choices. Demographic and economic changes are forcing some painful reappraisals of priorities; in particular, the trade-off between unemployment and inflation has become more costly. Politicians and bureaucrats must weigh the costs and benefits of pension, health, and unemployment insurance schemes established at a time of sustained rapid economic growth. Virtually every democratic government faces hard economic decisions, e.g., to curb inflation by wage restraint or to reduce payments deficits by curbing economic growth. Even where a government is strong enough to carry out a tough program, there is often uncertainty about the correct remedy. Hence, the outlook for some of the industrialized societies, which had assumed ever continuing rises in living standards, is unclear. Popular expectations are being thwarted, and the burdensome combination of high unemployment and inflation is likely to prevail for some years.

17. These economic worries are likely to translate into political expressions of discontent with the prevailing governing

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groups. In the industrial West, number of incumbent governments command bare majorities, or less; others have already been turned out by disgruntled electorates and if newly installed parties cannot deliver, they in turn will be replaced. The days of predictable attachment of social classes to particular parties have gone, and a restless voting public is more demanding than before.

18. In parts of the world where voting is not the prime political tool--such as the communist countries and much of the Third World--economic problems will have different political consequences. But, as in the OECD states, economic pressures and constraints will put the political systems under great stress. In much of Africa, Latin America and Asia, authoritarian governing elites are mainly interested in preserving themselves in office. Such governments are often too preoccupied to give much attention to popular demands or to devise institutions that would facilitate the solution of national problems. In most cases national policies reflect some combination of tribal, regional, social and military group interests. Where national problems are seriously considered, the solutions are frequently judged either too expensive, too risky or too elusive.

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Superpower Perspectives

19. In the complex world of the 1970s, the superpowers must contend with this expanding catalogue of global issues affecting everyone while continuing to give first priority to the threat posed by each to the other's security. Despite the proliferation of threatening global problems, the most dangerous security questions for the US and the USSR are familiar ones.

20. The world must still be viewed in strategic terms, as a bi-polar world. The relationship between the superpowers will continue to be an adversary one, whether or not it is described as "detente". The strategic balance will still be an overriding concern for both in the future as in the past, as priority is given to military expenditures and the quantity and quality of weapons is increased. But because the rough equality in strategic forces of the two superpowers is likely to be maintained, the focus of competition and potential conflict between the US and USSR will continue to be on other national interests and in other regions of the world.

21. Certain global issues, not wholly manageable by even the most powerful states working together, pose threats to their security second only to the strategic rivalry. An example is the proliferation of nuclear

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weapons capability, a danger that becomes even more threatening in the context of increasing terrorism. The decade ahead clearly will involve a critical period of adjustment to the proliferation process. The fears and concerns of each new or potential nuclear state will have to be addressed directly. The major nuclear powers, working together, will be able to slow the spread of nuclear arms and to dissuade new nuclear powers from brandishing their weapons only at some considerable cost to themselves. The effort will require a delicate mix of political, military, and economic pressures and incentives.

22. This paper does not attempt to examine all of these global issues individually. In the sections that follow, however, we trace the varied ways in which the major trends affect the current and future direction of the industrial democracies, the Communist powers, and the developing countries.

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II. PROBLEMS OF THE INDUSTRIAL DEMOCRACIES

1. The increased complexity of international relations in the seventies not only reflects the growing interconnections among global issues, but also the strains global problems place on relationships among the industrial democracies as a result of their varying degrees of sensitivity and vulnerability to these issues. The individual democracies, like the Communist powers, approach each of these problems with their own calculations of risk and opportunity which can serve not only to frustrate US objectives but to complicate alliance and East-West relationships generally.

2. Even as the wealth and military power of the industrial nations increase on an absolute scale, their ability to control or to ignore global problems is constrained. This is manifested most clearly in the frequency and effectiveness with which the nonindustrial countries, individually and collectively, challenge the general authority and the specific policies of the advanced nations. At the same time, the industrial democracies are encountering increased domestic obstacles to controlling developments beyond their borders, a trend that can be seen in the declining domestic support for costly foreign policy

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initiatives. A major contributing factor here is the constraint caused by slower rates of domestic economic growth at a time of intensifying demands for social and economic benefits.

3. The different countries of Western Europe and Japan experience these effects in different ways, but there is a remarkable degree of commonality in the impact of world issues on each of these developed nations.

A. WESTERN EUROPE

4. Western Europe is drifting. The postwar formula of "miraculous" economic growth accompanied by equalizing gains in social welfare is no longer working. West European electorates, their expectations out of line with new economic realities, continue to make demands that public authorities are unable to satisfy. The inability of governments to solve today's complex problems has fostered universal questioning of traditional values and institutions.

5. The restiveness in European society has led to a search for alternatives, which in turn has accelerated the pace of political change. In some cases, the result has been a burgeoning of leftist parties; in others, a conservative resurgence. The movement toward political extremes has also been spurred by changes in political and strategic relationships between the United States and the Soviet Union. Detente

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has fostered domestic conditions in Europe enhancing the respectability of the left; the steady buildup of Soviet military power, combined with Soviet intervention in such areas as Angola, has increased the appeal of the right. In no instance, however, have these movements attracted majority support. The consequence is political stalemate in many European countries. Although governments have changed hands--it is difficult to find one that was in power a few years ago--in most cases the new incumbents are minority parties or coalitions.

6. In the struggle to adapt to new economic, social, and political factors, Western Europe appears for the moment to have lost its sense of direction. Although cooperation within the European Community (EC) on technical matters continues, progress in policy coordination on key intra-European affairs has faltered. Coordinated economic and monetary policy is frustrated by the gaping disparities in the economic performances of EC partners. Community members are unified enough that they cannot insulate themselves from each other's problems, but are unwilling or unable to unite sufficiently to address them together.

7. The Community has achieved a somewhat better record in maintaining a common front toward third parties. Considerable

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solidarity exists among the Europeans, for example, on the nuclear proliferation issue. EC members also agreed eventually on minimal positions in the North-South dialogue and on Middle East issues. In the NATO context, the Europeans have at least signaled their desire for a stronger role by tentative moves to standardize arms within the European Program Group and by discussions of security matters in EC forums.

8. The greater assertiveness of the Europeans in external affairs reflects recognition of their economic and strategic weakness relative to the United States and the Soviet Union. By sticking together they hope to strengthen their voice in world affairs and to increase their influence on US policies affecting their interests. They fear the United States, in pursuit of detente, may be looking out more for its own interests than for theirs.

#### Shaken Economies

9. The postwar pattern of West European social and economic progress has been disrupted both by external shocks and by factors inherent in the European system.

10. The oil price rises have had the most dramatic effects, reducing the growth of national income, necessitating costly efforts to use energy more efficiently and to develop

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alternative energy sources, accelerating inflation, and leaving some countries with large gaps in their foreign accounts. Some nations have adjusted to this shock better than others. Governments in most European countries, however, while recognizing the need to divert more resources from consumption to investment, have been unable to prevent government and business from bearing a disproportionately large share of the adjustment burden.

11. The West European working man who has kept his job has been shielded by the institutional strength of his labor unions, which ensured continued gains in real wages even during the worst of the recession. The commitment of European governments to far-reaching social programs also has insulated most consumers from the impact of the oil price hikes. Joblessness has soared, however, and many people--especially new entrants to the labor force--have found themselves ineligible for the widely touted benefits given the unemployed.

12. Although labor has done relatively better than other interest groups in recent years, workers remain restive because of their expectation of continually improving living standards and government attempts to check the growth in wage rates to reduce inflation and foreign payments deficits. Adding to the general discontent is a feeling that governments have not fulfilled their promises of more and better schools

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and hospitals, more efficient judicial systems, and improved public transportation. One result has been attempts by workers to achieve more influence via direct participation in management. Another has been narrower electoral margins for the majority parties.

13. The skewed adjustment of many West European economies to the oil price rise, lowering profit margins and elevating deficits, augurs a slow return to rapid economic growth. Investment--the engine of growth--clearly is in trouble. Worry about the impact of rising costs on profits is delaying investment decisions in many countries. In some countries, uncertainties about the form of future governments, and their policies add to the deterrent effect on capital spending. Governments already deeply in debt also are holding back on their capital outlays. It seems increasingly clear that Western Europe is on a new growth path that is much less dynamic than the prevailing postwar pattern.

14. This relative economic sluggishness will be accompanied in coming years by an acceleration in labor force growth in many countries. Because of the baby boom of the early 1960s, many West European nations expect a sizable jump in the number of workers entering the job market through the 1980s. If the powerful bargaining strength of European labor keeps the price of labor relative to capital from falling despite the greater supply, this surge

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could lead to persistent high unemployment. Structural change in industry sparked by the adjustments of recent years will also boost unemployment rates. Untrained youth will be particularly hard hit over the next decade, with possibly an additional 1 million young people out of work. Such a pool of jobless will strain Europe's generous social security programs. Some governments, moreover, will be forced to choose between higher inflation and less capital spending.

#### Hamstrung Governments

15. Trouble in the system has much to do with the difficulties that governments are having and will continue to have in dealing with these problems. Traditional government policy solutions do not work the way they used to.

16. Central public authorities in many cases have been partially immobilized by the popular dissatisfaction that has grown out of economic malaise. With single parties unable to muster broad political support, weak coalitions and minority governments, surviving through compromise and expediency, are the rule of the day in Western Europe. In many cases, the balance is tipped by small parties whose weight in decisionmaking is grossly out of proportion to their voting strength.

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17. In other cases--Spain, Greece, Portugal--authorities striving to implement new constitutions without provoking counteractions by the right or the left simply are unable to make the proper policy responses to economic and social problems.

18. The delicate mandates of many European governments not only impair their ability to solve internal problems; their responses to initiatives on global issues are also affected. The international benefits of slowing nuclear and arms exports, to cite one example, must be weighed against political fallout at home should curtailed sales lead to job losses. Internal problems also make it increasingly difficult for Europeans to maintain a united front on multilateral negotiating issues, and thus increase the leverage vis-a-vis the rest of the world.

19. Over the next few years, all four major European countries are likely to be ruled by weak governments, each facing difficult tradeoffs that could tip the scales in favor of the opposition.

-- In West Germany, the Social Democrats will have to keep pressure from their left wing for greater government participation in the economy and for a bigger say for labor in management in check if they

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hope to retain the support of their Free Democratic partners. The split between the Christian Democrats and the Christian Social Union on social policy and other issues raises questions about their viability as an alternative coalition solution.

-- In France, a leftist alliance, should it gain power, would have to weigh its desire for massive social change against the danger of disrupting the economy and evoking a political backlash. It would, moreover, have to resolve formidable internal differences over the extent of nationalizations, defense policy, and France's role as a nuclear power. A center-right alliance, for its part, would have to appease labor without compromising its conservative economic principles.

-- In Britain, the Labor Party will have to juggle its desire to maintain traditional ties to labor against the demands of the Liberals for continued pay restraint. If returned to power, the Tories would have to risk alienating their right wing in order to make the compromises that would be required to avert labor upheaval.

-- In Italy, the Christian Democrats will continue to balance a need for support from workers for economic stabilization measures against the

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cost of increased Communist participation in decisionmaking. The Communists will have to weigh doctrinal sacrifices and discontent among their hardliners against the benefits of a share in power.

The Leftist Option

20. The growing disenchantment in Europe with ruling elites has enhanced the appeal of leftist political situations. Whether Communists will formally enter into European governments any time soon is still uncertain, but their increasing political strength has already left its mark on European politics. In France, it has contributed to President Giscard D'Estaing's desire to build a center-left coalition. In Italy, it has helped displace the center-left political model with one based on Christian Democratic-Communist cooperation in tackling economic problems. In Portugal, it has inspired a reaction that has strengthened the role of the Socialists and democratic forces.

21. Despite the concerns generated by the Communists' increasing role, both Italy and France could eventually see Communist parties participating in government coalitions. The French and Italian parties are different animals with diverse sets of problems to tackle. Both parties, however,



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with varying degrees of credibility, currently are stressing the need to adapt Marxist-Leninist ideology to national circumstances. While such a posture leads them to deemphasize their ties to Moscow, it does not necessarily move them closer to the United States. Rather, all three parties assert the need for Europe to be independent of both the United States and the Soviet Union.

22. Should these parties formally take part in government, they would have to focus primarily on pressing internal problems. Abrupt shifts in foreign policy would not be likely. There is considerable evidence in fact that Italian Communist Party Chief Berlinguer views Rome's membership in NATO as a means of mitigating Soviet meddling in Italian affairs. The intentions of the more doctrinaire French party in external affairs, while less clear, probably would be moderated by their dominating Socialist partners.

23. Communist approval already is crucial to survival of the Italian government, and one way or another Communist influence in Rome promises to be long-lasting. In contrast, Communists in France have no comparable leverage on the government now, and the Alliance of the Left seems unlikely to have much staying power if it wins control. Dissension between the Communists on the one hand, and the Socialists and Left Radicals on the other, probably would hamstring a leftist French government and bring it down.

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24. Communist participation in key European governments would, however, have major negative effects, economically as well as politically. International economic cooperation would probably suffer since both the French and the Italian parties are disposed toward autarkic solutions to foreign payments problems. Protectionist trade policies and rigid capital controls would not only undermine EC principles but would fan papered-over mercantilist sentiments in other countries.

25. Implications for European security would be more serious. The presence of Communists in coalitions, particularly in France, would threaten traditional European political relationships. For one thing, the close Franco-German cooperation or postwar years that has been a cornerstone of EC progress would be jeopardized. At a minimum, West Germany's economically conservative cabinet ministers would find it difficult to tolerate even a modified version of the Common Program advocated by France's leftist alliance. More important, the Germans would be gravely worried about the future of French troops in West Germany and French-German defense ties outside NATO under a French regime in which Communists were represented.

Pressures on NATO

26. The leftist alternative would also, of course, have disturbing implications for the strength of the Alliance.

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- Inclusion of Communists in key European governments would mean that new institutional forms and procedures would have to be devised within NATO.
- Communist participation in decisionmaking, however limited, would lower the common denominator of agreement among NATO members.
- To the extent that Communist parties increased their access to NATO information through their expanded governmental roles, sensitive material could be compromised.

27. The outlook for NATO is not especially encouraging even without this problem. Whether or not Communists are in government, it will probably become increasingly hard to convince electorates of the need to spend more money to defend against a Communist threat. The younger generation already questions the basic purpose of NATO, while a larger part of the public and some government officials feel that increased European defense expenditures would be ineffective against a Soviet threat. Public toleration of increased defense outlays could wane even further if inflation remains high and economic growth slows as expected. Moreover, if military pay rates continue to rise faster than defense spending, as also seems likely, a relatively smaller share of funds will be available for hardware in the next few years; and it will

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become even harder to maintain investment in research and development on new systems.

28. Despite popular questioning of the Alliance, European governments are at least as apprehensive as before about their vulnerability; hence, they cling to their Atlantic ties. This recognition of their own weakness in the fact of Soviet military preponderance produces ambivalent feelings toward detente. While wanting to explore the possibilities that a relaxation of tensions might open up, especially more meaningful relations with Eastern Europe, the Europeans feel directly threatened by any shift in US strategic posture and by compromises contemplated to achieve a SALT agreement. They are particularly concerned about possible limitations on the range of US cruise missiles and on transfers of technology in this area; in any event, the French intend to produce their own version of the cruise missile and the British may do so also. Europe's ambivalence has also been reflected in their role in MBFR--supporting the process but insisting on maximum positions.

#### EC Integration Stalled

29. The economic upheavals of recent years have widened the gap between the stronger and the weaker European economies, straining political relations and creating

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further obstacles to integration. The vigorous collective action required to reduce the gap implies closer economic supervision by the EC itself than most of its members are yet willing to accept. It would also involve a larger transfer of real resources from the richer to the poorer countries than the rich are willing to tolerate. Thus, despite recent advances in several specialized areas, progress has almost come to a halt on economic and monetary union, energy policy, and major reform of the common agricultural policy.

30. Persistent unevenness in the economic performances of member countries may heighten Community tensions. Most notably, if West Germany's economic health continues to stand well above that of the rest of the Community, the Germans would come under sustained pressure to play a more active leadership role in Europe than they feel is suitable, given latent European hostilities. The Germans are also concerned that their relative economic strength leads others to view them as politically and socially stable, when in fact Chancellor Schmidt's hold on power is tenuous and alternatives are uncertain.

31. For all its troubles, the Community still holds a remarkable attraction for many Europeans. Three new members may in fact be welcomed into the fold sometime in the next decade. Opening the doors to Spain, Greece, and Portugal

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would aggravate EC economic tensions, but would also entail some political pluses.

32. On the negative side, the admission of these three South European nations would widen the disparities in economic structure and performance already plaguing the EC. By threatening Italian and French producers of Mediterranean products, enlargement would set off a heated debate on agricultural policy. Furthermore, admission of the three candidates would lead to an influx of unwanted labor to the North.

33. On the plus side, EC enlargement would strengthen the western orientation of the three countries and increase their ties to NATO. It might also reinforce the trend toward common European action on external problems since an expanded number of European countries would be engaged in a broad range of economic and political deliberations. In short, enlargement could bring to Europe an enhanced sense of common identity.

#### A High Risk Future

34. All in all, the outlook for Western Europe is chancy. Although economic and political institutions have so far shown remarkable resiliency, the stresses of recent years have left the European system highly vulnerable.

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35. At best, most economies probably will experience uncomfortably high rates of unemployment and inflation for the next few years. Several will have large payments problems. Another shock comparable to the 1973-74 oil price boost would worsen matters drastically. Such a shock would strain the international financial system and could trigger widespread resort to import controls.

36. The probable political effects of further major disruption seem clear. At a minimum, the weak governments trying to cope with such problems would be exchanged for other weak governments. At worst, frustrated voters and leaders might resort to authoritarian solutions, at either end of the political spectrum.

B. JAPAN

37. Following more than a decade of spectacular economic success, Japan has begun to lower its expectations and--more gradually--adjust its policy goals to a period of decidedly lower economic growth. Tokyo's success in making the transition smoothly will largely determine Japan's domestic political environment and its international behavior over the next few years. The political changes that occur will be gradual, reinforcing the trend already under way toward the center and away from the extremes.

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In the international arena, Japan will remain a target for protectionist pressures from other developed countries and escalating economic demands from the LDCs.

#### Economy in Transition

38. The Japanese have concluded that they have permanently shifted from the "miracle economy" of the 1960s--with annual growth in the 10 to 12 percent range--to a more mature economy capable of growth in the range of 6 to 8 percent. There is an emerging consensus that even growth in the 6 percent range between now and 1980 may be optimistic. The sharp reduction in expectations results in part from the constraints imposed by higher costs for imported raw materials and from the realization that other countries will no longer tolerate the rapid increase in Japanese exports that helped fuel growth in the past. In addition, increasing demands for government action on long-neglected "quality of life" issues such as pollution, housing, and welfare reflect the erosion of Japan's postwar national consensus that economic growth should be the nation's top priority.

39. The effects of lower growth on popular attitudes will present Japan's conservative ruling establishment with a wider range of competing political and economic demands.

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These changes probably will result in more extensive government involvement in the economy, particularly in wage settlements and price movements. Industrial demand for labor, for instance, may not be strong enough to cut into unemployment, which now stands at some 2 percent--high by Japanese standards. The reduced economic pace will also force labor to accept lower wage settlements. Nonetheless, labor-management relations are unlikely to reach the adversary state common in most other industrial democracies, in part because of the government's increased involvement.

40. Japan's international influence will continue to increase. Even at 6 percent annual growth, for example, its economic performance would still outpace those of other developed countries. In international trade, the reduction in Japanese growth will create more problems than it solves. Big Japanese industries, such as steel, autos, and electronics, will find it easier to justify export drives to keep production, employment, and profits at acceptable levels. Japanese companies traditionally look to foreign markets to take up the slack when domestic demand slips. Given the outlook for relatively high levels of unemployment in other OECD countries, adverse reaction to Japanese export gains is almost certain to increase. On the other hand, slower Japanese growth will add some stability to raw materials markets. In the early 1970s Japanese sales from stockpiles

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contributed to the sharp price instability in copper and rubber markets.

41. Tokyo in the future will face a difficult task in managing Japan's international economic relations. The government's major tool--jawboning--has become less effective over time and more direct controls over export industries probably will be needed. More important, to prevent excessive foreign sales, Tokyo will have to bring about a shift from export to domestic-led growth. Overseas sales have supplied almost half of GNP growth in 1976 and so far in 1977. Clearly changes in Japanese import policies that protect key economic sectors such as agriculture and manufacturing will be needed if Tokyo wants to forestall new trade barriers against its exports. Given the current protection afforded Japanese markets, a 6 to 8 percent percent GNP growth will provide little import opening for foreign suppliers.

#### Political Reflections

42. The shift in voter attitudes already evident in Japan is unlikely to alter the basic conservative case of Japan's domestic or foreign policies. The ruling Liberal Democrats need not face another election until 1980. The moderate opposition parties, which have been the major

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beneficiaries of the ruling party's decline at the polls, generally share the government's policy goals. They are likely to continue to capitalize on their ability to offer pragmatic alternatives to government policy as a means to solidify their electoral gains--an orientation that promises accommodation rather than confrontation in the daily management of government affairs.

43. In foreign policy, Tokyo will continue to focus primarily on the United States. The Japanese will emphasize the benefits of their political, economic, and security relationship to underscore their desire for a strong United States presence in East Asia. Although Tokyo has in the past entertained the notion of adopting a more independent diplomatic stance, the Japanese recently have grown concerned over the signs they perceive of US retrenchment in Asia. That perception, combined with the memory of economic and political shocks experienced by the Japanese in the early 1970s, has led Tokyo to stress its interest in maintaining the closeness of its US connection.

44. The primary concern of Tokyo's foreign policy is certain to remain economic. Trade issues, in particular, will continue to dominate Japanese relations with its economic partners in the developed world. To the extent that the Japanese see a need to broaden their ties with Western Europe,

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their attention will be devoted to dealing with economic complaints rather than broadening the format of their political relationships.

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### III. TRENDS IN THE COMMUNIST WORLD

1. The problems of the Communist world basically are not all that different from those of the industrial democracies. The philosophy, the methods, and the levers of control are different, but the tough problems nevertheless are how to allocate resources and avoid inflation, how to restrain consumption without generating riots in the streets, and how to divert from the total product what is wanted for public investment and national defense.

2. The Soviet Union and China deal primarily, of course, with problems and behavior peculiar to their own societies, but to some extent they experience both the domestic and external constraints on foreign policy initiative that are characteristic of the rest of the industrialized world. While the Communist powers may try to take advantage of opportunities to expand their influence and presence in various parts of the world, their cost-benefit calculations are also conditioned by domestic problems and by the diffusion of power in international relations resulting from the greater wealth and assertiveness of the developing countries.

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A. THE USSR

3. The Soviet Union, like the rest of the world, has had to contend with uncertainty and accommodate to far-reaching change. Not all of this has been a negative experience for the Soviets. At least one important change--the dramatic growth in Soviet strategic offensive forces--has of course been a highly positive development, from Moscow's point of view. Over the past 12 years, the USSR has achieved rough strategic parity with the US and even leads in several single measures of strategic power, such as the number of delivery vehicles, megatonnage, and missile throw weight. In the same period Soviet military manpower levels have steadily increased and the Soviet armed forces are now more than twice as large as those of the US. The Soviet navy has been transformed from a force oriented toward defense of Soviet coastal waters to one capable of carrying out a variety of missions in more distant seas.

4. We suspect, however, that Soviet satisfaction in "catching up" militarily is now being diminished by the growing realization that economic realities will make "keeping up" an extremely difficult task. The rate of Soviet economic growth has been steadily declining. Most indicators suggest that over the next decade this trend is likely to intensify--

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and with it the competition for the country's resources that already exists between the defense industry and other sectors of the economy.

#### The Economic Slowdown

5. The Soviet economy was headed for trouble even before the world became aware of the energy crunch. A slowdown in growth has been evident since the 1950s. In 1976 the growth of GNP was only 3.7 percent--the same as the average annual gain during 1971-75--despite a record grain crop. Industrial expansion was the slowest since World War II.

6. These results reflect, to some extent, the exhaustion of abundant supplies of labor that fostered rapid development in the past. Labor participation rates are still the highest of any industrialized country, but the decline in birth rates has already reduced the number of new entrants to the Soviet labor force. The situation will become acute in the early 1980s. By then, the growth of the working-age population will be less than one-half percent annually compared with an average of 1.7 percent during the 1970s. The military, of course, will be competing for the same age group if it is to keep the same high manpower levels.

7. A further complication is that most of the increase in the labor force in the 1970s, and nearly all of it in the

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1980s, will be of non-Slavic (principally Turkic) minority populations. These peoples have consistently avoided migrating from Central Asia to the industrial areas of the USSR. Even if they did, very few would have the skills required by modern industry.

8. One other disturbing factor with regard to the Soviet labor force is the decline in the growth of output per worker. It has dropped by nearly one-half between the 1960s and the first half of the 1970s and is well below most of the modern industrial countries. To a certain extent this performance can be attributed to general apathy and lack of incentive on the part of the worker, but it is also a product of the technological gap between the USSR and the West.

9. Prospects for closing the gap are poor. The Soviets are caught in a vicious circle in which their economy is not productive enough to generate civilian finished products of sufficient quality and on a sufficient scale to pay for the new Western technology they count on to improve their economy. Hence, they must rely in large part on sales of raw materials, particularly oil. This situation could soon get worse because the USSR's main hard currency earner, oil, is expected to be less available for export in the near future.

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10. New deposits of Soviet oil are not being found and developed rapidly enough to offset declines in older fields. As a result, production is expected to begin to fall in the late 1970s or early 1980s, dropping to 8 to 10 million barrels per day by 1985. The discovery of new fields may arrest or slow the decline, but such respites are likely to be temporary. Depletion of existing fields is now very rapid, and exploration and development of frontier areas is a slow and costly process. To stave off or slow down the expected fall in production, the Soviets will need high-capacity lifting equipment involving US technology. Without them, oil production will fall sooner than would otherwise be the case.

11. It is thus possible that events could force the Soviet Union--which already has a serious balance of payments problem--to choose between a retreat toward autarky and greater dependence on the West. The Soviet leadership will have to weigh its desire for continued economic growth against its concern that increased contact with the West will be ideologically contaminating. The ultimate decision will have a major impact on the course of detente and on Soviet society.

12. These problems will be addressed either by an aging leadership or by a leadership in transition. Neither case holds much promise for an innovative, dynamic approach to these questions in the immediate future. The present leaders

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probably will not be inclined to take risks in their declining years. And if Brezhnev should disappear from the scene, it is likely to be at least several years before a leader emerges with sufficient power to institute far-reaching policy measures appropriate to the dimensions of the Soviet economic problems.

13. If the Soviet economy continues to be sluggish, however, these problems may have an increasing impact in areas with sensitive political implications. For example, it may become increasingly difficult to muster the wherewithal to purchase grain abroad during poor crop years. Future food shortages also will be accentuated as a result of the recent declaration of a 200-mile fishing zone by most of the world's coastal countries. Fish is an important part of the Soviet diet and more than half of the USSR's catch has been taken from non-Soviet waters.

#### US-Soviet Relations

14. The leadership realizes that further progress in US-Soviet relations could help ease some of the problems facing them. The conclusion of arms agreements with which the Soviets feel reasonably secure, for example, conceivably could allow Moscow to divert more funds into other sectors of the economy. Under these circumstances the USSR might hope to be able to produce more goods that could be exchanged--

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particularly in an atmosphere of good US-Soviet relations-- for the technology that would further enhance the economy's efficiency.

15. In order to work properly, the above scenario would necessarily involve more East-West contact than now exists. The Soviet leadership is concerned, however, that increased exposure to Western values and life styles will create pressures to reduce internal controls in the USSR. In short, they worry about whether the rewards of closer cooperation and more interaction with the US are worth the repercussions. The emphasis on human rights in US foreign policy has heightened such concerns.

16. These misgivings will persist. Some elements of the Soviet leadership probably believe the problem is manageable, while others will carry their worst suspicions to the grave. The temptation to put their doubts in abeyance must be great, not only because of the economic benefits, but because the leadership would like to be in a position to exploit the other advantages of being on good terms with the US.

17. Good relations with the US places Moscow in a better position to cope with China. Superpower consultations in an atmosphere of goodwill on the major issues troubling the world--nuclear proliferation and a Middle East settlement,

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for example--help foster the impression that Soviet interests cannot be ignored. They also increase Moscow's influence with its client states.

18. Nonetheless, the Soviet motives for seeking improved relations with the US will continue to be in constant conflict with other forces driving Soviet policy. In the case of SALT, the desire for agreement must be reconciled with the imperatives of an immense Soviet strategic weapons program and the still ambiguous motives and ambitions which underlie that program. More broadly, Moscow perceives its influence in most of the world as necessarily inversely proportional to US influence, and the Soviet effort to build an exclusive relationship with Washington therefore coexists with a felt need to struggle against the US in many arenas.

#### The China Problem

19. Unlike their dealings with the US, Soviet efforts to improve relations with China have remained on dead center ever since the armed clashes along the Ussuri River in 1969. The Soviets have concluded that the post-Maoist leadership, like its predecessor, is an unyielding and irrational adversary, rarely willing to make even modest concessions to reduce tensions between the two Communist powers.

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20. The focal point of the Sino-Soviet conflict is the disputed border between the two countries, but tensions are exacerbated by nationalistic and ideological differences and even racial hatred. Moscow fears China's numerical superiority, its eventual nuclear potential, and its claim that it is the true interpreter of Marxism-Leninism--and therefore the true leader of the world Communist movement.

21. The Chinese have vied with Moscow for influence throughout the world but the Soviets are particularly worried that they may find themselves the odd man out in the Pacific Quadrangle of China, Japan, the US, and the USSR. The Soviets have made many representations to the Japanese, for example, expressing their indignation over the proposed anti-hegemony clause--clearly directed at Moscow--in the Sino-Japanese negotiations.

22. More recently, the Soviets have become increasingly worried about the possibility of Chinese tampering in the USSR's East European empire. While Yugoslavia is not itself part of that empire, Yugoslav President Tito's first visit to China last September was the latest example of Peking's support for independent-minded East European Communists. In sum, by providing an alternative in the Communist world for those who resent Moscow's dominance, China presents a disruptive influence quite different, but just as dangerous, from the ever-present economic and ideological attractions of the US and Western Europe.

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Mixed Performance in Western Europe

23. The gains the USSR has made in Western Europe in recent years have to a certain degree been offset by troubling side effects. Moscow successfully negotiated a series of treaties and agreements which certified the postwar division of Germany and Europe. The centerpiece of these arrangements--the Quadripartite Agreement on Berlin--remains, however, an agreement to disagree.

24. It did not alter the dichotomy between the objectives of the West Germans and the Western allies, on the one hand, and the Soviets and East Germans on the other. The opportunities for friction on this issue continue to bedevil East-West relations and it is one of the first pressure points used by the Soviets to express their exasperation with the West. Unfortunately it is also the most dangerous.

25. The Helsinki Agreement, originally hailed as a triumph of Soviet diplomacy, has meanwhile boomeranged. Its human rights provisions have both encouraged and helped to legitimize dissent in the USSR and in some countries of Eastern Europe. The problem is under control but near the surface, and the authorities are concerned that recurring food shortages might set off a new wave of dissent that would go beyond intellectual circles.

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26. The rise of Eurocommunism is another product of detente that causes considerable anxiety in Moscow. The Soviet leadership is concerned that the democratic rhetoric espoused by the Communist leaders of Spain, Italy, and France is not just a tactic to gain power, but the beginning of a new movement with potential implications that are more dangerous than China's rejection of Moscow's leadership role in international communism. China's complaint--that the Soviets have not been orthodox enough--has never had much worldwide appeal. The Eurocommunist emphasis on more freedom, however, and repeated criticisms of the "'obsolete'" Soviet system have struck a response chord in both East and West Europe. This could, if it is allowed to blossom, challenge the degree of control Moscow now exercises over the population of Eastern Europe.

#### The Third World

27. The USSR has worked hard to improve its position in the Third World politically, economically, and strategically. Since the mid-1950s it has given large quantities of military aid to the developing nations, particularly to those countries that rim the Mediterranean, the USSR, and China--in an effort to exploit anti-Western and anti-colonial sentiments and local

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and regional antagonisms. In recent years it has emphasized commercially profitable economic ties and military hardware sales designed to gain hard currency as well as political influence.

28. The results have not been as satisfactory as Moscow would have liked. On some occasions, significant investments in military aid--as in Egypt--have failed to produce the political influence Moscow had anticipated. On other occasions, the Soviets have found themselves on both sides of a conflict, as is now the case in the Horn of Africa. In some instances the poor quality of Soviet aid, untimely deliveries, and the Soviet penchant for heavy-handed treatment of the aid recipients have tarnished rather than improved the Soviet image in the Third World.

29. Soviet assistance has at times outlived its usefulness, leaving developing countries to turn to the West for sophisticated military equipment, technology, markets, and capital. At the same time, since the USSR is a growing maritime and global economic power with developmental needs of its own, over the last few years it has often found its own economic interests in closer alignment with the developed West than with the developing states of Asia, Africa, and Latin America.

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30. Despite these Soviet frustrations and contradictory interests, we expect the USSR to continue to be active in the Third World and to capitalize on targets of opportunity as they have in Angola in the past few years. Efforts to use Angola as a political base, however, to expand Soviet influence throughout black Africa have produced spotty results and familiar suspicions, which threaten to stall the growth of Soviet influence in this part of the world.

31. Soviet influence in Latin America has been minimal. With the exception of Cuba, and more recently Peru, only the poorest, smallest states of the Caribbean have been tempted by Soviet aid offers. In the case of Cuba, Moscow obviously feels that the well over \$2 million a day it spends to keep the Cuban economy afloat is worth the cost. In Soviet eyes, Cuba serves as a symbol for the rest of the Third World of Soviet good faith and the ability of a small power to stand up to the US if it has Soviet support.

32. In the Middle East, Moscow's efforts to balance its deteriorating relations with Egypt by courting more radical states such as Iraq and Libya have not produced any solid benefits. Indeed, the bilateral suspicions that exist between many Arab states--Egypt-Libya, Iraq-Kuwait, Algeria-Kuwait, Algeria-Morocco, for example--often make it impossible

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for Moscow to register a gain with one state without alienating another.

33. On the other hand, Soviet relations with Syria have for the most part recovered from the strains generated by the Syrian intervention in Lebanon. Soviet relations with the Palestinians also have improved somewhat, both because of Moscow's supportive position toward them during the Lebanese civil war, and because of Soviet efforts to bring the PLO into the Middle East peace talks.

34. In the near term Moscow will continue to court the radical states and to press for reconvening the Geneva conference where, because of its role as co-chairman, it would expect to hold a strong position. Even in the Geneva context, however, Moscow's willingness to press the Arabs to make the concessions necessary to reach an agreement will be sharply limited by fear that this might alienate its radical clients. Rather than risk such political capital, Moscow would if necessary prefer to see the talks collapse. The USSR believes that if worst came to worst, the US would bear most of the onus for failure of the Geneva conference, in Arab eyes, because of the US relationship to Israel.

35. A failure of diplomacy and a drift toward a new round of fighting would allow the Soviets to play their

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biggest card--arms assistance. The Arab 'confrontation states' realize that only Moscow is in a position to provide them with a swift and massive resupply effort in the event of hostilities. Should a new war break out, the USSR would certainly resupply Syria, and might well do the same for Egypt despite the intense mutual dislike and distrust existing between the Soviets and Sadat.

36. Under some circumstances, the Soviets might also introduce ground forces of their own into Syria, but this would more likely be part of an effort to deter Israel from overwhelming the Syrians rather than an effort to meet the Israelis in combat. Because of logistic problems, the quantity of such forces which the Soviets could introduce during a short Arab-Israeli war would be quite limited.

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B. EASTERN EUROPE

37. Eastern Europe is likely to be a more volatile area over the next two or three years than it has been earlier in the seventies. The underlying causes are unchanged: the chronic disaffection of the public with the Communist system, nationalism, and the attraction of the West. New destabilizing factors--detente, slower economic growth, and renewed dissident activity--have added to the tension between the regimes and the people.

The Economic Factor

38. Economic problems, here as elsewhere, are taking on new significance. The economies and living standard of the people have grown substantially over the past 15 years, but growth rates are slowing down and consumer dissatisfaction is likely to grow over the next few years. This could be dangerous for the regimes because they have consciously generated rising material expectations.

39. The region as a whole is resource-poor. Even in good harvest years, the northern countries are not self-sufficient in grain. Eastern Europe is especially dependent upon energy. Already heavily reliant on foreign trade, the

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countries of Eastern Europe in recent years have also suffered the consequences of Western recession and inflation, higher prices for Soviet oil and raw materials, and the need to import more grain in the wake of poor harvests. At the same time, manufacturing plants are obsolescent in important sectors; productivity suffers from lack of incentives; and management is beset by the inefficiencies endemic to centralized planned economies.

40. Unable to generate enough exports, all of the countries of the region are accumulating large hard currency debts. In order to keep new borrowing down, the East Europeans will have to restrict imports from the West as well as increase exports. But, as in other areas, economic growth itself depends on the acquisition of quality Western equipment and industrial materials. The East Europeans have already scaled down their growth projections for the current five year plan (1976-80), and there is reason to doubt that even these modest projections will be met. Further ahead they must anticipate more severe strains in the 1980s, when declining Soviet oil production is likely to reduce oil imports from the USSR and to increase the need for hard currency purchases of oil.

41. The impact of these problems will renew the case for reforms--increased material incentives, realistic price structures, and further decentralization. Most of the East

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European leaders will be reluctant to go this route. In addition to their ideological misgivings, they are likely to want more, not less, centralized control at a time when hard economic choices must be made. Although increased economic stringency hardly augurs well for political stability, with adroit economic tinkering most of the East European regimes may avoid the worst hazards of the next few years with the tacit support of peoples reluctant to risk their hard-won gains. The greatest threat is in Poland, where the people are more volatile than elsewhere, and in East Germany, where the attraction of West Germany is felt deeply.

Dissidence, Detente, and Moscow

42. Dissidence is not a new phenomenon in Eastern Europe. But its re-emergence over the past year or so is of more than usual concern to the East European leaders because of the current context. Their performance in office now is being judged against Western standards of freedom and human rights at a time when their economic performance, also relative to the West, is being judged deficient. Contributing significantly to this state of affairs has been the Helsinki agreement, Eurocommunism, and US administration's emphasis on human rights.

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43. The main danger in this situation for most of the East European leaders, of course, is that the dissidents will incite a population already restive over economic and other grievances. The dissidents also make it more difficult to maintain the kind of political relations with the West, and particularly the US, that can be helpful on the economic front.

44. Moscow obviously is concerned about current and potential unrest in Eastern Europe. A blow-up in any country would have not only important implications for the region as a whole and for its ties to the USSR, but for stability in the Soviet Union itself and in its dealings with the West.

45. Czechoslovakia in 1968 proved that Moscow can be pushed too far, and will intervene with force if it feels its security interests are seriously threatened; but by and large the Soviet leadership under Brezhnev has opted for stability in Eastern Europe at the expense of ideological purity. Although the Soviets feel uncomfortable with the more permissive approaches of the Poles and the Hungarians, they have reluctantly permitted Gierek and Kadar to devise tactics to fit their own circumstances. These leaders, in Soviet eyes, are good Communists who will neither be transformed into social democrats nor forget their special relationship with Moscow.

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46. The Soviet Union will probably continue to provide the financial support necessary to stave off political upheaval in Eastern Europe. Moscow has restricted its price increases, accepted payment in overpriced machinery, permitted the East Europeans to run sizable trade deficits, and granted supplementary oil deliveries.

47. One consequence of the increased economic pressures is that the USSR will have to continue to look tolerantly on Eastern Europe's economic ties with the West. The Soviets in fact hope that the West will share the burden by continuing to finance Eastern Europe's purchases and by helping to modernize its industry so that it can pay for Soviet imports with quality goods. Farther down the road, in the 1980s, the Soviets will have to re-evaluate the trade-off between continued economic support to Eastern Europe and their own exports for hard currency if, as expected, they develop serious energy problems.

48. Detente has been a factor in helping the East Europeans gain more latitude in their dealings with the USSR. Western goods bolster economic growth and enrich consumer supplies; Western credits permit large trade deficits; Western contacts cater to (as well as arouse) popular aspirations. Eastern Europe's economic needs have in fact

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been a strong underlying motive for detente in Europe and for the region's opening to the West. These needs will grow over the next few years, and while increased trade and credits from the West will not provide the remedy for Eastern Europe's economic ills, they can be of considerable help. The East European leaders are likely to find their Soviet allies increasingly reluctant to bail out their economies, thus forcing them to do more business with the West. Those countries which do not now have most-favored-nation status with the US will have increased interest in getting it. All will show greater interest in barter arrangements with Western companies and in joint economic ventures.

Yugoslavia

49. The key question here will be whether the federal system developed by Tito will long survive his passing. Should the system fail, ensuing Balkan instability would once again threaten peace in Europe.

50. The 85-year-old leader, although in reasonably good health, could die at any time and set off a succession crisis. Some arrangements have been made, but the country's main political institutions are relatively young and totally

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untried in transferring power. Moreover, the country's problems are so complex that it will require much skill and good luck for his successors to even maintain the uneasy status quo.

51. Ethnic rivalries, still keen despite years of unified government, are likely to pose the most severe test. Should civilian leaders prove themselves unequal to the task of holding the country together or managing Yugoslavia's agenda of problems, the military could be expected to act. Relations with Moscow will be the principal foreign policy concern for a successor government. The challenge will be to maintain relations on an equitable basis while fending off likely Soviet attempts to circumscribe the country's independence.

52. Economic problems--chronic inflation, growing unemployment and regional disparities in living standards--if not managed well could cause political instability. The difficult job, as in many other European countries, will be to trim inflation while continuing growth patterns at a satisfactory level. Belgrade's ability to continue to attract foreign credits--it already has a \$6 billion hard currency debt--will be a key factor in establishing economic equilibrium.

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Outlook

53. The impact of the new forces at work in Eastern Europe will not be uniform. In short, the possibility of a popular uprising, perhaps bringing down the current leadership and even compelling the Soviets to intervene to restore order, will be greatest in Poland. The situation will be less volatile in East Germany, but the Honecker regime will have a harder time balancing its economic need for closer ties to the West against the unsettling effect those ties have on the East German people. In the rest of Eastern Europe, the tensions probably will not get out of hand; dissident activists by themselves will not seriously challenge these regimes.

54. The East Europeans are not likely to seek, nor will they be granted, any significant greater independence from Moscow in the conduct of foreign affairs. While the US probably will not have a major impact on internal developments in any of the countries, the East Europeans generally will attach increasing importance to developing better relations with the US, not only for possible economic benefits but for the added prestige such ties bestow on government leaders.

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## C. CHINA

55. China's problems in one sense are different from those being experienced in Europe. China's primary task is to repair institutions that functioned well until crippled by factionalism, rather than to adapt present institutions to changing circumstances.

56. The Party Congress that formally installed the post-Mao leadership this year ended more than a decade of civil turmoil. During that period factionalism undermined Chinese political institutions, disorder and incompetence held back economic growth, and nearly all foreign policy questions were seen in the single dimension of anti-Sovietism.

57. Renouncing the leftist policies that so disrupted domestic affairs, the Congress pledged a return to the rational, orderly, pragmatic policies that were in favor in the early 1960s and that sparked China's recovery from an earlier period of upheaval. The domestic reconstruction actually began a year ago when Mao died and the leftist members of the Politburo were summarily purged. The leadership has since taken many steps to revive political institutions and rehabilitate the economy.

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## Political Processes in Flux

58. Although the present leadership is the most unified in recent years, political problems remain. While there is broad agreement on policy matters, the distribution of power among institutions and personalities will continue, as always in China, to be contentious matters. The regime's ability to come to grips with China's problems and operate effectively on the international stage will depend heavily on whether the unity of the new leadership can be maintained.

58a. Like other Communist nations, China has not been able to institutionalize the succession. The leadership elected at the 11th Congress is old by Western standards; a number of key figures are over 70. It is conceivable that many of the leading figures will die within five years, making it necessary to choose a new generation of leaders who will have to work out their own policies and their own division of power.

59. The problem is accentuated by the present leadership's failure to bring along younger men. By relying so much on older officials, Peking has created a generational problem. And because the present leadership seems to be disinclined to do much about it, the problem is likely to grow worse.

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60. There is also the "Mao problem"--how to interpret Mao's legacy, especially the last ten years of his life during which he waged the Cultural Revolution and promoted the careers of the leftists. Some leaders want a negative assessment of Mao which would facilitate implementation of policies running counter to his thought. Such a de-Maoization program, however, would also run the risk of undermining the legitimacy of Communist rule. The leadership has attempted to handle the problem by rewriting party history so that Mao now opposes all they oppose. Vilifying the father of the Chinese revolution is more difficult than vilifying Stalin, who was not the father of the Russian revolution.

61. The rewriting of party history contributes to another problem: the declining prestige of the party in the eyes of many Chinese. In fact, the foremost political challenge facing the new Chinese leadership is to reintroduce into the political system the authority and discipline squandered in the past. The political infighting and violence of the last decade have fed the cynicism of the masses, undermining the party's claim on their loyalty and obedience. This last point is particularly important. In a country as large as China, the willing and energetic cooperation of the

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people is vital to the success of most programs. The decline in prestige makes it more difficult for the party to enlist that type of cooperation, particularly from the intelligentsia. These people have been wooed in one period only to be attacked later for their "elitist" ideas. The party is once again courting such groups, but winning their confidence and total cooperation is likely to be a long, slow process.

62. To restore the party as the source of authority, Peking is trying now to rebuild party discipline and to de-personalize politics. Honesty, openness, and tolerance are stressed, but the emphasis on discipline, combined with the experience of the past, will make Peking reluctant to allow much in the way of open debate.

#### Major Economic Challenges

63. Economic issues have top priority at present and probably will continue to for the foreseeable future. Some of the problems would seem familiar to Western leaders: a demand for higher living standards, a need to raise productivity, limited resources, etc. Other problems, however, are more characteristic of the less developed world: population pressures and questions of development strategy.

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64. China's declared economic goal is to transform the country into a modern, industrialized nation by the year 2000. In fact, Peking will do well to achieve a regular agricultural surplus and maintain a modest rate of industrial growth.

65. China's immense population--now estimated at over 900 million people--colors every economic problem, but especially agriculture. Over the last decade, grain production has barely managed to keep pace with population growth, despite increased emphasis on and modest success with a birth control program. Any improvement in this situation will probably have to come from increased agricultural output. The government has ambitious plans to mechanize agriculture and upgrade agricultural technology, but a major breakthrough in the near future is unlikely. China will continue to be at the mercy of the weather and, to the degree that imports are required, the international grain market. The slow growth of the agricultural sector will continue to hamper overall economic development.

66. Questions of development strategy have been sensitive in the past. The present leadership seems more willing to accept Western technology and assistance, but China will still have to--indeed wants to--rely primarily on her own resources. It had expected to finance its development through oil exports, but expanding domestic oil

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requirements and a deflated world market have burst this bubble. If resources remain limited, competition for those available may intensify between various sectors of the Chinese economy, and could contribute to strains in the leadership, particularly between civilians and military men.

67. China's workers, like those in the West, are demanding a higher standard of living. Although their basic needs are taken care of by the government, their living conditions have not improved significantly since 1949. Wages have remained virtually static despite some inflation. General economic conditions are such that any improvement is likely to be small and very gradual. In the past, workers have expressed their dissatisfaction through slowdowns or strikes. Should they resort to these tactics once again, the new leadership would probably act quickly to bring them into line, despite the risk of undermining China's claim to be a state run by the workers. While production would thus be maintained, what is really required is increased productivity. That probably will require work incentives, which the government will have trouble providing.

68. Peking, well aware of its military weaknesses, also seems committed to modernizing its armed forces. This requirement, however, conflicts with an equally high priority-- development of civilian industries. A decision apparently

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was made earlier this year to invest the bulk of China's limited resources in basic civilian industries and allow the military-related industries to follow on. Some military men had sought a higher priority for defense industries, and opposition to the decision is still present. The disagreement seems sure to rise again.

69. In any case, modernization of the armed forces is likely to take place on a piecemeal basis. The Chinese cannot afford to do more than upgrade selected components at this time. Moreover, they are reluctant to buy whole weapons systems from the West for fear that they will become dependent on foreign sources for the basics of their defense.

70. China's own scientific and technical development program is unlikely to be able to make up the difference. Scientific education programs suffered a serious setback during the Cultural Revolution, and it will be many years before new scientists can be trained to replace an aging crop of researchers. China thus is likely to find itself further behind in military technology five years from now, despite a crash development program in this field.

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### Triangular Politics

71. It is largely because of these military problems and its inability to mount an effective counter to the threat perceived from the Soviet Union, that China has strived to develop a relationship with the US as a strategic counterweight. From Peking's point of view, such a relationship reduces the possibility of success in what it sees as a Soviet effort to "encircle" and ultimately subdue China. To the degree that the Soviets must consider a US response in making strategic calculations regarding China, Peking's security is enhanced.

72. China's real leverage in such an arrangement, however, is limited. While anxious to preserve at least the image of continually improving links with the US to prompt the highest possible level of concern in Moscow, Peking's problem with the US over the Taiwan issue blurs that image somewhat. The Chinese do not, however, show an inclination to take advantage of concern in the US that Peking and Moscow might ameliorate their differences in the absence of improvement in Sino-US relations. Chinese antipathy toward the USSR has not softened since Mao's death and the purge of the leading leftists last year.

73. Nonetheless, Peking does not relish the prospect of being "a card in the game" between Washington and Moscow. In the long run, the Chinese probably will attempt to adopt

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a more balanced role in triangular politics, hoping to gain more room for maneuver and leverage vis-a-vis both superpowers. It also seems likely, however, that hostility toward the Soviet Union will remain the most prominent feature of Chinese foreign policy, suggesting that the turn toward the US will prove more a long-term strategy than a temporary expedient.

74. In addition to countering the Soviet threat, Peking is seeking from the US connection a resolution of the Taiwan problem in terms favorable to Peking as well as increased trade and advanced technology.

75. With respect to Taiwan, the Chinese are maintaining their three conditions: the US must break diplomatic relations with Taipei, withdraw all US forces from the island, and abrogate the mutual defense treaty. The Chinese contrast their inflexibility on these basic principles with their more amenable position on the actual extension of mainland control over Taiwan.

76. Peking realizes this is a long-term goal. In the near-term, it is unlikely to let disappointment over progress on the Taiwan issue threaten its overall relationship with Washington and the protection it offers vis-a-vis the Soviets.

77. Peking's interest in the United States as a trading partner, and especially a source of technology, may

be increasing. The new Chinese leaders, committed to increasing the pace of economic development, may be more willing to relax earlier strictures against credits and large-scale imports. Some of the technology the Chinese are interested in is not readily available from other suppliers. Trade, however, is not as important to Peking as the strategic and political aspects of the relationship with the United States.

78. The Chinese, of course, also view the US in an ideological context, as a capitalist power with interests basically inimical to China's. This historical assessment, however, will not get in the way of Peking's need to pursue better relations with Washington in the here and now.

#### Asian Goals

79. China's long-term goal in Asia is to create a sphere of influence in which Chinese interests, particularly security interests, can be protected and advanced. Lacking the economic and military strength to achieve this in the short run, Peking is focusing its efforts on blocking the expansion of Soviet influence in Asia while encouraging a continued US presence--military and economic--in Asia and the Western Pacific. In this sense China has become an advocate

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of the status quo in Asia, fostering good state-to-state relations with non-Communist states and in general putting less emphasis on the pursuit of ideological and revolutionary goals. China probably will pursue this approach for an extended period as it concentrates on putting its domestic house in order and on building up its economic and military strength. Such priorities argue against an adventurous policy in Asia, or for more active support to the various Southeast Asian Communist movements still responsive to Chinese guidance. Peking nevertheless places great importance on maintaining and cultivating its ties with these revolutionary movements in order to block the intrusion of Soviet or Vietnamese influence and to keep open the option of a more aggressive or subversive approach to the region.

80. Fears of Soviet inroads and of possible confrontation with the US figure prominently in China's assessment of the Korean situation. China must necessarily give strong public support to Kim Il-song's position on reunification and on the withdrawal of US military forces. Privately, however, Peking shows a desire to maintain the status quo on the peninsula and probably will continue to urge restraint on the North Koreans.

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81. Peking's relationship with Japan is heavily influenced by economic considerations, although there is the anti-Soviet aspect as well. The Chinese hope to see Japan put more distance between itself and the Soviet Union. The negotiations between Peking and Tokyo on a Peace and Friendship Treaty continue to be deadlocked over the anti-Soviet "hegemony" clause.



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Since Peking apparently is unwilling to give ground on this issue, the treaty could remain indefinitely a minor irritant in their relationship.

82. These differences over the treaty have not stood in the way of Sino-Japanese trade relations. Japan continues to be Peking's major trading partner and one of its most important sources of modern technology. Although the Chinese are interested in a long-term trade agreement, prospects for early conclusion of such an agreement are slim.

83. The emergence of Vietnam as a unified and militarily strong state represents a potential threat to Chinese ambitions in Asia, and will continue to complicate Peking's regional diplomacy. While the Chinese in the past worried that the Vietnamese might serve as agents of Soviet influence throughout the area, more recent events seem to have persuaded them that

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the Vietnamese intend to set an independent course between Peking and Moscow.

84. Peking nonetheless does not wish to see Hanoi become a rival in its own right for influence in the region. Some Southeast Asian states, fearing Vietnamese expansionism, see China as a counterweight to Vietnamese expansionism--a view which Peking has sought to encourage. The perhaps inevitable Sino-Vietnamese rivalry thus is likely to remain a prominent feature of the Southeast Asian scene.

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IV. PRESSURES FROM THE DEVELOPING COUNTRIES

1. The new significance of relations between the developed and developing countries has been a principal contributing cause of the complexity and uncertainty so evident in today's international environment. As we have seen, this complexity reflects the many interconnections between North-South relations and the management of such global problems as energy supplies, nuclear proliferation, and human rights. We have also noted the strains that LDC pressures can place on harmonious relations among the advanced countries because of the varying degrees of vulnerability to these pressures among the industrial democracies. Issues between the developed and developing nations thus not only represent an important part of the international agenda in their own right, but have a significant role in shaping the character of US relations with traditional allies, adversaries, and key Third World nations.

2. A number of international trends have combined in recent years to give new prominence and greater impact to North-South relations--multilateral and bilateral alike. Among these are the growing power of the oil producers' cartel

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and the sharpened sensitivity of the industrial nations to their dependence on oil and raw materials; the accumulating wealth and regional influence of 'upper tier' LDCs, such as Brazil and Iran; and the assertiveness of LDCs generally in demanding major reforms of the international political and economic order.

3. The 'North-South dialogue' per se is but one part of this complex set of relationships. Individual LDCs have key interests regarding US relations that either lie outside of, or are distorted by, the global issues addressed in various North-South forums. Similarly, the US has important interests with individual countries and blocs of LDCs that are difficult to address with North-South initiatives, even those that strive to be comprehensive.

4. In this section we attempt to illuminate some of these complexities, and to clarify the basic forces and trends that will affect US interests and initiatives in the global arena over the next year or so.

#### Current Trends

5. The atmosphere of North-South relations has undergone a gradual change over the past year or so. The outcome of the Conference on International Economic Cooperation (CIEC) in June

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1977 confirmed that a spirit of accommodation between LDCs and industrialized states--a searching for practical solutions through give-and-take bargaining--now prevails. Virtually all participants preferred to compromise on various aspects of the final agreement rather than risk a breakdown of the North-South dialogue and a regression to the sense of confrontation that characterized the 1974-75 period.

6. The industrialized states conceded on some points at the conference not only because of direct economic and political pressure, but also because most did not want deteriorating relations with the LDCs over economic issues to restrict their freedom of action in other areas of foreign policy. (France, for example, supports many LDC demands in order to maintain a degree of influence in francophone Africa.)

7. Most of the industrialized states considered the conference a qualified success because the concessions necessary to avoid a confrontation were not perceived as too costly. The concern they expressed over the failure to establish a continuing energy dialogue reflected disappointment over the *outcome* of the bargaining process. No industrialized state questioned the *need* to bargain with the LDCs.

8. The reaction of the developing nations also suggests general satisfaction with the improved climate of the talks if

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not with the specific outcome of the negotiations. They seem to accept the notion that relations with the industrial nations are evolving into a genuine bargaining process, and are developing sense of pragmatism about how much multilateral negotiations with the industrialized countries can actually achieve. Many now acknowledge, for example, that the "New International Economic Order" is unrealistically demanding and that continued insistence on it might jeopardize what gains are possible. Moreover, most of the LDCs appear to recognize that bloc solidarity is limited by the clash of national economic interests over such key issues as the Integrated Program on Commodities and automatic debt-relief schemes.

9. Another cause of this retreat from the tactics of confrontation is the preoccupation of certain key "radicals" (for example, Algeria) with domestic and regional problems, and with changes in administration (for example, Mexico and Pakistan). The so-called radicals--like most LDCs--are still interested in changes in the international economic order, but for the moment they appear to accord a lower priority than previously to aggressive tactics to force systemic change. Their reduced profile has given the more moderate LDCs, who have consistently favored a more conciliatory approach to economic negotiations, a stronger leadership role in LDC caucuses.

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10. Despite this trend toward accommodation on economic issues, a major gap remains between what the LDCs are demanding and what the industrialized countries are willing or able to grant. Partly because of reduced tensions in economic negotiations, LDC demands for a redistribution of political (that is, decisionmaking) power in the international system are likely to become more prominent.

11. These political demands have always been part of the set of issues in contention between the LDCs as a bloc and the industrialized nations. They grow out of a conviction that the international economic system established by the industrial democracies after World War II is unfairly dominated by those states, not only in their ability to extract economic benefits but also to the degree that they can restrict LDC prospects for greater wealth and influence through their control of the rules, institutions, and procedures of the system.

12. The US is likely to find LDC demands for multilateral negotiations aimed at increasing their decisionmaking role in international institutions even more difficult to cope with than the purely economic demands that have until now been at the center of the North-South dialogue. One problem will be finding common ground with other industrialized nations on how to deal with a challenge to their collective political authority.

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The problem is further complicated by major divergences among the LDCs over priorities for changing the international system.

Conflicting Interests

13. The development of a coherent policy toward the LDCs is still further complicated by the fact that the US has a wide range of interests that engage the LDCs but do not directly involve the kinds of systemic economic or political change most LDCs are demanding. This array of interests includes traditional economic concerns (for example, maintenance of alliances or special security relationships) that are essentially bilateral-- at most regional. But it also includes issues rooted in deeply felt US values, such as efforts to promote human rights and to curb nuclear proliferation, which are worldwide in scope.

14. Thus US policy toward developing countries must deal with a mix of country and global issues, on one hand, and the North-South issues of systemic change, on the other. The tailoring of policies for individual countries, or groups of likeminded countries, is made more complex by the numerous conflicts that occur within and between these foreign policy dimensions. Three trends in particular have emerged which are likely to further confuse the foreign policy environment over the next year or so.

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15. First, LDCs have a tendency to interpret many US policies toward them as related directly to the issue of the international distribution of wealth and authority, even though, from the US viewpoint, the policies are not directly linked to North-South politics. Thus, while the US pursues on their own merits policies that promote human rights and discourage arms transfers and nuclear proliferation, many of the countries most affected by these US initiatives perceive them as having an immediate impact on (and even as deliberately intended to affect adversely) their security and their prospects for greater growth and prestige. Brazil, for example, sees US efforts to block its nuclear agreement with West Germany, which includes the sale of sensitive technology, as a deliberate attempt to prevent Brazil from acquiring a critically needed energy source and one of the attributes of major power status. US refusal to sell advanced aircraft to Ecuador, in line with a global policy of cutting back on conventional arms sales where possible, is perceived in that country as harmful to Ecuador's security in view of neighboring Peru's ability to acquire arms from the USSR. Indonesia and the Phillipines have shown similar concern over our efforts to limit arms transfers. The problem becomes even more complicated in the case of these two countries because of the US policy of linking arms sales to a reduction in human

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rights abuses there. A further difficulty occurs in relations with South Korea and Pakistan, both of which have pressing security problems but are prevented by the US nuclear nonproliferation policy from obtaining weapons-applicable nuclear technology that could offset the limitations on acquiring conventional arms.

16. The second trend derives from the fact that different groups of developing countries want different kinds of changes in the international system and that, as bargaining becomes more specific, these differences are becoming sharper. Consequently, each US policy on a North-South issue will address the concerns of only certain countries. It will often leave other groups unaffected (and uninterested); it might also be perceived as adversely affecting them. To illustrate: a US-sponsored effort to satisfy the basic needs of the world's poor would address the concerns primarily of those countries seeking essentially economic--as opposed to political--change. It would not meet the interests of those LDCs that have an equal or greater desire for a redistribution of *power* in the international system. Such a basic human needs policy might in fact be perceived by some of these more developed LDCs as threatening to their political stability and inimical to their

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economic development strategy, to the extent that their strategy featured deliberate reconcentration of income to foster investment.

17. Finally, the potential for splits among the industrial countries on noneconomic issues appears to be growing despite the degree of agreement on how to deal with North-South economic issues at the conference in June. The US and its OECD allies, for example, have different perspectives on the consequences of a serious deterioration of relations with the LDCs. The governments of the West European countries and Japan see their economies as far more sensitive to the loss of markets or supplies of raw materials procured from the LDCs. Special European political and economic relationships with the LDCs, dating back to the colonial era, are also a factor. Public opinion, moreover, in some West European states (for example, the Netherlands, Norway, Sweden) is oriented more toward responsiveness to LDC demands than is the case in the US.

18. These differences provide some basis for potentially serious policy disagreements between the US and other industrialized nations. As we have seen, certain West European countries such as Germany and France would place fewer limitations on the sale of sensitive nuclear facilities or conventional arms to LDCs than would the US. They are also less inclined to try to force changes in human rights practices by levying economic

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sanctions against important trading partners. In these and similar matters affecting their relations with the LDCs, each industrialized nation is under pressure to develop specific sets of policies that will best serve its perceived interests. Consequently, as a wider range of issues enters the negotiation stage between North and South, the negotiating freedom of the US will increasingly be constrained by the more explicit concerns and policies of its industrialized allies.

#### Outlook

19. Major differences clearly will persist between and among the industrialized and the developing states, despite the current atmosphere of accommodation in multilateral economic negotiations. Movement toward broadly accepted compromises will be slow in talks in the various technical economic forums (for example, the common fund negotiations, Multilateral Trade Negotiations, the IMF) that will be addressing LDCs in the coming months. Eventually, the patience of the developing nations will start to wear thin. They will probably not return to full-scale confrontation, however, unless they conclude that the industrial countries are no longer bargaining in good faith. Thus while relatively harmonious relations on

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multilateral economic issues will continue, at least in the near future, North-South tensions will begin to rise thereafter in the absence of substantial movement toward meeting LDC demands.

20. Other developments could also lead to an overall deterioration in the atmosphere of relations with the developing nations. Political and security issues, always a part of the pattern of relations between industrialized and developing countries, are likely to get more attention from both the LDCs and the US, particularly as long as the process of negotiation on economic issues continues on track. Moreover, if developments in such areas as the Middle East, Southern Africa and Latin America evolve along current lines, attention will be focused even more intensively on political issues. Increased tensions in the Middle East and Southern Africa, for example, would pit most of the LDCs against most of the industrialized states. Similarly, the buildup in Latin America of strong sentiment against the US is not hard to imagine if Congress fails to endorse a new Panama Canal Treaty. Under such circumstances, it could be difficult--if not impossible--to maintain the fragile atmosphere of accommodation that now exists due to US multilateral initiatives toward the LDCs.

21. The potential for new tensions is also likely to be heightened by the efforts of the developing countries to exercise

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what they perceive to be their new bargaining leverage. In multilateral forums this is likely to show up in the UN General Assembly, especially on such issues as the Middle East and Korea; in the Security Council on Southern Africa as well as the Middle East; in the struggle for control over the future role of the International Atomic Energy Agency; in the negotiations of the Conference of the Committee on Disarmament; in the preparations for the UN Conference on Science and Technology; and in the controversy surrounding the US decision on whether to stay in the International Labor Organization.

22. Efforts to exert new leverage on the US are also likely in bilateral relations, when, for example, Mexico makes decisions on oil and gas sales to the US and the Philippines enters into negotiations on the base rights issue. It will be in this bilateral arena, in particular, that the LDCs' sense of increased bargaining power will conflict with the kinds of demands that the industrialized states, including the US, will be making in exchange for taking LDC economic demands seriously. As noted earlier, polarization often develops over such issues as energy supplies and human rights because they are interpreted as raising questions of sovereignty and political control.

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23. For the US, the level of tension in North-South relations could ultimately pose a challenge to its traditional leadership role among the industrial countries. The political, economic, and security objectives of the non-Communist industrial states are all interrelated; frictions caused by a clash of purposes in one area affects the prospects for consensus and cohesion on the others. There are limits to what the US can do to protect the economic security of Europe and Japan against the threats posed by concerted LDC actions to link concessions on their demands to assurances of stable sources of raw materials. Under certain conditions and during particular crises, then, Europe and Japan may perceive that the risks of associating with the US outweigh the gains.

24. So far, Moscow and Peking have derived little direct political benefit from the tensions in North-South relations. But should these tensions lead to sharper differences in view among the Western powers and Japan over such issues as how to secure stable sources of raw materials, burden-sharing in the defense field, the role of tariffs and other barriers to trade, or the kind of restrictions that ought to be set on the export of technology, the impact of such discord on established conceptions of mutual security could redound to Soviet (and, to a lesser extent Chinese) advantage. In such an event,

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Communist leaders might be tempted to increase their support of radical LDC spokesmen, in order to promote even greater tension in North-South relations of the sort that would amplify the differences among the industrial countries.