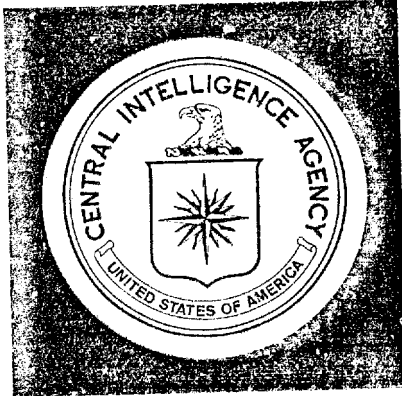


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Research Study

The Dynamics of "Small State" Leverage: Implications for North-South Relations

MORI/CDF

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August 1976

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CENTRAL INTELLIGENCE AGENCY
DIRECTORATE OF INTELLIGENCE
OFFICE OF POLITICAL RESEARCH

August 1976

THE DYNAMICS OF "SMALL-STATE" LEVERAGE:
IMPLICATIONS FOR NORTH-SOUTH RELATIONS

by

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NOTE: Representatives of the Office of Economic Research and the Office of Current Intelligence made valuable suggestions and comments which helped shape the basic analysis of this study and are in general agreement with its key conclusions.

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FOREWORD

During the past several years, relations between the developing countries and the industrial powers have been characterized by growing uncertainty and tension. North-South problems are increasingly competing for attention with the more traditional East-West security issues, and with the political and economic issues affecting relationships among the non-communist industrial states.

To what extent will the demands of the developing states for far-reaching changes in the distribution of economic wealth and political power impinge on US interests directly? And to what extent will reverberations from these demands affect US relations with the other industrial powers? If for no other reason, these questions have become more salient because of the potential impact on the prosperity of non-communist industrial nations, and on amicable relations among them, of the recent growth of the economic power and political leverage of oil-exporting states.

OPR has already addressed the political implications of several specific issues in contention between North and South in a series of papers published during 1974-1975.* The present study attempts to establish a more general analytical framework for assessing recent and prospective trends in North-South relations. It examines the uses and limits of small state leverage; i.e., the influence weak states attempt to gain over major powers by exploiting the latter's dependence in the areas of resources,

* For example: "Law of the Sea: Issues and Implications," OPR-3, April 1974, CONFIDENTIAL; "The United Nations: Problems and Potential," September 1974, OFFICIAL USE ONLY; "The Political Implications of Modernization: The Brazilian Case," OPR-407, September 1975; "Managing Nuclear Proliferation: The Politics of Limited Choice," OPR-408, December 1975, SECRET

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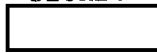
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security concerns, and international politics generally. The study assesses the attempts of the less developed countries (LDCs) to use the leverage of their control of oil and other resources needed by the industrial states to achieve a "New International Economic Order" (NIEO), the consequences of the success or failure of the effort for North-South relations, and the implications for the US.

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KEY JUDGMENTS

The Arab oil embargo and the OPEC experience have stimulated greater assertiveness by the developing countries on issues relating to their individual and bloc-wide economic interests. LDC leaders were also initially optimistic about the benefits they could achieve by using control of oil and other natural resources as a political instrument. They saw resource leverage as a means of focusing the attention of the industrial countries on the demands of LDCs for greater control over and profit from their resources, increased, less "demeaning" economic assistance, and greater influence over the decisions of international economic institutions. And they saw a "common cause" alliance developing between the oil-producing states and other developing countries that would induce the industrialized nations to be forthcoming. Thus, by 1974, the developing countries en bloc were calling for the creation of a "New International Economic Order" (NIEO) in which their problems would receive priority attention and over which they would have a major influence.

But the increasing assertiveness of LDCs as a bloc must be viewed against the background of the concern many LDC spokesmen evince about the costs and risks associated with using resource leverage and the confrontation this generates to achieve an NIEO. These spokesmen indicate a sensitivity to the limits of small state leverage especially over the long term, underscored for them by the ability of the industrial nations during 1975-1976 to offset in good measure what during 1973-1974 appeared to most LDCs to be the enormous political leverage of the oil-exporting countries.

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Among the specific concerns expressed by various LDC spokesmen, are the following:

- The leverage of oil is unique, and the immediate political successes achieved by the embargo are unlikely to be duplicated in a struggle for an NIEO.
- LDC calls for confrontation will cause industrialized countries to search for greater security of supplies for key resources. Since this would stimulate a more vigorous pursuit of alternative sources of supply, substitutes, and stockpiles of commodities for bargaining purposes, individual LDCs and members of cartels run the risk not only of diminished leverage but also of reduced markets.
- This prospect and other initiatives by the industrial countries, as well as fundamental differences among the non-industrial states, would accentuate dissension among the LDCs (e.g., as between the oil-rich and oil-poor), and undercut the cooperation needed to make pressure tactics effective in North-South relations.
- Too blatant a pursuit of LDC bloc tactics in such organizations as the UN (e.g., the PLO issue and the vote on Zionism) could cause the US and other developed countries to reduce further their participation in UN programs of particular benefit to the LDCs.

In sum, there is concern among a growing number of LDCs that too militant a stance on North-South issues, instead of making the industrial countries more forthcoming, may cause them to harden their positions in multilateral negotiations on economic issues of paramount importance to the LDCs.

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The basic tension among LDCs--between impulses toward confrontation and recognition of the need for moderation in North-South relations--is bound to continue over the next several years. The actual course of future LDC strategy and tactics will be determined as much by the actions of the industrial states as by power politics within the LDC camp. Clear signals by the industrial powers as to which NIEO issues are open to cooperative North-South action and in which forums meaningful negotiation can occur would probably encourage moderation and help to prevent the emergence of a united LDC front favoring confrontation. Continued efforts on the part of the individual industrial countries to secure essential supplies through bilateral arrangements (e.g., technology for oil) would also serve these ends. In short, the manifest divisions and other weaknesses of the LDCs en bloc will tend to work against strong and united confrontational efforts to achieve an NIEO. And even if the latter were employed, the overall strength of the industrial democracies would be sufficient to contain and deflect pressures at least for the next several years.

But it is important to note that even a diminution of the level of confrontation associated with the NIEO would still leave the basic problems between North and South on the foreign policy agenda. To the extent that the industrial countries remain dependent on the LDCs--for supplies and markets, for international stability, and for cooperation in addressing such global issues as control of nuclear proliferation and terrorism, protection of the environment, law of the seas, and the security of investments abroad--the largely intractable problems of the poor nations will continue to affect the rich.

In a sense, then, the very weakness of most of the LDCs may provide a compelling reason for the industrial democracies to continue to respond to the issues and demands inherent in the NIEO concept.

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In an era of growing dependence among nations and links between international problems, the trade-off North-South relations involves for the industrial democracies is between exercising their power to deflect "inconvenient" LDC demands in the short term and the need to promote the stability of the international system over the long run. US interests may not often be directly damaged to any serious extent either by persistent North-South acrimony or by an increase in domestic radicalism and instability among LDCs. But such developments would place strains on the other industrial democracies (who are much more dependent upon stable relations with supplier countries), and this could, in turn, affect their relations with the US. Such developments could also provide opportunities for adventure to the communist powers, especially the USSR, who are much less constrained than the US or its allies by the accommodations that interdependence appears to require between the developing and the industrial states. Thus regardless of the level of confrontation or cooperation in North-South relations, the long term significance of North-South problems may lie primarily in their potential linkage to conflicts and tensions among the industrial democracies and between them and the communist world.

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THE DISCUSSION

INTRODUCTION

Throughout the 1950s and 1960s, the significance of small states in international affairs was apparent in the relationships that certain developing countries achieved with the great powers because of the Cold War. To appreciate the impact of the leverage of such states, one need only recall how both Vietnams and both Koreas exploited the concerns of their great power patrons with the regional and global implications of local conflicts to gain aid or to influence the terms on which such conflicts were to be fought or ended. Moreover, small states generally sought a host of benefits from the US and the USSR in return for their votes at the UN on the China question and other major issues. UNCLASS.

In the 1970s, the ability of key developing countries to influence international affairs has been facilitated by (and has contributed to) the rise in salience of international economic issues. In particular, the heightened awareness of the dependence of industrial nations on the oil and other natural resources of the LDCs, the willingness of some LDCs to link this dependence to contentious international political issues, and the interdependence in trade and monetary affairs of non-communist nations generally have increasingly politicized international economic relations. UNCLASS.

Today, questions that previously turned on rather technical deliberations among economists (e.g., exchange rates, IMF drawing rights) are international political issues. This, in turn, has affected both the type of issues and the degree of complexity with which US foreign policy has to deal. As Secretary Kissinger put it in terms that represent an attempt to define the "new agenda" these developments have created for foreign policy: UNCLASS

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The traditional agenda of international affairs-- the balance among major powers, the security of nations--no longer defines our perils or our possibilities.... Now we are entering a new era. Old international patterns are crumbling; old slogans are unconstructive; old solutions are unavailing. The world has become interdependent in economics, in communications, in human aspirations.... [Consequently,] a new and unprecedented kind of issue has emerged. The problems of energy, resources, environment, populations, the uses of space and the seas rank with questions of military security, ideology and territorial rivalry which have traditionally made up the diplomatic agenda.* UNCLASS

In essence, global economic problems and the heightened sense of the interdependence of nations they have caused have made decisions about security and diplomacy more complex, and the application of military power and other forms of influence in international relations more uncertain. At the same time, as the economic dependencies of industrialized states have become especially significant to their foreign relations and domestic well-being, the use of leverage by small states in international affairs has tended to polarize international economic relations along North-South lines.** *Uncl*

* "Toward a New National Partnership," address in Los Angeles, 24 January 1975. For an indication of the degree to which the "new agenda" has been recognized throughout the industrial world, see Helmut Schmidt, "The Struggle for the World Product," Foreign Affairs, 52 (April 1974), pp. 437-451; Thierry de Montbrial, "For a New World Economic Order," Ibid, 54 (October 1975), pp. 61-78.

** The North-South dichotomy is used in this study to distinguish the non-communist industrial states (the "North") from the LDCs of Asia, Africa, and Latin America (the "South"). Some LDC observers, in contrast, include the USSR and other communist industrial states in their references to the "North".

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The sections that follow first set out an analytical framework for assessing the uses and limits of small state leverage. This framework is then applied to an analysis of how developing countries have used their economic power to influence major powers in the 1970s and how such leverage is likely to affect the course of North-South relations. The concluding section discusses the significance of leverage and North-South issues in international affairs over the next three to five years. *unless*

ANALYTICAL FRAMEWORK: LEVERAGE IN SMALL STATE-
GREAT POWER RELATIONS

The object of leverage in international relations is influence. Leverage refers to the influence one state gains over another by exploiting the latter's diplomatic, economic, and security-related dependence. Strong states usually prevail over the weak by employing some combination of leverage and superior military, economic, and political power. But under certain circumstances, small states can exercise influence disproportionate to their actual power in relationships with stronger states by exploiting the latter's dependence on natural resources, access to a strategic location, loyalty against a common adversary, or cooperation on some common goal. *unless*

Historically, wars or international crises stemming from great power rivalries, changes in the alignments of great powers, their expansion into new territories, and the need for raw materials generated by industrial growth have all contributed to small state leverage in international affairs.* In the 1950s and 1960s, for example, small state-great power relations were largely seen by the latter in terms of their own strategic rivalries. *unless*

* These are the prominent themes emerging from most analyses of "small states" in international relations. See, for example, George Liska, Alliances and the Third World (Baltimore: Johns Hopkins Press, 1968); Robert E. Osgood, Alliances and American Foreign Policy (Baltimore: Johns Hopkins Press, 1968); Robert L. Rothstein, Alliances and Small Powers (New York: Columbia University Press, 1968); and David Vital, The Inequality of States (New York: Oxford University Press, 1967).

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The Cold War thus gave small states opportunities to exercise leverage because of great power dependence on them as surrogates in regional and global struggles for influence (e.g., the USSR and Cuba, the US and Latin America generally). *W. J. H. S.*

The effective--and certainly the continuous--use of leverage by small states is relatively rare, however, because the dependence of a great power is a necessary rather than a sufficient requisite for influence. In politics as in physics leverage depends on the amount of force that can be brought to bear in attempting to move an object, and the forces (e.g., inertia and gravity) that keep the object where it is in the first place. In international politics the leverage that a weaker state can achieve over a stronger state rests on the means it has to exert influence (i.e., some form of asymmetrical dependence), the incentives and means the latter has to resist such pressures, and the importance each state attaches to the relationship. *W. J. H. S.*

How readily a specific issue in dispute can be linked to other international problems and relationships acts as a fulcrum which can multiply the smaller state's power and can cause the stronger state to accede to the weaker state's basic demand. *W. J. H. S.*

Using leverage, and sustaining its impact over time, is thus a complex process. But we do know in general terms what has traditionally been required for success. The dependence must be clear, vital, and unlikely to change over the period of time (e.g., a war, a UN session) the party doing the influencing believes will be required to achieve its goals. The party to be influenced must attach such a high value to the relationship, usually because of linkages to other international concerns, that an abrupt change in it--ranging from terminating the relationship altogether to changing its need for the resources or factor that has made it vulnerable--would be unlikely. *W. J. H. S.*

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The considerations highlighted in Chart I summarize those consistently identified as key concerns of the weaker party or "actor" using leverage. They are drawn from a review of studies done by historians on international negotiations, by political scientists on the nature of bargaining, by economists on game theory and labor mediation, and by psychologists on determining how individuals weigh the risks of trying to influence other individuals. These studies show that the weaker "actor" (i.e., a state, labor union or individual) tends to assess leverage from basically a cost-benefit point of view.* For the tensions or confrontations in the relationship that using leverage could generate may outweigh or even vitiate any immediate gain. The implication of this finding is that even when one state clearly possesses an advantage because of another's dependence on it, the exploitation of that advantage normally involves assessing the costs of doing so. *unclass*

The fact that costs enter into the calculation by small states of their leverage is enormously significant for the countries that are its target. While such countries may not be able to regulate their dependence unilaterally, they can control what appears to others to be the costs of exploiting it. *unclass*

It is because of the salience of the cost factor that stronger states have the power to check small state leverage, especially over time. Simply put, a great power can pay costs to

* Among the studies which point this out--and are now considered classics on negotiation and bargaining strategies--are: Thomas C. Schelling, "An Essay on Bargaining," The American Economic Review XLVI (June 1956), pp. 281-306; Chamberlain and Kuhn, Collective Bargaining (N. Y.: McGraw Hill, 1965); Chester L. Karrass, The Negotiating Game (New York: World, 1970); D. Ellsberg, "The Theory and Practice of Blackmail," RAND Corporation P-3883 (July 1968); K. E. Boulding, Conflict and Defense (New York: Harper and Row, 1962); and Roger Fisher, International Conflict for Beginners (New York: Harper and Row, 1970).

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CHART I

CALCULUS OF LEVERAGE: KEY CONSIDERATIONS FOR
THE WEAKER "ACTOR"

Do I have any leverage:

Can I afford to use it?

--Is there a dependence in our relationship I can exploit?

--Am I willing to suffer the consequences of hostility in our relationship or its termination?

--Is our relationship more important to the party I wish to influence than what I am specifically demanding?

--Will my use of leverage this time prejudice other demands I might make later?

--Can I link my basic demands to issues and/or other relationships that affect the security and well-being of the party I wish to influence?

--Can I use my leverage without adversely affecting the other relationships I maintain?

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achieve its will that a small state generally cannot (e.g., by seeking alternative sources of supply or political support). And the small state's perception of the willingness of the great power to pay such costs, in effect, largely determines the uses and limits of small state leverage. *Wilson*

In applying the analytical framework developed above to North-South relations today, then, two questions should be of central concern: *Wilson*

--what are the levers at work?

--what are the perceived costs of using them? *Wilson*

LEVERAGE AND ITS LIMITS IN NORTH-SOUTH RELATIONS

The Role of Leverage in the North-South Dialogue

From an LDC perspective, the importance accorded North-South issues today is a direct result of the use of oil as a political weapon by the Arab states. Prior to 1973, most leaders in the developing world believed that LDCs substantially lacked the capacity to act effectively as a bloc in pressing for fundamental changes in the international economic system. Most had become frustrated, moreover, at the results of appealing for aid on the (demeaning) grounds of their dependence and vulnerability and the virtue and humanitarianism of the developed countries. *Wilson*

The 1973-1974 Arab oil embargo dramatically altered these perceptions. For, as the noted Kenyan scholar and "Third World" spokesman Ali Mazrui observed in terms that summarize much of the writing in this vein: *Wilson*

while...military factors were quite fundamental to the Middle East itself, it was the economic war waged

* A detailed review of these perceptions is presented in Branislav Gosovic, UNCTAD: Conflict and Compromise (Leiden: A. W. Sijthoff, 1972).

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by the Arabs that fired the imagination of the developing countries. From the point of view of the rest of Asia, Africa, and the Middle East, it was neither the tank battle in the Sinai nor the air battle over the Golan Heights that was basic to their own destiny. Rather, it was the utilization of oil as a political weapon, with all its implications for relations between the affluent industrial world and the primary producers of the Southern hemisphere.* *in last*

Inspired by the status and influence the Arab oil states achieved through the embargo and that which the oil exporting countries generally achieved through increasing oil prices, LDCs individually and as a bloc pressed with new confidence demands for substantial improvements in the terms of trade and in the flow of technology and development resources between North and South. They did so believing that the new-found vulnerabilities the energy dependence of the industrial states had created would induce the latter to make the concessions essential to restructuring international economic relations more to the favor of developing countries. The 1973 embargo, of course, was not declared for the purpose of achieving a new world economic order, but it did prove to be the catalyst for such a demand in 1974.

*unclassified;
under review
by State
Department*

This demand came in the form of a "Declaration and Action Programme for the Establishment of a New International Economic Order" (NIEO; see page 17) that the LDC "Group of 77" presented at the Sixth Special Session of the UN General Assembly (May 1974).

* Ali Mazrui, "The New Interdependence," in Guy Erb and V. Kallab, Beyond Dependency: The Developing World Speaks Out (Washington: Overseas Development Council, 1975), p. 41. See also the findings in CIA, OPR Memorandum, The United Nations: Problems Continue, Potential Erodes, 11 February 1975, especially p. 5-8, OFFICIAL USE ONLY and CIA, OCI Intelligence Memorandum, Latin America's Changing Foreign Relations, 29 December 1975, p. 5, CONFIDENTIAL.

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What was new about NIEO was the explicit demand it embodied for full and equal participation of LDCs as a bloc in all decisions affecting future international economic relations. What was controversial about the declaration was the specific principles on which it proposed that the international economic system should henceforth be based. For example, the declaration sought to establish that a nation had the sovereign right to nationalize its resources according to its own laws (and at the level of compensation specified in those laws), that an international code of conduct should be established to regulate multinational corporations, and that the export prices LDCs received for their commodities should be substantially increased relative to the costs of their essential imports. These principles were designed to assure LDCs substantial and relatively permanent improvements in their terms of trade with industrial states, thus reducing the extent to which the process of development was dependent on the latters' benevolence or on market forces beyond the control of the LDCs. *W-class*

While the call for NIEO and the LDC contention that control of natural resources constitutes leverage over the industrial nations have increased the attention paid to LDC demands, the actual accommodation to these demands on the part of most industrial countries has been slow in coming. Shortly after the Sixth Special Session, for example, the negotiations over a Charter of Economic Rights and Duties of States, begun in 1972 under the auspices of UNCTAD, broke down as developed countries reacted to the NIEO-related principles underlying the charter. The result in December 1974 was a document that nearly every industrial country either abstained from approving or voted against. *W-class*

And at times LDC gains have been more apparent than real. In February 1975, after 18 months of negotiations between the European Community (EC) and the 46 African, Caribbean, and Pacific States (ACP) associated with it, the former "acceded" to the terms that made the pathbreaking Lome Convention possible. This convention institutionalized, among other things, a system

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of trade preferences and commodity price stabilization (through a compensatory financing scheme known as "STABEX"). Observers of the negotiations that led to the Lome agreement point out that EC concessions came as a result of the perceptions that after the oil embargo special relationships with raw materials producers were essential and that the cohesion of the ACP nations was clearly on the increase.* However, the ACP states have already been critical of some EC states for acting in disregard of the principles they thought the latter had "conceded." *W. J. Lee*

But on the whole, throughout 1974 and most of 1975, LDCs were buoyed by the attention industrial countries were giving to their demands; thus their assertiveness increased. The net effect of this was, as Secretary Kissinger recently put it, that "tactics of pressure [including threats to use resource leverage] and an emphasis on rhetorical victories at conferences....created an atmosphere of confrontation."** The NIEO program, moreover, politicized the work of the multilateral institutions where international trade and monetary problems were being discussed (e.g., IMF, IBRD, the Paris Conference on International Economic Cooperation [CIEC]), as well as bilateral foreign relations between industrial and developing states. And, as the recently-concluded meeting of UNCTAD IV (May-June 1976) suggested, while US responsiveness and proposals have helped to ease tensions and narrow the list of outstanding issues, most of the fundamental differences in point of view between North and South remain unresolved. The UNCTAD meeting also underscored fundamental differences in interest and approach within each camp. This was especially the case among LDCs. While they were able to preserve outward unity, their differences in economic policies and political philosophies revealed some profound divisions in their approaches to key NIEO issues (see page 19).

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"Multilateralism"
Members of Program
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IMB, "Chairman/Producer
Talks Fail," 22 Apr 75
Cof*

* Details of the negotiating process can be found in Isebill V. Gruhn, "The Lome Convention: Inching Towards Interdependence," International Organization 30 (Spring 1976), pp. 241-262.
** "The Western Alliance: Peace and Moral Purpose," address at the International Institute for Strategic Studies, 25 June 1976.

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NIEO: THE LDC PERSPECTIVE

LDC interest in a so-called new international economic order dates back to the 1950s. The NIEO declaration per se was "adopted" (i.e., without a formal vote) at the Sixth Special Session of the UN (April-May 1974). The objections of the industrial nations took the form of some 200 reservations to the text. ~~UN Doc~~

Subsequent meetings of LDCs (Dakar, February 1975; Lima, March, August 1975; and Manila, January-February 1976) have codified the original NIEO Declaration into a symbolic blueprint for restructuring international economic relations so that the gap between the rich and the poor countries could be narrowed, and the plight of the latter ameliorated through more favorable terms of trade, development assistance, and technology transfer between North and South. Such change is increasingly warranted, NIEO advocates contend, because since 1970 the world economy has been subject to a series of crises (e.g., the Arab oil embargo, the world-wide recession) that have been particularly costly to the developing countries and especially to their plans for rapid and steady economic growth. At the same time, these crises have created greater influence for some LDCs and made the increased participation of LDCs in the multilateral diplomacy of international economic relations essential to international stability. ~~UN Doc~~

The NIEO Declaration of 1974, and such subsequent LDC documents as the Manila Declaration and Programme of Action issued in February 1976, represent a set of maximum demands, designed to appeal to as many LDCs as possible. Many demands are congruent with the development philosophies of the industrialized countries, and throughout the 1960s were widely accepted in the UN system as objectives of the Second Development Decade. These include special assistance to the poorest LDCs and encouragement of technological transfer and technical assistance. Other demands, however, represent fundamental differences in outlook between North and South over what accounts for the poverty of the LDCs and what remedies ought to be adopted. Those that have proved most contentious are either redistributive in character or challenge the equity of the present international economic system. ~~UN Doc~~

In the area of trade LDCs call for the implementation of an "integrated program" on commodities. This program would assure stable and much more favorable terms of trade for developing countries.

It would provide basic price support to LDC exports through, inter alia, an index linking the price of a commodity to a "market basket" of imported manufactured goods essential for development, an international fund to finance LDC export shortfalls, and the negotiation of medium-to-long-term multilateral trade contracts between producers and consumers that would guarantee the supply of a particular commodity in return for a substantial increase in its price. NIEO demands also call for the industrial countries to remove all tariff and non-tariff barriers to trade on a preferential and non-reciprocal basis for LDC exports. ~~Under~~

In the aid area, the NIEO program calls for the developed countries to provide official development assistance at least at the level of 0.7 percent of GNP and for a re-scheduling or cancellation of LDC debt. ~~Under~~

Through an NIEO, LDCs are also attempting to establish their greater control of foreign investment, and have called for an international code of conduct for transnational corporations that would materially benefit host countries. But the code is to be policed and enforced by the governments of the industrial countries themselves. The NIEO program also seeks to abrogate traditional legal procedures for the expropriation of foreign investment in favor of those which leave the issue of compensation entirely up to the host country as an extension of its sovereignty over natural resources. ~~Under~~

Finally, the LDCs seek to change the rules of the international monetary system in two important respects: LDCs would be afforded substantially increased influence over decision-making in such institutions as the IMF, IBRD, and the GATT, and LDCs would be given access to SDRs far in excess of that provided for under current IMF rules. ~~Under~~

While most LDC sponsors admit that the details of each of these demands are debatable, from their viewpoint in 1974 and 1975 the need for an NIEO was not. For the NIEO demands represent an integrated program designed to change the basis of economic relations between North and South. And its legitimacy in the Third World stems from the highly political premise that the present system is inherently unjust and that its continued maintenance, rather than its fundamental transformation along NIEO lines, is what will prove most threatening to international stability and the prosperity of the industrial nations. ~~Under~~

LDC DIFFERENCES ON NIEO ISSUES

While the LDCs were able to maintain a common front in the preparations for the UNCTAD meeting in Nairobi in May 1976, their discussions with the industrial nations underscored the differences in status, outlook and objectives among LDCs toward NIEO issues. *in des.*

One and three-quarter billion people live in the 114 LDCs. Of this number, roughly a third (620 million) live in some 24 countries that are either resource-rich (e.g., the OPEC states, Zaire, Zambia, Jamaica, Morocco, Malaysia) or have reached a level of development and possess the human resources essential to attracting foreign investment (e.g., Taiwan, Singapore, South Korea, Mexico, Brazil). The basic objective of these states is to maximize revenue from the sale of their resources and to secure access to stable sources of commercial capital and technology in the industrial world. *in des.*

Roughly one-half (930 million) of the inhabitants of the developing world live in some 72 countries that have only some of the ingredients necessary for economic growth and development. These countries (e.g., Peru, Jordan, Liberia, Thailand) seek trading preferences, technical assistance, and government-sponsored, "soft" development loans from the industrial world. Finally, nearly 200 million people live in extremely poor countries that basically lack any resources to sustain economic growth. These countries (e.g., Bangladesh, Ethiopia, Laos) are virtually wholly dependent on external assistance to underwrite their economies. *in des.*

If the future shape of international economic relations is to be determined through negotiation, compromise, and accommodation between North and South, then the priorities that each grouping of LDCs assigns to particular NIEO demands will differ. After UNCTAD IV, especially, some of the potential differences among LDCs on key North-South issues have come into sharper focus. *in des.*

Trade: LDC spokesmen have tended to regard the resolution passed at UNCTAD IV on an integrated program and common fund for commodities as a watershed; i.e., it calls for preparatory negotiations on the implementation of this NIEO demand to be concluded before the end of 1978. US, Japanese, and some European spokesmen, however, have made clear that their opposition to the integrated program will continue and that it will therefore materially affect what can actually be negotiated. In these anticipated negotiations, consequently, differences among LDC producers are bound to surface as lists of commodities affected are fixed and indexation schemes proposed. OPEC states will undoubtedly resist any indexation scheme the thrust of which would be to gear oil prices to their impact on inflation rather than to the ability of the cartel to maximize revenues. Within OPEC, the Arab states have consistently opposed references to the fact that increasing oil prices

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in 1973 and 1974 exacerbated LDC balance of payments problems to the point where debt re-scheduling and substantial OPEC contributions to LDC development funds are necessary. The African commodity producers--whose attempts at individual commodity cartels have not proved fruitful--have argued that under an integrated program all existing individual arrangements should be cancelled. Latin American commodity producers--whose experience with cartels has been more satisfactory--do not agree with this principle and have not approved the list of specific commodities that would be covered. A similar regional division exists over the issue of trade preferences. The African states are not anxious to give up the preferences they have gained from the EC through the Lome Convention. The Latin states, however, have maintained that the Lome preferences are inconsistent with the principle of a universal generalized system of preferences (GSP).

On other NIEO demands the division among LDCs stems from what they have at stake and their willingness to push for concessions from the developed countries that are not of direct and immediate interest. In the area of aid, the perennial call for official development assistance to be fixed as a proportion of each industrial state's GNP is strongly supported only by those LDCs who are most dependent on foreign aid. They would like to reduce their dependence on particular donors and receive a guaranteed minimum income as a principle of international economic relations and without regard to the moral, humanitarian, and political purposes for which such aid has been given in the past. LDCs that are most heavily in debt, similarly, favor re-scheduling. Those able to attract commercial credit and for whom the continued provision of such capital is both essential to development and dependent upon the confidence of the lenders do not. Foreign investment: Again, divisions exist among LDCs based on their ability to attract multinational enterprises (MNEs). Those for whom foreign business is initially a boon on almost any terms tend to soft pedal those aspects of the proposed code of conduct for MNEs known to be offensive to firms they would like to attract. Those for whom the prospect of such investment is remote tend to view MNEs with suspicion and as agents that further promote the wealth of the North at the expense of the South.

For the LDCs, in sum, drafting an NIEO program required no choices about which of its provisions should have the highest priority. Until UNCTAD IV, the LDCs could draft and pass hortatory resolutions in the name of an NIEO with little regard for the specific objections and reservations to them that the US and other industrial nations have maintained. But now through 1978, because of the negotiations called for as a follow-on to UNCTAD, differences in interests among LDCs will come into clearer relief, and the bargaining strategies of the industrial nations will likely exacerbate LDC differences.

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What consequences has the evolution of the North-South dialogue during 1974-1976 had on LDC strategy and tactics with respect to achieving NIEO demands? How, in particular, are the dynamics of leverage likely to affect the level of tension and degree of confrontation in North-South relations? *under*

It was widely predicted by observers of the LDC scene after the Arab oil embargo that the principal instrument of LDC influence would henceforth be the leverage that their control of oil and other natural resources appeared to provide.* Some LDC spokesmen (notably, Algeria, Iraq, Nigeria) still see confrontations based on the leverage provided by resource dependence as the only means by which the industrial nations can be influenced. And other LDCs conjure up the spectre of confrontation whenever their expectations concerning accommodation by the industrial nations are frustrated --or when domestic or intra-LDC politics require a "forceful" stand. *under*

Nonetheless, for a growing number of LDC spokesmen it appears that the experience of participating in inter-governmental meetings on North-South issues has served to emphasize the costs of leverage and the confrontations using it could produce. It has also made them more sensitive to their vulnerability to counter-leverage when dealing with more powerful states. Specifically, doubts about the effectiveness of leverage among LDCs stem from three sources to be discussed below: *under*

--assessments of the uniqueness of the Arab experience, *under*

--the conflict between OPEC and non-oil LDCs at international meetings where North-South issues are on the agenda, *under*

* See, for example, C. Fred Bergsten, "The Threat From the Third World," Foreign Policy, No. 11 (Summer 1973), pp. 102-104, and the LDC thinking summarized in Roger Hansen, A New International Order? (Washington: Overseas Development Council, 1975).

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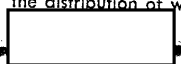
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Secretary Kissinger conferring with Algerian Foreign Minister Bouteflika at the UN. Bouteflika was President of the 29th Session of the General Assembly in 1974 and of the Seventh Special Session in September 1975, and is one of the driving forces behind the NIEO concept. The meeting took place four days after Kissinger's important speech to the Seventh Special Session in which he declared: "Let us put aside the sterile debate over

whether a new economic order is required or whether the old economic order is adequate." Bouteflika still considers OPEC to be the vanguard of the NIEO struggle and has called upon other producers of primary commodities to band together, as the oil producers have, in order to bring about a radical change in the distribution of wealth and power between North and South.



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--and concerns that the use of oil and other natural resources as political weapons might force industrialized countries to select policies that could worsen the plight of most LDCs.* *Under*

LDC Assessments of the Lessons of the Arab Oil Embargo

The key factors surrounding the use of oil as a political weapon in 1973 can be briefly stated. Shortly after the onset of the October Arab-Israeli war, the members of the Organization of Arab Petroleum Exporting Countries (OAPEC) declared an embargo on shipments to the US and other "enemies" of the Arab people, and a progressive cutback in production--both to stay in effect until Israel ended its "occupation" of the territories the Arab states lost in the 1967 war. The control of the producer countries over their oil resources had been underscored for consumers in a separate action several days earlier: the doubling of export prices by all OPEC members.

* Any attempt to characterize or generalize about an "LDC view" necessarily is impeded by the many differences that exist among LDCs in terms of ideologies, objectives, and experience in dealing with the industrial nations. Beyond this, the data for such generalizations are often difficult to interpret or lend themselves to differing interpretations. And, it must be recognized, the propositions that are derived could well be true and yet prove not to be the major determinants of LDC strategy and tactics. Nonetheless, the author thought it important to identify some of the themes raised in and by the writing and the public and private statements of LDC leaders and spokesmen concerning the role of leverage in North-South relations. This undertaking involved scanning the major academic and non-governmental literature on the North-South dialogue as well as the classified reporting surrounding the international meetings where North-South issues have been on the agenda. This literature appears quite consistent with the framework suggested at the beginning of this study: namely, that the utility of leverage to small states' foreign policy depends as much on its perceived long-term costs as on the short-run conditions that created it. *Under*

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in which he declared: "Let us put aside the sterile debate over the distribution of wealth and power between North and South."
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Despite the immediate distress of the major oil-importing countries, and their concerns about the price and supply of oil in the future, OAPEC's proclaimed political objectives were never met, and the embargo and mandated production cutbacks were rescinded early in 1974. Nonetheless, the public policies of most consumer nations toward the Middle East conflict did shift toward a position more acceptable to the Arab leaders. Arab leverage thus depended on control of a resource vital to the industrial states and the ability to make decisions about the supply of that resource contingent on the outcome of an international crisis. *W. J. ...*

According to most LDC analysts, the chances for other natural resource cartels to duplicate the economic and political successes of oil exporters are poor. While "following the example of OPEC is tempting," a comprehensive review of prospects for conflict and cooperation over primary commodities concluded that "the crucial point...is that the number of commodities on which collusion would be feasible or effective is small, the economic impact is likely to be limited and isolated rather than pervasive as with oil, and the prospects for sustained success over the medium term, to say nothing of the long term, are dim."* The members of most LDC natural resources cartels are increasingly coming to agree with this assessment.** Consequently, as one of the founding members of the

* Kenzo Hemmi, et al., Trade in Primary Commodities: Conflict or Cooperation? (Washington: The Brookings Institution, 1974), p. 2. See also the findings of the President's Council on International Economic Policy, Special Report: Critical Imported Materials (Washington: The White House, December 1974), pp. 16-17.

** This is suggested in Hemmi, for example, and in the comprehensive study done for the Royal Institute of International Affairs by Philip Connelly and Robert Perlman, The Politics of Scarcity: Resource Conflicts in International Relations (London: Oxford University Press, 1975). See also Luis Vallenilla, Oil: The Making of a New Economic Order (New York: McGraw-Hill, 1975), and Jean-Marie Chevalier, The New Oil Stakes (London: Penguin, 1975).

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International Bauxite Association recently put it: "we do not intend to try to use bauxite as a political weapon in the way in which oil has been used with Arab/Israeli conflict."* *unlike*

With respect to the international political climate surrounding the use of the oil weapon in 1973, moreover, LDC statesmen today hardly see the same degree of linkage possible when contemplating how other resource denials could be used to influence the foreign policies of industrial countries. The Arab oil embargo was linked to a crisis that amplified Arab demands for a new political order in the Middle East. By declaring that the embargo was aimed at changing US policy toward Israel and then by applying it so that its effects were felt by the major allies of the US, Washington heard the Arab side being taken by friend and foe alike. The widespread economic effects of the embargo thus made the US hostage to the problems of its allies. *unlike*

By using the embargo in the midst of a war in which the US and the USSR could have become directly involved, moreover, the Arab states minimized the risk that Washington would use its superior military power to force an end to the embargo. In fact, the linkage achieved between the embargo and the need to avoid a great power confrontation served to put heavy pressure on Washington to make at least some concession to Arab political demands in

* M. Manley, The Politics of Change: A Jamaican Testament
(Washington: Howard University Press, 1975), p. 255.

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order to "defuse" the crisis. Clearly, this same degree of gravity and urgency would be difficult to imagine in connection with the NIEO demands. *ur-lap*

Though direct evidence on the matter is scanty, it is reasonable to assume that some LDC observers are also impressed by the net effect that the embargo had on the relationships between individual Arab states and the US. Even in the short term when the impact of the embargo was at its most dramatic, the Arabs realized that the most effective lever of their influence over Israeli behavior lay in Washington. No change in Israel's position would come unless the US supported it. At the level of the basic geopolitical conflict itself, the Arab states knew that they would eventually need the US almost as much as America needed oil.* Over the longer term, the US approach of building special relationships with selected oil-producing states (especially Saudi Arabia) reinforced military, technological, and financial dependencies as important to the latter as their oil remains to the US.** These "counter-dependencies" have inhibited development of forceful bargaining positions by oil-exporting states even on Middle East issues, much less on strictly North-South issues. *ur-lap*

* In the short run, the turning point appears to have come as a direct result of Sheik Yamani's visit to Washington in early December 1973. When it was made clear that the US would assume an active role in mediating the Arab-Israeli conflict, the initial demand that led to the boycott was softened. Thereafter, the Arab position shifted to insisting on a timetable for Israeli withdrawal rather than the actual withdrawal itself. Ultimately the embargo was lifted in exchange for a disengagement agreement that Egyptian President Sadat supported. For details based on interviews with Yamani and other central figures in the boycott, see George Lenczowski, "The Oil-Producing Countries," *Daedalus* (Fall 1975), pp. 59-72.

** A brief review of this process is contained in Alfred L. Atherton, Jr., "Saudi Arabia and the United States: Areas of Common Interest," statement before the Subcommittee on International Political and Military Affairs of the House International Relations Committee, 23 February 1976.

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While the oil weapon achieved new status in the international system for the Arab oil-producing states, the US response to it also made clear some of the limits of its effectiveness. And these are similar to the traditional limits to small state leverage noted earlier in this study. Namely, a great power can eventually manipulate other relationships and resources to offset the effects of its immediate vulnerabilities. While a small state may thus consider using leverage based on an assessment of its opportunities in the short run, the more powerful state it seeks to influence may react by planning to reduce the costs of the particular dependence over the long run. *under*

Putting the problem in a long run perspective tends to make immediate dislocations appear less acute, options more promising, dependencies more reciprocal. And, as the Arabs discovered by the end of 1975, all this may produce considerably less progress toward restructuring the politics of a particular conflict situation than anticipated. The significance of the Arab experience to LDCs, then, may be that while great power sensitivity to small state demands can be raised by the use of economic leverage, such leverage is not necessarily sufficient to produce the desired result. * *unless*

* Recognition of this point is what Ali A. Mazrui has called "The New Interdependence" in North South relations; that is, regardless of the control over natural resources the nations of the South may achieve, they are still dependent on the North for the fundamental changes in the international economic system that would make an NIEO possible. A similar conclusion has been reached by Soedjatmoko, the former Ambassador of Indonesia to the United States, in his "Reflections on Non-Alignment in the 1970s." Both of these articles appear in Beyond Dependency: The Developing World Speaks Out, a volume published by the Overseas Development Council (Washington, 1975). The Mazrui and Soedjatmoko essays, along with the important statement by Iran's Amuzegar, "The North-South Dialogue: From Conflict to Compromise" (Foreign Affairs, April 1976), summarize much of the writing by Third World spokesmen in 1974 and 1975 on the meaning of LDC leverage from which the generalizations presented above were derived.

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OPEC-LDC Relations

As the search for an NIEO has thus far unfolded, it has been the capacity of LDCs to apply leverage that has been in greatest doubt. Throughout 1974 and 1975, some traditionally influential LDCs (e.g., Mexico, Brazil, India) thought that in the search for an NIEO a close relationship with the OPEC states would be essential and natural. Since the latter had the resource that was clearly the most vital to the industrial states, and had already challenged their domination of the international economic system, it was thought that OPEC would support actions by any other state or group of states that would enhance LDC influence in the international economic system. Some of the oil-producers did behave this way (e.g., Algeria, Iran, Iraq) but with the expectation that espousal of an NIEO would result in their unchallenged leadership of Third World groups. Such an attitude generated, instead, resentments and led to personalistic and acrimonious behind-the-scenes arguments between leaders of LDCs over who was in charge.

Other key oil producers (e.g., Saudi Arabia, Kuwait, UAE) have held the NIEO movement at arms length, wanting neither to acknowledge in international fora the central role that rising oil prices have on LDC problems nor to incur substantial financial aid obligations toward LDCs with whom they have little in common.

The basic point to be made concerning OPEC-LDC relations is, thus, that the chances that NIEO demands will be backed up by an oil embargo or other OPEC-related actions now are perceived by LDC observers to be much slimmer than the advocates of an NIEO appeared to believe in 1973 and 1974.* This is not to say, of course, that future oil

* This conclusion is based on a detailed survey--the most comprehensive to date--of OPEC-LDC relations prepared for the Council on Foreign Relations "1980s Project," The Middle East in the Context of North-South Relations by John Waterbury (New York, 1976). Waterbury based his findings on interviews with LDC leaders and Middle Eastern elites. His paper is the first attempt to come to grips with what the latter think to be their role in North-South relations and in advancing the NIEO concept and its associated demands.

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denials are unlikely, but that the crises to which they may be linked will probably not emerge from the North-South context. For the fundamental goal of the most important Arab oil states remains the husbanding of their leverage for the Arab-Israeli, not the North-South, conflict. And beyond this, the basic goal of the OPEC states is to promote their own prosperity and security, an objective that the key Arab governments believe is more likely to be realized through accommodations with the industrial states than through confrontations over an NIEO. *wait*

Most non-oil LDC advocates of an NIEO have, consequently, adopted a "wait-and-see" attitude with respect to how the industrial nations will respond to the basic demands now that they have been sharpened at UNCTAD (May-June 1976) and institutionalized in the deliberations of the Paris CIEC. At the tactical level, moreover, there appears to have been a marked turning away from confrontational approaches within the LDC camp. As the experience at UNCTAD IV suggested, a growing number of LDCs prefer to abstain from votes designed to politicize the discussion of international economic issues. Leaders of non-oil natural resource cartels have also tended to downplay the confrontational approach. Jamaica's Prime Minister Michael Manley is a prime example. His strategy for achieving a new world order is now marked by advocacy of what amounts to a call for greater intra-Third World cooperation on trade, expanded and cooperative relations with the industrialized nations who are still regarded as the prime sources of capital and technological know-how, and exclusive LDC "institutions for savings and development"--a clear call for greater financial contributions by the OPEC states to easing the plight of the non-oil producing LDCs.* *unless*

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* See, for example, the "Postscript" to Manley's The Politics of Change (Washington, D. C.: Howard University Press, 1975.) This is also the conclusion reached in Connelly and Perlman in their survey of LDC resource cartels in The Politics of Scarcity.

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The US delegation to UNCTAD-IV in Nairobi (5-31 May 1976) was the most senior in the history of that organization's meetings. The US proposal for an International Resources Bank was defeated 33-31, with some 90 countries not voting. In a joint statement issued on 1 June 1976, Secretaries Kissinger and Simon reflected on the experience and its significance to the future of

the North-South dialogue: "If the dialogue . . . to which we attach great importance, is to succeed, suggestions put forward by the developed nations . . . must be treated on the merits and with serious consideration. The LDCs must not lend themselves to parliamentary manipulation by those states who contribute nothing to the development of the poor nations of the world."

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LDC Perceptions of the Costs of Leverage

Analysts who have tried to project the costs of leverage in North-South relations to the developed and the developing countries respectively argue, as one recently put it, that "the avoidance of...costs is probably of greater significance in economic terms to the developing countries, due to the greater adaptability of the economies of the industrialized world."* LDC participation in international conferences on North-South issues and trade and monetary affairs in 1974 and 1975 has indeed served to bring into sharper focus the basic costs of using leverage and adopting a generally confrontational approach in the search for NIEO. Specifically, Third World analysts view three long term costs as likely should economic leverage and politics continue to mix.** *w/less*

* Guy F. Erb, "The Developing World's 'Challenge' in Perspective," in Beyond Dependency, p. 149.

** The relevant literature reviewed here includes interpretations of writers from the LDCs and analysts of LDC-industrial countries relationships, official country team assessments of how US relations with key LDCs have been affected by the rise of OPEC and the NIEO movement, and the political reporting surrounding the official and non-governmental North-South dialogue on development problems. Recent and important studies on these subjects and from which the interpretations above are drawn include Erb and Kallab, Beyond Dependency; Chevalier, The New Oil Stakes, and Hemmi, Trade in Primary Commodities.

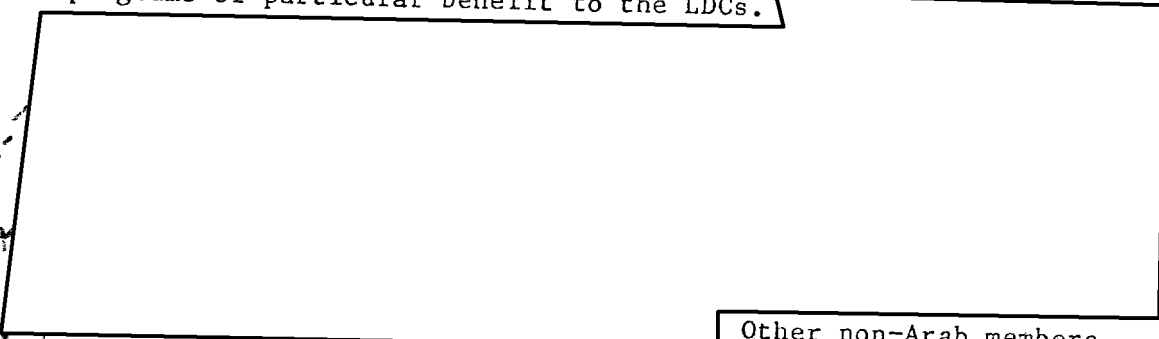
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First, there is concern that domestic politics and national security considerations will cause industrialized countries to seek greater security of supplies for key resources. Since this would stimulate a more vigorous pursuit of alternative sources of supply, substitutes, and stockpiles of commodities for bargaining purposes, resource-rich LDCs run the risk of losing a good part of both their leverage and their markets. Concerns of this variety tend to be most prominent in discussions at the Paris CIEC Energy Commission and at those held between OPEC and non-oil LDCs.* *(see sources below)*

A second concern evident in LDC assessment of North-South relations is that too blatant a pursuit of "oil politics" in such organizations as the United Nations (e.g., the PLO issue and the vote on Zionism) could cause the US and other developed countries to withdraw from those institutions or to reduce their support to programs of particular benefit to the LDCs.



Other non-Arab members

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* See, for example, Waterbury, "The Middle East in the Context of North-South Relations," and CIA, Office of Economic Research, "OPEC and OAPEC Critical of US Stockpiling Plan," International Oil Developments (17 June 1976), pp. 7-8, [redacted]

** For a general analysis of the nature of LDC concern about the future of the UN and the need for North-South cooperation, see Soedjatmoko, "Reflections on Nonalignment."

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of OPEC express similar concerns* and, in a sense, speak for many LDCs who, while taking pride in the fact that LDC cohesion and leverage have diminished the developed countries' control of the UN, are nonetheless concerned about striking a balance that will preserve it as an institution of fundamental importance to international harmony.

A third LDC concern is the fear that the US and other developed countries have already begun to harden their approaches to and positions in multilateral trade and commodity negotiations and will continue to do so until the demand for an NIEO has become more moderate. *W. J. S.*

In the case of Latin America, for example, the likelihood of such a prospect was emphasized in a forceful way by the 1974 Trade Reform Act. The Act was considered as "retaliation" against OPEC countries and the use of oil leverage. As a recent analysis suggests, "The fact that [the Act's] denial of the trade preferences was indiscriminate--and so encompassed...[all OPEC] members despite their innocence of the boycott--came across to the Latins as a very threatening turn of US policy. They expect the US and the rest of the industrialized countries to subvert other bloc efforts that assist smaller or weaker countries to operate from a basis of equality with the rich."**

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* See, for example, Amuzegar, "The North-South Dialogue," and Vallenilla, Oil.

** CIA, OCI Intelligence Memorandum, "Latin America's Changing Foreign Relations", No. 0783/75, 29 December 1975, CONFIDENTIAL, pp. 5-6. For the view from outside Latin America, see Anindya K. Bhattacharya, Foreign Trade and International Development (Lexington, Mass.: D. C. Heath, 1976).

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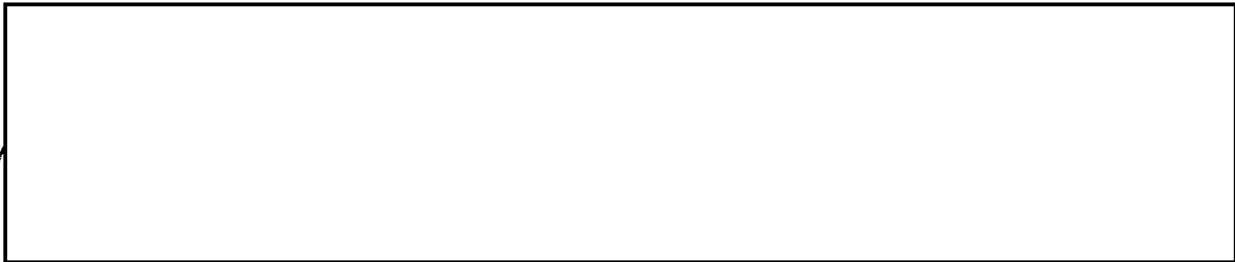
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In short, then, there appears to be growing concern among LDCs about the long term costs of applying resource leverage. Continued LDC concern with the prospects described above would probably contribute to a shift away from confrontation and toward the search for accommodations between North and South. Should this occur, the ability of small states to propose and negotiate such accommodations--more than their capacity to use natural resources as bargaining chips--may prove to be the most important influence they have in the course of their relations with the industrial powers. *Unclass*

IMPLICATIONS

It is, of course, premature to suggest that the factors identified above will prove decisive in moderating the approach the LDCs take in their quest for an NIEO. Certain LDC spokesmen are bound to continue to counsel a strategy of confrontation and the use of resource leverage as the only means of wresting essential concessions from the industrial nations. And many LDCs will doubtless espouse confrontation for tactical reasons, either to gain the attention of industrial nations or to serve the ends of domestic or intra-LDC politics. Thus, two conflicting tendencies--toward confrontation as well as accommodation--are likely to affect the course of North-South relations over the next several years. *Unclass*

During this period, however, the manifest differences in objectives and outlook among LDCs, together with growing awareness of the costs of confrontation, will serve as forces that



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mitigate against a united LDC front bent on confrontation. Intra-LDC differences--reflecting the diversity in terms of levels of development and magnitude of resources; ideological, cultural, and personal rivalries; and the varying national attitudes toward cooperation with the industrial powers--are as fundamental as those between the LDCs as a group and the industrial world. And such differences will make it increasingly difficult for LDCs to act as a bloc, especially in the face of clear signals from the strongest industrial states as to how rapidly and in which areas the provisions of NIEO can be accommodated in the present international economic system. Continuation of the efforts of the industrial countries to secure essential supplies through bilateral arrangements (e.g., technology for oil) would serve the same ends--again by taking advantage of the diversity of interests among LDCs. *unless*

In short, the growing awareness of the costs of confrontation will tend to work against a strong and united confrontational effort for NIEO. Even if the latter were to come to pass, LDC weaknesses and the overall strength of the industrial democracies would, in combination, enable the latter to contain and deflect LDC pressures at least over the next several years. *unless*

But a continued shift away from confrontation and from threats to use resource leverage would not necessarily lessen LDC demands or diminish the importance of taking greater account of the real problems and perceived grievances of the LDCs. The actions of the LDCs do intersect with and affect the goals of the industrial democracies. For while LDCs cannot compel the industrial world to restructure the international economic system, they can contribute to the costs of not doing so in several ways. *unless*

The non-industrial nations can, for example, threaten to encourage and morally support those among them who are capable of acquiring nuclear technology and weapons, and who wish to do so to enhance their status. They can aid, harbor, or simply fail to condemn terrorists who act, among other things, in the name of global economic justice. They can link ratification of international agreements on law of the

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seas, the transfer of nuclear technology, environment, and overseas investments to progress on NIEO demands. None of these actions may actually provide direct leverage on NIEO issues, but they are likely to raise the costs to industrial nations of achieving what is on their foreign policy agenda. Thus, there are at least some incentives--depending on what industrial states choose to make their foreign policy goals--to take those actions which would facilitate cooperation between North and South. *cc. Just*

The course of North-South relations is also likely to have an impact on relations among the industrial democracies and between them and the Communist powers. Increased disorders within LDCs stemming from development problems, and a possible recourse to radical and xenophobic policies by some of them, would probably not affect US interests directly. But such developments could place strains on the other industrial democracies, who are much more dependent on secure lines of supply from the LDCs. The advent or even the anticipation of such strains could seriously affect relations between the US and its industrial allies (as was the case during the 1973-1974 oil embargo). *under*

Thus far, the North-South dialogue has taken place largely outside the framework of East-West issues. But the dialogue could affect East-West relations in the period ahead in two ways: through its impact on Communist perceptions of the international influence of the US and through the growing involvement of Communist countries, especially the Soviet Union, in the international economic system. The Soviets, in particular, have carefully followed the North-South dialogue and have participated in international conferences whenever they touched on issues of direct concern or propaganda value (e.g., food supply, technology transfer, "reparations" for colonial exploitation). Undoubtedly, some Soviet leaders have an interest in fostering tension in North-South relations as a way of limiting US influence among LDCs generally and of contributing to strains among the industrial states that affect attitudes toward regional conflicts in the Middle East and Africa. *under*

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In sum, the challenge great powers have traditionally faced when confronted with small state leverage is between their ability to act (i.e., using national power to force a favorable resolution of a confrontation) and their concern for the impact of such action on the international system as a whole. Pursuit of stability often seemed to require supporting small states despite their minimal long term leverage capabilities or negotiating about their demands despite the short term costs involved. This is essentially the challenge posed by North-South relations to the US today. Because, for the remainder of this decade at least, how nations manage their dependence and use their leverage in confronting vital economic issues is likely to be a major factor influencing the nature and level of tension in international affairs--whether North-South, East-West, or among the industrial democracies per se. Concern for the potential consequences of such tension may, then, require attention to the needs of the LDCs, to avoid strains and conflicts arising from their weaknesses, whatever the extent of their actual leverage on other accounts. *in them*

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